



CPAs AND ADVISORS

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

FOR THE FISCAL YEAR ENDED JUNE 30, 2018 BASIC FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

Focused
on YOU



WEST CITIES POLICE
COMMUNICATIONS JOINT POWERS AUTHORITY
BASIC FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

THIS PAGE INTENTIONALLY LEFT BLANK

WEST CITIES POLICE
COMMUNICATIONS JOINT POWERS AUTHORITY

BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS

	<u>Page Number</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet - Governmental Fund	12
Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund.....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	15
Notes to Basic Financial Statements	18
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Proportionate Share of the Net Pension Liability – Cost Sharing	40
Schedule of Contributions – Cost-Sharing Multiple-Employer Defined Benefit Pension Plan ...	41
Schedule of Changes in the Total OPEB Liability and Related Ratios.....	42
Budgetary Comparison Schedule – General Fund.....	43
Notes to Required Supplementary Information	44
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 <i>Government Auditing Standards</i>	45

THIS PAGE INTENTIONALLY LEFT BLANK



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the West Cities Police Communications Joint Powers Authority (the Authority) as of and for the year ended June 30, 2018, 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.

Auditor's 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 auditor's 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 opinions.



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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2018, 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.

Change in Accounting Principle

As discussed in Note 6 to the financial statements, in 2018 the Authority adopted new accounting guidance, *GASBS No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedules for the general fund, the schedule of changes in net pension liability and related ratio, the schedule of employer contributions, the schedule of proportionate share of the net pension liability, and the schedule of changes in the total OPEB liability and related ratios be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information 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 our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2018 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 solely 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 effectiveness of the Authority's 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.

November 20, 2018

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

Management's Discussion and Analysis

June 30, 2018

The discussion and analysis of the West Cities Police Communications Joint Powers Authority (Authority) financial performance provides an overall review of the Authority's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole. Readers should also review the basic financial statements, as well as the prior year's report for the year ended June 30, 2017, to enhance their understanding of the Authority's financial performance.

The financial section of this report has been prepared to show the results of the financial administration, financial condition, and operations of the Authority. The combined financial statements in this report have been audited by the firm of Lance, Soll and Lunghard, LLP, whose opinion is included.

BASIS OF ACCOUNTING AND FUND GROUPINGS

The government-wide financial statements are presented on an "*economic resources*" measurement focus and, accordingly, all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are reflected in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. The government-wide financial statements also are structured to reflect the accrual basis of accounting. 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 governmental fund financial statements are presented on a spending or "*current financial resources*" measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balance present increases (revenues) and decreases (expenditures) in fund balances. Additionally, the governmental fund statements are also presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to pay for expenditures of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to long-term liabilities are recorded only when payment is due. The Authority maintains funds in accordance with generally accepted accounting principles set forth by the Governmental Accounting Standards Board and other rule-making entities.

FINANCIAL DISCUSSION

In the governmental fund financial statements, the Authority reported an excess of expenditures over revenues of \$119,945. At the end of the current fiscal year, the nonspendable fund balance of the Authority was \$100,765, the committed fund balance was \$189,866 (compared to \$479,445 at the beginning of the year), the assigned fund balance was \$1,417,551 (compared to \$1,231,454 at the beginning of the year) while total fund balance was \$1,757,248 (compared to \$1,877,193 at the beginning of the year). The total fund balance that is not committed or nonspendable (comprised of assigned and unassigned fund balance amounts) represents 57.2 percent (compared with 52.8 percent from the previous year) of the fund's total current expenditures. The majority of the assigned fund balance has been accumulated to offset a portion of identified liabilities for pensions, accrued leave and retirees' health - while the remaining balance will be used for capital equipment and software enhancements.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY
Management's Discussion and Analysis
June 30, 2018

For the fiscal year ended June 30, 2018, the Authority's balance of cash and cash equivalents were \$1,900,232, a decrease of \$700 from the prior fiscal year. Total receivables and prepaid expenses at the end of the fiscal year were \$150,256, which is a decrease from the prior year total of \$186,446.

