NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Eureka have been prepared in conformity with accounting principles generally accepted in the United States of America (USGAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The City of Eureka was incorporated as a town on April 18, 1856, under a special act of the legislature, reincorporated as city on February 19, 1874, and incorporated under a Freeholder's Charter on February 18, 1895. The City operates under a Council-Manager form of government and is governed by an elected mayor and five elected city council members. The City provides the following services as authorized by its charter: public safety (police and fire), streets and highways, public improvements, land use, building and housing standards, culture-recreation programs, parks and recreation areas, utilities, public transit, and administrative and fiscal services.

As required by accounting principles generally accepted in the United States of America, these basic financial statements present financial information for the City of Eureka (the primary government) and its component units. Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the basic financial statements to emphasize their legal separateness from the City. Each blended component unit has a fiscal year end of June 30. The blended component units are included in the City's reporting entity because of the significance of their operational and financial relationships with the City.

Blended Component Units

The following blended component units are included in the reporting entity as though they were part of the primary government. Separate financial statements for the blended component units are in file at the offices of the City of Eureka at 531 K Street, Eureka, California 95501.

EUREKA REDEVELOPMENT AGENCY

The Eureka Redevelopment Agency was created by the City Council and given the authority and responsibility to redevelop and upgrade blighted areas of the City. The City Council also functions as the Board of the Eureka Redevelopment Agency, and these board members are therefore authorized to transact business of the Agency. The City performs all administrative, budgeting, and accounting functions of the Agency. The Agency's operations are governmental in nature and, as such, have been included in the major Low and Moderate Income Housing, Redevelopment Debt Service, and Redevelopment Capital Projects Funds, and the Redevelopment Administration Fund, which is reported as an Internal Service Fund in the City of Eureka financial statements. The capital assets and long-term liabilities of the Agency are reported in the government-wide Statement of Net Assets.

<u>NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

A. Reporting Entity (Continued)

Blended Component Units (Continued)

EUREKA PUBLIC FINANCING AUTHORITY

The City created the Eureka Public Financing Authority to sell bonds and lend the proceeds of bond issues to Eureka Redevelopment Agency. The City Council also functions as the Board of the Eureka Public Financing Authority. The City performs all administrative, budgeting, and accounting functions of the Authority.

Joint Ventures

*HUMBOLDT/DEL NORTE HAZARDOUS MATERIAL RESPONSE AUTH*ORITY

The Hazardous Materials Response Authority was created as a separate legal entity by a joint powers agreement between the County of Del Norte, and the Cities of Eureka, Crescent City, Arcata, Blue Lake, Fortuna, Ferndale, Rio Dell, and Trinidad. The purpose of this joint venture is to pool resources of the participants to provide a united, coordinated, orderly, positive, and more effective means for aiding and assisting in the formulation, administration, implementation, and maintenance of an area-wide hazardous materials response team.

The Authority is governed by a board of directors composed of one member and an alternate appointed by each participant. The Authority adopts its own budget and has the power to incur debts, liabilities, or obligations. The City of Eureka is responsible for directing the operations of the Hazardous Materials Response Teams and for the accounting of the Authority. The Authority is recorded as a private purpose trust fund of the City. The Authority in turn reimburses the City for the costs of operation and accounting services. Upon commencement of the Authority, the participants agreed to contribute a proportionate share of the costs of operation based on population. The participants do not have an on-going equity interest in the Authority. However, the participants do share the operation costs of the Authority. At termination of the agreement, all surplus monies will be returned to the participants in proportion to the amounts received by the Authority; property shall be divided in a manner agreed upon by the participants. Complete financial statements for the Hazardous Materials Response Authority are on file at the offices of the City of Eureka at 531 K Street, Eureka, California 95501.

HUMBOLDT TRANSIT AUTHORITY

The Transit Authority was created as a separate legal entity by a joint powers agreement between the County of Humboldt and the Cities of Fortuna, Eureka, Arcata, Trinidad, and Rio Dell. The governing board consists of a city council member and an alternate member appointed from each participating city, as well as two board members and up to two alternate members appointed by the Humboldt County Board of Supervisors.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Joint Ventures (Continued)

HUMBOLDT TRANSIT AUTHORITY (Continued)

The Authority is responsible for adopting its own budget and has the power to incur debts, liabilities, or obligations. On commencement of operations of the Authority, the County contributed 50 percent of the initial equity, and the participating cities jointly contributed 50 percent based upon population data. The participants do not have an on-going equity interest in the Authority. However, the participants do share operating costs of the Authority, and the current share of the City of Eureka is 25.6 percent. At termination of the agreement, all surplus monies will be returned to the participants in proportion to the amounts received; and property shall be divided in a manner agreed upon by the parties. Complete financial statements for Humboldt Transit Authority may be obtained at the offices of the Authority at 133 V Street, Eureka, California, 95501.

HUMBOLDT WASTE MANAGEMENT AUTHORITY

The Humboldt Waste Management Authority was created as a separate entity by a joint powers agreement between the County of Humboldt and the Cities of Arcata, Eureka, Blue Lake, Ferndale, and Rio Dell. The governing board consists of one director and one alternate appointed by each member of the Authority. The Authority is responsible for adopting its own budget and has the power to incur debts, liabilities, or obligations.

The Authority was formed in October 1999 for the purpose of providing economical coordination of solid waste management services and efficiently and fairly assuring against potential adverse effects of past solid waste management services within the service area. It is intended that the Authority shall develop and fund programs for the (A) Siting, permitting, developing, constructing, maintaining, operating, or contracting for the construction and/or from operation of disposal sites, transfer facilities and equipment, materials recovery facilities, waste-to-energy facilities, and/or solid waste landfills; (B) preparing and implementing an Integrated Waste Management Plan and other planning documents; (C) disposal of waste generated in the incorporated and unincorporated area of the County and the granting of franchises for waste hauling; (D) planning, implementing, and supervising programs which serve all or most jurisdictions, including facilities, special wastes, and recycling market development. The general purpose also includes establishment of pooled insurance and other financial mechanisms to provide for the safe closure and long-term post-closure maintenance of the Cummings Road Sanitary Landfill (when closed). This may include ownership and/or management of the landfill during the final stages of the landfill's active life, during closure, and thereafter. Upon dissolution, the remaining assets of the Authority, after payment of or adequate provision for all debts, liabilities, and obligations of the Authority, shall be divided among the members in accordance with a unanimous agreement among them or in proportion to the total tonnage of solid waste each member caused to be delivered to the transfer facility. Financial statements may be obtained at the Humboldt Waste Management Authority, located at 1059 West Hawthorne Street, Eureka, California 95501.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The City's government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of governmental activities and business-type activities for the City, the primary government, accompanied by a total column. Fiduciary activities (either funds or component units) of the City are not included in these statements.

These 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.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement on Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated, also interfund services provided and used are not eliminated. The following interfund activities have been eliminated:

- Due to, Due from other funds
- Advances to, Advances from other funds
- Transfers in, Transfers out

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

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 and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements.

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 present 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 that revenues subject to accrual (generally 60 days after fiscal year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, special assessments, intergovernmental revenues, other taxes, interest revenue, rental revenue, and certain charges for services. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The reconciliation of the Fund Financial Statements to the Government-wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

Proprietary fund financial statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows for all proprietary funds.

Columns representing internal service funds are also presented in these statements. However, internal service fund balances and activities have been combined with the governmental activities in the government-wide financial statements.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Change in Fund Net Assets presents increases (revenues) and decreases (expenses) in total 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 liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

Fiduciary fund financial statements

Fiduciary fund financial statements include a Statement of Net Assets and Statement of Changes in Net Assets. The City’s fiduciary funds are accounted for according to the nature of the fund. The City has two such funds which are accounted for using “economic resources” measurement focus and the accrual basis of accounting are the proprietary funds explained above. The one Agency fund of the City does not use or have a measurement focus.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the “economic resources” measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation (Continued)

The government reports the following major governmental funds:

The **General fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Housing fund** is used to account for all housing funds of the City, including: the proceeds of Community Development Block grants, as required by federal regulations; reimbursement of block grant economic development loans ("program income"); rental rehabilitation state grant funds; Home Investment Partnership Program (HOME) for loans of federal and state grant funds; and local housing to operate as a revolving loan fund. Funding sources for the housing loan programs include grants and loan repayments.

