

**West Cities Police
Communications
Joint Powers
Authority**

Cypress, California

*Basic Financial Statements
and Independent Auditors' Report*

For the fiscal year ended June 30, 2014

West Cities Police Communications Joint Powers Authority
Basic Financial Statements
For the fiscal year ended June 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the West Cities Police Communications
Joint Powers Authority
Cypress, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activity and major fund of West Cities Police Communications Joint Powers Authority (the Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements 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 accounting principles generally accepted in the United States of America; 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors consider internal control relevant to the Authority'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 Authority'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity and major fund of the Authority, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America 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 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule and schedule of funding progress other post-employment benefit plan, listed in the table of contents as required supplementary information, be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the schedule of funding progress other post-employment benefit plan in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the schedule of funding progress other post-employment benefit plan because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The budgetary comparison schedule and related notes have 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 of the Authority 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 budgetary comparison schedule and related note are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

White Nelson Dick Evans LLP

Irvine, California
December 4, 2014

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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West Cities Police Communications Joint Powers Authority
Statement of Net Position
June 30, 2014

	<u>Primary Governmental Activities</u>
ASSETS:	
Current assets:	
Cash and cash equivalents held by the City of Cypress	\$ 993,627
Receivables:	
Accounts	57,069
Interest	721
Prepaid expenses	73,280
Total current assets	<u>1,124,697</u>
Noncurrent assets:	
Capital assets:	
Depreciable assets, net	<u>76,074</u>
 TOTAL ASSETS	 <u>1,200,771</u>
LIABILITIES:	
Current liabilities:	
Accounts payable and accrued liabilities	61,321
Unearned revenue	17,588
Accrued leave payable	39,607
Total current liabilities	<u>118,516</u>
Noncurrent liabilities:	
Accrued leave payable	118,820
Retirees' health payable	123,000
Total noncurrent liabilities	<u>241,820</u>
 TOTAL LIABILITIES	 <u>360,336</u>
NET POSITION:	
Net investment in capital assets	76,074
Unrestricted	764,361
 TOTAL NET POSITION	 <u>\$ 840,435</u>

See independent auditors' report and notes to basic financial statements.

West Cities Police Communications Joint Powers Authority
Statement of Activities
For the fiscal year ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Primary government:				
Governmental activities:				
Dispatch services	\$ 2,134,532	\$ -	\$ 23,779	\$ (2,110,753)
Total governmental activities	<u>\$ 2,134,532</u>	<u>\$ -</u>	<u>\$ 23,779</u>	<u>(2,110,753)</u>
General revenues:				
				2,298,255
				<u>3,423</u>
				2,301,678
				190,925
				<u>649,510</u>
				<u>\$ 840,435</u>

See independent auditors' report and notes to basic financial statements.

FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

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West Cities Police Communications Joint Powers Authority
Balance Sheet
Governmental Fund
June 30, 2014

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents held by the City of Cypress	\$ 993,627
Receivables:	
Accounts	57,069
Interest	721
Prepaid expenses	73,280
TOTAL ASSETS	\$ 1,124,697
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 61,321
Unearned revenue	17,588
TOTAL LIABILITIES	78,909
FUND BALANCE:	
Nonspendable	73,280
Committed:	
Computer aided dispatch/records management systems	123,280
Assigned:	
Employee benefits	564,596
Unassigned	284,632
TOTAL FUND BALANCE	1,045,788
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,124,697

See independent auditors' report and notes to basic financial statements.

West Cities Police Communications Joint Powers Authority
Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Position
June 30, 2014

Fund balances - total governmental funds	\$ 1,045,788
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental funds are not current financial resources and therefore are not reported in the Governmental Fund Balance Sheet.	
Depreciable assets, net	76,074
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds. Long-term liabilities consist of the following:	
Compensated absences	(158,427)
Other post-employment benefit obligations	(123,000)
	(281,427)
Net position of governmental activities	\$ 840,435

See independent auditors' report and notes to basic financial statements.