WEST CITIES POLICE COMMUNICATIONS
JOINT POWERS AUTHORITY
 Summary of Changes in Fund Balances
 For the fiscal year ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Revenues			
Member contributions	\$ 2,753,317	\$ 4,025,726	\$ (1,272,409)
Intergovernmental	23,046	23,144	(98)
Investment income	29,863	13,062	16,801
Other income	1,375	196	1,179
Total Revenues	<u>2,807,601</u>	<u>4,062,128</u>	<u>(1,254,527)</u>
Expenditures			
Current:			
Dispatch Services	2,551,964	2,362,112	189,852
Capital outlay	375,582	795,621	(420,039)
Total Expenditures	<u>2,927,546</u>	<u>3,157,733</u>	<u>(230,187)</u>
Increase in fund balance	<u>\$ (119,945)</u>	<u>\$ 904,395</u>	<u>\$ (1,024,340)</u>

Total revenues for the fiscal year ended June 30, 2018 decreased by \$1,254,527 from the prior year. Individual changes during the past year to the Authority's major revenues are highlighted as follows:

- Annual member contributions are directly tied to budgeted expenditures, and represent the large majority of the Authority's revenue. Member contributions decreased by \$1,272,409 due primarily to a \$1,475,100 special assessment being levied in the prior year to pay for the new Computer Aided Dispatch/Records Management System (CAD/RMS). The decrease associated with this non-recurring assessment was partially offset by greater member contributions resulting from higher personnel costs due to negotiated salary increases and rising pension costs.
- Intergovernmental revenues are State capital grants, which tend to fluctuate year to year based on availability and eligibility of the Authority to receive such grants. Both current year and prior year revenues are limited to the State paying for annual maintenance on the call-taking system and a voice data recorder system.
- Investment income increased due to rising interest rates earned on idle cash balances, which yielded additional revenues during the past year.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

Management's Discussion and Analysis

June 30, 2018

Notable changes in expenditures during the year ended June 30, 2018 follow:

- Dispatch expenditures are comprised mostly of personnel costs for the 19 budgeted full-time positions of the Authority. In addition to the aforementioned negotiated salary increases and rising pension costs, the \$189,852 (8.0 percent) increase was attributed to two factors. First, for the first time in nearly a decade both management positions were filled for the entire year. In addition, the conversion to the new CAD/RMS systems required extensive training which resulted in additional overtime for Authority personnel.
- The last few years have seen extensive investments in capital equipment, resulting in significantly higher capital expenditures when compared to a typical year. Capital expenditures decreased by \$420,039 from the prior year total of \$795,621. This decrease was anticipated and is directly attributed to the purchase and implementation of the CAD/RMS. The \$1.5 million project was more than halfway complete as of June 30, 2017 and went live in November 2017. Additional components of the project are expected to be implemented in the upcoming fiscal year.

Authority General Fund Budgetary Highlights

The Authority's budgetary highlights for the fiscal year ended June 30, 2018 were comprised of multiple issues. Net increases between the original appropriations budget and the final amended budget totaled \$836,399. The majority of the increase (\$828,899) is attributable to the annual carryover of appropriations to the new fiscal year for encumbrances and purchases not completed in the prior fiscal year. These carryover amounts related to the two major capital equipment upgrades (800 MHz and CAD/RMS) projects. An additional \$7,500 was appropriated for a salary increase and one-time personnel payment not anticipated when the budget was originally prepared.

REQUEST FOR INFORMATION

This financial report is designed to provide residents of the agencies served by the Authority, taxpayers, creditors and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the West Cities Police Communications Joint Powers Authority, 911 Seal Beach Blvd, Seal Beach, California 90740.

