



November 29, 2011

To the People of the City of Eureka
Represented by the Honorable Mayor and Members of City Council of the City of Eureka

Local and state statutes require that the City of Eureka issue a report on its financial position and activity following the close of each fiscal year. In addition, this report must be audited in accordance with generally accepted auditing standards by an independent firm of certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Eureka for the fiscal year ended June 30, 2010.

This report consists of management's representations concerning the finances of the City. Consequently, responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Eureka's financial statements have been audited by Caporicci & Larson, Inc., a subsidiary of Marcum LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Eureka for the fiscal year ended June 30, 2010, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion and that the City of Eureka's financial statements for the fiscal year ended June 30, 2010, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report. The audit was also designed to meet the requirements of the Federal Single Audit Act as amended in 1996, and related OMB Circular A-133, *Audits of States; Local Governments; and Non-Profit Organizations* (68 FR 38401).

GAAP for State and Local governments requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Eureka's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF CITY OF EUREKA

General information

The City of Eureka is a charter City, incorporated as a town on April 18, 1856, under a special act of the legislature; reincorporated as a City on February 19, 1874; and incorporated under a Freeholders Charter on February 8, 1895. The City has been declared a State Historic Site because of its significance in the development of California. The city operates under a Council – Manager form of government with a five-member Council elected to four year overlapping terms, and the Mayor being elected for a four year term. The position of City Manager is filled by appointment of the Council to serve as Administrator of the Staff, and to carry out the policies of the Council. The City Attorney and City Clerk are also appointed by the Council.

The City of Eureka is located along Humboldt Bay (California's second largest deep-water port), on the Northern California coast, 280 miles north of San Francisco, and 450 miles south of Portland, Oregon. Eureka is also the county seat for the County of Humboldt. The City has an approximate population of 26,002 and its boundaries encompass 11 square miles. Extracting timber and the processing of wood byproducts, along with agriculture, fishing, tourism, and government have historically been the pillars of the local economy.

The City of Eureka provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets, and other infrastructure; and various recreational activities. Certain redevelopment activities are carried out by a blended component unit of the City. The Eureka Redevelopment Agency was created by the City Council during the year ending June 30, 1972. The Agency was given the authority and responsibility to redevelop and upgrade blighted areas of the City. Of the City's 11 square miles, 1.97 square miles are included in the Agency boundaries. The city Council also functions as the Board of the Eureka Redevelopment Agency. Financing for redevelopment activities is provided through another blended component unit of the City, the Eureka Public Financing Authority. The City Council created the Authority to sell bonds and lend the proceeds of bond issues to the Agency. The City Council also functions as the Board of the Eureka Public Financing Authority.

Reporting Entity and Its Services

This report includes all of the funds of the City. Financial information for separate legal entities related to the City of Eureka, including the Eureka Redevelopment Agency, and the Eureka Public Financing Authority, are also accounted for in this City's financial statements in accordance with the Government Accounting Standards Board (GASB) Statement No. 14 *The Financial Reporting Entity*.

City Council members serve as the governing board of the Redevelopment Agency. The City provides accounting and administrative services Redevelopment Agency. Additional detail is provided in Note 1 A of the Notes to the Financial Statements.

Eureka is a full service city with 270 authorized full-time and regular part-time personnel. This includes public safety (Police and Fire), Highways and streets, public improvements, land use, building and housing standards, culture - recreation programs, parks and recreation areas, water, harbor and sewer utilities, public transit, and administration and fiscal services.

Accounting System and Budgetary Control

The basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of Accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The Statement of Revenue, Expenditures and Changes in Net Assets present increases (revenue and other financing sources) and Decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Annual appropriated budgets are adopted for all funds of the City except agency funds. All annual appropriations lapse at fiscal year end. Any encumbrances not fully expended at year end are closed. Legally adopted budgetary appropriations are enacted by fund at the department level for current operating expenditures, with separate appropriations for capital and Other projects, debt service, reserves, transfers and contingencies. Expenditures cannot legally exceed appropriations at these control levels. Amendments to the budget at the legal appropriation level must be approved by City Council. Amendments to the budget at less than the legal appropriation level may be made by management.

