

CITY OF EUREKA
FINANCIAL STATEMENTS
JUNE 30, 2018

**CITY OF EUREKA
ANNUAL FINANCIAL REPORT
June 30, 2018**

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FINANCIAL SECTION



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Independent Auditor's Report

Honorable Mayor and City Council
City of Eureka
Eureka, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eureka (City), as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eureka, California, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the basic financial statement, effective July 1, 2017, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that, the budgetary comparison schedules on pages 83 through 86, the schedule of changes in the total pension liability – local employees' retirement system on page 87, Agent-Multiple Employer Defined Pension Plan: the schedule of changes in the net pension liability on page 88 and the schedule of pension contributions on page 89, and Cost Sharing Defined Pension Plan: the schedule of plan's proportionate share of net pension liability on page 90 and the schedule of pension contributions on page 91, be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of 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.

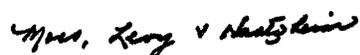
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining nonmajor funds financial statements, nonmajor funds budgetary comparison schedules, the combining internal service funds financial statements, the agency fund statement, and the combining private purpose trust funds financial statements are presented for the purpose of additional analysis and are not required parts of the financial statements.

The combining nonmajor funds financial statements, nonmajor funds budgetary comparison schedules, the combining internal service funds financial statements, the agency fund statement, and the combining private purpose trust funds financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Moss, Levy & Hartzheim, LLP
Culver City, California
September 18, 2019

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CITY OF EUREKA
STATEMENT OF NET POSITION
June 30, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 11,279,280	\$ 4,410,988	\$ 15,690,268
Cash and investments with fiscal agents		3,743,012	3,743,012
Accounts receivable	6,300,165	8,652,296	14,952,461
Interest receivable	2,715,573		2,715,573
Prepaid items	36,839		36,839
Notes and loans receivable	18,085,262		18,085,262
Internal balances	(3,886,398)	3,886,398	
Land held for resale	524,368	4,488,678	5,013,046
Due from RDA Successor Agency		762,081	762,081
Capital assets, not being depreciated	29,775,022	17,815,076	47,590,098
Capital assets, net of accumulated depreciation	47,754,088	86,263,741	134,017,829
Total Assets	112,584,199	130,022,270	242,606,469
DEFERRED OUTFLOWS OF RESOURCES			
Pension related	10,174,611	2,358,351	12,532,962
Deferred loss on refunding		251,644	251,644
Total Deferred Outflows of Resources	10,174,611	2,609,995	12,784,606
Total Assets and Deferred Outflows of Resources	122,758,810	132,632,265	255,391,075
LIABILITIES			
Accounts payable	4,645,837	1,556,906	6,202,743
Payroll and related liabilities	466,070	141,458	607,528
Deposits payable	68,482	386,998	455,480
Accrued interest payable	3,787	461,868	465,655
Claims and judgments payable	174,693		174,693
Unearned revenue		802	802
Noncurrent liabilities:			
Due within one year	823,061	1,569,385	2,392,446
Due in more than one year	45,909,643	46,831,120	92,740,763
Total Liabilities	52,091,573	50,948,537	103,040,110
DEFERRED INFLOWS OF RESOURCES			
Pension related	990,745	232,272	1,223,017
Total Liabilities and Deferred Inflows of Resources	53,082,318	51,180,809	104,263,127
NET POSITION			
Net investment in capital assets	76,992,679	72,603,790	149,596,469
Restricted for:			
Public safety	1,749,504		1,749,504
Streets and roads	152,055		152,055
Debt service		251,644	251,644
Public health	244,019		244,019
Housing	20,378,627		20,378,627
Unrestricted	(29,840,392)	8,596,022	(21,244,370)
Total Net Position	\$ 69,676,492	\$ 81,451,456	\$ 151,127,948

The notes to the basic financial statements are an integral part of this statement

**CITY OF EUREKA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
General government	\$ 5,868,052	\$ 2,967,688	\$ 47,074	\$ 135,044
Community development	2,078,295	298,647	1,359,513	
Public safety	20,759,487	719,795	629,481	
Public works	5,757,678	144,979	990,451	3,265,265
Parks and recreation	4,988,161	1,001,118	24,989	
Interest on long-term debt	15,225			
Total Governmental	<u>39,466,898</u>	<u>5,132,227</u>	<u>3,051,508</u>	<u>3,400,309</u>
Business-type activities:				
Water	7,145,696	8,222,184		
Wastewater	7,721,911	9,265,476		
Harbor	2,007,897	1,013,329		
Building	739,653	2,210,234		
Transit	2,162,331	2,139,407		
Golf	9,926	3,872		
Total Business-type Activities	<u>19,787,414</u>	<u>22,854,502</u>		
Total	<u>\$ 59,254,312</u>	<u>\$ 27,986,729</u>	<u>\$ 3,051,508</u>	<u>\$ 3,400,309</u>

General Revenues:

- Property taxes
- Sales taxes
- Franchise fees
- Motor vehicle in-lieu, unrestricted
- Transient occupancy taxes
- Business license tax
- Gain (loss) on sales of capital assets
- Investment earnings
- Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Position

- Net Position - beginning of fiscal year
- Prior period adjustments
- Net Position - beginning of fiscal year, restated
- Net Position - end of fiscal year

The notes to the basic financial statements are an integral part of this statement

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (2,718,246)	\$ -	\$ (2,718,246)
(420,135)		(420,135)
(19,410,211)		(19,410,211)
(1,356,983)		(1,356,983)
(3,962,054)		(3,962,054)
(15,225)		(15,225)
<u>(27,882,854)</u>		<u>(27,882,854)</u>
	1,076,488	1,076,488
	1,543,565	1,543,565
	(994,568)	(994,568)
	1,470,581	1,470,581
	(22,924)	(22,924)
	(6,054)	(6,054)
	<u>3,067,088</u>	<u>3,067,088</u>
<u>(27,882,854)</u>	<u>3,067,088</u>	<u>(24,815,766)</u>
4,396,421		4,396,421
17,192,997		17,192,997
1,327,513		1,327,513
14,313		14,313
2,981,186		2,981,186
265,184		265,184
	(1,599,243)	(1,599,243)
133,564	80,878	214,442
2,929,108		2,929,108
(539,208)	539,208	
<u>28,701,078</u>	<u>(979,157)</u>	<u>27,721,921</u>
<u>818,224</u>	<u>2,087,931</u>	<u>2,906,155</u>
74,835,173	79,363,525	154,198,698
(5,976,905)		(5,976,905)
<u>68,858,268</u>	<u>79,363,525</u>	<u>148,221,793</u>
<u>\$ 69,676,492</u>	<u>\$ 81,451,456</u>	<u>\$ 151,127,948</u>

**CITY OF EUREKA
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2018**

	General	Successor Housing Authority	Housing
ASSETS			
Cash and investments	\$ 4,414,094	\$ 1,036,836	\$ 777,241
Accounts receivable	5,297,584	3,412	645
Prepaid items	16,839		
Notes and loans receivable		7,279,096	10,806,166
Land held for resale		524,368	
Total Assets	\$ 9,728,517	\$ 8,843,712	\$ 11,584,052
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,383,731	\$ 5,960	\$ 29,390
Due to other funds			
Deposits payable	53,132	10,000	90
Payroll and related liabilities	412,525	3,697	
Total Liabilities	3,849,388	19,657	29,480
Deferred Inflows of Resources:			
Unavailable revenues	402,871	7,279,096	10,806,166
Fund Balances:			
Nonspendable:			
Prepaid items	16,839		
Restricted		1,544,959	748,406
Unassigned	5,459,419		
Total Fund Balances	5,476,258	1,544,959	748,406
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 9,728,517	\$ 8,843,712	\$ 11,584,052

The notes to the basic financial statements are an integral part of this statement

Gas Tax/ State Highway	Other Governmental Funds	Total Governmental Funds
\$ - 349,670	\$ 2,104,452 636,703	\$ 8,332,623 6,288,014 16,839 18,085,262 524,368
<u>\$ 349,670</u>	<u>\$ 2,741,155</u>	<u>\$ 33,247,106</u>
\$ 191,348 1,878,820 8,923	\$ 182,951 2,007,578 5,260 4,775	\$ 3,793,380 3,886,398 68,482 429,920
<u>2,079,091</u>	<u>2,200,564</u>	<u>8,178,180</u>
		<u>18,488,133</u>
(1,729,421)	2,145,578 (1,604,987)	16,839 4,438,943 2,125,011
<u>(1,729,421)</u>	<u>540,591</u>	<u>6,580,793</u>
<u>\$ 349,670</u>	<u>\$ 2,741,155</u>	<u>\$ 33,247,106</u>

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CITY OF EUREKA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2018

Fund balances of governmental funds \$ 6,580,793

Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds because of the following:

Capital assets used in Governmental Activities are not current resources and, therefore, are not reported in the Governmental Funds Balance Sheet.

Capital assets	\$ 171,725,048	
Less: accumulated depreciation	<u>(94,195,938)</u>	77,529,110

Interest payable on long-term debt does not require current financial resources, therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet. (3,787)

The liabilities below are not due and payable in the current period and, therefore, are not reported in the Governmental Funds Balance Sheet.

Compensated absences	(1,271,172)	
Net pension liability	(42,653,947)	
Local Employees' Retirement System (LERS)	(2,271,154)	
Capital lease payable	<u>(536,431)</u>	(46,732,704)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and vehicle maintenance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position. (net capital assets, net pensions liability and compensated absences payable, reported above in the amount of \$1,709,993, (\$3,390,666), and (\$66,532), respectively). 1,915,508

In governmental funds, other long-term assets include notes and loan receivable, and accounts receivable which are not available to pay for current-period expenditures, and therefore, are offset by unavailable revenues. 18,488,133

Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred inflows of resources relating to pensions	\$ (990,745)	
Deferred outflows of resources relating to pensions	<u>10,174,611</u>	
Net		9,183,866

In governmental funds, other long-term assets are not available to pay for current-period expenditures:

Interest receivable on loans receivable		<u>2,715,573</u>
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Net position of governmental activities \$ 69,676,492

The notes to the basic financial statements are an integral part of this statement

**CITY OF EUREKA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	General	Successor Housing Authority	Housing
REVENUES			
Taxes	\$ 22,613,399	\$ -	\$ -
Licenses, permits, and fees	1,413,404		
Fines and penalties	123,150		
Intergovernmental	2,821,183	4,411	1,138,766
Charges for services	4,270,323		
Other revenues	398,812	115,154	123,335
Total Revenues	<u>31,640,271</u>	<u>119,565</u>	<u>1,262,101</u>
EXPENDITURES			
Current:			
General government	4,679,869		
Public safety	18,715,903		
Public works	1,103,996		
Community development	1,205,479	253,052	246,619
Culture and recreation	3,917,733		
Capital outlay	1,411,759		
Debt service:			
Principal payments	115,992		
Interest and fiscal charges	13,550		
Total Expenditures	<u>31,164,281</u>	<u>253,052</u>	<u>246,619</u>
Excess of Revenues Over (Under) Expenditures	<u>475,990</u>	<u>(133,487)</u>	<u>1,015,482</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	(539,208)		
Proceeds from capital leases			
Total Other Financing Sources (Uses)	<u>(539,208)</u>		
Net Changes in Fund Balances	<u>(63,218)</u>	<u>(133,487)</u>	<u>1,015,482</u>
Fund Balances (Deficits), beginning of fiscal year	5,539,476	2,334,547	(267,076)
Prior Period Adjustments		(656,101)	
Fund Balances (Deficits), beginning of fiscal year, restated	<u>5,539,476</u>	<u>1,678,446</u>	<u>(267,076)</u>
Fund Balances (Deficits), end of fiscal year	<u>\$ 5,476,258</u>	<u>\$ 1,544,959</u>	<u>\$ 748,406</u>

The notes to the basic financial statements are an integral part of this statement

Gas Tax/ State Highway	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 22,613,399
	72,864	1,486,268
	317,048	440,198
4,018,914	775,132	8,758,406
	13,505	4,283,828
	732,869	1,370,170
<u>4,018,914</u>	<u>1,911,418</u>	<u>38,952,269</u>
		4,679,869
	199,046	18,914,949
590,551	1,099,900	2,794,447
		1,705,150
3,638,874	464,869	3,917,733
		5,515,502
	71,483	187,475
	5,182	18,732
<u>4,229,425</u>	<u>1,840,480</u>	<u>37,733,857</u>
<u>(210,511)</u>	<u>70,938</u>	<u>1,218,412</u>
		(539,208)
	357,415	357,415
	357,415	(181,793)
<u>(210,511)</u>	<u>428,353</u>	<u>1,036,619</u>
(1,518,910)	112,238	6,200,275
		(656,101)
<u>(1,518,910)</u>	<u>112,238</u>	<u>5,544,174</u>
<u>\$ (1,729,421)</u>	<u>\$ 540,591</u>	<u>\$ 6,580,793</u>

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**CITY OF EUREKA
RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES		\$ 1,036,619
<p>Amounts reported for governmental activities in the Statement of Activities are different because of the following:</p> <p>Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is capitalized and allocated over their estimated lives and reported as depreciation expense. (Does not include Internal Service Funds)</p>		
Capital outlay expenditures are, therefore, added back to fund balances	\$ 5,081,248	
Depreciation expense not reported in governmental funds	<u>(2,173,494)</u>	2,907,754
<p>Cost write-off for canceled capital projects: If a planned capital project is canceled and will not be completed, cost previously capitalized as construction in progress must be written off to expense. Costs written off for canceled projects were:</p>		
		(876,592)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Original issue premiums and discounts are reported as other sources or uses in the governmental funds, but in the Statement of Net Position, the costs are deferred and amortized throughout the period during which the related debt is outstanding. Repayment of debt principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities.</p>		
Repayment of debt principal	187,475	
Proceeds from capital lease are deducted from fund balance	<u>(357,415)</u>	(169,940)
<p>Notes receivable issued are expenditures, and principal payments on notes receivable are a revenue in the governmental funds; however, in the government-wide statements, these transactions increase or decrease the notes receivable and accrue interest on notes receivable.</p>		
Interest receivable	388,234	
Notes receivable	<u>(282,080)</u>	106,154
<p>The amounts below included in the Statement of Activities do not provide (require) the use of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds (net change):</p>		
Interest payable	3,507	
Compensated absences	<u>51,925</u>	55,432
<p>Unavailable revenue is not recognized as revenue in the governmental funds in the current fiscal year since the revenue is not available to fund current fiscal year expenditures.</p>		
		1,966,376
<p>In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This fiscal year, the difference between accrual-basis pension costs and actual employer contributions was:</p>		
Pension costs		(4,955,032)
<p>Changes in LERS did not require the use of current financial resources or meet revenue recognition criteria in the Fund Financial Statements and therefore, are not reported in governmental funds.</p>		
		806,647
<p>Internal service funds are used by management to charge the costs of certain activities, such as insurance and vehicle maintenance, to individual funds. The net revenue (expense) of the internal service funds is reported with the governmental activities.</p>		
		<u>(59,194)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 818,224</u>

The notes to the basic financial statements are an integral part of this statement

**CITY OF EUREKA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 June 30, 2018**

ASSETS	Enterprise Funds		
	Water	Wastewater	Harbor
Current Assets:			
Cash and investments	\$ 903,354	\$ 3,417,463	\$ -
Cash and investments with fiscal agents	2,694,707	1,048,305	
Accounts receivable - net	877,471	2,825,036	7,738
Prepaid items			
Land held for resale			4,488,678
Due from other funds	8,101,924		
	12,577,456	7,290,804	4,496,416
Total current assets			
Noncurrent Assets:			
Advances to RDA Successor Agency	72,401	689,680	
	72,401	689,680	
Total noncurrent assets			
Capital Assets:			
Nondepreciable			
Land	1,052,115	5,073,142	5,155,468
Construction in progress	1,613,677	4,495,760	
	2,665,792	9,568,902	5,155,468
Total nondepreciable capital assets			
Depreciable			
Infrastructure	17,488,253	38,311,567	
Buildings	723,908	6,264,431	4,660,614
Improvements	7,157,959	23,855,409	10,588,465
Equipment	16,098,148	33,000,611	1,151,705
	41,468,268	101,432,018	16,400,784
Total depreciable capital assets			
Less accumulated depreciation	(16,740,236)	(47,322,513)	(9,419,506)
Net depreciable capital assets	24,728,032	54,109,505	6,981,278
Total capital assets, net	27,393,824	63,678,407	12,136,746
Total capital and noncurrent assets	27,466,225	64,368,087	12,136,746
Total Assets	40,043,681	71,658,891	16,633,162
DEFERRED OUTFLOWS OF RESOURCES			
Pensions related	810,514	1,148,002	164,678
Deferred loss on refunding	251,644		
Total deferred outflows of resources	1,062,158	1,148,002	164,678
Total Assets and Deferred Outflows of Resources	41,105,839	72,806,893	16,797,840

The notes to the basic financial statements are an integral part of this statement

Enterprise Funds				Governmental Activities - Internal Service Funds
Building	Transit	Golf	Totals	
\$ -	\$ -	\$ 90,171	\$ 4,410,988	\$ 2,946,657
			3,743,012	
2,528,362	2,413,689		8,652,296	12,151
			4,488,678	20,000
			8,101,924	
2,528,362	2,413,689	90,171	29,396,898	2,978,808
			762,081	
			762,081	
		418,075	11,698,800	
		6,839	6,116,276	
		424,914	17,815,076	
			55,799,820	
		191,159	11,840,112	675,550
		344,115	41,945,948	34,930
116,950	3,155,460		53,522,874	9,668,756
116,950	3,155,460	535,274	163,108,754	10,379,236
(109,504)	(2,978,517)	(274,737)	(76,845,013)	(8,669,243)
7,446	176,943	260,537	86,263,741	1,709,993
7,446	176,943	685,451	104,078,817	1,709,993
7,446	176,943	685,451	104,840,898	1,709,993
2,535,808	2,590,632	775,622	134,237,796	4,688,801
235,157			2,358,351	621,439
			251,644	
235,157			2,609,995	621,439
2,770,965	2,590,632	775,622	136,847,791	5,310,240

(Continued)

