MUNICIPAL IMPROVEMENT DISTRICT NO.1

BASIC FINANCIAL STATEMENTS

JUNE 30, 2019

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Municipal Improvement District No.1
Basic Financial Statements
For the year ended June 30, 2019

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JJACPA, Inc.
A Professional Accounting Services Corp.

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
of the City of Fort Bragg
Fort Bragg, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Municipal Improvement District No.1 (Utility) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Utility's basic 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 risk 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Utility as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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1102 South Main Street, #1, Fort Bragg, CA 95437 ● phone (707) 964-6325
www.jjacpa.com

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 3-9, the Utility's Schedules of Contributions on page 30, and the Schedules of the Utility's Proportionate Share of the Net Pension Liability on page 31, be presented to supplement the basic 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 basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The Schedule of Debt Service Coverage is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Debt Service Coverage 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. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 Debt Service Coverage is fairly stated, in all material respects, in relation to the basic 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 November 25, 2019 on our consideration of the Utility'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 Utility's internal control over financial reporting and compliance.

JJACPA, Inc.

November 25, 2019

JJACPA, Inc.
Dublin, CA

Management's Discussion and Analysis

This section of Municipal Improvement District No.1's (Utility) basic financial statements presents management's discussion and analysis of the Utility's financial performance during the fiscal year ended June 30, 2019. Since this management's discussion and analysis is designed to focus on current activities, resulting change and current known facts, please read it in conjunction with the Utility's basic financial statements (pages 12 - 14) and the footnotes (pages 15 - 28).

Financial Highlights

- At June 30, 2019, the Utility's net position increased to $14.9M from $11.6M (29% or $3.4M) as can be seen on page 4.
- Operating revenues increased year over year $2.4M or 69.9% primarily as a result of grant funding for the Wastewater Treatment Plant Upgrade project. Non-operating revenues decreased by $191k primarily due to The City of Fort Bragg's new cost allocation plan and the final payment from the General Fund to the MID for prior year cost over allocations.
- Operating expenses increased year over year by $97k (3.8%) due to various factors including an increase in the District's allocation to the Fleet Internal Service Fund (+$30k), increased pension costs (+$27k), increased chemical costs (+$19k) and increased equipment repair costs (+$15k).

Using This Report

In December 1998, the Governmental Accounting Standards Board (GASB) released statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which revised the reporting of property tax revenue. In June 1999, GASB released statement No. 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*. Changes in Statement No. 34 require a comprehensive one-line look at the entity as a whole and capitalization of assets and depreciation for agencies not reporting on the accrual basis of accounting. Since the Utility has historically reported all activities in enterprise funds in a manner similar to business activities and followed the accrual basis of accounting, the Utility merely has been required to reclassify certain balances to utilize the new Statement No. 34 terminology. There were no major reconciling items necessary or elimination of balances due to the implementation of Statement No. 34.

The annual financial statements include the Independent Auditors' Report, this management's discussion and analysis, the basic financial statements, and notes to basic financial statements.

Proprietary Fund Financial Statements

Proprietary funds generally account for services for which customer fees are intended to finance the costs of operations. There are two types of proprietary funds: enterprise and internal service funds. Internal service funds accumulate and allocate costs for services provided internally among the functions of an entity. Enterprise funds provide goods or services to customers outside of the entity. The Fort Bragg Municipal Improvement District provides services to the citizens of the District, therefore it is considered to be an enterprise fund. The financial statements of the District report information using accounting methods similar to those used by private-sector companies. The following required financial statements provide both short-term and long-term information about the District's overall financial status.

Financial Analysis of the Utility as a Whole

Net Position
As of June 30, 2019 and 2018

	2019	2018	Increase (Decrease)
Assets:			
Current assets	$4,455,748	$5,140,583	$(684,835)
Non-current assets	17,480,382	8,151,979	9,328,403
Total assets	21,936,130	13,292,562	8,643,568
Deferred outflows	247,934	293,314	(45,380)
Liabilities:			
Current liabilities	1,252,867	893,650	359,217
Non-current liabilities	5,868,616	999,766	4,868,850
Total liabilities	7,121,483	1,893,416	5,228,067
Deferred inflows	69,466	77,781	(8,315)
Net position:			
Net investment in capital assets	12,555,096	8,151,979	4,403,117
Unrestricted	2,438,019	3,462,700	(1,024,681)
Total net position	$14,993,115	$11,614,679	$3,378,436

This schedule is prepared from the Utility's Statement of Net Position (page 12), which is presented on the accrual basis of accounting whereby assets are capitalized and depreciated.

