

# Eureka Public Financing Authority

Eureka, California

*Basic Financial Statements  
and Independent Auditors' Reports*

*For the year ended June 30, 2010*

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

**Eureka Public Financing Authority**  
**For the year ended June 30, 2010**

**Table of Contents**

---

---

	<u>Page</u>
<b>Authority Board Members</b> .....	i
<b>Independent Auditors' Report</b> .....	1
<b>Basic Financial Statements:</b>	
Government-Wide Financial Statements:	
Statement of Net Assets .....	6
Statement of Activities and Changes in Net Assets .....	7
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	10
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets .....	11
Statement of Revenues, Expenditures and Changes in Fund Balances.....	12
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets.....	13
Notes to Basic Financial Statements .....	15
<b>Supplementary Information:</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual: Debt Service Fund.....	29
<b>Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b> .....	31

**EUREKA PUBLIC FINANCING AUTHORITY**  
Eureka, California

June 30, 2010

**AUTHORITY BOARD MEMBERS**

<b><u>NAME</u></b>	<b><u>POSITION</u></b>
Virginia Bass	Chairperson
Larry Glass	Member
Linda Atkins	Member
Jeff Leonard	Member
Frank Jager	Member
Mike Jones	Member

**ADMINISTRATION**

David W. Tyson	Executive Director
----------------	--------------------

**MAILING ADDRESS**

531 K Street  
Eureka, CA 95501-1165  
707-441-4100  
Facsimile 707-441-4138

## INDEPENDENT AUDITORS' REPORT

To the Members of the Board  
of the Eureka Public Financing Authority  
Eureka, California

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

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

As described in Note 1 to the basic financial statements, these basic financial statements present only the Authority and are not intended to present fairly the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Authority's as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Members of the Board  
of the Eureka Public Financing Authority  
Eureka, California  
Page 2

The Authority has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the financial statement.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The budgetary comparison information for the Debt Service fund is presented for purposes of additional analysis and is not a required part of the financial statements. The budgetary comparison information for the Debt Service Fund is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Caporicci & Larson, Inc.*

Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
San Francisco, California  
April 5, 2012

## **BASIC FINANCIAL STATEMENTS**

*This page intentionally left blank.*

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**Eureka Public Financing Authority**  
**Statement of Net Assets**  
**June 30, 2010**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Restricted cash and investments	\$ 829,906
Interest receivable	214,467
Total current assets	<u>1,044,373</u>
Noncurrent assets:	
Note and loan receivable, net of allowance for uncollectible	15,250,000
Lease Receivable	7,800,682
Deferred charges - net of accumulated amortization	252,095
Total noncurrent assets	<u>23,302,777</u>
<b>Total assets</b>	<u>24,347,150</u>
<b>LIABILITIES</b>	
Current liabilities:	
Due to City of Eureka	10
Interest payable	214,467
Total current liabilities	<u>214,477</u>
Noncurrent liabilities:	
Long-term debt - due in more than one year	24,291,009
Total noncurrent liabilities	<u>24,291,009</u>
<b>Total liabilities</b>	<u>24,505,486</u>
<b>NET ASSETS</b>	
Restricted for:	
Debt Service	(158,336)
<b>Total net assets</b>	<u>\$ (158,336)</u>

See accompanying Notes to Basic Financial Statements.

**Eureka Public Financing Authority**  
**Statement of Activities and Changes in Net Assets**  
**For the year ended June 30, 2010**

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
<b>Primary government:</b>				
Governmental activities:				
Interest on long-term debt	\$ 944,796	\$ -	\$ -	\$ (944,796)
<b>Total primary government</b>	<b>\$ 944,796</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (944,796)</b>
<b>General revenues:</b>				
				782,389
Use of money and property				
Other				3,546
<b>Total general revenues and transfers</b>				<b>785,935</b>
<b>Change in net assets</b>				<b>(158,861)</b>
<b>Net assets - beginning of year</b>				<b>525</b>
<b>Net assets - end of year</b>				<b>\$ (158,336)</b>

See accompanying Notes to Basic Financial Statements.

