

# Eureka Redevelopment Agency

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 Redevelopment Agency**  
**Basic Financial Statements**  
**For the year ended June 30, 2010**

**Table of Contents**

---

	<u>Page</u>
<b>Independent Auditors' Report</b> .....	1
<b>Management's Discussion and Analysis</b> .....	3
<b>Basic Financial Statements:</b>	
Government-Wide Financial Statements:	
Statement of Net Assets .....	12
Statement of Activities and Changes in Net Assets .....	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet .....	16
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide	
Statement of Net Assets .....	17
Statement of Revenues, Expenditures and Changes in Fund Balances .....	18
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 .....	19
Notes to Basic Financial Statements .....	21
<b>Required Supplementary Information:</b>	
Budgets and Budgetary Accounting .....	41
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Low and Moderate Income Housing Special Revenue Fund .....	42
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Redevelopment Administration Special Revenue Fund .....	43
<b>Other Supplementary Information:</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Debt Service Fund .....	47
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Capital Project Fund .....	48
<b>Report on Internal Control over Financial Reporting and on</b>	
<b>Compliance and Other Matters Based on an Audit of Financial</b>	
<b>Statements Performed in Accordance with <i>Government Auditing Standards</i></b> .....	
	49



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

## INDEPENDENT AUDITORS' REPORT

To the Honorable Members of the Governing Board  
of the Eureka Redevelopment Agency  
Eureka, California

We have audited the accompanying basic financial statements of the government activities and each major fund of the Eureka Redevelopment Agency (Agency), a component unit of the City of Eureka, California (City), as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Agency'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 Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic 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 Agency as of June 30, 2010, and the respective changes in financial position 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 7, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Honorable Members of the Governing Board  
of the Eureka Redevelopment Agency  
Eureka, California  
Page 2

The Management Discussion and Analysis and the Required Supplementary Information on pages 3 to 7 and pages 40 to 43, respectively, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The Other Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements. The Other Supplementary Information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Caporicci & Larson, Inc.*

Caporicci & Larson, Inc  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
San Francisco, California  
April 7, 2011

**EUREKA REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2010**

---

As management of the Eureka Redevelopment Agency (the "Agency"), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information contained within the financial statements.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as the introduction to the Agency's basic financial statements. The Agency's financial statements are comprised of three parts; (1) Government-wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to Basic Financial Statements.

**Government-wide Financial Statements**

The Government-wide Financial Statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

*The Statement of Net Assets* presents information on all the Agency's assets and liabilities, with the difference between the two reported as Net Assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

*The Statement of Activities* presents information showing changes in the Agency's net assets during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The Government-wide Financial Statement can be found starting on page 11 of this report.

**Fund Financial Statements**

A fund is a grouping of related accounts, which is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Agency uses four funds within its accounting structure. All four are considered "Major" funds under Government Accounting Standards Board Statement No. 34.

*The Low and Moderate Income Housing Special Revenue Fund* accounts for the resources that are accumulated and used to help provide low-cost housing and housing rehabilitation to low and moderate income households. This fund's resources are derived primarily from 20% of the tax increment revenues that are generated through the Agency's activities.

**EUREKA REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2010**

---

**Fund Financial Statements (Continued)**

*The Redevelopment Administration Special Revenue Fund* accounts for operational costs of the Agency. The activities are supported by loans from the City of Eureka, which are repaid by the Debt Service Fund.

*The Debt Service Fund* is used to account for accumulated resources that are used to repay the Agency's debt obligations. The main funding source for the Debt Service Fund is the remaining tax increment revenues available after the 20% allocation to the Low and Moderate Income Housing Fund. The tax increment revenues in this fund may only be used to repay debt obligations of the Agency.

*The Capital Projects Fund* is used to account for the resources that are accumulated and used to construct capital projects and public improvements that benefit the Agency and the community as a whole. The primary funding sources for the Capital Projects Fund are proceeds from tax allocation bonds and loans from the City of Eureka.

All four of the Agency's funds, when combined, are used to account for the same functions reported as "Governmental Activities" in the government-wide financial statements. Unlike the government-wide financial statements, however, the fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating near-term financing requirements.

Because the focus of the fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the funds with similar information presented for the governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impacts of the Agency's near-term financial decisions. Both the balance sheet and the statement of revenues, expenditures, and changes in the fund balance presented in the fund financial statements provide a reconciliation to facilitate this comparison to the government-wide statements.

The Fund Financial Statements can be found starting on page 15 of this report.

**EUREKA REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2010**

---

**Government-wide Financial Analysis**

The Agency's net assets as reported on the Statement of Net Assets as of June 30, 2010 are \$6,185,282.

As the Agency uses bond and loan proceeds to make capital improvements, resources recorded as assets (cash) are depleted. The capitalized assets become property of the City of Eureka; however, the associated debt remains with the Agency resulting in the net negative position. It should be noted that almost all of the liabilities of the Agency are long-term in nature and will be amortized over the life of the debt, thereby having little impact on current operations. The current portion of the long-term debt that becomes due annually is planned for each year within the Agency's budgetary process. A summary statement of net assets with comparative amounts from last fiscal year are as follows:

**EUREKA REDEVELOPMENT AGENCY  
STATEMENT OF NET ASSETS**

	<u>06/30/10</u>	<u>06/30/09</u>	Increase <u>(Decrease)</u>
<b>ASSETS:</b>			
Cash and investments	\$ 4,882,844	\$ 2,104,967	\$ 2,777,877
Other current assets	5,317,306	5,097,925	219,381
Non-current assets	26,639,905	23,699,590	2,940,315
Total Assets	<u>36,840,055</u>	<u>30,902,482</u>	<u>5,937,573</u>
<b>LIABILITIES:</b>			
Current liabilities	766,944	355,368	411,576
Non-current liabilities	29,887,829	24,798,461	5,089,368
Total Liabilities	<u>30,654,773</u>	<u>25,153,829</u>	<u>5,500,944</u>
<b>NET ASSETS:</b>			
Invested in capital asset, net of related debts	(14,080,447)	-	14,080,447
Restricted	9,740,139	10,177,508	(437,369)
Unrestricted	10,525,590	(4,428,855)	14,954,445
Total Net Assets	<u>\$ 6,185,282</u>	<u>\$ 5,748,653</u>	<u>\$ 436,629</u>

