

WEST CITIES POLICE
COMMUNICATIONS JOINT POWERS AUTHORITY
BASIC FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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WEST CITIES POLICE
COMMUNICATIONS JOINT POWERS AUTHORITY

BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Integrated West Cities Police Communications Joint Powers Authority (the Authority) as of and for the year ended June 30, 2017, 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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information for the general fund 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.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The budgetary comparison schedule – Replacement Capital Projects Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison schedule – Replacement Capital Projects Fund 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 budgetary comparison schedule – Replacement Capital Projects Fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 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 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 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.

Lance, Solt & Lughard, LLP

Brea, California
February 27, 2018

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WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

Management's Discussion and Analysis

June 30, 2017

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, 2017. 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 ending June 30, 2016, 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. 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 revenues over expenditures of \$904,395. At the end of the current fiscal year, the nonspendable fund balance of the Authority was \$151,663, the committed fund balance was \$479,445 (compared to \$158,030 at the beginning of the year), the assigned fund balance was \$1,231,454 (compared to \$655,182 at the beginning of the year) while total fund balance was \$1,877,193 (compared to \$972,798 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 39.5 percent (compared with 32.0 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, 2017

For the fiscal year ended June 30, 2017, the Authority's balance of cash and cash equivalents were \$1,900,932, an increase of \$889,275 from the prior fiscal year. Total receivables and prepaid expenses at the end of the fiscal year were \$186,446, which is an increase from the prior year total of \$164,386.

WEST CITIES POLICE COMMUNICATIONS
JOINT POWERS AUTHORITY
 Summary of Changes in Fund Balances
 For the fiscal year ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenues			
Member contributions	\$ 4,025,726	\$ 2,464,000	\$ 1,561,726
Intergovernmental	23,144	252,811	(229,667)
Investment income	13,062	8,874	4,188
Other income	196	1,693	(1,497)
Total Revenues	<u>4,062,128</u>	<u>2,727,378</u>	<u>1,334,750</u>
Expenditures			
Current:			
Dispatch Services	2,362,112	2,178,826	183,286
Capital outlay	795,621	862,830	(67,209)
Total Expenditures	<u>3,157,733</u>	<u>3,041,656</u>	<u>116,077</u>
Increase in fund balance	<u>\$ 904,395</u>	<u>\$ (314,278)</u>	<u>\$ 1,218,673</u>

Total revenues for the fiscal year ended June 30, 2017 increased by \$1,334,750 from the prior year. Individual changes during the past year to the Authority's major revenues are highlighted as follows:

- Member contributions are directly tied to budgeted expenditures, and by far are the Authority's largest revenue source. Member contributions increased by \$1,561,726, primarily due to two factors. First, the Authority had higher personnel costs due to adding a full-time Director position, negotiated salary increases and rising pension costs. Additionally, a \$1,475,100 special assessment was levied to pay for the new Computer Aided Dispatch/Records Management System (CAD/RMS).
- 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. In the prior year, the State purchased a reverse 911 call-taking system and six workstation upgrades for the Authority. Current year revenues are limited to paying for annual maintenance on the call-taking system and a voice data recorder system previously provided by the State.

Notable changes in expenditures during the year ended June 30, 2017 follow:

- Dispatch expenditures are comprised mostly of personnel costs for the 19 budgeted full-time positions of the Authority. The increases of \$183,286 (8.4 percent) are primarily the result of the previously referenced personnel increases resulting from hiring a full-time Director, rising pension costs and negotiated salary increases.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

Management's Discussion and Analysis

June 30, 2017

- Capital expenditures decreased by \$67,209 from the prior year. Over the last two years, the Authority has undertaken two major upgrade projects resulting in a significantly higher level of capital expenditures when compared to a typical year. In the prior year, the Authority was required to upgrade its 800 MHz radio system as part of a County-wide initiative. The Authority then embarked on the purchase and implementation of the aforementioned CAD/RMS in this past year. The \$1.5 million CAD/RMS project was about halfway complete as of June 30, 2017 and went live in November 2017.