West Cities Police Communications Joint Powers Authority
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
For the year fiscal ended June 30, 2014

REVENUES:	
Member contributions	\$ 2,298,255
Intergovernmental	21,585
Investment income	3,423
Other income	2,194
	2,325,457
TOTAL REVENUES	2,325,457
EXPENDITURES:	
Current:	
Dispatch services	2,068,292
Capital outlay	17,010
	2,085,302
TOTAL EXPENDITURES	2,085,302
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	240,155
FUND BALANCE - BEGINNING OF YEAR	805,633
FUND BALANCE - END OF YEAR	\$ 805,633

See independent auditors' report and notes to basic financial statements.

**West Cities Police Communications Joint Powers Authority
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balance of the Governmental Fund
 to the Statement of Activities
 For the fiscal year ended June 30, 2014**

Net change in fund balance - total governmental fund	\$ 240,155
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>The governmental fund reports capital outlays as expenditures. However, in the Government-Wide Statement of Activities, the cost of those capital assets are allocated over the estimated useful lives as depreciation expense.</p>	17,010
<p>Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the Governmental Fund.</p>	(21,259)
<p>Compensated absences reported on the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The net change is reported on the Statement of Activities.</p>	(20,981)
<p>Some expenses reported in the Statement of Activities utilize current financial resources, but are not expensed in the Statement of Activities until due.</p>	
Other post-employment benefit expense	(24,000)
Change in net position of governmental activities	\$ 190,925

See independent auditors' report and notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

West Cities Police Communications Joint Powers Authority
Notes to Basic Financial Statements
For the fiscal year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The West Cities Police Communications Joint Powers Authority (the Authority) was formed on December 23, 1996 pursuant to the provisions of Section 6500 of Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California relating to the joint exercise of powers common to public agencies. The purpose of the Authority is to provide police dispatching services for the member agencies including the City of Cypress, the City of Los Alamitos, and the City of Seal Beach. The Authority also serves the Orange County Park Rangers who operate the regional recreational facilities and manage the historical and natural resources in Orange County. The Authority is governed by a three-member Board of Directors with each member City having one City Council member sit on the Board.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity with its own self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures or expenses. These funds are established for the purpose of carrying out specific activities or certain objectives in accordance with specific regulations, restrictions or limitations. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Authority's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental Activities for the Authority.

The basic financial statements are presented on an "economic resources" measurement focus and the "accrual basis of accounting". Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Under the "economic resources" measurement focus, all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the "accrual basis of accounting", revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The Authority's program revenues include State reimbursements.

West Cities Police Communications Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Measurement Focus, Basis of Accounting and Basis of Presentation, Continued

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance. An accompanying schedule is presented to reconcile and explain the differences in fund balance as presented in these statements to the net position presented in the Government-Wide Financial Statements.

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets, deferred outflows of resources, current liabilities and deferred inflows of resources are included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Authority, are member contributions and earnings on investments. Expenditures are recorded in the accounting period in which the related liability is incurred.

The reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach of GASB Statement No. 34.

C. New Accounting Pronouncements

Current Year Standards:

GASB 66 - “*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*”, required to be implemented in the current fiscal year did not impact the Authority.

GASB 70 - “*Accounting and Financial Reporting for Nonexchange Financial Guarantees*”, required to be implemented in the current fiscal year did not impact the Authority.

West Cities Police Communications Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. *New Accounting Pronouncements, Continued*

Pending Accounting Standards:

GASB has issued the following statements which may impact the Authority's financial reporting requirements in the future:

- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - "*Government Combinations and Disposals of Government Operations*", effective for periods beginning after December 15, 2013.
- GASB 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*", effective for periods beginning after June 15, 2014.

D. *Cash, Cash Equivalents and Investments*

The Authority's cash and investments are pooled with the City of Cypress (City) to maximize the yield.

The City pools its available cash for investment purposes. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents.

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk due to changes in interest rates.

E. *Capital Assets*

Capital assets, which include machinery and equipment (radios, computers, etc.) and buildings and improvements, are reported in the Government-Wide Financial Statements. Capital assets are defined by the Authority as all buildings, computers and equipment with an initial individual cost of more than \$1,000; and improvements with costs of more than \$10,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated or annexed capital assets are recorded at estimated market value at the date of donation or annexation.

See independent auditors' report.