**EUREKA REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2010**

---

**Government-wide Financial Analysis (Continued)**

The Agency's primary source of operating revenues is in the form of property tax increment revenues that are generated as a result of the increase in assessed valuation within the project area from year-to-year. For the fiscal year ended June 30, 2010, tax increment revenues, which are classified as "general revenues", totaled \$4,929,805. Expenses for the Agency as reported on the Statement of Activities totaled \$5,367,403. The majority of these expenses consist of the cost of debt service obligation payments of the Agency, the provision of low and moderate income housing, and general administrative support for the Agency. A summary statement of activities with comparative amounts from last fiscal year follows:

	Fiscal Year Ended <u>6/30/10</u>	Fiscal Year Ended <u>6/30/09</u>	Increase (Decrease)
Program revenues	\$ 1,149,218	\$ 1,896,841	\$ (747,623)
Expenses	<u>(5,367,403)</u>	<u>(4,759,435)</u>	<u>(607,968)</u>
Net program revenues over (under) expenses	(4,218,185)	(2,862,594)	(1,355,591)
General revenues and transfer to City of Eureka	<u>4,654,814</u>	<u>4,288,493</u>	<u>366,321</u>
Change in net assets	<u>436,629</u>	<u>1,425,899</u>	<u>(989,270)</u>
Net assets beginning of fiscal year	5,748,653	4,464,213	1,284,440
Prior Period Adjustments	-	(141,459)	141,459
Net assets - beginning of fiscal year as restated	<u>5,748,653</u>	<u>4,322,754</u>	<u>1,425,899</u>
Net assets end of fiscal year	<u>\$ 6,185,282</u>	<u>\$ 5,748,653</u>	<u>\$ 436,629</u>

**Capital Assets**

The capital assets of the Agency are those assets that are used in the performance of the Agency's functions, including infrastructure. At June 30, 2010, the Agency's capital assets for its governmental activities amounts to \$15,909,187(net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements other than buildings, and construction in progress. Net change to capital assets of the Agency in comparison to the prior year, is an increase of \$1,644,065.

**EUREKA REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2010**

---

**Debt Administration**

At the end of the current fiscal year, the Agency had total bonded debt outstanding of \$23,001,786, secured by property tax increment, which carries underlying ratings of A and A- from Standard and Poors. This includes a discount on Bond Payable of \$67,587.

In 2007 the Agency secured a loan from the California Infrastructure Bank to construct the C Street Market Square which will house the Fishermen's Terminal Building. This loan is for \$2,000,000 with a balance of \$1,324,899 at June 30, 2010.

Advances payable to the City of Eureka for development within the Redevelopment Project Area total \$5,661,949. This is a net decrease of \$3,341,133 from FY 2008-09.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Based on the figures received from the County of Humboldt, the 2010/2011 assessed value within the City's redevelopment project area is \$480,967,522. When compared to the 1974/1975 base year value of \$74,400,866 incremental growth of \$406,566,656 or 546.5% has been achieved. An estimate of tax increment revenue provided by the County indicates that Eureka Redevelopment Agency will receive approximately \$4,809,675 in tax increment revenues for the 2010/2011 fiscal year. In 2009/2010, the County estimate was \$4,846,725 with the Agency actually receiving \$4,929,805 for the year.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Agency's finances. Questions concerning any of the information in this report, or requests for additional financial information should be addressed to the Finance Director, City of Eureka, 531 K Street, Eureka, CA, 95501-1146.

*This page intentionally left blank.*

## **BASIC FINANCIAL STATEMENTS**

*This page intentionally left blank.*

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

# Eureka Redevelopment Agency

## Statement of Net Assets

June 30, 2010

---

---

	Governmental Activities
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 1,240,862
Restricted cash and investments	3,641,982
Taxes and accounts receivable	491,797
Interest receivable	943
Land held for resale	4,824,566
Total current assets	<u>10,200,150</u>
Noncurrent assets:	
Notes and loans receivable, net of allowance for uncollectible	10,071,193
Deferred charges - net of accumulated amortization	660,525
Capital assets not being depreciated	4,576,643
Capital assets - net of accumulated depreciation	<u>11,331,544</u>
Total noncurrent assets	<u>26,639,905</u>
<b>Total assets</b>	<u><u>36,840,055</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	432,248
Payroll payable	11,990
Interest payable	206,128
Compensated absences	15,773
Long-term debt - due within one year	<u>100,805</u>
Total current liabilities	766,944
Noncurrent liabilities:	
Long-term debt - due in more than one year	<u>29,887,829</u>
Total noncurrent liabilities	29,887,829
<b>Total liabilities</b>	<u><u>30,654,773</u></u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	(14,080,447)
Restricted for:	
Housing	9,740,139
Unrestricted	<u>10,525,590</u>
<b>Total net assets (deficit)</b>	<u><u>\$ 6,185,282</u></u>

See accompanying Notes to Basic Financial Statements.

**Eureka Redevelopment Agency**  
**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	Capital Grants and Contributions	
<b>Primary government:</b>					
Governmental activities:					
Community development	\$ 4,906,453	\$ 1,149,218	\$ -	\$ -	\$ (3,757,235)
Interest on long-term debt	460,950	-	-	-	(460,950)
<b>Total primary government</b>	<b>\$ 5,367,403</b>	<b>\$ 1,149,218</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (4,218,185)</b>
<b>General revenues:</b>					
Property tax					4,929,805
Intergovernmental					15,509
Use of money and property					417,132
Other					50,577
Transfers to/ from City of Eureka (net)					(758,209)
<b>Total general revenues and transfers</b>					<b>4,654,814</b>
<b>Change in net assets</b>					<b>436,629</b>
<b>Net assets - beginning of year</b>					<b>5,748,653</b>
<b>Net assets - end of year</b>					<b>\$ 6,185,282</b>

See accompanying Notes to Basic Financial Statements.