Authority General Fund Budgetary Highlights

The Authority's budgetary highlights for the fiscal year ended June 30, 2017 were comprised of three issues. Net increases between the original appropriations budget and the final amended budget totaled \$1,666,920. A portion of the increase (\$167,120) is attributable to the annual carryover of appropriations to the new fiscal year for encumbrances and purchases not completed in the prior fiscal year. The majority of these carryover amounts related to the two major capital equipment upgrades (800 MHz and CAD/RMS) projects. An additional \$24,700 was appropriated for an organizational review of the Authority, which was deemed essential to the success of the newly appointed Director. And finally, the largest budget increase, totaling \$1,475,100, related to the approval of the CAD/RMS project which, when completed, will serve the Authority and its three member agencies.

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.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

STATEMENT OF NET POSITION
 JUNE 30, 2017

	Primary Government <u>Governmental Activities</u>
ASSETS:	
Current assets:	
Cash and investments	\$ 1,900,932
Receivables:	
Accounts	31,024
Accrued interest	3,759
Prepaid expenses	151,663
Total current assets	<u>2,087,378</u>
Noncurrent assets:	
Capital assets	
Non-depreciable:	
Work in progress	665,251
Depreciable assets, net	<u>846,629</u>
TOTAL ASSETS	<u>3,599,258</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred amounts from pension plans	640,419
LIABILITIES:	
Current liabilities:	
Accounts payable and accrued liabilities	149,842
Unearned revenue	60,343
Accrued leave payable	51,365
Total current liabilities	<u>261,550</u>
Noncurrent liabilities:	
Accrued leave payable	154,088
Retirees' health payable	342,612
Net pension liability	1,178,390
Total noncurrent liabilities	<u>1,675,090</u>
TOTAL LIABILITIES	<u>1,936,640</u>
DEFERRED INFLOWS OF RESOURCES:	
Deferred amounts from pension plans	<u>88,703</u>
NET POSITION:	
Net investment in capital assets	1,511,880
Unrestricted	<u>702,454</u>
Total Net Position	<u>\$ 2,214,334</u>

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Contributions and Grants</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	\$ 2,465,654	\$ -	\$ -	\$ 23,144	\$ (2,442,510)
Total Governmental Activities	\$ 2,465,654	\$ -	\$ -	\$ 23,144	(2,442,510)
General revenues:					
Member contributions					4,025,726
Investment earnings					13,062
Miscellaneous income					196
Total general revenues					4,038,984
Change in net position					1,596,474
Net position at beginning of year					617,860
Net position at end of year					\$ 2,214,334

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2017**

	<u>General Fund</u>
ASSETS	
Cash and investments held by the City of Cypress	\$ 1,900,932
Receivables:	
Accounts	31,024
Accrued interest	3,759
Prepaid expenses	<u>151,663</u>
TOTAL ASSETS	<u>\$ 2,087,378</u>
 LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 149,842
Unearned revenues	<u>60,343</u>
TOTAL LIABILITIES	<u>210,185</u>
FUND BALANCE:	
Nonspendable	151,663
Committed:	
Computer aided dispatch records management systems	479,445
Assigned:	
Employee benefits	800,000
Future capital replacement	82,000
Computer aided dispatch records management systems	339,554
800 MHz radio upgrade	9,900
Unassigned	<u>14,631</u>
TOTAL FUND BALANCE	<u>1,877,193</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,087,378</u>

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Fund balances of governmental funds \$ 1,877,193

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:

Work in progress	665,251
Depreciable assets, net	846,629

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	(205,453)
Retirees' health payable	(342,612)

Pension 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	640,419
Deferred inflows of resources	(88,703)
Net pension liability	<u>(1,178,390)</u>

Net position of governmental activities \$ 2,214,334

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, 2017

	<u>General Fund</u>
REVENUES:	
Member contributions	\$ 4,025,726
Intergovernmental	23,144
Investment income	13,062
Other income	196
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TOTAL REVENUES	4,062,128
	<hr/>
EXPENDITURES:	
Current:	
Dispatch services	2,362,112
Capital outlay	795,621
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TOTAL EXPENDITURES	3,157,733
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EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	904,395
FUND BALANCE - BEGINNING OF YEAR	<hr/> 972,798
FUND BALANCE - END OF YEAR	<u>\$ 1,877,193</u>

