KPMG

ORANGE COUNTY-CITY HAZARDOUS MATERIAL EMERGENCY RESPONSE AUTHORITY

Basic Financial Statements

June 30, 2015

(With Independent Auditors’ Report Thereon)

ORANGE COUNTY-CITY HAZARDOUS MATERIAL
EMERGENCY RESPONSE AUTHORITY

Table of Contents

KPMG
KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report

The Board of Directors
Orange County – City Hazardous Materials Emergency Response Authority:

We have audited the accompanying financial statements of the Orange County — City Hazardous Materials Emergency Response Authority (the Authority) as of and for the year ended June 30, 2015, 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 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 audit. We conducted our audit 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 Orange County — City Hazardous Materials Emergency Response Authority as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

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.

KPMG LLP

Irvine, California
January 29, 2016

ORANGE COUNTY – CITY HAZARDOUS MATERIALS
EMERGENCY RESPONSE AUTHORITY

Statement of Net Position

June 30, 2015

Assets		
Investment	$	149,749
Interest receivable		292
Total assets		150,041
Net Position		
Unrestricted net position		150,041
Total net position	$	150,041

See accompanying notes to financial statements.

ORANGE COUNTY – CITY HAZARDOUS MATERIALS EMERGENCY RESPONSE AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2015

Operating revenues:	
Member agency contributions	$ 93,905
Additional contributions	23,858
Total operating revenues	117,763
Operating expenses:	
Administration and overhead	19,606
Other operation expenses	11,856
Total operating expenses	31,462
Operating income	86,301
Nonoperating revenue:	
Interest income	1,001
Total nonoperating revenues	1,001
Change in net position	87,302
Net position at beginning of year	62,739
Net position at ending of year	$ 150,041

See accompanying notes to financial statements.

ORANGE COUNTY – CITY HAZARDOUS MATERIALS
EMERGENCY RESPONSE AUTHORITY
Statement of Cash Flows
Year ended June 30, 2015

Cash flows from operating activities:		
Receipts from member agencies	$	162,435
Receipts from other customers		8,490
Payments to suppliers for goods and services		(17,917)
Payments to City of Anaheim for administration and overhead		(87,320)
Payments of provider reimbursements		(2,744)
Net cash provided by operating activities		62,944
Cash flows from investing activities:		
Purchase of investment securities		(107,500)
Interest received		440
Net cash used for investment activities		(107,060)
Decrease in cash and cash equivalents		(44,116)
Cash and cash equivalents at beginning of year		44,116
Cash and cash equivalents at end of year	$	-
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	86,301
Adjustment to reconcile operating income to net cash used provided by operating activities:		
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable		77,020
Accounts payable		(29,919)
Provider reimbursements		(2,744)
Due to City of Anaheim		(67,714)
Net cash provided by operating activities	$	62,944
Schedule of noncash investing, capital, and noncapital financing activities:		
Increase in fair value of investments	$	379

See accompanying notes to financial statements.

(1) Summary of Accounting Policies

(a) Organization

On November 28, 1989, the Orange County — City Hazardous Materials Emergency Response Authority (the Authority) was created by a Joint Exercise of Powers Agreement (JPA) for the purpose of responding to, assessing the nature of, and stabilizing any emergency created by the release or threatened release of hazardous materials. During July 1991, the JPA was amended to encourage public entities within Orange County (the County) to subscribe for the services (see notes 3 and 4). Under the amended JPA, the definition of a subscribing agency is a public entity that has agreed to contribute to the costs of administering the JPA by making "fair-share contributions". As one of its objectives, the Authority calls for continued prompt and efficient response to hazardous materials emergencies and proposes to achieve this objective by continuing to provide emergency response service for spills, illegal dumping, and other incidents involving hazardous materials and waste throughout the County. The Authority coordinates responses to hazardous materials emergencies to ensure efficient use of resources and will provide equitable sharing of risks associated with such emergencies. The Authority commenced operations on April 1, 1990.

