



January 22, 2010

To the People of the City of Eureka Represented by the Honorable Mayor and Members of City Council of the City of Eureka

Local and state statutes require that the City of Eureka issue a report on its financial position and activity following the close of each fiscal year. In addition, this report must be audited in accordance with generally accepted auditing standards by an independent firm of certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Eureka for the fiscal year ended June 30, 2009.

This report consists of management's representations concerning the finances of the City. Consequently, responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Eureka's financial statements have been audited by Moss, Levy & Hartzheim LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Eureka for the fiscal year ended June 30, 2009, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion and that the City of Eureka's financial statements for the fiscal year ended June 30, 2009, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report. The audit was also designed to meet the requirements of the Federal Single Audit Act as amended in 1996, and related OMB Circular A-133, Audits of States; Local Governments; and Non-Profit Organizations (68 FR 38401).

GAAP for State and Local governments requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Eureka's MD&A can be found immediately following the report of the independent auditors.

#### PROFILE OF CITY OF EUREKA

#### **General Information**

The City of Eureka is a charter City, incorporated as a town on April 18, 1856, under a special act of the legislature; reincorporated as a City on February 19, 1874; and incorporated under a Freeholders Charter on February 8, 1895. The City has been declared a State Historic Site because of its significance in the development of California. The City operates under a Council - Manager form of government with a five-member Council elected to four year overlapping terms, and the Mayor being elected for a four year term. The position of City Manager is filled by appointment of the Council to serve as Administrator of the Staff, and to carry out the policies of the Council. The City Attorney and City Clerk are also appointed by the Council.

The City of Eureka is located along Humboldt Bay (California's second largest deep-water port), on the Northern California coast, 280 miles north of San Francisco, and 450 miles south of Portland, Oregon. Eureka is also the county seat for the County of Humboldt. The City has an approximate population of 26,002 and its boundaries encompass 11 square miles. Extracting timber and the processing of wood byproducts, along with agriculture, fishing, tourism, and government have historically been the pillars of the local economy.

The City of Eureka provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets, and other infrastructure; and various recreational activities. Certain redevelopment activities are carried out by a blended component unit of the City. The Eureka Redevelopment Agency was created by the City Council during the year ending June 30, 1972. The Agency was given the authority and responsibility to redevelop and upgrade blighted areas of the City. Of the City's 11 square miles, 1.97 square miles are included in the Agency boundaries. The City Council also functions as the Board of the Eureka Redevelopment Agency. Financing for redevelopment activities is provided through another blended component unit of the City, the Eureka Public Financing Authority. The City Council created the Authority to sell bonds and lend the proceeds of bond issues to the Agency. The City Council also functions as the Board of the Eureka Public Financing Authority.

#### Reporting Entity and Its Services

This report includes all of the funds of the City. Financial information for separate legal entities related to the City of Eureka, including the Eureka Redevelopment Agency, and the Eureka Public Financing Authority, are also accounted for in this City's financial statements in accordance with the Government Accounting Standards Board (GASB) Statement No. 14 The Financial Reporting Entity.

City Council members serve as the governing board of the Redevelopment Agency. The City provides accounting and administrative services to the Redevelopment Agency. Additional detail is provided in Note 1. A of the Notes to the Financial Statements.

Eureka is a full service city with 270 authorized full-time and regular part-time personnel. This includes public safety (Police and Fire), highways and streets, public improvements, land use, building and housing standards, culture - recreation programs, parks and recreation areas, water, harbor and sewer utilities, public transit, and administration and fiscal services.

#### Accounting System and Budgetary Control

The basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term 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.

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 Revenue, Expenditures and Changes in Net Assets present increases (revenue 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.

Annual appropriated budgets are adopted for all funds of the City except agency funds. All annual appropriations lapse at fiscal year end. Any encumbrances not fully expended at year end are closed. Legally adopted budgetary appropriations are enacted by fund at the department level for current operating expenditures, with separate appropriations for capital and other projects, debt service, reserves, transfers and contingencies. Expenditures cannot legally exceed appropriations at these control levels. Amendments to the budget at the legal appropriation level must be approved by City Council. Amendments to the budget at less than the legal appropriation level may be made by management.