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, 2017**

Net change in fund balances - total governmental funds	\$ 904,395
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	795,621
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.	
	(184,845)
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.	
	(10,595)
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.	
	(78,612)
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>170,510</u>
Change in net position of governmental activities	<u>\$ 1,596,474</u>

NOTES TO BASIC FINANCIAL STATEMENTS

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WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017**

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

In the fiscal year ended June 30, 2017, the Authority adopted the following accounting standards, which had no impact on the Authority:

- GASB Statement No. 74 – "Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans", became effective for periods beginning after June 15, 2016.
- GASB Statement No. 77 – "Tax Abatement Disclosures" became effective for fiscal years beginning after December 15, 2015.
- GASB Statement No. 78 – "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans" became effective for fiscal years beginning after December 15, 2015. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions.
- GASB Statement No. 80 – "Blending Requirements for Certain Component Units" became effective for fiscal years beginning after December 15, 2015. This Statement is intended to improve financial reporting by clarifying the financial statement presentation requirements for certain component units.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

GASB Pending Accounting Standards

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

- GASB Statement No. 75 – *“Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions”*, effective for periods beginning after June 15, 2017.
- GASB Statement No. 81 – *“Irrevocable Split-Interest Agreements”*, effective for periods beginning after December 15, 2016.
- GASB Statement No. 82 – *“Pensions Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73”*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.
- GASB Statement No. 83 – *“Certain Asset Retirement Obligations” becomes effective for fiscal years beginning after June 15, 2018.*
- GASB Statement No. 84 – *“Fiduciary Activities” becomes effective for fiscal years beginning after December 15, 2018.*
- GASB Statement No. 85 – *“Omnibus 2017”* becomes effective for fiscal years beginning after June 15, 2017.
- GASB Statement No. 86 – *“Certain Debt Extinguishment Issues”* becomes effective for fiscal years beginning after June 15, 2017.
- GASB Statement No. 87 – *“Leases”* becomes effective for fiscal years beginning after December 15, 2019.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

Note 1: Summary of Significant Accounting Policies (Continued)

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

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

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.

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.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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

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

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

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

Note 1: Summary of Significant Accounting Policies (Continued)

k. Spending Policy

Governmental Fund Financial Statements

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

- > Restricted
- > Committed
- > Assigned
- > Unassigned

l. 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. 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.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017, 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>\$ 1,900,932</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:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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	30%	N/A
Money Market Mutual Funds	N/A	20%	10%

* Limit is per entity.

N/A - Not Applicable

Deposits and Risks

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

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

Note 2: Cash and Investments (Continued)

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, 2017, approximately 85% 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 138 days.

<u>Investment Type</u>	<u>Remaining Maturity (in Months) 12 Months or Less</u>
Equity in City of Cypress Investment pool	<u>\$ 1,900,932</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, 2017</u>	<u>Not Rated</u>
Equity in City of Cypress investment pool	N/A	<u>\$ 1,900,932</u>	<u>\$ 1,900,932</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, 2017 the factor used was 0.998940671. The City's investment with LAIF includes a portion of pool funds invested in structured notes and asset-backed securities. At June 30, 2017, the City invested in LAIF, which had invested 2.89% 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, 2017**

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, 2017:

	Balance at June 30, 2016	Adjustments	Adjusted Beginning Balance	Additions	Deletions	Balance at June 30, 2017
Capital Assets, Not Depreciated:						
Work In Progress	\$ -	\$ -	\$ -	\$ 665,251	\$ -	\$ 665,251
Total, Not Depreciated	-	-	-	665,251	-	665,251
Capital Assets, Being Depreciated:						
Buildings and improvements	\$ 177,587	\$ -	\$ 177,587	\$ -	\$ -	\$ 177,587
Equipment	1,288,268	(51,194)	1,237,074	130,370	-	1,367,444
Furniture	-	51,194	51,194	-	-	51,194
Total, Being Depreciated	1,465,855	-	1,465,855	130,370	-	1,596,225
Less Accumulated Depreciation:						
Buildings and improvements	(173,110)	-	(173,110)	(1,440)	-	(174,550)
Equipment	(391,641)	2,757	(388,884)	(179,992)	-	(568,876)
Furniture	-	(2,757)	(2,757)	(3,413)	-	(6,170)
Total Accumulated Depreciation	(564,751)	-	(564,751)	(184,845)	-	(749,596)
Total Depreciated, Net	901,104	-	901,104	315,215	-	846,629
Governmental Activities Capital Assets, Net	\$ 901,104	\$ -	\$ 901,104	\$ 610,776	\$ -	\$ 1,511,880

Depreciation expense for capital assets in the amount of \$184,845 is charged to dispatch services for the year ended June 30, 2017.

