NOTES TO BASIC FINANCIAL STATEMENTS

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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 a 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 Counties of Humboldt and 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 segments 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 Changes in 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 non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating 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 Agency 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 Agency 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 are reported as transfers.

The pension trust fund accounts for the activities of the public safety employee's 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 within governmental funds 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, 2009 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-wide 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 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 45

For the fiscal year ended June 30, 2009, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions". The Statement is effective for periods beginning after December 15, 2007. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The City's actuary determined there was no liability or implicit subsidy and therefore implementation of GASB Statement No. 45 did not have an impact on the City's basic financial statements for the fiscal year ended June 30, 2009.

Governmental Accounting Standards Board Statement No. 49

For the fiscal year ended June 30, 2009, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations". The Statement is effective for periods beginning after December 15, 2007. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution *prevention* or *control* obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care and nuclear power plant decommissioning.

Governmental Accounting Standards Board Statement No. 52

For the fiscal year ended June 30, 2009, the City implemented GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments". The Statement is effective for periods beginning after June 15, 2008. This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

Governmental Accounting Standards Board Statement No. 55

For the fiscal year ended June 30, 2009, the City implemented GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments". The Statement is effective for periods beginning after April 2, 2009. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. New Accounting Pronouncements (Continued)

GAAP, and the framework for selecting those principles.

Governmental Accounting Standards Board Statement No. 56

For the fiscal year ended June 30, 2009, the City implemented GASB Statement No. 56, "Codification of Accounting and Financing Reporting Guidance Contained in the AICPA Statements of Auditing Standards". The Statement is effective for periods beginning after April 16, 2009. The objective of this Statement is to incorporate into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes *accounting* principles—related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the *preparation* of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature.

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

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

A. Budgetary information (Continued)

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.

B. Excess of expenditures over appropriations.

There was an excess of expenditures over appropriations in the General Fund in the amount of $19,312.

C. Deficit fund equity

Major fund

The Redevelopment Agency Debt Service fund had a deficit fund balance of $8,036,205 as of June 30, 2009. This is a result of interfund advances made by the City to finance capital projects and administration.

Nonmajor fund

The Habitat Acquisition and Restoration Special Revenue Fund had a deficit fund balance at June 30, 2009 of $24,897.

NOTE 4 CASH AND INVESTMENTS

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

Statement of net assets:		
Cash and investments	$	14,016,618
Restricted cash and investments with fiscal agents		1,503,374
Fiduciary funds:		
Cash and investments		929,735
Total cash and investments	$	16,449,727

Cash and investments as of June 30, 2009 consist of the following:

Petty cash	$	3,885
Deposits with financial institutions		2,087,329
Investments		14,358,513
Total cash and investments	$	16,449,727

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Bankers' Acceptances	180 days	40%	None
Certificates of Deposits	26 weeks	20%	None
Negotiable Certificates of Deposit	2 years	30%	None
Commercial Paper	270 days	25%	None
Corporate Medium Term Notes	60 months	30%	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

NOTE 4 CASH AND INVESTMENTS (Continued)

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 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	$ 2,279,228	$ 167,388	$ 661,151	$ 1,184,282	$ 266,408	$ -
Money market funds	313,125	313,125				
Federal agency securities	4,264,431	999,393	1,869,894	672,093	304,066	418,984
Corporate medium term notes	2,394,437	979,446	85,982	1,075,299	253,710	
State investment pool	3,603,914	3,603,914				
Held by bond trustees:						
Money market fund	27,866	27,866				
State investment pool	1,475,512	1,475,512				
Total	$ 14,358,513	$ 7,566,644	$ 2,617,027	$ 2,931,674	$ 824,184	$ 418,984

NOTE 4 CASH AND INVESTMENTS (Continued)

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.

