KPMG

METRO CITIES FIRE AUTHORITY

Basic Financial Statements and Supplementary Information

June 30, 2018 and 2017

(With Independent Auditors’ Report Thereon)

METRO CITIES FIRE AUTHORITY

Table of Contents

KPMG LLP
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Independent Auditors' Report

The Board of Directors
Metro Cities Fire Authority:

We have audited the accompanying financial statements of the Metro Cities Fire Authority (the Authority) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements for the years then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metro Cities Fire Authority as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of proportional share of capital assets by member cities is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of proportional share of capital assets by member cities is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

Irvine, California
December 19, 2018

METRO CITIES FIRE AUTHORITY

Statements of Net Position

June 30, 2018 and 2017

Assets	**2018**	**2017**
Current assets:		
Investments	$ 967,760	916,777
Member contributions receivable	—	23,307
Accounts receivable	6,536	3,636
Interest receivable	4,349	5,202
Prepaid and other assets	32,744	27,745
Total current assets	1,011,389	976,667
Noncurrent assets:		
Capital assets:		
Machinery and equipment	2,169,538	2,060,037
Work in progress	—	58,235
Total capital assets	2,169,538	2,118,272
Less accumulated depreciation	(1,584,849)	(1,345,867)
Capital assets, net	584,689	772,405
Total noncurrent assets	584,689	772,405
Total assets	1,596,078	1,749,072
Liabilities		
Current liabilities:		
Accounts payable	13,560	19,855
Accrued payroll	84,294	73,073
Member-specific component deposits	115,222	140,074
Total current liabilities	213,076	233,002
Total liabilities	213,076	233,002
Net Position		
Net investment in capital assets	584,689	772,405
Unrestricted	798,313	743,665
Total net position	$ 1,383,002	1,516,070

See accompanying notes to basic financial statements.

METRO CITIES FIRE AUTHORITY

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2018 and 2017

		2018	2017
Operating revenue:			
Member agency contributions	$	6,216,973	5,996,441
Additional member agency contributions		—	76,930
Other revenues		100,840	5,322
Total operating revenue		6,317,813	6,078,693
Operating expenses:			
Salaries and wages reimbursements		4,872,590	4,552,139
Communication fees		529,910	507,344
Administration and overhead		652,717	636,042
Meetings and seminars		17,159	11,594
Office supplies and maintenance		64,331	39,925
Other operating		85,139	87,022
Depreciation		238,982	276,931
Total operating expenses		6,460,828	6,110,997
Operating loss		(143,015)	(32,304)
Nonoperating revenue:			
Interest income		9,947	11,037
Total nonoperating revenue		9,947	11,037
Change in net position		(133,068)	(21,267)
Net position at beginning of year		1,516,070	1,537,337
Net position at ending of year	$	1,383,002	1,516,070

See accompanying notes to basic financial statements.

METRO CITIES FIRE AUTHORITY

Statements of Cash Flows

Years ended June 30, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Receipts from member agencies	$	6,240,280	6,072,064
Receipts from other revenue		99,631	47,088
Payments for wages and other benefits reimbursements		(4,861,369)	(4,539,978)
Payments to suppliers for goods and services		(734,376)	(729,168)
Payments to City of Anaheim for administration and overhead		(652,717)	(636,042)
Net cash provided by operating activities		91,449	213,964
Cash flows from capital and related financing activities:			
Capital purchases		(51,266)	(230,476)
Net cash used for capital and related financing activities		(51,266)	(230,476)
Cash flows from investing activities:			
Purchase of investment securities		(358,000)	(335,000)
Proceeds from sale and maturity of investment securities		298,261	335,411
Interest received		19,556	16,101
Net cash provided by (used for) investing activities		(40,183)	16,512
Change in cash		—	—
Cash at beginning of year		—	—
Cash at end of year	$	—	—
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(143,015)	(32,304)
Adjustment to reconcile operating loss to net cash provided by operating activities:			
Depreciation		238,982	276,931
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable		(2,900)	42,083
Member contributions receivable		23,307	(1,307)
Prepaid and other assets		(4,999)	2,021
Accounts payable		(6,295)	11,930
Accrued payroll		11,221	12,161
Member-specific component deposits		(24,852)	(97,551)
Net cash provided by operating activities	$	91,449	213,964
Schedule of noncash investing activity:			
Decrease in fair value of investments	$	(8,756)	(6,129)

See accompanying notes to basic financial statements.

(1) Summary of Accounting Policies

(a) Organization

On July 1, 1996, the Metro Cities Fire Authority (the Authority) was created by a Joint Exercise of Powers Agreement (JPA) for the purposes of providing fire suppression, emergency medical assistance, rescue service, and related services to the members to support a central communication network and record-keeping systems. The Authority commenced operation on July 1, 1996.

The following entities are members of the Authority: City of Anaheim (the City), City of Brea, City of Fountain Valley, City of Fullerton, City of Garden Grove, City of Huntington Beach, City of Newport Beach, and the City of Orange. Members of the Board of Directors (the Board) consist of one voting Board member for each city and an alternate appointed by their governing body.