**CITY OF EUREKA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 June 30, 2018
 (Continued)**

LIABILITIES	Enterprise Funds		
	Water	Wastewater	Harbor
Current Liabilities:			
Accounts payable	\$ 482,497	\$ 820,879	\$ 93,159
Payroll and related liabilities	46,481	71,730	11,103
Deposits payable	349,469		37,529
Due to other funds			1,391,364
Unearned revenue	802		
Accrued interest payable	194,604	205,948	61,316
Claims and judgments payable			
Loan payable, current portion			107,392
Bonds payable, current portion	645,000	480,000	
Compensated absences, current portion	112,553	148,675	25,493
Unamortized premium, current portion	16,705	5,344	
Total current liabilities	1,848,111	1,732,576	1,727,356
Noncurrent Liabilities:			
Loan payable			1,379,050
Bonds payable	15,920,000	16,290,000	
Net pension liability	4,422,286	6,263,673	898,508
Unamortized premium	200,310	174,238	
Total noncurrent liabilities	20,542,596	22,727,911	2,277,558
Total Liabilities	22,390,707	24,460,487	4,004,914
DEFERRED INFLOWS OF RESOURCES			
Pensions related	79,827	113,066	16,219
Total deferred inflows of resources	79,827	113,066	16,219
Total Liabilities and Deferred Inflows of Resources	22,470,534	24,573,553	4,021,133
NET POSITION			
Net investment in capital assets	13,306,516	47,777,130	10,650,304
Restricted for debt service	251,644		
Unrestricted	5,077,145	456,210	2,126,403
Total Net Position	\$ 18,635,305	\$ 48,233,340	\$ 12,776,707

The notes to the basic financial statements are an integral part of this statement

Enterprise Funds				Governmental Activities - Internal Service Funds
Building	Transit	Golf	Totals	
\$ 32,067	\$ 128,304	\$ -	\$ 1,556,906	\$ 852,457
12,144			141,458	36,150
			386,998	
974,957	1,849,205		4,215,526	
			802	
			461,868	174,693
			107,392	
			1,125,000	
28,223			314,944	66,532
			22,049	
<u>1,047,391</u>	<u>1,977,509</u>		<u>8,332,943</u>	<u>1,129,832</u>
			1,379,050	
1,283,055			32,210,000	3,390,666
			12,867,522	
			374,548	
<u>1,283,055</u>			<u>46,831,120</u>	<u>3,390,666</u>
<u>2,330,446</u>	<u>1,977,509</u>		<u>55,164,063</u>	<u>4,520,498</u>
23,160			232,272	61,204
<u>23,160</u>			<u>232,272</u>	<u>61,204</u>
<u>2,353,606</u>	<u>1,977,509</u>		<u>55,396,335</u>	<u>4,581,702</u>
7,446	176,943	685,451	72,603,790	1,709,993
			251,644	
409,913	436,180	90,171	8,596,022	(981,455)
<u>\$ 417,359</u>	<u>\$ 613,123</u>	<u>\$ 775,622</u>	<u>\$ 81,451,456</u>	<u>\$ 728,538</u>

**CITY OF EUREKA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Enterprise Funds		
	Water	Wastewater	Harbor
Operating Revenues:			
Charges for services	\$ 8,214,264	\$ 8,516,978	\$ 789,047
Other operating revenues	7,920	748,498	
Intergovernmental			224,282
Total Operating Revenues	8,222,184	9,265,476	1,013,329
Operating Expenses:			
Purchase of water	2,585,667		
Maintenance and operation	2,179,076	4,431,817	1,566,317
Administration	583,220	420,315	34,540
Insurance costs and claims	122,199	130,735	15,785
Depreciation	837,919	1,915,701	323,980
Total Operating Expenses	6,308,081	6,898,568	1,940,622
Operating Income (Loss)	1,914,103	2,366,908	(927,293)
Non-Operating Revenues (Expenses):			
Gain (loss) on sales of capital assets	(40,318)	(1,542,462)	
Investment income	58,860	20,335	1,683
Interest expense	(837,615)	(823,343)	(67,275)
Total Non-Operating Revenue (Expense)	(819,073)	(2,345,470)	(65,592)
Income (Loss) Before Transfers	1,095,030	21,438	(992,885)
Transfers in			
Change in Net Position	1,095,030	21,438	(992,885)
Net Position (Deficit), beginning of fiscal year	17,540,275	48,211,902	13,769,592
Net Position, end of fiscal year	\$ 18,635,305	\$ 48,233,340	\$ 12,776,707

The notes to the basic financial statements are an integral part of this statement

Enterprise Funds				Governmental Activities- Internal Service Funds
Building	Transit	Golf	Totals	
\$ 1,805,588	\$ 289,850	\$ -	\$ 19,615,727	\$ 4,905,449
404,646		3,872	1,164,936	5,120
	1,849,557		2,073,839	
2,210,234	2,139,407	3,872	22,854,502	4,910,569
			2,585,667	
674,037	2,014,545	299	10,866,091	2,994,544
48,345			1,086,420	
11,330			280,049	1,612,448
5,941	147,786	9,627	3,240,954	362,771
739,653	2,162,331	9,926	18,059,181	4,969,763
1,470,581	(22,924)	(6,054)	4,795,321	(59,194)
		(16,463)	(1,599,243)	
			80,878	
			(1,728,233)	
		(16,463)	(3,246,598)	
1,470,581	(22,924)	(22,517)	1,548,723	(59,194)
	539,208		539,208	
1,470,581	516,284	(22,517)	2,087,931	(59,194)
(1,053,222)	96,839	798,139	79,363,525	787,732
\$ 417,359	\$ 613,123	\$ 775,622	\$ 81,451,456	\$ 728,538

**CITY OF EUREKA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Enterprise Funds		
	Water	Wastewater	Harbor
Cash Flows from Operating Activities:			
Receipts from customers/interfund charges	\$ 8,138,406	\$ 9,069,538	\$ 1,018,679
Payments to suppliers and users	(3,822,033)	(3,744,380)	(1,199,276)
Payments to employees	(1,917,226)	(2,945,060)	(454,220)
Net Cash Provided (Used) by Operating Activities	<u>2,399,147</u>	<u>2,380,098</u>	<u>(634,817)</u>
Cash Flows from Non-Capital Financing Activities:			
Transfers in			
Due to/from other funds	(1,907,545)	412,333	842,416
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(1,907,545)</u>	<u>412,333</u>	<u>842,416</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisitions of capital assets	(721,097)	(4,106,250)	(35,000)
Interest paid	(791,384)	(833,582)	(71,514)
Principal payments - long-term debt	(615,000)	(460,000)	(102,768)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,127,481)</u>	<u>(5,399,832)</u>	<u>(209,282)</u>
Cash Flows from Investing Activities:			
Interest received	58,860	20,335	1,683
Net Cash Provided (Used) by Investing Activities	<u>58,860</u>	<u>20,335</u>	<u>1,683</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,577,019)	(2,587,066)	
Cash and Cash Equivalents, July 1, 2017	5,175,080	7,052,834	
Cash and Cash Equivalents, June 30, 2018	<u>\$ 3,598,061</u>	<u>\$ 4,465,768</u>	<u>\$ -</u>
Reconciliation of Cash and Cash Equivalents To Statement of Net Position			
Cash and investments	\$ 903,354	\$ 3,417,463	\$ -
Cash and investments with fiscal agents	2,694,707	1,048,305	
Total Cash and Cash Equivalents	<u>\$ 3,598,061</u>	<u>\$ 4,465,768</u>	<u>\$ -</u>
Non-cash activities - construction in progress write-off	<u>\$ (40,318)</u>	<u>\$ (1,542,462)</u>	<u>\$ -</u>

The notes to the basic financial statements are an integral part of this statement

Enterprise Funds				Governmental Activities - Internal Service Funds
Building	Transit	Golf	Totals	
\$ 906,140	\$ 1,042,665	\$ 3,872	\$ 20,179,300	\$ 4,909,346
(213,853)	(1,913,115)	5,595	(10,887,062)	(1,950,800)
(527,846)		(5,894)	(5,850,246)	(2,578,825)
164,441	(870,450)	3,573	3,441,992	379,721
	539,208		539,208	
(164,441)	331,242		(485,995)	(394,046)
(164,441)	870,450		53,213	(394,046)
		(70,092)	(4,932,439)	(592,240)
			(1,696,480)	
			(1,177,768)	
		(70,092)	(7,806,687)	(592,240)
			80,878	
			80,878	
		(66,519)	(4,230,604)	(606,565)
		156,690	12,384,604	3,553,222
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,171</u>	<u>\$ 8,154,000</u>	<u>\$ 2,946,657</u>
\$ -	\$ -	\$ 90,171	\$ 4,410,988	\$ 2,946,657
			3,743,012	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,171</u>	<u>\$ 8,154,000</u>	<u>\$ 2,946,657</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (16,463)</u>	<u>\$ (1,599,243)</u>	<u>\$ -</u>

(Continued)

**CITY OF EUREKA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018
 (Continued)**

	Enterprise Funds		
	Water	Wastewater	Harbor
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ 1,914,103	\$ 2,366,908	\$ (927,293)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	837,919	1,915,701	323,980
(Increase) Decrease in Operating Assets and Deferred Outflows:			
Accounts receivable	(80,454)	(195,938)	2,438
Inventory			
Deferred outflows of resources - pension related	(45,057)	(35,157)	(299)
Increase (Decrease) in Operating Liabilities and Deferred Inflows:			
Accounts payable	27,912	(1,122,774)	71,646
Deposits payable	(3,613)		2,912
Unearned revenue	289		
Payroll and related liabilities	8,610	10,123	1,600
Deferred inflows of resources - pension related	29,612	40,063	5,436
Net pension liability	(300,405)	(602,315)	(115,670)
Claims and judgments payable			
Compensated absences	10,231	3,487	433
Net Cash Provided (Used) by Operating Activities	\$ 2,399,147	\$ 2,380,098	\$ (634,817)

The notes to the basic financial statements are an integral part of this statement

Enterprise Funds				Governmental Activities - Internal Service Funds
Building	Transit	Golf	Totals	
\$ 1,470,581	\$ (22,924)	\$ (6,054)	\$ 4,795,321	\$ (59,194)
5,941	147,786	9,627	3,240,954	362,771
(1,304,094)	(1,096,742)		(2,674,790)	(1,223)
	9,000		9,000	
(25,848)			(106,361)	1,009
14,455	92,430		(916,331)	582,531
			(701)	
			289	
2,078			22,411	5,604
9,429			84,540	20,370
(8,332)			(1,026,722)	(449,690)
				(99,456)
231			14,382	16,999
<u>\$ 164,441</u>	<u>\$ (870,450)</u>	<u>\$ 3,573</u>	<u>\$ 3,441,992</u>	<u>\$ 379,721</u>

**CITY OF EUREKA
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2018**

	Agency Fund	Trust Funds	
		Fire and Police Pension Benefits Plan	Private Purpose Trust Funds
	Trust Holding		
ASSETS			
Cash and investments	\$ 171,676	\$ 129,451	\$ 265,703
Cash and investments with Fiscal Agent, Restricted			133
Capital assets, not being depreciated			53,702
Capital assets, net of accumulated depreciation			127,142
Total Assets	<u>\$ 171,676</u>	<u>129,451</u>	<u>446,680</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred loss on refunding			1,145,532
LIABILITIES			
Accounts payable	\$ 50		2,394
Payroll payable		10,074	1,042
Interest payable			116,765
Deposits payable	171,626		
Noncurrent Liabilities:			
Due within one year			1,808,027
Due in more than one year			17,207,277
Total Liabilities	<u>\$ 171,676</u>	<u>10,074</u>	<u>19,135,505</u>
Net Position (Deficit)			
Held in trust for pension benefits		119,377	
Unrestricted			(17,543,293)
Total Net Position (Deficit)		<u>\$ 119,377</u>	<u>\$ (17,543,293)</u>

The notes to the basic financial statements are an integral part of this statement

**CITY OF EUREKA
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Fiscal Year Ended June 30, 2018**

	Trust Funds	
	Fire and Police Pension Benefits Plan	Private Purpose Trust Funds
ADDITIONS		
Contributions:		
Employer	\$ 366,773	\$ -
Taxes		3,535,709
Investment income		4
Total Additions	<u>366,773</u>	<u>3,535,713</u>
DEDUCTIONS		
Benefits	284,566	
Administration		247,800
Depreciation		9,081
Community development		274,282
Interest expense		695,001
Total Deductions	<u>284,566</u>	<u>1,226,164</u>
Change in net position	<u>82,207</u>	<u>2,309,549</u>
Net Position (Deficit) - beginning of fiscal year	37,170	(20,508,943)
Prior Period Adjustments		656,101
Net Position (Deficit) - beginning of fiscal year, restated	<u>37,170</u>	<u>(19,852,842)</u>
Net Position (Deficit) - end of fiscal year	<u>\$ 119,377</u>	<u>\$ (17,543,293)</u>

The notes to the basic financial statements are an integral part of this statement

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NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The City of Eureka was incorporated as a town on April 18, 1856, under a special act of the legislature, reincorporated as a city on February 19, 1874, and incorporated under a Freeholder's Charter on February 18, 1895. The City operates under a Council-Manager form of government and is governed by an elected mayor and five elected city council members. The City provides the following services as authorized by its charter: public safety (police and fire), streets and highways, public improvements, land use, building and housing standards, culture-recreation programs, parks and recreation areas, utilities, public transit, and administrative and fiscal services.

As required by accounting principles generally accepted in the United States of America, these basic financial statements present financial information for the City of Eureka (the primary government) and its component units. Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the basic financial statements to emphasize their legal separateness from the City. The City has no discrete component units. Each blended component unit has a fiscal year end of June 30. The blended component units are included in the City's reporting entity because of the significance of their operational and financial relationships with the City.

Blended Component Units

The following blended component units are included in the reporting entity as though they were part of the primary government. Separate financial statements for the blended component units are on file at the offices of the City of Eureka at 531 K Street, Eureka, California 95501.

EUREKA PUBLIC FINANCING AUTHORITY

The City created the Eureka Public Financing Authority to sell bonds and lend the proceeds of bond issues to Eureka Redevelopment Agency. The City Council also functions as the Board of the Eureka Public Financing Authority. The City performs all administrative, budgeting, and accounting functions of the Authority. The Authority is no longer in operation as of February 2012. All the redevelopment agency debts were transferred to the Eureka successor agency.

Joint Ventures

HUMBOLDT TRANSIT AUTHORITY

The Transit Authority was created as a separate legal entity by a joint powers agreement between the County of Humboldt and the Cities of Fortuna, Eureka, Arcata, Trinidad, and Rio Dell. The governing board consists of a city council member and an alternate member appointed from each participating city, as well as two board members and up to two alternate members appointed by the Humboldt County Board of Supervisors.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Joint Ventures (Continued)

HUMBOLDT TRANSIT AUTHORITY (Continued)

The Authority is responsible for adopting its own budget and has the power to incur debts, liabilities, or obligations. On commencement of operations of the Authority, the County contributed 50 percent of the initial equity, and the participating cities jointly contributed 50 percent based upon population data. The participants do not have an on-going equity interest in the Authority. However, the participants do share operating costs of the Authority, and the current share of the City of Eureka is 25.6 percent. At termination of the agreement, all surplus monies will be returned to the participants in proportion to the amounts received; and property shall be divided in a manner agreed upon by the parties. Complete financial statements for Humboldt Transit Authority may be obtained at the offices of the Authority at 133 V Street, Eureka, California, 95501.

HUMBOLDT WASTE MANAGEMENT AUTHORITY

The Humboldt Waste Management Authority was created as a separate entity by a joint powers agreement between the County of Humboldt and the Cities of Arcata, Eureka, Blue Lake, Ferndale, and Rio Dell. The governing board consists of one director and one alternate appointed by each member of the Authority. The Authority is responsible for adopting its own budget and has the power to incur debts, liabilities, or obligations.

The Authority was formed in October 1999 for the purpose of providing economical coordination of solid waste management services and efficiently and fairly assuring against potential adverse effects of past solid waste management services within the service area. It is intended that the Authority shall develop and fund programs for the (A) Siting, permitting, developing, constructing, maintaining, operating, or contracting for the construction and/or from operation of disposal sites, transfer facilities and equipment, materials recovery facilities, waste-to-energy facilities, and/or solid waste landfills; (B) preparing and implementing an Integrated Waste Management Plan and other planning documents; (C) disposal of waste generated in the incorporated and unincorporated area of the County and the granting of franchises for waste hauling; (D) planning, implementing, and supervising programs which serve all or most jurisdictions, including facilities, special wastes, and recycling market development. The general purpose also includes establishment of pooled insurance and other financial mechanisms to provide for the safe closure and long-term post-closure maintenance of the Cummings Road Sanitary Landfill (when closed). This may include ownership and/or management of the landfill during the final stages of the landfill's active life, during closure, and thereafter. Upon dissolution, the remaining assets of the Authority, after payment of or adequate provision for all debts, liabilities, and obligations of the Authority, shall be divided among the members in accordance with a unanimous agreement among them or in proportion to the total tonnage of solid waste each member caused to be delivered to the transfer facility. Financial statements may be obtained at the Humboldt Waste Management Authority, located at 1059 West Hawthorne Street, Eureka, California 95501.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The City's government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental activities and business-type activities for the City, the primary government, accompanied by a total column. Fiduciary activities (either funds or component units) of the City are not included in these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Certain types of transactions are reported as program revenues for the City within three categories:

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

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement on Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated, also interfund services provided and used are not eliminated. The following interfund activities have been eliminated:

- Due to, Due from other funds
- Advances to, Advances from other funds
- Transfers in, Transfers out

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements.

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

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after fiscal year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, special assessments, intergovernmental revenues, other taxes, interest revenue, rental revenue, and certain charges for services. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Unearned revenues arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenues arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the unearned revenue is removed from the balance sheet 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.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows for all proprietary funds.

Columns representing internal service funds are also presented in these statements. However, internal service fund balances and activities have been combined with the governmental activities in the government-wide financial statements.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

Proprietary Fund Financial Statements (Continued)

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Net Position and Statement of Changes in Net Position. The City’s fiduciary funds are accounted for according to the nature of the fund. The City has two such funds which are accounted for using “economic resources” measurement focus and the accrual basis of accounting are the proprietary funds explained above. The one Agency fund of the City does not use or have a measurement focus.

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

The government-wide financial statements are reported using the “economic resources” measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements (except as noted above). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The government reports the following major governmental funds:

The **General fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Successor Housing Authority fund** accounts for the low and moderate income housing program previously administrated by the Redevelopment Agency low and moderate income housing fund.

The **Housing fund** accounts for all housing funds of the City, including: the proceeds of Community Development Block grants, as required by federal regulations; reimbursement of block grant economic development loans ("program income"); rental rehabilitation state grant funds; Home Investment Partnership Program (HOME) for loans of federal and state grant funds; and local housing to operate as a revolving loan fund. Funding sources for the housing loan programs include grants and loan repayments.