				Rating as of Fiscal Year End			
Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	AAA	AA	A	Not Rated
U.S. Treasury notes	$ 2,279,228	N/A	$ 2,279,228	$ -	$ -	$ -	$ -
Money market funds	313,125	N/A		313,125			
Federal agency securities	4,264,431	N/A		4,264,431			
Corporate medium term notes	2,394,437	N/A		1,310,232	641,773	442,432	
State investment pool	3,603,914	N/A					3,603,914
Held by bond trustees:							
Money market funds	27,866	N/A		27,866			
State investment pool	1,475,512	N/A					1,475,512
Total	$ 14,358,513		$ 2,279,228	$ 5,915,654	$ 641,773	$ 442,432	$ 5,079,426

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
FFCB	Federal agency securities	$ 1,040,068
FHLMC	Federal agency securities	860,029
FNMA	Federal agency securities	1,096,706

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, non-major 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

NOTE 4 CASH AND INVESTMENTS (Continued)

G. Custodial Credit Risk (Continued)

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 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, 2009, $1,682,500 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, 2009, 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	$ 2,279,228
Federal agency securities	4,264,431
Corporate medium term notes	2,394,437

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 non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Accounts	Accrued Interest	Totals
Governmental funds:			
General	$ 2,741,670	$ -	$ 2,741,670
Housing	16,713	11,426	28,139
Low & Moderate Income Housing		8,772	8,772
Redevelopment Agency Debt Service	53,491	10,094	63,585
Redevelopment Agency Capital Projects	112,217		112,217
Nonmajor Governmental Funds	509,597	21,750	531,347
Total - Governmental Funds	$ 3,433,688	$ 52,042	$ 3,485,730

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. As of June 30, 2009 the various components of deferred revenue are as follows:

Deferred Revenue:

Fund:	General	$ 389,668
	Housing	2,303,862
	Low & Moderate Housing	8,818,621
	Redevelopment Agency Debt Service	8,041
	Redevelopment Agency Capital Projects	214,038
	Nonmajor	360,921
	Total deferred revenues	$ 12,095,151

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	$ 827,656	$ 32,767	$ 860,423
Wastewater	636,772	17,615	654,387
Transit	1,150,000		1,150,000
Harbor	97,089		97,089
Building	74,102	411	74,513
Golf	2,540	1,362	3,902
Total - Enterprise funds	$ 2,788,159	$ 52,155	$ 2,840,314

Receivables of the Water and Wastewater funds are reported net of nominal uncollectible amounts in the amount of $22,091 and $16,166 respectively.

NOTE 5 RECEIVABLES (Continued)

Notes and Loans Receivable

The following schedule summarizes notes and loans receivable as of June 30, 2009:

Housing fund loans	$ 2,388,839
Low/moderate income housing fund notes receivable	8,810,538
Redevelopment agency capital projects fund notes receivable	118,421
Total notes receivable, Governmental funds	$ 11,317,798

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, 2009 is as follows:

A. Due to/ from other fund

	Due from				
	General	Nonmajor Governmental Funds	Transit	Harbor	Total due to
Due to					
Water	$ 737,223	$ 25,036	$ 801,375	$ 1,936,688	$ 3,500,322
Total due from	$ 737,223	$ 25,036	$ 801,375	$ 1,936,688	$ 3,500,322

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 fifteen year period.

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

B. Advances to/from other funds (continued)

	Payable Fund			
	General	Redevelopment Agency Debt Service	Harbor	Total Advances Receivable
Receivable Fund				
Water	$ -	$ 465,636	$ -	$ 465,636
Wastewater		5,028,172	25,748	5,053,920
General		3,509,275		3,509,275
Housing	77,237			77,237
Total advances payable	$ 77,237	$ 9,003,083	$ 25,748	$ 9,106,068

