METRO CITIES FIRE AUTHORITY

Basic Financial Statements and Supplementary Information

June 30, 2019 and 2018

(With Independent Auditors’ Report Thereon)

METRO CITIES FIRE AUTHORITY

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KPMG LLP
Suite 1500
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Los Angeles, CA 90071-2629

Independent Auditors' Report

The Board of Directors
Metro Cities Fire Authority:

We have audited the accompanying financial statements of the Metro Cities Fire Authority (the Authority) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements for the years then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metro Cities Fire Authority as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of proportional share of capital assets by member cities is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of proportional share of capital assets by member cities is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

Los Angeles, California
October 25, 2019

METRO CITIES FIRE AUTHORITY

Statements of Net Position

June 30, 2019 and 2018

Assets		2019	2018
Current assets:			
Investments	$	1,234,460	967,760
Accounts receivable		20,737	6,536
Interest receivable		9,231	4,349
Prepaid assets		22,642	18,671
Restricted other assets		38,130	—
Total current assets		1,325,200	997,316
Noncurrent assets:			
Capital assets:			
Machinery and equipment		4,214,994	2,169,538
Total capital assets		4,214,994	2,169,538
Less accumulated depreciation		(1,889,327)	(1,584,849)
Capital assets, net		2,325,667	584,689
Prepaid assets		19,109	14,073
Restricted other assets		114,391	—
Total noncurrent assets		2,459,167	598,762
Total assets	$	3,784,367	1,596,078
Liabilities			
Current liabilities:			
Accounts payable	$	41,467	13,560
Accrued payroll		89,223	84,294
Interest payable		51,159	—
Current portion of long-term debt		79,336	—
Member-specific component deposits		70,028	115,222
Total current liabilities		331,213	213,076
Noncurrent liability:			
Long-term debt, less current portion		1,539,023	—
Total noncurrent liability		1,539,023	—
Total liabilities	$	1,870,236	213,076
Net Position			
Net investment in capital assets	$	707,308	584,689
Restricted		152,521	—
Unrestricted		1,054,302	798,313
Total net position	$	1,914,131	1,383,002

See accompanying notes to basic financial statements.

METRO CITIES FIRE AUTHORITY

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2019 and 2018

		2019	2018
Operating revenue:			
Member agency contributions	$	6,559,666	6,216,973
Other revenues		10,199	100,840
Total operating revenue		6,569,865	6,317,813
Operating expenses:			
Salaries and wages reimbursements		4,878,890	4,872,590
Communication fees		535,060	529,910
Administration and overhead		676,159	652,717
Meetings and seminars		25,478	17,159
Office supplies and maintenance		27,266	64,331
Other operating		118,671	85,139
Depreciation		304,478	238,982
Total operating expenses		6,566,002	6,460,828
Operating income (loss)		3,863	(143,015)
Nonoperating revenue (expense):			
Grant		513,000	—
Investment income		65,425	9,947
Interest expense		(51,159)	—
Total nonoperating revenue		527,266	9,947
Change in net position		531,129	(133,068)
Net position at beginning of year		1,383,002	1,516,070
Net position at ending of year	$	1,914,131	1,383,002

See accompanying notes to basic financial statements.

METRO CITIES FIRE AUTHORITY

Statements of Cash Flows

Years ended June 30, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Receipts from member agencies	$	6,559,666	6,240,280
Receipts from other revenue		6,445	99,631
Payments for wages and other benefits reimbursements		(4,873,961)	(4,861,369)
Payments to suppliers for goods and services		(743,216)	(734,376)
Payments to City of Anaheim for administration and overhead		(676,159)	(652,717)
Net cash provided by operating activities		272,775	91,449
Cash flows from capital and related financing activities:			
Proceeds from loan		1,618,359	—
Capital purchases		(1,684,977)	(51,266)
Net cash used for capital and related financing activities		(66,618)	(51,266)
Cash flows from investing activities:			
Purchase of investment securities		(503,000)	(358,000)
Proceeds from sale and maturity of investment securities		262,222	298,261
Interest received		34,621	19,556
Net cash used for investing activities		(206,157)	(40,183)
Change in cash		—	—
Cash at beginning of year		—	—
Cash at end of year	$	—	—
Reconciliation of operating loss to net cash provided by operating activities:			
Operating income (loss)	$	3,863	(143,015)
Adjustment to reconcile operating loss to net cash provided by operating activities:			
Depreciation		304,478	238,982
Changes in assets and liabilities:			
Accounts receivable		(14,201)	(2,900)
Member contributions receivable		—	23,307
Prepaid and other assets		(9,007)	(4,999)
Accounts payable		27,907	(6,295)
Accrued payroll		4,929	11,221
Member-specific component deposits		(45,194)	(24,852)
Net cash provided by operating activities	$	272,775	91,449
Schedule of noncash investing activity:			
Increase (decrease) in fair value of investments	$	25,922	(8,756)

See accompanying notes to basic financial statements.