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, 2017 consisted of \$51,365 in short-term and \$154,088 in long-term liabilities.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017, 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	9.558% + \$64,515	6.930% + \$68

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017, 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>\$ 1,178,390</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, 2016, 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, 2015 rolled forward to June 30, 2016 using standard update procedures. The Authority’s proportionate 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, 2015 and 2016 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2015	0.03409%
Proportion - June 30, 2016	0.03389%
Change - Increase (Decrease)	-0.00020%

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

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

For the year ended June 30, 2017, the Authority recognized pension expense of \$32,286. At June 30, 2017, 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	\$ 202,797	\$ -
Differences between actual and expected experience	6,595	1,511
Change in assumptions	-	62,400
Change in proportions	106,258	19,052
Difference in actual contribution to proportionate share		5,740
Net differences between projected and actual earnings on plan investments	324,769	-
Total	<u>\$ 640,419</u>	<u>\$ 88,703</u>

\$202,797 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
2017	\$ 65,454
2018	59,848
2019	139,499
2020	84,118
	<u>\$ 348,919</u>

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017

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

Actuarial Assumptions

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
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, 2015 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 PERF C for measurement date ending June 30, 2016 is 3.7 years, which was obtained by dividing the total service years of 475,689 (the sum of remaining service lifetimes of the active employees) by 127,009 (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

No changes in assumptions.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

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

Discount Rate

The discount rate used to measure the total pension liability was 7.65% 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 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65% 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, 2015.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
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, 2017

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	6.65%
Net Pension Liability	\$ 1,835,290
Current Discount Rate	7.65%
Net Pension Liability	\$ 1,178,390
1% Increase	8.65%
Net Pension Liability	\$ 635,493

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, 2017, the Authority had no outstanding amount of contributions to the pension plans required for the year ended June 30, 2017.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017

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 in 2017) for all eligible retirees who choose to continue with their coverage through PEMHCA. All eligible employees become participants in PEMHCA on their date of hire. As of June 30, 2017, the date of the most recent actuarial valuation, the Authority's plan has 14 active employees.

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.

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.

Annual OPEB Cost and Net OPEB Obligation - The Authority's annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the Annual Required Contribution (ARC) of the Employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed 30 years.

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

Annual required contribution	\$ 88,092
Interest on net OPEB obligation	9,504
Adjustment to annual required contribution	(18,984)
Annual OPEB cost (expense)	<u>78,612</u>
Contributions made	-
Increase in net OPEB obligation	<u>78,612</u>
Net OPEB obligation - beginning of year	264,000
Net OPEB obligation - end of year	<u>\$ 342,612</u>

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

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

Note 6: Retirees' Health Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation, Continued - The Authority's annual OPEB cost, annual contribution, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

Fiscal Year	Annual OPEB Cost	Actual Annual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	\$ 68,000	\$ -	0%	\$ 191,000
6/30/2016	73,000	-	0%	264,000
6/30/2017	78,612	-	0%	342,612

Funded Status and Funding Progress - As of June 30, 2017, the most recent actuarial valuation date, the plan was 0.0% funded (actuarial value of assets as a percentage of actuarial accrued liability). The actuarial accrued liability for benefits was \$504,839 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$504,839. The covered payroll (annual payroll of active employees covered by the plan) was \$1,475,771, and the ratio of the UAAL to the covered payroll was 34.21%.

