

Humboldt/Del Norte Hazardous Materials Response Authority

Eureka, California

*Basic Financial Statements
and Independent Auditors' Reports*

For the year ended June 30, 2010

C&L
Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

Humboldt/Del Norte Hazardous Materials Response Authority
For the year ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Humboldt/Del Norte Hazardous Materials Response Authority
Eureka, California

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Humboldt/Del Norte Hazardous Materials Response Authority (Authority), as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Authority's as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors
of the Humboldt/Del Norte Hazardous Materials Response Authority
Eureka, California
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The Authority has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the financial statement.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, on page 27 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
March 19, 2012

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

Humboldt/Del Norte Hazardous Materials Response Authority
Statement of Net Assets
June 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	<u>\$ 98,548</u>
Total assets	<u>98,548</u>
NET ASSETS	
Unrestricted	<u>98,548</u>
Total net assets	<u>\$ 98,548</u>

See accompanying Notes to Basic Financial Statements.

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FUND FINANCIAL STATEMENTS

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MAJOR GOVERNMENTAL FUNDS

Humboldt/Del Norte Hazardous Materials Response Authority
Balance Sheet
Governmental Fund
June 30, 2010

	<u>General Fund</u>
ASSETS	
Cash and investments	\$ 98,548
Total assets	<u>\$ 98,548</u>
LIABILITIES AND FUND BALANCES	
Fund Balances:	
Unreserved:	
Designated for equipment replacement	33,000
Designated for vehicle replacement	43,242
Undesignated	22,306
Total fund balances	<u>98,548</u>
Total liabilities and fund balances	<u>\$ 98,548</u>

See accompanying Notes to Basic Financial Statements.

Humboldt/Del Norte Hazardous Materials Response Authority
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2010

Total Fund Balances - Total Governmental Funds	\$ 98,548
Net Assets of Governmental Activities	\$ 98,548

See accompanying Notes to Basic Financial Statements.

Humboldt/Del Norte Hazardous Materials Response Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2010

	<u>General Fund</u>
REVENUES:	
Intergovernmental	\$ 73,242
Fines and forfeitures	1,000
Investment income	2,609
Total revenues	<u>76,851</u>
EXPENDITURES:	
Current:	
Public Safety	74,619
Total expenditures	<u>74,619</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>2,232</u>
Net change in fund balances	2,232
FUND BALANCES:	
Beginning of year	96,316
End of year	<u>\$ 98,548</u>

See accompanying Notes to Basic Financial Statements.

Humboldt/Del Norte Hazardous Materials Response Authority
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes
in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets
For the year ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds \$ 2,232

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:

Interest earnings that are funded in this fiscal year that will not be collected for several months after the City's fiscal year ends are not considered "available" revenue and are classified as deferred revenue in the governmental funds. This amount represents interest earned that was deferred in prior years, but was collected in the current year. (687)

Change in Net Assets of Governmental Activities \$ 1,545

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NOTES TO BASIC FINANCIAL STATEMENTS

Humboldt/Del Norte Hazardous Materials Response Authority
Notes to Basic Financial Statements
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Humboldt/Del Norte Hazardous Materials Response Authority (Authority) was created on June 14, 1994, as a separate legal entity by a joint powers agreement between the counties of Humboldt and Del Norte, and the cities of Eureka, Crescent City, Arcata, Blue Lake, Rio Dell, and Trinidad. The City of Ferndale was added in fiscal year 2003-04. The purpose of the agreement was to provide unified, coordinated, and effective means to assist in formulating, administering, implementing, and maintaining an area-wide hazardous materials response team. The governing body is a Board of Directors (Board) consisting of one member and an alternate from each of the participants. The Fire Chief of the City of Eureka oversees the management and operational functions of the participants who report to and are responsible to the Board of Directors.

The primary source of revenue of the Authority is participant contributions. The contributions are determined based on the population of the individual participant in relation to the total population of the participants' jurisdictions combined.

The Authority provides funds for training, materials, and services, and capital expenditures. Monies are expended to reimburse the City of Eureka for the costs of the operation and maintenance of the Hazardous Materials Response Team. The Authority also charges for individual hazardous material responses and special training sessions. These revenues are received by the City of Eureka to offset the costs of the Hazmat Response Team, the Eureka Fire Department, and associated administrative costs.

B. Basis of Presentation/Measurement Focus

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government - Wide Financial Statements

The Authority's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present the governmental activities for the Agency.

These financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets and liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Humboldt/Del Norte Hazardous Materials Response Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation/Measurement Focus, Continued

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. The Authority only has one governmental fund which accounts for all of the Authority's activities.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except for revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Authority, are property taxes, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

C. Use of Estimates

The preparation of financial statements in conformity with 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.

Humboldt/Del Norte Hazardous Materials Response Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS

The Authority's funds are pooled with the City of Eureka (City)'s cash and investments in order to generate optimum interest income.

Cash and investments at June 30, 2010 consisted of the following:

Cash and investments pooled with the City	\$ 98,548
Total cash and investments	\$ 98,548

The California Government Code requires California banks and savings and loan associations to secure 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 City's name. The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation.