C. Interfund transfers

Transfers in	General	Housing	Low & Mod Income Housing	Nonmajor Governmental	Proprietary	Redevelopment Agency Debt Service	Total Transfers in
General fund	$ -	$ -	$ -	$ -	$ -	$ 75,000	$ 75,000
Low & Mod Income Housing						1,152,425	1,152,425
Housing fund		150,000	250,000				400,000
Redevelopment Agency Debt Service fund						780,100	780,100
Proprietary funds	45,779					433,896	479,675
Internal Service fund						850,800	850,800
Nonmajor governmental funds	106,245			40,128	13,000	662,252	821,625
Total transfers ou	$ 152,024	$ 150,000	$ 250,000	$ 40,128	$ 13,000	$ 3,954,473	$ 4,559,625

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

NOTE 7 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance at June 30, 2008	Transfers and Adjustments	Prior Period Adjustment	Increases	Decreases	Balance at June 30, 2009
Governmental Activities						
Capital assets, not being depreciated						
Land	$ 4,088,899	$ -	$ (396,000)	$ -	$ -	$ 3,692,899
Infrastructure	23,922,864					23,922,864
Construction in progress	3,571,995	(501,312)		1,377,071		4,447,754
Artwork				150,000		150,000
Total capital assets, not being depreciated	31,583,758	(501,312)	(396,000)	1,527,071	-	32,213,517
Capital assets, being depreciated						
Buildings	15,901,230			76,035		15,977,265
Improvements other than buildings	11,999,980	74,583				12,074,563
Machinery and equipment	13,159,080			771,892	(310,925)	13,620,047
Infrastructure	70,083,322	426,729		213,172		70,723,223
Total capital assets, being depreciated, net	111,143,612	501,312		1,061,099	(310,925)	112,395,098
Less accumulated depreciation for:						
Buildings	(4,879,516)			(386,042)		(5,265,558)
Improvements other than buildings	(1,364,367)			(207,685)		(1,572,052)
Machinery and equipment	(9,521,057)			(682,529)	297,472	(9,906,114)
Infrastructure	(50,635,307)			(1,742,509)		(52,377,816)
Total Accumulated Depreciation	(66,400,247)			(3,018,765)	297,472	(69,121,540)
Total capital assets, being depreciated, net	44,743,365	501,312	-	(1,957,666)	(13,453)	43,273,558
Governmental activities capital assets, net	$ 76,327,123	$ -	$ (396,000)	$ (430,595)	$ (13,453)	$ 75,487,075

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

Governmental activities	
General government	$ 47,742
Public safety	235,526
Community development	203,054
Culture-recreation	158,939
Public works	136,578
Unallocated	2,236,926
Total depreciation expense-governmental activities	$ 3,018,765

NOTE 7 CAPITAL ASSETS (Continued)

	Balance at June 30, 2008	Transfers and Adjustments	Increases	Decreases	Balance at June 30, 2009
Business-type Activities					
Capital assets, not being depreciated					
Land	$ 11,348,689	$ -	$ -	$ -	$ 11,348,689
Construction in progress	5,696,546		2,730,281		8,426,827
Total capital assets, not being depreciated	17,045,235		2,730,281		19,775,516
Capital assets, being depreciated					
Buildings	10,884,536				10,884,536
Improvements other than buildings	34,403,764				34,403,764
Machinery and equipment	52,794,098		177,459	(1,066,504)	51,905,053
Infrastructure	14,561,915				14,561,915
Total Depreciable Capital Assets	112,644,313		177,459	(1,066,504)	111,755,268
Less accumulated depreciation for:					
Buildings	(4,527,380)		(255,121)		(4,782,501)
Improvements other than buildings	(17,104,915)		(743,226)		(17,848,141)
Machinery and equipment	(30,418,726)		(1,278,781)	1,066,504	(30,631,003)
Infrastructure	(667,159)		(357,449)		(1,024,608)
Total Accumulated Depreciation	(52,718,180)		(2,634,577)	1,066,504	(54,286,253)
Total capital assets, being depreciated, net	59,926,133		(2,457,118)		57,469,015
Business-type activities capital assets, net	$ 76,971,368	$ -	$ 273,163	$ -	$ 77,244,531

Depreciation was charged to business – type activities as follows:

Water	$ 724,555
Wastewater	1,351,984
Transit	172,800
Harbor	370,254
Golf	8,322
Building	6,662
Total depreciation expense-business-type activities	$ 2,634,577

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, 2009 were $239,737. From this same period, the contingent rentals totaled $106,267.