*This page intentionally left blank.*

## **FUND FINANCIAL STATEMENTS**

**Eureka Public Financing Authority**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2010**

---

	Debt Service Fund
	<u>                    </u>
<b>ASSETS</b>	
Restricted cash and investments	829,906
Note and loan Receivable - Eureka Redevelopment Agency	15,250,000
Lease Receivable - City of Eureka	<u>7,797,618</u>
<b>Total assets</b>	<u><u>\$ 23,877,524</u></u>
<b>LIABILITIES AND FUND BALANCES</b>	
<b>Liabilities:</b>	
Due to City of Eureka	10
Deferred revenue	<u>7,797,618</u>
<b>Total liabilities</b>	<u>7,797,628</u>
<b>Fund Balances:</b>	
Reserved for:	
Loan Receivable	15,250,000
Debt service	<u>829,896</u>
<b>Total fund balances</b>	<u>16,079,896</u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 23,877,524</u></u>

See accompanying Notes to Basic Financial Statements.

**Eureka Public Financing Authority**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Assets**  
**June 30, 2010**

---

<b>Total Fund Balances - Total Governmental Funds</b>	\$ 16,079,896
Amounts reported for governmental activities in the Statement of Net Assets were different because:	
Interest receivable on long-term assets is not a current resource and therefore is not recognized in the governmental funds	214,467
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in the Governmental Fund Balance Sheet	(214,467)
Deferred charges on issuance of long-term debt were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. This amount is to be amortized over the life of the long-term debt.	252,095
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet	(24,287,945)
Deferred revenue is recognized in the governmental funds for taxes receivable and loans receivable which are not deferred in the government-wide statements of net assets.	7,797,618
<b>Net Assets of Governmental Activities</b>	<u><u>\$ (158,336)</u></u>

See accompanying Notes to Basic Financial Statements.

**Eureka Public Financing Authority**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund**  
**For the year ended June 30, 2010**

	Debt Service Fund
<b>REVENUES:</b>	
Investment Income	678,343
Other revenues	3,546
<b>Total revenues</b>	<u>681,889</u>
<b>EXPENDITURES:</b>	
Debt service:	
Interest & fiscal charges	835,527
Cost of issuance	257,200
<b>Total expenditures</b>	<u>1,092,727</u>
<b>REVENUES (UNDER) EXPENDITURES</b>	<u>(410,838)</u>
<b>OTHER FINANCING SOURCES (USES):</b>	
Proceeds from issuance of debt	9,195,000
Bond Discount	(157,055)
Transfers to City of Eureka	(7,797,618)
<b>Total other financing sources</b>	<u>1,240,327</u>
<b>Net change in fund balances</b>	829,489
<b>FUND BALANCES:</b>	
Beginning of year	<u>15,250,407</u>
End of year	<u>\$ 16,079,896</u>

See accompanying Notes to Basic Financial Statements.

# Eureka Public Financing Authority

## Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets For the year ended June 30, 2010

---

---

Net Change in Fund Balances - Total Governmental Funds \$ 829,489

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:

Bond issuance costs are expensed in the governmental funds. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the bond issuance costs are allocated over the life of the bonds 257,200

Costs of issuance of bonds was an expenditure in governmental funds, but in the Government-Wide Statement of Net Assets, deferred charges were recorded and are being amortized over the life of the bond. This amount is the current year amortization expense. (5,105)

Bond proceeds provided current financial resources to governmental funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Assets. (9,195,000)

Bond issuance discounts are recognized as other financing uses in the governmental funds. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the bond issuance discounts are amortized over the life of the bonds.

-This amount represents current year bond issuance discount 157,055  
-This amount represents current year amortization (3,064)

Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in governmental funds. 101,100

Interest revenue that was earned on loans and notes receivable in the current year, but was not collected is not reported in governmental funds as they are not available to pay for current period expenditures. (98,036)

Lease revenues that did not meet the revenue recognition criteria in the governmental funds but were recognized as revenue in the Government-Wide Financial Statements 7,797,500

**Change in Net Assets of Governmental Activities** \$ (158,861)

*This page intentionally left blank.*

## **NOTES TO BASIC FINANCIAL STATEMENTS**

**Eureka Public Financing Authority**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2010**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Eureka, California (City) created the Authority to sell bonds and lend the proceeds of bond issues to the City of Eureka (City) and the Eureka Redevelopment Agency (Agency). The City Council also functions as the Board of the Authority. The City has control over all administrative, budgeting, and accounting functions of the Authority. The Authority is for financial reporting purposes, a component of the City. Due to the close relationship which exists between the two entities and due to the degree of control exercised by the City over the financial affairs of the Authority, all of the funds of the Authority have been included in the Comprehensive Annual Financial Report of the City.

**B. Basis of Presentation**

The accounts of the Authority are organized on the basis of funds each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled.

**Government - Wide Financial Statements**

The Authority's government-wide financial statements include the Statement of Net Assets and the Statement of Activities and changes in Net Assets. These statements present summaries of governmental activities for the Authority.

These basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets and liabilities, including long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities and Changes in Net Assets 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 of the Authority in these categories:

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

The Authority applies all applicable GASB pronouncements (including 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.

**Eureka Public Financing Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Accounting and Measurement Focus, Continued**

**Governmental Fund Financial Statements**

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance for the major governmental fund. 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.

The Debt Service Fund is used to account for the accumulation of financial resources for the payment of long-term debt principal, interest, and related costs. As with all governmental funds, the Debt Service Fund is 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 Balance presents 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 as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within 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. The primary revenue source, which has been treated as susceptible to accrual by the Authority, is interest revenue. 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. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurrent 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 and revenue is recognized.

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.

**Eureka Public Financing Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*C. Cash and Investments*

Cash and investments include amounts held by a trustee servicing the indebtedness of the 2003 Revenue Refunding Bond issue. These amounts are invested according to terms of the bond indenture. Highly liquid money 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.

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

*D. Loans to Eureka Redevelopment Agency*

The City created the Authority to sell bonds and to loan the proceeds of the bond issues to the Agency. The associated receivable is recorded in the Authority's Debt Service Fund as "Loans to Eureka Redevelopment Agency."

*E. Fund Balances*

Governmental fund equity consists primarily of two components: reserved fund balances which represent that portion which is not available for appropriation, or is legally segregated for a specific future use; and unreserved fund balances which may be designated to indicate tentative plans for a future period. As of June 30, 2010, \$15,250,000 is reserved from the long-term loan receivable.

**Eureka Public Financing Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**F. *Deferred Bond Issue Costs***

The Authority issues bonds and paid cost of issuance related to the bonds. The issuance costs and deferred gain or loss on refunding are capitalized in the Statement of Net Assets and amortized over the life of the bonds as appropriate.

**G. *Net Assets***

In the government-wide financial statements, net assets are classified in the following categories:

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

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "restricted net assets."

**H. *Use of Estimates***

The preparation of basic financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**I. *Budgetary accounting***

Annual appropriated budgets are adopted for governmental funds of the Authority. All appropriates lapse at fiscal year-end.

Budgetary basis financial statements include revenues and expenditures which are not presented in accordance with Accounting Principles Generally Accepted in the United States of America (USGAAP). Revenues include repayments of loans receivable and other items which on a USGAAP basis are considered as reclassifications of fund balance between reserved fund balance and unreserved fund balance. Non-USGAAP expenditures include encumbrances.

The Executive Director submitted the budget to the Authority for review and public hearing pursuant to Section 704 of the City Charter. Subsequently, the Board enacted resolutions to adopt the budget and to appropriate the maximum expenditure authorized for function, department, and/or activity.

**Eureka Public Financing Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**2. CASH AND INVESTMENTS**

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Restricted Cash and investments	\$ 829,906
Total cash and investments	<u>\$ 829,906</u>

**Cash and investments**

Restricted Cash and investments for the Authority was \$829,906 June 30, 2010.

***Investments Authorized by the California Government Code and the Agency's Investment Policy***

The table below identifies the investment types that are authorized for the Authority by the California Government Code (or the Authority's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Authority'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 Authority, rather than the general provisions of the California Government Code or the Authority's investment policy.

Authorized Investment Type	Maximum Maturity	Percentage of Portfolio	Investment of One Issuer
Bankers Acceptances	180 days	40%	None
Certificates of Deposits	180 days	20%	None
Negotiable Certificates of Deposit	2 years	30%	None
Commercial Paper	270 days	25%	None
State of California Local Agency Investment Fund (State Pool)	N/A	Unlimited	\$40,000,000
Medium Term Notes	5 years	30%	None
Money Market Funds	N/A	Unlimited	None
Passbook Savings and Money Market Accounts (Insured)	None	Unlimited	None
U.S. Treasury Obligations	None	Unlimited	None
U.s. Government Agency Issues	None	Unlimited	None
Repurchase Agreements	30 days	10%	None
Mortgage pass-through and Asset Backed Securities	5 years	20%	None

**Eureka Public Financing Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**2. CASH AND INVESTMENTS, Continued**

*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 Authority'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	Percentage of Portfolio	Investment of One Issuer
Certificates of Deposit with Banks and Savings & Loans	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Municipal Obligations	None	None	None
Banker's Acceptances	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Local Agency Investment Fund (State Pool)	None	None	None

Investment Type	Totals	12 Months or Less
Money market fund	\$ 829,906	\$ 829,906

**Disclosure 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 rating agency. Presented below is the minimum rating required (where applicable) by the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt from Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
Money market fund	\$ 829,906	N/A	\$ -	\$ -	\$ -	\$ -	\$ 829,906

**Eureka Public Financing Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

**2. CASH AND INVESTMENTS, Continued**

**Concentration of Credit Risk**

The investment policy of the Authority contains limitations on the amount that can be invested in any one issuer. The Authority has no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Agency investments.