West Cities Police Communications Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Capital Assets, Continued

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation is recorded in the Government-Wide Financial Statements on a straight-line basis over the estimated useful life of the assets as follows:

Building and improvements	15 to 40 years
Computers and equipment	5 to 15 years

F. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority does not have any applicable deferred outflows of resources.

In addition to liabilities, the statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Authority does not have any applicable deferred inflows of resources.

G. Net Position Flow Assumption:

Sometimes the Authority may fund outlays for a particular purpose from both restricted (e.g., grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the Authority's general practice to consider restricted - net position to have been depleted before unrestricted - net position is applied.

H. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund.

Since unexpended and encumbered appropriations of the governmental funds automatically lapse at the end of the fiscal year, they are not included in reported expenditures and the authorization for expenditure must be re-established through inclusion in the subsequent year's appropriation.

See independent auditors' report.

West Cities Police Communications Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Net Position

In the Government-Wide Financial Statements, net position may be classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation.

Restricted Net Position - This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Position - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position" as defined above.

J. Fund Balances

In the Governmental Fund Financial Statements, fund balances are classified in the following categories:

Nonspendable - Items that cannot be spent because they are not in spendable form, such as prepaid items and inventories, items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds.

Restricted - Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed - Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making, normally the governing body through board resolutions, etc., and that remain binding unless removed in the same manner. The Board of Directors is considered the highest authority for the Authority.

Assigned - Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The Board of Directors has authorized the Treasurer for that purpose.

Unassigned - This category is for any balances that have no restrictions placed upon them.

West Cities Police Communications Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. *Spending Policy*

Governmental Fund Financial Statements

When expenditures are incurred for purposes for which all restricted, committed, assigned and unassigned fund balances are available, the Authority's policy is to apply in the following order:

- Restricted
- Committed
- Assigned
- Unassigned

L. *Use of Estimates*

The preparation of financial statements in accordance with 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.

2. CASH AND CASH EQUIVALENTS

The Authority's cash and investments are pooled with the City of Cypress (the City). The Authority does not own specifically identifiable securities in the City's pool. Investment income earned on pooled cash and investments is allocated quarterly to the various funds based on the average cash balance in each fund. At June 30, 2014, the cash and cash equivalent balance of the Authority was as follows:

	Government- Wide Statement <u>of Net Position</u> Governmental <u>Activities</u>
Cash and cash equivalents held by the City of Cypress	<u>\$ 993,627</u>

West Cities Police Communications Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2014

2. CASH AND CASH EQUIVALENTS, Continued

Authorized Investments

Under provision of the City's annually adopted investment policy, and in accordance with Section 53601 of the California Government Code, the City may deposit and invest in the following:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Bills and Notes	5 Years	None	N/A
Federal Agency Issues	5 Years	None	N/A
Certificates of Deposit (or Time Deposits) placed with commercial banks and/or savings and loan companies	1 Year	25%	N/A
Bankers' Acceptances	180 Days	25%	10%
Negotiable Certificates of Deposit	5 Years	25%	10%
Commercial Paper	270 Days	25%	10%
Local Agency Investment Fund (LAIF)	None	\$50 million*	N/A
Investment Trust of California (CalTRUST)	None	\$20 million*	N/A
Passbook Savings Account demand deposits	5 Years	None	N/A
Medium-term Notes	5 Years	25%	10%

* Limit is per entity.

N/A - Not Applicable

Deposits and Risks

The California Government Code requires California banks and savings and loans associations to secure a City's deposit by pledging government securities with a value of 110% of a City's deposits, or by pledging first trust deed mortgage notes having a total value of 150% of the City's total deposits.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed five years. At June 30, 2014, approximately 83% of the City's entire pooled cash and cash equivalents had a maturity of less than one year with an average life of the portfolio being slightly more than 208 days.

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u> <u>12 Months or Less</u>
Equity in City of Cypress investment pool	<u>\$ 993,627</u>

See independent auditors' report.