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

	Cost	Carrying Amount	Accumulated Depreciation
Tidelands & Docks	$ 2,471,286	$ 917,980	$ 1,553,306
Eureka Golf Course	711,406	487,110	224,296
Eureka Airport	373,268	64,700	308,568

NOTE 9 LONG-TERM DEBT

A. Changes in long-term debt

Long-term liability activity for the fiscal year ended June 30, 2009, was as follows:

	Balance at June 30, 2008	Additions	Deletions	Balance at June 30, 2009	Due in One Year
Governmental activities					
Revenue bonds payable	$ 15,250,000	$ -	$ -	$ 15,250,000	$ -
Less deferred amounts					
Refunding difference	(506,669)	60,800		(445,869)	
Premium/(Discount)	35,386		2,308	33,078	
Bonds net	14,778,717	60,800	2,308	14,837,209	
Capital leases	1,513,584	107,266	231,291	1,389,559	202,457
Loan payable	462,514	183,426		645,940	100,560
Net pension obligation	89,291		89,291		
Compensated absences	978,038	886,714	594,665	1,270,087	752,962
Total governmental activities	$ 17,822,144	$ 1,238,206	$ 917,555	$ 18,142,795	$ 1,055,979
Business-type activities:					
Revenue bonds payable	$ 16,610,000	$ -	$ 640,000	$ 15,970,000	$ 660,000
Less deferred amounts					
Refunding difference	(598,731)	34,706		(564,025)	
Premium/(Discount)	106,424	(6,703)		99,721	
Bonds net	16,117,693	28,003	640,000	15,505,696	
Capital lease	2,535,728	81,968	245,636	2,372,060	255,879
Intergovernmental loan payable	2,336,205		69,152	2,267,053	72,264
Compensated absences	153,398	119,243	136,005	136,636	109,244
Total business-type activities	$ 21,143,024	$ 229,214	$ 1,090,793	$ 20,281,445	$ 1,097,387

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. As of June 30, 2009, the balance of this lease is $ 0.

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 was made on July 15, 2008. As of June 30, 2009, the balance of this lease is $378,469.

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. As of June 30, 2009, the balance of this lease is $903,823.

During fiscal year 2008-09, the City entered into a capital lease for parking meters, with a maximum value of $107,266. As of June 30, 2009, the balance of this lease is $107,266.

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, 2009, the total balance for all capital leases related to governmental activities is $1,389,559.

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%. As of June 30, 2009, the balance of this lease is $2,372,060.

The following is a schedule of the future minimum lease payments under these capital leases

Fiscal Year(s) Ending June 30,	Governmental activities Amount	Business Type activities Amount
2010	$ 237,513	$ 354,794
2011	262,500	354,794
2012	262,500	354,794
2013	262,500	354,794
2014	262,500	354,794
Thereafter	328,115	1,064,385
Minimum lease payments	1,615,628	2,838,355
Amount representing interest	(226,069)	(466,295)
Present value of minimum lease payments	$ 1,389,559	$ 2,372,060

NOTE 9 LONG-TERM DEBT (Continued)

C. Intergovernmental Loan

Governmental activities

California Infrastructure Bank Loan (I-Bank)

On February 1, 2008, the Eureka Redevelopment Agency (Agency) entered into an agreement with I-Bank to borrow $2,000,000 at 2.83% to construct C Street Market Square.

Loan proceeds are disbursed to the Agency as capital costs are incurred and submitted. Annual principal payments and semi-annual interest payments are due through November 2024. The Agency will be credited for interest on undisbursed proceeds at 2.83%. As of June 30, 2009, $645,940 of the loan proceeds has been used for construction. A loan initiation fee of $17,000 is being amortized over the seventeen years of the loan.

