

**Orange County – City
Hazardous Materials
Emergency Response Authority**

Anaheim, California

**Independent Auditors' Report
and Financial Statements**

For the years ended June 30, 2014 and 2013

**Orange County - City Hazardous Materials
Emergency Response Authority
Financial Statements
For the years ended June 30, 2014 and 2013**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Orange County – City Hazardous
Materials Emergency Response Authority
Anaheim, California

Report on Financial Statements

We have audited the accompanying financial statements of the Orange County – City Hazardous Materials Response Authority (the "Authority"), which comprise of the Statements of Net Position as of June 30, 2014 and 2013, and the related Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the years then ended, and the related notes to the financial statements.

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 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 risk 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.

To the Board of Directors
of the Orange County – City Hazardous
Materials Emergency Response Authority
Anaheim, California
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2014 and 2013, and the results of its operations and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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 financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board (“GASB”), who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Handwritten signature in black ink that reads "Paul J. McGeady LLP". The signature is written in a cursive, slightly slanted style.

Irvine, California
October 30, 2014

**Orange County - City Hazardous Materials
Emergency Response Authority
Statements of Net Position
June 30, 2014 and 2013**

	2014	2013
ASSETS		
Cash and investments	\$ 85,986	\$ 67,231
Accounts receivable, net of allowance for doubtful accounts of \$79,830 and \$74,058 as of June 30, 2014 and 2013, respectively.	77,020	5,772
Interest receivable	110	147
Total assets	163,116	73,150
LIABILITIES		
Provider reimbursements payable	26,602	17,294
Due to the City of Anaheim	67,714	29,804
Other payables	6,061	6,032
Total liabilities	100,377	53,130
NET POSITION		
Unrestricted	62,739	20,020
Total net position	\$ 62,739	\$ 20,020

**Orange County - City Hazardous Materials
Emergency Response Authority**
Statements of Revenues, Expenses and Changes in Net Position
For the years ended June 30, 2014 and 2013

	2014	2013
OPERATING REVENUES:		
Subscribing Agency contributions	\$ 93,005	\$ 123,900
Charges for services	8,490	30,769
Total operating revenues	101,495	154,669
OPERATING EXPENSES:		
Fair share reimbursements	333	25,990
Administrative charges	37,910	109,765
Bad debt expense	5,772	5,829
Other	15,094	14,197
Total operating expenses	59,109	155,781
OPERATING INCOME (LOSS)	42,386	(1,112)
NONOPERATING REVENUES:		
Investment income	333	575
Total nonoperating revenues	333	575
Changes in net position	42,719	(537)
NET POSITION:		
Beginning of year	20,020	20,557
End of year	<u>\$ 62,739</u>	<u>\$ 20,020</u>

**Orange County - City Hazardous Materials
Emergency Response Authority
Statements of Cash Flows
For the years ended June 30, 2014 and 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 30,247	\$ 155,285
Cash paid to other suppliers of goods or services	(11,862)	(145,572)
Net cash provided by operating activities	18,385	9,713
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income received	370	717
Net cash provided by investing activities	370	717
Net increase in cash and cash equivalents	18,755	10,430
CASH AND CASH EQUIVALENTS:		
Beginning of year	67,231	56,801
End of year	\$ 85,986	\$ 67,231
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Operating income (loss)	\$ 42,386	\$ (1,112)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(71,248)	616
Increase (decrease) in provider reimbursements payable	9,308	16,897
Increase (decrease) in subscriber contributions payable	-	(10,626)
Increase (decrease) in due to the City of Anaheim	37,910	3,488
Increase (decrease) in other payables	29	450
Net cash provided by operating activities	\$ 18,385	\$ 9,713

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Orange County – City Hazardous Materials Emergency Response Authority

Notes to Financial Statements For the years ended June 30, 2014 and 2013

Note 1 – Summary of Significant 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 4 and 5). Under the amended JPA, the definition of a subscribing agency is a public entity which 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). Effective July 1, 2013, the Orange County Fire Authority was no longer a provider agency. The Authority approved a fifth amendment to the JPA agreement during the year ended June 30, 2014. Members of the Board of Directors consist of one voting Board member and an alternate appointed by the governing body from the provider agencies. Under the amended agreement, three representatives from the subscribing agencies are also voting Board members.

Public entities in Orange 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 accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (“GASB”) is the accepted 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 the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned while expenses are recognized when the liability is incurred.

Operating revenues are those revenues that are generated from the primary operations. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations. All other expenses are reported as nonoperating expenses.

**Orange County – City Hazardous Materials
Emergency Response Authority**

**Notes to Financial Statements (Continued)
For the years ended June 30, 2014 and 2013**

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Cash, Cash Equivalents, and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as cash and investments.

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

Certain disclosure requirements, if applicable, for Deposit and Investment Risks are specified in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk
- Foreign Currency Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

D. Allowance for Doubtful Accounts

The Authority's policy is to set up an allowance for doubtful accounts of 15% for 31- 60 days of being uncollectible, another 15% for 61-90 days and 100% for amounts uncollectible after 90 days.

E. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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.

F. 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 the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

**Orange County – City Hazardous Materials
Emergency Response Authority**

**Notes to Financial Statements (Continued)
For the years ended June 30, 2014 and 2013**

Note 1 – Summary of Significant Accounting Policies (Continued)

F. Net Position (Continued)

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position is the amount of 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, 2014 and 2013, there were no “net investment in capital assets” or “restricted” components of net position for the Authority.

G. Use of Restricted and Unrestricted Net Position

When expenses are incurred for purposes for which both restricted and unrestricted components of net position are available, the Authority’s policy is to apply the restricted component of net position first.

H. Accounting Changes

GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The requirements of this statement improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement became effective for periods beginning after December 15, 2012, and did not have a significant impact on the Authority’s financial statements for the year ended June 30, 2014.

GASB has issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The requirements of this statement resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. This statement became effective for periods beginning after December 15, 2012 and did not have a significant impact on the Authority’s financial statements for year ended June 30, 2014.

GASB has issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The requirements of this statement enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This statement also enhances the information disclosed about a government’s obligations and risk exposure from extending nonexchange financial guarantees. This statement also augments the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. This statement became effective for period beginning after June 15, 2013 and did not have a significant impact on the Authority’s financial statements for the year ended June 30, 2014.

**Orange County – City Hazardous Materials
Emergency Response Authority**

**Notes to Financial Statements (Continued)
For the years ended June 30, 2014 and 2013**

Note 2 – Cash and Investments

At June 30, cash and investments consisted of the following:

	2014	2013
Cash and cash equivalents:		
Cash deposits	\$ 44,016	\$ 25,621
Petty cash	100	100
Total cash and cash equivalents	44,116	25,721
Investments:		
City of Anaheim Investment Pool	41,870	41,510
Total investments	41,870	41,510
Total cash and investments	\$ 85,986	\$ 67,231

Cash Deposits

The carrying amounts of the Authority’s cash deposits were \$44,016 and \$25,621 at June 30, 2014 and 2013, respectively. Bank balances at June 30, 2014 and 2013 were \$44,016 and 25,621, respectively, which were fully insured or collateralized with securities held by the pledging financial institutions in the Authority’s name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the Authority’s cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Authority’s name.

The market value of pledged securities must equal at least 110% of the Authority’s cash deposits. California law also allows institutions to secure the Authority’s deposits by pledging first trust deed mortgage notes having a value of 150% of the Authority’s total cash deposits. The Authority may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (“FDIC”). The Authority, however, has not waived the collateralization requirements.

The Authority’s Board of Directors’ determined that \$10,615 of the cash balance was to be set aside for training, capital, emergency, and maintenance purposes.

Investments Authorized by the Authority’s Investment Policy

Under the provisions of the California Government Code 53600 and 53684, the Authority is authorized to invest or deposit in the following:

- Insured or collateralized passbook or money market deposits
- Insured or collateralized certificates of deposits
- Local Agency Investment Fund
- “AAA” Rated money market mutual funds, not to exceed 20% of the book value of the Portfolio and not to exceed 10% per mutual fund
- City of Anaheim City Treasurer’s Investment Pool – rated “AA” or better by Standard and Poor’s

**Orange County – City Hazardous Materials
Emergency Response Authority**

**Notes to Financial Statements (Continued)
For the years ended June 30, 2014 and 2013**

Note 2 – Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority’s investments by maturity:

Investment Type	2014		2013	
	Carrying Amount	12 Months Or Less	Carrying Amount	12 Months Or Less
City of Anaheim investment pool	\$ 41,870	\$ 41,870	\$ 41,510	\$ 41,510
Total	<u>\$ 41,870</u>	<u>\$ 41,870</u>	<u>\$ 41,510</u>	<u>\$ 41,510</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the Authority’s investment policy and the actual rating as of fiscal year end for each investment type.

The Authority’s investments are rated by the nationally recognized statistical rating organizations as follows:

Investment Type	2014	
	Moody's	Standard & Poor's
City of Anaheim investment pool	Not Rated	AAf

Investment Type	2013	
	Moody's	Standard & Poor's
City of Anaheim investment pool	Not Rated	AAf

**Orange County – City Hazardous Materials
Emergency Response Authority**

**Notes to Financial Statements (Continued)
For the years ended June 30, 2014 and 2013**

Note 2 – Cash and Investments (Continued)

Concentration of Credit Risk

The Authority will diversify its investments by security type and institution. Investments shall be made in at least two types of authorized investments including nonnegotiable certificates of deposit. Money market mutual funds rated “AAA” are not to exceed 20% of the book value of the portfolio and not to exceed 10% in any one mutual fund.