*This page intentionally left blank.*

## **FUND FINANCIAL STATEMENTS**

**Eureka Redevelopment Agency**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2010**

	Major Funds				Total Governmental Funds
	Low and Moderate Income Housing Special Revenue Fund	Redevelopment Administration Special Revenue Fund	Debt Service Fund	Capital Projects Fund	
<b>ASSETS</b>					
Cash and investments	\$ 1,000,516	\$ 53,534	\$ 186,071	\$ 741	\$ 1,240,862
Restricted cash and investments	-	-	-	3,641,982	3,641,982
Taxes and accounts receivable	6,726	-	231,279	253,792	491,797
Interest receivable	-	-	943	-	943
Notes and loans receivable	9,994,255	-	-	76,938	10,071,193
Due from other funds	-	-	433,665	-	433,665
Land held for resale	211,388	-	-	4,613,178	4,824,566
<b>Total assets</b>	<b>\$ 11,212,885</b>	<b>\$ 53,534</b>	<b>\$ 851,958</b>	<b>\$ 8,586,631</b>	<b>\$ 20,705,008</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 9,577	\$ 22,902	\$ 1,411	\$ 398,358	\$ 432,248
Payroll payable	6,577	5,413	-	-	11,990
Due to other funds	359,007	-	-	74,658	433,665
Compensated absences	-	15,773	-	-	15,773
Deferred revenue	9,994,255	-	-	76,938	10,071,193
<b>Total liabilities</b>	<b>10,369,416</b>	<b>44,088</b>	<b>1,411</b>	<b>549,954</b>	<b>10,964,869</b>
<b>Fund Balances:</b>					
Reserved for:					
Fire Tower	-	-	-	14,287	14,287
Land held for resale	211,388	-	-	-	211,388
Low and moderate income housing	-	-	-	4,364,575	4,364,575
Debt service	-	-	850,547	3,641,982	4,492,529
Unreserved:					
Designated	-	-	-	-	-
Undesignated	632,081	9,446	-	15,833	657,360
<b>Total fund balances</b>	<b>843,469</b>	<b>9,446</b>	<b>850,547</b>	<b>8,036,677</b>	<b>9,740,139</b>
<b>Total liabilities and fund balances</b>	<b>\$ 11,212,885</b>	<b>\$ 53,534</b>	<b>\$ 851,958</b>	<b>\$ 8,586,631</b>	<b>\$ 20,705,008</b>

See accompanying Notes to Basic Financial Statements.

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

---

**Total Fund Balances - Total Governmental Funds** \$ 9,740,139

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

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds (net of accumulated depreciation) 15,908,187

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Deferred charges	660,525
Long-term debt	(29,988,634)
Interest payable	(206,128)

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. 10,071,193

**Net Assets of Governmental Activities** \$ 6,185,282

See accompanying Notes to Basic Financial Statements.

**Eureka Redevelopment Agency**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2010**

	Major Funds				Total Governmental Funds
	Low and Moderate Income Housing Special Revenue Fund	Redevelopment Administration Special Revenue Fund	Debt Service Fund	Capital Projects Fund	
<b>REVENUES:</b>					
Property tax increment revenue	\$ -	\$ -	\$ 4,929,805	\$ -	\$ 4,929,805
Use of money and property	410,308	-	5,584	1,240	417,132
Intergovernmental	-	-	15,509	-	15,509
Charges for services	-	12,382	-	-	12,382
Other revenues	14,053	19,899	-	16,625	50,577
<b>Total revenues</b>	<b>424,361</b>	<b>32,281</b>	<b>4,950,898</b>	<b>17,865</b>	<b>5,425,405</b>
<b>EXPENDITURES:</b>					
Current:					
Community development	1,980,149	1,030,213	803,114	19,094	3,832,570
Pass through payments	-	-	363,493	-	363,493
Capital outlay	-	-	-	2,353,455	2,353,455
Debt service:					
Principal	-	-	3,684,933	-	3,684,933
Interest & fiscal charges	-	-	304,417	-	304,417
<b>Total expenditures</b>	<b>1,980,149</b>	<b>1,030,213</b>	<b>5,155,957</b>	<b>2,372,549</b>	<b>10,538,868</b>
<b>REVENUES (UNDER) EXPENDITURES</b>	<b>(1,555,788)</b>	<b>(997,932)</b>	<b>(205,059)</b>	<b>(2,354,684)</b>	<b>(5,113,463)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from issuance of debt	-	-	3,827,613	5,014,520	8,842,133
Discount	-	-	-	(67,587)	(67,587)
Cost of issuance	-	-	-	(125,805)	(125,805)
Transfers from City of Eureka	-	-	571,263	173,615	744,878
Transfers to City of Eureka	(50,000)	-	(1,453,087)	-	(1,503,087)
Transfers in	1,090,370	1,004,247	-	762,443	2,857,060
Transfers out	-	-	(2,857,060)	-	(2,857,060)
<b>Total other financing sources</b>	<b>1,040,370</b>	<b>1,004,247</b>	<b>88,729</b>	<b>5,757,186</b>	<b>7,890,532</b>
<b>Net change in fund balances</b>	<b>(515,418)</b>	<b>6,315</b>	<b>(116,330)</b>	<b>3,402,502</b>	<b>2,777,069</b>
<b>FUND BALANCES:</b>					
Beginning of year	1,358,887	3,131	966,877	4,634,175	6,963,070
End of year	\$ 843,469	\$ 9,446	\$ 850,547	\$ 8,036,677	\$ 9,740,139

See accompanying Notes to Basic Financial Statements.

