NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The City of Eureka was incorporated as a town on April 18, 1856, under a special act of the legislature, reincorporated as 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 AUTHORITY

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 **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 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.

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:

Governmental Fund Types

The Special Revenue Funds are used to account for and report proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. These funds are required by statute or ordinance to finance particular functions or activities of government.

The Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Governmental Fund Types (Continued)

The Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal, interest, and related costs on long-term obligations.

Proprietary Fund Type

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.

Fiduciary Fund Type

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 restricted fund balance 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".

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, 2011 are recorded as prepaid items.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 and Fund Balance

Net Assets and Fund Balance - In the government-wide financial statements, proprietary fund financial statements, and fiduciary fund financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the City (such as creditors, grantors, contributors, and laws and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The City's other restricted net assets are temporarily restricted (ultimately expendable assets). All other net assets are considered unrestricted.

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

8. Net Assets and Fund Balance (Continued)

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available.

Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

9. Property Taxes (Continued)

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

E. New Accounting Pronouncements

GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*

For the fiscal year ended June 30, 2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Please refer to note 1 under section "Net Assets and Fund Balance" and note 16 for the effect on these financial statements.

GASB Statement No. 59 – *Financial Instruments Omnibus*

For the fiscal year ended June 30, 2011, the City implemented GASB Statement No. 59, *Financial Instruments Omnibus.* This Statement establishes standards to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The implementation of this Statement did not have an effect on these financial statements.

NOTE 2 RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

Annual appropriated budgets are adopted for all funds of the City. Appropriations include amounts encumbered at fiscal year–end as these encumbrances are not reappropriated in the following year. All annual appropriations lapse at fiscal year end. Legally adopted budgetary appropriations are enacted at the departmental level for current operating expenditures, with separate appropriations for capital and other projects, debt service, reserves, transfers and contingencies. Expenditures cannot legally exceed appropriations at these control levels. Amendments to the budget at the legal appropriation level must be approved by City Council. Amendments to the budget at less than the legal appropriation level may be made by management.

Project-length financial plans are adopted for capital and other projects. Appropriations for these projects are included in the annual appropriated budgets for each of the applicable funds. Unspent project amounts are included in the annual budgets of subsequent years until project completion.

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

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

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

B. Excess of expenditures over appropriations.

There was an excess of expenditures over appropriations in the Parking Special Revenue Fund in the amounts of $2,007.

There was an excess of expenditures over appropriations in the Demolition Projects Special Revenue Fund in the amounts of $210,878.

There was an excess of expenditures over appropriations in the Public Financing Authority Debt Service Fund in the amounts of $800.

C. Deficit fund equity/net asset

Major funds

The Redevelopment Agency Debt Service fund had a deficit fund balance of $3,393,275 as of June 30, 2011. The negative fund balance in the Redevelopment Agency Debt Service Fund has been decreasing over the past few years and is anticipated to continue to decline. In fiscal year 2010-11, financing source was the RDA's tax increment which will be a financing source in future fiscal years as money is incrementally transferred in from the EPFA debt service fund on an as-needed basis. Financing uses for fiscal year 2010-11 were state, county, and local agency payments, debt service payments, and transfers to other funds. The net effect was a decrease to the negative fund balance. It is anticipated that financing sources will continue to outstrip financing uses in future years to continue to reduce the RDA Debt Service Fund's negative balance.

The Building Enterprise fund had a deficit net asset balance of $50,534 as of June 30, 2011. This is a result of higher receivable activity in fiscal year 2009-10 because of increased enforcement there was a corresponding increase in write-offs in fiscal year 2010-11.

Nonmajor funds

The Habitat Acquisition and Restoration Special Revenue Fund had a deficit balance at June 30, 2011 of $63,299. The deficit balance is due primarily to a 10% retainer held by the state on a grant for the Palco Marsh restoration project. The deficit balance will be substantially reversed as the State releases the retained funds.

The Capital Improvements Special Revenue Fund had a deficit balance at June 30, 2011 of $5,186. The deficit is due to the City incurring costs in advance of receiving revenue.

The Demolition Projects Special Revenue Fund had a deficit balance at June 30, 2011 of $435,252. The negative balance will be mitigated by increasing the subsidy from the General Fund in the subsequent fiscal year.

Internal Service fund

The Redevelopment Administration Internal Service Fund had a deficit balance at June 30, 2011 of $274,066. The deficit is due to the City incurring costs in advance of receiving revenue.

NOTE 4 CASH AND INVESTMENTS

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

	Government-Wide Statement of Net Assets	Fiduciary Fund Statement of Net Assets	Total
Cash and investments	$ 15,626,809	$ 276,333	$ 15,903,142
Restricted cash and investments	19,524,362		19,524,362
Total Cash and Investments	$ 35,151,171	$ 276,333	$ 35,427,504

Cash and investments at June 30, 2011 consisted of the following:

Cash on hand	$ 9,123
Deposits with financial institutions	1,435,167
Investments	33,983,214
Total Cash and Investments	$ 35,427,504