The **Low and Moderate Income Housing fund** is a Redevelopment Agency Fund established pursuant to California Redevelopment Law to account for the deposit of twenty percent of tax increment revenues received by the Redevelopment Agency. The funds are to be used to increase and improve the community's supply of low and moderate income housing.

The **Redevelopment Debt Service fund** accounts for three project areas of the Agency. The project areas are: Century III Phase I; Century III Phase II; and Eureka Tomorrow. Tax increment revenues are used to: repay City advances, to repay loans from the Eureka Public Financing Authority, for the Low and Moderate Income Housing Fund, twenty percent set aside required by state law, and for other legitimate redevelopment activities, such as administration and tax collection fees.

The **Redevelopment Capital Projects fund** is used to account for capital improvements of the Redevelopment Agency which are financed by proceeds of tax allocation bonds, bank loans, and City advances. The Agency has three capital project areas: Century III Phase I; Century III Phase II; and Eureka Tomorrow.

The government reports the following major proprietary funds:

The **Water** fund is used to account for the operation and maintenance of the City's water utility. Revenues are primarily user charges. Rates are set periodically by the City Council.

The **Wastewater** fund is used to account for the operation and maintenance of the City's sewer utility.

The **Harbor** fund is used for administration and operation of the Humboldt Bay Harbor.

The **Building** fund is used for administration of construction regulation programs, building code enforcement, and public information programs.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation (Continued)

The **Transit** fund is used for administration and operation of the Eureka Transit System and Dial-a-Ride/Lift program, as well as the City's share of a county-wide transit system.

The **Golf** fund is used for the administration of the Municipal Golf Course.

Additionally, the government reports the following fund types:

Internal service funds account for data processing, fleet management services, risk management, and redevelopment administration to other departments or agencies of the government on a cost reimbursement basis. Transactions for interfund services provided and used are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

The pension trust fund accounts for the activities of the public safety employees retirement system, which accumulates resources for pension benefit payments to qualified public safety employees.

The private-purpose trust fund accounts for the activities of the Humboldt Del Norte Hazard Materials Response Authority.

The Agency Fund is used to account for funds received and held by the City in a custodial capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Recognition of Interest Liability

Interest expenditures on long-term debt are recognized when payment is due. Proprietary fund interest expense is recognized as the liability is incurred.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from these estimates and assumptions.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, and net assets or equity

1. Deposits and Investments

The City pools its available cash for investment purposes. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents.

In accordance with GASB Statement No. 31 “Accounting and Financial Reporting for Certain Investments and for External Investment Pools”, 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.

Under provisions of the City’s investment policy, the City may invest in any instruments authorized by Section 53601 of the California Government Code.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF’s investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

Monies held by bond trustees are invested, as followed by California Government Code Section 53601 (1), in accordance with the provisions of the respective bond indentures involved.

During the fiscal year, the City may have held Structured Notes. 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. They are issued by corporations and government-sponsored enterprises such as the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). These securities could be called prior to maturity, depending on changes in interest rates.

For purposes of reporting cash flows, the City considers each fund’s share in the cash and investments pool to be cash and cash equivalents, including cash with fiscal agents.

2. Receivables and payables

Advances to other funds

For governmental fund types, noncurrent portions of long term interfund loans receivable are equally offset by a fund balance reservation which indicates that they do not constitute “available spendable resources” since they are not a component of net current assets. Current portions of long term interfund loans receivable are considered “available spendable resources.”

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, and net assets or equity (Continued)

3. Inventory and prepaid items

Inventories of supplies are expended when purchased because the amounts are not considered to be material. Inventory of land held for resale is valued at the lower of cost or net realizable value. Payments made to vendors for services that will benefit periods beyond June 30, 2007 are recorded as prepaid items.

4. Restricted Assets

Fiscal agents acting on behalf of the city hold investment funds arising from the proceeds of long-term debt issuances. The funds may be used for specific capital outlays or for the payment of certain bonds, certificate of participation, or tax allocation bonds and have been invested only as permitted by specific State statues or applicable City ordinance, resolution, or bond indenture.

Use of Restricted and Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

5. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated capital assets are valued at their estimated fair value on the date donated. City policy has set the capitalization threshold for reporting capital assets at $5,000 including infrastructure. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Water system	20-50 years
Sewer system	15-50 years
Buildings	30-50 years
Improvements-not buildings	20-40 years
Machinery and equipment	3-20 years
Infrastructure	15-50 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB Statement No. 34, the City has included infrastructure acquired or constructed in the Basic Financial Statements.

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include streets, sewer, and park lands. Each major infrastructure system can be divided into subsystems. For example the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, landscaping, and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

Interest accrued during capital assets construction, if any, is capitalized for the business-type funds as part of the asset cost.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, and net assets or equity (Continued)

6. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-side and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Long-Term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Net Assets

Government-Wide Financial Statements

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Fund Financial Statements

Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund balance be segregated or identify the portion of the fund balance not available for future expenditures. Designations of fund balances represent tentative management plans that are subject to change.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, and net assets or equity (Continued)

9. Property Taxes

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes.

Property Valuations – are established by the Assessor of the County of Humboldt for the secured and unsecured property tax rolls; the utility property tax rolls are valued by the State Board of Equalization. Under the provisions of Article XIIIA of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978) properties are assessed at 100% of full value. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax Levies – are limited to 1% of full value which results in a tax rate of $1.00 per $100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates – are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

Tax Collections – are the responsibility of the county tax collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: The first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the county for late payments.

The County of Humboldt levies, bills, and collects property taxes and special assessments for the City. Property taxes levied are recorded as revenue when received, in the fiscal year of levy, due to the adoption of the “alternate method of property tax distribution”, known as the Teeter Plan, by the City and the County of Humboldt. The Teeter Plan authorizes the Auditor/Controller of the County of Humboldt to allocate 100 percent of the secured property taxes billed, but not yet paid. The County of Humboldt remits tax monies to the City in three installments as follows:

50 percent remitted in December
45 percent remitted in April
5 percent remitted in June

NOTE 2 RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets.

The governmental funds balance sheet includes a reconciliation between fund balance of total governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. Each element of the reconciliation is explained in detail on the face of the statement.

B. Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances of total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. Each element of the reconciliation is explained in detail on the face of the statement.

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

Annual appropriated budgets are adopted for all funds of the City. Appropriations include amounts encumbered at fiscal year–end as these encumbrances are not reappropriated in the following year. All annual appropriations lapse at fiscal year end. Legally adopted budgetary appropriations are enacted at the departmental 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.

Budgetary financial statements include revenues and expenditures which are presented in accordance with Accounting Principles Generally Accepted in the United States of America (USGAAP).

Formal budgetary integration is employed as a management control device. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Encumbrances outstanding at fiscal year-end commitments will be re-appropriated and honored during the subsequent year.

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

B. Excess of expenditures over appropriations.

There was an excess of expenditures over appropriations in the Redevelopment Administrative Fund in the amount of $52,087, the Gas Tax Fund in the amount of $226, the Special Police Fund in the amount of $119,574 and the General Fund in the amounts of $27, and $6,976.

C. Deficit fund equity

Major fund

The Redevelopment Debt Service fund had a deficit fund balance of $9,607,610 as of June 30, 2007. This is a result of interfund advances made to the Redevelopment Agency to finance capital projects and administration.