**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 Authority'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 governmental 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 Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The Authority pools its cash with the City of Eureka including deposits accounts. The Authority did not have any pooled cash and investments with the City as of June 30, 2010.

As of June 30, 2010, the Authority had no investments that were held by the same broker dealer (counterparty) that was used by the Authority to buy securities. The reader's attention is directed to the City of Eureka's Comprehensive Annual Financial Report for more information relating to custodial credit risk for amounts reported as cash and investments pooled with the City of Eureka.

**3. PROPERTY TAXES**

Although the Authority does not receive property tax revenues directly, the Agency receives tax increment funds from Humboldt County in accordance with the California Code Section 33670. These tax increment funds may be used by the Agency to pay the principal and interest on loans made by the Authority.

**Eureka Public Financing Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**4. LOANS TO EUREKA REDEVELOPMENT AGENCY**

The Authority loaned the proceeds of the “Eureka Public Financing Authority 2003 Revenue Refunding Bonds (Eureka Redevelopment Projects)” to the Agency as a long-term loan for construction of improvement projects by the Agency. The loan is being repaid by the Agency from tax increment receipts. There is no specified maturity dates as the amounts are being repaid whenever funds become available. The interest rate on this loan varies from 4.00% to 4.80%. The outstanding balance of the loan at June 30<sup>th</sup>, 2010 is \$15,250,000.

**5. BONDS PAYABLE**

*A. Changes in Long-term Debt*

	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010	Due in One Year
<b>Governmental activities</b>					
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	-
Less deferred amounts					
Discount	-	(157,055)	3,064	(153,991)	-
Bonds payable, net	15,250,000	9,037,945	3,064	24,291,009	-

*B. 2003 Tax Allocation Revenue Refunding Bonds*

On October 1, 2003 the Authority issued 2003 Tax Allocation Revenue Refunding Bonds issued by Eureka Public Financing Authority (Authority), in the amount of \$15,250,000. OF the total bonds issued, \$13,741,887 was used to refund the Authority’s \$13,140,000 outstanding 1993 Tax Allocation Revenue Refunding Bonds, and the remainder was used to fund reserve accounts, and loan agreements between the Authority and the Eureka Redevelopment Agency (Agency) and to pay the costs of issuing the bonds. 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 November 1 each fiscal year from 2012 through 2023. These bonds are secured by a first lien on and pledge of all the amounts payable by the Agency and the Authority pursuant to the loan agreement between the Agency and the Authority, and other revenues specified in the indentures. The loan agreement is secured by a first pledge of and lien on the incremental tax revenues received by the Agency from redevelopment project areas. The 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.

The outstanding balance of the bonds as of June 30, 2010 was \$15,250,000.

**Eureka Public Financing Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**5. BONDS PAYABLE, Continued**

*B.2003 Tax Allocation Revenue Refunding Bonds, continued*

The annual requirements to amortize the outstanding bonded indebtedness are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ -	\$ 678,343	\$ 678,343
2012		678,343	678,343
2013	1,000,000	678,343	1,678,343
2014	1,040,000	638,343	1,678,343
2015	1,085,000	596,743	1,681,743
2016-2020	6,140,000	2,254,493	8,394,493
2021-2024	5,985,000	727,337	6,712,337
	\$ 15,250,000	\$ 6,251,945	\$ 21,501,945

**C. 2010 Lease Revenue Bonds, Series A (Taxable) and Series B (Tax Exempt)**

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 with a discount of \$89,468. The purpose of this issue was to pay back notes owed to the 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, 2010 was \$4,872,321.

The 2010 Lease Revenue Bonds, Series B (Tax Exempt) were issued in the amount of \$4,235,000 with a discount of \$67,587. 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 year from 2012 through 2037, the termination date of the agency at which time the remaining balance becomes due. The bonds were issued with \$67,587 discount. The outstanding balance as of June 30, 2010 was \$4,168,688.

**Eureka Public Financing Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**5. BONDS PAYABLE, Continued**

*C. 2010 Lease Revenue Bonds, Series A (Taxable) and Series B (Tax Exempt)*

These bonds are secured by lease income paid to the Authority by the City for use of the Boardwalk. The City will be reimbursed for these lease payments by the Redevelopment Agency.