# Eureka Redevelopment Agency

## 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 \$ 2,777,069

were different because:

Governmental Funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets are capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures are therefore added back to fund balances	2,353,455
Depreciation expense not reported in governmental funds	(286,665)
Capital assets transferred to the City	(423,725)

Proceeds from debt issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of debt	3,684,933
Loan proceeds	(8,842,133)
Discount	67,587

The amounts below included in the Statement of Activities do not provide or (required) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Deferred charges - amortization	(77,132)
New cost of issuance	125,805

Amounts included in the Statement of Activities that do not provide the use of current financial resources are not reported as revenue in governmental funds:

Increase in long-term notes receivable	1,136,836
Interest payable	(79,401)

<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 436,629</b>
--	-------------------

---

---

*This page intentionally left blank.*

## **NOTES TO BASIC FINANCIAL STATEMENTS**

**Eureka Redevelopment Agency**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2010**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. *Organization and Purpose***

The Eureka Redevelopment Agency (Agency) was established in 1970 through an action of the City Council of the City of Eureka and pursuant to the Community Redevelopment laws of the State of California (California Health and Safety Code). The Agency is a component unit of the City of Eureka (City).

The general objectives of the Agency are to eliminate and mitigate existing and anticipated blight within the project area. These objectives are to be attained by the development, or encouragement thereof, of residential and commercial facilities in the project areas.

The Agency is an integral part of the City of Eureka and, accordingly, the accompanying component unit financial statements are included as a component of the basic financial statements prepared by the City. A component unit is a separate governmental unit, agency, or nonprofit corporation which, when combined with all other component units, constitutes the reporting entity as defined in the City's Comprehensive Annual Financial Report.

**B. *Basis of Presentation***

The accounts of the Agency 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 or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

**Government - Wide Financial Statements**

The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Agency. Interfund eliminations have been made in presenting these financial statements.

**Eureka Redevelopment Agency**  
**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**

**Government - Wide Financial Statements, Continued**

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Governmental Fund Financial Statements**

The fund financial statements provide information about the Agency's funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. The Agency considers all its funds to be major funds.

**C. Major Funds**

Governmental Accounting Standards Board (GASB) Statement No 34 defines major funds and requires that the Agency's major governmental type funds be identified and presented separately in the fund financial statements. Major funds are defined as funds that have either assets, liabilities, revenues, or expenditures equal to or greater than ten percent of the fund type total and five percent of the grand total or where the Agency makes a judgment that a fund should be considered major for reporting purposes. The Agency has determined that all its funds are major funds.

The Agency reported the following major governmental funds in the accompanying financial statements:

**Low and Moderate Income Housing Special Revenue Fund** - This fund accounts for the portion of City and County tax increment funds received for redevelopment

**Redevelopment Administration Special Revenue Fund** - This fund accounts for the operating costs of the Agency. It is supported by transfers from the Debt Service Fund.

**Capital Projects Fund** - This fund accounts for redevelopment project capital outlays.

**Debt Service Fund** - This fund accounts for debt service payments on the Agency's long-term debt issues.

**Eureka Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

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

*D. Basis of Accounting*

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related receipt or disbursement takes place.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources. Non-exchange transactions, in which the Agency gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which they are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Under the terms of grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The Agency's policy is to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

*E. Revenue*

The Agency's primary source of revenue is property taxes, referred to in the accompanying component unit financial statements as "incremental property taxes". Property taxes allocated to the Agency are computed in the following manner.

- a. The assessed valuation of all property in the Project Area is determined on the date of adoption of the Redevelopment Plan by a designation of a fiscal year assessment roll.
- b. Property taxes related to any incremental increase in assessed values after the adoption of a Redevelopment plan are allocated to the Agency; all taxes on the "frozen" assessed valuation of the property are allocated to the City and other districts receiving taxes from the project area.

The Agency has no power to levy and collect taxes and any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay principal and interest on bonds, or loans from the City. Conversely, any increase in the tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues that would be available to pay principal and interest on bonds, or loans from the City.

**Eureka Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

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

***E. Revenue, Continued***

The Agency is also authorized to finance the Redevelopment Plan from other sources, including assistance from the City, the State and Federal government, interest income, and the issuance of Agency debt.

***F. Property Taxes***

Revenue is recognized in the fiscal year for which the tax and assessment is levied. The County of Humboldt levies, bills, and collects property taxes for the Agency. The County remits the entire amount collected including interest and penalties. Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and unpaid tax becomes a lien on the property on those dates. It becomes delinquent on December 10 and April 10 respectively. Unsecured property tax is due on July 1 and becomes delinquent on August 31.

***G. Encumbrances***

Under encumbrance accounting, purchase orders, contracts, and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in the Special Revenue Fund and Capital Projects Fund. Encumbrances outstanding at fiscal year end are reported as reservations of fund balance since they do not constitute expenditures or liabilities. Unencumbered and unexpended appropriations lapse at fiscal year end, except for capital projects.

**Eureka Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

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

**H. Cash and Investments**

The Agency pools cash and investments for most funds. Cash and investments not pooled include loan proceeds held by a trustee, and other amounts required to be segregated by bond indenture or other regulations.

Cash includes not only currency on hand, but deposits in the City's cash and investment pool. These deposits have the same characteristics for the participating funds as demand deposit accounts, in that the funds may deposit additional cash at any time and also effectively withdraw cash at any time without prior notice or penalty. Cash with trustee includes unpooled cash and both restricted and unrestricted cash and money market funds held by fiscal agents.

Investments include unpooled investments in securities and certificates of deposit having original maturities greater than three months. Highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments, including those in the Agency's cash and investment pool, are stated at fair value.

The Agency 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 due to change in interest rates.