Net position may serve over time as one useful indicator of an entity's financial condition. The District's assets exceeded liabilities by $14.8M at June 30, 2019. As can be seen from the table above, Net position at June 30, 2019, increased $3.4M (29%) over the prior year. The increase is attributable to grant funding for the Wastewater Treatment Plant Upgrade project. The District's current rate structure is designed to accumulate $1M per year in a capital reserve for future replacement and repair of capital assets. The rate structure is functioning as designed. In FY 2018-19 the District's capital reserve was spent down entirely as the wastewater treatment facility will underwent a complete upgrade at a cost of $17.6M. The District's contribution to the project was $3.2M with grant funding of $9.4M and debt funding of $5M. In FY 2019-20 the capital reserve will begin to grow again but will be used to replace three sewer lift stations at a cost of approximately $1.4M.

Financial Analysis of the Utility as a Whole, Continued

Statement of Revenues, Expenses and Changes in Net Position
For the years ended June 30, 2019 and 2018

	2019	2018	Increase (Decrease)
Operating revenues	$5,937,775	$3,495,429	$2,442,346
Operating expenses	2,660,671	2,563,425	97,246
Operating income	3,277,104	932,004	2,345,100
Non-operating revenues	116,725	307,343	(190,618)
Non-operating expenses	(13,097)	(5,469)	7,628
Net income before transfers	103,628	301,874	(198,246)
Transfers	(2,298)	(86,318)	(84,020)
Net income	3,378,434	1,147,560	2,230,874
Net position:			
Beginning	11,614,681	10,467,121	1,147,560
End of year	$14,993,115	$11,614,681	$3,378,434

While the Statement of Net Position shows the change in financial net position, the operating results are reflected in the Statement of Revenues, Expenses, and Changes in Net position (page 13). This statement provides answers to the nature and source of the change in financial net position over the course of the fiscal year.

Sewer user service charges increased $104k or 2.9% over the previous year. Sewer service rates and fees are set by the Board of Directors to recover actual costs of operating and maintaining the system. The District's charges for residential wastewater service are tied to the amount of measured water usage during the winter months (November through February). Multi-family residential and nonresidential rates are proportionate to the single-family charge and are based on water consumption and strength of discharge. The MID increased rates in FY 2018/19 by 3%.

Financial Analysis of the Utility as a Whole, Continued

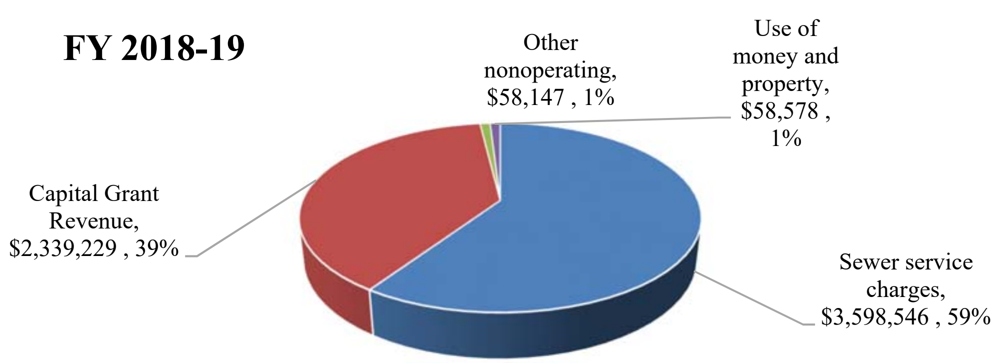
Grant revenue in FY 2018-19 was $2.4M in connection with the District's Wastewater Treatment Plant Upgrade project whereas Sewer user service charges increased $104k or 2.9% over the previous year.