The following entities are members of the Authority: the Cities of Anaheim and Huntington Beach (provider agencies). Members of the Board of Directors (the Board) consist of (1) one voting Board member and an alternate appointed by the governing body from the provider agencies; and (2) three voting Subscriber Agency Board members and an alternate appointed to one-year terms.

Public entities in the County may receive hazardous materials response services from the Authority by executing an agreement and paying a fair-share contribution. Annually, the Board adopts a budget and determines the cost of services to the participating agencies and the rates associated with responses.

(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 statement of net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Operating revenues are those revenues that are generated from the Authority's primary operations. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the Authority's primary operations. Capital contributions are reported as other changes in net position. All other expenses are reported as nonoperating expenses.

(c) Investments

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

(d) Net Position

Net position represents the difference between all other elements in the statement 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.

- *Restricted* – This component of net position consists of restricted assets subject to externally imposed conditions or constraints that can be fulfilled by the actions of the Authority or by the passage of time. The restrictions are externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or by law through constitutional provisions or enabling legislation. The Authority has adopted a policy of generally utilizing restricted funds, prior to unrestricted funds, when an expense is incurred for purposes for which both are available.

- *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, 2015, the Authority does not have any balances in "net investment in capital assets" or "restricted" components of net position.

(e) Use of Estimates

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

(2) Investments

The Authority's investment policy allows all funds to be invested with the City. The City's investment policy limits the permitted investments in the investment pool to the following: obligations of the U.S. government, federal agencies, and government-sponsored enterprises, medium-term corporate notes, certificates of deposit, bankers' acceptances, commercial paper, LAIF, repurchase agreements, reverse repurchase agreements, and money market mutual funds. As of June 30, 2015, the City's pooled investment fund has been reviewed by Standard and Poor's Corporation (S&P) and received a credit rating of AAf/S1 and has a weighted average maturity of 1.55 years.

(Continued)

(3) Subscribing Agency Contributions

The Authority collects fair-share contributions from the subscribing agencies and fees from emergency service contract agencies. The contribution amount for subscribing agencies is calculated each year by multiplying the projected operating costs by the subscriber's current year fair-share percentage. If actual operating costs fall beneath the projected amount, the Board of Directors may, at its discretion, reimburse the difference to the subscribing agencies. For the year ended June 30, 2015, actual operating costs were $31,462, which fell beneath projected costs of $53,905 (excluding reserves). It was decided by the Board to transfer the difference to the reserve training fund account.

An emergency service contract agency is a public agency that contracts with the Authority to pay for hazardous materials emergency response services on an hourly basis. As of June 30, 2015, the following cities were subscribing agencies: Brea, Costa Mesa, Fountain Valley, Fullerton, Garden Grove, Newport Beach, and Orange.

The percentages and amounts of subscribing agency contributions consisted of the following for the fiscal year ended June 30, 2015:

	Percentage	Amount
City of Brea	7.70%	$ 7,228
City of Costa Mesa	13.63	12,799
City of Fountain Valley	7.36	6,909
City of Fullerton	18.21	17,097
City of Garden Grove	18.56	17,433
City of Newport Beach	15.38	14,447
City of Orange	19.16	17,992
Total	100.00%	$ 93,905

(4) Fair-Share Reimbursement

Under the amended JPA Agreement, the provider agencies participate in all revenues other than amounts billed to subscribing agencies. Distribution of revenues was allocated to the provider agencies to the JPA as follows: (1) all administrative expenses actually incurred by the City of Anaheim shall be reimbursed prior to distribution to any provider agencies; (2) any revenue collected from reimbursement of a hazardous materials incident will be distributed based upon the direct costs incurred by the provider agencies, the administrative office, and/or other jurisdictions that assisted in the incident, for that respective incident; and (3) any revenue not previously outlined will be distributed in accordance with resolutions set by the Board.

(5) Administration of the JPA

Administrative services required for the operation of the Authority and administration of the personnel are administered by the City of Anaheim. For the fiscal year ended June 30, 2015, administration fees paid to the City of Anaheim were $19,606 per the JPA Agreement.

(6) 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, 2015 and 2014, the Authority did not have any claims outstanding nor did the Authority pay any claims during the year.

(7) 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, 2015.