THIS PAGE INTENTIONALLY LEFT BLANK

BASIC FINANCIAL STATEMENTS

THIS PAGE INTENTIONALLY LEFT BLANK

GOVERNMENT-WIDE FINANCIAL STATEMENTS

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

STATEMENT OF NET POSITION
JUNE 30, 2018

	Primary Government <u>Governmental Activities</u>
ASSETS:	
Current assets:	
Cash and investments	\$ 1,900,232
Receivables:	
Accounts	42,080
Accrued interest	7,411
Prepaid expenses	100,765
Total current assets	<u>2,050,488</u>
Noncurrent assets:	
Capital assets	
Depreciable assets, net	<u>1,653,416</u>
TOTAL ASSETS	<u>3,703,904</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred amounts from pension plans	<u>686,020</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>686,020</u>
LIABILITIES:	
Current liabilities:	
Accounts payable and accrued liabilities	197,254
Unearned revenue	95,986
Accrued leave payable	54,202
Total current liabilities	<u>347,442</u>
Noncurrent liabilities:	
Accrued leave payable	162,605
Retirees' health payable	549,688
Net pension liability	1,364,200
Total noncurrent liabilities	<u>2,076,493</u>
TOTAL LIABILITIES	<u>2,423,935</u>
DEFERRED INFLOWS OF RESOURCES:	
Deferred amounts from pension plans	58,931
Deferred amounts from OPEB	<u>23,672</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>82,603</u>
NET POSITION:	
Net investment in capital assets	1,653,416
Unrestricted	<u>229,970</u>
Total Net Position	<u>\$ 1,883,386</u>

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Expenses</u>	<u>Program Revenues Capital Contributions and Grants</u>	<u>Net (Expenses) Revenues and Changes in Net Position</u>
			<u>Governmental Activities</u>
Primary government:			
Governmental activities:			
Dispatch services	\$ 2,976,314	\$ 23,046	\$ (2,953,268)
Total Governmental Activities	<u>\$ 2,976,314</u>	<u>\$ 23,046</u>	<u>(2,953,268)</u>
General revenues:			
Member contributions			2,753,317
Investment earnings			29,863
Miscellaneous income			1,375
Total general revenues			<u>2,784,555</u>
Change in net position			<u>(168,713)</u>
Net position at beginning of year			2,214,334
Restatement of net position			<u>(162,235)</u>
Net position at beginning of year, as restated			<u>2,052,099</u>
Net position at end of year			<u>\$ 1,883,386</u>

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2018**

	<u>General Fund</u>
ASSETS	
Cash and investments held by the City of Cypress	\$ 1,900,232
Receivables:	
Accounts	42,080
Accrued interest	7,411
Prepaid expenses	<u>100,765</u>
TOTAL ASSETS	<u>\$ 2,050,488</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 197,254
Unearned revenues	<u>95,986</u>
TOTAL LIABILITIES	<u>293,240</u>
FUND BALANCE:	
Nonspendable	
Prepaid costs	100,765
Committed:	
Computer aided dispatch records management system	
800 MHz radio upgrade	189,866
Assigned:	
Employee benefits	1,100,000
Future capital replacement	117,551
Computer aided dispatch records management system	<u>200,000</u>
Unassigned	<u>49,066</u>
TOTAL FUND BALANCE	<u>1,757,248</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,050,488</u>

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Fund balances of governmental funds	\$	1,757,248
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		1,653,416
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:		
Accrued leave payable		(216,807)
Pension and Other Post-Employment Benefit related debt applicable to the Agency's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Deferred outflows of resources and deferred inflows of resources related to pensions are only reported in the Statement of Net Position as the changes in these amounts effects only the government-wide statements for governmental activities:		
Deferred outflows of resources - pension		686,020
Deferred inflows of resources - pension		(58,931)
Net pension liability		(1,364,200)
Deferred inflows of resources - OPEB		(23,672)
Retirees' health payable (OPEB)		(549,688)
		<hr/>
Net position of governmental activities	\$	<u>1,883,386</u>

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>
REVENUES:	
Member contributions	\$ 2,753,317
Intergovernmental	23,046
Investment income	29,863
Other income	1,375
	<hr/>
TOTAL REVENUES	2,807,601
	<hr/>
EXPENDITURES:	
Current:	
Dispatch services	2,551,964
Capital outlay	375,582
	<hr/>
TOTAL EXPENDITURES	2,927,546
	<hr/>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(119,945)
	<hr/>
FUND BALANCE - BEGINNING OF YEAR	1,877,193
	<hr/>
FUND BALANCE - END OF YEAR	\$ 1,757,248
	<hr/> <hr/>