West Cities Police Communications Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2014

2. CASH AND CASH EQUIVALENTS, Continued

Deposits and Risks, Continued

Credit Risk: State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the City's practice to limit its investments in these investment types to the top rating issued by NRSROs, including raters Standard & Poor's and Moody's Investors Service. The California Local Agency Investment Fund (LAIF) is not rated, but has a separate investment policy governed by Government Code Sections 16480-16481.2 that provides credit standards for its investments.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Total as of June 30, 2014</u>	<u>Not Rated</u>
Equity in City of Cypress investment pool	N/A	\$ <u>993,627</u>	\$ <u>993,627</u>

External Investment Pool

The City is a voluntary participant in LAIF, which is an external investment pool regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California through which local governments may pool investments. The City may invest up to \$50,000,000 in the fund. Investments in LAIF are considered highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost or best estimate for those securities where market value is not readily available.

The City values its investments in LAIF at a fair market value provided by LAIF. At June 30, 2014 the factor used was 1.00029875. The City's investment with LAIF includes a portion of pool funds invested in structured notes and asset-backed securities. At June 30, 2014, the City invested in LAIF, which had invested 1.86% of the pool's funds in structured notes and asset-backed securities.

West Cities Police Communications Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2014

3. CAPITAL ASSETS

The following is a summary of capital assets for governmental activities for the year ended June 30, 2014:

	<u>Balance at July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2014</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 177,587	\$ -	\$ -	\$ 177,587
Equipment	<u>406,084</u>	<u>17,010</u>	<u>-</u>	<u>423,094</u>
Total capital assets, being depreciated	<u>583,671</u>	<u>17,010</u>	<u>-</u>	<u>600,681</u>
Less accumulated depreciation for:				
Buildings and improvements	(166,871)	(2,204)	-	(169,075)
Equipment	<u>(336,477)</u>	<u>(19,055)</u>	<u>-</u>	<u>(355,532)</u>
Total accumulated depreciation	<u>(503,348)</u>	<u>(21,259)</u>	<u>-</u>	<u>(524,607)</u>
Total capital assets, Being depreciated, net	<u>\$ 80,323</u>	<u>\$ (4,249)</u>	<u>\$ -</u>	<u>\$ 76,074</u>

Depreciation expense for capital assets in the amount of \$21,259 is charged to dispatch services for the year ended June 30, 2014.

4. ACCRUED LEAVE PAYABLE

The accrued leave payable represents the estimated liability for all vacation, compensatory time, and 50% of the sick leave, as noted below, for all employees of the Authority. Accrued leave payable at June 30, 2014 consisted of \$39,607 in short-term and \$118,820 in long-term liabilities.

Permanent employees may accumulate sick leave with no limitation as to the number of hours of accumulation. However, the accumulation of vacation leave is generally limited to 2 times their annual accrual. Employees who are terminated for any reason are paid for 100% of their accumulated vacation pay. Employees, terminated for any reason, with 5 years of service and having 60 days or more of accumulated sick leave (equal to 480 hours) will be paid for 50% of their accumulated sick leave. Employees, terminated for any reason, with 5 years of service and having between 240 hours and 480 hours will be paid for 50% of their accumulated leave for their hours only in excess of 240 hours. All other terminated employees will not be paid for their accumulated sick leave.

West Cities Police Communications Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2014

5. PENSION PLANS - PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS)

Pension Plan Descriptions - The Authority contributes to the California Public Employees Retirement System (CalPERS) 2.0% at 55 and 2.0% at 62 cost-sharing multiple-employer public employee defined benefit pension plans. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and Authority ordinance. Copies of CalPERS' annual financial reports may be obtained from their office located at 400 P Street, Sacramento, California 95814.

Funding Policies - Miscellaneous employees participating in the 2.0% at 55 Risk Pool Retirement Plan are required to contribute 7% their annual covered salary. As of June 2013, a cost sharing arrangement became effective where participants began contributing 3.5% of the required 7% contribution while the Authority paid the other 3.5% of the participant's required 7% contribution. In July 2014, the participants will be required to pay the entire required contribution of 7%.

Upon the implementation of the California Employees' Pension Reform Act (PEPRA) on January 1, 2013, the CalPERS 2.0% at 62 Risk Pool Retirement Plan was created and is open to all new employees who do not qualify for the 2.0% at 55 plan. Active plan members of the 2.0% at 62 Plan are required to contribute 6.50% of their annual covered salary, which is paid by the employees and is equal to the required employer contribution rate.