The **Gas Tax/State Highway Funds** account for gas tax monies allocated by the State. Taxes levied by the State on gasoline and other motor fuels are allocated among cities, counties, and the State. The funds can be used for street and road expenditures, as defined by state law. Occasionally, other street and road related grants are receipted into these funds. Other revenues include State Highway funds traded for Federal ISTEA funds (per California Senate Bill 1435). The funds can be used for the same purposes as gas tax funds (see above). Under SB 45, the State Transportation Improvement Plan provides funding for approved local street projects. Revenues are derived from both state and federal funds. Revenue received from CalTrans through the sale of property to fund projects that provide congestion relief for travel through the City is also allocated here. These funds are also used to account for revenue received from the State for the purpose of street and highway pavement maintenance, rehabilitation, and reconstruction of necessary associated facilities such as drainage and traffic devices.

The government reports the following major proprietary funds:

The **Water fund** is used to account for the operation and maintenance of the City's water utility. Revenues are primarily user charges. Rates are set periodically by the City Council.

The **Wastewater fund** is used to account for the operation and maintenance of the City's sewer utility.

The **Harbor fund** is used for administration and operation of the Humboldt Bay Harbor.

The **Building fund** is used for administration of construction regulation programs, building code enforcement, and public information programs.

The **Transit fund** is used for administration and operation of the Eureka Transit System and Dial-a-Ride/Lift program, as well as the City's share of a county-wide transit system.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The **Golf fund** is used for the administration of the Municipal Golf Course.

Additionally, the government reports the following fund types:

Governmental Fund Type

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

Proprietary Fund Type

Internal service funds account for data processing, fleet management services, and risk management to other departments or agencies of the government on a cost reimbursement basis. Transactions for interfund services provided and used are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

Fiduciary Fund Type

The pension trust fund accounts for the activities of the public safety employee's retirement system, which accumulates resources for pension benefit payments to qualified public safety employees.

The private-purpose trust fund accounts for the activities of the Humboldt Del Norte Hazard Materials Response Authority and the Redevelopment Agency Successor Agency.

The Agency Fund is used to account for funds received and held by the City in a custodial capacity.

Recognition of Interest Liability

Interest expenditures on long-term debt within governmental funds are recognized when payment is due. Proprietary fund interest expense is recognized as the liability is incurred.

Use of Estimates

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

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, deferred outflow/inflow of resources, and net position or equity

1. Deposits and Investments

The City pools its available cash for investment purposes. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents.

In accordance with GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

Under provisions of the City's investment policy, the City may invest in any instruments authorized by Section 53601 of the California Government Code.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

Monies held by bond trustees are invested, as followed by California Government Code Section 53601 (1), in accordance with the provisions of the respective bond indentures involved.

During the fiscal year, the City may have held Structured Notes. Structured Notes are debt securities (other than Asset-backed Securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options. They are issued by corporations and government-sponsored enterprises such as the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). These securities could be called prior to maturity, depending on changes in interest rates.

For purposes of reporting cash flows, the City considers each fund's share in the cash and investments pool to be cash and cash equivalents, including cash with fiscal agents.

2. Receivables and Payables

Advances to other Funds

For governmental fund types, noncurrent portions of long term interfund loans receivable are equally offset by a restricted fund balance which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of long term interfund loans receivable are considered "available spendable resources".

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**D. Assets, liabilities, deferred outflow/inflow of resources, and net position or equity
(Continued)**

3. Inventory and Prepaid Items

Inventories of supplies are expensed when purchased because the amounts are not considered to be material. Inventory of land held for resale is valued at the lower of cost or net realizable value. Payments made to vendors for services that will benefit periods beyond June 30, 2018 are recorded as prepaid items.

4. Restricted Assets

Fiscal agents acting on behalf of the City hold investment funds arising from the proceeds of long-term debt issuances. The funds may be used for specific capital outlays or for the payment of certain bonds, certificates of participation or tax allocation bonds and have been invested only as permitted by specific State statutes or applicable City ordinances, resolution, or bond indenture.

Use of Restricted and Unrestricted Net Position - When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the City's policy is to apply restricted net position first.

5. Deferred Outflow/Inflow of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has deferred outflows of resources on the deferred loss on refunding of debt and pensions in the statement of net position.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The City has deferred inflow of resources deferred revenue on the fund financial statements and pensions in the statement of net position.

6. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated capital assets are valued at their estimated fair value on the date donated. City policy has set the capitalization threshold for reporting capital assets at \$5,000 including infrastructure.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, deferred outflow/inflow of resources, and net position or equity (Continued)

6. Capital Assets (Continued)

Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Water system	20-50 years
Sewer system	15-50 years
Buildings	30-50 years
Improvements-not buildings	20-40 years
Machinery and equipment	3-20 years
Infrastructure	15-50 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB Statement No. 34, the City has included infrastructure acquired or constructed in the Basic Financial Statements.

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include streets, sewer, and park lands. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, landscaping, and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

Interest accrued during capital asset construction, if any, is capitalized for the business-type funds as part of the asset cost.

7. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, deferred outflow/inflow of resources, and net position or equity (Continued)

8. Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Net Position and Fund Balance

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

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

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

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

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

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**D. Assets, liabilities, deferred outflow/inflow of resources, and net position or equity
(Continued)**

9. Net Position and Fund Balance (Continued)

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

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

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

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

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

10. Property Taxes

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**D. Assets, liabilities, deferred outflow/inflow of resources, and net position or equity
(Continued)**

10. Property Taxes (Continued)

Property Valuations – are established by the Assessor of the County of Humboldt for the secured and unsecured property tax rolls; the utility property tax rolls are valued by the State Board of Equalization. Under the provisions of Article XIII A of the State Constitution Proposition 13 adopted by the voters on June 6, 1978 properties are assessed at 100% of full value. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax Levies – are limited to 1% of full value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates – are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

Tax Collections – are the responsibility of the county tax collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: The first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the county for late payments.

The County of Humboldt levies, bills, and collects property taxes and special assessments for the City. Property taxes levied are recorded as revenue when received, in the fiscal year of levy, due to the adoption of the “alternate method of property tax distribution”, known as the Teeter Plan, by the City and the County of Humboldt. The Teeter Plan authorizes the Auditor/Controller of the County of Humboldt to allocate 100 percent of the secured property taxes billed, but not yet paid. The County of Humboldt remits tax monies to the City in three installments as follows:

- 50 percent remitted in December
- 45 percent remitted in April
- 5 percent remitted in June

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, deferred outflow/inflow of resources, and net position or equity (Continued)

11. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City Firemen's and Policemen's Retirement System (Plans), the City's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported as fair value.

E. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 73

For the fiscal year ended June 30, 2018, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*". This Statement is effective for periods beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. Implementation of the GASB Statement No. 73 did have an impact on the City's financial statements for the fiscal year ended June 30, 2018, see Note 1.11 – Pensions, Note 11 – Employee Retirement Systems and Pensions Plan – Local Employees' Retirement System (LERS), and Note 16 – Prior Period Adjustments.

Pending Accounting Standards:

GASB Statements listed below will be implemented in future financial statements:

Statement No. 83	"Certain Asset Retirement Obligations"	The provision of this statement is effective for fiscal years beginning after June 15, 2018.
Statement No. 84	"Fiduciary Activities"	The provision of this statement is effective for fiscal years beginning after December 15, 2018.
Statement No. 87	"Leases"	The provision of this statement is effective for fiscal years beginning after December 15, 2019.
Statement No. 88	"Certain Disclosure Related to Debt, including Direct Borrowings and Direct Placements"	The provision of this statement is effective for fiscal years beginning after June 15, 2018.
Statement No. 89	"Accounting for Interest Cost Incurred before the End of a Construction Period"	The provision of this statement is effective for fiscal years beginning after December 15, 2019.
Statement No. 90	"Majority Equity Interest-an Amendment of GASB Statements No. 14 and No. 61"	The provision of this statement is effective for fiscal years beginning after December 15, 2018.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

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

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

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

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

B. Excess of expenditures over appropriations

For the fiscal year ended June 30, 2018, the following funds reflected expenditures in excess of budgeted amounts:

<u>Non-major fund</u>	<u>Amount of Excess</u>
Special Revenue Fund:	
Demolition Projects	\$ 349,851

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 3 CASH AND INVESTMENTS (Continued)

Cash and investments at June 30, 2018 consisted of the following:

Cash on hand	\$	9,290
Deposits with financial institutions		5,173,471
Investments		14,817,482
 Total Cash and Investments	 \$	 <u>20,000,243</u>

A. Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City of Eureka (City) by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
Bankers Acceptances	180 days	40%	None
Certificates of Deposits	180 days	20%	None
Negotiable Certificates of Deposit	2 years	30%	None
Commercial Paper	270 days	25%	None
Corporate Medium Term Notes	5 years	30%	None
State of California Local Agency Investment Fund (State Pool)	N/A	Unlimited	\$65,000,000
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

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 3 CASH AND INVESTMENTS (Continued)

B. Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the Investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Certificates of Deposit with Banks and Savings & Loans	None	None	None
United States Treasury Obligations	None	None	None
United States Government Sponsored Enterprise Securities	None	None	None
Municipal Obligations	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
State of California Local Agency Investment Fund (State Pool)	None	None	None

C. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 3 CASH AND INVESTMENTS (Continued)

C. Disclosures Relating to Interest Rate Risk (Continued)

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Amount	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	Over 60 Months
State Investment Pool	\$ 10,784,124	\$ 10,784,124	\$ -	\$ -	\$ -
Certificates of Deposit	290,213	290,213			
Held by Bond Trustees:					
Money Market Mutual Funds	3,743,145	3,743,145			
Total	\$ 14,817,482	\$ 14,817,482	\$ -	\$ -	\$ -

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

The City has no investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

E. Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
State Investment Pool	\$ 10,784,124	N/A	\$ -	\$ -	\$ -	\$ -	\$ 10,784,124
Certificates of Deposit	290,213	N/A					290,213
Held by Bond Trustees:							
Money Market Mutual Funds	3,743,145	N/A					3,743,145
Total	\$ 14,817,482		\$ -	\$ -	\$ -	\$ -	\$ 14,817,482

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 3 CASH AND INVESTMENTS (Continued)

F. Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. There are 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 City investments.

G. Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2018, all of the City's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts. As of June 30, 2018, the City's investment in the following type was held by the same broker-dealer (Counterparty) that was used by the City to buy the security:

<u>Investment Type</u>	<u>Reported Amount</u>
Certificates of Deposit	\$290,213

H. Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 3 CASH AND INVESTMENTS (Continued)

I. Fair Value Measurements

The City pool investment categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and,
- Level 3: Investments reflect prices based upon unobservable sources.

The City pool investment has the following recurring fair value measurements as of June 30, 2018:

<u>Investment by Fair Value Level</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Debt securities				
Certificates of deposits	\$ 290,213	\$ 290,213		
Total Investments Measured at Fair Value	290,213	<u>\$ 290,213</u>	<u>\$ -</u>	<u>\$ -</u>
Investments Measured at Amortized Cost				
LAIF	10,784,124			
Total Pooled Investments	<u>\$ 11,074,337</u>			

The City also had investments in the money market mutual funds, however, these investments are not required to be measured under Level 1, 2 or 3.

NOTE 4 RECEIVABLES

Receivables as of fiscal year end for the government's individual major funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Accounts</u>	<u>Accrued Interest</u>	<u>Totals</u>
Governmental Funds:			
General	\$ 5,297,584	\$ -	\$ 5,297,584
Housing Authority	645		645
Successor Housing Authority	3,412		3,412
Gas Tax/State Highway	349,670		349,670
Nonmajor Governmental Funds	636,703		636,703
	<u>636,703</u>		<u>636,703</u>
Total - Governmental Funds	<u>\$ 6,288,014</u>	<u>\$ -</u>	<u>\$ 6,288,014</u>

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 RECEIVABLES (Continued)

Governmental funds report unavailable revenues in connection with receivables for revenues and notes and loans that are not considered to be available to liquidate liabilities of the current period. As of June 30, 2018, the various components of unearned revenue are as follows:

Unearned Revenue/Deferred Inflows of Resources:

Governmental Funds:

General	\$ 402,871
Successor Housing Authority	7,279,096
Housing	<u>10,806,166</u>
Total Unearned Revenues	<u>\$ 18,488,133</u>

Receivables as of fiscal year end for the government's individual enterprise funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Accounts</u>	<u>Accrued Interest</u>	<u>Totals</u>
Enterprise Funds:			
Water	\$ 877,471	\$ -	\$ 877,471
Wastewater	2,825,036		2,825,036
Harbor	7,738		7,738
Building	2,528,362		2,528,362
Transit	<u>2,413,689</u>		<u>2,413,689</u>
Total - Enterprise Funds	<u>\$ 8,652,296</u>	<u>\$ -</u>	<u>\$ 8,652,296</u>

Receivables of the Water, Wastewater, Harbor, and Building funds are reported net of nominal uncollectible accounts in the amount of \$29,425, \$23,375, \$19,299, and \$927,176 respectively.

Notes and Loans Receivable

The following schedule summarizes notes and loans receivable as of June 30, 2018:

Successor Housing Authority Fund Notes Receivable	\$ 7,279,096
Housing Special Revenue Fund Loans Receivable	<u>10,806,166</u>
Total Notes Receivable, Governmental Funds	<u>\$ 18,085,262</u>

These notes and loans represent amounts loaned to individuals and businesses to assist in the elimination of blight and/or assist in purchasing or rehabilitation of residences or businesses. As of June 30, 2018, the accrued interest balance of these notes and loans receivable is \$2,715,573.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 5 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. Normally these balances occur as a result of expenditures/ expenses being paid prior to receiving revenue which causes a deficit in pooled cash. The composition of interfund balances as of June 30, 2018 is as follows:

A. Due to/ from other fund

<u>Receivable Funds</u>	<u>Payable Funds</u>	<u>Amount</u>
Major Water Enterprise Fund	Major Gas Tax/State Highway Special Revenue Fund	\$ 1,878,820
	Nonmajor Parking Special Revenue Fund	56,172
	Nonmajor Demolition Projects Special Revenue Fund	1,866,709
	Nonmajor Airport Projects Special Revenue Fund	84,697
	Major Harbor Enterprise Fund	1,391,364
	Major Building Enterprise Fund	974,957
	Major Transit Enterprise Fund	1,849,205
		<u>\$ 8,101,924</u>

B. Interfund Transfers

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Major Transit Enterprise Fund	General Fund	<u>\$ 539,208</u>

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 CAPITAL ASSETS

A summary of changes in the Governmental Activities capital assets at June 30, 2018 is as follows:

	Balance at July 1, 2017	Additions	Reductions	Transfers / Adjustments	Balance at June 30, 2018
Capital assets, not being depreciated:					
Land	\$ 3,692,899	\$ 621,210	\$ -	\$ -	\$ 4,314,109
Infrastructure	24,025,188				24,025,188
Construction in progress	3,502,412	3,680,611	(876,592)	(5,107,501)	1,198,930
Artwork	236,795				236,795
Total capital assets, not being depreciated	<u>31,457,294</u>	<u>4,301,821</u>	<u>(876,592)</u>	<u>(5,107,501)</u>	<u>29,775,022</u>
Capital assets, being depreciated:					
Buildings	19,749,702	263,376		228,930	20,242,008
Improvements other than buildings	87,694,170	15,500			87,709,670
Machinery and equipment	18,345,256	1,092,791	(176,180)		19,261,867
Infrastructure	9,857,910			4,878,571	14,736,481
Total capital assets being depreciated	<u>135,647,038</u>	<u>1,371,667</u>	<u>(176,180)</u>	<u>5,107,501</u>	<u>141,950,026</u>
Less accumulated depreciation for:					
Buildings	(8,186,274)	(427,429)			(8,613,703)
Improvements other than buildings	(65,696,192)	(888,674)			(66,584,866)
Machinery and equipment	(14,678,369)	(836,394)	176,180		(15,338,583)
Infrastructure	(3,275,018)	(383,768)			(3,658,786)
Total accumulated depreciation	<u>(91,835,853)</u>	<u>(2,536,265)</u>	<u>176,180</u>		<u>(94,195,938)</u>
Total capital assets being depreciated, net	<u>43,811,185</u>	<u>(1,164,598)</u>		<u>5,107,501</u>	<u>47,754,088</u>
Governmental activities capital assets, net	<u>\$ 75,268,479</u>	<u>\$ 3,137,223</u>	<u>\$ (876,592)</u>	<u>\$ -</u>	<u>\$ 77,529,110</u>

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

Governmental Activities:	
General government	\$ 270,720
Public safety	549,375
Public works	1,327,782
Community development	83,348
Culture and recreation	305,040
Total depreciation expense - governmental activities	<u>\$ 2,536,265</u>

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 CAPITAL ASSETS (Continued)

A summary of changes in the Business-type Activities capital assets at June 30, 2018 is as follows:

	Balance at July 1, 2017	Additions	Reductions	Transfers / Adjustments	Balance at June 30, 2018
Capital assets, not being depreciated:					
Land	\$ 11,698,800	\$ -	\$ -	\$ -	\$ 11,698,800
Construction in progress	12,948,743	4,786,199	(1,599,243)	(10,019,423)	6,116,276
Total capital assets, not being depreciated	<u>24,647,543</u>	<u>4,786,199</u>	<u>(1,599,243)</u>	<u>(10,019,423)</u>	<u>17,815,076</u>
Capital assets, being depreciated:					
Buildings	11,840,112				11,840,112
Improvements other than buildings	35,877,350			6,068,598	41,945,948
Machinery and equipment	53,376,634	146,240			53,522,874
Infrastructure	51,848,995			3,950,825	55,799,820
Total capital assets being depreciated	<u>152,943,091</u>	<u>146,240</u>		<u>10,019,423</u>	<u>163,108,754</u>
Less accumulated depreciation for:					
Buildings	(6,463,710)	(244,038)			(6,707,748)
Improvements other than buildings	(22,654,572)	(564,833)			(23,219,405)
Machinery and equipment	(39,996,856)	(1,148,206)			(41,145,062)
Infrastructure	(4,488,921)	(1,283,877)			(5,772,798)
Total accumulated depreciation	<u>(73,604,059)</u>	<u>(3,240,954)</u>			<u>(76,845,013)</u>
Total capital assets being depreciated, net	<u>79,339,032</u>	<u>(3,094,714)</u>		<u>10,019,423</u>	<u>86,263,741</u>
Business-type activities capital assets, net	<u>\$ 103,986,575</u>	<u>\$ 1,691,485</u>	<u>\$ (1,599,243)</u>	<u>\$ -</u>	<u>\$ 104,078,817</u>

Depreciation was charged to business – type activities as follows:

Business-type Activities:

Water	\$ 837,919
Wastewater	1,915,701
Harbor	323,980
Building	5,941
Transit	147,786
Golf	<u>9,627</u>
Total depreciation expense - business-type activities	<u><u>\$ 3,240,954</u></u>

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 OPERATING LEASES

The City leases (as lessee) equipment and real estate under operating leases, which are not, in the aggregate, material.