(1) Summary of Accounting Policies

(a) Organization

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

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

On December 20, 2018, the City of Garden Grove provided its notice of intent to withdraw from the JPA Agreement as a member agency effective the end of the current fiscal year ending June 30, 2019. Pursuant to section 9.2 of the JPA Agreement, the withdrawal of a member, however, shall not relieve the withdrawing member its proportionate share of any debts or other liabilities incurred by the Authority prior to the effective date of such withdrawal, or any liabilities imposed upon or incurred by the member pursuant to this Agreement prior to the effective date of such withdrawal, and such withdrawal shall result in the forfeiture of all rights and claims of the withdrawing member to any repayment of contributions or advances or other distribution of funds or property after withdrawal, including distribution in the event of termination of the Authority, except Member Specific Communication Equipment, provided the withdrawing member pays all costs of removal.

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

All personnel of the Authority are employees of the City. The Authority and the City have entered into an agreement whereby the Authority is responsible for all costs relating to the City employees that are personnel of the Authority. In addition to salary costs, the Authority is contractually responsible for the cost of benefits for the City employees who work with the Authority. For the years ended June 30, 2019 and 2018, the Authority paid the City $762,315 and $685,044 for pension, $201,119 and $246,810 for retiree medical, and $57,168 and $92,840 for workers’ compensation costs, respectively.

(b) Basis of Presentation

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

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

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

(c) Fair Value Measurements

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

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

(d) Investments

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

(e) Capital Assets

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

(Continued)

(f) Member-Specific Component Deposits

Member-specific component deposits were established by the Authority to assist members to defray future costs. They represent amounts deposited by the members to be used for specific purposes. A "Member-Specific Communications Equipment Replacement" component was established to defray future replacement costs of member-specific communication equipment. The member-specific components consisted of the following at June 30, 2019 and 2018:

		2019	2018
Communication equipment replacement:			
City of Anaheim	$	423	407
City of Fountain Valley		35,858	35,110
City of Fullerton		36	36
City of Garden Grove		109	43,063
City of Huntington Beach		18,065	21,389
City of Orange		15,537	15,217
Total member-specific components	$	70,028	115,222

(g) Net Position

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

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets. At June 30, 2019 and 2018, the Authority had $707,308 and $584,689 in net investment in capital assets.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. At June 30, 2019, the Authority had $152,521 restricted net position of unamortized prepaid equipment maintenance from the resources provided by state grants. At June 30, 2018, the Authority had no restricted net position.

Unrestricted – This component of net position is the amount the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. At June 30, 2019 and 2018, the Authority had $1,054,302 and $798,313 in unrestricted net position.

When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources when they are needed.

(Continued)

(h) Use of Estimates

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

(2) Investments

The Authority's investment policy allows all funds to be invested with the City. As of June 30, 2019 and 2018, the Authority had $1,234,460 and $967,760 invested in the City's pooled investment fund, respectively. The City's investment policy limits the permitted investments in the investment pool to the following: obligations of the U.S. government, federal agencies, and government-sponsored enterprises; medium-term corporate notes; certificates of deposit; bankers' acceptances; commercial paper; LAIF; repurchase agreements; reverse repurchase agreements; and money market mutual funds. On December 6, 2017 the Standard and Poor's Corporation (S&P) raised the credit rating of the City's treasurer investment portfolio to AA+f/S1 from AAf/S1. The treasurer's investment portfolio has a weighted average maturity of 1.92 and 1.41 years at June 30, 2019 and 2018, respectively.

