EUREKA PUBLIC FINANCING AUTHORITY
EUREKA, CALIFORNIA

BASIC FINANCIAL STATEMENTS
June 30, 2011

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Eureka, California
June 30, 2011

AUTHORITY BOARD MEMBERS

NAME	POSITION
Frank Jager	Chairperson
Marian Brady	Member
Linda Atkins	Member
Mike Newman	Member
Melinda Ciarabellini	Member
Lance Madsen	Member

ADMINISTRATION

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and the major fund of the Eureka Public Financing Authority (Authority), as of and for the fiscal year ended June 30, 2011, 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 opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority as of June 30, 2011, and the respective changes in financial position for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the notes to the basic financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 59, *Financial Instruments Omnibus,* effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 26, 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the 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 relates directly to the underlying 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.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
March 26, 2012

BASIC FINANCIAL STATEMENTS

EUREKA PUBLIC FINANCING AUTHORITY
STATEMENT OF NET ASSETS
June 30, 2011

	Governmental Activities
ASSETS	
Current Assets:	
Cash and investments	$ 30,189
Interest receivable	288,349
Total Current Assets	318,538
Noncurrent Assets:	
Note and loan receivable	15,250,000
Leases receivable	25,475,000
Total Noncurrent Assets	40,725,000
Total Assets	41,043,538
LIABILITIES	
Current Liabilities:	
Interest payable	269,120
Total Current Liabilities	269,120
Noncurrent Liabilities:	
Long-term debt, due in more than one year	40,725,000
Total Noncurrent Liabilities	40,725,000
Total Liabilities	40,994,120
NET ASSETS	
Restricted for debt service	49,418
Total Net Assets	$ 49,418

The accompanying notes are an integral part of these financial statements.

EUREKA PUBLIC FINANCING AUTHORITY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2011

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:					
Interest and fiscal charges on long-term debt	$ 1,342,257	$ -	$ -	$ -	$ (1,342,257)
Total governmental activities	$ 1,342,257	$ -	$ -	$ -	(1,342,257)
	General Revenues:				
	Investment income				49,428
	Lease revenue				1,342,257
	Total General Revenues				1,391,685
	Change in Net Assets				49,428
	Net Assets - beginning of fiscal year				(158,336)
	Prior period adjustment				158,326
	Net Assets - beginning of fiscal year, restated				(10)
	Net Assets - end of fiscal year				$ 49,418

The accompanying notes are an integral part of these basic financial statements.

EUREKA PUBLIC FINANCING AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2011

		Debt Service Fund
ASSETS		
Cash and investments	$	30,189
Interest receivable		19,229
Note and loan receivable		15,250,000
Leases receivable		25,475,000
Total Assets	$	40,774,418
LIABILITIES		
Deferred revenue	$	25,475,000
Total Liabilities		25,475,000
FUND BALANCE		
Restricted for:		
Debt service		15,299,418
Total Fund Balance		15,299,418
Total Liabilities and Fund Balance	$	40,774,418

The accompanying notes are an integral part of these basic financial statements.

EUREKA PUBLIC FINANCING AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2011

Fund balance of governmental fund	$ 15,299,418
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 Fund Balance Sheet	269,120
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	(269,120)
Deferred revenue is recognized in the governmental funds for leases receivable which are not deferred in the government-wide Statement of Net Assets	25,475,000
Long-term debt was not due and payable in the current period Therefore, it was not reported in the Governmental Fund Balance Sheet	(40,725,000)
Net assets of governmental activities	$ 49,418

The accompanying notes are an integral part of these basic financial statements.