The City leases (as lessor) various office facilities & buildings, hangar facilities, tidelands & docks, and the golf course under operating leases to various entities and individuals. Total revenues from these leases for fiscal year ending June 30, 2018 were \$435,222. From this same period, the contingent rentals totaled \$141,920.

NOTE 8 LONG-TERM DEBT

A. Changes in long-term debt

Long-term liability activity for the fiscal year ended June 30, 2018, was as follows:

	Balance at July 1, 2017	Prior Period Adjustments	Additions	Reductions	Balance at June 30, 2018	Due Within One Year
Governmental Activities:						
Compensated Absences	\$ 1,306,098	\$ -	\$ 874,609	\$ (909,535)	\$ 1,271,172	\$ 635,586
TERS		3,077,801	102,852	(909,499)	2,271,154	
Net Pension Liabilities	36,553,779		13,886,095	(7,785,927)	42,653,947	
Capital Leases	366,491		357,415	(187,475)	536,431	187,475
Total	\$ 38,226,368	\$ 3,077,801	\$ 15,220,971	\$ (9,792,436)	\$ 46,732,704	\$ 823,061

	Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018	Due Within One Year
Business-type Activities:					
Series 2002B CSCDA Revenue Bonds	\$ 2,095,000	\$ -	\$ (145,000)	\$ 1,950,000	\$ 155,000
Series 2003A CSCDA Revenue Bonds	2,355,000		(150,000)	2,205,000	155,000
Series 2005C CSCDA Revenue Bonds	4,435,000		(410,000)	4,025,000	425,000
Series 2006A CSCDA Revenue Bonds	1,280,000		(60,000)	1,220,000	65,000
Wastewater Revenue Bonds Series 2011	14,875,000		(310,000)	14,565,000	325,000
Water Revenue Bonds Series 2012	9,370,000			9,370,000	
Total Bonds Payable	34,410,000		(1,075,000)	33,335,000	1,125,000
Bond Premium	418,646		(22,049)	396,597	22,049
Net Pension Liabilities	13,894,244	916,400	(1,943,122)	12,867,522	
Compensated Absences	300,562	302,851	(288,469)	314,944	314,944
Intergovernmental Loan Payable	1,589,210		(102,768)	1,486,442	107,392
Total	\$ 50,612,662	\$ 1,219,251	\$ (3,431,408)	\$ 48,400,505	\$ 1,569,385

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 LONG-TERM DEBT (Continued)

C. Capital Leases

Governmental activities

During fiscal year 2012-13, the City entered into a capital lease for a fire truck and roofing at the City Hall with a maximum value of \$782,479. As of June 30, 2018, the balance of this lease is \$229,771.

During fiscal year 2017-18, the City entered into a capital lease for a police RIMS system with a maximum value of \$383,325. As of June 30, 2018, the balance of this lease is \$306,660.

These lease agreements qualify as capital leases for accounting purposes, and therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. As of June 30, 2018, the total balance for all capital leases related to governmental activities is \$536,431.

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

Fiscal Year Ending June 30,	Governmental Activities Amount
2019	\$ 206,207
2020	206,207
2021	76,665
2022	76,665
Minimum lease payments	565,744
Less amount representing interest	(29,313)
Present value of minimum lease payments	<u>\$ 536,431</u>

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 LONG-TERM DEBT (Continued)

D. Intergovernmental Loan

Business-type activities

On September 26, 1996, the City and Redevelopment Agency jointly entered into a loan and operation contract with the California Department of Boating and Waterways for the purpose of repairing and refurbishing the Eureka Boat Basin. The loan of \$2,750,000 is payable at 4.5% interest over 30 years. The outstanding balance as of June 30, 2018 was \$1,486,442. Future minimum debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 107,392	\$ 66,890	\$ 174,282
2020	112,225	62,057	174,282
2021	117,275	57,007	174,282
2022	122,552	51,730	174,282
2023	128,067	46,215	174,282
2024-2028	732,145	139,265	871,410
2029	166,786	7,505	174,291
	<u>\$ 1,486,442</u>	<u>\$ 430,669</u>	<u>\$ 1,917,111</u>

E. Revenue Bonds

Business-type activities

CSCDA Water Revenue Bonds (Pooled Financing Program), Series 2002B principal amount of \$3,625,000, due in annual installments through April 1, 2028; interest rates at 4.00% to 5.25%. Proceeds were used to finance various Water Utility projects. These bonds are payable exclusively from the revenues of the City's Water Utility, and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka. The outstanding balance as of June 30, 2018 was \$1,950,000. Future debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Series 2002B CSCDA Revenue Bonds		
	Principal	Interest	Total
2019	\$ 155,000	\$ 96,518	\$ 251,518
2020	160,000	88,488	248,488
2021	170,000	80,238	250,238
2022	180,000	71,488	251,488
2023	190,000	62,238	252,238
2024-2028	1,095,000	149,494	1,244,494
Totals	<u>\$ 1,950,000</u>	<u>\$ 548,464</u>	<u>\$ 2,498,464</u>

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 LONG-TERM DEBT (Continued)

E. Revenue Bonds (Continued)

Business-type activities (Continued)

CSCDA Wastewater Revenue Bonds (Pooled Financing Program), Series 2003A principal amount of \$4,040,000 due in annual installments through April 1, 2029; interest rates at 2.00% to 5.25%. Proceeds were used to finance various Wastewater Utility projects. These bonds are payable exclusively from the revenues of the City's Wastewater Utility, and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka. The outstanding balance as of June 30, 2018 was \$2,205,000. Future debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Series 2003A CSCDA Revenue Bonds		
	Principal	Interest	Total
2019	\$ 155,000	\$ 104,782	\$ 259,782
2020	160,000	97,676	257,676
2021	170,000	89,013	259,013
2022	180,000	79,825	259,825
2023	190,000	70,113	260,113
2024-2028	1,100,000	195,253	1,295,253
2029	250,000	5,938	255,938
Totals	\$ 2,205,000	\$ 642,600	\$ 2,847,600

CSCDA Water Revenue Bonds (Pooled Financing Program), Series 2005C principal amount of \$8,110,000, due in annual installments through April 1, 2026; interest rates at 2.60% to 5.00%. Proceeds were used to advance refund the City's CSCDA 2000A Water and Wastewater Revenue Bonds. These bonds are payable exclusively from the City's Water Utility and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka. The outstanding balance as of June 30, 2018 was \$4,025,000. Future debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Series 2005C CSCDA Revenue Bonds		
	Principal	Interest	Total
2019	\$ 425,000	\$ 188,500	\$ 613,500
2020	440,000	169,000	609,000
2021	465,000	146,375	611,375
2022	490,000	122,500	612,500
2023	510,000	97,500	607,500
2024-2026	1,695,000	129,625	1,824,625
Totals	\$ 4,025,000	\$ 853,500	\$ 4,878,500

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 LONG-TERM DEBT (Continued)

E. Revenue Bonds (Continued)

Business-type activities (Continued)

CSCDA Water Revenue Bonds (Pooled Financing Program), Series 2006A principal amount of \$1,795,000, due in annual installments through April 1, 2032; interest rates at 3.00% to 5.00%. Proceeds were used to finance various Water System Projects. The bonds are payable solely from the revenue of the City's Water Utilities and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka. The outstanding balance as of June 30, 2018 was \$1,220,000. Future debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Series 2006A CSCDA Revenue Bonds		
	Principal	Interest	Total
2019	\$ 65,000	\$ 54,768	\$ 119,768
2020	65,000	52,128	117,128
2021	70,000	49,300	119,300
2022	75,000	46,219	121,219
2023	75,000	42,751	117,751
2024-2028	440,000	151,365	591,365
2029-2032	430,000	39,827	469,827
Totals	<u>\$ 1,220,000</u>	<u>\$ 436,358</u>	<u>\$ 1,656,358</u>

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, 2018 was \$14,565,000.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 LONG-TERM DEBT (Continued)

E. Revenue Bonds (Continued)

Business-type activities (Continued)

Fiscal Year Ending June 30,	Wastewater Revenue Bonds Series 2011		
	Principal	Interest	Total
2019	\$ 325,000	\$ 708,794	\$ 1,033,794
2020	340,000	692,982	1,032,982
2021	360,000	675,482	1,035,482
2022	380,000	656,982	1,036,982
2023	400,000	637,482	1,037,482
2024-2028	2,320,000	2,859,616	5,179,616
2029-2033	2,940,000	2,238,541	5,178,541
2034-2038	3,745,000	1,425,625	5,170,625
2039-2042	3,755,000	387,125	4,142,125
Totals	<u>\$ 14,565,000</u>	<u>\$ 10,282,629</u>	<u>\$ 24,847,629</u>

The Water Revenue Bonds, Series 2012 were issued in the amount of \$9,370,000, due in annual installments through October 1, 2042; interest rates at 4.00% to 5.00%. The purpose of this issue was to finance the cost of improvements to the Water System of the City. 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 Water System Revenues and are secured by a lien and pledge of such revenues. The outstanding balance as of June 30, 2018 was \$9,370,000. Future debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Water Revenue Bonds Series 2012		
	Principal	Interest	Total
2019	\$ -	\$ 424,800	\$ 424,800
2020		424,800	424,800
2021		424,800	424,800
2022		424,800	424,800
2023		424,800	424,800
2024-2028		2,124,000	2,124,000
2029-2033	2,145,000	1,899,875	4,044,875
2034-2038	3,215,000	1,285,875	4,500,875
2039-2043	4,010,000	470,400	4,480,400
Totals	<u>\$ 9,370,000</u>	<u>\$ 7,904,150</u>	<u>\$ 17,274,150</u>

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 LONG-TERM DEBT (Continued)

The annual requirements to amortize outstanding bonded indebtedness as of June 30, 2018 are as follows:

Fiscal Year Ending June 30,	Business-type			Total
	CSCDA Bonds	Wastewater Revenue Bonds	Water Revenue Bonds	
2019	\$ 800,000	\$ 325,000	\$ -	\$ 1,125,000
2020	825,000	340,000		1,165,000
2021	875,000	360,000		1,235,000
2022	925,000	380,000		1,305,000
2023	965,000	400,000		1,365,000
2024-2028	4,330,000	2,320,000		6,650,000
2029-2033	680,000	2,940,000	2,145,000	5,765,000
2034-2038		3,745,000	3,215,000	6,960,000
2039-2043		3,755,000	4,010,000	7,765,000
	<u>\$ 9,400,000</u>	<u>\$ 14,565,000</u>	<u>\$ 9,370,000</u>	<u>\$ 33,335,000</u>

F. Compensated Absences

Employees may accumulate up to 30 days of vacation leave, except management employees, who may accumulate up to 44 days. Employees may accumulate an indefinite amount of sick leave. Vacation leave accrues at a rate determined by the employee's years of service and whether they work an 8-hour or 24-hour shift. The number of hours that accrue per month varies from 8 to 22. Vacation leave vests as it is accrued and unused vacation leave is payable upon retirement or termination. Compensation hours (executive leave) accrue for management and mid-management at 9 and 6 days per year, respectively. Compensation hours also accrue for police, fire and other specified employees in lieu of cash payments for overtime. A liability has been created to account for the accrued vacation and compensation leave in the government-wide financial statements. The City has, in the past, liquidated compensated leave in the general fund and all the proprietary funds. Vested vacation pay is expensed as earned in the proprietary fund types. The City's liability for earned vacation and compensation pay consisted of the following amounts as of June 30, 2018:

Governmental Funds	\$ 1,204,640
Internal Service Funds	<u>66,532</u>
Subtotal Governmental Activities	1,271,172
Business-type Funds	<u>314,944</u>
Total	<u>\$ 1,586,116</u>

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 OTHER INFORMATION

A. Risk Management

The City of Eureka is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The City participates in a public entity risk pool for workers' compensation, general liability and property insurance coverage. During fiscal year 2017-18, there were no significant reductions in insurance coverage.

B. Risk Pool Arrangements

The City is an associate member of the Redwood Empire Municipal Insurance Fund (REMIF), a public entity pool comprised of fifteen northern California charter and associate member cities. REMIF is organized under a Joint Powers Agreement pursuant to the California Government Code. The purpose of REMIF is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

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

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

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

General Liability Insurance – Annual premiums are paid by the member cities and are adjusted retrospectively to cover costs. The City of Eureka self-insures for the first \$25,000 of each loss and pays 100% of all losses incurred under \$25,000. The City does not share or pay for losses of other cities under a range of between \$5,000 to \$25,000, depending on the entity's deductible amount. Participating cities then share in the next \$25,000 to \$500,000 per loss occurrence. Specific coverage includes comprehensive and general automotive liability, personal injury, contractual liability, professional liability, and certain other coverage. REMIF is a member of the California Joint Powers Risk Management Authority, which provides REMIF with an additional \$39,500,000 liability insurance coverage over and above REMIF retention level of \$500,000.

Worker's Compensation – Periodic deposits are paid by member cities and are adjusted retrospectively to cover costs. The City of Eureka is self-insured for the first \$10,000 of each loss and pays 100% of all losses incurred under \$10,000. The City does not share or pay for losses of other cities under \$10,000.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 OTHER INFORMATION (Continued)

B. Risk Pool Arrangements (Continued)

Losses of \$10,000 to \$500,000 are prorated among all participating cities. Losses in excess of \$500,000 are covered by excess insurance purchased by participating cities, as part of the pool, to State statutory limits.

Property Insurance – The City participates in REMIF’s property insurance program. The annual deposits paid by participating member cities are based upon deductibility levels and are not subject to retroactive adjustments. The City of Eureka has a deductible level of \$10,000 and a coverage limit of \$300,000,000 declared value.

The following is a summary of the financial statements of REMIF as of and for the fiscal year ended June 30, 2018:

Total Assets	\$ 27,305,284
Total Deferred Outflows	884,139
Total Liabilities	27,249,047
Total Deferred Inflows	318,912
Total Net Position	621,464
Total Revenues	32,919,951
Total Expenses	27,431,918
Increase in Net Position	5,488,033

Other Insurance Programs

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

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

The City self-insures for \$25,000 per occurrence. The City’s excess coverage is \$500,000 per occurrence with \$5,000,000 annual general aggregate coverage on the primary policy.

The total excess liability provides \$40,000,000 coverage per occurrence or in the aggregate annually.

Worker’s Compensation Insurance – Losses incurred after February 28, 1993, are covered by REMIF, as described in Paragraph A above. For losses incurred prior to March 1, 1993, the City accrued workers’ compensation liability based on an actuarial evaluation of claims, which was accomplished during the year ended June 30, 1996. The City self-insures claims up to \$90,000 during the first payment year following the date of the accident, \$50,000 during the second payment year, and \$40,000 during the third and each subsequent payment year following the date of the accident resulting in injury. Excess worker’s compensation insurance coverage is maintained with a limit of \$2,000,000 to protect against catastrophic losses.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 OTHER INFORMATION (Continued)

B. Risk Pool Arrangements (Continued)

Group Health and Benefits – On August 1, 2002 the City terminated a self-insured group health and benefit program for its employees and eligible dependents. The self-insured group health and benefits “tail” claims were paid through June 30, 2003. City employees choose from a number of benefit plans (dental, health, vision, life insurance, long-term disability, 125 plan medical and/or dependent care) available to them through the City using the monthly fringe benefit contribution from the City. Each plan requires an employee deductible amount and pays benefit percentages that vary depending on plan carrier.

NOTE 10 CLAIMS ADJUSTMENTS

The City maintains an internal service fund to account for general liability insurance, worker’s compensation insurance, and group health and benefits insurance. The primary source of revenue for this fund consists of charges for services to the other funds of the City of Eureka. Claims liabilities are based on the requirements of Governmental Accounting Standards Board Statement Nos. 10 and 30, which require that claims liabilities, including IBNR (incurred but not reported claims), be based on the estimated ultimate cost of settling the claims, using past experience adjusted for current trends and any other factors that would modify past experience. Claims liabilities include specific, incremental claim adjustment expenditures/expenses. Expenditures/expenses and liabilities may be estimated through a case by case review of all claims, the application of historical experience to the outstanding claims, or a combination of these methods. Estimates of IBNR losses are based on historical experience. Claims liability has not been accrued for risks of losses which have been transferred to the public entity risk pool (REMIF).

The following schedule presents changes in accrued claims payable for the fiscal years ended June 30, 2018 and June 30, 2017:

	General Liability Insurance	Worker's Compensation Insurance	Total
Accrued claims payable, June 30, 2016	\$ (147,843)	\$ (106,218)	\$ (254,061)
Provision for insured events payments	805,627	534,744	1,340,371
Payments made to public entity risk pool	(610,839)	(515,252)	(1,126,091)
Direct payments made by the City	(234,368)		(234,368)
Accrued claims payable, June 30, 2017	\$ (187,423)	\$ (86,726)	\$ (274,149)
Provision for insured events payments	638,656	602,547	1,241,203
Payments made to public entity risk pool	(407,958)	(594,924)	(1,002,882)
Direct payments made by the City	(138,865)		(138,865)
Accrued claims payable, June 30, 2018	\$ (95,590)	\$ (79,103)	\$ (174,693)

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Local Employees' Retirement System (LERS):

Plan description

The City of Eureka (City) is the administrator of the Fire and Police Pension Benefits Plan (Plan), which is a single-employer public employee retirement system (LERS) originally established by the City in accordance with the City charter and state statutes for the benefit of its employees. This plan was formally terminated June 30, 1984, when its only remaining participants were retired members and employees who did not elect to be covered by the state public employees' retirement system at August 24, 1969. The last active member retired in 1988.

Benefits provided

Members of the Plan were given credit for service from their date of hire to the date of the Plan termination. Active and retired members were given a one-time election to receive, in lieu of other benefits promised under the Plan, a single-sum payment. The buy-out during fiscal year 1984-85 totaled \$9,513,214. There have been no additional buy-out payments since 1985.

LERS is included as part of the primary government of the City and is included in the City's financial statements as a fiduciary fund. As of June 30, 2018, LERS membership consisted of 10 police and fire retirees and beneficiaries currently receiving benefits. Under LERS, after twenty-five years or more of service, in the aggregate, or upon reaching the age of sixty-five years, each covered employee was entitled to receive a yearly pension, in semi-monthly installments, equal to one-half the amount of salary attached to the rank which he/she may have held in the Fire or Police Department. Any employee who had not worked the full period of twenty-five years before reaching the age of sixty-five was entitled to have the amount of pension prorated according to the number of years worked in proportion to the period of twenty-five years of active service required for the pension provision.

The City's Municipal Code, Title III, Chapter 34, assigns the authority to establish and amend benefits provisions of the Plan to the City Council.