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	180 days	20%	None
Negotiable Certificates of Deposit	2 years	30%	None
Commercial Paper	270 days	25%	None
Corporate Medium Term Notes	5 years	30%	None
State of California Local Agency Investment Fund (State Pool)	N/A	Unlimited	$50,000,000
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
Certificates of Deposit with Banks and Savings & Loans	None	None	None
United States Treasury Obligations	None	None	None
United States Government Sponsored Enterprise Securities	None	None	None
Municipal Obligations	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
State of California Local Agency Investment Fund (State Pool)	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	Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	Over 60 Months
Money Market Funds	$ 16,455,044	$ 16,455,044	$ -	$ -	$ -
Federal Agency Securities	5,642,415	1,548,525	728,238	3,365,652	
State Investment Pool	2,214,781	2,214,781			
Certificate of Deposit	1,507,653	1,507,653			
Commercial Paper	199,514	199,514			
Corporate Medium Term Notes	3,208,519	702,200	1,313,356	1,192,963	
U.S. Treasury Notes	2,062,629	167,938	497,691	1,397,000	
Held by Bond Trustees:					
Money Market Funds	2,692,659	2,692,659			
Total	$ 33,983,214	$ 25,488,314	$ 2,539,285	$ 5,955,615	$ -

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
Money Market Funds	$ 16,455,044	N/A	$ -	$ 16,391,117	$ -	$ -	$ 63,927
Federal Agency Securities	5,642,415	N/A		5,642,415			
State Investment Pool	2,214,781	N/A					2,214,781
Certificate of Deposit	1,507,653	N/A					1,507,653
Commercial Paper	199,514	N/A				199,514	
Corporate Medium Term Notes	3,208,519	N/A		562,639	1,280,883	1,364,997	
U.S. Treasury Notes	2,062,629	N/A	2,062,629				
Held by Bond Trustees:							
Money Market Funds	2,692,659	N/A		2,692,659			
Total	$ 33,983,214		$ 2,062,629	$ 25,288,830	$ 1,280,883	$ 1,564,511	$ 3,786,361

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
FNMA	Federal agency securities	$ 1,652,160

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.)

NOTE 4 CASH AND INVESTMENTS (Continued)

G. Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived 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, 2011, $1,304,097 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, 2011, 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
Federal Agency Securities	$ 5,642,415
Commercial Paper	199,514
Corporate Medium Term Notes	3,208,519
U.S. Treasury Notes	2,062,629

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	$ 3,444,846	$ 1,203	$ 3,446,049
Low & Moderate Income Housing	2,878	3,714	6,592
Redevelopment Agency Debt Service		3,367	3,367
Nonmajor Governmental Funds	1,312,358	32,533	1,344,891
Total - Governmental Funds	$ 4,760,082	$ 40,817	$ 4,800,899

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, 2011 the various components of deferred revenue are as follows:

Deferred Revenue:	
Fund:	
General	$ 802,417
Low & Moderate Income Housing	8,814,342
Nonmajor Governmental Funds	3,050,412
Total Deferred Revenues	$ 12,667,171

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	$ 702,298	$ 16,918	$ 719,216
Wastewater	1,118,638	4,035	1,122,673
Harbor	26,745	(3,529)	23,216
Building	277,331	(945)	276,386
Transit	417,393	747	418,140
Golf		538	538
Total - Enterprise Funds	$ 2,542,405	$ 17,764	$ 2,560,169

Receivables of the Water and Wastewater funds are reported net of nominal uncollectible amounts in the amount of $20,148 and $9,974 respectively.

NOTE 5 RECEIVABLES (Continued)

Notes and Loans Receivable

The following schedule summarizes notes and loans receivable as of June 30, 2011:

Low and Moderate Income Housing Fund Notes Receivable	$	8,814,342
Housing Special Revenue Fund Loans Receivable		2,176,497
Redevelopment Agency Capital Projects Fund Notes Receivable		55,533
Total Notes Receivable, Governmental Funds	$	11,046,372

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, 2011 is as follows:

A. Due to/ from other fund

Receivable Funds	Payable Funds		Amount
General Fund	Nonmajor Habitat Acquisition and Restoration Special Revenue Fund	$	63,116
	Nonmajor Demolition Projects Special Revenue Fund		236,999
	Redevelopment Administration Internal Service Fund		205,858
	Major Harbor Enterprise Fund		588,072
	Major Building Enterprise Fund		306,412
Major Water Enterprise Fund	General Fund		855,153
		$	2,255,610

B. Advances to/from other funds

Due to the State SERAF payment requirement during fiscal year 2010, the Redevelopment Agency Debt Service Fund had insufficient cash to make the payment. Borrowing from the Redevelopment Low and Moderate Housing Special Revenue Fund was authorized by State SERAF legislation. The fund will repay the Housing Fund by June 2016. The outstanding balance as of June 30, 2011 was $792,202.

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 outstanding balance as of June 30, 2011 was $49,753.

The Redevelopment Agency Debt Service Fund borrowed $429,069 from the Water Fund for water redevelopment project costs. 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. The outstanding balance as of June 30, 2011 was $489,806.

The Redevelopment Agency Debt Service Fund borrowed $6,013,622 from the Wastewater Fund for wastewater redevelopment project costs. 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. The outstanding balance as of June 30, 2011 was $5,155,154.

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

B. Advances to/from other funds (Continued)

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. The outstanding balance as of June 30, 2011 was $25,748.

During the fiscal year 2010, the Demolition projects fund borrowed $13,000 from the building fund to cover abatement work. The outstanding balance as of June 30, 2011 was $13,000.