The Agency anticipates drawing the balance of the available lease proceeds during Fiscal Year 2009-10. The following is the debt service schedule:

Fiscal Year Ending June 30,	Principal	Interest	Total
2010	$ 100,560	$ 61,177	$ 161,737
2011	103,405	57,990	161,395
2012	106,332	54,711	161,043
2013	109,341	51,341	160,682
2014	112,435	47,874	160,309
2015-2019	611,745	183,847	795,592
2020-2024	703,347	81,239	784,586
2025	152,835	2,621	155,456
Total	$ 2,000,000	$ 540,800	$ 2,540,800

Business-type 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, 2009 was $2,267,053.
Future minimum debt service requirements to maturity are as follows:

NOTE 9 LONG-TERM DEBT(Continued)

Business-type activities (Continued)

Fiscal Year(s) Ending June 30,	Principal	Interest	Total
2010	$ 72,264	$ 102,017	$ 174,281
2011	75,516	98,765	174,281
2012	78,915	95,367	174,282
2013	82,466	91,816	174,282
2014	86,177	88,105	174,282
2015-2019	492,664	378,746	871,410
2020-2024	613,949	257,461	871,410
2025-2029	765,102	106,318	871,420
	$ 2,267,053	$ 1,218,595	$ 3,485,648

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 Authority is also amortizing bond premium and deferred loss on refinancing, which brings the outstanding balance as of June 30, 2009 to $14,837,209.

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 Ending June 30,	Principal	Interest	Total
2010	$ -	$ 678,343	$ 678,343
2011		678,343	678,343
2012		678,343	678,343
2013	1,000,000	658,342	1,658,342
2014	1,040,000	617,543	1,657,543
2015-2019	5,890,000	2,380,676	8,270,676
2020-2024	7,320,000	899,519	8,219,519
Subtotal	15,250,000	6,591,109	21,841,109
Premium on issuance	33,078		33,078
Deferred loss on refunding	(445,869)		(445,869)
	$ 14,837,209	$ 6,591,109	$ 21,428,318

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, 2009 was $555,000.

Future minimum debt service requirements to maturity are as follows:

Fiscal Year(s) Ending June 30,	Principal	Interest	Total
2010	$ 80,000	$ 34,763	$ 114,763
2011	85,000	29,194	114,194
2012	90,000	23,288	113,288
2013	95,000	17,044	112,044
2014	100,000	10,462	110,462
2015	105,000	3,544	108,544
	$ 555,000	$ 118,295	$ 673,295

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 City is also amortizing bond premium and deferred loss on refinancing, which brings the outstanding balance as of June 30, 2009 to $3,095,170. Future debt service requirements to maturity are as follows:

NOTE 9 LONG-TERM DEBT (Continued)

D. Revenue Bonds (Continued)

Fiscal Year(s) Ending June 30,	2002B CSCDA Revenue Bonds Principal	Interest	Total
2010	$ 105,000	$ 147,993	$ 252,993
2011	110,000	143,693	253,693
2012	115,000	139,193	254,193
2013	120,000	134,417	254,417
2014	125,000	129,286	254,286
2015-2019	705,000	554,666	1,259,666
2020-2024	895,000	354,819	1,249,819
2025-2028	900,000	97,125	997,125
Subtotal	3,075,000	1,701,192	4,776,192
Plus premium	20,170		20,170
	$ 3,095,170	$ 1,701,192	$ 4,796,362

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 City is also amortizing bond discounts, which brings the outstanding balance as of June 30, 2009 to $3,311,023. Future debt service requirements to maturity are as follows:

Fiscal Year(s) Ending June 30,	2003A CSCDA Revenue Bonds Principal	Interest	Total
2010	$ 115,000	$ 145,389	$ 260,389
2011	120,000	141,864	261,864
2012	125,000	138,189	263,189
2013	130,000	134,299	264,299
2014	130,000	130,171	260,171
2015-2019	725,000	578,004	1,303,004
2020-2024	900,000	396,500	1,296,500
2025-2029	1,150,000	141,312	1,291,312
Subtotal	3,395,000	1,805,728	5,200,728
Less Discount	(83,977)		(83,977)
	$ 3,311,023	$ 1,805,728	$ 5,116,751