A. Investments

Under the provisions of the City's investment policy, and in accordance with California Government Code, the following investments are authorized:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Bankers' Acceptances	180 days	40%	None
Certificates of Deposits	180 days	20%	None
Negotiable Certificates of Deposit	2 years	30%	None
Commercial Paper	270 days	25%	None
Corporate Medium Term Notes	5 years	30%	None
State of California Local Agency Investment Fund (State Pool)	N/A	Unlimited	\$40,000,000
Money Market Funds	N/A	Unlimited	None
Passbook Savings and Money Market Accounts (Insured)	None	Unlimited	None
U.S. Treasury Obligations	None	Unlimited	None
U.S. Government Agency Issues	None	Unlimited	None
Repurchase Agreements	30 days	10%	None
Mortgage pass-through and asset backed securities	5 years	20%	None

Humboldt/Del Norte Hazardous Materials Response Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS, Continued

A. Investments, Continued

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the Investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Certificates of Deposit with Banks and Savings & Loans	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Municipal Obligations	None	None	None
Bankers' Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Local Agency Investment Fund (State Pool)	None	None	None

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value using the aggregate method in all funds and component units. The City's investments are carried at fair market value as required by generally accepted accounting principles. The City values investments at fair market value..

B. Risk Disclosures

Interest Risk – Interest rate risk is the fluctuation in fair value of investment due to changes in interest rates. The City's exposure to losses caused by rising interest rates is minimized by limiting the average maturity of the City's investment not to exceed five years.

Credit Risk – Credit risk is the risk of loss of value of a security or investment due to downgrade of its rating due to a change in the ability of the issuer to fulfill its debt obligation. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution to reduce the City's exposure to credit risks.

Custodial Credit Risk – The custodial credit risk for an investment is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the City's investments were subject to custodial credit risk.

Humboldt/Del Norte Hazardous Materials Response Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS, Continued

B. Local Agency Investment Fund

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The balance is available for withdrawal on demand. The City's investments with LAIF at June 30, 2010, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30 2010, the City had invested in LAIF, which had invested 5.42% of the pool investment funds in Structured Notes and Asset-Backed Securities. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The fair value of LAIF was calculated by applying a factor of 1.001643776 to total investments held by LAIF.

3. SCHEDULE OF INTERGOVERNMENTAL CONTRIBUTIONS

The following is a schedule of actual intergovernmental contributions by participants for the fiscal year ended June 30, 2010 and 2009

Participants	2010 Percent	2010 Contributions	2009 Contributions
Humboldt County	47.42%	34,732	34,678
City of Arcata	11.64%	8,524	8,520
City of Blue Lake	0.77%	566	569
City of Eureka	17.34%	12,699	13,443
City of Rio Dell	2.18%	1,594	1,601
City of Trinidad	0.21%	152	154
Del Norte County	14.19%	10,394	10,662
Crescent City	5.09%	3,730	3,835
City of Ferndale	0.95%	693	697
Yurok Tribe	0.22%	158	-
Total	100%	73,242	74,159

Humboldt/Del Norte Hazardous Materials Response Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

4. CONTINGENT LIABILITIES

The Authority is subject to litigation arising in the normal course of business. In the opinion of the Authority's Attorney, there is no pending litigation that is likely to have a material adverse effect on the financial position of the Agency.

5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 19, 2012, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified.

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REQUIRED SUPPLEMENTARY INFORMATION

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Humboldt/Del Norte Hazardous Materials Response Authority
Required Supplementary Information
For the year ended June 30, 2010

1. BUDGETS AND BUDGETARY ACCOUNTING

On or before April 1 of each year, the Head of the Hazmat Response Team (City of Eureka fire chief) submits a budget for review and hearing. By May 1, the Board adopts the budget and appropriates the expenditures. Expenditures may not exceed budgeted appropriations without Board approval. All annual appropriations lapse at year end.

Following is the budget comparison schedules for the General Fund:

General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 109,771	\$ 109,771	\$ 73,242	\$ (36,529)
Fines and penalties	-	-	1,000	1,000
Investment income	4,400	4,400	2,609	(1,791)
Total revenues	114,171	114,171	76,851	(37,320)
EXPENDITURES:				
Current:				
Public Safety	101,773	101,773	74,619	27,154
Total expenditures	101,773	101,773	74,619	27,154
REVENUES OVER (UNDER) EXPENDITURES	12,398	12,398	2,232	(10,166)
Net change in fund balances	\$ 12,398	\$ 12,398	2,232	\$ (10,166)
FUND BALANCES:				
Beginning of year			96,316	
End of year			\$ 98,548	

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
of the Humboldt/Del Norte Hazardous Materials Response Team
Eureka, California

We have audited the financial statements of the Humboldt/Del Norte Hazardous Materials Response Authority (Authority), as of and for the year ended June 30, 2010, and have issued our report thereon dated March 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the Authority's internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

To the Board of Directors
of the Humboldt/Del Norte Hazardous Materials Response Authority
Eureka, California
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This report is intended solely for the information and use of management, the Board of Directors, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Caporicci & Larson, Inc.

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San Francisco, California
March 19, 2012