EUREKA PUBLIC FINANCING AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Fiscal Year Ended June 30, 2011

	Debt Service Fund
REVENUES	
Lease revenue and investment income	$ 1,337,032
Total Revenues	1,337,032
EXPENDITURES	
Debt service	
Interest and fiscal charges	1,287,604
Total Expenditures	1,287,604
Excess (Deficiency) of Revenues Over (Under) Expenditures	49,428
OTHER FINANCING SOURCES (USES)	
Proceeds from issuance of debt	16,280,000
Transfers out to the City of Eureka	(16,280,000)
Total Other Financing Sources (Uses)	
Net Change in Fund Balance	49,428
Fund Balance, beginning of fiscal year	16,079,896
Prior Period Adjustment	(829,906)
Fund Balance, beginning of fiscal year, restated	15,249,990
Fund Balance, end of fiscal year	$15,299,418

The accompanying notes are an integral part of these basic financial statements.

EUREKA PUBLIC FINANCING AUTHORITY
RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND	$ 49,428
Bond proceeds provided current financial resources to governmental funds, but the issuing debt increased long-term liabilities in the government-wide Statement of Net Assets.	(16,280,000)
The transfer out of funds under the modified accrual basis of accounting in the Governmental Fund has been reflected as a long term lease receivable in the government-wide Statement of Net Assets.	16,280,000
Interest payable on long term debt was reported in the government-wide Statement of Activities and Change in Net Assets, but did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in the Governmental Fund Balance Sheet.	54,653
Interest receivable that was earned on leases, loans, and notes receivable in the current year, but was not collected, is not reported in the Governmental Fund Balance Sheet, as it is not available pay for current period expenditures.	(54,653)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 49,428

The accompanying notes are an integral part of these basic financial statements.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Eureka Public Financing Authority (Authority) 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, California (City) created the Authority to sell bonds and lend the proceeds of bond issues to the 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. Measurement Focus, Basis of Accounting, and Financial Statement 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, revenue, 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 government-wide financial statements include the Statement of Net Assets and the Statement of Activities, and Changes in Net Assets, and report information about the primary government. These statements include the financial activities of the overall Authority.

These basic financial statements are reported using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets and liabilities, including long-term assets and long-term liabilities, are included in the accompanying Statement of Net Assets. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows.

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 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. Expenditures generally are recorded when the liability is incurred, as under accrual accounting.

Certain types of transactions are reported as program revenue for the Authority in three categories:

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

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Government-wide Financial Statements (Continued)

The Authority applies all applicable GASB pronouncements including all NCGA Statement 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 Bulletin (ARB) of the committee on Accounting Procedure.

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 in the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance presents increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized as soon as they are 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 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 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.

C. Cash and Cash Equivalents

Cash and investments include amounts pooled with the City of Eureka. 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(1), in accordance with the provision of the respective bond indenture involved.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Receivable

In the financial statements, receivables consist of all revenues earned at fiscal year-end. Major receivable balances for the governmental activities include lease charges. Under the financing method of accounting for the leases with the City, the minimum leases payable for the remaining term of the leases have been included in the assets of the Authority as "Leases receivable".

E. Assets, Liabilities, Net Assets, and Fund Balances

Long-term Debt

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following fiscal years. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

Fund Financial Statements – Fund Balances

As of June 30, 2011, fund balances of the governmental fund are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the governing board which is the highest level of decision-making authority for the Authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the governing board.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Authority's adopted policy, only the governing board of directors may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Authority considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Authority considers amounts to have been spent first out of expenditure committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Net Assets

In the government-wide financial statements, net assets consist of assets restricted by external creditors, grantors, contributors or laws or regulations of other governments.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. 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 those estimates.

G. New Accounting Pronouncements

The Authority implemented the requirements of GASB Statements No. 54 and No. 59, during the fiscal year ended June 30, 2011.

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

For the fiscal year ended June 30, 2011, the Authority 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. These classifications are described in Note 1E.