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 City is also amortizing bond premium and deferred loss on refunding, which brings the outstanding balance as of June 30, 2009 to $6,839,503. Future debt service requirements to maturity are as follows:

NOTE 9 LONG-TERM DEBT (Continued)

D. Revenue Bonds (Continued)

Business-type activities

Fiscal Year(s) Ending June 30,	2005C CSCDA Revenue Bonds Principal	Interest	Total
2010	$ 310,000	$ 305,865	$ 615,865
2011	325,000	296,015	621,015
2012	330,000	285,370	615,370
2013	345,000	274,060	619,060
2014	355,000	261,982	616,982
2015-2019	1,975,000	1,098,520	3,073,520
2020-2024	2,445,000	606,625	3,051,625
2025-2026	1,155,000	58,375	1,213,375
Subtotal	7,240,000	3,186,812	10,426,812
Deferred loss on refunding	(564,025)		(564,025)
Premium	163,528		163,528
Total	$ 6,839,503	$ 3,186,812	$ 10,026,315

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, 2009 was $1,705,000. Future debt service requirements to maturity are as follows:

Fiscal Year(s) Ending June 30,	2006A CSCDA Revenue Bonds Principal	Interest	Total
2010	$ 50,000	$ 73,075	$ 123,075
2011	50,000	71,356	121,356
2012	50,000	69,606	119,606
2013	50,000	67,856	117,856
2014	55,000	65,984	120,984
2015-2019	295,000	297,484	592,484
2020-2024	365,000	229,272	594,272
2025-2029	460,000	129,588	589,588
2030-2032	330,000	22,725	352,725
Total	$ 1,705,000	$ 1,026,946	$ 2,731,946

NOTE 9 LONG-TERM DEBT (Continued)

D. Revenue Bonds (Continued)

The annual requirements to amortize outstanding bonded indebtedness as of June 30, 2009 are as follows:

Fiscal Year(s) Ending June 30,	Business-type CSCDA Bonds	Business-type Harbor Bonds	Business-type Total	Governmental 2003 EPFA Bonds
2010	$ 1,252,322	$ 114,763	$ 1,367,085	$ 678,343
2011	1,257,928	114,194	1,372,122	678,343
2012	1,252,358	113,288	1,365,646	678,343
2013	1,255,632	112,044	1,367,676	1,658,342
2014	1,252,423	110,462	1,362,885	1,657,543
2015-2019	6,228,674	108,544	6,337,218	8,270,676
2020-2024	6,192,216		6,192,216	8,219,519
2025-2029	4,091,400		4,091,400	
2030-2032	352,725		352,725	
Total requirements	23,135,678	673,295	23,808,973	21,841,109
Plus premium	183,698		183,698	33,078
Less discount	(83,977)		(83,977)	
Deferred loss on refunding	(564,025)		(564,025)	(445,869)
Less interest	(7,720,678)	(118,295)	(7,838,973)	(6,591,109)
Total Bonds Payable June 30, 2009	$ 14,950,696	$ 555,000	$ 15,505,696	$ 14,837,209

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, 2009:

Governmental Funds	$ 1,215,053
Internal Service Funds	55,034
Subtotal governmental activities	1,270,087
Business-type Funds	136,636
Total	$ 1,406,723

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. As of June 30, 2009, the City's unrecorded liability for accrued unvested sick leave totaled $3,084,617.

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 2008-09 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 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09
Risk Management Fund			
Workers' Compensation Insurance			
Claims incurred after March 1, 1993	$ 38,993	$ 38,554	$ 245,493
Claims deductibles		36,965	153,298
Liability Insurance			
Claims deductibles	92,254		47,582

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.

