



METRO CITIES FIRE AUTHORITY

Basic Financial Statements and Supplementary Information

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

METRO CITIES FIRE AUTHORITY

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
Metro Cities Fire Authority:

We have audited the accompanying financial statements of the Metro Cities Fire Authority (the Authority) as of and for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, 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
December 9, 2021

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Statements of Net Position

June 30, 2021 and 2020

Assets	2021	2020
Current assets:		
Investments	\$ 2,032,560	1,736,731
Accounts receivable	63,039	11,198
Interest receivable	14,186	12,180
Prepaid assets	56,125	71,034
Total current assets	2,165,910	1,831,143
Noncurrent assets:		
Prepaid assets	66,995	89,175
Capital assets:		
Machinery and equipment	4,313,138	4,263,005
Total capital assets	4,313,138	4,263,005
Less accumulated depreciation	(2,487,147)	(2,206,894)
Capital assets, net	1,825,991	2,056,111
Total noncurrent assets	1,892,986	2,145,286
Total assets	4,058,896	3,976,429
Liabilities		
Current liabilities:		
Accounts payable	17,237	28,351
Accrued payroll	113,836	94,791
Interest payable	45,417	48,013
Current portion of long-term debt	86,682	83,219
Member-specific component deposits	145,410	71,497
Total current liabilities	408,582	325,871
Noncurrent liability:		
Long-term debt, net of current portion	1,369,122	1,455,804
Total noncurrent liability	1,369,122	1,455,804
Total liabilities	1,777,704	1,781,675
Net Position		
Net investment in capital assets	370,187	517,088
Unrestricted	1,911,005	1,677,666
Total net position	\$ 2,281,192	2,194,754

See accompanying notes to basic financial statements.

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Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2021 and 2020

	2021	2020
Operating revenue:		
Member agency contributions	\$ 6,661,198	6,679,303
Charges for service	—	86,934
Fire assistance reimbursements	—	97,377
Other revenues	10,204	15,443
Total operating revenue	6,671,402	6,879,057
Operating expenses:		
Salaries and wages reimbursements	4,716,935	4,907,898
Communication fees	584,226	568,697
Administration and overhead	687,935	703,787
Meetings and seminars	4,598	15,230
Office supplies and maintenance	24,640	37,216
Other operating	76,558	92,707
Depreciation	280,253	317,567
Total operating expenses	6,375,145	6,643,102
Operating income	296,257	235,955
Nonoperating revenue (expense):		
Grant	—	9,499
Investment income	32,425	99,925
Interest expense	(61,421)	(64,756)
Member agency distributions	(180,823)	—
Total nonoperating revenue	(209,819)	44,668
Change in net position	86,438	280,623
Net position at beginning of year	2,194,754	1,914,131
Net position at ending of year	\$ 2,281,192	2,194,754

See accompanying notes to basic financial statements.

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Statements of Cash Flows
Years ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Receipts from member agencies	\$ 6,617,466	6,679,303
Receipts from services provided	—	86,934
Receipts from fire assistance reimbursements	—	97,377
Receipts from other revenue	7,730	15,106
Payments for wages and other benefits reimbursements	(4,697,890)	(4,902,330)
Payments to suppliers for goods and services	(748,872)	(681,558)
Payments to City of Anaheim for administration and overhead	(687,935)	(703,787)
Net cash provided by operating activities	490,499	591,045
Cash flows from capital and related financing activities:		
Receipt of grant	—	9,499
Principal payment	(83,219)	(79,336)
Interest payment	(64,017)	(67,902)
Capital purchases	(50,133)	(48,011)
Member agency fair share distributions	(27,720)	—
Net cash used for capital and related financing activities	(225,089)	(185,750)
Cash flows from investing activities:		
Purchase of investment securities	(393,421)	(507,215)
Proceeds from sale and maturity of investment securities	77,000	57,000
Interest received	51,011	44,920
Net cash used for investing activities	(265,410)	(405,295)
Change in cash	—	—
Cash at beginning of year	—	—
Cash at end of year	\$ —	—
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 296,257	235,955
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	280,253	317,567
Changes in assets and liabilities:		
Accounts receivable	(8,109)	9,539
Member contribution receivable	(43,732)	—
Prepaid and other assets	37,089	34,063
Accounts payable	(11,114)	(13,116)
Accrued payroll	19,045	5,568
Member-specific component deposits	(79,190)	1,469
Net cash provided by operating activities	\$ 490,499	591,045
Schedule of noncash investing activity:		
Increase (decrease) in fair value of investments	\$ (20,592)	52,056

See accompanying notes to basic financial statements.

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Notes to Basic Financial Statements

June 30, 2021 and 2020

(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 at June 30, 2021: City of Anaheim (the City), City of Brea, City of Fountain Valley, City of Fullerton, City of Huntington Beach, City of Newport Beach, and the City of Orange. Members of the Board of Directors (the Board) consist of one voting Board member for each city and an alternate appointed by their governing body.