Nonmajor fund

The Capital Improvements Special Revenue Fund had a deficit balance at June 30, 2007 of $199,583.

NOTE 4 CASH AND INVESTMENTS

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets:		
Cash and investments	$	15,488,744
Restricted cash and investments with fiscal agents		2,431,890
Restricted cash and investments		181,171
Fiduciary funds:		
Cash and investments		1,288,947
Total cash and investments	$	19,390,752

Cash and investments as of June 30, 2007 consist of the following:

Petty cash	$	3,175
Deposits with financial institutions		374,259
Investments		19,013,318
Total cash and investments	$	19,390,752

A. Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City of Eureka (City) by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California government Code or the City's investment policy.

NOTE 4 CASH AND INVESTMENTS (Continued)

A. Investments Authorized by the California Government Code and the City's Investment Policy – (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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
State of California Local Agency Investment Fund (State Pool)	N/A	Unlimited	$40,000,000
Medium Term Notes	5 years	30%	None
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

B. Investments Authorized by Debt Agreements

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	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
Certificates of Deposit with Banks and Savings and Loans	None	None	None
Municipal Obligations	None	None	None

C. 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 City

NOTE 4 CASH AND INVESTMENTS (Continued)

C. Disclosures Relating to Interest Rate Risk (Continued)

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 City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

		Remaining maturity (in months)				
Investment type	Total	12 or less	13-24 mos	25-36 mos	37-48 mos	60 mos
US Treasury notes	$ 2,513,245	$ 496,484	$ 196,250	$ 462,199	$ 369,902	$ 988,410
Money market funds	12,679	12,679				
Federal agencies	7,837,792	879,922	2,205,607	3,763,411	988,852	
Corporate notes	3,471,181	1,866,801	801,369	803,011		
Commercial paper	1,046,893	825,000	221,893			
State investment pool	1,699,604	1,699,604				
Held by bond trustees:						
Money market fund	526,852	526,852				
State investment pool	1,905,072	1,905,072				
Total	$ 19,013,318	$ 8,212,414	$ 3,425,119	$ 5,028,621	$ 1,358,754	$ 988,410

D. Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City has no investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

E. 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 a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

NOTE 4 CASH AND INVESTMENTS (Continued)

E. Disclosures Relating to Credit Risk Continued)

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End AAA	AA	A	Not Rated
U.S. Treasury notes	$ 2,513,245	N/A	$ 2,513,245	$ -	$ -	$ -	$ -
Money market funds	12,679	N/A		12,679			
Federal agency securities	7,837,792	N/A		7,837,792			
Corporate medium term notes	3,471,181	N/A		344,243	1,606,071	1,205,867	315,000
Commercial paper	1,046,893	N/A				1,046,893	
State investment pool	1,699,604	N/A					1,699,604
Held by bond trustees:							
Money market funds	526,852	N/A		526,852			
State investment pool	1,905,072	N/A					1,905,072
Total	$ 19,013,318		$ 2,513,245	$ 8,721,566	$ 1,606,071	$ 2,252,760	$ 3,919,676

F. Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Reported Amount
FHLMC	Federal agency securities	$ 2,317,624
FNMA	Federal agency securities	2,564,898
Federal Home Loan Bank	Federal agency securities	2,537,114

The City has no specific Investments in any one issuer that represent 5% or more of total investments by reporting unit (governmental activities, business type activities, fiduciary funds, major funds, nonmajor funds in the aggregate, etc.)

G. Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived

NOTE 4 CASH AND INVESTMENTS (Continued)

G. Custodial Credit Risk (Continued)

by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2007, $174,262 of the City's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts as required by the California Government Code. As of June 30, 2007, City investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the City to buy the securities:

Investment Type	Reported Amount
U.S. treasury notes	$ 2,513,245
Federal agency securities	7,837,792
Corporate medium term notes	3,471,181
Commercial paper	1,046,893

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 5 RECEIVABLES

Receivables as of fiscal year end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Accounts	Accrued Interest	Totals
Governmental funds:			
General	$ 2,322,860	$ 10,587	$ 2,333,447
Housing	280,860	6,352	287,212
Low & Moderate Income Housing	4,339	40,232	44,571
Redevelopment Debt Service	149,927	3,110	153,037
Redevelopment Capital Projects	30,874	27,527	58,401
Nonmajor	857,981	11,123	869,104
Total - governmental funds	$ 3,646,841	$ 98,931	$ 3,745,772

NOTE 5 RECEIVABLES (Continued)

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds report unearned revenues in connection with resources that have been received, but not yet earned. At June 30, 2007 the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

Fund:	General	$ 254,605
	Housing	2,596,177
	Low & Moderate Housing	4,998,354
	Redevelopment Debt Service	143,611
	Redevelopment Capital Projects	450,931
	Nonmajor	493,348
	Total deferred revenues	$ 8,937,026

Receivables as of fiscal year end for the government's individual enterprise funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Accounts	Accrued Interest	Totals
Enterprise funds:			
Water	$ 1,114,346	$ 19,057	$ 1,133,403
Wastewater	728,411	46,589	775,000
Transit	1,750,255		1,750,255
Harbor	88,264	1,449	89,713
Building	30,023		30,023
Total - Enterprise funds	$ 3,711,299	$ 67,095	$ 3,778,394

Receivables of the Water and Wastewater funds are reported net of nominal uncollectible amounts in the amount of $15,000 each.

Notes and Loans Receivable

The following schedule summarizes notes and loans receivable as of June 30, 2007:

Housing fund loans	$ 2,565,618
Low/moderate income housing fund notes receivable	4,998,354
Redevelopment capital projects fund notes receivable	450,931
Total notes receivable, Governmental funds	$ 8,014,903

NOTE 5 RECEIVABLES (Continued)

These notes and loans represent amounts loaned to individuals and businesses to assist in the elimination of blight and/or assist in purchasing or rehabilitation of residences or businesses.

NOTE 6 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. Normally these balances occur as a result of expenditures/ expenses being paid prior to receiving revenue which causes a deficit in pooled cash.

The composition of interfund balances as of June 30, 2007 is as follows:

A. Due to/ from other fund

	Due from			
	Nonmajor Governmental Funds	Transit	Harbor	Total due from
Due to				
Water	$ 372,767	$ -	$ -	$ 372,767
Wastewater		1,817,750	1,087,414	2,905,164
Total due to	$ 372,767	$ 1,817,750	$ 1,087,414	$ 3,277,931

B. Advances to/from other fund

Advances from other funds include the amounts of long-term advances from City funds to the Redevelopment Agency for project financing. Interest accrues on these advances at a variable rate based on current earnings for the City as a whole. At the end of the fiscal year, unpaid interest is added to the principal of the advances. These advances are represented by notes which are secured by Redevelopment Agency revenues, and are payable on demand. Also, during 1994-95 the General Fund borrowed $199,930 from the Housing special revenue fund, for payment of a lease obligation. The City is repaying the advance over a twenty-year period with interest. The Harbor fund borrowed $53,408 in 2000 from the Wastewater fund to complete the Public Marina/Boat Basin Capital Project and is repaying this advance over a ten year period.

	Payable Fund			
	General	Redevelopment Debt Service	Harbor	Total Advances Receivable
Receivable Fund				
Water	$ -	$ 429,069	$ -	$ 429,069
Wastewater		5,013,622	25,748	5,039,370
General		4,854,076		4,854,076
Housing	101,355			101,355
Total advances payable	$ 101,355	$ 10,296,767	$ 25,748	$ 10,423,870

NOTE 6 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

C. Interfund transfers

	Transfers in					
	General	Low & Mod Income Housing	Nonmajor Governmental	Proprietary	Housing	Total Transfers out
Transfers out						
General fund	$ -	$ -	$ 78,523	$ 170,630	$ -	$ 249,153
Redevelopment Debt Service fund		949,453			11,671 *	961,124
Redevelopment Capital Projects fund				100,000		100,000
Nonmajor governmental funds	350,000					350,000
Total transfers in	$ 350,000	$ 949,453	$ 78,523	$ 270,630	$ 11,671	$ 1,660,277

Interfund transfers are made on a routine basis for project expenditures and interfund debt service payments.