NOTE 10 OTHER INFORMATION (Continued)

C. Risk Pool Arrangements (Continued)

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 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, 2009:

Total assets	$	19,960,775
Total liabilities		(14,857,877)
Members' equity	$	5,102,898
Total revenues	$	6,558,260
Total expenses		(5,849,502)
Operating income (loss)	$	708,758

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.

NOTE 10 OTHER INFORMATION (Continued)

C. Risk Pool Arrangements (Continued)

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

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).

NOTE 11 CLAIMS ADJUSTMENTS (Continued)

The following schedule presents changes in accrued claims payable for the fiscal years ended June 30, 2009 and June 30, 2008:

	General Liability Insurance	Worker's Compensation Insurance	Total
Accrued claims payable, June 30, 2007	$ 244,698	$ 146,684	$ 391,382
Provision for insured events payments	668,285	500,290	1,168,575
Payments made to public entity risk pool	(671,135)	(424,772)	(1,095,907)
Direct payments made by City	(94,206)	(122,322)	(216,528)
Accrued claims payable, June 30, 2008	147,642	99,880	247,522
Provision for insured events payments	723,292	800,128	1,523,420
Payments made to public entity risk pool	(633,315)	(453,223)	(1,086,538)
Direct payments made by the City	(47,582)	(346,896)	(394,478)
Accrued claims payable, June 30, 2009	$ 190,037	$ 99,889	$ 289,926

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, 2009, LERS membership consisted of 16 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.

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

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

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.

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 the last 3 fiscal years, contributions were not made in accordance with actuarially determined requirements. During fiscal year 2006-07, contributions from the General Fund were made to cover benefits on a "pay as you go" basis. No contributions were made during fiscal year 2007-08. During fiscal year 2008-09, contributions from the General Fund were made to cover benefits on a "pay as you go" basis. All administrative costs are financed by the City.

Annual Pension Cost and Net Pension Obligation – The City's annual pension cost and net pension obligation to LERS for the 2008-09 fiscal year were as follows:

Annual required contribution	$ (31,650)
Interest on net pension obligation	5,357
Adjustments to annual required contribution	(9,194)
Annual pension cost	(35,487)
Contributions made	(266,064)
Increase (decrease) in net pension obligation	(301,551)
Net pension obligation (assets), beginning of fiscal year	89,291
Net pension obligation (assets), end of fiscal year	$ (212,260)

The annual required contribution for the fiscal year 2008-09 was determined as part of the June 30, 2008, 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 thirty years, with such thirty year period beginning with the date of the initial funding method at July 1, 1975. The unfunded actuarial liability is being amortized as a level dollar of projected payroll. The remaining amortization period as of June 30, 2009 for this initial liability was 6 years. The unfunded actuarial liability is being amortized as a level dollar of projected payroll.

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

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

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.

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 ends 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
2007	$ (170,589)	100.00%	$ 185,798
2008	(96,507)	100.00%	89,291
2009	(35,487)	100.00%	(212,260)

Schedules of Funding Progress of Employer Contributions for LERS are presented on page 79 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.

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

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

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 2008-09 at an actuarially determined rate of 17.827 percent for non-safety employees and 33.935 percent for police employees. In July 2008, the City amended its contract with PERS for employees of the Eureka Fire Department. The amended contract will provide retirement benefits based on the employees' single highest year of earnings. Due to the amendment, the PERS rate for this group was raised to 33.518 from 31.165 effective September 1, 2008.

Annual pension cost

For fiscal year 2008-09, the City's annual pension cost of $3,298,795 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2006 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' 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
2007	$ 2,580,673	100.0%	$ -
2008	2,876,290	100.0%	-
2009	3,298,795	100.0%	-

Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the safety plan and the miscellaneous plan were 85.8% and 83.0% funded, respectively.

The actuarial accrued liability for benefits was $59,300,000 and the actuarial value of assets was $49,193,000 for the miscellaneous plan, resulting in an unfunded actuarial accrued liability of $10,107,000. The covered payroll was $8,158,000, which results in a ratio of the unfunded actuarial accrued liability to the covered payroll of 123.9%.