Employees Covered – At June 30, 2018, the following employees were covered by the benefit terms for each Plan:

	Count
Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefits	
Active employees	
Total	10

Contributions - Employer contributions are recognized in the period in which the contributions are due. Benefit payments are recognized when due and payable in accordance with the terms of the plan. For the fiscal year ended June 30, 2018, the City paid \$278,345 for retiree benefits.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Local Employees' Retirement System (LERS) (Continued):

Net Pension Liability

The City's net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018

Actuarial Assumptions - The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

- Inflation: 2.50%
- Discount Rate: 3.62%
- Salary increases: 1.00%
- Mortality rates were based on CalPERS tables.

Discount Rate – The discount rate used to measure the total pension liability was 3.62 percent based on the Fidelity municipal government-obligation AA-rated 20-year bond index rate.

The change in the Total Pension Liability for each Plan follows:

	Increase (Decrease)
	Total Pension
	Liability
	\$
Balance at June 30, 2017	3,077,801
Changes during the year:	
Service Cost	-
Interest on the Total Pension Liability	102,852
Change of Assumptions	(118,461)
Differences between Expected and Actual Experience	(512,693)
Contribution from the Employer	-
Contribution from the Employees	-
Net Investment Income	-
Benefit Payments	(278,345)
Administrative Expense	-
	(806,647)
Net Changes	(806,647)
Balance at June 30, 2018	\$ 2,271,154

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Local Employees' Retirement System (LERS) (Continued):

Sensitivity of the Net Pension Liability to Changes in the Discount Rate -The following presents the net pension liability of the Local Government for each Plan, calculated using the discount rate for each Plan, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

1% Decrease		2.62%
Net Pension Liability	\$	2,443,687
Current Discount Rate		3.62%
Net Pension Liability	\$	2,271,154
1% Increase		4.62%
Net Pension Liability	\$	2,119,440

Pension Expense and Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pension – For the fiscal year ended June 30, 2018, the City recognized a pension expense of \$528,302. For June 30, 2019, the City has no deferred outflows of resources and deferred inflows of resources related to pension that need to be reported.

Agent Multiple-Employer Defined Benefit Pension Plan

A. General Information about the Pension Plan

Plan Descriptions - All qualified employees are eligible to participate in the City's separate Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

**CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Agent Multiple-Employer Defined Benefit Pension Plan (Continued)

A. General Information about the Pension Plan (Continued)

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	City Miscellaneous Plan		
	Tier I	Tier I	PEPRA
	Prior to August 1, 2002	On or after August 1, 2002	On or after July 1, 2013
Hire date			
Benefit formula	2.7% @ 55	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-55	50-55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7.00%	8.00%	6.25%
Required employer contribution rates	9.701%	9.701%	9.701%

Employees Covered – At June 30, 2018, the following employees were covered by the benefit terms for each Plan:

	<u>Miscellaneous</u>
Inactive employees or beneficiaries currently receiving benefits	279
Inactive employees entitled to but not yet receiving benefits	178
Active employees	<u>158</u>
Total	<u><u>615</u></u>

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the fiscal year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

B. Net Pension Liability

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Agent Multiple-Employer Defined Benefit Pension Plan (Continued)

B. Net Pension Liability (Continued)

Actuarial Assumptions - The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal in Accordance with the Requirements of GASB 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment Expenses, includes Inflation
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

Change of Assumptions – In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent.

Discount Rate – The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Agent Multiple-Employer Defined Benefit Pension Plan (Continued)

B. Net Pension Liability (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long term market return expectations as well as the expected pension fund (Public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table on the next page reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Year 1 - 10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	<u>100.00%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

C. Changes in the Net Pension Liability

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Agent Multiple-Employer Defined Benefit Pension Plan (Continued)

C. Changes in the Net Pension Liability (Continued)

The change in the Net Pension Liability for each Plan follows:

Miscellaneous Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2016	\$ 93,964,516	\$ 60,158,570	\$ 33,805,946
Changes during the year:			
Service Cost	1,452,562	-	1,452,562
Interest on the Total Pension Liability	6,881,017	-	6,881,017
Change of Assumptions	5,380,432	-	5,380,432
Differences between Expected and Actual Experience	(1,144,199)	-	(1,144,199)
Contribution from the Employer	-	2,225,605	(2,225,605)
Contribution from the Employees	-	601,585	(601,585)
Net Investment Income	-	6,661,750	(6,661,750)
Benefit Payments	(5,378,074)	(5,378,074)	-
Administrative Expense	-	(88,820)	88,820
Net Changes	<u>7,191,738</u>	<u>4,022,046</u>	<u>3,169,692</u>
Balance at June 30, 2017	<u>\$ 101,156,254</u>	<u>\$ 64,180,616</u>	<u>\$ 36,975,638</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate -The following presents the net pension liability of the Local Government for each Plan, calculated using the discount rate for each Plan, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Miscellaneous
1% Decrease	6.15%
Net Pension Liability	\$ 49,751,043
Current Discount Rate	7.15%
Net Pension Liability	\$ 36,975,638
1% Increase	8.15%
Net Pension Liability	\$ 26,372,584

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Agent Multiple-Employer Defined Benefit Pension Plan (Continued)

D. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the fiscal year ended June 30, 2018, the City recognized pension expense of \$2,180,118. At June 30, 2018, the Local Government reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,749,624	\$ -
Changes of assumptions	3,138,585	
Differences between expected and actual experiences	40,962	(667,449)
Net differences between projected and actual earnings on plan investments	847,700	
Total	\$ 6,776,871	\$ (667,449)

\$2,749,624 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30		
2019	\$	1,747,211
2020		1,731,588
2021		373,967
2022		(492,968)
Total	\$	3,359,798

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Cost-Sharing Employer Defined Benefit Pension Plan

A. General Information about the Pension Plan

Plan Descriptions - All qualified employees are eligible to participate in the City's separate Safety (police) Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	City Safety Plan - Police	
	Tier I	PEPRA
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	3.0% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	50 - 57
Monthly benefits, as a % of eligible compensation	3%	2.0% to 2.7%
Required employee contribution rates	9.00%	12.821%
Required employer contribution rates	20.123%	12.821%

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the fiscal year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the fiscal year ended June 30, 2018, the contributions recognized as a reduction to the net pension liability for the plan was \$1,199,603.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Cost-Sharing Employer Defined Benefit Pension Plan (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018, the City reported net pension liability for its proportionate share of the net pension liability was \$18,545,831.

The City's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for the Plan as of June 30, 2016 and 2017 was as follows:

	<u>Safety - Police</u>
Proportion - June 30, 2016	0.32132%
Proportion - June 30, 2017	<u>0.31038%</u>
Change - Increase (Decrease)	<u><u>-0.01094%</u></u>

For the fiscal year ended June 30, 2018, the City recognized pension expense of \$1,298,060. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 168,210	\$ (43,857)
Changes of assumptions	2,439,472	(187,163)
Changes of employer's proportions	260,774	(171,723)
Net difference between projected and actual earnings on pension plan investments	531,900	
Changes in proportion and differences between City contributions and proportionate share of contributions	590,541	(152,825)
City contributions subsequent to the measurement date	<u>1,765,194</u>	
	<u><u>\$ 5,756,091</u></u>	<u><u>\$ (555,568)</u></u>

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Cost-Sharing Employer Defined Benefit Pension Plan (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

\$1,765,194 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended		
June 30		
2019	\$	1,234,085
2020		1,596,203
2021		916,275
2022		<u>(311,234)</u>
	\$	<u>3,435,329</u>

	<u>Safety - Police</u>
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.30%-14.20%
Investment Rate of Return	7.50%
Mortality(1)	Derived using CalPERS' Membership Data for all Funds

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be found on the CalPERS website.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Cost-Sharing Employer Defined Benefit Pension Plan (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long term market return expectations as well as the expected pension fund (Public Employees’ Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table on the next page reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Cost-Sharing Employer Defined Benefit Pension Plan (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Asset Class	New Strategic Allocation	Real Return Year 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate -The following presents the net pension liability of the Local Government for each Plan, calculated using the discount rate for each Plan, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

1% Decrease	6.15%
Net Pension Liability	\$ 26,604,835
Current Discount Rate	7.15%
Net Pension Liability	\$ 18,545,831
1% Increase	8.15%
Net Pension Liability	\$ 11,957,997

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 12 DEFERRED COMPENSATION PLANS

The City offers its employees two deferred compensation plans in accordance with Internal Revenue Code Section 457 as follows:

Full-time employees

This plan is available to all City full-time employees and permits them to defer a portion of their salary until future years. Participation in the plan is optional.

Part-time employees

This plan covers part-time employees, who in lieu of paying FICA, contribute 7.5 percent of their earnings as retirement benefits.

The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The City deducts deferred compensation from employee compensation and forwards it to the Plan's administrator on a semi-monthly basis. The City amended its plan in order to conform to the amendments of the Internal Revenue Code. The amendments provide that the assets of the Plan shall be held for the exclusive benefit of the plan participants and their beneficiaries, and the assets shall not be diverted for any other purposes. The City has little administrative involvement, does not have custody of the assets, and does not perform the investing function. In addition, the City has no liability for any losses that may be incurred by the Plan.

NOTE 13 COMMITMENTS AND CONTINGENCIES

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

NOTE 14 NET POSITION AND FUND BALANCES

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

a. Net Position

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

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

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 14 NET POSITION AND FUND BALANCES (Continued)

a. Net Position (Continued)

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

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

The government-wide statement of net position reports \$22,775,849 of restricted net position.

b. Fund Balances

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

Fund Balances	General	Successor Housing Authority	Housing	Gas Tax/State Highway	Nonmajor Governmental Funds	Total
<u>Nonspendable:</u>						
Prepaid expenditures	\$ 16,839	\$ -	\$ -	\$ -	\$ -	\$ 16,839
Total Nonspendable	<u>16,839</u>					<u>16,839</u>
<u>Restricted for:</u>						
Housing		1,544,959	748,406			2,293,365
Law enforcement					1,749,504	1,749,504
Public health					244,019	244,019
Road improvements					152,055	152,055
Total Restricted		<u>1,544,959</u>	<u>748,406</u>		<u>2,145,578</u>	<u>4,438,943</u>
Unassigned	<u>5,459,419</u>			<u>(1,729,421)</u>	<u>(1,604,987)</u>	<u>2,125,011</u>
Total Fund Balances	<u>\$ 5,476,258</u>	<u>\$ 1,544,959</u>	<u>\$ 748,406</u>	<u>\$ (1,729,421)</u>	<u>\$ 540,591</u>	<u>\$ 6,580,793</u>

NOTE 15 SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Eureka that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or other unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 15 SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence as the date of the dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

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

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 15 SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)

Capital Asset activity for the fiscal year ended June 30, 2018 was as follows:

	Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018
Capital assets, not being depreciated:				
Artwork	\$ 53,702	\$ -	\$ -	\$ 53,702
Total capital assets, not being depreciated	53,702			53,702
Capital assets, being depreciated:				
Machinery and equipment	181,628			181,628
Total capital assets being depreciated	181,628			181,628
Less accumulated depreciation for:				
Machinery and equipment	(45,405)	(9,081)		(54,486)
Total accumulated depreciation	(45,405)	(9,081)		(54,486)
Total capital assets being depreciated, net	136,223	(9,081)		127,142
Capital assets, net	<u>\$ 189,925</u>	<u>\$ (9,081)</u>	<u>\$ -</u>	<u>\$ 180,844</u>

The following is a schedule of long-term liabilities for the fiscal year ended June 30, 2018:

	Balance at July 1, 2017	Prior Period Adjustments	Additions	Reductions	Balance at June 30, 2018	Due Within One Year
Revenue Bonds Payable						
2017 Tax Allocation Refunding Bonds	\$ 19,005,000	\$ -	\$ -	\$ (1,725,000)	\$ 17,280,000	\$ 1,755,000
Total Bonds Payable	19,005,000			(1,725,000)	17,280,000	1,755,000
Bond Premium	1,026,250			(53,027)	973,223	53,027
Advance payable to City	1,859,999	(656,101)		(441,817)	762,081	
Total	<u>\$ 21,891,249</u>	<u>\$ (656,101)</u>	<u>\$ -</u>	<u>\$ (2,219,844)</u>	<u>\$ 19,015,304</u>	<u>\$ 1,808,027</u>

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 15 SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)

Tax Allocation Revenue Refunding Bonds of 2017

On April 18, 2017, the Successor Agency of the former Eureka Redevelopment Agency issued 2017 Tax Allocation Revenue Refunding Bonds Series A and B in the amount of \$19,005,000. The purpose of the issue was to refund and to defease the 2010 Lease Revenue Bonds Series A and B, 2003 Tax Allocation Revenue Bonds, and 2008 California Infrastructure Bank Loan plus accreted interest thereon. The proceeds from this issue plus any reserve funds remaining for the 2010 Lease Revenue Bonds Series A and B was used to fund an escrow account which will be used to redeem the 2010 Lease Revenue Bonds Series A and B on May 1, 2018. The redemption price was equal to 100% of the 2010 Lease Revenue Bonds Series A and B.

The 2017 Revenue Refunding bonds Series A and B are issued as \$5,925,000 and \$13,080,000, respectively, in serial bonds with a maturity date of November 1, 2036. These bonds carry interest at 3.625-5%.

The bonds are secured by tax revenues generated within the project area and as allocated for the payment of the debt by the County of Humboldt per recognized obligation schedule.

As a result of the refunding the Agency realized a net savings in the amount of \$3,074,996 and an economic gain (difference between present value of new debt versus old debt) of \$2,088,073.

The outstanding principal balance of the bonds at June 30, 2018, is \$17,280,000.

Future minimum debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 1,755,000	\$ 636,409	\$ 2,391,409
2020	1,785,000	604,300	2,389,300
2021	1,815,000	550,150	2,365,150
2022	1,890,000	466,600	2,356,600
2023	1,985,000	369,725	2,354,725
2024-2028	3,730,000	998,700	4,728,700
2029-2033	2,235,000	562,757	2,797,757
2034-2037	2,085,000	154,207	2,239,207
	<u>\$ 17,280,000</u>	<u>\$ 4,342,848</u>	<u>\$ 21,622,848</u>

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 15 SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)

Advances to/from City of Eureka

The Redevelopment Agency Debt Service Fund borrowed funds from the Water Fund for water redevelopment project costs. Interest accrues on these advances at a variable rate based on current earnings for the City as a whole. At the end of the fiscal year, unpaid interest is added to the principal of the advances. The outstanding balance as of June 30, 2018 was \$72,401.

The Redevelopment Agency Debt Service Fund borrowed funds from the Wastewater Fund for wastewater redevelopment project costs. Interest accrues on these advances at a variable rate based on current earnings for the City as a whole. At the end of the fiscal year, unpaid interest is added to the principal of the advances. The outstanding balance as of June 30, 2018 was \$689,680.

NOTE 16 PRIOR PERIOD ADJUSTMENTS

The following summarizes the effect of the prior period adjustments to beginning net position as of July 1, 2017:

	Governmental Activities	Governmental Fund Successor Housing Authority
Reason for adjustments		
(Overstatement) of Advances to RDA Successor Agency	\$ (656,101)	\$ (656,101)
Restatement, per GASB Statement No. 73, to adjust Net Pension Asset	(2,243,003)	
LERS Total Pension Liability	(3,077,801)	
	\$ (5,976,905)	\$ (656,101)
	Private-Purpose Trust Fund	
	Successor Agency Debt Service Fund	
Reason for adjustments		
(Overstatement) of Advance Payable to City	\$ 656,101	
	\$ 656,101	

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF EUREKA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 22,736,229	\$ 22,736,229	\$ 22,613,399	\$ (122,830)
Licenses, permits, and fees	1,293,800	1,293,800	1,413,404	119,604
Fines and penalties	210,500	210,500	123,150	(87,350)
Intergovernmental	2,464,000	2,479,600	2,821,183	341,583
Charges for services	4,340,236	4,340,236	4,270,323	(69,913)
Other revenues	144,300	144,300	398,812	254,512
Total Revenues	<u>31,189,065</u>	<u>31,204,665</u>	<u>31,640,271</u>	<u>435,606</u>
Expenditures:				
General government-				
Council	134,633	134,633	118,581	16,052
Mayor	32,842	32,842	27,940	4,902
City Manager	309,206	309,206	305,723	3,483
City Clerk	319,003	319,003	264,241	54,762
Human Resources	565,985	565,985	449,843	116,142
Finance	716,680	716,680	691,065	25,615
City Attorney	571,235	571,235	689,418	(118,183)
Non-departmental	1,818,406	1,818,406	2,133,058	(314,652)
Public safety-				
Police	12,966,766	12,966,766	12,200,006	766,760
Fire	6,594,629	6,594,629	6,515,897	78,732
Public works-				
Engineering	336,897	336,897	321,618	15,279
Maintenance	808,555	808,555	782,378	26,177
Community development	1,427,058	1,436,558	1,205,479	231,079
Culture and recreation	3,871,617	3,894,217	3,917,733	(23,516)
Capital outlay	616,000	1,137,623	1,411,758	(274,135)
Debt service -				
Principal payments	116,023	116,023	115,993	30
Interest and fiscal charges	13,519	13,519	13,550	(31)
Total Expenditures	<u>31,219,054</u>	<u>31,772,777</u>	<u>31,164,281</u>	<u>608,496</u>
Excess of revenues over (under) expenditures	<u>(29,989)</u>	<u>(568,112)</u>	<u>475,990</u>	<u>1,044,102</u>
Other Financing Sources (Uses):				
Transfers out	<u>(368,000)</u>	<u>(368,000)</u>	<u>(539,208)</u>	<u>(171,208)</u>
Total Other Financing Sources (Uses)	<u>(368,000)</u>	<u>(368,000)</u>	<u>(539,208)</u>	<u>(171,208)</u>
Net changes in fund balance	(397,989)	(936,112)	(63,218)	872,894
Fund Balance, beginning of fiscal year	<u>5,539,476</u>	<u>5,539,476</u>	<u>5,539,476</u>	
Fund Balance, end of fiscal year	<u>\$ 5,141,487</u>	<u>\$ 4,603,364</u>	<u>\$ 5,476,258</u>	<u>\$ 872,894</u>

**CITY OF EUREKA
SUCCESSOR HOUSING AUTHORITY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ -	\$ -	\$ 4,411	\$ 4,411
Other revenues			115,154	115,154
Total Revenues			119,565	119,565
Expenditures:				
Current:				
Community development	470,465	470,465	253,052	217,413
Total Expenditures	470,465	470,465	253,052	217,413
Excess of Revenues Over (Under) Expenditures	(470,465)	(470,465)	(133,487)	336,978
Fund Balance, beginning of fiscal year	2,334,547	2,334,547	2,334,547	
Prior Period Adjustments			(656,101)	(656,101)
Fund Balance, beginning of fiscal year, restated	2,334,547	2,334,547	1,678,446	(656,101)
Fund Balance, end of fiscal year	<u>\$ 1,864,082</u>	<u>\$ 1,864,082</u>	<u>\$ 1,544,959</u>	<u>\$ (319,123)</u>