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, 2018**

Net change in fund balances - total governmental funds	\$ (119,945)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities, the costs of those assets are allocated over the estimated useful lives as depreciation expense.	
Capital outlay	375,582
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.	
	(234,046)
Accrued leave reported on the Statement of Activities does 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.	
	(11,354)
Retirees' Health Benefit expenditures 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. This is the net change in Retirees' Health Benefit for the current period.	
	(68,513)
Pension expense reported in the governmental funds includes the annual required contributions. In the Statement of Activities, pension expense includes the change in the net pension liability, and related change in pension amounts for deferred outflows of resources and deferred inflows of resources.	
	<u>(110,437)</u>
Change in net position of governmental activities	<u>\$ (168,713)</u>

THIS PAGE INTENTIONALLY LEFT BLANK

NOTES TO BASIC FINANCIAL STATEMENTS

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 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 YEAR ENDED JUNE 30, 2018**

Note 1: Summary of Significant Accounting Policies (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 Governmental Accounting Standards Board (GASB) Statement No. 34.

c. New Accounting Pronouncements

GASB Current Year Standards

The following new Governmental Accounting Standards Board (GASB) pronouncements were effective for fiscal year 2017-2018 audit:

- GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*.
- GASB Statement No. 81, *Irrevocable Split Interest Agreements*.
- GASB Statement No. 85, *Omnibus 2018*.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*.

The following Governmental Accounting Standards Board (GASB) pronouncements are effective in the following fiscal year audit and should be reviewed for proper implementation by management:

Fiscal year 2018-2019

- GASB Statement No. 83, *Certain Assets Retirement Obligations*.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Note 1: Summary of Significant Accounting Policies (Continued)

Fiscal year 2019-2020

- GASB Statement No. 84, *Fiduciary Activities*.

Fiscal year 2020-2021

- GASB Statement No. 87, *Leases*.

d. Cash, Cash Equivalents and Investments

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

Investments are stated at fair value, which 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. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value represented by the external pool.

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 acquisition cost at the date of donation or annexation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset 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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

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 that time. The Authority has the following items that qualify for reporting in this category and that are reported in the statement of net position:

- Deferred outflow related to pensions that is equal to employer contributions made after the measurement date of the net pension liability.
- Deferred outflow related to pensions are amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans, except for deferred outflows relating to the net difference between projected and actual earnings on pension plan investments, which is amortized straight line over 5 years.

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 has the following items that qualify for reporting in this category and that are reported in the statement of net position:

- Deferred inflows from pensions are amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans, except for deferred inflows relating to the net difference between projected and actual earnings on pension plan investments, which is amortized straight line over 5 years.
- Gains and losses related to changes in Total OPEB liability are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss. The average of expected remaining active and inactive service lives was 8.1576 as of the June 30, 2017 and June 30, 2018 Measurement Dates. This factor was used to recognize the difference between expected and actual experience and changes in assumptions.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

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 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.

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, or 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.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Authority's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

m. Other Postemployment Benefits (OPEB)

For purposes of measuring the Total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and the OPEB expense have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Note 1: Summary of Significant Accounting Policies (Continued)

n. 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.

Note 2: Cash and Investments

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, 2018, the cash and investments balance of the Authority was as follows:

	Government- Wide Statement of Net Position <u>Governmental Activities</u>
Cash and investments held by the City of Cypress	<u>\$ 1,900,232</u>

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	None	\$65 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%	N/A
Money Market Mutual Funds	N/A	20%	10%

* Limit is per entity.

N/A - Not Applicable

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Note 2: Cash and Investments (Continued)

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, 2018, approximately 81% 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 154 days.