The safety plan is in a CalPERS risk pool, and therefore, is not required to be reported here. Annual contributions to the Safety Plan for the fiscal years ended 2007, 2008 and 2009 were $1,363,111, $1,510,423 and $1,855,444 respectively.

Schedules of funding progress of employer contributions for PERS are presented on page 80 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. 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 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.

Construction commitments

The City has active construction projects as of June 30, 2009. The following schedule summarizes these contractual commitments.

NOTE 14 COMMITMENTS AND CONTINGENCIES (Continued)

Commitments and contracts for capital projects:

Harbor Improvements	$ 481,997
Street/sidewalk construction and maintenance	167,134
Water System Improvements	104,212
Sewer System Improvements	140,515
Building Improvements	20,167
Miscellaneous projects	47,841
	$961,866

NOTE 15 PRIOR PERIOD ADJUSTMENTS

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

General Fund - $78,821 This represents a net reduction in fund balance of $149,845 due to the understatement of employee benefits costs in the previous year plus an increase to fund balance of $71,024 due to revenue received in a previous year and erroneously recorded in the agency fund.

Housing Fund - $7,822 This represents a increase to fund balance due to prior year transactions recorded in the wrong fund.

Low & Moderate Income Housing Fund - $388,178 This represents a decrease to fund balance of $7,822 due to prior year transactions recorded in the wrong fund plus an increase to fund balance of $396,000 which represents the value of land held for resale purchased in a prior year and recorded in the wrong fund.

Transit Fund - $31,187 This represents the net of a decrease to fund balance of $112,509 due to overstating intergovernmental revenue in a prior year plus an increase to fund balance of $143,696 due to overstating operating costs in a prior year.

Redevelopment Debt Service Fund - $133,637 This represents a decrease to fund balance due to understating expenditures for a previous year.

One of the prior period adjustments reported in the Fund Statement is not reported in the Government-wide presentation, because of the Government-wide presentation already included in Land held for resale as part of the net assets.

NOTE 15 PRIOR PERIOD ADJUSTMENTS (Continued)

Fund	Fund Statements		Government-Wide Statements	
Government type activities				
General Fund	$	(149,845)	$	(78,821)
		71,024		
General Fund total		(78,821)		(78,821)
Housing Fund		7,822		7,822
Low & Mod Fund		(7,822)		(7,822)
		396,000		
		388,178		(7,822)
Redevelopment Capital Projects fund		(133,637)		(133,637)
Total government-type activities	$	183,542	$	(212,458)
Business-type activities				
Transit Fund	$	(112,509)	$	(112,509)
		143,696		143,696
Total business-type activities	$	31,187	$	31,187

NOTE 16 SUBSEQUENT EVENTS

The Eureka City Council, the Eureka Redevelopment Agency Board and the Eureka Public Financing Authority Board acted by resolution in November 2009 to direct staff to issue debt that will enable the Agency to complete several capital projects, to pay the City for a property transfer prior to selling the subject property and to repay a debt to the City's Wastewater Fund. The Lease Revenue bond sale will close on January 27, 2010.

Redevelopment Lease Revenue Bonds Series A (Taxable) will be issued in the amount of $4,960,000. The purpose of this debt is to pay the Agency's advance due to the City of Eureka. The bonds include a mandatory call in the year 2024 in order that the bonds will be paid off by the time the Redevelopment Agency terminates in 2026/27. Interest rates on the bonds will be between 5.5% and 8%.

Redevelopment Lease Revenue Bonds Series B (Tax-exempt) will be issued in the amount of $4,235,000. The purpose of this debt is to fund certain capital projects. The bonds include a mandatory call in the years 2025 and 2026 in order that the bonds will be paid off by the time the Redevelopment Agency terminates in 2026/27. Interest rates on the bonds will be between 2.25% and 5.875%.