* $11,671 represents the total amount of Housing Fund transfers with non-housing funds. The Statement of Revenues and Expenditures and Changes in Fund Balance for Governmental Funds displays a larger amount for Transfers in and Transfers out and these amounts represent transfers between sub-funds of the Housing Fund.

NOTE 7 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance at June 30, 2006	Transfers and Adjustments	Increases	Decreases	Balance at June 30, 2007
Governmental Activities					
Capital assets, not being depreciated					
Land	$ 4,143,599	$ (64,700)	$ -	$ -	$ 4,078,899
Infrastructure	23,922,864				23,922,864
Construction in progress	8,413,412	(8,078,389)	2,576,149		2,911,172
Artwork	86,795				86,795
Total capital assets, not being depreciated	36,566,670	(8,143,089)	2,576,149		30,999,730
Capital assets, being depreciated					
Buildings	13,734,122	1,252,408	17,760		15,004,290
Improvements other than buildings	8,734,513	2,941,044			11,675,557
Machinery and equipment	11,920,410	(439,931)	501,207		11,981,686
Infrastructure	65,511,978	4,426,843			69,938,821
Total capital assets, being depreciated, net	99,901,023	8,180,364	518,967		108,600,354
Less accumulated depreciation for:					
Buildings	(4,165,080)		(333,831)		(4,498,911)
Improvements other than buildings	(976,744)		(193,377)		(1,170,121)
Machinery and equipment	(8,308,895)		(553,997)		(8,862,892)
Infrastructure	(47,204,027)		(1,709,486)		(48,913,513)
Total Accumulated Depreciation	(60,654,746)		(2,790,691)		(63,445,437)
Total capital assets, being depreciated, net	39,246,277	8,180,364	(2,271,724)		45,154,917
Governmental activities capital assets, net	$ 75,812,947	$ 37,275	$ 304,425	$ -	$ 76,154,647

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	$ 44,054
Public safety	220,238
Community development	187,604
Culture-recreation	146,693
Public works	126,264
Unallocated	2,065,839
Total depreciation expense-governmental activities	$ 2,790,691

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

NOTE 7 CAPITAL ASSETS (Continued)

	Balance at June 30, 2006	Transfers and Adjustments	Increases	Decreases	Balance at June 30, 2007
Business-type Activities					
Capital assets, not being depreciated					
Land	$ 11,026,586	$ -	$ 322,103	$ -	$ 11,348,689
Construction in progress	10,196,417	(8,926,421)	5,830,913		7,100,909
Total capital assets, not being depreciated	21,223,003	(8,926,421)	6,153,016		18,449,598
Capital assets, being depreciated					
Buildings	10,678,306	7,475			10,685,781
Improvements other than buildings	34,403,764				34,403,764
Machinery and equipment	48,314,373		1,158,725		49,473,098
Infrastructure	5,027,523	9,151,394			14,178,917
Total Depreciable Capital Assets	98,423,966	9,158,869	1,158,725		108,741,560
Less accumulated depreciation for:					
Buildings	(4,023,679)		(250,504)		(4,274,183)
Improvements other than buildings	(15,368,400)		(869,614)		(16,238,014)
Machinery and equipment	(28,068,242)		(1,104,737)		(29,172,979)
Infrastructure	(155,670)		(169,997)		(325,667)
Total Accumulated Depreciation	(47,615,991)		(2,394,852)		(50,010,843)
Total capital assets, being depreciated, net	50,807,975	9,158,869	(1,236,127)		58,730,717
Business-type activities capital assets, r	$ 72,030,978	$ 232,448	$ 4,916,889	$ -	$ 77,180,315

Depreciation was charged to business – type activities as follows:

Business-type activities	
Water	$ 405,874
Wastewater	1,481,799
Transit	120,025
Harbor	368,521
Golf	11,971
Building	6,662
Total depreciation expense-business-type activities	$ 2,394,852

NOTE 8 OPERATING LEASES

Operating Leases

The City leases (as lessee) equipment and real estate under operating leases, which are not, in the aggregate, material.

The City leases (as lessor) various office facilities & buildings, hangar facilities, tidelands & docks, and the golf course under operating leases to various entities and individuals. Total revenues from these leases for fiscal year ending June 30, 2007 were $315,136. From this same period, the contingent rentals totaled $288,357.

The major asset class costs, carrying amount and accumulated depreciation for these operating leases are as follows

	Cost	Carrying Amount	Accumulated Depreciation
Tidelands & Docks	$ 1,164,443	$ 671,047	$ 493,396
Land	721,786	721,786	
Buildings	2,274,889	841,863	1,433,026
Euerka Golf Course	711,406	507,335	204,072
Eureka Airport	368,729	64,700	304,029

NOTE 9 LONG-TERM DEBT

A. Changes in long-term debt

Long-term liability activity for the fiscal year ended June 30, 2007, was as follows:

	Balance at June 30, 2006	Additions	Deletions	Balance at June 30, 2007	Due in One Year
Governmental activities					
Revenue bonds payable, net	$ 15,250,000	$ -	$ -	$ 15,250,000	$ -
Capital leases	743,961	1,119,079	211,719	1,651,321	307,284
Net pension obligation	1,145,707		959,909	185,798	185,798
Compensated absences	818,560	1,080,567	932,881	966,246	667,547
Total governmental activities	$ 17,958,228	$ 2,199,646	$ 2,104,509	$ 18,053,365	$ 1,160,629
Business-type activities:					
Revenue bonds payable, net	$ 17,958,718	$ -	$ 550,063	$ 17,408,655	$ 615,000
Capital lease		2,519,694		2,519,694	354,794
Intergovernmental loan payable	2,465,705		63,325	2,402,380	63,325
Compensated absences	139,420	215,081	216,205	138,296	137,988
Total business-type activities	$ 20,563,843	$ 2,734,775	$ 829,593	$ 22,469,025	$ 1,171,107

NOTE 9 LONG-TERM DEBT (Continued)

B. Capital Leases

Governmental activities

During fiscal year 2003-04, the City entered into a lease purchase agreement for financial software for $310,000. At June 30, 2007, the balance of this lease is $ 131,464.

During fiscal year 2005-06, the City entered into a capital lease for the purchase and furnishings of a fire truck, with a maximum value of $425,000. The new lease also refunds the remaining portion of the old fire truck lease in the amount of $77,241. The first payment on the new lease is due July 15, 2007. At June 30, 2007, the balance of this lease is $ 477,786.

During fiscal year 2006-07, the City entered into a capital lease for major building renovations at City Hall with a maximum value of $1,195,000. At June 30, 2007, the balance of this lease is $1,042,072.

These lease agreements qualify as capital leases for accounting purposes, and therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. As of June 30, 2007, the total balance for all capital leases related to governmental activities is $1,651,321.

Business-type activities

During fiscal year 2006-07, the City entered into a capital lease agreement for an Automated Water Metering System with a maximum value of $2,853,500. Annual installments of $354,794 begin December 19, 2007 through December 19, 2016 at an interest rate of 4.17%. At June 30, 2007, the balance of this lease is $2,519,694.

The following is a schedule of the future minimum lease payments under these capital leases and the present value of the net minimum lease payments at June 30, 2007.