Public entities within the County of Orange, California (the County) may receive services from the Authority by executing an agreement and paying a "fair share" contribution determined annually. Each year, the Board adopts a budget in order to determine the cost of services to the participating agencies.

All personnel of the Authority are employees of the City. The Authority and the City have entered into an agreement whereby the Authority is responsible for all costs relating to the City employees that are personnel of the Authority. In addition to salary costs, the Authority is contractually responsible for the cost of benefits for the City employees who work with the Authority. For the years ended June 30, 2018 and 2017, the Authority paid the City $685,044 and $596,816 for pension, $246,810 and $233,512 for retiree medical, and $92,840 and $42,007 for workers' compensation costs, respectively.

(b) Basis of Presentation

The Authority's financial statements are prepared in conformity with U.S. generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

The financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statements of net position. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when incurred.

Operating revenue is the revenue that is generated from the Authority's primary operations. All other revenue is reported as non-operating revenue. Operating expenses are those expenses that are essential to the Authority's primary operations. Capital contributions are reported as other changes in net position. All other expenses are reported as non-operating expenses.

(c) Fair Value Measurements

The Authority uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine the fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for the Authority's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The Authority groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability. This valuation is accomplished using management's best estimate of fair value, with inputs into the determination of fair value that require significant management judgment or estimation. The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

(d) Investments

The Authority participates in the investment pool managed by the City of Anaheim, which is an external investment pool and is not Security Exchange Commission registered. The Authority's investment in the pool is carried at fair value based on the value of each participating unit and are accordingly not leveled in the fair value hierarchy.

(e) Capital Assets

Capital assets are defined as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated assets are valued at fair value on the date they were contributed. The costs of normal maintenance and repairs that do not add value to the assets or materially extend the useful life are not capitalized. Capital assets are depreciated using the straight-line method over a useful life ranging from 5 to 10 years.

(Continued)

(f) Member-Specific Component Deposits

Member-specific component deposits were established by the Authority to assist members to defray future costs. They represent amounts deposited by the members to be used for specific purposes. A "Member-Specific Communications Equipment Replacement" component was established to defray future replacement costs of member-specific communication equipment. The member-specific components consisted of the following at June 30, 2018 and 2017:

		2018	2017
Communication equipment replacement:			
City of Anaheim	$	407	398
City of Fountain Valley		35,110	34,624
City of Fullerton		36	36
City of Garden Grove		43,063	60,353
City of Huntington Beach		21,389	24,793
City of Orange		15,217	19,870
Total member-specific components	$	115,222	140,074

(g) Net Position

Net position represents the difference between all other elements in the statements of net position and should be displayed in the following three components:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position is the amount the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

At June 30, 2018 and 2017, there was no restricted net position for the Authority. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources when they are needed.

(h) Use of Estimates

The preparation of the basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

(Continued)

(i) ***Reclassifications***

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation. Such reclassifications had no effects on the previously reported Authority's financial statements.

(2) Investments

The Authority's investment policy allows all funds to be invested with the City. As of June 30, 2018 and 2017, the Authority had $967,760 and $916,777 invested in the City's pooled investment fund, respectively. The City's investment policy limits the permitted investments in the investment pool to the following: obligations of the U.S. government, federal agencies, and government-sponsored enterprises; medium-term corporate notes; certificates of deposit; bankers' acceptances; commercial paper; LAIF; repurchase agreements; reverse repurchase agreements; and money market mutual funds. On December 6, 2017 the Standard and Poor's Corporation (S&P) raised the credit rating of the City's treasurer investment portfolio to AA+f/S1 from AAf/S1. The treasurer's investment portfolio has a weighted average maturity of 1.41 and 1.76 years, respectively.

(3) Member Contributions Receivable

Member contributions receivable at June 30, 2017 totaled $23,307 of which $11,000 is due from the City of Brea for remaining contributions to the communication equipment Authority reserve; the other balances are due from other members for the FirstWatch software purchase discussed in note 5.

		2017
City of Brea	$	11,000
City of Anaheim		2,361
City of Brea		308
City of Fullerton		8,900
City of Newport Beach		738
Total	$	23,307

(4) Accounts Receivable

Accounts receivable at June 30, 2018 and 2017 consisted of the following:

		2018	2017
Anaheim Municipal Employee Association	$	2,183	974
Miscellaneous		4,353	2,662
Total	$	6,536	3,636

(5) Member Agency Contributions

The Authority collects fair share contributions from its member agencies. The contribution amount for member agencies is calculated each year based upon the number of recorded incidents attributed to each member, divided by the recorded incidents attributable to all members, during the calendar year proceeding the fiscal year for which that member's fair share percentage is being calculated. Once determined for any fiscal year, the member's fair share percentage shall remain unchanged. The percentages and amounts of the member agency contributions consisted of the following for the fiscal years ended June 30, 2018 and 2017 by member agencies:

	2018		2017		
	Amount	Percentage	Amount	Software Purchase [1]	Percentage
City of Anaheim	$ 1,850,794	29.77 %	$ 1,840,308	$ 23,610	30.69 %
City of Brea	239,975	3.86	239,858	3,077	4.00
City of Fountain Valley	305,253	4.91	279,434	3,585	4.66
City of Fullerton	721,169	11.60	693,788	8,901	11.57
City of Garden Grove	726,142	11.68	686,593	8,808	11.45
City of Huntington Beach	1,036,369	16.67	985,214	12,640	16.43
City of Newport Beach	602,425	9.69	575,059	7,378	9.59
City of Orange	734,846	11.82	696,187	8,931	11.61
Total	$ 6,216,973	100.00 %	$ 5,996,441	$ 76,930	100.00 %

[1] On January 26, 2017, the Board approved the purchase of FirstWatch software in the amount of $106,796 of which $29,866 was paid from the Authority's available resources and $76,930 as a fair share contribution from each member agency using their fiscal year 2016-2017 fair share percentages by either using their respective Member Specific Account or invoicing them for their amount.

(6) Capital Assets

Capital asset activities for the year ended June 30, 2018 were as follows:

		Beginning balance	Additions	Deletions/ Transfers	Ending balance
Non depreciable assets:					
Work in progress	$	58,235	—	(58,235)	—
Total non depreciable asset		58,235	—	(58,235)	—
Depreciable assets:					
Machinery and equipment		2,060,037	51,266	58,235	2,169,538
Less accumulated depreciation		(1,345,867)	(238,982)	—	(1,584,849)
Total depreciable assets, net		714,170	(187,716)	58,235	584,689
Total capital assets, net	$	772,405	(187,716)	—	584,689

Capital asset activities for the year ended June 30, 2017 were as follows:

		Beginning balance	Additions	Deletions/ Transfers	Ending balance
Non depreciable assets:					
Work in progress	$	—	58,235	—	58,235
Total non depreciable asset		—	58,235	—	58,235
Depreciable assets:					
Machinery and equipment		1,887,796	172,241	—	2,060,037
Less accumulated depreciation		(1,068,936)	(276,931)	—	(1,345,867)
Total depreciable assets, net		818,860	(104,690)	—	714,170
Total capital assets, net	$	818,860	(46,455)	—	772,405

(7) Administration of the JPA

Administrative services required for the operation of the Communications Center, management, and administration of the personnel are administered by the City of Anaheim. For the fiscal years ended June 30, 2018 and 2017, administration fees (amounts other than payments for pension and worker's compensation costs discussed in note 1 of this report) paid to the City were $652,717 and $636,042, respectively, per the JPA Agreement.

(8) Risk Management

The Authority is self-insured for general liability claims. The amount of claims paid out is distributed among each member for reimbursement. In the event an unfunded liability arises, the contribution of each member shall be in an amount equal to the total unfunded liability multiplied by that member's percentage of budget. At June 30, 2018 and 2017, the Authority did not have any claims outstanding nor did the Authority pay any claims during the years then ended.

(9) Commitments and Contingencies

Lawsuits

In the ordinary course of business, the Authority is subject to various claims, investigations, proceedings, tax assessments, and legal actions from time to time arising out of the conduct of the Authority's business. Management believes that, based on current knowledge, the outcome of any such pending matters will not have a material adverse effect on the Authority's financial position.

Commitments

The Authority does not have any major contractual commitments or contingencies as of June 30, 2018 and 2017.

(10) Subsequent event

On September 25, 2018, the Authority and Motorola Solutions, Inc. entered into an Equipment Lease-Purchase Agreement for the financing of the 800 MHz radio communications and the related hardware and software acquisitions. The loan amount is $1,618,359 at an annual interest rate of 4.16%, payable over fifteen years. Total debt service to maturity is $2,208,554. Annual principal and interest of $147,237 will begin on October 1, 2019 payable from the unrestricted resources of annual member contributions.

SUPPLEMENTARY INFORMATION

METRO CITIES FIRE AUTHORITY

Schedule of Proportionate Share of Capital Assets by Member Cities

Years ended June 30, 2018 and 2017

The proportional share of the capital assets allocable to each of the member cities consisted of the following as of June 30, 2018 and 2017:

		2018	2017
Communication equipment:			
City of Anaheim	$	645,873	641,414
City of Brea		83,744	86,807
City of Fountain Valley		106,524	99,655
City of Fullerton		251,666	247,916
City of Garden Grove		253,402	243,675
City of Huntington Beach		361,662	341,236
City of Newport Beach		210,228	214,092
City of Orange		256,439	243,477
Total		2,169,538	2,118,272
Less accumulated depreciation		(1,584,849)	(1,345,867)
Total capital assets	$	584,689	772,405

See accompanying independent auditors' report.