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

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

For the June 30, 2017 actuarial valuation, the entry age, level percent of payroll actuarial cost method was used. The assumptions include a 3.6% investment rate of return which is based on the expected long-term return on funds invested by the City, inflation of 3.00%, and projected salary increases of 3.0%. The annual medical CPI increases, used to index the PEMHCA minimum, were assumed to be 3.5% for all future years. The healthcare trend rate assumption was 8.0% for fiscal year 2017-18, graded down to an ultimate of 5.0% over a 3-year period.

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

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

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.

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

As of June 30, 2017, in the opinion of Authority management, there were no additional outstanding matters that would have a significant effect on the financial position of the funds of the Authority.

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, 2017**

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 2016-17 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.

Workers' Compensation

The West Cities Communication Center purchases workers' compensation insurance through the State Compensation Insurance Fund up to \$1,000,000 in coverage for work related injuries and illnesses.

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 three fiscal years, none of the above programs of protection experienced settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage in 2016-17.

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

Note 9: Subsequent Events

Management has evaluated subsequent events through December 20, 2017, the date the financial statements were available for issuance. No other events were identified that would require recognition or disclosure in the financial statements.

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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

	2017	2016	2015
Miscellaneous Plan			
Plan's Proportion of the Net Pension Liability	0.03389%	0.01362%	0.01477%
Plan's Proportionate Share of the Net Pension Liability	\$ 1,178,390	\$ 935,168	\$ 919,200
Plan's Covered Payroll	\$ 1,475,771	\$ 1,321,136	\$ 1,367,539
Plan's Proportionate Share of the Net Pension Liability as Percentage of Covered Payroll	79.85%	70.79%	67.22%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	74.06%	78.40%	78.09%

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2015. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amount reported were based on the 7.5 percent discount rate.

(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 three 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

	2017	2016	2015
Miscellaneous Plan			
Actuarially Determined Contribution	\$ 202,797	\$ 129,952	\$ 185,785
Contribution in Relation to the Actuarially Determined Contribution	(202,797)	(129,952)	(185,785)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 1,475,771	\$ 1,397,295	\$ 1,321,136
Contributions as a Percentage of Covered-Employee Payroll	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 three years are shown.

Note to Schedule:

Valuation Date:	June 30, 2014
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method/period	Level percent payroll/closed
Asset valuation method	Market value
Inflation	2.75%
Salary increases	3.30% to 14.20%
Payroll growth	3.00%
Investment rate of return	7.65% 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 FUNDING PROGRESS
 OTHER POST-EMPLOYMENT BENEFIT PLAN
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll ©	UAAL as a % of Covered Payroll [(b)-(a)]/(c)
June 30, 2013	\$ -	\$ 166,000	\$ 166,000	0.00%	\$ 1,050,000	15.81%
June 30, 2015	-	487,000	487,000	0.00%	1,033,000	47.14%
June 30, 2017	-	504,839	504,839	0.00%	1,475,771	34.21%

WEST CITIES POLICE COMMUNICATION JOINT POWERS AUTHORITY

BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Member contributions	\$ 2,551,137	\$ 4,026,237	\$ 4,025,726	\$ (511)
Intergovernmental	23,446	23,446	23,144	(302)
Investment income	5,000	5,000	13,062	8,062
Other income	-	-	196	196
TOTAL REVENUES:	2,579,583	4,054,683	4,062,128	7,445
EXPENDITURES:				
Current:				
Dispatch services	2,373,583	2,451,507	2,362,112	89,395
Capital outlay	234,583	1,823,579	795,621	1,027,958
TOTAL EXPENDITURES:	2,608,166	4,275,086	3,157,733	1,117,353
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (28,583)	\$ (220,403)	\$ 904,395	\$ 1,124,798
FUND BALANCE - BEGINNING OF YEAR	1,307,441	1,307,441	972,798	334,643
FUND BALANCE - END OF YEAR	\$ 1,278,858	\$ 1,087,038	\$ 1,877,193	\$ 1,459,441

WEST CITIES POLICE COMMUNICATIONS JOINT POWERS AUTHORITY

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

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.



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 Polices Communications Joint Powers Authority
City of Cypress, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of governmental activities and the general fund of the West Cities Police Communications Joint Powers Authority, (the Authority) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 27, 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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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





CPAs AND ADVISORS

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

Lance, Solt & Lingham, LLP

Brea, California
February 27, 2018