Receivable Funds	Payable Funds	Amount
Major Redevelopment Agency Low/Moderate Income Housing Fund	Major Redevelopment Agency Debt Service Fund	$ 792,202
Nonmajor Housing Fund	General Fund	49,753
Major Water Enterprise Fund	Major Redevelopment Agency Debt Service Fund	489,806
Major Wastewater Enterprise Fund	Major Redevelopment Agency Debt Service Fund	5,155,154
	Major Harbor Enterprise Fund	25,748
Major Building Enterprise Fund	Nonmajor Demolition Projects	13,000
		$ 6,525,663

C. Interfund transfers

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

Transfers In	Transfers Out	Amount
Major Redevelopment Agency Low/Moderate Income Housing Fund	Major Redevelopment Agency Debt Service Fund	$ 1,275,052
Major Redevelopment Agency Debt Service Fund	Nonmajor Redevelopment Agency Capital Projects Fund	132,969
Nonmajor Special Police Fund	General Fund	83,229
Nonmajor Housing Fund	Major Low and Moderate Income Housing Fund	50,000
Nonmajor Successor Agency Housing Fund	Major Low and Moderate Income Housing Fund	61,567
Nonmajor Successor Agency Capital Projects Fund	Nonmajor Redevelopment Agency Capital Projects Fund	4,613,178
Nonmajor Public Financing Authority Debt Service Fund	Major Redevelopment Agency Debt Service Fund	678,343
	Nonmajor Redevelopment Agency Capital Projects Fund	609,261
Major Harbor Enterprise Fund	Major Redevelopment Agency Debt Service Fund	410,607
Major Building Enterprise Fund	General Fund	59,460
Redevelopment Administration Internal Service Fund	Major Redevelopment Agency Debt Service Fund	700,000
		$ 8,673,666

NOTE 7 CAPITAL ASSETS

A summary of changes in the Governmental Activities capital assets at June 30, 2011 is as follows:

	Balance at July 1, 2010	Additions	Reductions	Transfers	Balance at June 30, 2011
Capital assets, not being depreciated:					
Land	$ 3,692,899	$ -	$ -	$ -	$ 3,692,899
Infrastructure	23,922,864				23,922,864
Construction in progress	8,525,619	3,702,645	(3,263)	(3,506,858)	8,718,143
Artwork	150,000				150,000
Total capital assets, not being depreciated	36,291,382	3,702,645	(3,263)	(3,506,858)	36,483,906
Capital assets, being depreciated:					
Buildings	16,281,539				16,281,539
Improvements other than buildings	12,074,563			2,920,703	14,995,266
Machinery and equipment	13,872,003	300,288	(18,662)	212,229	14,365,858
Infrastructure	71,024,847	69,863		373,926	71,468,636
Total capital assets being depreciated	113,252,952	370,151	(18,662)	3,506,858	117,111,299
Less accumulated depreciation for:					
Buildings	(5,656,995)	(390,893)			(6,047,888)
Improvements other than buildings	(1,783,052)	(233,192)			(2,016,244)
Machinery and equipment	(10,620,230)	(721,318)	18,662		(11,322,886)
Infrastructure	(54,139,389)	(1,551,722)			(55,691,111)
Total accumulated depreciation	(72,199,666)	(2,897,125)	18,662		(75,078,129)
Total capital assets being depreciated, net	41,053,286	(2,526,974)		3,506,858	42,033,170
Governmental activities capital assets, net	$ 77,344,668	$ 1,175,671	$ (3,263)	$ -	$ 78,517,076

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

Governmental Activities:	
General government	$ 511,957
Public safety	311,900
Public works	2,073,268
Total depreciation expense - governmental activities	$ 2,897,125

NOTE 7 CAPITAL ASSETS (Continued)

A summary of changes in the Business-type Activities capital assets at June 30, 2011 is as follows:

	Balance at July 1, 2010	Additions	Reductions	Transfers	Balance at June 30, 2011
Capital assets, not being depreciated:					
Land	$ 11,348,689	$ 26,600	$ (2,489)	$ 326,000	$ 11,698,800
Construction in progress	7,661,306	1,197,829		(668,708)	8,190,427
Total capital assets, not being depreciated	19,009,995	1,224,429	(2,489)	(342,708)	19,889,227
Capital assets, being depreciated:					
Buildings	10,842,059				10,842,059
Improvements other than buildings	35,443,989			342,708	35,786,697
Machinery and equipment	52,676,362	5,286			52,681,648
Infrastructure	14,561,915				14,561,915
Total capital assets being depreciated	113,524,325	5,286		342,708	113,872,319
Less accumulated depreciation for:					
Buildings	(5,030,937)	(254,274)			(5,285,211)
Improvements other than buildings	(18,486,376)	(656,965)			(19,143,341)
Machinery and equipment	(31,517,736)	(1,334,766)			(32,852,502)
Infrastructure	(1,382,057)	(357,449)			(1,739,506)
Total accumulated depreciation	(56,417,106)	(2,603,454)			(59,020,560)
Total capital assets being depreciated, net	57,107,219	(2,598,168)		342,708	54,851,759
Business-type activities capital assets, net	$ 76,117,214	$ (1,373,739)	$ (2,489)	$ -	$ 74,740,986

Depreciation was charged to business – type activities as follows:

Business-type Activities:	
Water	$ 727,692
Wastewater	1,213,717
Harbor	361,131
Building	6,662
Transit	289,893
Golf	4,359
Total depreciation expense - business-type activities	$ 2,603,454

NOTE 8 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, 2011 were $247,061. From this same period, the contingent rentals totaled $94,437.