GASB Statement No. 59 – Financial Instruments Omnibus

For the fiscal year ended June 30, 2011, the Authority 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 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

General Budget Policies

On or before April 1 of each year, the head of Eureka Public Financing Authority submits a budget for review and hearing. By May 1, the Board adopts the budget and appropriates the expenditures. Expenditures may not exceed budgeted appropriations without Board approval. All annual appropriations lapse at year-end

NOTE 3 – PROPERTY TAXES

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

NOTE 4 - CASH AND INVESTMENTS

The Authority's funds are pooled with the City cash and investments in order to generate optimum investment income. Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments pooled with the City of Eureka	$ 30,189
Total cash and investments	$ 30,189

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 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 trustees 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	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

A. 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 by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate, credit risk, and concentration of credit risk.

NOTE 4 - CASH AND INVESTMENTS (Continued)

A. Investments Authorized by Debt Agreements (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Certificates of Deposits with Banks and Savings & Loans	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Government-Sponsored Enterprise Securities	None	None	None
Municipal Obligations	None	None	None
Bankers' acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Local Agency Investment Fund (State Pool)	None	None	None

B. Disclosures Relating to Interest 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 Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments 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 flows and liquidity needed for operations.

C. Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Authority had no investments (including investments held by bond trustees) as of June 30, 2011.

D. 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 agency.

The Authority had no investments as of June 30, 2011.

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.

NOTE 4 - CASH AND INVESTMENTS (Continued)

D. Disclosures Relating to Credit Risk (Continued)

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 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 Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The Authority pools its cash and investments with the City of Eureka.

NOTE 5 – 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, 2011 is $15,250,000.

NOTE 6 – LEASES RECEIVABLE

The 2010 Lease Revenue Bonds, Series A (Taxable) issued by the Authority and outstanding at June 30, 2011, bear interest at 5.5% to 8.0% a year and mature serially in annual increments on November 1 of each fiscal year, from 2012 through 2032. The lease receivable represents the undivided proportionate interest in certain lease payments, to be made by the City to the Authority. The balance outstanding at June 30, 2011 was $4,960,000.

The 2010 Lease Revenue Bonds, Series B (Tax Exempt) issued by the Authority and outstanding at June 30, 2011, bear interest at 2.25% to 5.875% a year and mature serially in annual increments on November 1 of each fiscal year, from 2012 through 2037. The lease receivable represents the undivided proportionate interest in certain lease payments, to be made by the City to the Authority. The balance outstanding at June 30, 2011 was $4,235,000.

The Wastewater Revenue Bonds, Series 2011 issued by the Authority and outstanding at June 30, 2011, bear interest at 2.00% to 5.00% a year and mature serially in annual increments on October 1 of each fiscal year, from 2012 through 2041. The lease receivable represents the undivided proportionate interest in certain lease payments, to be made by the City to the Authority. The balance outstanding at June 30, 2011 was $16,280,000.

NOTE 6 – LEASES RECEIVABLE (Continued)

Future estimated minimum lease payments to be received are as follows:

Fiscal years Ending June 30,	2010 Series A Revenue Lease	2010 Series B Revenue Lease	2011 Wastewater Revenue Lease	Total Revenue Leases
2012	$ 370,675	$ 237,786	$ 644,059	$ 1,252,520
2013	482,512	282,280	1,037,806	1,802,598
2014	481,050	281,155	1,036,106	1,798,311
2015	479,312	284,724	1,037,856	1,801,892
2016	482,162	282,974	1,037,856	1,802,992
2017-2021	2,389,075	1,410,527	5,171,395	8,970,997
2022-2026	2,374,876	1,412,864	5,184,785	8,972,525
2027-2031	2,352,800	1,410,200	5,175,239	8,938,239
2032-2036	935,600	2,824,794	5,176,222	8,936,616
2037-2041		751,444	5,173,875	5,925,319
2042			1,035,250	1,035,250
	10,348,062	9,178,748	31,710,449	51,237,259
Less amount representing interest	5,388,062	4,943,748	15,430,449	25,762,259
Net investment in lease	$ 4,960,000	$ 4,235,000	$ 16,280,000	$ 25,475,000