<u>Investment Type</u>	<u>Remaining Maturity (in Months) 12 Months or Less</u>
Equity in City of Cypress investment pool	<u>\$1,900,232</u>

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, 2018</u>	<u>Not Rated</u>
Equity in City of Cypress investment pool	N/A	<u>\$ 1,900,232</u>	<u>\$ 1,900,232</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 \$65,000,000 in the fund. Investments in LAIF are considered highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

The City values its investments in LAIF at the fair value provided by LAIF. At June 30, 2018 the factor used was 0.998126869. The City's investment with LAIF includes a portion of pool funds invested in structured notes and asset-backed securities. At June 30, 2018, the City invested in LAIF, which had invested 0.83% 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 YEAR ENDED JUNE 30, 2018**

Note 2: Cash and Investments (Continued)

Fair Value Measurements

The Authority categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The Authority's investment in the City of Cypress investment pool is not subject to the fair value hierarchy.

Note 3: Capital Assets

The following is a summary of capital assets for governmental activities for the year ended June 30, 2018:

	Balance at June 30, 2017	Transfers	Additions	Deletions	Balance at June 30, 2018
Capital Assets, Not Depreciated:					
Work In Progress	\$ 665,251	\$ (665,251)	\$ -	\$ -	\$ -
Total, Not Depreciated	<u>665,251</u>	<u>(665,251)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital Assets, Being Depreciated:					
Buildings and improvements	177,587	-	-	-	177,587
Equipment	1,367,444	665,251	375,582	-	2,408,277
Furniture	51,194	-	-	-	51,194
Total, Being Depreciated	<u>1,596,225</u>	<u>665,251</u>	<u>375,582</u>	<u>-</u>	<u>2,637,058</u>
Less Accumulated Depreciation:					
Buildings and improvements	(174,550)	-	(506)	-	(175,056)
Equipment	(568,876)	-	(230,324)	-	(799,200)
Furniture	(6,170)	-	(3,216)	-	(9,386)
Total Accumulated Depreciation	<u>(749,596)</u>	<u>-</u>	<u>(234,046)</u>	<u>-</u>	<u>(983,642)</u>
Total Depreciated, Net	<u>846,629</u>	<u>665,251</u>	<u>609,628</u>	<u>-</u>	<u>1,653,416</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,511,880</u>	<u>\$ -</u>	<u>\$ 141,536</u>	<u>\$ -</u>	<u>\$ 1,653,416</u>

Depreciation expense for capital assets in the amount of \$234,046 is charged to dispatch services for the year ended June 30, 2018.

Note 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, 2018 consisted of \$54,202 in short-term and \$162,605 in long-term liabilities.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Note 4: Accrued Leave Payable (Continued)

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.

Note 5: Pension Plans – Public Employees’ Retirement System (CalPERS)

a. General Information about the Pension Plans

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the Authority's 2% at 55 (Tier I) and 2% at 62 (PEPRA) Miscellaneous (all other) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Authority resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after five (5) years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013
Hire date		
Benefit formula	2%@55	2%@62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.5%
Required employer contribution rates	9.599% + \$75,344	6.908% + \$81

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Note 5: Pension Plans – Public Employees’ Retirement System (CalPERS) (Continued)

Contributions

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018, the Authority reported net pension liabilities for its proportionate share of the net pension liability for both Plans as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	<u>\$ 1,364,200</u>

The Authority's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2017, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The Authority's proportionate share of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The Authority's proportionate share of the net pension liability for both Plans as of June 30, 2016 and 2017 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2016	0.03389%
Proportion - June 30, 2017	0.03461%
Change - Increase (Decrease)	<u>0.00072%</u>

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Note 5: Pension Plans – Public Employees’ Retirement System (CalPERS) (Continued)

For the year ended June 30, 2018, the Authority recognized pension expense of \$341,144. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 230,706	\$ -
Differences between actual and expected experience	1,821	26,091
Change in assumptions	225,964	17,230
Change in proportions	139,935	11,996
Difference in actual contribution to proportionate share	36,490	3,614
Net differences between projected and actual earnings on plan investments	51,104	-
Total	<u>\$ 686,020</u>	<u>\$ 58,931</u>

The \$230,706 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2018	\$ 138,986
2019	171,629
2020	116,110
2021	(30,342)
	<u>\$ 396,383</u>

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Note 5: Pension Plans – Public Employees’ Retirement System (CalPERS) (Continued)

Actuarial Assumptions

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method

Actuarial Assumptions:

Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

(3) The probabilities of mortality are derived using CalPERS’ membership data for all funds.