Fiscal Year(s) Ending June 30,	Governmental Activities Amount	Business Type Activities Amount
2008	$ 307,284	$ 354,794
2009	307,284	354,794
2010	237,513	354,794
2011	237,513	354,794
2012	953,348	354,794
2013-2017		1,440,167
Minimum lease payments	2,042,942	3,214,138
Amount representing interest	(391,621)	(694,443)
Present value of minimum lease payments	$ 1,651,321	$ 2,519,694

NOTE 9 LONG-TERM DEBT(Continued)

C. Intergovernmental Loan

Governmental activities

On September 26, 1996, the City and Redevelopment Agency jointly entered into a loan and operation contract with the California Department of Boating and Waterways for the purpose of repairing and refurbishing the Eureka Boat Basin. The loan of $2,750,000 is payable at 4.5% interest over 30 years. The outstanding balance as of June 30, 2007 was $2,402,380.
Future minimum debt service requirements to maturity are as follows:

Fiscal Year(s) Ending June 30,	Principal	Interest	Total
2008	$ 66,175	$ 108,107	$ 174,282
2009	69,153	105,129	174,282
2010	72,265	102,017	174,282
2011	75,517	98,765	174,282
2012	78,915	95,367	174,282
2013-2017	451,147	420,263	871,410
2018-2022	562,212	309,198	871,410
2023-2027	700,616	170,794	871,410
2028-2029	326,380	22,192	348,572
	$ 2,402,380	$ 1,431,832	$ 3,834,212

D. Revenue Bonds

Governmental activities

2003 Tax Allocation Revenue Refunding Bonds, issued by Eureka Public Financing Authority (Authority), in the amount of $15,250,000. The bond issue consisted of the following: $15,250,000 serial bonds carrying interest rates of 4.00% to 4.80% and maturing in annual increments of $1,000,000 to $1,600,000 with maturity dates of November 1 each year from 2012 through 2023. The outstanding balance as of June 30, 2007 was $15,250,000.

These bonds are secured by a first lien on and pledge of all the amounts payable by the Agency and the Authority pursuant to loan agreements between the Agency and the Authority, and other revenues specified in the indenture. Each loan agreement is secured by a first pledge of and lien on the incremental tax revenues received by the Agency from redevelopment project areas. Each loan is additionally secured by a first and exclusive pledge of and lien upon all of the money held in the Reserve Account established with respect to the related loan. These bonds are payable solely from the revenues discussed in this paragraph and are not secured by the general taxing power of the City of Eureka.

NOTE 9 LONG-TERM DEBT (Continued)

D. Revenue Bonds (Continued)

Governmental activities

Future minimum debt service requirements to maturity are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2008	$ -	$ 678,342	$ 678,342
2009		678,342	678,342
2010		678,342	678,342
2011		678,342	678,342
2012		678,342	678,342
2013-2017	5,425,000	2,857,000	8,282,000
2018-2022	6,695,000	1,547,544	8,242,544
2023-2024	3,130,000	151,538	3,281,538
	$ 15,250,000	$ 7,947,792	$ 23,197,792

Business-type activities

1973 Municipal Harbor Improvement Bonds due in annual installments of $35,000 to $105,000 through July 1, 2014; interest at 6.75%. Used to build a fish plant and dock facilities in Humboldt Bay, these bonds are payable exclusively from the revenues of an enterprise comprising the City's municipal harbor, and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka. The outstanding balance as of June 30, 2007 was $700,000.

Future minimum debt service requirements to maturity are as follows:

Fiscal Year(s) Ending June 30,	Principal	Interest	Total
2008	$ 70,000	$ 44,888	$ 114,888
2009	75,000	39,993	114,993
2010	80,000	34,763	114,763
2011	85,000	29,194	114,194
2012	90,000	23,288	113,288
2013-2015	300,000	31,050	331,050
	$ 700,000	$ 203,176	$ 903,176

NOTE 9 LONG-TERM DEBT (Continued)

D. Revenue Bonds (Continued)

CSCDA Water Revenue Bonds (Pooled Financing Program), Series 2002B principal amount of $3,625,000, due in annual installments through April 1, 2028; interest rates at 4.00% to 5.25%. Proceeds were used to finance various Water Utility projects. These bonds are payable exclusively from the revenues of the City's Water Utility, and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka. The outstanding balance as of June 30, 2007 was $3,270,000. Future debt service requirements to maturity are as follows:

Fiscal Year(s) Ending June 30,	2002B CSCDA Revenue Bonds Principal	Interest	Total
2008	$ 95,000	$ 155,992	$ 250,992
2009	100,000	152,093	252,093
2010	105,000	147,993	252,993
2011	110,000	143,693	253,693
2012	115,000	139,193	254,193
2013-2017	650,000	617,535	1,267,535
2018-2022	810,000	441,048	1,251,048
2023-2027	1,045,000	205,431	1,250,431
2028	240,000	6,300	246,300
	$ 3,270,000	$ 2,009,278	$ 5,279,278

CSCDA Wastewater Revenue Bonds (Pooled Financing Program), Series 2003A principal amount of $4,040,000 due in annual installments through April 1, 2029; interest rates at 2.00% to 5.25%. Proceeds were used to finance various Wastewater Utility projects. These bonds are payable exclusively from the revenues of the City's Wastewater Utility, and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka. The outstanding balance as of June 30, 2007 was $3,620,000.

Future debt service requirements to maturity are as follows:

Fiscal Year(s) Ending June 30,	2003A CSCDA Revenue Bonds Principal	Interest	Total
2008	$ 110,000	$ 152,513	$ 262,513
2009	115,000	149,126	264,126
2010	115,000	145,389	260,389
2011	120,000	141,864	261,864
2012	125,000	138,189	263,189
2013-2017	680,000	627,193	1,307,193
2018-2022	815,000	481,794	1,296,794
2023-2027	1,050,000	247,788	1,297,788
2028-2029	490,000	23,513	513,513
	$ 3,620,000	$ 2,107,369	$ 5,727,369

NOTE 9 LONG-TERM DEBT (Continued)

D. Revenue Bonds (Continued)

Business-type activities

CSCDA Water Revenue Bonds (Pooled Financing Program), Series 2005C principal amount of $8,110,000, due in annual installments through April 1, 2026; interest rates at 2.60% to 5.00%. Proceeds were used to advance refund the City's CSCDA 2000A Water and Wastewater Revenue Bonds. These bonds are payable exclusively from the City's Water Utility and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka. The outstanding balance as of June 30, 2007 was $7,840,000. Future debt service requirements to maturity are as follows:

Fiscal Year(s) Ending June 30,	2005C CSCDA Revenue Bonds Principal	Interest	Total
2008	$ 295,000	$ 323,111	$ 618,111
2009	305,000	314,785	619,785
2010	310,000	305,865	615,865
2011	325,000	296,015	621,015
2012	330,000	285,370	615,370
2013-2017	1,840,000	1,241,068	3,081,068
2018-2022	2,230,000	831,370	3,061,370
2023-2026	2,205,000	227,125	2,432,125
Subtotal	7,840,000	3,824,709	11,664,709
Plus Premium	183,655		183,655
	$ 8,023,655	$ 3,824,709	$ 11,848,364

CSCDA Water Revenue Bonds (Pooled Financing Program), Series 2006A principal amount of $1,795,000, due in annual installments through April 1, 2032; interest rates at 3.00% to 5.00%. Proceeds were used to finance various Water System Projects. The bonds are payable solely from the revenue of the City's Water Utilities and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka. The outstanding balance as of June 30, 2007 was $1,795,000. Future debt service requirements to maturity are as follows:

Fiscal Year(s) Ending June 30,	2006A CSCDA Revenue Bonds Principal	Interest	Total
2008	$ 45,000	$ 76,113	$ 121,113
2009	45,000	74,678	119,678
2010	50,000	73,075	123,075
2011	50,000	71,356	121,356
2012	50,000	69,606	119,606
2013-2017	275,000	319,288	594,288
2018-2022	335,000	259,684	594,684
2023-2027	420,000	172,625	592,625
2028-2032	525,000	61,313	586,313
	$ 1,795,000	$ 1,177,738	$ 2,972,738