FY 2018-2019			FY 2017-2018		Increase (Decrease)
$ 3,598,546	59.4%	**Sewer Service Charges**	$ 3,494,281	57.7%	$ 104,265
2,339,229	38.6%	**Capital Grant Revenue**	-	0.0%	2,339,229
-	0.0%	**Other Operating**	1,148	0.0%	(1,148)
58,147	1.0%	**Other nonoperating**	252,801	4.2%	(194,654)
58,578	1.0%	**Use of Money and Property**	54,542	0.9%	4,036
$ 6,054,500	100.0%	**Totals**	$ 3,802,772	100.0%	$ 2,251,728

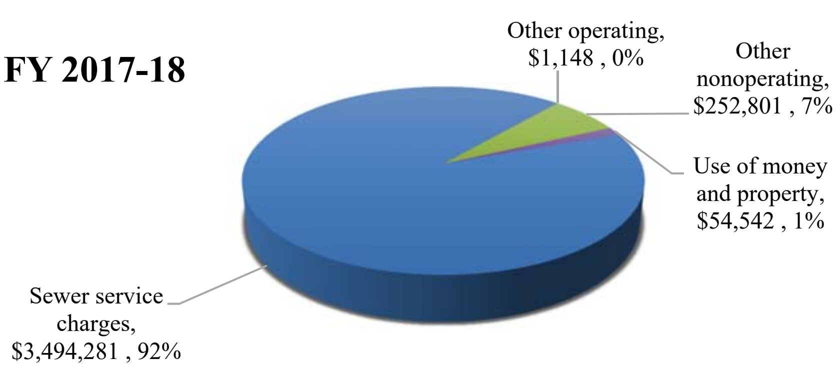
The following is a graphic illustration of revenues by source:

Revenues By Source
Both Operating & Non-Operating

FY 2018-19



FY 2017-18



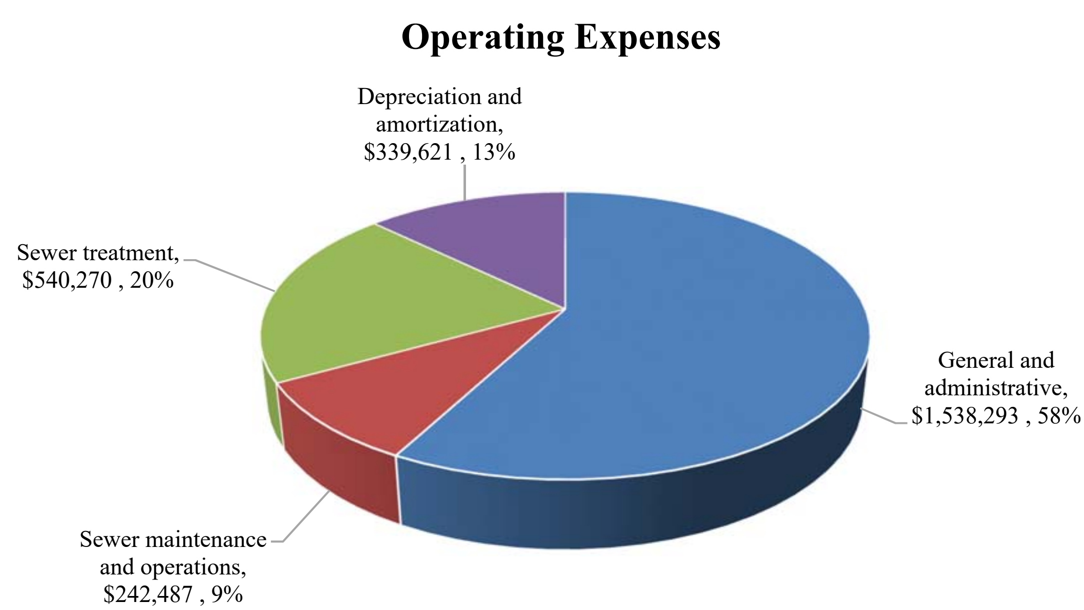
Financial Analysis of the Utility as a Whole, Continued

Operating expenses (not including depreciation) increased $51k or 2.2% year over year. Increases were due to various factors including an increase in the District's allocation to the Fleet Internal Service Fund (+$30k), increased pension costs (+$27k), increased chemical costs (+$19k) and increased equipment repair costs (+$15k).