Project-length financial plans are adopted for capital and other projects. Appropriations for these projects are included in the annual appropriated budgets for each of the applicable funds. Unspent project amounts are included in the annual budgets of subsequent years until project completion. The objective of these budgetary controls is to ensure compliance with legal provisions contained in the annual appropriated budget approved by the City Council.

#### **ECONOMIC CONDITIONS AND OUTLOOK**

The growth and health of Eureka's economy can be traced to a variety of indicators.

Employment Rate. At November 30, 2009, the unemployment rate for Eureka was 12.3%, for Humboldt County it was 11.6%, for the State of California it was 12.3% and for the United States it was 10%. For comparison purposes, at June 30, 2008, the County rate was 6.8%, State of California was 7% and for the United States it was 5.5%. The rising unemployment rate has had an impact on Eureka's economy which can be seen in reduced sales tax revenues.

Building Activity. During the fiscal year 1,152 construction permits were issued, compared to 1,143 in the previous fiscal year.

Housing. Throughout fiscal year 2008-09, the housing market showed continuing sings of weakness. The median home price for Eureka declined from approximately \$230,000 at June 30, 2008 to approximately \$210,000 at June 30, 2009. In the last year, the number of homes sold was the lowest of any time in the last ten years, at approximately 200.

Retail Sales. Shopping districts are abundant throughout the City of Eureka. There is a traditional downtown region offering over 700 retail and service related businesses. Old Town Eureka contains 150 specialty shops in a redeveloped Victorian waterfront setting. The Eureka Mall is a large center with 16 stores, and the Bayshore Mall is a regional mall with approximately 100 stores. This multitude of retail opportunities strengthens Eureka's dominance as a regional trade center and is clearly supported by the fact that the City has higher retail sales for taxable items per capita than other cities in the Humboldt County area. However, sales tax for fiscal year 2008-09 was down 12% compared to the previous year as two of the department stores in the Bayshore Mall closed and sales of used and new autos are down between 20% and 30% compared to the previous year. The City of Eureka successfully asked voters in November 2008 to approve a ½% transaction and use tax. Revenue projections were low, due to the fact that retailers in other California cities have been slow to implement these new taxes. Fortunately for the City, early revenues are exceeding the projections and council may revise the revenue projection upward in a mid-year budget review.

Hospitality. The City of Eureka is a popular California tourism destination and contains approximately 40 hotels, motels and inns. In spite of other economic conditions, the City's Transient Occupancy Tax remains a strong revenue source. Fiscal year 2008-09 revenue from TOT was up 2.6% over the previous year. The increase is largely due to a 1% increase in the TOT rate (from 9% to 10%) passed by the voters in November 2008 and effective January 1, 2009.

Eureka has been designated as one of 42 Enterprise Zones in the State of California, providing existing, new, and expanding businesses with numerous economic benefits and tax incentives.

#### Financial Planning - Fiscal Year 2008-09

The financial plan for the year, as adopted by the City Council, represents a balance between planning for the future and delivering services to our citizens today. The operating programs were designed to maintain existing service levels. The 2008-09 budget included financial support for a number of future planning efforts. The capital budget consisted of projects intended to maintain or rehabilitate existing City facilities as well as projects constructing new facilities.