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

All personnel of the Authority are employees of the City. The Authority and the City have entered into an agreement whereby the Authority is responsible for all costs relating to the City employees who perform functions on behalf 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, 2021 and 2020, the Authority paid the City \$850,790 and \$842,226 for pension, \$186,991 and \$199,498 for retiree medical, and \$91,782 and \$52,536 for workers' compensation costs, respectively, and are included in Salaries and wage reimbursements on the Statements of Revenues, Expenses, and Changes in Net Position.

(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 revenues are the revenues that are 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. 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

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June 30, 2021 and 2020

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, 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. 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.

(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

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future replacement costs of member-specific communication equipment. The member-specific components consisted of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Communication equipment replacement:		
City of Anaheim	\$ 612	439
City of Fountain Valley	45,763	36,665
City of Fullerton	22,982	36
City of Huntington Beach	35,216	18,471
City of Orange	40,837	15,886
Total member-specific components	<u>\$ 145,410</u>	<u>71,497</u>

Member-Specific Component Deposits at June 30, 2021 include \$153,103 budget surplus distributions (see note 5 for additional information), \$2,105 for interest earnings and offsetting equipment purchase disbursements of \$81,295 on behalf of specific member cities.

(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, 2021 and 2020, the Authority had \$370,187 and \$517,088 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, 2021 and 2020, there was no restricted net position for the Authority. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resource first, and then unrestricted resources when they are needed.

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, 2021 and 2020, the Authority had \$1,911,005 and \$1,677,666 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.

(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

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Notes to Basic Financial Statements

June 30, 2021 and 2020

assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

(2) New Accounting Pronouncement

On July 1, 2020, the Authority adopted the following new accounting pronouncements issued by the GASB:

- Statement No 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported.

Implement of this Statement has no material effect on amounts reported in the Authority's financial statements.

(3) Investments

The Authority's investment policy allows all funds to be invested with the City. As of June 30, 2021 and 2020, the Authority had \$2,032,560 and \$1,736,731 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; supranational; LAIF; repurchase agreements; reverse repurchase agreements; and money market mutual funds. The City's treasurer investment portfolio rating at June 30, 2021 and 2020 was AAf/S1. The treasurer's investment portfolio has a weighted average maturity of 1.40 and 1.92 years at June 30, 2021 and 2020.

(4) Accounts Receivable

Accounts receivable at June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
City of Brea	\$ 43,732	—
Anaheim Municipal Employee Association	1,958	6,202
Miscellaneous	<u>17,349</u>	<u>4,996</u>
Total	<u>\$ 63,039</u>	<u>11,198</u>

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Notes to Basic Financial Statements

June 30, 2021 and 2020

(5) Member Agency Contributions

The Authority collects fair share contributions from its member agencies. The contribution amount for member agencies is calculated each year based upon the number of recorded incidents attributed to each member, divided by the recorded incidents attributable to all members, during the calendar year proceeding the fiscal year for which that member's fair share percentage is being calculated. Once determined for any fiscal year, the member's fair share percentage shall remain unchanged. The percentages and amounts of the member agency contributions consisted of the following for the fiscal years ended June 30, 2021 and 2020 by member agencies:

	2021		2020	
	Amount	Percentage	Amount	Percentage
City of Anaheim	\$ 2,224,840	33.40 %	\$ 2,264,951	33.91 %
City of Brea	273,775	4.11	273,851	4.10
City of Fountain Valley	359,039	5.39	364,690	5.46
City of Fullerton	850,635	12.77	843,596	12.63
City of Huntington Beach	1,271,623	19.09	1,277,083	19.12
City of Newport Beach	750,051	11.26	750,086	11.23
City of Orange	931,235	13.98	905,046	13.55
Total	\$ 6,661,198	100.00 %	\$ 6,679,303	100.00 %

On January 28, 2021, the Board unanimously approved the fiscal year 2020 budget surplus distribution of \$180,823 to member Cities. Per the Metro Cities Fire Authority, Fourth Amended, Joint Power Agreement, member Cities may elect to receive payment or to apply the credit to the Member agency's Member-Specific Component Deposits account.

	Credited to Member Specific Account	Disbursed
City of Anaheim	\$ 61,317	—
City of Brea	—	7,414
City of Fountain Valley	9,873	—
City of Fullerton	22,838	—
City of Huntington Beach	34,573	—
City of Newport Beach	—	20,306
City of Orange	24,502	—
Total	\$ 153,103	27,720

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Notes to Basic Financial Statements

June 30, 2021 and 2020

(6) Charges for Service

The Authority provided dispatch services to the City of Garden Grove, a former Member City, during the period from July 1, 2019 to August 16, 2019 in the amount of \$86,934 as they transitioned to Orange County Fire Authority. No such services were provided for the fiscal year ended June 30, 2021.