The following is a chart of the Authority’s investment portfolio at June 30:

Investments	2014	
	Amount Invested	Percentage of Investments
City of Anaheim investment pool	\$ 41,870	100.00%
Total	\$ 41,870	100.00%

Investments	2013	
	Amount Invested	Percentage of Investments
City of Anaheim investment pool	\$ 41,510	100.00%
Total	\$ 41,510	100.00%

Custodial Credit Risk

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority’s investment policy contains policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government’s indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF and the City of Anaheim Investment Pool).

City of Anaheim Investment Pool

The Authority is a participant in the City of Anaheim (the “City”) Investment Pool. The City maintains a cash and investment pool, which includes the cash balances of all funds, and is invested by the City Treasurer to enhance interest earnings. The pooled interest earned, net of administrative fees, is reallocated to each fund based on average daily cash balances. The City’s pooled investment fund has been reviewed by Standard and Poor’s Corporation and received a credit rating of “AAf” in August 2011. As of June, 30, 2014 and 2013, the Authority had \$41,870 and \$41,510, respectively, invested in the City Investment Pool.

**Orange County – City Hazardous Materials
Emergency Response Authority**

**Notes to Financial Statements (Continued)
For the years ended June 30, 2014 and 2013**

Note 3 – Accounts Receivable

At June 30, accounts receivable consisted of the following:

<u>Vendor</u>	<u>2014</u>	<u>2013</u>
Richard Lee Helgason	\$ 10,707	\$ 10,707
Sassy Sisters Catering	1,089	1,089
Thomas M. Supranovich	4,313	4,313
R&R Concrete, Inc.	1,354	1,354
Nuckles Oil Co.	12,931	12,931
Advanced Plating Technology	5,283	5,283
Wachovia Bank	24,994	24,994
Alpha-Regional, Inc.	4,071	4,071
Bench 2 Bench Technologies	3,487	3,487
Kandis Richardson	2,140	2,140
IPC CalFlex, Inc.	2,671	2,671
City of Brea - Police Department	6,207	6,207
Samuel Autrey	583	583
City of Brea - Fire Department	6,853	-
City of Costa Mesa	12,727	-
City of Fullerton	16,643	-
City of Garden Grove	17,622	-
City of Newport Beach Fire Department	14,685	-
Coatings Resource	8,490	-
Total	<u>156,850</u>	<u>79,830</u>
Less: Allowance for doubtful accounts	<u>(79,830)</u>	<u>(74,058)</u>
Accounts receivable, net	<u><u>\$ 77,020</u></u>	<u><u>\$ 5,772</u></u>

Accounts receivable consists of charges for services performed by the Authority and subscribing agency contributions. These revenues are reimbursable to the provider agencies based on their distribution allocation described below.

Note 4 – Fair Share Reimbursement

Under the amended JPA, the provider agencies participate in all revenues other than amounts billed to subscribing agencies. Distribution of revenues were allocated to the provider agencies prior to the Fifth Amendment to the JPA as follows: City of Anaheim, 27.273%; City of Huntington Beach, 18.181%; City of Santa Ana, 27.273%; and Orange County Fire Authority, 27.273%. The JPA, including the distribution allocation, was amended in the fiscal year 2013-2014 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.

**Orange County – City Hazardous Materials
Emergency Response Authority**

**Notes to Financial Statements (Continued)
For the years ended June 30, 2014 and 2013**

Note 5 – 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 administrative costs by the subscriber's current year fair share percentage. If actual administrative 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, 2014 and 2013, actual administrative costs were \$44,029 and \$115,805, respectively, which fell beneath projected costs of \$53,005 (excluding reserves) and \$123,900 for the fiscal years 2014 and 2013, respectively. It was decided by the Board of Directors that \$8,975 and \$8,156 at June 30, 2014 and 2013, respectively, would be distributed to the provider agencies.

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, 2014, the following cities were subscribing agencies: Brea, Costa Mesa, Fountain Valley, Fullerton, Garden Grove, Newport Beach and Orange. As of June 30, 2013, the following cities were subscribing agencies: Brea, Costa Mesa, Fountain Valley, Fullerton, Garden Grove, Laguna Beach, Newport Beach and Orange.

Note 6 – Due to the City of Anaheim

The City of Anaheim administers the JPA and is reimbursed for costs associated with administration activities. Administration costs were \$37,910 and \$109,765 for the fiscal years ended June 30, 2014 and 2013, respectively, and administrative costs payable were \$67,714 and \$29,804 at June 30, 2014 and 2013, respectively.

Note 7 – Risk Management

All employees under the Authority are considered employees of the City of Anaheim. Any claims for workers' compensation are handled through the City, which is self-insured and self-administered. Any general liability claims are also handled by the City, but approved through the Authority's Board of Directors. The amount of claims paid out is distributed amongst 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 the budget.

Note 8 – Commitment and Contingencies

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.

Commitments

The Authority does not have any major contractual commitments or contingencies as of the years ended June 30, 2014 and 2013.