Some of the major initiatives/accomplishments of fiscal year 2008-09 include

- As already mentioned, voters approved two revenue measures in November 2008. The Transaction and Use Tax of 1/4% was effective April 1, 2009. Passage of this tax was linked to a repeal of the Utility Users' Tax. The Transient Occupancy Tax was increased by 1% from 9% to 10% effective January 1, 2009.
- Our Redevelopment Agency was able to secure a \$2,500,000 grant to fund the improvements for our Fishermen's
  Terminal Building project This project is one component of the redevelopment of the C Street corridor from First
  Street to the Boardwalk. The larger project will include: reconstruction of C Street as a pedestrian corridor,
  construction of a 41-space public parking lot, construction of a stage and a multi-use market square for use as a
  pedestrian plaza and location for special events. This project is expected to enhance the value of surrounding
  property and stimulate economic activity in the area, ultimately providing a return to the city in the form of property
  tax and sales tax revenue.
- Work continued throughout the year on cost of service and rate studies for the city's water and wastewater utilities. In September 2009, proposed rates were first presented to council. A series of community workshops was conducted and the protest election process, required by California Proposition 218 began on November 20, 2009. Council is not expected to make a final decision on new utility rates until sometime in early 2010.
- In the fall, the City replaced 253 existing parking meters with new electronic meters. The parking fee was raised from five cents per hour to ten cents per hour and the increased fees are expected to cover the cost of the new equipment.

#### Prospects for the Future

The City continually strives to improve the level and quality of service provided to its citizens, and in future years the City's goals and objectives will continue to be reflective of this desire. The Council's task is to balance desired services with dwindling resources and to maintain prudent reserves in the City's funds.

Implementation of the Problem Oriented Policing program remains a high priority for council; for fiscal year 2008-09, the program was staffed with one lieutenant, one police services officer and a part-time police officer and most of the work was related to code enforcement issues. The fiscal year 2009-10, program staffing will increase to include a sergeant, two police officers and additional vehicles and equipment and the group will address a broader spectrum of community problems.

Economic Development plans for fiscal year 2009-10 include a business survey, intended to help the City identify needs of local businesses and determine if businesses are aware of the numerous city programs designed to assist them.

The Redevelopment Agency is planning a bond sale of approximately \$9.4 million in January 2010 which will provide matching funds for the Fisherman's Terminal grant as well as additional funding for other components of the C Street project. A portion of the bond proceeds will be used to pay notes between the Redevelopment Agency and the City's General Fund and the City's Wastewater Fund. The Agency received a bond rating of "A" from Standard & Poor's in December 2009.

After 22 years of fundraising and planning, the 12,000 square foot state of the art skate park, designed by Wormhoudt, Inc., opened on December 19, 2009. The skate park is expected to draw skaters from all over the West Coast and beyond to enjoy this exhilarating facility. Skating enthusiasts of all skill levels will be able to practice their sport and enjoy a diverse range of terrain that includes street elements, pools, and bowls.

#### AWARDS AND ACKNOWLEDGMENTS

#### Awards

The Government Financial Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Eureka for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently

organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments
The preparation of this report could not have been accomplished without the efficient and dedicated services of the staff of the Finance Department. We would like to express our appreciation to the independent auditing firm of Moss, Levy & Hartzheim, Certified Public Accountants for their guidance. We would also like to thank the Mayor and members of the City Council for their interest and support in planning and conducting the financial operation of the City in a responsible and progressive manner. Finally we recognize and appreciate the work of the members of the Finance Advisory Board.

pavid W. Tyson City Manager

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# Certificate of Achievement for Excellence in Financial Reporting

Presented to

### City of Eureka California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

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President

**Executive Director** 

#### City of Eureka, California Principal City Officials June 30, 2009

Virginia Bass Mayor

#### **City Council**

Linda Atkins Larry Glass
Council Member Council Member

Mike Jones Jeff Leonard
Council Member Council Member

Frank Jager Council Member

#### **Administration**

David W. Tyson City Manager

Pam Powell Sheryl Schaffner City Clerk City Attorney

Garr Nielsen Eric Smith Police Chief Fire Chief

Kevin Hamblin Kurt Gierlich Director of Community Development City Engineer

Mike Knight Valerie Warner
Assistant City Manager/Public Works Director Finance Director

Cindy Trobitz-Thomas Gary Bird

Redevelopment & Housing Director Personnel Director

## City of Eureka Organizational Chart