**I. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond the end of the fiscal year are recorded as prepaid items.

**J. Capital Assets**

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated fixed assets are valued at their estimated fair value on the date donated. Depreciation is recorded on a straight-line, half-year convention basis over estimated useful lives of the assets as follows:

Building	30-40 years
Improvements other than buildings	15-50 years
Machinery and equipment	3-20 years

**Eureka Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

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

***J. Capital Assets, Continued***

The purpose of depreciation is to spread the cost of capital assets equitably over the life of the capital assets. The amount charged to depreciation expense each fiscal year represents that fiscal year's pro rata share of the cost of capital assets. The total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of capital assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital asset constructed, net of interest earned on the invested proceeds over the same period.

The capitalization threshold adopted by the Agency is \$5,000 for furniture, fixtures, improvements, and equipment.

***K. Advances from City of Eureka***

Advances from City of Eureka are loans made by the City for construction of improvements and other projects of the Agency project area. These advances are to be repaid by the Agency's debt service fund, using tax increment revenues.

***L. Long-Term Obligations***

Government-wide Financial Statements: Long-term debt and other long-term obligations are reported as liabilities in the primary government's governmental activity.

Fund Financial Statements: The fund financial statements do not present long-term debt liabilities but instead these are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.

**Eureka Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

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

*M. Interest Payable*

In the government-wide financial statements, interest payable on long-term debt is recognized as the liability is incurred for governmental fund types. In the fund financial statements, governmental fund types do not recognize the interest payable when the liability is incurred. Interest expense is recorded when it is due or paid.

*N. Interfund Transactions*

Interfund transactions include transactions among funds of the Agency. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transactions, except reimbursements, are reported as transfers.

*O. Net Assets*

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

**Invested in Capital Assets, net of Related Debt** - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

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

**Unrestricted Net Assets** - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

**Eureka Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

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

*P. Fund Balances - Reservations and Designations*

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

*Q. Land Held for Resale*

The Agency has purchased parcels of land for redevelopment in order to develop or redevelop blighted properties within the city limits of Eureka. Such land parcels are accounted for at the lower of cost, estimated net realizable value, or agreed-upon sales price if a disposition agreement has been made with a developer.

*R. Estimates*

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

*S. New Accounting Pronouncements*

In 2010, the Agency adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No.51, *Accounting and Financial Reporting for Intangible Assets* - This Statement establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. There was no impact on the financial statements.

**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:	
Cash and investments	\$ 1,240,862
Total cash and investments	<u>\$ 1,240,862</u>

Cash and investments as of June 30, 2010 consist of the following:

Cash and investments pooled with the City of Eureka	\$ 559,493
Investments	681,369
Total cash and investments	<u>\$ 1,240,862</u>

**Eureka Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**2. CASH AND INVESTMENTS, Continued**

**Cash and investments pooled with the City of Eureka**

Cash and investments pooled with the City of Eureka amounted to \$559,493 at June 30, 2010. The Redevelopment Agency funds are pooled with the City's cash and investments in order to generate optimum interest income.

***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 Agency by the California Government Code (or the Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Agency'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 Agency, rather than the general provisions of the California Government Code or the Agency'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

***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 Agency'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.

**Eureka Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**2. CASH AND INVESTMENTS, Continued**

*Investments Authorized by Debt Agreements, Continued*

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

*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 Agency 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 flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the Agency's investments and those held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

Investment Type	Totals	Remaining Maturity (in Months)  12 Months or Less
State Investment Pool	\$ 681,369	\$ 681,369

**Eureka Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**2. CASH AND INVESTMENTS, Continued**

**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 Agency'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
State Investment Pool	\$ 681,369	N/A	\$ -	\$ -	\$ -	\$ -	\$ 681,369

**Concentration of Credit Risk**

The investment policy of the Agency contains limitations on the amount that can be invested in any one issuer. The Agency 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 Agency'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 Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The Agency pools its cash with the City of Eureka including deposits accounts.

As of June 30, 2010, the Agency had no investments that were held by the same broker dealer (counterparty) that was used by the Agency 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.

**Eureka Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

**2. CASH AND INVESTMENTS, Continued**

**Investment in State Investment Pool**

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasury of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency'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. The investment in LAIF was \$681,369 at June 30, 2010.

**3. RESTRICTED CASH AND INVESTMENT WITH FISCAL AGENTS**

The cash and investments with fiscal agents in the amount of \$3,641,982 include certain amounts which are held by fiscal agents to be used only for specific capital outlays, payment of certain long-term debt and maintaining required reserves. These funds have been invested only as permitted by specific State statutes governing their investment or applicable City ordinance, resolution, or bond indenture.

**4. NOTES RECEIVABLE**

The Agency loans funds to individuals and businesses to assist in the Agency's purpose; to eliminate blight in the project areas. These notes have various interest rates and maturity dates.

Notes receivable at June 30, 2010 consisted of the following:

Low and Moderate Income Housing Fund	\$ 9,994,255
Capital Project Fund (net of allowance for uncollectible loans receivable)	<u>76,938</u>
Total	<u>\$ 10,071,193</u>

These notes are noncurrent and are offset by deferred revenue.

The Low & Mod Income Housing Fund loans are made up of First Time Home Buyer, Owner Occupied Rehab and Rental Rehab loans.

**Eureka Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**4. NOTES RECEIVABLE, Continued**

**Homebuyer Program** - This program provides up to \$150,000 in second mortgage financing to supplement a qualified First Time Homebuyer's down payment.

**Housing Rehabilitation** - This program targets low-moderate income homeowners and provides deferred or amortized low interest loans for rehabilitation.

The Capital Projects fund loans are Façade loans. These are 5 year declining balance loans and are completely forgiven at term as long as the property is not sold. At the anniversary month of each loan 20% of the original amount is written off.