Project-length financial plans are adopted for capital and other projects. Appropriations for these projects are included in the annual Appropriated budgets for each of the applicable funds. Unspent project amounts are included in the annual budgets of subsequent years until project completion. The objective of these budgetary controls is to ensure compliance with legal provisions contained in the annual appropriated budget approved by the City Council.

ECONOMIC CONDITIONS AND OUTLOOK

The growth and health of Eureka's economy can be traced to a variety of indicators.

Retail Sales. Shopping districts are abundant throughout the City of Eureka. There is a traditional downtown region offering over 700 retail and service related businesses. Old Town Eureka contains 150 specialty shops in a redeveloped Victoria waterfront setting. The Eureka Mall is a large center with 16 stores, and the Bayshore Mall is a regional mall with approximately 100 stores. This multitude of retail opportunities strengthens Eureka's dominance as a regional trade center and is clearly supported by the fact that the City has higher retail sales for taxable items per capita than other cities in the Humboldt County area. Sales tax for fiscal year 2009-10 decreased slightly -2.46 percent, compared to the previous year as the economy remains flat. In November 2010 Eureka voters approved a ½% transaction and use tax.

Hospitality. The City of Eureka is a popular California tourism destination and contains approximately 40 hotels, motels and inns. In spite of other economic conditions, the City's Transient Occupancy Tax remains a strong revenue source. Fiscal year 2009-10 revenue from TOT was up 13.7% over the previous year. The increase is largely due to a 1% increase in the TOT rate (from 9% to 10%) passed by the voters in November 2008 and effective January 1, 2009, with the new rate being in effect for the entire fiscal year.

Eureka has been designated as one of 42 Enterprise Zones in the State of California, providing existing, new, and expanding businesses with numerous economic benefits and tax incentives.

Long-Term Financial Planning

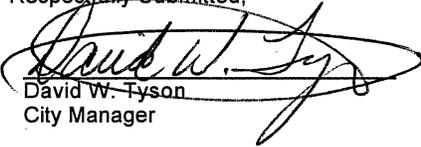
The City, in fiscal year 2011, expects the local economy to remain stable, but given the uncertainty in both the state and national economies, continues to monitor the situation daily in order to react and adjust in the most fiscally prudent manner.

The State budget situation was such in fiscal 2010 that the City experienced a reduction in property tax revenues as a result of mandated State reductions. Additional State takeaways continue to plague cities and counties throughout California, most recently with the State's efforts requiring additional payments from redevelopment agencies in order to avoid elimination. This matter is currently before the California State Supreme Court

Acknowledgments

The preparation of this report could not have been accomplished without the efficient and dedicated services of the staff of the Finance Department. We would also like to thank the Mayor and members of the City Council for their interest and support in planning and conducting the financial operation of the City in a responsible manner. Finally we recognize and appreciate the work of the members of the Finance Advisory Committee.

Respectfully Submitted,


David W. Tyson
City Manager


Paul L. Rodrigues
Finance Director

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Eureka
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