(7) Fire Assistance Reimbursements

The Authority provided fire assistance to the California Office of Emergency (Cal OES). The reimbursement for labor and other costs during the fiscal year ended June 30, 2020 was \$97,377. No such services were provided for the fiscal year ended June 30, 2021.

(8) Capital Assets

Capital asset activities for the year ended June 30, 2021 were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions/ transfers</u>	<u>Ending balance</u>
Depreciable assets:				
Machinery and equipment	\$ 4,263,005	50,133	—	4,313,138
Less accumulated depreciation	<u>(2,206,894)</u>	<u>(280,253)</u>	<u>—</u>	<u>(2,487,147)</u>
Total depreciable assets, net	<u>2,056,111</u>	<u>(230,120)</u>	<u>—</u>	<u>1,825,991</u>
Total capital assets, net	\$ <u>2,056,111</u>	<u>(230,120)</u>	<u>—</u>	<u>1,825,991</u>

Capital asset activities for the year ended June 30, 2020 were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions/ transfers</u>	<u>Ending balance</u>
Depreciable assets:				
Machinery and equipment	\$ 4,214,994	48,011	—	4,263,005
Less accumulated depreciation	<u>(1,889,327)</u>	<u>(317,567)</u>	<u>—</u>	<u>(2,206,894)</u>
Total depreciable assets, net	<u>2,325,667</u>	<u>(269,556)</u>	<u>—</u>	<u>2,056,111</u>
Total capital assets, net	\$ <u>2,325,667</u>	<u>(269,556)</u>	<u>—</u>	<u>2,056,111</u>

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Notes to Basic Financial Statements

June 30, 2021 and 2020

(9) Long-Term Liability

The following is a summary of changes in long-term liabilities for the fiscal year ended June 30, 2021:

	<u>Beginning balance</u>	<u>Additions/ proceeds</u>	<u>Reductions/ payments</u>	<u>Ending balance</u>	<u>Due within one year</u>
Loan payable	\$ 1,539,023	—	(83,219)	1,455,804	86,682
Total	\$ <u>1,539,023</u>	<u>—</u>	<u>(83,219)</u>	<u>1,455,804</u>	<u>86,682</u>

The following is a summary of changes in long-term liabilities for the fiscal year ended June 30, 2020:

	<u>Beginning balance</u>	<u>Additions/ proceeds</u>	<u>Reductions/ payments</u>	<u>Ending balance</u>	<u>Due within one year</u>
Loan payable	\$ 1,618,359	—	(79,336)	1,539,023	83,219
Total	\$ <u>1,618,359</u>	<u>—</u>	<u>(79,336)</u>	<u>1,539,023</u>	<u>83,219</u>

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 began on October 1, 2019 payable from the unrestricted resources of annual member contributions. Debt service requirements to maturity are as follows:

<u>Fiscal years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 86,682	60,555	147,237
2023	90,287	56,950	147,237
2024	94,043	53,194	147,237
2025	97,954	49,283	147,237
2026	102,029	45,208	147,237
2027–2031	577,447	158,737	736,184
2032–2035	407,362	34,349	441,711
	\$ <u>1,455,804</u>	<u>458,276</u>	<u>1,914,080</u>

(10) 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. For the fiscal years ended June 30, 2021 and 2020, 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 \$687,935 and \$703,787, respectively, per the JPA Agreement.

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Notes to Basic Financial Statements

June 30, 2021 and 2020

(11) 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, 2021 and 2020, the Authority did not have any claims outstanding nor did the Authority pay any claims during the years then ended.

(12) Commitments and Contingencies

(a) *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.

(b) *Commitments*

The Authority does not have any major contractual commitments or contingencies as of June 30, 2021 and 2020.

SUPPLEMENTARY INFORMATION

METRO CITIES FIRE AUTHORITY

Schedule of Proportionate Share of Capital Assets by Member Cities

Years ended June 30, 2021 and 2020

(Unaudited)

The proportional share of the capital assets allocable to each of the member cities consisted of the following as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Communication equipment:		
City of Anaheim	\$ 1,440,588	1,445,585
City of Brea	177,270	174,783
City of Fountain Valley	232,478	232,760
City of Fullerton	550,788	538,418
City of Garden Grove	—	—
City of Huntington Beach	823,378	815,087
City of Newport Beach	485,659	478,735
City of Orange	602,977	577,637
	<u>4,313,138</u>	<u>4,263,005</u>
Total	4,313,138	4,263,005
Less accumulated depreciation	<u>(2,487,147)</u>	<u>(2,206,894)</u>
Total capital assets	<u>\$ 1,825,991</u>	<u>2,056,111</u>

See accompanying independent auditors' report.