Operating Expense
For the years ended June 30, 2019 and 2018

	2019	2018	Increase (Decrease)	Percent Change
Operating expenses:				
General and administrative	$ 1,538,293	$ 1,671,074	$ (132,781)	-7.95%
Sewer maintenance and operations	242,487	115,726	126,761	109.54%
Sewer treatment	540,270	483,308	56,962	11.79%
Depreciation and amortization expense	339,621	293,317	46,304	15.79%
Total	$ 2,660,671	$ 2,563,425	$ 97,246	129%

The following is a graphic illustration of operating expenses:



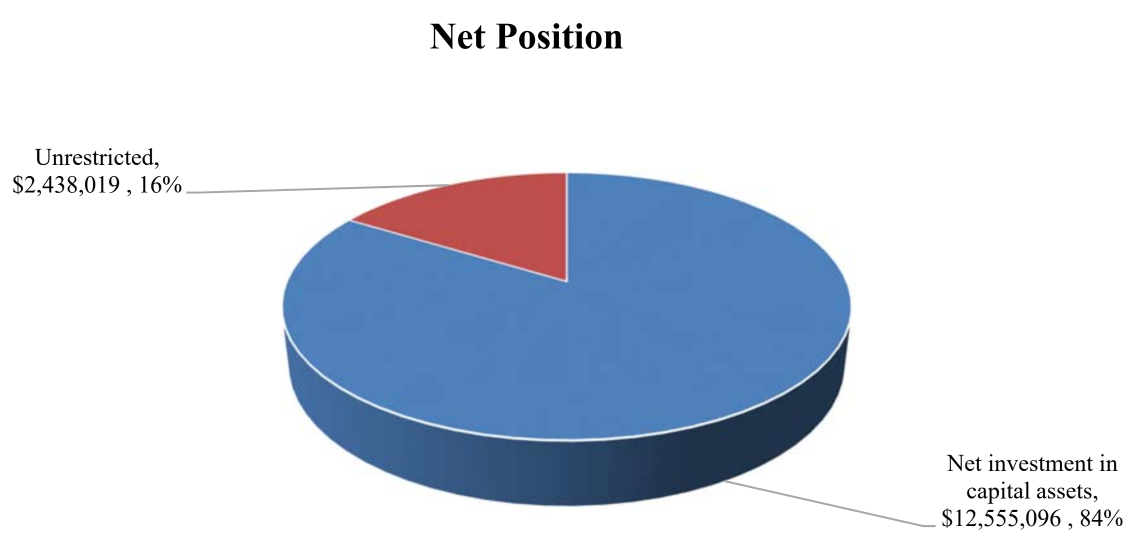
Financial Analysis of the Utility as a Whole, Continued

Analysis of Net Position
As of June 30, 2019 and 2018

	2019	2018	Increase (Decrease)
Net position:			
Net investment in capital assets	$ 12,555,096	$ 8,151,979	$ 4,403,117
Unrestricted	2,438,019	3,462,700	(1,024,681)
Total	$ 14,993,115	$ 11,614,679	$ 3,378,436

The annual change in Net position is an increase of $3.4M. The District's rate structure is designed to accumulate $1M per year in a capital reserve for future replacement and repair of capital assets. Current charges for service and non-operating revenue continue to be sufficient to fund operations, excluding depreciation and amortization, which are considered non-cash expenses as well as funding the capital reserve. Net investment in capital assets increased year over year whereas unrestricted net position decreased.

The following is a graphic illustration of Net Position:



Economic Factors and Potential Future Results

The primary economic challenge facing the District is the increase in pension costs in the years to come. Pension costs are expected to double between FY 2017-18 and FY 2023-24. Increased pension costs may be offset somewhat due to a lower overhead allocation from the City's General Fund.

The District's Wastewater treatment plant was constructed nearly 40 years ago and is in need of both upgrades and repairs. A project to upgrade the plant began in FY18-19 with a project cost of over $17.6M. The District has funded the upgrade project with a combination of grants ($9.4M), loans ($5M) and a contribution from the District ($3.2M). Additionally, three sewer lift stations will be upgraded in FY 2019-20.

The District will undertake a full rate study in FY 2020-21 with the goal of implementing a new rate structure in FY 2021-22. The significant amount of capital improvements outlined in the previous paragraph likely will affect the calculation of sewer rates and the revenue required to operate the system.