The mortality table used was developed based on CalPERS’ specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at the CalPERS website under Forms and Publications.

Expected Average Remaining Service Lifetime (EARSL)

The EARSL for the Public Agency Cost-Sharing Multiple Employer Defined Benefit Plan (PERF C) for measurement date ending June 30, 2017 is 3.8 years, which was obtained by dividing the total service years of 490,088 (the sum of remaining service lifetimes of the active employees) by 130,595 (the total number of participants: active, inactive, and retired) in the PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members’ probability of decrementing due to an event other than receiving a cash refund.

Change of Assumptions

In 2017, the accounting discount rate was reduced from 7.65 percent to 7.15 percent.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Note 5: Pension Plans – Public Employees’ Retirement System (CalPERS) (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the Plans, the tests revealed the assets would not run out. Therefore, the current 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.98%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Note 5: Pension Plans – Public Employees’ Retirement System (CalPERS) (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability for both Plans, calculated using the discount rate for each Plan, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease	6.15%
Net Pension Liability	\$ 2,109,043
Current Discount Rate	7.15%
Net Pension Liability	\$ 1,364,200
1% Increase	8.15%
Net Pension Liability	\$ 747,307

Pension Plans Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

c. Payable to the Pension Plans

At June 30, 2018, the Authority had no outstanding amount of contributions to the pension plans required for the year ended June 30, 2018.

Note 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 Authority's agent multiple-employer defined benefit plan. The Authority pays the PEMHCA minimum amount (\$128 per month for 2017 and \$133 for 2018) 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.

In addition to the PEMHCA minimum amount, certain members of the retiree group with at least 10 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 \$200 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.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Note 6: Retirees' Health Benefits (Continued)

As of June 30, 2018, the date of the most recent actuarial valuation, the Authority's plan has 18 active employees.

Employees Covered - Plan membership, at June 30, 2018, consisted of the following:

Inactive plan members or beneficiaries	-
Active plan members	18

Funding Policy - The contribution for PEMHCA is 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.

Total OPEB Liability

The Authority's Total OPEB Liability was measured as of June 30, 2018 and the Total OPEB Liability was determined by an actuarial valuation as of June 30, 2018. Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

Actuarial assumptions. The Total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Payroll Growth	3% per annum
Investment Rate of Return	3.90% per annum
Healthcare cost-trend rates	8.00% initial, decreasing to 5.00% for 2020-21 and after. A further decrease of 0.50% per year to reflect healthcare cost trend rates.
Retirement Age	The Authority offers the same plans to its retirees as to its active employees, with the general exception that upon reaching age 65 and becoming eligible for Medicare, the retiree must join one of the Medicare Supplement coverages offered under PEMHCA.
Mortality	Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, projected using a generational projection based on 100% of scale MP-2016 for years 2014 through 2029, 50% of MP-2016 for years 2030 through 2049, and 20% of MP-2016 for 2050 and thereafter.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Note 6: Retirees' Health Benefits (Continued)

Discount Rate

Discount rate. GASB 75 requires a discount rate that reflects the following:

- a) The long-term expected rate of return on OPEB plan investments – to the extent that the OPEB plan's fiduciary net position (if any) is projected to be sufficient to make projected benefit payments and assets are expected to be invested using a strategy to achieve that return;
- b) A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher – to the extent that the conditions in (a) are not met.