Year Ended June 30,	Series A Bonds		Series B Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ -	\$ 370,675	\$ -	\$ 237,786	\$ -	\$ 608,461
2012	-	370,675	-	237,786	-	608,461
2013	115,000	367,513	45,000	237,280	160,000	604,793
2014	120,000	361,050	45,000	236,155	165,000	597,205
2015	125,000	354,313	50,000	234,724	175,000	589,037
2016-2020	755,000	1,637,663	270,000	1,142,777	1,025,000	2,780,440
2021-2025	1,060,000	1,316,913	345,000	1,067,240	1,405,000	2,384,153
2026-2030	1,535,000	824,738	450,000	956,839	1,985,000	1,781,577
2031-2035	1,250,000	155,200	1,610,000	746,351	2,860,000	901,551
2036-2037	-	-	1,420,000	63,157	1,420,000	63,157
Subtotal	\$ 4,960,000	\$ 5,758,740	\$ 4,235,000	\$ 5,160,095	\$ 9,195,000	\$ 10,918,835
Discount	(87,679)	-	(66,312)	-	(153,991)	-
Total	\$ 4,872,321	\$ 5,758,740	\$ 4,168,688	\$ 5,160,095	\$ 9,041,009	\$ 10,918,835

**6. SUBSEQUENT EVENT**

Management has evaluated subsequent events through April 5, 2012 and except as described below, no other events requiring recognition in, or disclosure of, within the financial statements were identified.

On December 29, 2011, the Supreme Court of the State of California upheld the enforceability of legislation (Assembly Bill X1 26) that provides for the dissolutions of California redevelopment agencies, but struck down the Assembly Bill X1 27 which would have provided a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program.

Assembly Bill X1 26 signed into law as part of the State's budget package on June 29, 2011, requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets, prepare for the impending dissolution of the agency, and transfer all of its assets to a successor agency that is governed by an oversight board representing the various taxing jurisdictions in the community.

Assembly Bill X1 26 also required each agency to adopt an Enforceable Obligation Payment Schedule and draft a Recognized Obligation Payment Schedule prior to September 30, 2011.

**Eureka Public Financing Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

**6. SUBSEQUENT EVENT, Continued**

Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in Assembly Bill X1 26. Only the amount of tax revenues necessary to fund the payments reflected on the Enforceable Obligation Payment Schedule will be allocated to the successor agencies.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

The full impacts of this most recent development and its impact on other funds of the City are not known at this time. The financial statements do not reflect any adjustments that might result from the outcome of this uncertainty.

## **SUPPLEMENTARY INFORMATION**

*This page intentionally left blank*

# Eureka Public Financing Authority

## Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

### Debt Service Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Investment income	\$ 678,943	\$ 678,943	\$ 678,343	\$ (600)
Other revenues	-	-	3,546	3,546
<b>Total revenues</b>	<b>678,943</b>	<b>678,943</b>	<b>681,889</b>	<b>2,946</b>
<b>EXPENDITURES:</b>				
Debt service:				
Interest and fiscal charges	678,343	1,092,598	835,527	257,071
Cost of issuance	-	-	257,200	(257,200)
<b>Total expenditures</b>	<b>678,343</b>	<b>1,092,598</b>	<b>1,092,727</b>	<b>(129)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>600</b>	<b>(413,655)</b>	<b>(410,838)</b>	<b>2,817</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from issuance of debt	-	9,195,000	9,195,000	-
Bond Discount	-	-	(157,055)	(157,055)
Transfers to City of Eureka	-	(8,780,746)	(7,797,618)	983,128
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(8,780,746)</b>	<b>1,240,327</b>	<b>826,073</b>
<b>Net change in fund balance</b>	<b>\$ 600</b>	<b>\$ (9,194,401)</b>	<b>829,489</b>	<b>\$ 828,890</b>
<b>FUND BALANCE:</b>				
Beginning of year			15,250,407	
End of year			\$ 16,079,896	

*This page intentionally left blank.*



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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Members of the Board  
of the Eureka Public Financing Authority  
Eureka, California

We have audited the financial statements of the Eureka Public Financing Authority (the "Authority"), a component unit of the City of Eureka, California (the "City"), as of and for the year ended June 30, 2010, and have issued our report thereon dated April 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the Authority's internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

To the Members of the Board  
of the Eureka Public Financing Authority  
Eureka, California  
Page 2

This report is intended solely for the information and use of management, the Members of the Board, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

*Caporicci & Larson, Inc.*

Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
San Francisco, California  
April 5, 2012