NOTE 9 LONG-TERM DEBT

A. Changes in long-term debt

Long-term liability activity for the fiscal year ended June 30, 2011, was as follows:

	Balance at June 30, 2010	Additions	Reductions	Balance at June 30, 2011	Due Within One Year
Governmental Activities:					
Revenue Bonds Payable					
2003 Tax Allocation Revenue Bonds	$ 15,250,000	$ -	$ -	$ 15,250,000	$ -
2010 Lease Revenue Bonds Series A	4,960,000			4,960,000	
2010 Lease Revenue Bonds Series B	4,235,000			4,235,000	
Total Bonds Payable	24,445,000			24,445,000	
Bond Discount	(123,221)		4,144	(119,077)	(4,144)
Deferred Loss on Refunding	(385,069)		60,800	(324,269)	(60,800)
Compensated Absences	1,393,732	939,495	(825,147)	1,508,080	825,147
Capital Leases	1,187,101		(211,274)	975,827	220,479
California Infrastructure Bank Loan	1,324,900	574,641	(103,405)	1,796,136	106,332
Total	$ 27,842,443	$ 1,514,136	$ (1,074,882)	$ 28,281,697	$ 1,087,014

	Balance at June 30, 2010	Additions	Reductions	Balance at June 30, 2011	Due Within One Year
Business-type Activities:					
Series 2002B CSCDA Revenue Bonds	$ 2,970,000	$ -	$ (110,000)	$ 2,860,000	$ 115,000
Series 2003A CSCDA Revenue Bonds	3,280,000		(120,000)	3,160,000	125,000
Series 2005C CSCDA Revenue Bonds	6,930,000		(325,000)	6,605,000	330,000
Series 2006A CSCDA Revenue Bonds	1,655,000		(50,000)	1,605,000	50,000
Wastewater Revenue Bonds Series 2011		16,280,000		16,280,000	
CA Muni Harbor Improvements Revenue Bonds	475,000		(85,000)	390,000	90,000
Total Bonds Payable	15,310,000	16,280,000	(690,000)	30,900,000	710,000
Bond Premium	93,018	292,935	(7,510)	378,443	20,782
Deferred Loss on Refunding	(529,316)		34,709	(494,607)	(34,709)
Compensated Absences	172,448	223,120	(182,049)	213,519	213,519
Capital Lease	2,116,180		(266,549)	1,849,631	277,665
Intergovernmental Loan Payable	2,194,787		(75,516)	2,119,271	78,915
Total	$ 19,357,117	$ 16,796,055	$ (1,186,915)	$ 34,966,257	$ 1,266,172

NOTE 9 LONG-TERM DEBT(Continued)

B. Capital Leases

Governmental activities

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, 2011, the balance of this lease is $236,759.

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, 2011, the balance of this lease is $671,412.

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, 2011, the balance of this lease is $67,656.

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, 2011, the total balance for all capital leases related to governmental activities is $975,827.

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, 2011, the balance of this lease is $1,849,631.

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

Fiscal Year Ending June 30,	Governmental Activities Amount	Business-type Activities Amount
2012	$ 262,500	$ 354,794
2013	262,500	354,794
2014	262,500	354,794
2015	151,564	354,794
2016	151,563	354,794
Thereafter		354,797
Minimum lease payments	1,090,627	2,128,767
Less amount representing interest	(114,800)	(279,136)
Present value of minimum lease payments	$ 975,827	$ 1,849,631

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%. A loan initiation fee of $17,000 is being amortized over the seventeen years of the loan. The amount outstanding as of June 30, 2011 was $1,796,135.

The following is the debt service schedule:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	$ 106,332	$ 49,323	$ 155,655
2013	109,341	46,271	155,612
2014	112,435	43,133	155,568
2015	115,617	39,906	155,523
2016	118,889	36,588	155,477
2017-2021	646,861	129,785	776,646
2022-2026	586,661	33,780	620,441
	$ 1,796,136	$ 378,786	$ 2,174,922

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, 2011 was $2,119,271.
Future minimum debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	$ 78,915	$ 95,367	$ 174,282
2013	82,466	91,816	174,282
2014	86,177	88,105	174,282
2015	90,055	84,227	174,282
2016	94,107	80,175	174,282
2017-2021	538,002	333,408	871,410
2022-2026	670,447	200,963	871,410
2027-2029	479,102	43,752	522,854
	$ 2,119,271	$ 1,017,813	$ 3,137,084

NOTE 9 LONG-TERM DEBT(Continued)

D. Revenue Bonds

Governmental activities

2003 Tax Allocation Revenue Refunding Bonds, issued by Eureka Public Financing Authority (Authority), in the amount of $15,250,000. The bond issue consisted of the following: $15,250,000 serial bonds carrying interest rates of 4.00% to 4.80% and maturing in annual increments of $1,000,000 to $1,600,000 with maturity dates of November 1 each year from 2012 through 2023. The outstanding balance as of June 30, 2011 was $15,250,000.

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

Future minimum debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	$ -	$ 678,343	$ 678,343
2013	1,000,000	658,343	1,658,343
2014	1,040,000	617,543	1,657,543
2015	1,085,000	575,042	1,660,042
2016	1,125,000	528,031	1,653,031
2017-2021	6,410,000	1,841,803	8,251,803
2022-2024	4,590,000	335,323	4,925,323
	$ 15,250,000	$ 5,234,428	$ 20,484,428

The Eureka Public Financing Authority also issued two series of bonds in January 2010.