**CITY OF EUREKA
HOUSING SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 1,150,000	\$ 1,150,000	\$ 1,138,766	\$ (11,234)
Other revenues			123,335	123,335
Total Revenues	<u>1,150,000</u>	<u>1,150,000</u>	<u>1,262,101</u>	<u>112,101</u>
Expenditures:				
Current:				
Community development	<u>1,793,373</u>	<u>1,793,373</u>	<u>246,619</u>	<u>1,546,754</u>
Total Expenditures	<u>1,793,373</u>	<u>1,793,373</u>	<u>246,619</u>	<u>1,546,754</u>
Excess of Revenues Over (Under) Expenditures	(643,373)	(643,373)	1,015,482	1,658,855
Fund Balances (Deficits), beginning of fiscal year	<u>(267,076)</u>	<u>(267,076)</u>	<u>(267,076)</u>	
Fund Balance, end of fiscal year	<u><u>\$ (910,449)</u></u>	<u><u>\$ (910,449)</u></u>	<u><u>\$ 748,406</u></u>	<u><u>\$ 1,658,855</u></u>

**CITY OF EUREKA
GAS TAX/STATE HIGHWAY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 2,265,241	\$ 4,646,974	\$ 4,018,914	\$ (628,060)
Total Revenues	<u>2,265,241</u>	<u>4,646,974</u>	<u>4,018,914</u>	<u>(628,060)</u>
Expenditures:				
Current:				
Public works	1,284,534	1,284,534	590,551	693,983
Capital outlay	<u>1,500,000</u>	<u>3,881,733</u>	<u>3,638,874</u>	<u>242,859</u>
Total Expenditures	<u>2,784,534</u>	<u>5,166,267</u>	<u>4,229,425</u>	<u>936,842</u>
Excess of Revenues Over (Under) Expenditures	(519,293)	(519,293)	(210,511)	308,782
Fund Balances (Deficits), beginning of fiscal year	<u>(1,518,910)</u>	<u>(1,518,910)</u>	<u>(1,518,910)</u>	<u> </u>
Fund Balances (Deficits), end of fiscal year	<u>\$ (2,038,203)</u>	<u>\$ (2,038,203)</u>	<u>\$ (1,729,421)</u>	<u>\$ 308,782</u>

**CITY OF EUREKA
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018**

**Local Employees' Retirement System (LERS)
Last 10 Fiscal Years***

Schedule of Changes in the Total Pension Liability and Related Ratios

	<u>2018</u>
Measurement Period	2017-18 ¹
Total Pension Liability	
Service Cost	\$ -
Interest on the Total Pension Liability	102,852
Change of Benefit Terms	
Change of Assumptions	(118,461)
Differences between Expected and Actual Experience	(512,693)
Benefit Payments, including Refunds of Employee Contributions	(278,345)
Net Change in Total Pension Liability	<u>(806,647)</u>
Total Pension Liability - Beginning	<u>3,077,801</u>
Total Pension Liability - Ending	<u>\$ 2,271,154</u>
Covered Payroll	\$ -
Total Pension Liability as Percentage of Covered Employee Payroll	N/A

¹ Historical information is required only for measurement periods for which GASB 73 is applicable.

* Fiscal year 2018 was the 1st year of implementation, therefore only one year is shown.

**CITY OF EUREKA
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018**

**Agent Multiple-Employer Defined Benefit Pension Plan
Last 10 Fiscal Years*
Miscellaneous Plan**

Schedule of Changes in the Net Pension Liability and Related Ratios

	Miscellaneous Plan 2018	Miscellaneous Plan 2017	Miscellaneous Plan 2016	Miscellaneous Plan 2015
	2016-17 ¹	2015-16 ¹	2014-15 ¹	2013-14 ¹
Measurement Period				
Total Pension Liability				
Service Cost	\$ 1,452,562	\$ 1,376,312	\$ 1,554,810	\$ 1,692,491
Interest on the Total Pension Liability	6,881,017	6,804,666	6,520,030	6,305,116
Change of Benefit Terms		288,993		
Change of Assumptions	5,380,432		(1,505,340)	
Differences between Expected and Actual Experience	(1,144,199)	204,812	(906,323)	
Benefit Payments, including Refunds of Employee Contributions	(5,378,074)	(4,956,375)	(4,560,948)	(4,151,414)
Net Change in Total Pension Liability	7,191,738	3,718,408	1,102,229	3,846,193
Total Pension Liability - Beginning	93,964,516	90,246,108	89,143,879	85,297,686
Total Pension Liability - Ending (a)	\$ 101,156,254	\$ 93,964,516	\$ 90,246,108	\$ 89,143,879
Plan Fiduciary Net Position				
Contributions from the Employer	\$ 2,225,605	\$ 2,048,588	\$ 1,988,547	\$ 2,166,174
Contributions from the Employees	601,585	591,849	670,876	698,583
Net investment income ²	6,661,750	306,000	1,454,617	9,486,624
Benefit Payments	(5,378,074)	(4,956,375)	(4,560,948)	(4,151,414)
Plan to Plan Resource Movement		417,966	(914,730)	
Administrative Expense	(88,820)	(37,657)	(71,224)	
Net Change in Plan Fiduciary Net Position	4,022,046	(1,629,629)	(1,432,862)	8,199,967
Plan Fiduciary Net Position - Beginning	60,158,570	61,788,199	63,221,061	55,021,094
Plan Fiduciary Net Position - Ending (b)	\$ 64,180,616	\$ 60,158,570	\$ 61,788,199	\$ 63,221,061
Net Pension Liability - Ending (a)-(b)	\$ 36,975,638	\$ 33,805,946	\$ 28,457,909	\$ 25,922,818
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.45%	64.02%	68.47%	70.92%
Covered Payroll ³	\$ 8,089,113	\$ 8,194,776	\$ 8,762,456	\$ 8,774,837
Net Pension Liability as Percentage of Covered Employee Payroll	457.10%	412.53%	324.77%	295.42%

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Net of administrative expenses.

³ Net of administrative expenses. Covered-Employee Payroll presented above is based on pensionable earnings provided by the employer. However, GASB 68 Statement No. defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

Note to Schedule:

Benefit Changes: The figures above do not include any liability impact may have resulted from plan changes which occurred after June 30, 2016. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in Assumptions: In 2017, the discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, the discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, the discount rate was 7.5 percent discount rate.

* Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

**CITY OF EUREKA
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018**

**Agent Multiple-Employer Defined Benefit Pension Plan
Last 10 Fiscal Years*
Miscellaneous Plan**

Schedule of Contributions¹

	Miscellaneous Plan Fiscal Year 2017-18	Miscellaneous Plan Fiscal Year 2016-17	Miscellaneous Plan Fiscal Year 2015-16	Miscellaneous Plan Fiscal Year 2014-15
Actuarially Determined Contribution ²	\$ 2,749,624	\$ 2,048,588	\$ 1,988,547	\$ 2,166,174
Contributions in Relation to the Actuarially Determined Contribution ²	(2,749,624)	(2,048,588)	(1,988,547)	(2,166,174)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll ³	\$ 8,089,113	\$ 8,194,776	\$ 8,762,456	\$ 8,774,837
Contributions as a Percentage of Covered Employee Payroll ³	33.99%	25.00%	22.69%	24.69%

¹ Historical information is required only for measurement periods for which GASB 68 Statement No. is applicable.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

³ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 Statement No. defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2016-17 were from the June 30, 2014 public agency valuations.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For detail, see June 30, 2014 Funding Valuation Report
Asset Valuation Method	Actuarial Value of Assets. For details, see June 30, 2013 Funding Valuation Report.
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates included 5 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

* Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

**CITY OF EUREKA
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018**

**Cost Sharing Defined Benefit Pension Plan
Last 10 Fiscal Years*
Safety Plan**

Schedule of Plan's Proportionate Share of the Net Pension Liability and Related Ratios

	Safety Plan-Police			
	2018 ¹	2017 ¹	2016 ¹	2015 ¹
Plan's proportion of the Net Pension Liability (Asset)	0.31038%	0.32132%	0.33926%	0.20332%
Plan's proportionate share of the Net Pension Liability (Asset)	\$ 18,545,831	\$ 16,642,077	\$ 13,979,217	\$ 12,651,826
Covered employee payroll ²	\$ 3,775,456	\$ 3,433,383	\$ 3,591,933	3,664,127
Plan's proportionate share of the Net Pension Liability (Asset) as a percentage of its covered employee payroll	491.22%	484.71%	389.18%	345.29%
Plan's fiduciary net position	\$ 31,634,232	\$ 35,702,416	\$ 36,019,892	\$ 36,033,306
Plan's proportionate share of the Fiduciary Net Pension Liability (Asset) as a percentage of the Plan's Total Pension Liability	67.80%	68.21%	72.04%	74.08%

¹ Historical information is required only for measurement periods for which GASB 68 Statement No. is applicable.

² Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 Statement No. defines covered-employee payroll as the total of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

Note to Schedule:

Benefit Changes: The figures above do not include any liability impact may have resulted from plan changes which occurred after June 30, 2016. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in Assumptions: In 2017, the discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

* Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

**CITY OF EUREKA
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018**

**Cost Sharing Defined Benefit Pension Plan
Last 10 Fiscal Years*
Safety Plan**

Schedule of Contributions¹

	Safety Plan - Police			
	Fiscal Year 2017-18	Fiscal Year 2016-17	Fiscal Year 2015-16	Fiscal Year 2014-15
Actuarially Determined Contribution ²	\$ 1,765,194	\$ 1,199,603	\$ 1,550,480	\$ 1,695,798
Contributions in Relation to the Actuarially Determined Contribution ²	(1,765,194)	(1,199,603)	(1,550,480)	(1,695,798)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll ³	\$ 3,642,476	\$ 3,536,384	\$ 3,433,383	\$ 3,591,933
Contributions as a Percentage of Covered Employee Payroll ³	48.46%	33.92%	45.16%	47.21%

¹ Historical information is required only for measurement periods for which GASB 68 Statement No. is applicable.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68 Statement No., therefore are not considered separately financed specific liabilities.

³ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 Statement No. defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2016-17 were from the June 30, 2014 public agency valuations.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For detail, see June 30, 2014 Funding Valuation Report
Asset Valuation Method	15 Years Smoothed Market
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates included 5 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

* Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

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NONMAJOR GOVERNMENTAL FUNDS

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

- **Habitat Acquisition and Restoration Fund** – This fund is used to account for grants and other funds restricted or designated specially for acquisition, restoration, or mitigation projects approved by the City.
- **Environmental Programs Fund** – Revenues to this fund are restricted by law for implementation of various environmental programs throughout the City, particularly solid waste source reduction.
- **Special Police Funds** – These funds are used to account for revenues from several programs which are restricted as to use for police programs. These include drug asset forfeitures, vehicle theft funds, the State supplemental law enforcement services program, traffic offender funds, abandoned vehicle abatement funds, and the California law enforcement equipment program fund.
- **Parking Fund** – Revenues to this fund consist primarily of parking fees and fines that are used for the maintenance of parking lots, signs, meters and enforcement activities.
- **Capital Improvements Fund** – Revenues to this fund include state and federal grants and transfers from other City funds designated by Council action to be used for specified capital maintenance/improvement projects.
- **Demolition Projects Fund** – Revenues to this fund consist primarily of transfers from the General Fund and are to be used for abatement actions authorized by the Municipal Code or by the Uniform Building Code.
- **Airport Fund** – Revenues to this fund are restricted by law for maintenance and capital improvements at the Eureka Municipal Airport.

**CITY OF EUREKA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2018**

	Special Revenue Funds			
	Habitat Acquisition and Restoration	Environmental Programs	Special Police	Parking
Assets				
Cash and investments	\$ 31,254	\$ 248,276	\$ 1,708,169	\$ -
Accounts receivable			43,381	
Total Assets	\$ 31,254	\$ 248,276	\$ 1,751,550	\$ -
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ 1,943	\$ 2,044	\$ 5,652
Due to other funds				56,172
Deposits payable				
Payroll and related liabilities		2,314	2	2,241
Total Liabilities		4,257	2,046	64,065
Fund Balances:				
Restricted	31,254	244,019	1,749,504	
Unassigned				(64,065)
Total Fund Balances (Deficit)	31,254	244,019	1,749,504	(64,065)
Total Liabilities and Fund Balances	\$ 31,254	\$ 248,276	\$ 1,751,550	\$ -

Special Revenue Funds

Capital Improvements	Demolition Projects	Airport	Total Nonmajor Governmental Funds
\$ 116,753	\$ -	\$ -	\$ 2,104,452
4,048	588,974	300	636,703
<u>\$ 120,801</u>	<u>\$ 588,974</u>	<u>\$ 300</u>	<u>\$ 2,741,155</u>
\$ -	\$ 131,060	\$ 42,252	\$ 182,951
	1,866,709	84,697	2,007,578
		5,260	5,260
		218	4,775
	<u>1,997,769</u>	<u>132,427</u>	<u>2,200,564</u>
120,801	(1,408,795)	(132,127)	2,145,578
<u>120,801</u>	<u>(1,408,795)</u>	<u>(132,127)</u>	<u>(1,604,987)</u>
120,801	(1,408,795)	(132,127)	540,591
<u>\$ 120,801</u>	<u>\$ 588,974</u>	<u>\$ 300</u>	<u>\$ 2,741,155</u>

**CITY OF EUREKA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Special Revenue Funds			
	Habitat Acquisition and Restoration	Environmental Programs	Special Police	Parking
REVENUES				
Licenses, permits, and fees	\$ -	\$ -	\$ -	\$ 72,864
Fines and penalties			148,851	64,905
Intergovernmental	15,423	68,685	555,980	
Charges for services			13,505	
Other revenues			15,188	
Total Revenues	<u>15,423</u>	<u>68,685</u>	<u>733,524</u>	<u>137,769</u>
EXPENDITURES				
Current:				
Public safety			169,446	29,600
Public works	506	83,307		89,134
Capital outlay			455,069	
Debt service:				
Principal payments			71,483	
Interest and fiscal charges			5,182	
Total Expenditures	<u>506</u>	<u>83,307</u>	<u>701,180</u>	<u>118,734</u>
Excess of Revenues Over (Under) Expenditures	<u>14,917</u>	<u>(14,622)</u>	<u>32,344</u>	<u>19,035</u>
OTHER FINANCING SOURCES				
Proceeds from capital lease			357,415	
Total Other Financing Sources			<u>357,415</u>	
Net Changes in Fund Balances	14,917	(14,622)	389,759	19,035
Fund Balances (Deficits), beginning of fiscal year	<u>16,337</u>	<u>258,641</u>	<u>1,359,745</u>	<u>(83,100)</u>
Fund Balances (Deficits), end of fiscal year	<u>\$ 31,254</u>	<u>\$ 244,019</u>	<u>\$ 1,749,504</u>	<u>\$ (64,065)</u>

Special Revenue Funds			Total Nonmajor Governmental Funds
Capital Improvements	Demolition Projects	Airport	
\$ -	\$ -	\$ -	\$ 72,864
135,044	103,292		317,048
	681,168	36,513	775,132
			13,505
			732,869
135,044	784,460	36,513	1,911,418
			199,046
9,800	849,851	77,102	1,099,900
			464,869
			71,483
			5,182
9,800	849,851	77,102	1,840,480
125,244	(65,391)	(40,589)	70,938
			357,415
			357,415
125,244	(65,391)	(40,589)	428,353
(4,443)	(1,343,404)	(91,538)	112,238
\$ 120,801	\$ (1,408,795)	\$ (132,127)	\$ 540,591

**CITY OF EUREKA
NONMAJOR GOVERNMENTAL FUNDS
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Habitat Acquisition and Restoration			Environmental Programs		
	Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
Revenues:						
Licenses, permits, and fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and penalties						
Intergovernmental	203,835	15,423	(188,412)	66,000	68,685	2,685
Charges for services						
Other revenues						
Total Revenues	<u>203,835</u>	<u>15,423</u>	<u>(188,412)</u>	<u>66,000</u>	<u>68,685</u>	<u>2,685</u>
Expenditures:						
Current:						
Public safety						
Public works	95,000	506	94,494	100,387	83,307	17,080
Capital outlay						
Debt service:						
Principal payments						
Interest and fiscal charges						
Total Expenditures	<u>95,000</u>	<u>506</u>	<u>94,494</u>	<u>100,387</u>	<u>83,307</u>	<u>17,080</u>
Excess of Revenues Over (Under) Expenditures	<u>108,835</u>	<u>14,917</u>	<u>(93,918)</u>	<u>(34,387)</u>	<u>(14,622)</u>	<u>19,765</u>
Other Financing Sources:						
Proceeds from capital leases						
Total Other Financing Sources						
Net Changes in Fund Balances	108,835	14,917	(93,918)	(34,387)	(14,622)	19,765
Fund Balances (Deficits), beginning of fiscal year	16,337	16,337		258,641	258,641	
Fund Balances (Deficits), end of fiscal year	<u>\$ 125,172</u>	<u>\$ 31,254</u>	<u>\$ (93,918)</u>	<u>\$ 224,254</u>	<u>\$ 244,019</u>	<u>\$ 19,765</u>

Special Police			Parking		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ 57,000	\$ 72,864	\$ 15,864
50,000	148,851	98,851	92,000	64,905	(27,095)
176,000	555,980	379,980			
30,000	13,505	(16,495)			
	15,188	15,188			
<u>256,000</u>	<u>733,524</u>	<u>477,524</u>	<u>149,000</u>	<u>137,769</u>	<u>(11,231)</u>
925,756	169,446	756,310	26,425	29,600	(3,175)
645,440	455,069	190,371	93,886	89,134	4,752
	71,483	(71,483)			
	5,182	(5,182)			
<u>1,571,196</u>	<u>701,180</u>	<u>870,016</u>	<u>120,311</u>	<u>118,734</u>	<u>1,577</u>
<u>(1,315,196)</u>	<u>32,344</u>	<u>1,347,540</u>	<u>28,689</u>	<u>19,035</u>	<u>(9,654)</u>
	357,415	357,415			
	357,415	357,415			
(1,315,196)	389,759	1,704,955	28,689	19,035	(9,654)
1,359,745	1,359,745		(83,100)	(83,100)	
<u>\$ 44,549</u>	<u>\$ 1,749,504</u>	<u>\$ 1,704,955</u>	<u>\$ (54,411)</u>	<u>\$ (64,065)</u>	<u>\$ (9,654)</u>

(Continued)

**CITY OF EUREKA
NONMAJOR GOVERNMENTAL FUNDS
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)**

	Capital Improvements			Demolition Projects		
	Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
Revenues:						
Licenses, permits, and fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and penalties					103,292	103,292
Intergovernmental	135,044	135,044				
Charges for services						
Other revenues				146,000	681,168	535,168
Total Revenues	135,044	135,044		146,000	784,460	638,460
Expenditures:						
Current:						
Public safety						
Public works				500,000	849,851	(349,851)
Capital outlay	9,800	9,800				
Debt service:						
Principal payments						
Interest and fiscal charges						
Total Expenditures	9,800	9,800		500,000	849,851	(349,851)
Excess of Revenues Over (Under) Expenditures	125,244	125,244		(354,000)	(65,391)	288,609
Other Financing Sources						
Proceeds from capital leases						
Total Other Financing						
Net Changes in Fund Balances	125,244	125,244		(354,000)	(65,391)	288,609
Fund Balances (Deficits), beginning of fiscal year	(4,443)	(4,443)		(1,343,404)	(1,343,404)	
Fund Balances (Deficits), end of fiscal year	\$ 120,801	\$ 120,801	\$ -	\$ (1,697,404)	\$ (1,408,795)	\$ 288,609

Airport

Final Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ -
<u>21,000</u>	<u>36,513</u>	<u>15,513</u>
<u>21,000</u>	<u>36,513</u>	<u>15,513</u>
82,806	77,102	5,704
<u>82,806</u>	<u>77,102</u>	<u>5,704</u>
<u>(61,806)</u>	<u>(40,589)</u>	<u>21,217</u>
(61,806)	(40,589)	21,217
<u>(91,538)</u>	<u>(91,538)</u>	<u></u>
<u>\$ (153,344)</u>	<u>\$ (132,127)</u>	<u>\$ 21,217</u>

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INTERNAL SERVICE FUNDS

INTERNAL SERVICE FUNDS

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the City on a cost reimbursement basis.