Benefit provisions and all other requirements are established by State statute and benefit provided by the Authority through resolution. The contribution requirements of plan members and the Authority are established and may be amended by the Authority's Board of Directors. The Authority is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members under PEPRA. The actuarial methods and assumptions are those adopted by the CalPERS Board of Administration.

As of June 30, 2014, the actuarially determined rate was 13.813% and 6.70% of annual covered payroll for the 2.0% at 55 and 2.0% at 62 plans, respectively. For the year ended June 30, 2014, the Authority's contributions were \$263,839 of which \$42,971 were reimbursed by Authority employees.

Annual Pension Cost - For the fiscal year 2013-14, the Authority's annual pension cost of \$220,868, for CalPERS was equal to the Authority's required and actual contributions and includes the required employee contribution amounts paid by the Authority on behalf of eligible employees. The required contributions for fiscal year 2013-14 were determined as part of the June 30, 2011 actuarial valuations using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) payroll growth of 3.00%. Each of the assumptions includes an inflation component of 2.75%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period (smoothed market value). CalPERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at June 30, 2014 was twenty (20) years for miscellaneous employees.

See independent auditors' report.

West Cities Police Communications Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2014

5. PENSION PLANS - PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS), Continued

Three-Year Trend Information for PERS

Schedule of Employer Contributions

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage APC Contributed</u>
6/30/12	\$ 248,224	100%
6/30/13	248,504	100%
6/30/14	220,868	100%

6. RETIREES' HEALTH BENEFITS

Plan Description - The Authority provides medical benefits to eligible retirees through the CalPERS healthcare program entitled Public Employees' Medical and Welfare Trust Medical Plan (PEMHCA) as a part of the City's agent multiple-employer defined benefit plan. The Authority pays the PEMHCA minimum amount (\$119 per month in 2014) for all eligible retirees who choose to continue with their coverage through PEMHCA. All eligible employees become participants in PEMHCA on their date of hire. As of June 30, 2013, the date of the most recent actuarial valuation, the Authority's plan has 14 active employees and no retirees.

In addition to the PEMHCA minimum amount, certain members of the retiree group with at least ten years of continuous service receive supplemental retiree health benefits directly from the Authority. The benefits are based on negotiated memorandums of understanding with the employee association. The Authority provides a monthly contribution from \$100 to \$300 based on years of continuous service and employee classification, which can be used by the retiree to either continue their health care benefits as may be available under the Authority's current health care contract through PEMHCA or to use the monthly contribution amount to purchase alternative health care benefits. The Authority's supplemental contribution plan is a single-employer plan and terminates for retirees on the date the retiree reaches age 65 or becomes Medicare eligible whichever comes first.

Funding Policy - The contribution for PEMHCA are established and amended by CalPERS. The Authority pays the monthly contribution for all employees and retirees. The contribution requirements for the Supplemental Post-employment Health care plan are established and amended by the Authority. The required contribution is based on projected pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation - The Authority's annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the Annual Required Contribution of the Employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years.

See independent auditors' report.

West Cities Police Communications Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2014

6. RETIREES' HEALTH BENEFITS, Continued

Annual OPEB Cost and Net OPEB Obligation, Continued - The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation to the plan:

Annual required contribution	\$	28,000
Interest on net OPEB obligation		4,000
Adjustment to annual required contribution		<u>(8,000)</u>
Annual OPEB cost (expense)		24,000
Contributions made		<u>-</u>
Increase in net OPEB obligation		24,000
Net OPEB obligation - beginning of year		<u>99,000</u>
Net OPEB obligation - end of year	\$	<u><u>123,000</u></u>

The Authority is currently funding the PEMHCA and Supplemental Post-employment Health Care plans on a pay-as-you-go basis and records a liability for the difference between pay-as-you-go and the actuarially determined ARC cost. The Authority has chosen not to transfer the required contributions to an irrevocable trust or equivalent arrangement, recognizing that this does not qualify as pre-funding under GASB 45.