NOTE 9 LONG-TERM DEBT (Continued)

D. Revenue Bonds (Continued)

The annual requirements to amortize outstanding bonded indebtedness as of June 30, 2007 are as follows:

Fiscal Year(s) Ending June 30,	Business-type CSCDA Bonds	Harbor Bonds	Total	Governmental 2003 EPFA Bonds
2008	$ 1,252,729	$ 114,888	$ 1,367,617	$ 678,342
2009	1,255,682	114,993	1,370,675	678,342
2010	1,252,322	114,763	1,367,085	678,342
2011	1,257,928	114,194	1,372,122	678,342
2012	1,252,358	113,288	1,365,646	678,342
2013-2017	6,250,083	331,050	6,581,133	8,282,000
2018-2022	6,203,896		6,203,896	8,242,544
2023-2027	5,572,969		5,572,969	3,281,537
2028-2032	1,346,126		1,346,126	
Total requirements	25,644,093	903,176	26,547,269	23,197,791
Plus premium	183,655		183,655	
Less interest	(9,119,093)	(203,176)	(9,322,269)	(7,947,791)
Total Bonds Payable June 30, 2007	$ 16,708,655	$ 700,000	$ 17,408,655	$ 15,250,000

E. Compensated absences

Employees may accumulate up to 30 days of vacation leave, except management employees, who may accumulate up to 44 days. Employees may accumulate an indefinite amount of sick leave. Vacation leave accrues at a rate determined by the employee's years of service and whether they work an 8-hour or 24-hour shift. The number of hours that accrue per month varies from 8 to 22. Vacation leave vests as it is accrued and unused vacation leave is payable upon retirement or termination. Compensation hours (executive leave) accrue for management and mid-management at 9 and 6 days per year, respectively Compensation hours also accrue for police, fire and other specified employees in lieu of cash payments for overtime. A liability has been created to account for the accrued vacation and compensation leave in the government-wide financial statements. The City has in past liquidated compensated leave in the general fund and all the proprietary funds. Vested vacation pay is expensed as earned in the proprietary fund types. The City's liability for earned vacation and compensation pay consisted of the following amounts as of June 30, 2007:

Governmental Funds	$ 918,778
Internal Service Funds	47,466
Subtotal governmental activities	966,244
Business-type Funds	138,296
Total	$ 1,104,540

Sick leave accrues at a rate of 8 and 12 hours per month for 8 and 24 hour shift employees, respectively. Unused sick leave at termination is forfeited. At retirement, service length is increased when calculating retirement benefits from PERS. At June 30, 2007, the City's unrecorded liability for accrued sick leave totaled $3,252,703.

NOTE 10 OTHER INFORMATION

A. Risk Management

The City of Eureka is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The City participates in a public entity risk pool for workers' compensation, general liability and property insurance coverage. During fiscal year 2006-07 there were no significant reductions in insurance coverage.

B. Risk Management

The cost of claims exceeding risk pool and commercial insurance coverage for the last three fiscal years is as follows:

	Fiscal Year 2004-05	Fiscal Year 2005-06	Fiscal Year 2006-07
Risk Management Fund			
Workers' Compensation Insurance			
Claims incurred prior to March 1, 1993	$ 1,000	$ 1,000	$ -
Claims incurred after March 1, 1993	28,028	19,429	38,993
Claims deductibles	141,508	188,540	
Liability Insurance			
Claims deductibles	96,130	138,281	92,254

C. Risk Pool Arrangements

The City is an associate member of the Redwood Empire Municipal Insurance Fund (REMIF), a public entity pool comprised of fifteen northern California charter and associate member cities. REMIF is organized under a Joint Powers Agreement pursuant to the California Government Code. The purpose of REMIF is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

For each of its insurance programs, REMIF has a multilevel risk sharing arrangement. Initially each individual charter or associate member city participating in a program assumes its own losses up to a predetermined deductible level. Losses and claims in excess of the deductibles and within REMIF's stated retention limits are paid out of a central pool maintained by REMIF. This central pool is funded by all of the cities participating in that program through premium assessments. REMIF purchases excess loss insurance policies (reinsurance) to provide coverage for losses and claims in excess of REMIF's stated retention limits up to specified amounts. Losses and claims ceded to reinsurers would represent a contingent liability to REMIF if the reinsurers were unable to meet their existing obligations under the reinsurance agreements. Losses and claims which surpass the limits of the excess of loss insurance policies are the responsibility of the individual city in which the loss or claim originates.

REMIF programs do not insure the City's losses resulting from events which occurred prior to the March 1, 1993, the date on which the City became an associate member of REMIF.

The City of Eureka participates in the following three REMIF programs:

General Liability Insurance – Annual premiums are paid by the member cities and are adjusted retrospectively to cover costs. The City of Eureka self-insures for the first $25,000 of

NOTE 10 OTHER INFORMATION (Continued)

C. Risk Pool Arrangements (Continued)

each loss and pays 100% of all losses incurred under $25,000. The City does not share or pay for losses of other cities under a range of between $5,000 to $25,000, depending on the entity's deductible amount. Participating cities then share in the next $25,000 to $500,000 per loss occurrence. Specific coverage includes comprehensive and general automotive liability, personal injury, contractual liability, professional liability, and certain other coverage. REMIF is a member of the California Joint Powers Risk Management Authority, which provides

REMIF with an additional $9,500,000 liability insurance coverage over and above REMIF retention level of $500,000.

Worker's Compensation – Periodic deposits are paid by member cities and are adjusted retrospectively to cover costs. The City of Eureka is self-insured for the first $10,000 of each loss and pays 100% of all losses incurred under $10,000. The City does not share or pay for losses of other cities under $10,000.

Losses of $10,000 to $300,000 are prorated among all participating cities. Losses in excess of $300,000 are covered by excess insurance purchased by participating cities, as part of the pool, to State statutory limits.

Property Insurance – The City participates in REMIF's property insurance program. The annual deposits paid by participating member cities are based upon deductibility levels and are not subject to retroactive adjustments. The City of Eureka has a deductible level of $10,000 and a coverage limit of $60,000,000 declared value.

The following is a summary of the financial statements of REMIF as of and for the fiscal year ended June 30, 2007:

Total assets	$	17,799,323
Total liabilities		(13,474,113)
Members' equity	$	4,325,210
Total revenues	$	8,321,432
Total expenses		(7,995,052)
Operating income (loss)	$	326,380

Other Insurance Programs

The City maintains the following programs for exposure to losses which are not covered by REMIF:

General Liability Insurance – Losses incurred after February 28, 1993, are covered by REMIF, as described in Paragraph A above. For losses incurred prior to March 1, 1993, the City accrues its share of general liability based on an analysis of past experience.

The City self-insures for $100,000 per occurrence. The City's excess coverage is $1,000,000 per occurrence with $5,000,000 annual general aggregate coverage on the primary policy.

The total excess liability provides $10,000,000 coverage per occurrence or in the aggregate annually.

NOTE 10 OTHER INFORMATION (Continued)

C. Risk Pool Arrangements (Continued)

Worker's Compensation Insurance – Losses incurred after February 28, 1993, are covered by REMIF, as described in Paragraph A above. For losses incurred prior to March 1, 1993, the City accrued workers' compensation liability based on an actuarial evaluation of claims, which was accomplished during the year ended June 30, 1996. The City self-insures claims up to $90,000 during the first payment year following the date of the accident, $50,000 during the second payment year, and $40,000 during the third and each subsequent payment year following the date of the accident resulting in injury. Excess worker's compensation insurance coverage is maintained with a limit of $2,000,000 to protect against catastrophic losses.

