

FINANCIAL SECTION

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MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

9107 WILSHIRE BLVD., SUITE 400
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.273.1689
www.mlhcpas.com

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eureka (City), California, as of and for the fiscal year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eureka, California, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions*, Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, effective July 1, 2008.

In accordance with Government Auditing Standards, we have also issued our report dated January 22, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The accompanying Required Supplementary Information, Management's Discussion and Analysis, budgetary comparison schedules of General Fund, Housing Special Revenue Fund, Redevelopment Agency Low and Moderate Income Housing Special Revenue Fund, and the Funding Progress for the Public Employees Retirement System and the Local Employees Retirement System are not required parts of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section, the Major Debt Service and Capital Projects Fund Budgetary Comparison Schedules, the Combining Nonmajor Governmental Fund Financial Statements, the Combining Internal Service Funds Financial Statements, the Agency Funds Statements, the Budgetary Comparison Schedules for the Nonmajor Governmental Funds, and the Statistical Section listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements. The Major Debt Service and Capital Projects Fund Budgetary Comparison Schedules, the Combining Nonmajor Governmental Fund Financial Statements, the Combining Internal Service Funds Financial Statements, the Agency Funds Statements, the Budgetary Comparison Schedules for the Nonmajor Governmental Funds have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
January 22, 2010