The Authority's annual OPEB cost, annual contribution, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years were as follows:

Fiscal Year	Annual OPEB Cost	Actual Annual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 19,000	\$ -	0%	\$ 76,000
6/30/2013	23,000	-	0%	99,000
6/30/2014	24,000	-	0%	123,000

Funded Status and Funding Progress - As of June 30, 2013, the most recent actuarial valuation date, the plan was 0.0% funded (actuarial value of assets as a percentage of actuarial accrued liability). The actuarial accrued liability for benefits was \$166,000 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$166,000. The covered payroll (annual payroll of active employees covered by the plan) was \$1,017,000, and the ratio of the UAAL to the covered payroll was 16.32%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past experiences and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the Notes to the Financial Statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the Actuarial Accrued Liabilities for benefits.

See independent auditors' report.

West Cities Police Communications Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2014

6. RETIREES' HEALTH BENEFITS, Continued

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013, actuarial valuation, the entry age actuarial cost method was used. The assumptions include a 4.00% investment rate of return which is based on the expected long-term return on funds invested by the Authority, inflation rate of 3.00%, and projected salary increases of 3.25%. The annual healthcare cost trend starts at 8.00% for non-medicare eligible participants and 8.30% for medicare eligible participants in the first year and decreases to an ultimate rate of 5.00% in 6 years for both types of participants.

It is not anticipated that the plan amounts paid on behalf of retirees will be increased or changed in the future. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over multi-year periods. The UAAL is being amortized as a level percent of payroll over a 30 year closed period.

7. COMMITMENTS AND CONTINGENCIES

The Authority may be a defendant in certain other legal actions arising in the normal course of operations. In the opinion of management and legal counsel, any liability resulting from these actions will not result in a material adverse effect on the Authority's financial position.

Federal legislature requires that all public safety radios be interoperable capable by 2018. The effect of compliance with the new legislature on the Authority is the replacement of all public safety radios. The Authority utilizes Orange County Communications for radio support. Orange County Communications has developed a comprehensive radio replacement plan for the entire County, including the Authority. The cost to the Authority over the next four years is approximately \$750,000, which will be assessed to the Authority members in a three to five year contribution plan.

As of June 30, 2014, in the opinion of Authority management, there were no additional outstanding matters that would have a significant effect on the financial position of the funds of the Authority.

West Cities Police Communications Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2014

8. RISK MANAGEMENT

Description of Self-insurance Pool Pursuant to Joint Powers Agreement

The Authority is a member of the California Joint Powers Insurance Authority (CJPIA). The CJPIA is composed of 119 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the CJPIA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other coverages. The CJPIA's pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors of the CJPIA. The Board operates through a nine-member Executive Committee.

Self-insurance Programs of the CJPIA

Each member pays an annual contribution to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter until all claims incurred during the coverage period are closed on a pool-wide basis. This subsequent cost re-allocation among members based on actual claim development can result in adjustments of either refunds or additional deposits required.

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk-sharing pool. Additional information regarding the cost allocation methodology is provided below.

Liability

In the liability program claims are pooled separately between police and non-police exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$750,000 up to the reinsurance attachment point of \$5 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$5 million to \$10 million are paid under a reinsurance contract subject to a \$2.5 million annual aggregate deductible. The \$2.5 million annual aggregate deductible is fully covered under a separate policy; as such no portion of it is retained by the CJPIA. Costs of covered claims from \$10 million to \$15 million are paid under two reinsurance contracts subject to a combined \$3 million annual aggregate deductible. The \$3.0 million annual aggregate deductible is fully retained by the CJPIA. (6) Costs of covered claims from \$15 million to \$20 million are paid under reinsurance agreements. (7) Costs of covered claims from \$20 million to \$50 million are paid under excess insurance policies.

See independent auditors' report.

West Cities Police Communications Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2014

8. RISK MANAGEMENT, Continued

Self-insurance Programs of the CJPIA, Continued

Liability, Continued

The overall coverage limit for each member including all layers of coverage is \$50 million per occurrence.

Costs of covered claims for subsidence losses are paid by reinsurance and excess insurance with a pooled sub-limit of \$30 million per occurrence. This \$30 million subsidence sub-limit is composed of (a) \$5 million retained within the pool's SIR, (b) \$15 million in reinsurance, subject to the same annual aggregate deductibles previously stated, and (c) \$10 million in excess insurance. The excess insurance layer has a \$10 million annual aggregate limit.