Group Health and Benefits – On August 1, 2002 the City terminated a self-insured group health and benefit program for its employees and eligible dependents. The self-insured group health and benefits "tail" claims were paid through June 30, 2003. City employees choose from a number of benefit plans (dental, health, vision, life insurance, long-term disability, 125 plan medical and/or dependent care) available to them through the City using the monthly fringe benefit contribution from the City. Each plan requires an employee deductible amount and pays benefit percentages that vary depending on plan carrier.

NOTE 11 CLAIMS ADJUSTMENTS

The City maintains an internal service fund to account for general liability insurance, worker's compensation insurance, and group health and benefits insurance. The primary source of revenue for this fund consists of charges for services to the other funds of the City of Eureka. Claims liabilities are based on the requirements of Governmental Accounting Standards Board Statement Nos. 10 and 30, which require that claims liabilities, including IBNR (incurred but not reported claims), be based on the estimated ultimate cost of settling the claims, using past experience adjusted for current trends and any other factors that would modify past experience. Claims liabilities include specific, incremental claim adjustment expenditures/expenses. Expenditures/expenses and liabilities may be estimated through a case by case review of all claims, the application of historical experience to the outstanding claims, or a combination of these methods. Estimates of IBNR losses are based on historical experience. Claims liability has not been accrued for risks of losses which have been transferred to the public entity risk pool (REMIF).

The following schedule presents changes in accrued claims payable for the fiscal years ended June 30, 2007 and June 30, 2006:

NOTE 11 CLAIMS ADJUSTMENTS(Continued)

	General Liability Insurance		Worker's Compensation Insurance		Total	
Accrued claims payable, June 30, 2005	$	10,000	$	80,446	$	90,446
Provision for insured events payments		603,975		791,427		1,395,402
Payments made to public entity risk pool		(464,042)		(583,458)		(1,047,500)
Direct payments made by City		(139,933)		(76,969)		(216,902)
Accrued claims payable, June 30, 2006		10,000		211,446		221,446
Provision for insured events payments		918,853		572,447		1,491,300
Payments made to public entity risk pool		(591,901)		(523,454)		(1,115,355)
Direct payments made by City		(92,254)		(113,755)		(206,009)
Accrued claims payable, June 30, 2007	$	244,698	$	146,684	$	391,382

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Local Employees' Retirement System (LERS):

Plan description

The City of Eureka is the administrator of a single-employer public employee retirement system (LERS) originally established by the City in accordance with the City charter and state statues for the benefit of its employees. This plan was formally terminated June 30, 1984, when its only remaining participants were retired members and employees who did not elect to be covered by the state public employees' retirement system at August 24, 1969. The last active member retired in 1988. No separate annual financial report is prepared.

Members of the plan were given credit for service from their date of hire to the date of the plan termination. Active and retired members were given a one-time election to receive, in lieu of other benefits promised under the plan, a single-sum payment. The buy-out during fiscal year 1984-85 totaled $9,513,214. There have been no additional buy-out payments since 1985.

LERS is included as part of the primary government and is included in the financial statements as a fiduciary fund. As of June 30, 2007, LERS membership consisted of 17 police and fire retirees and beneficiaries currently receiving benefits. Under LERS, after twenty-five years or more of service, in the aggregate, or upon reaching the age of sixty-five years, each covered employee was entitled to receive a yearly pension, in semi-monthly installments, equal to one-half the amount of salary attached to the rank which he/she may have held in the Fire or Police Department. Any employee who had not worked the full period of twenty-five years before reaching the age of sixty-five was entitled to have the amount of pension prorated according to the number of years worked in proportion to the period of twenty-five years of active service required for the pension provision.

Basis of Accounting – The City of Eureka LERS financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized in the period in which the contributions are due. Benefit payments are recognized when due and payable in accordance with the terms of the plan.

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Local Employees' Retirement System (LERS) (Continued):

Summary of significant accounting policies and plan asset matters
Methods Used to Value Investments – Investments are reported at fair value. Cash and Cash equivalents are reported at cost, which approximates fair value (see also Note 1, Section I). Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported as estimated fair value.

Contributions required and contributions made

The City's Municipal Code, Title III, Chapter 34, assigns the authority to establish and amend benefits provisions of the plan to the City Council.

Funding Policy – Actuarial determined funding policy provides for recommended period employer contributions for a projected forty-year cash flow under a thirty-year funding policy. During fiscal year 2006-07, contributions were not made in accordance with actuarially determined requirements. Contributions totaling $789,320 were made to cover current benefits on a "pay as you go" basis. These contributions consisted of payments from the General Fund.

Annual Pension Cost and Net Pension Obligation – The City's annual pension cost and net pension obligation to LERS for the 2006-07 fiscal year were as follows:

Annual required contribution	$ (121,366)
Interest on net pension obligation	68,742
Adjustments to annual required contribution	(117,965)
Annual pension cost	(170,589)
Contributions made	(789,320)
Increase (decrease) in net pension obligation	(959,909)
Net pension obligation, beginning of fiscal year	1,145,707
Net pension obligation, end of fiscal year	$ 185,798

The annual required contribution for the fiscal year 2006-07 was determined as part of the June 30, 2006, actuarial valuation using the entry age actuarial cost method, with the determination of the initial unfunded actuarial liability as of June 30, 1998, and amortizing that value over the remaining portion of forty years, with such forty year period beginning with the date of the initial funding method at July 1, 1975. The remaining amortization period at June 30, 2007 for this initial liability was 8 years.

The actuarial assumptions included: (a) Rate of return on the investment of present and future assets of six percent per year; (b) projected salary increases of four percent per year attributable to inflation, and; (c) post-retirement mortality rates based on the 1971 Group Annuity Mortality Table, with a five-year setback for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments.

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Local Employees' Retirement System (LERS) (Continued):

There was a material change in actuarial method for fiscal year 1997-98 used to determine the Net Pension Obligation. The major change in the calculations dealt with the actuarial required contribution (ARC) for each of the years prior to 1997. The prior number was calculated with the recommended annual contributions being used as the ARC. Such recommended amounts amortized all gains and losses over a period that ended on June 30, 2013. The current calculations are based on the required contributions under the entry age normal cost method, with the initial unfunded liability amortized over a period of forty years starting on July 1, 1974, actuarial experience gains and losses being amortized over fifteen years from the date of recognition, and gains and losses created due to a change in actuarial assumptions being amortized over thirty years. These are being amortized on a closed basis. There were no material changes in the actuarial assumptions nor benefit provisions.

Three year trend information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	$ -	100.00%	$ 1,810,012
2006	-	100.00%	1,145,707
2007	-	100.00%	185,798

Schedules of Funding Progress of Employer Contributions for LERS are presented on page 82 and are identified as required supplementary information.

Public Employees' Retirement System (PERS)

Plan description

The City of Eureka contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustment, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. The California Public Employees' Retirement System issues a separate financial report which can be obtained by writing to PERS, Executive Office, 400 P Street, Sacramento, CA 95814.

Funding policy

Active plan members are required by State statute to contribute seven percent (nine percent for safety employees) of their annual covered salary. Safety and Miscellaneous employees make their own contributions. The City employer is required to contribute for fiscal year 2006-07 at an actuarially determined rate of 16.028 percent for non-safety employees, 30.049 percent for police employees, and 30.832 percent for fire employees.

Annual pension cost

For fiscal year 2006-07, the City's annual pension cost of $3,461,670 for PERS was equal to the City's required and actual contributions. The required contribution was determined as of

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Public Employee's Retirement System (PERS) (Continued)

the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses) and (b) projected overall salary increases of 3.25 to 14.45 percent, 3.0 percent per year attributable to inflation and projected annual salary increases that vary by duration of service. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a period of three years. PERS's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The unfunded liability for Safety Police and Fire personnel has a funding horizon of June 30, 2018, and for miscellaneous employees June 30, 2015.

