KPMG

ORANGE COUNTY – CITY HAZARDOUS MATERIALS EMERGENCY RESPONSE AUTHORITY

Basic Financial Statements

June 30, 2023 and 2022

(With Independent Auditors’ Report Thereon)

**ORANGE COUNTY – CITY HAZARDOUS MATERIALS
EMERGENCY RESPONSE AUTHORITY**

Table of Contents

KPMG LLP
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Independent Auditors' Report

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

Opinion

We have audited the financial statements of the Orange County – City Hazardous Materials Emergency Response Authority (the Authority) as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as of and for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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, which 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
December 22, 2023

ORANGE COUNTY – CITY HAZARDOUS MATERIALS
EMERGENCY RESPONSE AUTHORITY

Statements of Net Position

June 30, 2023 and 2022

Assets		**2023**	**2022**
Investments	$	311,342	367,907
Interest receivable		1,426	1,849
Total assets		312,768	369,756
Liability			
Due to provider agency		4,576	29,647
Total liability		4,576	29,647
Net Position			
Unrestricted net position		308,192	340,109
Total net position	$	308,192	340,109

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, 2023 and 2022

	2023	**2022**
Operating revenue:		
Subscriber agency contributions	$ 76,072	76,072
Charges for services	—	2,184
Total operating revenue	76,072	78,256
Operating expenses:		
Administrative and overhead	19,866	19,788
Other operating expenses	94,873	48,600
Total operating expenses	114,739	68,388
Operating (loss) income	(38,667)	9,868
Nonoperating revenue:		
Investment income (loss)	6,750	(9,586)
Fair-share distributions	—	(34,105)
Total nonoperating revenue (expense)	6,750	(43,691)
Change in net position	(31,917)	(33,823)
Net position at beginning of year	340,109	373,932
Net position at ending of year	$ 308,192	340,109

See accompanying notes to basic financial statements.

ORANGE COUNTY – CITY HAZARDOUS MATERIALS
EMERGENCY RESPONSE AUTHORITY

Statements of Cash Flows

Years ended June 30, 2023 and 2022

		2023	2022
Cash flows from operating activities:			
Receipts from subscriber agencies	$	76,072	76,072
Receipts from users of services		—	29,528
Payments to suppliers for goods and services		(103,984)	(34,913)
Payments to City of Anaheim for administration and overhead		(19,866)	(19,788)
Net cash (used for) provided by operating activities		(47,778)	50,899
Cash flows from noncapital financing activities:			
Payments to provider agencies for fair-share distributions		(15,960)	(18,145)
Net cash used for noncapital financing activities		(15,960)	(18,145)
Cash flows from investing activities:			
Purchase of investment securities		(85,850)	(105,291)
Proceeds from sales and maturity of investment securities		140,000	66,000
Interest received		9,588	6,537
Net cash provided by (used for) investment activities		63,738	(32,754)
Change in cash		—	—
Cash at beginning of year		—	—
Cash at end of year	$	—	—
Reconciliation of operating (loss) income to net cash (used for) provided by operating activities:			
Operating (loss) income	$	(38,667)	9,868
Adjustment to reconcile operating (loss) income to net cash (used for) provided by operating activities:			
Changes in assets and liabilities:			
Accounts receivable		—	27,344
Due to Provider Agency		(9,111)	13,687
Net cash (used for) provided by operating activities	$	(47,778)	50,899
Schedule of noncash investing activities:			
Decrease in fair value of investments	$	(2,415)	(16,032)
Increase in Due to Provider Agency for fair-share distribution		—	15,960

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 4 and 6). 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 (note 4).

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 government 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 nonoperating revenue. Operating expenses are those expenses that are essential to the Authority's primary operations. All other expenses are reported as nonoperating 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 is 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.

- *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, 2023 and 2022, 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) New Accounting Pronouncement

On July 1, 2022, the Authority adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. Subscription-based information technology arrangements (SBITAS) are arrangements that governments enter into vendor-provided information technology (IT) software and associated tangible capital assets for subscription payments without granting governments perpetual license or title to the IT software and associated tangible capital assets. GASB Statement No. 96 establishes accounting and financial reporting for SBITAS. The requirements of GASB Statement No. 96 are effective for reporting periods starting with the fiscal year that ends June 30, 2023. The requirements of GASB Statement No. 96 had 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, 2023 and 2022, the Authority had $311,342 and $367,907 respectively 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, Local Agency Investment Fund (LAIF), repurchase agreements, reverse repurchase agreements, and money market mutual funds. The City's Treasurer investment portfolio rating at June 30, 2023 and 2022 was AAf/S1. The Treasurer's investment portfolio has a weighted average maturity of 1.59 and 1.41 years at June 30, 2023 and 2022, respectively.

(4) 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. Each member's fair-share percentage means the percentages calculated utilizing population values (provided by the State of California) and the square miles of the respective subscriber agency (provided by the County). 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, 2023 and 2022, actual operating costs were $114,739 and $68,388, respectively, which fell beneath budgeted costs of $121,072 and $76,072, respectively. The Board has not taken actions for the distribution of excess fair-share contributions.

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, 2023 and 2022, the following cities were subscribing agencies: Brea, Costa Mesa, Fountain Valley, Fullerton, Placentia, Newport Beach, and Orange.

The percentages and amounts of subscribing agency contributions consisted of the following for the fiscal years ended June 30, 2023 and 2022:

	2023		2022	
	Percentage	**Amount**	**Percentage**	**Amount**
City of Brea	9.08%	$ 6,911	8.97%	$ 6,826
City of Costa Mesa	15.58	11,852	15.74	11,979
City of Fountain Valley	8.41	6,394	8.32	6,326
City of Fullerton	21.02	15,991	20.86	15,866
City of Placentia	6.89	5,240	6.87	5,226
City of Newport Beach	17.25	13,125	17.38	13,221
City of Orange	21.77	16,559	21.86	16,628
Total	100.00 %	$ 76,072	100.00 %	$ 76,072

(5) Charges for Services

The Authority provided Fire and Rescue hazardous materials incident responses. There was no billable incident for the fiscal year ended June 30, 2023. The reimbursement for labor and other costs during fiscal year ended June 30, 2022 was $2,184.

(6) Fair-Share Distribution

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 distributions for the fiscal year ended June 30, 2023. Fair-share distributions for the fiscal year ended June 30, 2022 was $34,105.

(7) Accounts Receivable

There were no accounts receivable outstanding at June 30, 2023 and June 30, 2022.

(8) 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, 2023 and 2022, administration fees paid to the City were $19,866 and $19,788, respectively, per the JPA Agreement.

(9) 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, 2023 and 2022, the Authority did not have any claims outstanding nor did the Authority pay any claims during the year.

(10) 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, 2023 and 2022.