(3) Accounts Receivable

Accounts receivable at June 30, 2019 and 2018 consisted of the following:

		2019	2018
Anaheim Municipal Employee Association	$	5,865	2,183
Miscellaneous		14,872	4,353
Total	$	20,737	6,536

(4) Member Agency Contributions

The Authority collects fair share contributions from its member agencies. The contribution amount for member agencies is calculated each year based upon the number of recorded incidents attributed to each member, divided by the recorded incidents attributable to all members, during the calendar year proceeding the fiscal year for which that member's fair share percentage is being calculated. Once determined for any fiscal year, the member's fair share percentage shall remain unchanged. The percentages and amounts of the member agency contributions consisted of the following for the fiscal years ended June 30, 2019 and 2018 by member agencies:

	2019		2018	
	Amount	**Percentage**	**Amount**	**Percentage**
City of Anaheim	$ 1,971,836	30.06 %	$ 1,850,794	29.77 %
City of Brea	245,987	3.75	239,975	3.86
City of Fountain Valley	317,488	4.84	305,253	4.91
City of Fullerton	737,307	11.24	721,169	11.60
City of Garden Grove	757,641	11.55	726,142	11.68
City of Huntington Beach	1,102,680	16.81	1,036,369	16.67
City of Newport Beach	642,191	9.79	602,425	9.69
City of Orange	784,536	11.96	734,846	11.82
Total	$ 6,559,666	100.00 %	$ 6,216,973	100.00 %

(5) Capital Assets

Capital asset activities for the year ended June 30, 2019 were as follows:

	Beginning balance	Additions	Deletions/ Transfers	Ending balance
Depreciable assets:				
Machinery and equipment	$ 2,169,538	2,045,456	—	4,214,994
Less accumulated depreciation	(1,584,849)	(304,478)	—	(1,889,327)
Total depreciable assets, net	584,689	1,740,978	—	2,325,667
Total capital assets, net	$ 584,689	1,740,978	—	2,325,667

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

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

(6) Long-term Liability

		Beginning balance	Additions/ proceeds	Reductions/ payments	Ending balance		Due within one year
Loan payable	$		1,618,359		1,618,359	$	79,336
Total	$	—	1,618,359	—	1,618,359	$	79,336

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

Fiscal years		Principal	Interest	Total
2020	$	79,336	67,901	147,237
2021		83,220	64,017	147,237
2022		86,681	60,556	147,237
2023		90,287	56,950	147,237
2024		94,043	53,194	147,237
2025–2029		532,248	203,937	736,185
2030–2033		652,544	83,640	736,184
	$	1,618,359	590,195	2,208,554

(7) Administration of the JPA

Administrative services required for the operation of the Communications Center, management, and administration of the personnel are administered by the City of Anaheim. For the fiscal years ended June 30, 2019 and 2018, administration fees (amounts other than payments for pension and worker's compensation costs discussed in note 1 of this report) paid to the City were $676,159 and $652,717, respectively, per the JPA Agreement.

(8) Risk Management

The Authority is self-insured for general liability claims. The amount of claims paid out is distributed among each member for reimbursement. In the event an unfunded liability arises, the contribution of each member shall be in an amount equal to the total unfunded liability multiplied by that member's percentage of budget. At June 30, 2019 and 2018, the Authority did not have any claims outstanding nor did the Authority pay any claims during the years then ended.

(9) Commitments and Contingencies

Lawsuits

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

Commitments

The Authority does not have any major contractual commitments or contingencies as of June 30, 2019 and 2018.

(10) Subsequent Event

On October 24, 2019, pursuant to the City of Garden Grove's withdraw from the Authority, the Board voted to enforce section 9.2 of the JPA agreement which requires the withdrawing member to fund liabilities incurred prior to the withdrawal date which were expected to be collected in future contributions. As a result, the Board has directed staff to work with City of Garden Grove to collect an estimated $332,689 in such obligations.

SUPPLEMENTARY INFORMATION

METRO CITIES FIRE AUTHORITY

Schedule of Proportionate Share of Capital Assets by Member Cities

Years ended June 30, 2019 and 2018

(Unaudited)

The proportional share of the capital assets allocable to each of the member cities consisted of the following as of June 30, 2019 and 2018:

		2019	2018
Communication equipment:			
City of Anaheim	$	1,267,027	645,873
City of Brea		158,062	83,744
City of Fountain Valley		204,006	106,524
City of Fullerton		473,765	251,666
City of Garden Grove		486,832	253,402
City of Huntington Beach		708,541	361,662
City of Newport Beach		412,648	210,228
City of Orange		504,113	256,439
Total		4,214,994	2,169,538
Less accumulated depreciation		(1,889,327)	(1,584,849)
Total capital assets	$	2,325,667	584,689

See accompanying independent auditors' report.