The concept of major funds introduced by GASB Statement No. 34 does not extend to internal service funds because they do not do business with outside parties. GASB Statement No. 34 requires that for the Statement of Activities, the net revenues or expenses of each internal service fund be eliminated by netting them against the operations of the other City departments which generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Position.

However, internal service funds are still presented separately in the Fund Financial Statements, including the funds below:

- **Equipment Operations Fund** - This fund was established as an internal service fund through which City departments are charged for the use of vehicles and other equipment, based on actual operating costs. In addition, rates for vehicles and heavy equipment include a depreciation contribution factor to establish a reserve for future replacement.

- **Risk Management Fund** - This fund is used to account for the City's workers' compensation program, general liability and property insurance program, and group health program. In March, 1993 the City joined the Redwood Empire Municipal Insurance Fund for its workers' compensation and liability insurance programs, changing from self-insurance to a municipal insurance pool. The City will continue to administer worker's compensation claims from prior to March, 1993, and existing liability claims. In August 2002, the City changed from its group health self-insurance program and joined three separate municipal insurance pools that are dependent on the respective employees' bargaining unit. Prior claims were paid through May 2003.

- **Information Technology Operations Fund** - This fund was established to develop a reserve account for information technology equipment and software and will be used to fund future equipment and major software replacements based on an analysis of future needs. Each department is assessed an annual amount that will provide adequate funds to replace current computer and related equipment. In addition, the fund provides City-wide support for all office automation equipment.

- **Facilities Operations Fund** – This fund is responsible for the maintenance and systems operation of over eighty City buildings. Major facilities include City Hall, Eureka Fire Headquarters, Municipal Auditorium, Adorni Recreation Center, Fisherman's Building, Eureka Police Headquarter, Wharfinger Building, and the Economic Development Administration Plant. Service functions provided are custodial, carpentry, electrical, plumbing, painting, and event set up. Facility maintenance is also provided to the Sequoia Park Zoo, Recreational Facilities, and traffic signal electrical services throughout the City system.

CITY OF EUREKA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
June 30, 2018

ASSETS	Equipment Operations	Risk Management	Information Technology Operations	Facilities Operations	Totals
Current assets:					
Cash and investments	\$ 2,299,421	\$ 116,965	\$ 420,575	\$ 109,696	\$ 2,946,657
Accounts receivable - net	7,500	4,651			12,151
Prepaid expenses		20,000			20,000
Total current assets	2,306,921	141,616	420,575	109,696	2,978,808
Depreciable					
Buildings	429,246		17,374	228,930	675,550
Improvements	34,930				34,930
Equipment	8,216,385		1,452,371		9,668,756
Total depreciable capital assets	8,680,561		1,469,745	228,930	10,379,236
Less accumulated depreciation	(7,231,902)		(1,437,341)		(8,669,243)
Total capital assets, net	1,448,659		32,404	228,930	1,709,993
Total Assets	3,755,580	141,616	452,979	338,626	4,688,801
DEFERRED OUTFLOWS OF RESOURCES					
Pension related	272,430		169,422	179,587	621,439
Total deferred outflows of resources	272,430		169,422	179,587	621,439
Total Assets and Deferred Outflows of Resources	4,028,010	141,616	622,401	518,213	5,310,240
LIABILITIES					
Current Liabilities:					
Accounts payable	440,763	308,774	67,566	35,354	852,457
Claims and judgments payable		174,693			174,693
Compensated absences	36,198		15,441	14,893	66,532
Payroll and related liabilities	17,943		9,582	8,625	36,150
Total current liabilities	494,904	483,467	92,589	58,872	1,129,832
Noncurrent Liabilities:					
Net pension liabilities	1,486,421		924,391	979,854	3,390,666
Total noncurrent liabilities	1,486,421		924,391	979,854	3,390,666
Total liabilities	1,981,325	483,467	1,016,980	1,038,726	4,520,498
DEFERRED INFLOWS OF RESOURCES					
Pension related	26,831		16,686	17,687	61,204
Total deferred inflows of resources	26,831		16,686	17,687	61,204
Total Liabilities and Deferred Inflows of Resources	2,008,156	483,467	1,033,666	1,056,413	4,581,702
NET POSITION					
Net investment in capital assets	1,448,659		32,404	228,930	1,709,993
Unrestricted	571,195	(341,851)	(443,669)	(767,130)	(981,455)
Total Net Position (Deficits)	\$ 2,019,854	\$ (341,851)	\$ (411,265)	\$ (538,200)	\$ 728,538

CITY OF EUREKA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Equipment Operations	Risk Management	Information Technology Operations	Facilities Operations	Totals
Operating Revenues:					
Charges for services	\$ 1,244,397	\$ 1,906,351	\$ 925,343	\$ 829,358	\$ 4,905,449
Other operating revenues	5,120				5,120
Total Operating Revenues	<u>1,249,517</u>	<u>1,906,351</u>	<u>925,343</u>	<u>829,358</u>	<u>4,910,569</u>
Operating Expenses:					
Maintenance and operation	1,072,174	22,145	1,197,507	702,718	2,994,544
Insurance costs and claims	38,214	1,574,234			1,612,448
Depreciation	353,115		9,656		362,771
Total Expenses	<u>1,463,503</u>	<u>1,596,379</u>	<u>1,207,163</u>	<u>702,718</u>	<u>4,969,763</u>
Operating Income (Loss)	<u>(213,986)</u>	<u>309,972</u>	<u>(281,820)</u>	<u>126,640</u>	<u>(59,194)</u>
Change in Net Position	(213,986)	309,972	(281,820)	126,640	(59,194)
Net Position (Deficits), beginning of fiscal year	<u>2,233,840</u>	<u>(651,823)</u>	<u>(129,445)</u>	<u>(664,840)</u>	<u>787,732</u>
Net Position (Deficits), end of fiscal year	<u>\$ 2,019,854</u>	<u>\$ (341,851)</u>	<u>\$ (411,265)</u>	<u>\$ (538,200)</u>	<u>\$ 728,538</u>

**CITY OF EUREKA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Equipment Operations	Risk Management	Information Technology Operations	Facilities Operations	Totals
Cash Flows from Operating Activities:					
Receipts from customers/interfund charges	\$ 1,249,517	\$ 1,905,128	\$ 925,343	\$ 829,358	\$ 4,909,346
Payments to suppliers and users	(250,423)	(1,394,117)	(867,667)	561,407	(1,950,800)
Payments to employees	(861,162)		(389,998)	(1,327,665)	(2,578,825)
Net Cash Provided (Used) by Operating Activities	<u>137,932</u>	<u>511,011</u>	<u>(332,322)</u>	<u>63,100</u>	<u>379,721</u>
Cash Flows from Non-capital Financing Activities:					
Due to/from other funds		(394,046)			(394,046)
Net Cash Provided by Non-capital Financing Activities		<u>(394,046)</u>			<u>(394,046)</u>
Cash Flows from Capital and Related Financing Activities:					
Acquisition of capital assets	(551,900)		(10,996)	(29,344)	(592,240)
Net Cash Used by Capital and Related Financing Activities	<u>(551,900)</u>		<u>(10,996)</u>	<u>(29,344)</u>	<u>(592,240)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(413,968)	116,965	(343,318)	33,756	(606,565)
Cash and Cash Equivalents, July 1, 2017	2,713,389		763,893	75,940	3,553,222
Cash and Cash Equivalents, June 30, 2018	<u>\$ 2,299,421</u>	<u>\$ 116,965</u>	<u>\$ 420,575</u>	<u>\$ 109,696</u>	<u>\$ 2,946,657</u>
Cash and Investments on Combining Statement of Net Position	<u>\$ 2,299,421</u>	<u>\$ 116,965</u>	<u>\$ 420,575</u>	<u>\$ 109,696</u>	<u>\$ 2,946,657</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ (213,986)	\$ 309,972	\$ (281,820)	\$ 126,640	\$ (59,194)
Adjustments to Reconcile Operating Income (Loss) to Net Cash provided (used) by operating activities:					
Depreciation	353,115		9,656		362,771
(Increase) Decrease in Operating Assets and Deferred Outflows:					
Accounts receivable		(1,223)			(1,223)
Deferred outflows of resources - pension related	18,521		(8,331)	(9,181)	1,009
Increase (Decrease) in Operating Liabilities and Deferred Inflows:					
Claims and judgments payable		(99,456)			(99,456)
Accounts payable	276,975	301,718	9,820	(5,982)	582,531
Compensated absences	476		1,630	14,893	16,999
Deferred inflows of resources - pension related	7,744		6,118	6,508	20,370
Net pension liability	(308,675)		(69,504)	(71,511)	(449,690)
Payroll and related liabilities	3,762		109	1,733	5,604
Net Cash Provided by Operating Activities	<u>\$ 137,932</u>	<u>\$ 511,011</u>	<u>\$ (332,322)</u>	<u>\$ 63,100</u>	<u>\$ 379,721</u>

FIDUCIARY FUNDS

PRIVATE-PURPOSE TRUST FUNDS

Private-Purpose Trust Funds are used to account for the receipt and disbursements of various taxes, deposits, deductions, and property collected by the City, acting in the capacity of an agent for distribution to other governmental units or other organizations. Fiduciary fund financial statements include a statement of net position and statement of changes in net position.

Private-Purpose Trust Funds are used to account for assets held by the City as trustee for the Redevelopment Agency Successor Agency.

- **Successor Agency Capital Project Fund** – This fund was established to account for the capital improvements of the former Redevelopment Agency which are financed by proceeds of tax allocation bonds and City advances.
- **Successor Agency Debt Service Fund** – This fund are used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest of the former Redevelopment Agency.

**CITY OF EUREKA
PRIVATE-PURPOSE TRUST FUNDS
COMBINING STATEMENT OF NET POSITION
June 30, 2018**

	Successor Agency Capital Project	Successor Agency Debt Service	Totals
Assets:			
Cash and Investments	\$ 45,442	\$ 220,261	\$ 265,703
Cash and Investments with Fiscal Agent, Restricted	133		133
Capital Assets, Not Being Depreciated	53,702		53,702
Capital Assets, Net of Accumulated Depreciation	127,142		127,142
Total Assets	<u>226,419</u>	<u>220,261</u>	<u>446,680</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred loss on refunding		1,145,532	1,145,532
Liabilities:			
Accounts Payable		2,394	2,394
Payroll Payable	14	1,028	1,042
Interest Payable		116,765	116,765
Noncurrent Liabilities:			
Due within One Year		1,808,027	1,808,027
Due in More than One Year		17,207,277	17,207,277
Total Liabilities	<u>14</u>	<u>19,135,491</u>	<u>19,135,505</u>
Net Position:			
Unrestricted	226,405	(17,769,698)	(17,543,293)
Total Net Position (Deficits)	<u>\$ 226,405</u>	<u>\$ (17,769,698)</u>	<u>\$ (17,543,293)</u>

**CITY OF EUREKA
PRIVATE-PURPOSE TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Successor Agency Capital Project	Successor Agency Debt Service	Totals
Additions:			
Taxes	\$ -	\$ 3,535,709	\$ 3,535,709
Investment income	4		4
Total Additions	<u>4</u>	<u>3,535,709</u>	<u>3,535,713</u>
Deductions:			
Administration		247,800	247,800
Depreciation	9,081		9,081
Community development		274,282	274,282
Interest expense		695,001	695,001
Total Deductions	<u>9,081</u>	<u>1,217,083</u>	<u>1,226,164</u>
Change in Net Position	(9,077)	2,318,626	2,309,549
Net Position (Deficits), beginning of fiscal year	235,482	(20,744,425)	(20,508,943)
Prior Period Adjustments		656,101	656,101
Net Position (Deficits), beginning of fiscal year, restated	<u>235,482</u>	<u>(20,088,324)</u>	<u>(19,852,842)</u>
Net Position (Deficits), end of fiscal year	<u>\$ 226,405</u>	<u>\$ (17,769,698)</u>	<u>\$ (17,543,293)</u>

**CITY OF EUREKA
 AGENCY FUND
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 For the Fiscal Year Ended June 30, 2018**

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2018</u>
<u>Trust Holding Fund</u>				
<u>Assets:</u>				
Cash and investments	\$ 168,350	\$ 18,324	\$ 14,998	\$ 171,676
Total Assets	<u>\$ 168,350</u>	<u>\$ 18,324</u>	<u>\$ 14,998</u>	<u>\$ 171,676</u>
<u>Liabilities:</u>				
Accounts payable	\$ -	\$ 7,599	\$ 7,549	\$ 50
Deposits payable	168,350	10,725	7,449	171,626
Total Liabilities	<u>\$ 168,350</u>	<u>\$ 18,324</u>	<u>\$ 14,998</u>	<u>\$ 171,676</u>

**CITY OF EUREKA, CALIFORNIA
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

City of Eureka
Single Audit Report
June 30, 2018
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MOSS, LEVY & HARTZHEIM LLP

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

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eureka (City), California, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 18, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. During our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Findings 2018-001 through 2018-005 described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as Findings 2018-006 and 2018-007.

The City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim LLP
Culver City, California
September 18, 2019



MOSS, LEVY & HARTZHEIM LLP

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Eureka's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the fiscal year ended June 30, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance as described in the accompanying schedule of findings and question cost as finding 2018-008 that we consider to be a significant deficiency.

The City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated September 18, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
September 18, 2019

CITY OF EUREKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Fiscal Year Ended June 30, 2018

Federal Grantor/Pass-Through Program Title	Federal CFDA Number	Agency or Pass-Through Program Number	Federal Expenditures
Department of Transportation:			
Passed through the California Department of Transportation			
Highway Planning and Construction	20.205	ATPL-5017 (043)	\$ 1,723,689
Passed through the California Department of Parks and Recreation			
Recreational Trails Program	20.219	RT-12-010	<u>390,907</u>
Total Highway Planning and Construction Cluster			<u>2,114,596</u> *
Passed through the California Department of Transportation			
Formula Grants for Rural Areas	20.509	FTA-5311	459,247 *
Passed through the California Office of Traffic Safety			
State and Community Highway Safety	20.600	PT1737	5,292
Minimum Penalties for Repeat Offenders for			
Driving While Intoxicated	20.608	PT1737	<u>2,677</u>
Total Department of Transportation			<u>2,581,812</u>
Department of Housing and Urban Development:			
Passed through the California Department of Housing and Community Development			
Community Development Block Grant	14.228	16-CDBG-11139	253,935
HOME Investment Partnership Program	14.239	Program Income	11,611
HOME Investment Partnership Program	14.239	15-HOME-10093	<u>8,200</u>
Total Department of Housing and Urban Development			<u>273,746</u>
Department of the Interior			
Fish and Wildlife Service	15.657	F17AP00013	<u>4,989</u>
Total Department of the Interior			<u>4,989</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,860,547</u>

* Denotes major program

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF EUREKA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2018

1. REPORTING ENTITY

The financial reporting entity consists of (a) the primary government, City of Eureka (City), and (b) component units which include organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component unit of the City is the Eureka Public Financing Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Funds received under the various grant programs have been recorded within the General, Special Revenue, Capital projects, and Enterprise funds of the City. The City utilizes the modified accrual method of accounting for the general, special revenue, and capital project funds, and the accrual method for the enterprise funds. Expenditures of Federal Awards, reported on the accompanying Schedule of Expenditures of Federal Awards (Schedule) are recognized when incurred.

Schedule of Expenditures of Federal Awards

The accompanying schedule presents the activity of all Federal financial assistance programs of the City, Federal financial assistance received directly from Federal agencies, as well as Federal financial assistance passed through the State of California.

The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City as a whole.

3. PROGRAM DESCRIPTIONS

Department of Transportation

Highway Planning and Construction

The objective of Highway Planning and Construction is to assist State transportation agencies in the planning and development of an integrated, interconnected transportation system important to interstate commerce and travel by constructing and rehabilitating the National Highway System (NHS), and for transportation improvements to public roads; to provide aid for the repair of Federal-aid highways following disasters; to foster safe highway design; to replace or rehabilitate deficient or obsolete bridges; and to provide for other special purposes.

Recreational Trails Program

To provide funds to the States to develop and maintain recreational trails and trail-related facilities for both nonmotorized and motorized recreational trail uses. The funds represent a portion of the motor fuel excise tax collected from nonhighway recreational fuel use.

CITY OF EUREKA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2018

3. PROGRAM DESCRIPTIONS (CONTINUED)

Department of Transportation (Continued)

State and Community Highway Safety

These formula grant funds may be used for problems identified within the nine national program areas of Alcohol and other Drug Countermeasures, Police Traffic Services Occupant Protection, Traffic Records, Emergency Medical Services Motorcycle Safety, Pedestrian/Bicycle Safety, Speed Control and Roadway Safety. Other program areas identified by a State as constituting a highway safety problem in that State, e.g., pupil transportation safety programs, may be eligible for Federal funding, as encompassing a major highway safety problem in the State and for which effective countermeasures have been identified.

Formula Grants for Rural Areas

To improve, initiate, or continue public transportation service in nonurbanized areas and to provide technical assistance for rural transportation providers. This program supports both the maintenance of existing public transportation services and the expansion of those services through the following program goals: enhancing access in rural areas to health care, shopping, education, employment, public services, and recreation; assisting in the maintenance, development, improvement, and use of public transportation systems in rural areas; encouraging and facilitating the most efficient use of all transportation funds used to provide passenger transportation in rural areas through the coordination of programs and services.