The 2010 Lease Revenue Bonds, Series A (Taxable) were issued in the amount of $4,960,000. The purpose of this issue was to pay off an advance owed to the City of Eureka's General Fund in the amount of $3,584,373. The balance of the proceeds was used to pay the cost of issuing the bonds and to set up reserves for near term interest and future debt service payments. Interest rates on this issue of bond indebtedness vary from 5.5% to 8.0%. The bond issue matures in annual increments with maturity dates on November 1 of each year from 2012 through 2032, the termination date of the Eureka Redevelopment Agency (Agency) at which time the remaining balance becomes due. The bonds were issued with $89,468 discount. The outstanding balance as of June 30, 2011 was $4,960,000.

NOTE 9 LONG-TERM DEBT(Continued)

D. Revenue Bonds (Continued)

Governmental activities (Continued)

The 2010 Lease Revenue Bonds, Series B (Tax Exempt) were issued in the amount of $4,235,000. The purpose of this issue was to finance the costs of certain public capital improvements within the Redevelopment project area to include improvements to the Boardwalk with the construction of the C Street Market Square and the Fishermen's Terminal Building. A portion of the proceeds will also be used to repay a note payable from the Eureka Redevelopment Agency to the City of Eureka Wastewater Fund. The balance of the proceeds was used to pay the cost of issuing the bonds and to set up reserves for near term interest and future debt service payments. Interest rates on this issue of bond indebtedness vary from 2.25% to 5.875%. The bond issue matures in annual increments with maturity dates on November 1 of each fiscal year from 2012 through 2037, the termination date of the agency, at which time the remaining balance becomes due. The outstanding balance as of June 30, 2011 was $4,235,000.

Future minimum debt service requirements to maturity are as follows:

Fiscal Year Ending	Series A Bonds		Series B Bonds		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ -	$ 370,675	$ -	$ 237,786	$ -	$ 608,461
2013	115,000	367,512	45,000	237,280	160,000	604,792
2014	120,000	361,050	45,000	236,155	165,000	597,205
2015	125,000	354,312	50,000	234,724	175,000	589,036
2016	135,000	347,162	50,000	232,974	185,000	580,136
2017-2021	805,000	1,584,075	280,000	1,130,527	1,085,000	2,714,602
2022-2026	1,140,000	1,234,876	365,000	1,047,864	1,505,000	2,282,740
2027-2031	1,655,000	697,800	480,000	930,200	2,135,000	1,628,000
2032-2036	865,000	70,600	2,190,000	634,794	3,055,000	705,394
2037			730,000	21,444	730,000	21,444
Totals	$ 4,960,000	$ 5,388,062	$ 4,235,000	$ 4,943,748	$ 9,195,000	$ 10,331,810

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, 2011 was $390,000.

Future minimum debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	$ 90,000	$ 23,288	$ 113,288
2013	95,000	17,044	112,044
2014	100,000	10,463	110,463
2015	105,000	3,544	108,544
	$ 390,000	$ 54,339	$ 444,339

NOTE 9 LONG-TERM DEBT(Continued)

D. Revenue Bonds (Continued)

Business-type activities (Continued)

CSCDA Water Revenue Bonds (Pooled Financing Program), Series 2002B principal amount of $3,625,000, due in annual installments through April 1, 2028; interest rates at 4.00% to 5.25%. Proceeds were used to finance various Water Utility projects. These bonds are payable exclusively from the revenues of the City's Water Utility, and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka. The outstanding balance as of June 30, 2011 was $2,860,000. Future debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Series 2002B CSCDA Revenue Bonds Principal	Interest	Total
2012	$ 115,000	$ 139,192	$ 254,192
2013	120,000	134,417	254,417
2014	125,000	129,286	254,286
2015	130,000	123,868	253,868
2016	135,000	118,237	253,237
2017-2021	770,000	481,290	1,251,290
2022-2026	995,000	258,283	1,253,283
2027-2028	470,000	24,937	494,937
Totals	$ 2,860,000	$ 1,409,510	$ 4,269,510

CSCDA Wastewater Revenue Bonds (Pooled Financing Program), Series 2003A principal amount of $4,040,000 due in annual installments through April 1, 2029; interest rates at 2.00% to 5.25%. Proceeds were used to finance various Wastewater Utility projects. These bonds are payable exclusively from the revenues of the City's Wastewater Utility, and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka. The outstanding balance as of June 30, 2011 was $3,160,000. Future debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Series 2003A CSCDA Revenue Bonds Principal	Interest	Total
2012	$ 125,000	$ 138,189	$ 263,189
2013	130,000	134,299	264,299
2014	130,000	130,171	260,171
2015	135,000	125,763	260,763
2016	140,000	121,018	261,018
2017-2021	780,000	517,911	1,297,911
2022-2026	1,000,000	298,877	1,298,877
2027-2029	720,000	52,252	772,252
Totals	$ 3,160,000	$ 1,518,480	$ 4,678,480

NOTE 9 LONG-TERM DEBT(Continued)

D. Revenue Bonds (Continued)

Business-type activities (Continued)