NOTE 7 – BONDS PAYABLE

A. Changes in Long-term Debt

	Balance at June 30, 2010	Additions	Prior Period Adjustment	Balance at June 30, 2011	Due in One year
Governmental activities					
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	
2011 Series Wastewater Revenue Bonds		16,280,000		16,280,000	
Less deferred amounts	(157,055)		157,055		
Bonds payable, net	$ 24,287,945	$ 16,280,000	$ 157,055	$ 40,725,000	$ -

NOTE 7 – BONDS PAYABLE (Continued)

B. 2003 Tax Allocation Revenue Bonds

On October 1, 2003, the Authority issued 2003 Tax Allocation Revenue Refunding Bonds 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 Refunding Bonds, and the remainder was used to fund reserve accounts and loan agreements between the Authority and the 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 of November 1 each fiscal year from 2012 through 2024. 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 bond as of June 30, 2011 was $15,250,000.

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:

C. 2010 Lease Revenue Bonds, Series A (Taxable)

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 Agency at which time the remaining balance becomes due. The outstanding balance as of June 30, 2011 was $4,960,000.

NOTE 7 – BONDS PAYABLE (Continued)

D. 2010 Lease Revenue Bonds, Series B (Tax Exempt)

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 Agency to the City 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 June 30,	Series A Bonds		Series B Bonds		Total	
	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

E. Wastewater Revenue Bonds, Series 2011

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.

NOTE 7 – BONDS PAYABLE (Continued)

E. Wastewater Revenue Bonds, Series 2011 (Continued)

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
	$ 16,280,000	$ 15,430,449	$ 31,710,449

NOTE 8 - SUBSEQUENT EVENTS

In preparing the accompanying financial statement, the Authority's 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 9 - PRIOR PERIOD ADJUSTMENTS

A prior period adjustment in the amount of $829,906 was made to the fund balance (governmental fund) due to an overstatement of cash and investments.

A prior period adjustment of $158,326 was made to the government–wide statement of activities due to an overstatement of deferred charges of $252,095; an understatement of deferred revenue of $1,397,382, an overstatement of issuance discounts of $157,055, and an overstatement of cash and investments of $829,906.

SUPPLEMENTARY INFORMATION

EUREKA PUBLIC FINANCING AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Investment income	$ -	$ 49,428	$ 49,428
Other revenues	678,343	1,287,604	609,261
Total Revenues	678,343	1,337,032	658,689
EXPENDITURES			
Debt service:			
Interest and fiscal charges	1,286,804	1,287,604	(800)
Total Expenditures	1,286,804	1,287,604	(800)
Excess (deficiency) of revenues over (under) expenditures	(608,461)	49,428	657,889
OTHER FINANCING SOURCES (USES)			
Proceeds from issuance of debt		16,280,000	16,280,000
Transfers out to the City of Eureka	(1,600,000)	(16,280,000)	(14,680,000)
Total other financing sources (uses)	(1,600,000)		1,600,000
Net change in fund balance	(2,208,461)	49,428	2,257,889
Fund Balance, beginning of fiscal year	16,079,896	16,079,896	
Prior Period Adjustment		(829,906)	(829,906)
Fund Balance, beginning of fiscal year, as restated	16,079,896	15,249,990	(829,906)
Fund Balance, end of fiscal year	$13,871,435	$15,299,418	$ 1,427,983

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INDEPENDENT AUDITOR'S 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 Board of Directors
of the Eureka Public Financing Authority
Eureka, California

We have audited the financial statements of the governmental activities and the major fund of the Eureka Public Financing Authority (Authority) as of and for the fiscal year ended June 30, 2011, and have issued our report thereon, dated March 26, 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

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinions 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 misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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 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 grants, 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

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our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported within a separate letter to the management dated March 26, 2012. Written responses to the findings identified are described in the current year recommendations section of that letter. We did not audit the responses and, accordingly, we express no opinion on them.

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

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
March 26, 2012