City of Eureka, California
Principal City Officials
June 30, 2010

Virginia Bass
Mayor

City Council

Linda Atkins
Council Member

Larry Glass
Council Member

Mike Jones
Council Member

Jeff Leonard
Council Member

Frank Jager
Council Member

Administration

David W. Tyson
City Manager

Pam Powell
City Clerk

Sheryl Schaffner
City Attorney

Garr Nielsen
Police Chief

Eric Smith
Fire Chief

Sidnie Olson
Director of Community Development

Kurt Gierlich
City Engineer

Mike Knight
Assistant City Manager/Public Works Director

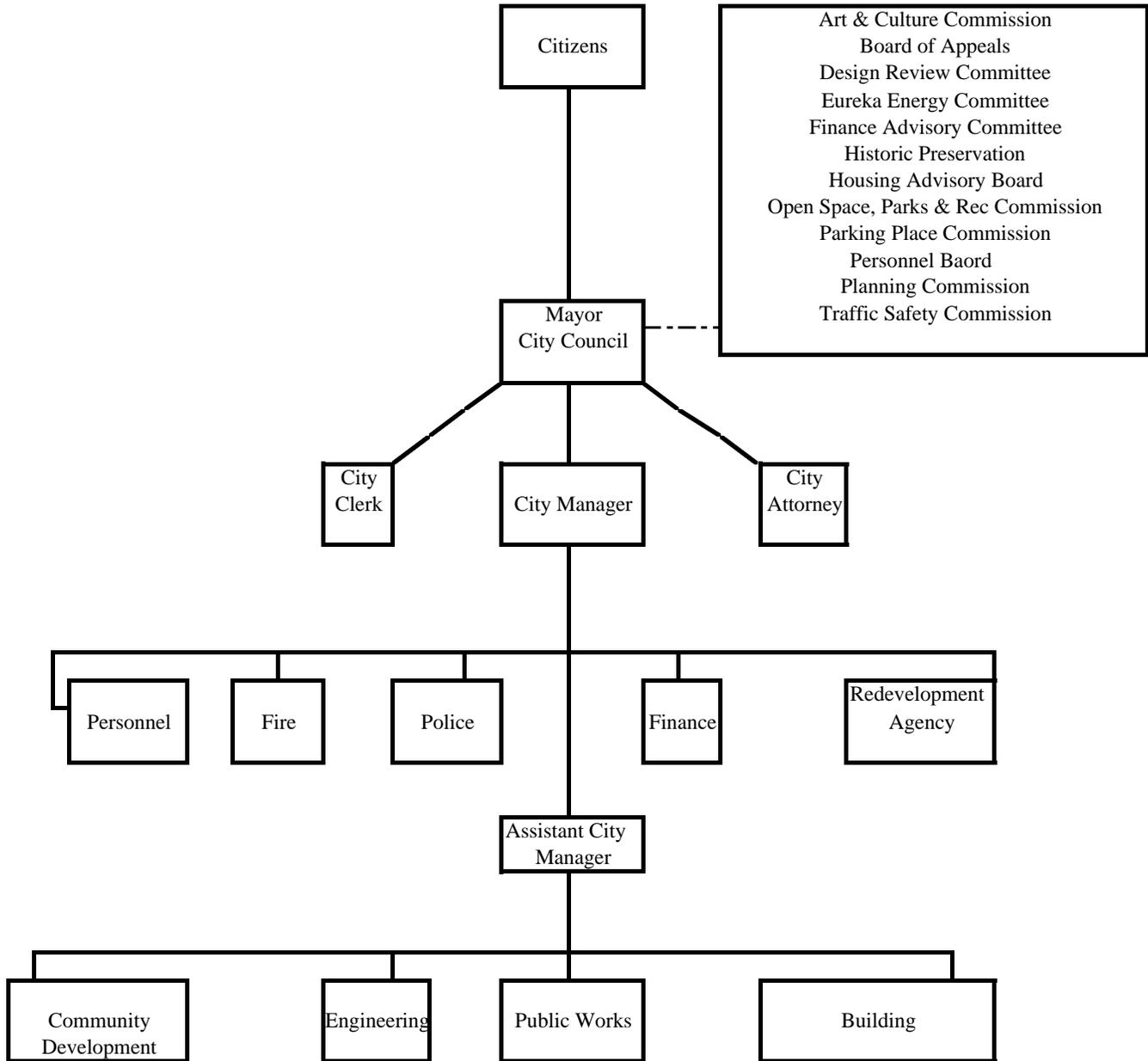
Valerie Warner
Finance Director

Cindy Trobitz-Thomas
Redevelopment & Housing Director

Gary Bird
Personnel Director

City of Eureka

Organizational Chart



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Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eureka, California (City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2010, and the respective changes in financial position, and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Eureka, California
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The Management Discussion and Analysis and the Required Supplementary Information on pages 3 to 14 and pages 91 to 96, respectively, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining fund statements and schedules and the statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund statements and schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information identified in the table of contents as the Introductory and Statistical Sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on them.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
November 29, 2011