CSCDA Water Revenue Bonds (Pooled Financing Program), Series 2005C principal amount of $8,110,000, due in annual installments through April 1, 2026; interest rates at 2.60% to 5.00%. Proceeds were used to advance refund the City's CSCDA 2000A Water and Wastewater Revenue Bonds. These bonds are payable exclusively from the City's Water Utility and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka. The outstanding balance as of June 30, 2011 was $6,605,000. Future debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Series 2005C CSCDA Revenue Bonds		
	Principal	Interest	Total
2012	$ 330,000	$ 285,371	$ 615,371
2013	345,000	274,061	619,061
2014	355,000	261,983	616,983
2015	365,000	249,109	614,109
2016	380,000	235,323	615,323
2017-2021	2,135,000	929,464	3,064,464
2022-2026	2,695,000	349,625	3,044,625
Totals	$ 6,605,000	$ 2,584,936	$ 9,189,936

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, 2011 was $1,605,000. Future debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Series 2006A CSCDA Revenue Bonds		
	Principal	Interest	Total
2012	$ 50,000	$ 69,607	$ 119,607
2013	50,000	67,857	117,857
2014	55,000	65,985	120,985
2015	55,000	63,957	118,957
2016	55,000	61,860	116,860
2017-2021	320,000	273,095	593,095
2022-2026	405,000	192,971	597,971
2027-2031	500,000	84,603	584,603
2032	115,000	2,588	117,588
Totals	$ 1,605,000	$ 882,523	$ 2,487,523

NOTE 9 LONG-TERM DEBT (Continued)

D. Revenue Bonds (Continued)

Business-type activities (Continued)

The Wastewater Revenue Bonds, Series 2011 were issued in the amount of $16,280,000, due in annual installments through October 1, 2041; interest rates at 2.00% to 5.00%. The purpose of this issue was to finance capital improvements including but not limited to the acquisition, construction and improvement of 1.5 miles of interceptor sewer piping and connections along the floor of the Martin Slough Valley, a pumping station, and approximately 1.6 miles of sewer force main piping from the pumping station to the City's wastewater treatment plant. The balance of the proceeds was used to pay the cost of issuing the bonds and to set up reserves for near term interest and future debt service payments. The bonds are payable solely from the revenue of the City's Wastewater System Revenues and are secured by a lien and pledge of such revenues. The outstanding balance as of June 30, 2011 was $16,280,000. Future debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Wastewater Revenue Bonds Series 2011		
	Principal	Interest	Total
2012	$ -	$ 644,059	$ 644,059
2013	265,000	772,806	1,037,806
2014	270,000	766,106	1,036,106
2015	280,000	757,856	1,037,856
2016	290,000	747,856	1,037,856
2017-2021	1,635,000	3,536,395	5,171,395
2022-2026	2,105,000	3,079,785	5,184,785
2027-2031	2,675,000	2,500,239	5,175,239
2032-2036	3,395,000	1,781,222	5,176,222
2037-2041	4,355,000	818,875	5,173,875
2042	1,010,000	25,250	1,035,250
Totals	$ 16,280,000	$ 15,430,449	$ 31,710,449

The annual requirements to amortize outstanding bonded indebtedness as of June 30, 2011 are as follows:

Fiscal Year Ending June 30,	Business-type				Governmental		
	CSCDA Bonds	Wastewater Revenue Bonds	Harbor Bonds	Total	2003 EPFA Bonds	2010 EPFA Bonds	Total
2012	$ 620,000	$ -	$ 90,000	$ 710,000	$ -	$ -	$ -
2013	645,000	265,000	95,000	1,005,000	1,000,000	160,000	1,160,000
2014	665,000	270,000	100,000	1,035,000	1,040,000	165,000	1,205,000
2015	685,000	280,000	105,000	1,070,000	1,085,000	175,000	1,260,000
2016	710,000	290,000		1,000,000	1,125,000	185,000	1,310,000
2017-2021	4,005,000	1,635,000		5,640,000	6,410,000	1,085,000	7,495,000
2022-2026	5,095,000	2,105,000		7,200,000	4,590,000	1,505,000	6,095,000
2027-2031	1,690,000	2,675,000		4,365,000		2,135,000	2,135,000
2032-2036	115,000	3,395,000		3,510,000		3,055,000	3,055,000
2037-2041		4,355,000		4,355,000		730,000	730,000
2042		1,010,000		1,010,000			
	$ 14,230,000	$ 16,280,000	$ 390,000	$ 30,900,000	$ 15,250,000	$ 9,195,000	$ 24,445,000

NOTE 9 LONG-TERM DEBT (Continued)

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, 2011:

Governmental Funds	$ 1,406,485
Internal Service Funds	101,595
Subtotal Governmental Activities	1,508,080
Business-type Funds	213,519
Total	$ 1,721,599

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 2010-11 there were no significant reductions in insurance coverage.