**5. LAND HELD FOR RESALE**

Five parcels of land were purchased by the City of Eureka and title transferred to the Eureka Redevelopment Agency on February 8, 2005. For FY 2007-08 this capital asset was reported on the entity wide statement as land. During FY 2008-09 this asset was transferred to the Low & Moderate Income Housing Fund which is developing these parcels. For FY 2009-10 the asset is being reported as land held for resale. During the year one parcel was sold through the agency's First Time Homebuyer Program. The City of Eureka entered into an agreement with the Humboldt County Office of Education on September 4, 2007 to develop three vacant parcels into six condominium units which was completed on December 7, 2009 and are currently listed for sale. One parcel is remaining to be developed.

**6. INTERFUND ACTIVITY**

**Transfers**

The Agency transfers funds from the Debt Service Fund to the Low and Moderate Housing Fund for its required 20% contribution of tax increment money, to the Capital Project Fund to cover project costs and to the Redevelopment Administration Fund for operating costs.

Transfers in and out of funds for the fiscal year ended June 30, 2010 are as follows:

		Transfers In			Total
		Low and Moderate Housing Fund	Redevelopment Administration Special Revenue Fund	Capital Projects Fund	
Transfers Out	Debt Service Fund	\$ 1,090,370	\$ 1,004,247	\$762,443	\$ 2,857,060
	<b>Total</b>	<u>\$ 1,090,370</u>	<u>\$ 1,004,247</u>	<u>\$762,443</u>	<u>\$ 2,857,060</u>

**Eureka Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**7. CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2010 was as follows:

	July 1, 2009			Transfer to	June 30, 2010
Capital assets, not being depreciated:	Balance	Additions	Deletions	City	Balance
Land	\$ 1,219,513	\$ -	\$ -	\$ -	\$ 1,219,513
Construction in progress	1,731,674	2,353,455	(304,274)	(423,725)	3,357,130
Total capital assets, not being depreciated	<u>2,951,187</u>	<u>2,353,455</u>	<u>(304,274)</u>	<u>(423,725)</u>	<u>4,576,643</u>
Capital assets, being depreciated:					
Buildings	1,049,232	-	304,274	-	1,353,506
Improvements	12,074,563	-	-	-	12,074,563
Total accumulated depreciation	<u>13,123,795</u>	<u>-</u>	<u>304,274</u>	<u>-</u>	<u>13,428,069</u>
Less accumulated depreciation for:					
Buildings	(237,810)	(75,665)	-	-	(313,475)
Improvements	(1,572,050)	(210,000)	-	-	(1,782,050)
Total capital assets, being depreciated, net	<u>11,313,935</u>	<u>(285,665)</u>	<u>304,274</u>	<u>-</u>	<u>11,332,544</u>
Capital assets, net	<u>\$ 14,265,122</u>	<u>\$ 2,067,790</u>	<u>\$ -</u>	<u>\$ (423,725)</u>	<u>\$ 15,909,187</u>

**8. LONG TERM DEBT**

The following is a summary of long-term debt activity of the Agency for the fiscal year ended June 30, 2010:

	July 1,			June 30,	Amount	
	2009	Additions	Retirements	2010	Due within	Due in More
					One Year	Than one Year
Loans Payable - Eureka Public						
Financing Authority	\$ 15,250,000	\$ -	\$ -	\$ 15,250,000	\$ -	\$ 15,250,000
Bond Payable - Eureka Public						
Financing District	-	7,819,373	-	7,819,373	-	7,819,373
Discount on Bond Payable	-	(67,587)	-	(67,587)	(2,600)	(64,988)
Eureka Public Financing District	-					
Advances Payable - City of Eureka	9,003,082	243,240	(3,584,373)	5,661,949	-	5,661,949
California Infrastructure Bank Loan	645,939	779,520	(100,560)	1,324,899	103,405	1,221,494
Total	<u>\$ 24,899,021</u>	<u>\$ 8,774,546</u>	<u>\$ (3,684,933)</u>	<u>\$ 29,988,634</u>	<u>\$ 100,805</u>	<u>\$ 29,887,828</u>

**Eureka Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**8. LONG TERM DEBT, Continued**

**Loans Payable to Eureka Public Financing Authority**

2003 Tax Allocation Revenue Refunding Bonds were issued by the Eureka Public Financing Authority (Authority) in the amount of \$15,250,000. Of the total bonds issued, \$13,140,000 were for refunding the Authority's outstanding 1993 Tax Allocation Revenue Bonds, and the remaining amount was to finance new activities of the Agency, a fund reserve account, and to pay the costs of issuing the bonds.

Interest rates on this issue of bonded indebtedness vary from 4.0% to 4.8%. The bond issue matures in annual increments with maturity dates on November 1 of each year from 2012 through 2023.

These bonds are secured by a first lien on the pledge of all of the amounts payable by the Agency to 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 upon all of the moneys 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.

As of June 30, 2010, the outstanding balance on these tax allocation revenue bonds and corresponding loan was \$15,250,000. 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	1,000,000	678,343	1,678,343
2013	1,040,000	638,343	1,678,343
2014	1,085,000	596,743	1,681,743
2015	1,125,000	553,343	1,678,343
2016-2020	6,410,000	1,984,113	8,394,113
2021-2023	4,590,000	444,370	5,034,370
Subtotal	15,250,000	5,573,598	20,823,598
Premium on issuance	30,770	-	30,770
Deferred loss on refunding	(385,069)	-	(385,069)
	<u>\$ 14,895,701</u>	<u>\$ 5,573,598</u>	<u>\$ 20,469,299</u>

**Bonds Payable to Eureka Public Financing Authority**

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 2027, the termination date of the agency at which time the remaining balance becomes due. The Agency obligations are limited to the \$3,548,373 transferred to pay off the Advance to City of Eureka.

**Eureka Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**8. LONG TERM DEBT, Continued**

**Bonds Payable to Eureka Public Financing Authority, Continued**

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 2027, the termination date of the agency at which time the remaining balance becomes due. The bonds were issued with \$67,587 discount.