Three year trend information

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	$ 478,061	100.0%	$ -
2005	1,739,941	100.0%	
2006	2,319,606	100.0%	
2007	3,461,670	100.0%	

Schedules of funding progress of employer contributions for PERS are presented on page 83 as required supplementary information.

NOTE 13 DEFERRED COMPENSATION PLANS

The City offers its employees two deferred compensation plans in accordance with Internal Revenue Code Section 457 as follows:

Full-time employees

This plan is available to all City full-time employees and permits them to defer a portion of their salary until future years. Participation in the plan is optional.

Part-time employees

This plan covers part-time employees, who in lieu of paying FICA, contribute 7.5 percent of their earnings as retirement benefits.

The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The City deducts deferred compensation from employee compensation and forwards it to the Plan's administrator on a semi-monthly basis. The City amended its plan in order to conform to the amendments of the Internal Revenue Code. The amendments provide that the assets of the Plan shall be held for the exclusive benefit of the

plan participants and their beneficiaries, and the assets shall not be diverted for any other purposes.

NOTE 13 DEFERRED COMPENSATION PLANS (Continued)

The City has little administrative involvement, does not have custody of the assets, and does not perform the investing function. In addition, the City has no liability for any losses that may be incurred by the Plan.

NOTE 14 PRIOR PERIOD ADJUSTMENTS

The City booked the following prior period adjustments in the Fund Statements:

General Fund - $(583,981)
($21,875)
This represents a reduction in fund balance due to overstatement of receivables in the prior year.
$39,085
This represents an increase in fund balance due to reclassification of prior year salary expenses to another fund.
($364,320)
This represents a reduction in fund balance due to City's failure to report a loan payable to the fire & police retirement fund.
($180,194)
This represents a reduction in fund balance due to the City's erroneous accrual of user utility tax in the prior year.
($56,677)
This represents a reduction in fund balance due to a correction in the balance of City's advance from Eureka Redevelopment Agency.

Housing Fund - $(2,369,099)
($46,039)
This decrease in fund balance corrects for duplicate postings made in the prior year.
$32,828
This increase in fund balance is the result of a reclassification of prior year salaries expenses to another fund.
($2,355,888)
This decrease in fund balance represents the total of long-term notes receivable recorded as part of fund balance at June 30, 2006. During the current fiscal year, the City decided to carry these items as deferred revenue rather than as reserved fund balance and so the prior period adjustment removes the amount from beginning fund balance.

Low and Moderate Income Housing Special Revenue Fund - $14,483
This represents a liability on the balance sheet as of June 30, 2006. It was the result of an accrual that should have been reversed. The liability was removed from the balance sheet and beginning fund balance was increased by the amount.

Low and Moderate Income Housing Special Revenue Fund – ($3,085,545)
This represents the total of long-term notes receivable recorded as part of fund balance at June 30, 2006. During the current fiscal year, the City decided to carry these items as deferred revenue rather than as reserved fund balance and so the prior period adjustment removes the amount from beginning fund balance.

Redevelopment Agency Debt Service Fund - $3,414,595
This amount represents a reduction in Advances payable to the City of Eureka due to correction of a calculation error that was detected during the year.

NOTE 14 PRIOR PERIOD ADJUSTMENTS (Continued)

Redevelopment Agency Capital Projects Fund – ($570,963)
This represents the total of long-term notes receivable recorded as part of fund balance at June 30, 2006. During the current fiscal year, the Agency decided to carry these items as deferred revenue rather than as reserved fund balance and so the prior period adjustment removes the amount from beginning fund balance

Special Police Fund – ($39,085)
This represents a decrease in fund balance due to reclassification of prior year salary expenses to the General Fund.

Water Fund - $(16,712)
This amount represents adjustments to interest accrued in prior years on notes receivable from the Eureka Redevelopment Agency due to the detection of an incorrect interest rate used in the accrual calculations.

Wastewater Fund – ($3,108,758)
$232,447
This amount represents an correction to the beginning balance of capital assets. An item was not capitalized in the prior year and should have been.
($3,341,205)
This amount represents an adjustment to the balance of advances receivable from the Eureka Redevelopment Agency Debt Service Fund to correct calculation errors detected during the year.

Harbor Fund - $24,548
$29,717
This amount represents an adjustment to accounts payable for a liability that was booked twice in the prior year.
($5,169)
This amount represents an adjustment to the Boat Basin Restricted Cash account due to an incorrect balance carrying over from the prior year.

Information Technology Fund – ($5,247)

This represents an adjustment to the beginning balance for capital lease payable.

Redevelopment Administration Special Revenue Fund – ($32,828)
This decrease in fund balance is the result of a reclassification of prior year salaries expenses to another fund.

Fire and Police Pension Fund - $364,320
This represents an increase in fund balance due to the City's failure to report a loan receivable from the General Fund.

Some of the prior period adjustments reported in the Fund Statements are not reported in the Government-wide presentation either because they are between funds of similar type and are eliminated in consolidation or because, in the case of adjustments from equity to deferred
revenue for the long-term receivables, the amounts would have been reclassified back to equity in the restatement to full-accrual basis.

NOTE 14 PRIOR PERIOD ADJUSTMENTS (Continued)

Fund	Fund Statement	Entity-wide Statement
Government type activities		
General Fund	$ (21,875)	$ (21,875)
	39,085	
	(364,320)	(364,320)
	(180,194)	(180,194)
	(56,677)	
General Fund total	(583,981)	(566,390)
Housing Fund	(46,039)	(46,039)
	32,828	
	(2,355,888)	
Housing Fund total	(2,369,099)	(46,039)
Low and Moderate Income Housing Fund	14,483	14,483
	(3,085,545)	
Low and Moderate Income Housing Fund total	(3,071,062)	14,483
Redevelopment Debt Service Fund	3,414,595	3,357,917
Redevelopment Capital Project Fund	(570,963)	
Police Special Revenue Fund	(39,085)	
Information Technology Fund	(5,247)	(5,247)
Redevelopment Administration Fund	(32,828)	
Entity-wide		
Correct beginning balance for capital assets		37,275
Total governmental funds	(3,219,595)	
Total Internal Service funds	(38,075)	
Total government-type activities	$ (3,257,670)	$ 2,792,000
Business-type activites		
Water Fund	$ (16,712)	$ (16,712)
Wastewater Fund	232,447	232,447
	(3,341,205)	(3,341,205)
Wastewater Fund total	(3,108,758)	(3,108,758)
Harbor Fund	29,717	29,717
Harbor Fund total	(5,169)	(5,169)
	24,548	24,548
Total business-type activites	$ (3,100,922)	$ (3,100,922)
Fiducary Funds		
Fire & Police Pension Fund	$ 364,320	N/A

NOTE 15 COMMITMENTS AND CONTINGENCIES

Proposition 218, which was approved by the voters in November 1996, regulates the City's ability to impose, increase, and extend taxes, assessments, and fees. Any new, increased, or extended taxes, assessments, and fees subject to the provisions of Proposition 218, require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future years by the voters.

The City is subject to other litigation arising in the normal course of business. In the opinion of the City Attorney, there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

The City participates in Federal and State grant programs. These programs have been audited by the City's independent accountants in accordance with the provisions of the
Federal Single Audit Act Amendments of 1996 and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still
subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

Humboldt Community Services District (HCSD) indicates that the City owes approximately $700,000 to HCSD for overpayments in past years. However, the City believes that HCSD owes the City more than the $700,000 for cost sharing and project costs for several years. HCSD and the City plan to reconcile the balance due in the coming year.

Construction commitments

The City has active construction projects as of June 30, 2007. The following schedule summarizes these contractual commitments.

Commitments and contracts for capital projects:

Harbor Improvements	$ 204,334
Street/sidewalk construction and maintenance	220,657
Water System Improvements	733,489
Sewer System Improvements	1,299,489
Building Improvements	205,654
Miscellaneous projects	115,889
	$2,779,512