KPMG

ORANGE COUNTY – CITY HAZARDOUS MATERIALS EMERGENCY RESPONSE AUTHORITY

Basic Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

ORANGE COUNTY – CITY HAZARDOUS MATERIALS
EMERGENCY RESPONSE AUTHORITY

Table of Contents

KPMG LLP
Suite 1500
550 South Hope Street
Los Angeles, CA 90071-2629

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 years ended June 30, 2020 and 2019, 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 auditors consider 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, 2020 and 2019, 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 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 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

Los Angeles, California
November 19, 2020

ORANGE COUNTY – CITY HAZARDOUS MATERIALS
EMERGENCY RESPONSE AUTHORITY

Statements of Net Position

June 30, 2020 and 2019

Assets		**2020**	**2019**
Investments	$	329,527	303,482
Interest receivable		1,868	1,731
Total assets		331,395	305,213
Liability			
Account payable		503	—
Due to member cities		—	1,952
Total liability		503	1,952
Net Position			
Unrestricted net position		330,892	303,261
Total net position	$	330,892	303,261

See accompanying notes to basic financial statements.

ORANGE COUNTY – CITY HAZARDOUS MATERIALS
EMERGENCY RESPONSE AUTHORITY

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2020 and 2019

	2020	2019
Operating revenue:		
Subscriber agency contributions	$ 71,888	84,572
Total operating revenue	71,888	84,572
Operating expenses:		
Salary reimbursements	19,193	18,548
Administrative expenses	41,826	53,081
Total operating expenses	61,019	71,629
Operating income	10,869	12,943
Nonoperating revenue:		
Investment income	16,762	13,743
Total nonoperating revenue	16,762	13,743
Change in net position	27,631	26,686
Net position at beginning of year	303,261	276,575
Net position at ending of year	$ 330,892	303,261

See accompanying notes to basic financial statements.

ORANGE COUNTY – CITY HAZARDOUS MATERIALS
EMERGENCY RESPONSE AUTHORITY

Statements of Cash Flows

Years ended June 30, 2020 and 2019

		2020	2019
Cash flows from operating activities:			
Receipts from subscriber agencies	$	71,888	84,572
Payments to suppliers for goods and services		(41,323)	(51,129)
Payments to City of Anaheim for administration and overhead		(19,193)	(18,548)
Payments of provider reimbursements		(1,952)	—
Net cash provided by operating activities		9,420	14,895
Cash flows from investing activities:			
Purchase of investment securities		(62,081)	(124,000)
Proceeds from sales and maturity of investment securities		45,000	102,824
Interest received		7,661	6,281
Net cash used for investment activities		(9,420)	(14,895)
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	$	10,869	12,943
Adjustment to reconcile operating income to net cash provided by operating activities:			
Changes in assets and liabilities:			
Account payable		503	—
Due to member cities		(1,952)	1,952
Net cash provided by operating activities	$	9,420	14,895
Schedule of noncash investing activities:			
Increase in fair value of investments	$	8,964	6,748

See accompanying notes to basic 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 (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 (see note 3).

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.

For the years ended June 30, 2020 and 2019, the Authority paid the City $2,205 and $2,049 for pension, $363 and $342 for retiree medical, and $933 and $1,112 for workers' compensation costs, respectively.

(b) Basis of Presentation

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

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

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

(c) Fair Value Measurements

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

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

(d) Investments

The Authority participates in the investment pool managed by the City of Anaheim (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) 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.
- *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.

(Continued)

- *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, 2020 and 2019, the entire net position of the Authority is considered unrestricted.

(f) Use of Estimates

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

(2) Investments

The Authority's investment policy allows all funds to be invested with the City. As of June 30, 2020 and 2019, the Authority had $329,527 and $303,482 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, 2020 and 2019 was AAf/S1. The Treasurer's investment portfolio has a weighted average maturity of 1.92 years at June 30, 2020 and 2019.

(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 years ended June 30, 2020 and 2019, actual operating costs were $61,019 and $71,629, respectively, which fell beneath budgeted costs of $71,888 and $84,572, respectively.

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, 2020 and 2019, the following cities were subscribing agencies: Brea, Costa Mesa, Fountain Valley, Fullerton, Garden Grove (separated on July 1, 2019), Newport Beach, and Orange.

On December 20, 2018, the City of Garden Grove provided its notice of intent to withdraw as a subscribing agency from the JPA Agreement effective the end of the fiscal year ending June 30, 2019.

The percentages and amounts of subscribing agency contributions consisted of the following for the fiscal years ended June 30, 2020 and 2019:

	2020		2019	
	Percentage	Amount	Percentage	Amount
City of Brea	9.29 %	$ 6,676	7.79 %	$ 6,587
City of Costa Mesa	16.31	11,723	13.69	11,578
City of Fountain Valley	8.69	6,244	7.32	6,189
City of Fullerton	21.75	15,642	18.24	15,428
City of Garden Grove	2.96	2,128 *	18.58	15,716
City of Newport Beach	18.21	13,090	15.21	12,863
City of Orange	22.79	16,385	19.17	16,211
Total	100.00 %	$ 71,888	100.00 %	$ 84,572

* City of Garden Grove fair share prorated for the period from July 1, 2019 to August 16, 2019 as the City of Garden Grove transitioned the Hazardous Materials Response services to Orange County Fire Authority

(4) Fair-Share Reimbursement

Under the amended JPA Agreement, the provider agencies participate in all revenue other than amounts billed to subscribing agencies. Revenue is distributed to the provider agencies as follows: (1) all administrative expenses actually incurred by the City 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. There were no fair-share reimbursements for the year ended June 30, 2020 and 2019.

(5) Administration of the JPA

Administrative services required for the operation of the Authority and administration of the personnel are administered by the City. For the fiscal years ended June 30, 2020 and 2019, administration fees paid to the City were $19,193 and $18,548, respectively, 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, 2020 and 2019, 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, 2020 and 2019.