Minimum Penalties for Repeat Offenders for Driving While Intoxicated

Funds transferred from NHTSA must be used for alcohol-impaired driving countermeasures or enforcement of driving while intoxicated (DWI), driving under the influence (DUI) and other related laws.

Department of Housing and Urban Development

Community Development Block Grant (CDBG)

The Community Development Block Grant (CDBG) Program was authorized under Title I of the Housing and Community Development Act of 1974. The primary objective of the CDBG Program is the development of viable urban communities, including adequate housing, a suitable living environment, and expansion of economic opportunities, principally for persons of low to moderate income. Under this program, the Department of Housing and Urban Development (HUD) distributes funds based upon approved applications to eligible local governmental units for the purpose of community improvement and betterment. The City uses CDBG funds to finance a comprehensive home improvement program that assists low and moderate-income residents through low interest subsidies and deferred loans.

Home Investment Partnerships Program (HOME)

The objective of this program is to expand the supply of affordable housing, particularly rental housing, for low and very low income Americans; to strengthen the abilities of state and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; to provide both financial and technical assistance to participating jurisdictions, including the development of model programs for developing affordable low income housing; and to extend and strengthen partnerships among all levels of government and the private sector, including for-profit and nonprofit organizations, in the production and operation of affordable housing.

CITY OF EUREKA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2018

3. PROGRAM DESCRIPTIONS (CONTINUED)

Department of the Interior

Fish and Wildlife Service

To provide federal financial assistance to secure endangered or threatened species information, undertake restoration actions that will lead to delisting of a species; help prevent extinction of a species, or aid in the recovery of species. The purpose of the Endangered Species Act is to provide a means by which the ecosystems upon which endangered and threatened species depend may be conserved, to provide a program for the conservation of these species, and to take appropriate steps to achieve the purposes of treaties and conventions set forth in the law.

4. AMOUNTS PROVIDED TO SUBRECIPIENTS

For the fiscal year ended June 30, 2018, the City did not have payments passed through to other agencies.

5. INDIRECT COST RATES

The City has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

6. LOAN PROGRAMS WITH CONTINUING COMPLIANCE REQUIREMENT

The City participates in the Community Development Block Grant program (CFDA No. 14.228) of the U.S. Department of Housing and Urban Development, which is subject to continuing compliance requirements. For the fiscal year ended June 30, 2017, the outstanding loan balance was \$5,461,753. There was a \$200,469 new loan disbursed during the fiscal year ended June 30, 2018. As of June 30, 2018, the outstanding loan balance with continuing compliance requirements for the Community Development Block Grant program is \$5,736,106.

The City participates in the Home Investment Partnerships Program (HOME) (CFDA No. 14.239) of the U.S. Department of Housing and Urban Development, which is subject to continuing compliance requirements. For the fiscal year ended June 30, 2017, the outstanding loan balance was \$320,847. There was no new loan disbursed during the fiscal year ended June 30, 2018. As of June 30, 2018, the outstanding loan balance with continuing compliance requirements for HOME is \$320,847.

CITY OF EUREKA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued	<u>Unmodified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	_____	Yes	_____ <u>X</u> _____ No
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ <u>X</u> _____	Yes	_____ None reported
Noncompliance material to financial statements noted?	_____	Yes	_____ <u>X</u> _____ No

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	_____	Yes	_____ <u>X</u> _____ No
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ <u>X</u> _____	Yes	_____ None reported

Type of auditor’s report issued on compliance for major programs:	<u>Unmodified</u>		
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance, 2 CFR 200.516 (a)	_____ <u>X</u> _____	Yes	_____ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>20.509</u>	<u>Formula Grants for Rural Areas</u>
<u>20.205, 20.219</u>	<u>Highway Planning and Construction Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
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Auditee qualified as low-risk auditee:	_____	Yes	_____ <u>X</u> _____ No
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CITY OF EUREKA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies

2018-001 Finding – Internal controls over cash:

During our audit of cash, we noted that the City has long-outstanding checks on the bank reconciliation that are over a year old. In addition, unreconciled differences exist on the bank reconciliation.

Effect:

Actual cash balances could be misstated due to unreconciled differences on the bank reconciliation. In addition, the lack of inspection of the checks that are still outstanding after 1 year or more is not in compliance with State and Local policies and procedures regarding unclaimed property.

Identification of a repeat finding:

Repeat finding.

Recommendation:

Management should ensure that State and Local procedures are being followed with regards to unclaimed checks. In addition, management should ensure that bank reconciliations are performed and adjusted properly to avoid unreconciled differences.

Views of responsible officials and planned corrective actions:

The old outstanding checks on the bank reconciliation will be removed and added to an escheat payable account, as is allowed for cities. After five years, these will be published and if not claimed then can be retained by the City. All unreconciled differences will be reconciled.

2018-002 Finding – Internal control deficiencies over credit cards:

During our review of internal controls over credit card purchases, we noted that there was excessive use of credit cards. We also noted that there are no restrictions on which employees are allowed to hold a credit card.

Effect:

Lack of controls over credit card purchases can lead to improper purchases in the City's name, which can lead to a misappropriation of funds or errors that could go undetected.

Identification of a repeat finding:

Repeat finding.

Recommendation:

We recommend that the City restrict which employees can hold credit cards. We also recommend that the City restrict what type of purchases are to be made on credit cards and inform employees that the purchase order process should be the primary method for purchases.

Views of responsible officials and planned corrective actions:

The City will implement an Amazon business account and restrict purchases from this vendor on the City credit card. These purchases account for a significant amount of the credit card purchases. Department Directors have submitted lists of authorized personnel with proposed limits, which will be evaluated by Finance. The types of purchases that may be made with credit cards is currently limited, with exceptions made on a case-by-case basis.

CITY OF EUREKA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Significant Deficiencies (Continued)

2018-003 Finding – Ineffective Internal controls over financial reporting to generate timely financial statements:

The systems and schedule used for closing the 6/30/18 fiscal year end reporting at the City was found to be inadequate to generate timely financial statements.

Effect:

The City was not able to close its books and generate year end reports in a timely manner. We experienced significant delays in receiving requested documentation which subsequently required reconciliation or further analysis and generated a considerable number of audit adjustments.

Identification of a repeat finding:

Repeat finding.

Recommendation:

We recommend that the City close its books in a timely manner and have all accounts reconciled to the general ledger, and a detailed review of all financial statements are conducted prior to the start of the audit fieldwork. We understand that this situation arose in part due to new employees in the accounting function in the current fiscal year.

We also recommend that all reconciliations and detailed listings be reviewed and approved by senior management for completeness and accuracy. The City should prepare and maintain appropriate schedules to substantiate transactions and balances.

Views of responsible officials and planned corrective actions:

The City will ensure that its books are closed in a timely manner and will have all accounts reconciled to the general ledger, and a detailed review done prior to the start of the final week of fieldwork. Historically, field work starts in July or August, before all entries can be complete so that not all reconciliations and review can be done before fieldwork is started. However, reconciliations and review that can be done prior to the start of audit fieldwork will be done.

CITY OF EUREKA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Significant Deficiencies (Continued)

2018-004 Finding – Lack of internal control over interfund borrowing

During our review of internal controls over interfund borrowing, it was noted that the City does not reconcile interfund borrowing on an annual basis and does not have provisions in place for approval, repayment terms, reconciliation, and budgeting of repayment of interfund borrowings.

Effect:

Due to a lack of control over interfund borrowing, the City was not able to establish approval, repayment terms, reconciliations and budgeting for repayment of interfund borrowing and differentiate between short term and long term interfund borrowing in accordance with GASB statement no. 34. In addition, the Water fund provided interfund lending to the General Fund, in violation of requirements set forth for the Water fund as part of the City's municipal code (Title 3, Chapter 35).

Identification of a repeat finding:

Repeat finding.

Recommendation:

We recommend that the City establish policies and procedures for approval and reconciliation of interfund borrowings in order to be compliant with GASB statement no. 34 and the City's municipal codes.

Views of responsible officials and planned corrective actions:

The City will establish policies and procedures for approval and reconciliation of interfund borrowings in order to be compliant with GASB statement no. 34 and the City's municipal codes.

2018-005 Finding – Ineffective Internal controls over financing reporting from the governing body demonstrates independence from management in exercising financial oversight

During our review of internal controls on the City's control environment, it was noted that the City doesn't provide treasury report, budget to actual report, and check register to the Council for review on an annual basis.

Effect:

The City Council was not able to ensure that financial stability is maintained in a timely manner.

Identification of a repeat finding:

New finding.

Recommendation:

We recommend that the City establish policies and procedures to provide the treasury report, budget to actual report, and check register to the Council for review on a monthly basis.

Views of responsible officials and planned corrective actions:

The City will implement a reporting process to the Council on a monthly basis. This will include a treasury report, budget to actual report, and a check register. In addition, the Finance Director will present quarterly reports to Council in between the mid-year and annual budget processes.

CITY OF EUREKA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Other matters

2018-006 Finding – Single Audit not filed on time

Although policies and procedures have been in place to ensure that the Single Audit is filed timely, the City did not file the Single Audit by March 31, 2019 as required by federal law. We would recommend that the City emphasize the timely filing of the Single Audit.

2018-007 Finding – State Controller Report not filed on time

Although policies and procedures have been in place to ensure that the State Controller Street report is filed timely, the City did not file the report by January 31, 2019 as required by state law. We would recommend that the City emphasize the timely filing of required state reports.

CITY OF EUREKA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018

SECTION III - MAJOR FEDERAL AWARD PROGRAM

US Department of Transportation - Passed through the State of California Department of Transportation
Program Name: Formula Grants for Rural Areas
CFDA Number 20.509, Grant Number FTA-5311

2018-008 Finding – Procurement and Suspension, and Debarment: Internal Control over Verification Against the System for Award Management (“SAM”):

Criteria:

Suspension and Debarment, Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All non-procurement transactions entered into by a passthrough entity (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in April 2018 Compliance Requirements Compliance Supplement 3.2-I-3 the transaction. This verification may be accomplished by (1) checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/>, (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Condition:

During our review of the procurement process, we noted a bid did not have documentation on verifying the vendor against the SAM and did not have a certification from the vendor to ensure that they were not suspended or debarred from federally-funded purchases.

Questioned costs:

None noted.

Effect:

Without verifying whether vendors are suspended or debarred from working on federally-funded projects, the City could be contracting with vendors that are prohibited from working on federally-funded projects.

Cause:

Management’s oversight.

Identification of a repeat finding:

New finding.

Recommendation:

We recommend that the City establish proper internal control procedures to verify vendors against the SAM in order to ensure vendors are not suspended or debarred from federally-funded purchases.

Views of responsible officials and planned corrective actions:

The City will establish internal control procedures to ensure all federally-funded projects’ vendors are verified against the SAM.



**CITY OF EUREKA
CORRECTIVE ACTION PLAN
June 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS

2018-001 Finding – Internal controls over cash:

Name of contact person: Lane Millar, Finance Director

Corrective action: The old outstanding checks on the bank reconciliation will be removed and added to an escheat payable account, as is allowed for cities. After five years, these will be published and if not claimed then can be retained by the City. All unreconciled differences will be reconciled.

Proposed completion date: June 30, 2020

2018-002 Finding – Internal control deficiencies over credit cards:

Name of contact person: Lane Millar, Finance Director

Corrective action: The City will ensure that its books are closed in a timely manner and will have all accounts reconciled to the general ledger, and a detailed review done prior to the start of the final week of fieldwork. Historically, field work starts in July or August, before all entries can be complete so that not all reconciliations and review can be done before fieldwork is started. However, reconciliations and review that can be done prior to the start of audit fieldwork will be done.

Proposed completion date: June 30, 2020

2018-003 Finding – Ineffective Internal controls over financial reporting to generate timely financial statements:

Name of contact person: Lane Millar, Finance Director

Corrective action: The City will ensure that its books are closed in a timely manner and will have all accounts reconciled to the general ledger, and a detailed review done prior to the start of the final week of fieldwork. Historically, field work starts in July or August, before all entries can be complete so that not all reconciliations and review can be done before fieldwork is started. However, reconciliations and review that can be done prior to the start of audit fieldwork will be done.

Proposed completion date: June 30, 2020

**CITY OF EUREKA
CORRECTIVE ACTION PLAN
June 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2018-004 Finding – Lack of internal control over interfund borrowing

Name of contact person: Lane Millar, Finance Director

Corrective action: The City will establish policies and procedures for approval and reconciliation of interfund borrowings in order to be compliant with GASB statement no. 34 and the City’s municipal codes.

Proposed completion date: June 30, 2020

2018-005 Finding – Ineffective Internal controls over financing reporting from the governing body demonstrates independence from management in exercising oversight of the development and performance

Name of contact person: Lane Millar, Finance Director

Corrective action: The City will implement a reporting process to the Council on a monthly basis. This will include a treasury report, budget to actual report, and a check register. In addition, the Finance Director will present quarterly reports to Council in between the mid-year and annual budget processes.

Proposed completion date: June 30, 2020

SECTION III - MAJOR FEDERAL AWARD PROGRAM

2018-008 Finding – Procurement and Suspension, and Debarment: Internal Control over Verification Against the System for Award Management (“SAM”):

Name of contact person: Lane Millar, Finance Director

Corrective action: The City will establish internal control procedures to ensure all federally-funded projects’ vendors are verified against the SAM.

Proposed completion date: June 30, 2020



**CITY OF EUREKA
STATUS OF PRIOR YEAR FINDINGS
June 30, 2018**

SECTION IV – STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

FINANCIAL STATEMENT FINDINGS

Significant Deficiencies

2017-01 Finding – Internal controls over cash:

During our audit of cash, we noted that the City has long outstanding checks on the bank reconciliation that are over a year old. In addition, unreconciled differences exist on the bank reconciliation.

Effect:

Actual cash balances could be misstated due to unreconciled differences on the bank reconciliation. In addition, the lack of inspection of the checks that are still outstanding after 1 year or more is not in compliance with State and Local polices and procedures regarding unclaimed property.

Identification of a repeat finding:

New finding

Recommendation:

Management should ensure that State and Local procedures are being followed with regards to unclaimed checks. In addition, management should ensure that bank reconciliations are performed and adjusted properly to avoid unreconciled differences.

Current status:

Not implemented, see Finding 2018-001

2017-02 Finding – Internal controls over cash receipts:

During our review of internal controls over cash receipts, we noted the following deficiencies:

- The demolition fee is not listed on the fee schedule and doesn't seem appropriate to be charged on several of the permits tested.
- 1 building permit of 10 tested was not signed by the building official who issued it.
- The Transient Occupancy Tax form did not have the occupancy percentage information.

Effect:

Lack of controls over cash receipts can lead to a misappropriation of funds or errors that could go undetected.

Identification of a repeat finding:

New finding

Recommendation:

We recommend that the City review all fees charged for building permits and list the fees on the council approved fee schedule. We also recommend that all building permits are properly signed by all parties. We also recommend that the Transient Occupancy Tax form is filled out completely and correctly.

Current status:

Implemented

CITY OF EUREKA
STATUS OF PRIOR YEAR FINDINGS
June 30, 2018

SECTION IV – STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)

Significant Deficiencies (Continued)

2017-03 Finding – Internal control deficiencies over cash disbursements

During our review of internal controls over cash disbursements, we noted the following deficiencies:

- 5 invoices of 25 tested did not have an approval signature present.
- 1 invoice of 25 tested was approved by an employee not listed as an approved signer on the purchase order

Effect:

Lack of controls over cash disbursements can lead to a misappropriation of funds or errors that could go undetected.

Identification of a repeat finding:

New finding.

Recommendation:

We recommend that the City ensures that all invoices are signed for approval by the proper personnel.

Current status:

Implemented

2017-04 Finding – Internal control deficiencies over credit cards:

During our review of internal controls over credit card purchases, we noted that there was excessive use of credit cards. We also noted that there are no restrictions on which employees are allowed to hold a credit card.

Effect:

Lack of controls over credit card purchases can lead to improper purchases in the City's name, which can lead to a misappropriation of funds or errors that could go undetected.

Identification of a repeat finding:

New finding.

Recommendation:

We recommend that the City restrict which employees can hold credit cards. We also recommend that the City restrict what type of purchases are to be made on credit cards and inform employees that the purchase order process should be the priority in purchases made.

Current status:

Not implemented, see Finding 2018-002

CITY OF EUREKA
STATUS OF PRIOR YEAR FINDINGS
June 30, 2018

SECTION IV – STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)

Significant Deficiencies (Continued)

2017-05 Finding – Ineffective Internal controls over financial reporting to generate timely financial statements:
The systems and schedule used for closing the 6/30/17 fiscal year end reporting at the City was found to be inadequate to generate timely financial statements.

Effect:

The City was not able to close its books and generate year end reports in a timely manner. We experienced significant delays in receiving requested documentation which subsequently required reconciliation or further analysis and generated a considerable number of audit adjustments.

Identification of a repeat finding:

New finding.

Recommendation:

We recommend that the City close its books in a timely manner and have all accounts reconciled to the general ledger, and a detailed review of all financial statements are conducted prior to the start of the audit fieldwork. We understand that this situation arose in part due to new employees in the accounting function in the current fiscal year.

We also recommend that all reconciliations and detailed listings be reviewed and approved by senior management for completeness and accuracy. The City should prepare and maintain appropriate schedules to substantiate transactions and balances.

Current status:

Not implemented, see Finding 2018-003

2017-06 Finding – Lack of internal control over interfund borrowing
During our review of internal controls over interfund borrowing, it was noted that the City doesn't reconciled interfund borrowing on an annual basis and do not have provisions in place for approval, repayment terms, reconciliation and budgeting of repayment of interfund borrowings.

Effect:

Due to a lack of control over interfund borrowing, the City was not able to establish approval, repayment terms, reconciliations and budgeting for repayments of interfund borrowings and differentiate between short term and long term interfund borrowings in accordance with GASB statement no. 34. In addition, the Water fund provided interfund lending to the General Fund, in violation of requirements set forth for the Water fund as part of the City's municipal code (Title 3, Chapter 35).

Identification of a repeat finding:

New finding.

Recommendation:

We recommend that the City establish policies and procedures for approval and reconciliation of interfund borrowings in order to be compliant with GASB statement no. 34 and the City's municipal codes.

Current status:

Not implemented, see Finding 2018-004

CITY OF EUREKA
STATUS OF PRIOR YEAR FINDINGS
June 30, 2018

SECTION IV – STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)

MAJOR FEDERAL AWARD PROGRAM

There were no prior federal award findings or questioned costs.