Changes in the Total OPEB Liability

The changes in the Total OPEB liability for the Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Liability	Total OPEB Liability
Balance at June 30, 2017	\$ 504,847	\$ -	\$ 504,847
Changes recognized for the measurement period:			
Service Cost	51,790	-	51,790
Interest	20,030	-	20,030
Difference between expected and actual experience	(483)	-	(483)
Changes of assumptions	(26,496)	-	(26,496)
Net Changes	44,841	-	44,841
Balance at June 30, 2018	\$ 549,688	\$ -	\$ 549,688

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.90 percent) or 1-percentage-point higher (4.90 percent) than the current discount rate:

	Discount Rate 1% Decrease (2.90%)	Current Discount Rate (3.90%)	Discount Rate 1% Increase (4.90%)
Total OPEB Liability	\$ 645,529	\$ 549,688	\$ 472,864

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Note 6: Retirees' Health Benefits (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.00 percent decreasing to 4.00 percent) or 1-percentage-point higher (9.00 percent decreasing to 6.00 percent) than the current healthcare cost trend rates:

	1% Decrease (7.00% decreasing to 4.00%)	Trend Rate (8.00% decreasing to 5.00%)	1% Increase (9.00% decreasing to 6.00%)
Total OPEB Liability	\$ 511,842	\$ 549,688	\$ 594,915

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the Authority recognized OPEB expense of \$68,513. As of fiscal year ended June 30, 2018, the Authority reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	\$ -	\$ 424
Changes of assumptions	-	23,248
Difference between projected and actual return on OPEB plan investments	-	-
Total	\$ -	\$ 23,672

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

Measurement Period ended June 30:	Deferred Outflows/(Inflows) of Resources
2019	\$ 3,307
2020	3,307
2021	3,307
2022	3,307
2023	3,307
Thereafter	7,137
Total	<u>23,672</u>

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Note 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.

As of June 30, 2018, in the opinion of Authority management, there were no outstanding matters that would have a significant effect on the financial position of the funds of the Authority.

Note 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 117 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 lines of 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 at the beginning of the coverage period. A retrospective adjustment is then conducted annually thereafter, for coverage years 2012-13 and prior. Coverage years 2013-14 and forward are not subject to routine annual retrospective adjustment.

The total funding requirement for self-insurance programs is estimated based on an actuarial analysis. Costs are allocated to individual agencies based on payroll and claims history, relative to other members of the risk-sharing pool.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Note 8: Risk Management (Continued)

Primary Liability Program

Claims are pooled separately between police and general government 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 from \$750,000 to \$50 million, are distributed based on the outcome of cost allocation within the first and second loss layers.

For 2017-18, the Authority's pooled retention is \$2 million per occurrence, with reinsurance to \$20 million, and excess insurance to \$50 million. The Authority's reinsurance contracts are subject to the following additional pooled retentions: (a) \$2.5 million annual aggregate deductible in the \$3 million in excess of \$2 million layer, and (b) \$3 million annual aggregate deductible in the \$5 million in excess of \$10 million layer. There is a third annual aggregate deductible in the amount of \$2.5 million in the \$5 million in excess of \$5 million layer, however it is fully covered under a separate policy and therefore not retained by the Authority. The overall coverage limit for each member, including all layers of coverage, is \$50 million per occurrence. Costs of covered claims for subsidence losses have a sub-limit of \$30 million per occurrence.

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 \$807,545. 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.

Adequacy of Protection

During the past four 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 FY 2017-18.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Note 9: Restatement of Net Position

In the current fiscal year, the Authority implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). The OPEB liability was previously reported as \$342,612 as of June 30, 2017, however, due to GASB Statement No. 75, it has been adjusted to \$504,847 as of June 30, 2017. This increase causes a restatement of beginning net position, reducing it by \$162,235.

Note 10: Subsequent Events

Management has evaluated subsequent events through November 20, 2018, the date the financial statements were available for issuance. No other events were identified that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 COST SHARING MULTIPLE EMPLOYER DEFINED BENEFIT PLAN
 AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Miscellaneous Plan				
Plan's Proportion of the Net Pension Liability	0.03461%	0.03389%	0.01362%	0.01477%
Plan's Proportionate Share of the Net Pension Liability	\$ 1,364,200	\$ 1,178,390	\$ 935,168	\$ 919,200
Plan's Covered Payroll	\$ 1,475,771	\$ 1,397,295	\$ 1,321,136	\$ 1,367,539
Plan's Proportionate Share of the Net Pension Liability as Percentage of Covered Payroll	92.44%	84.33%	70.79%	67.22%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	73.31%	74.06%	78.40%	78.09%

Notes to Schedule:

Benefit Changes: None

Changes of Assumptions: In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent.