Purchased Insurance

Property Insurance

The Authority participates in the all-risk property protection program of the CJPIA. This insurance protection is underwritten by several insurance companies. Authority property is currently insured according to a schedule of covered property submitted by the Authority to the CJPIA. Authority property currently has all-risk property insurance protection in the amount of \$788,237. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

Crime Insurance

The Authority purchases crime insurance coverage in the amount of \$3,000,000 with a \$2,500 deductible. The fidelity coverage is provided through the CJPIA. Premiums are paid annually and are not subject to retrospective adjustments.

Workers' Compensation

The Authority purchases workers' compensation insurance through Alliant Insurance Services Inc. for up to \$1,000,000 for all work related injuries/illnesses covered by California law.

Adequacy of Protection

During the past three fiscal years, none of the above programs of protection experienced settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage in 2013-14.

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 4, 2014, the date the financial statements were available for issuance. No events were identified that would require recognition or disclosure in the financial statements.

See independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION

West Cities Police Communications Joint Powers Authority
Budgetary Comparison Schedule
General Fund
For the fiscal year ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Member contributions	\$ 2,140,959	\$ 2,264,239	\$ 2,298,255	\$ 34,016
Intergovernmental	1,000	1,000	21,585	20,585
Investment income	4,000	4,000	3,423	(577)
Other income	2,000	2,000	2,194	194
TOTAL REVENUES	2,147,959	2,271,239	2,325,457	54,218
EXPENDITURES:				
Current:				
Dispatch services	2,127,759	2,251,039	2,068,292	182,747
Capital outlay	75,200	63,200	17,010	46,190
TOTAL EXPENDITURES	2,202,959	2,314,239	2,085,302	228,937
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(55,000)	(43,000)	240,155	283,155
FUND BALANCE - BEGINNING OF YEAR	805,633	805,633	805,633	-
FUND BALANCE - END OF YEAR	\$ 750,633	\$ 762,633	\$ 1,045,788	\$ 283,155

See independent auditors' report.

West Cities Police Communications Joint Powers Authority
Note to Required Supplementary Information
For the fiscal year ended June 30, 2014

1. BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The Authority follows these procedures in establishing the budgetary data reflected in the financial statements: After January 1, the Treasurer and Dispatch Administrator prepare estimates for required appropriations for the fiscal year commencing on the following July 1. The proposed budget includes estimated expenditures and forecasted revenues for the fiscal year. The data is presented to the Administrative Oversight Staff for review. Prior to June 1, the Dispatch Administrator submits to the Authority Board, a proposed operating budget for the fiscal year commencing on the following July 1. The operating budget includes a summary of the proposed expenditures and financial resources of the Authority, as well as historical data for the prior fiscal period. Prior year operating appropriations lapse unless they are reappropriated through Authority Board approval. Encumbered appropriations from the previous year are not included in the adopted budget for the current year. Prior to July 1, the budget is legally enacted through approval of the Board.

The Dispatch Administrator is authorized to transfer budgeted amounts within the department and capital outlay may be transferred between accounts. Additional appropriations of fund balances may be made only if authorized by the Authority Board. Formal budgetary integration is employed as a management control device during the fiscal year for governmental fund types. The Authority maintains legally adopted budgets for all governmental funds. The budgets are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts presented are as originally adopted or as amended (if applicable) by the Authority Board.

West Cities Police Communications Joint Powers Authority
Schedule of Funding Progress
Other Post-Employment Benefit Plan
For the fiscal year ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [[b)-(a)]/c]
6/30/08	\$ -	\$ 108,000	\$ 108,000	0.00%	\$ 1,021,000	10.58%
6/30/11	-	139,000	139,000	0.00%	1,042,000	13.34%
6/30/13	-	166,000	166,000	0.00%	1,017,000	16.32%

See independent auditors' report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
of the West Cities Police Communications
Joint Powers Authority
Cypress, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activity and major fund of West Cities Police Communications Joint Powers Authority (the Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 4, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "White Nelson Dick Evans LLP".

Irvine, California
December 4, 2014