

INTRODUCTORY SECTION



December 31, 2007

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, 2007.

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, 2007, 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 that the City of Eureka's financial statements for the fiscal year ended June 30, 2007, 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 27,050 and its boundaries encompass 17 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, 1992. The Agency was given the authority and responsibility to redevelop and upgrade blighted areas of the City. Of the City's 17 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

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 282 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. Appropriations include amounts encumbered at year end, and these encumbrances are not reappropriated in the following year. All annual appropriations lapse at fiscal year end. 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 June 30, 2007, the seasonally adjusted unemployment rate for Humboldt County was 5.7 percent compared to 5.2 percent for the State and 4.5 percent nationally. This was an increase of .01 percent from the preceding year. In general, the change occurs because growth in the county's labor force is outpacing new job creation.

Building Activity. During the fiscal year 1,187 construction permits were drawn, as presented in the Statistical Section table "Operating Indicators by Function/Program".

Housing. The housing market has been extremely volatile in the last year, but the general trend in the number of new and used home sales is downward. The median home price has also fluctuated during the year. At June 30, 2007, the median home price stood at \$325,000. At June 30, 2006, the median home price was \$309,000. The median home price peaked in March 2006 at \$349,500.

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. The Humboldt Economic Index shows retail sales at June 30, 2007 slightly higher than the same time last year, however the most recently quarterly sales tax receipt data shows a 7.6% decline compared to the same quarter in the previous year.

Hospitality. The City of Eureka is a popular California tourism destination and contains approximately 40 hotels, motels and inns. Occupancy rates remained strong through the summer and fall of 2007.

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 2006-07

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 2006-07 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 2006-07 include:

- In November 2006, voters approved an extension of the Users' Utility Tax. This tax represents one of the major general fund revenues and is expected to generate approximately \$1.3million in fiscal year 2007-08.
- C Street Fishermans Market project – This project is the redevelopment of the C Street corridor from First Street to the Boardwalk and 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.
- Fire Standards of Response study – The Fire Department hired a consultant to prepare a deployment report based upon the nationally accepted Standards of Response Coverage methodology. The report was presented to the city council in July 2007. The report indicated that the Eureka Fire department was co-dependent upon its neighbors, and even with this assistance, it is barely able to adequately structure fire force. The study presented several different recommendations including the enhancement of on-duty staffing, improvement of off duty and volunteer firefighter response to major emergencies, improved call processing times and the coordination of a new station in the Humboldt Fire District area of Southeast Eureka.
- In the Spring of 2007, city departments completed a comprehensive review of fees and charges. One of the more significant rate changes included an increase harbor moorage fees from \$70 to \$85 per month, minimum. A ten-percent increase in the cost of a single bus trip went into effect September 1, 2007.
- Fire engine – The Fire department placed into service a new fire engine, retiring a vehicle that was 21 years old. This engine was purchased with the proceeds of a capital lease and payments will be due annually through 2013.
- City Hall – A major renovation on the first floor of City Hall was completed during fiscal year 2006-07. The project included construction of offices, improvements to the heating and ventilation system, new carpet and paint and updated file storage areas. The renovations were paid for with the proceeds of a capital lease for \$1,195,000. Annual payments on this lease will be required through 2015.
- Water Metering – Water meters throughout the city were replaced with new devices that use automated meter reading technology. This project was paid for with the proceeds of a capital lease and lease payments are due

annually through 2016. The project is expected to pay for itself because the new meters will provide a more accurate measure of water used, which was previously thought to be missed by the old meters.

- Classification/Compensation/Organizational Studies – A consultant was engaged to conduct classification/compensation/organizational studies of all positions in the City of Eureka classification plan. The City was experiencing recruitment and retention issues, along with increased requests for position reviews. These items usually represent compensation issues. In general, the study indicated that many positions were underpaid, when compared to similar organizations within the labor market. The comparison agencies were chosen due to organizational similarities, but since some of the agencies were not in the same geographical region, a cost of living adjustment was applied to the recommended compensation levels. The results of the study were reviewed in detail by the City Council in a series of Closed Session meetings, which enabled the Council to provide guidance to Staff on wage proposals for all three City employee groups with contracts expiring on December 31, 2007.
- Health Insurance for Public Safety Employees -- Amendments to the existing Memoranda of Understanding (MOU's) were signed with the Eureka Police Officers Association and the Eureka Firefighters Local #652 regarding changes to the health insurance benefit provided by the City. Both groups transitioned to the same carrier as the unrepresented (management) employees, with the option of a high-deductible/HSA plan or a conventional plan. This move is expected to slow the escalating cost of providing health insurance to these employees.

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 available resources and to maintain prudent reserves in the City's funds.

One area of desired services that has been specifically identified is the implementation of problem oriented policing. The Council has instructed the Finance Advisory Committee to explore options for funding this initiative and bring forth a recommendation. One option currently under consideration is the creation of a Fire Suppression Assessment District. If put in place, this funding mechanism would relieve pressure on the General Fund for Fire Suppression, freeing up those resources for the problem oriented policing.

Economic Development plans for the coming year include an effort to promote the reopening of the Eureka Inn and an exploration of the feasibility of a community wireless network.

RELEVANT FINANCIAL POLICIES

Cash Management

Cash temporarily idle during the year was invested in certain eligible securities as constrained by law and the City's Investment Policy. The City invests in demand deposits, time deposits, securities of the U.S. Government or its Agencies, bankers acceptances, corporate notes and bonds, repurchase agreements, mortgage backed securities, money-market and other mutual funds, commercial paper, and the Local Agency Investment Fund. The goals of the City's investment policy are safety, liquidity, and yield. The average yield on pooled investments at June 30, 2007 was 5.12 percent with an average maturity of 1.81 years.

Risk Management

As more fully explained in Note 10 of the notes to the financial statements, the City participates in a public entity risk pool for general liability, workers' compensation, and property insurance coverage. All funds of the City are participants in these programs and make payments to internal service funds based upon estimates of the amounts needed to pay operating expenditures of the fund, prior- and current year claims, and where applicable to establish reserve for losses.

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, 2006. 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.

Respectfully Submitted,

David W. Tyson
City Manager

Valerie Warner
Finance Director

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, 2006

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.



Charles S. Cox

President

Jeffrey R. Emery

Executive Director

City of Eureka, California
Principal City Officials
June 30, 2007

Virginia Bass
Mayor

City Council

Chris Kerrigan
Council Member

Larry Glass
Council Member

Mike Jones
Council Member

Jeff Leonard
Council Member

Polly Endert
Council Member

Administration

David W. Tyson
City Manager

Kathleen Franco Simmons
City Clerk

Sheryl Schaffner
City Attorney

Garr Nielsen
Police Chief

Eric Smith
Fire Chief

Kevin Hamblin
Director of Community Development

Brent Siemer
City Engineer

Mike Knight
Assistant City Manager/Public Works Director

Valerie Warner
Finance Director

Cindy Trobitz-Thomas
Redevelopment & Housing Director

Susan Christie
Personnel Director

City of Eureka

Organizational Chart

