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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council of the  
City of Eureka  
Eureka, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eureka, California (City), as of and for the fiscal year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eureka, California, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable thereof, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the notes to the basic financial statements, the City adopted Governmental Accounting Standards Board Statement (GASB) No. 46, *Net Assets Restricted by Enabling Legislation, an Amendment of GASB Statement No. 34*, effective July 1, 2005, and Statement No. 44, *Economic Reporting: The Statistical Section* effective July 1, 2005.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 22, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

The Managements' Discussion and Analysis on pages 3 through 11, the budget comparison schedules for the General Fund, Housing Special Revenue Fund, and the Low and Moderate Income Housing Special Revenue Fund on pages 77 through 79, and the Schedule Funding Progress – Local and Public Retirement Systems on pages 80 through 82, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Eureka's basic financial statements. The Introductory Section, the major fund budgetary comparison schedules, Combining Statements for the Nonmajor Governmental Funds, Internal Service Funds, and Agency Funds, the Budgetary Comparison Schedules for the Nonmajor Governmental Funds, and the Statistical Section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Combining Statements for the Nonmajor Governmental Funds, the major fund budgetary comparison schedules, Internal Service Funds, and Agency Funds and the Budgetary Comparison Schedules for the Nonmajor Governmental Funds have been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information included in the "Introductory Section", and the "Statistical Section", have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion thereon.

*Moss, Levy & Hartzheim*

Moss, Levy & Hartzheim, LLP  
Beverly Hills, California  
October 22, 2006