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	\$ -	\$ 266,887	\$ -	\$ 237,786	\$ -	\$ 504,673
2012	-	266,887	-	237,786	-	504,673
2013	82,800	264,609	45,000	237,280	127,800	501,889
2014	86,400	259,956	45,000	236,155	131,400	496,111
2015	90,000	255,105	50,000	234,724	140,000	489,829
2016-2020	543,600	1,179,139	270,000	1,142,777	813,600	2,321,916
2021-2025	763,200	948,179	345,000	1,067,240	1,108,200	2,015,419
2026-2030	1,105,200	593,811	450,000	956,839	1,555,200	1,550,650
2031-2035	913,173	111,744	1,610,000	746,351	2,523,173	858,095
2036-2037	-	-	1,420,000	63,157	1,420,000	63,157
Subtotal	\$ 3,584,373	\$ 4,146,317	\$ 4,235,000	\$ 5,160,095	\$ 7,819,373	\$ 9,306,412
Discount	-	-	(67,587)	-	(67,587)	-
Total	\$ 3,584,373	\$ 4,146,317	\$ 4,167,413	\$ 5,160,095	\$ 7,751,786	\$ 9,306,412

**Advances Payable to the City of Eureka**

The City of Eureka and the Eureka Redevelopment Agency have entered into various agreements whereby the City will advance funds to the Agency to undertake certain projects. The advances are to be repaid including interest (at varying rates) when funds are available from net tax increment revenues. The amount outstanding as of June 30, 2010 was \$5,661,949.

**Eureka Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

**8. LONG TERM DEBT, Continued**

**California Infrastructure Bank Loan (I-Bank)**

On February 1, 2008, the 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%. At June 30, 2010, \$1,573,403 of the loan proceeds has been used for construction. A loan initiation fee of \$17,000 is being amortized over 17 years of the loan. The amount outstanding as of June 30, 2010 was \$1,324,899.

**9. EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN**

Employees paid by the Redevelopment Administration Special Revenue Fund are employees of the City of Eureka. These employees are participants in the State of California PERS. Full disclosure on the City's PERS plan, including actuarial information and other data required by GASB No.27 appears in the financial statements of the City of Eureka.

**10. COMMITMENTS AND CONTINGENCIES**

There are certain claims against the Agency which have been denied and referred to the Agency insurance carrier. The Agency believes that none of these claims will exceed insurance coverage.

Under the terms of federal, county and state grants, periodic audits are required and certain costs may be questioned as not appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. If some expenditure were disallowed, the Agency believes such disallowances, if any, would be immaterial.

**11. OPERATING DEFICITS**

Agency's Low and Moderate Income Housing Special Revenue Fund and its Debt Service Funds recorded operating deficits of \$515,418 and \$116,330, respectively for the year ended June 30, 2010.

**12. NET ASSETS**

As the Agency uses bond and loan proceeds to make capital improvements, resources recorded as assets (cash) are depleted. The capitalized assets become property of the City of Eureka; however, the associated debt remains with the Agency resulting in a deficit balance of \$14,080,447 in invested in capital assets, net of related debt.

Restricted net assets on the Statement of Net Assets are for low and moderate income housing.

**13. SUBSEQUENT EVENT**

The Agency has evaluated subsequent events through April 7, 2011, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified.

**REQUIRED SUPPLEMENTARY INFORMATION**

*This page intentionally left blank.*

**Eureka Redevelopment Agency**  
**Required Supplementary Information**  
**For the year ended June 30, 2010**

---

**1. BUDGETS AND BUDGETARY ACCOUNTING**

*A. Budgetary Control and Budgetary Accounting*

The City uses a two-year financial plan for operations that is called the Business Plan. The Long Term Capital Improvement Plan is adopted on an incremental basis to coincide with the Business Plan. Budgets are adopted annually for the General Fund, Special Revenue Funds, and Debt Service Funds. Capital projects are budgeted on a project length basis.

The Business Plan and the Long Term Capital Improvement Plan are adopted by City Council and can be amended only by City Council. The annual budget is adopted by City Council on or before June 30, and comprises the departmental operating budget and the capital improvement budget. The departmental operating budget may be reallocated among programs within a department, but expenditures may not exceed budgeted appropriations at the department level each year without Council acknowledgment and approval. Capital improvement expenditures may not exceed budgeted amounts without Council approval.

Annual appropriated budgets are adopted for all governmental funds of the Agency. Appropriations include amounts encumbered at fiscal year end, and these encumbrances are not appropriated in the following fiscal years. All annual appropriations lapse at fiscal yearend. 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 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 basis financial statements include non-GAAP revenues and expenditures. Non-GAAP expenditures include encumbrances.

**Eureka Redevelopment Agency**  
**Required Supplementary Information**  
**For the year ended June 30, 2010**

*Budgetary Comparison Schedule - Low and Moderate Income Housing Special Revenue Fund*

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 1,092,150	\$ 1,092,150	\$ -	\$ (1,092,150)
Investment income	-	-	410,308	410,308
Miscellaneous	393,900	393,900	14,053	(379,847)
<b>Total revenues</b>	<b>1,486,050</b>	<b>1,486,050</b>	<b>424,361</b>	<b>(1,061,689)</b>
<b>EXPENDITURES:</b>				
Current:				
Community development	2,083,217	3,058,686	1,980,149	1,078,537
<b>Total expenditures</b>	<b>2,083,217</b>	<b>3,058,686</b>	<b>1,980,149</b>	<b>1,078,537</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(597,167)</b>	<b>(1,572,636)</b>	<b>(1,555,788)</b>	<b>16,848</b>
<b>OTHER FINANCING SOURCES</b>				
Transfers to City of Eureka	-	-	(50,000)	(50,000)
Transfers in	-	-	1,090,370	1,090,370
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>1,040,370</b>	<b>1,090,370</b>
<b>Net change in fund balances</b>	<b>\$ (597,167)</b>	<b>\$ (1,572,636)</b>	<b>(515,418)</b>	<b>\$ 1,057,218</b>
<b>FUND BALANCES:</b>				
Beginning of year			1,358,887	
End of year			843,469	