B. 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.

NOTE 10 OTHER INFORMATION (Continued)

B. Risk Pool Arrangements (Continued)

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

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

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

General Liability Insurance – Annual premiums are paid by the member cities and are adjusted retrospectively to cover costs. The City of Eureka self-insures for the first $25,000 of 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, 2011:

Total Assets	$ 17,941,577
Total Liabilities	14,408,878
Total Net Assets	3,532,699
Total Revenues	9,159,160
Total Expenses	10,976,106
(Decrease) in Net Assets	(1,816,946)
Total Long-Term Debt	14,408,878

NOTE 10 OTHER INFORMATION (Continued)

B. Risk Pool Arrangements (Continued)

Other Insurance Programs

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

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

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

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

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, 2011 and June 30, 2010:

	General Liability Insurance	Worker's Compensation Insurance	Total
Accrued claims payable, June 30, 2009	$ 190,037	$ 99,889	$ 289,926
Provision for insured events payments	740,601	542,928	1,283,529
Payments made to public entity risk pool	(726,133)	(461,272)	(1,187,405)
Direct payments made by the City	(50,327)	(103,946)	(154,273)
Accrued claims payable, June 30, 2010	154,178	77,599	231,777
Provision for insured events payments	659,969	498,620	1,158,589
Payments made to public entity risk pool	(660,587)	(435,572)	(1,096,159)
Direct payments made by the City	(43,678)	(42,805)	(86,483)
Accrued claims payable, June 30, 2011	$ 109,882	$ 97,842	$ 207,724

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Local Employees' Retirement System (LERS):

Plan description

The City of Eureka (City) is the administrator of the Fire and Police Pension Benefits Plan (Plan), which is a single-employer public employee retirement system (LERS) originally established by the City in accordance with the City charter and state statutes 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.

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 of the City and is included in the City's financial statements as a fiduciary fund. As of June 30, 2011, 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 5 fiscal years, contributions were not made in accordance with actuarially determined requirements. During the 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 the fiscal year 2007-08. During the fiscal years 2008-09, 2009-10, and 2010-11, 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 2010-11 fiscal year was as follows:

Annual required contribution	$ 14,660
Interest on net pension obligation	(25,263)
Adjustments to annual required contribution	43,353
Annual pension cost	32,750
Contributions made	(200,696)
Increase (decrease) in net pension obligation	(167,946)
Net pension obligation (assets), beginning of fiscal year	(421,056)
Net pension obligation (assets), end of fiscal year	$ (589,002)

The annual required contribution for the fiscal year 2010-11 was determined as part of the June 30, 2011, actuarial review using the entry age normal cost method, with the determination of the initial unfunded actuarial liability as of June 30, 1988, 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.

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 the 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 2008-09 calculations were 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 amortized over fifteen years from the date of recognition, and gains and losses created due to a change in actuarial assumptions amortized over thirty years. The June 30, 2011 actuarial valuation bases the calculations on the entry age normal cost method, with the initial unfunded liability amortized over a thirty year period starting on July 1, 1975, actuarial experience gains and losses being amortized over fifteen years, and gains and losses created due to a change in actuarial assumptions being amortized over thirty years. Except for the change in amortization of the initial unfunded liability from forty to thirty years noted above, there were no other material changes in the actuarial assumptions or benefit provisions.

Three year trend information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	$ (35,487)	100.00%	$ (212,260)
2010	8,496	100.00%	(421,056)
2011	14,660	100.00%	(589,002)

Funded Status — Most Recent Actuarial Valuation

According to the Plan's June 30, 2011 actuarial valuation, total actuarial assets of $15,016 represented 0.32% of the total actuarial accrued liabilities of $4,682,353 as of June 30, 2011. Additionally, total unfunded actuarial liabilities were $4,667,337 at June 30, 2011 according to the valuation. For multiyear trend information, please refer to the schedules of funding progress in the supplementary information section of these financial statements. As noted in GASB Statement No. 50, this reference to the schedules of funding progress does not represent or imply incorporation of the schedules of funding progress into notes to the financial statements.

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Public Employees' Retirement System (PERS)

Plan description

The City of Eureka contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. As of July 1, 2005, the City was mandated by the State to participate in the risk pool. The risk pool combines the assets and liabilities across employers of the same risk pool to provide a method to spread the risk of uncertain gains and losses over a larger base of members. Benefit provisions and all other requirements are established by state statute and Ordinance. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Annual Required Contribution

The City is required to contribute at an actuarially determined rate; the current rate is 17.251% for miscellaneous employees and 34.016% for safety employees for the fiscal year ended June 30, 2011 of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by CalPERS. The City, due to a collective bargaining agreement, also has a legal obligation to contribute 8% (9% for safety employees) of each participant's annual covered salary. The City's contributions to CalPERS for the fiscal years ended June 30, 2011, 2010, and 2009 were $4,523,703, $3,353,516, and $3,298,795 respectively, and were equal to required contributions for each fiscal year.

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

There are pending claims and litigation against the City, which are considered normal to the City's operation. City management is of the opinion that potential claims against the City not covered by insurance resulting from such litigation would not materially affect the basic financial statements of the City beyond funded reserves.

ERAF and SERAF Contingency

During the fiscal year 2008-2009, the State of California experienced a severe budgetary crisis. Various "budget trailer bills" were passed by the state legislature to balance the state's budget, including bills that required California redevelopment agencies to transfer funds to the Educational Revenue Augmentation Fund (ERAF) and Supplemental Educational Revenue Augmentation Fund (SERAF) administered by the various county auditor-controllers. Noted below is a general explanation of the ERAF and SERAF legislation, together with the effect of this legislation on the City of Healdsburg and its Redevelopment Agency (Agency).

Pursuant to AB 26 4x, a budget trailer bill, California redevelopment agencies were required to make SERAF contributions totaling $1.7 billion for the fiscal year 2009-2010 and $350 million for the fiscal year 2010-2011. Under AB 26 4x, agencies may borrow a portion of the required contributions from their low and moderate income housing fund. Alternatively, sponsoring governmental agencies (the cities or counties) may elect to pay the SERAF contributions on behalf of their redevelopment agencies. On October 20, 2009, the CRA filed a class action lawsuit on behalf of all California redevelopment agencies, again challenging the SERAF obligations as unconstitutional.