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only four years are shown.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

SCHEDULE OF CONTRIBUTIONS
 COST SHARING MULTIPLE EMPLOYER DEFINED BENEFIT PLAN
 AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Miscellaneous Plan				
Actuarially Determined Contribution	\$ 230,706	\$ 202,797	\$ 129,952	\$ 185,785
Contribution in Relation to the Actuarially Determined Contribution	(230,706)	(202,797)	(129,952)	(185,785)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 1,647,230	\$ 1,475,771	\$ 1,397,295	\$ 1,321,136
Contributions as a Percentage of Covered Payroll	14.01%	13.74%	9.30%	14.06%

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only four years are shown.

Note to Schedule:

Valuation Date:	June 30, 2015
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method/period	Direct Rate Smoothing
Asset valuation method	Market value
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Payroll growth	3.00%
Investment rate of return	7.50% net of pension plan investment and administrative expenses; includes inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007
Mortality	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 51,790
Interest on the total OPEB liability	20,030
Changes in assumptions	(26,496)
Benefit payments	(483)
Net change in total OPEB liability	<u>44,841</u>
Total OPEB liability - beginning	<u>504,847</u>
Total OPEB liability - ending (a)	<u><u>\$ 549,688</u></u>
Plan Fiduciary Net Position	
Contribution - employer	\$ (483)
Benefit payments	483
Net change in plan fiduciary net position	-
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending (b)	<u><u>\$ -</u></u>
Total OPEB Liability/(Assets) - ending (a) - (b)	<u><u>\$ 549,688</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%
Covered-employee payroll	\$ 1,661,400
Net OPEB liability as a percentage of covered-employee payroll	33.09%

(1) Historical information is required only for the measurement periods for which GASB 75 is applicable. Fiscal Year 2018 was the first year of implementation. Future years' information will be displayed up to 10 years as information becomes available.

Notes to Schedule: None

Changes in assumptions: The discount rate increased to 3.90% as of June 30, 2018

WEST CITIES POLICE COMMUNICATION JOINT POWERS AUTHORITY

BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1				
REVENUES:				
Member contributions	\$ 2,673,472	\$ 2,673,472	\$ 2,753,317	\$ 79,845
Intergovernmental	23,246	23,246	23,046	(200)
Investment income	8,000	8,000	29,863	21,863
Other income	3,000	3,000	1,375	(1,625)
TOTAL REVENUES:	2,707,718	2,707,718	2,807,601	99,883
EXPENDITURES:				
Current:				
Dispatch services	2,516,718	2,536,079	2,551,964	(15,885)
Capital outlay	214,147	1,031,185	375,582	655,603
TOTAL EXPENDITURES:	2,730,865	3,567,264	2,927,546	639,718
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,707,718	(859,546)	(119,945)	739,601
FUND BALANCE - BEGINNING OF YEAR	1,877,193	1,877,193	1,877,193	-
FUND BALANCE - END OF YEAR	\$ 4,584,911	\$ 1,017,647	\$ 1,757,248	\$ 739,601

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018**

Note 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 re-appropriated through the Authority Board for 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.

Excess of expenditures over appropriations are as follows:

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
General Fund:			
Dispatch Services	\$ 2,551,964	\$ 2,536,079	\$ (15,885)



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
West Cities Police Communications Joint Powers Authority
City of Seal Beach, 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 activities and the general fund information of the West Cities Communication Joint Powers Authority (the Authority), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 20, 2018.

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 entity'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*.





CPAs AND ADVISORS

To the Board of Directors
West Cities Police Communications Joint Power Authority
City of Seal Beach, California

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 black ink that reads "Lance, Soll & Lughard, LLP". The signature is written in a cursive, flowing style.

Brea, California
November 20, 2018