**Eureka Redevelopment Agency**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2010**

*Budgetary Comparison Schedule - Redevelopment Administration Special Revenue Fund*

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charge for services	\$ 1,134,504	\$ 1,134,504	\$ 12,382	\$ (1,122,122)
Miscellaneous	9,901	9,901	19,899	9,998
<b>Total revenues</b>	<b>1,144,405</b>	<b>1,144,405</b>	<b>32,281</b>	<b>(1,112,124)</b>
<b>EXPENDITURES:</b>				
Current:				
Community development	1,155,826	1,155,826	1,030,213	125,613
<b>Total expenditures</b>	<b>1,155,826</b>	<b>1,155,826</b>	<b>1,030,213</b>	<b>125,613</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(11,421)</b>	<b>(11,421)</b>	<b>(997,932)</b>	<b>(986,511)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer in	-	-	1,004,247	1,004,247
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>1,004,247</b>	<b>1,004,247</b>
<b>Net change in fund balances</b>	<b>\$ (11,421)</b>	<b>\$ (11,421)</b>	<b>6,315</b>	<b>\$ 17,736</b>
<b>FUND BALANCES:</b>				
Beginning of year			3,131	
End of year			<b>\$ 9,446</b>	

*This page intentionally left blank.*

**OTHER SUPPLEMENTARY INFORMATION**

*This page intentionally left blank.*

**Eureka Redevelopment Agency**  
**Budgetary Comparison Schedule**  
**Debt Service Fund**  
**For the year ended June 30, 2010**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 4,976,760	\$ 4,976,760	\$ 4,929,805	\$ (46,955)
Investment income	27,000	27,000	5,584	(21,416)
Intergovernmental	-	-	15,509	15,509
Miscellaneous	-	8,780,746	-	(8,780,746)
<b>Total revenues</b>	<b>5,003,760</b>	<b>13,784,506</b>	<b>4,950,898</b>	<b>(8,833,608)</b>
<b>EXPENDITURES:</b>				
Current:				
Community development	-	-	803,114	(803,114)
Pass through payments	-	-	363,493	(363,493)
Non-departmental	4,340,372	7,853,066	-	7,853,066
Debt service:				
Principal	1,100,560	4,385,560	3,684,933	700,627
Interest	317,028	317,028	304,417	12,611
<b>Total expenditures</b>	<b>5,757,960</b>	<b>12,555,654</b>	<b>5,155,957</b>	<b>7,399,697</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(754,200)</b>	<b>1,228,852</b>	<b>(205,059)</b>	<b>(1,433,911)</b>
<b>OTHER FINANCING SOURCES:</b>				
Proceeds from loans and advances	-	-	3,827,613	3,827,613
Transfers from City of Eureka	-	-	571,263	571,263
Transfers to City of Eureka	-	-	(1,453,087)	1,453,087
Transfers out	1,407,682	1,407,682	(2,857,060)	(4,264,742)
<b>Total other financing sources (uses)</b>	<b>1,407,682</b>	<b>1,407,682</b>	<b>88,729</b>	<b>(4,264,742)</b>
<b>Net change in fund balances</b>	<b>\$ 653,482</b>	<b>\$ 2,636,534</b>	<b>(116,330)</b>	<b>\$ (2,752,864)</b>
<b>FUND BALANCES:</b>				
Beginning of year			966,877	
End of year			\$ 850,547	

**Eureka Redevelopment Agency**  
**Budgetary Comparison Schedule**  
**Capital Project Fund**  
**For the year ended June 30, 2010**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Investment income	\$ -	\$ -	\$ 1,240	\$ 1,240
Miscellaneous	-	-	16,625	16,625
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>17,865</b>	<b>17,865</b>
<b>EXPENDITURES:</b>				
Current:				
Community development	20,000	26,765	19,094	7,671
Capital outlay	1,701,082	4,641,749	2,353,455	2,288,294
<b>Total expenditures</b>	<b>1,721,082</b>	<b>4,668,514</b>	<b>2,372,549</b>	<b>2,295,965</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,721,082)</b>	<b>(4,668,514)</b>	<b>(2,354,684)</b>	<b>2,313,830</b>
<b>OTHER FINANCING SOURCES</b>				
Proceeds from loans and advances	1,713,490	4,564,965	5,014,520	449,555
Discount	-	-	(67,587)	(67,587)
Cost of issuance	-	-	(125,805)	(125,805)
Transfers from City of Eureka	-	-	173,615	173,615
Transfers in	-	-	762,443	762,443
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>5,757,186</b>	<b>1,192,221</b>
<b>Net change in fund balances</b>	<b>\$ (1,721,082)</b>	<b>\$ (4,668,514)</b>	<b>3,402,502</b>	<b>\$ 3,506,051</b>
<b>FUND BALANCES:</b>				
Beginning of year			4,634,175	
End of year			<u>\$ 8,036,677</u>	



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 Honorable Members of the Governing Board  
of the Eureka Redevelopment Agency  
Eureka, California

We have audited the basic financial statements of the Eureka Redevelopment Agency (Agency), a component unit of the City of Eureka (City), California, as of and for the year ended June 30, 2010, and have issued our report thereon dated April 7, 2011. 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 Agency's internal control over financial reporting as a basis for designing our audit 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 Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency'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.

To the Honorable Members of the Governing Board  
of the Eureka Redevelopment Agency  
Eureka, California  
Page 2

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency'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. Such provisions included those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinion. The result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that will be reported to management of the Agency in a separate letter.

This report is intended solely for the information and use of management, the Members of the Governing Board of the Agency, others within the Agency, and The State Controller 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 7, 2011