It is the position of Agency officials that the SERAF contributions required by AB 26 4x are unconstitutional, and that the Agency is not obligated to make these contributions. Accordingly, the Agency supports the CRA's class action lawsuit to overturn the provisions of AB 26 4x.

The Agency made its contribution of $338,597 for the fiscal year 2010-2011.

The Agency is involved in litigation arising in the normal course of business. In the opinion of the Agency's counsel and management, this litigation will not have a material adverse effect on the financial condition on the Agency.

The Redevelopment Agency operates pursuant to the provisions of California Redevelopment Law (Health & Safety Code Section 33000 et seq.). On June 28, 2011, the California Legislature adopted Assembly Bill XI 26 (Dissolution Act) and Assembly Bill XI 27 (Continuation Act). The express purpose of the Dissolution Act was to provide for the elimination of redevelopment agencies, and to direct the orderly distribution of a former redevelopment agency's assets and liabilities. The purpose of Continuation Act was to provide a voluntary alternative for local governments to continue redevelopment activities. Taken together, these Acts require the Agency and its sponsoring community (the City) to take several legislative actions to implement their various provisions.

NOTE 15 SUBSEQUENT EVENTS

Assembly Bill IX 26 (Dissolution Act)

On June 28, 2011, the California Legislature adopted Assembly Bill XI 26 (Dissolution Act) and Assembly Bill XI 27 (Continuation Act) (additional information on this legislation is available in Note 13). On August 22, 2011, the Board of Directors of the Redevelopment Agency adopted the Enforceable Obligation Payment schedule. This schedule is required by the Dissolution Act. No other actions have been taken in light of the stay orders issued by the California Supreme Court California Redevelopment Assn. v. Matosantos (SI94861). If the Dissolution Act and Continuation Act are upheld, the Agency will be required to make a determination to continue or to dissolve the Agency. These actions will be taken subsequent to the issuance of this report.

On December 29, 2011, the California Supreme Court rendered an opinion upholding the State of California's rights to abolish redevelopment agencies (Assembly Bill 1X 26). The California Supreme Court also rendered an opinion invalidating the State of California's allowance of redevelopment agencies to make payments to various funds benefitting schools and special districts as a condition of continued operation (Assembly Bill 1X 27). Under the timeline of the AB XI26, if the City of Healdsburg does not want to serve as the "successor agency" to its redevelopment agency, then it must submit a resolution to that effect to the County Auditor-Controller by January 13, 2012. If the City wishes to serve as the "successor agency", no action is required and the redevelopment agency will be dissolved starting February 1, 2012.

Management's Review of Subsequent Events

In preparing the accompanying financial statement, the City management has reviewed all known events that have occurred after June 30, 2011, and through March 26, 2012, the date when this financial statement was available to be issued, for inclusion in the financial statements and footnotes.

NOTE 16 NET ASSETS AND FUND BALANCES

GASB Statement No. 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

a. Net Assets

Net assets are divided into three classifications under GASB Statement No. 34. These classifications apply only to net assets as determined at the government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of net assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of net assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include debt service requirements, and redevelopment funds restricted to low and moderate income housing purposes.

NOTE 16 NET ASSETS AND FUND BALANCES (Continued)

a. Net Assets (Continued)

Unrestricted describes the portion of net assets which is not restricted as to use.

The government-wide statement of net assets reports $32,025,293 of restricted net assets, of which $0 is restricted by enabling legislation.

b. Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below.

Fund Balances	General	Redevelopment Agency Low/Moderate Income	Redevelopment Agency Debt Service	Nonmajor Governmental Funds	Total
Nonspendable:					
Prepaid expenditures	$ 5,879	$ -	$ -	$ -	$ 5,879
Total Nonspendable	5,879				5,879
Restricted for:					
Housing		1,765,573		1,866,754	3,632,327
Law enforcement				601,565	601,565
Public health				12,267	12,267
Road improvements				1,639,450	1,639,450
Airport				225,190	225,190
Debt service				49,418	49,418
Redevelopment				6,669,420	6,669,420
Total Restricted		1,765,573		11,064,064	12,829,637
Unassigned:	2,056,339		(3,393,275)	(503,737)	(1,840,673)
Total Fund Balances	$ 2,062,218	$ 1,765,573	$ (3,393,275)	$ 10,560,327	$ 10,994,843

NOTE 17 PRIOR PERIOD ADJUSTMENTS

Reason for adjustments	Government-wide Statements	General Fund	Redevelopment Debt Service Fund	Redevelopment Capital Projects Fund	Public Finance Authority Debt Service Fund
(Overstatement) of cash and investments with fiscal agents	$ (829,906)	$ -	$ -	$ -	$ (829,906)
Understatement of cash and investments with fiscal agents	829,906		773,673	56,233	
(Overstatement) of accounts receivable	(204,769)	(204,769)			
Understatement of accounts payable	17,906	17,906			
	$ (186,863)	$ (186,863)	$ 773,673	$ 56,233	$ (829,906)

Reason for adjustments	Government-wide Statements	Wastewater Enterprise Fund	Building Enterprise Fund
(Overstatement) of accounts receivable	$ (329,016)	$ (40,349)	$ (288,667)
	$ (329,016)	$ (40,349)	$ (288,667)