Contacting the Utility's Financial Management

This financial report is designed to provide our citizens, taxpayers, creditors and government regulators with a general overview of the District's finances. Additional budgetary information may be found on our website at www.fortbragg.com.

For questions about this report or requests for additional financial information, please contact City's Finance Department at 416 N. Franklin St, Fort Bragg, CA 95437 or call the Finance Department at 707-961-2825.

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BASIC FINANCIAL STATEMENTS

Municipal Improvement District No. 1

Statement of Net Position

June 30, 2019

		2019
ASSETS		
Current assets:		
Cash equivalents and investments - pooled	$	-
Accounts receivable		393,538
Intergovernmental receivables		2,339,229
Loans/notes receivable		1,466
Other receivables		1,721,515
Total current assets		4,455,748
Non-current assets:		
Property, plant and equipment:		
Inventory		11,287
Non-depreciable		11,164,417
Depreciable (net of accumulated depreciation)		6,304,678
Total non-current assets		17,480,382
Total assets		21,936,130
DEFFERED OUTFLOWS OF RESOURCES		
Pension plan		247,934
Total assets and deferred outflows of resources	$	22,184,064
LIABILITIES		
Current liabilities:		
Accounts payable	$	587,430
Acrrued payroll and benefits		15,574
Interest payable		(2)
Unearned revenue		6,466
Compensated absences - current portion		2,962
Current portion of long-term liabilities		86,000
Due to other funds		554,437
Total current liabilities		1,252,867
Non-current liabilities:		
Compensated absences		33,916
Due after one year		4,913,999
Net pension liability		920,701
Total non-current liabilities		5,868,616
Total liabilities		7,121,483
DEFERRED INFLOWS OF RESOURCES		
Pension plan		69,466
Total deferred outflows of resources		69,466
Net position:		
Net investment in capital assets		12,555,096
Unrestricted (deficit)		2,438,019
Total net position		14,993,115
Total liabilities, deferred inflows and net position	$	22,184,064

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

Municipal Improvement District No. 1
Statement of Revenues, Expenses, and Changes in Net Position
For the year ended June 30, 2019

		2019
OPERATING REVENUES:		
Charges for services:		
Sewer service charges	$	3,598,546
Capital Grant Revenue		2,339,229
Total operating revenues		5,937,775
OPERATING EXPENSES:		
General and administrative		1,538,293
Sewer maintenance and operations		242,487
Sewer treatment		540,270
Depreciation and amortization expense		339,621
Total operating expenses		2,660,671
OPERATING INCOME		3,277,104
NON-OPERATING REVENUES (EXPENSES):		
Other nonoperating revenues		58,147
Use of money and property		58,578
Interest and debt service expenses		(13,097)
Total non-operating revenues (expenses)		103,628
Transfers from(to) City of Fort Bragg		(2,298)
Net income		3,378,434
NET POSITION:		
Net position - beginning		11,614,681
Net Position - ending	$	14,993,115

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

Municipal Improvement District No. 1

Statement of Cash Flows

For the year ended June 30, 2019

		2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$	3,757,675
Cash received from interfund services provided		554,437
Payments to vendors for services and supplies		(1,294,690)
Payments to City of Fort Bragg employees for salaries and benefits		(1,263,325)
Net cash provided(used) by operating activities		1,754,097
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Receipts from (to) the City of Fort Bragg		(2,298)
Net cash provided by non-capital financing activities		(2,298)
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets		(9,656,736)
Principal payments on long-term debt		(55,000)
Interest and fees paid on long-term financing		(13,097)
Proceeds from debt issuance		3,336,631
Net cash used by capital and related financing activities		(6,388,202)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income received		58,578
Net increase(decrease) in cash		(4,577,825)
CASH AND INVESTMENTS:		
Beginning of year		4,577,825
End of year	$	-
PRESENTATION IN STATEMENT OF NET POSITION:		
Cash equivalents and investments-pooled	$	-
Total	$	-
CASH FLOWS FROM OPERATING ACTIVITIES:		
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income	$	3,277,104
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization		339,621
Pension		28,998
Changes in current assets and liabilities:		
Accounts receivable		159,039
Intergovernmental receivables		(2,339,229)
Inventory		(2,572)
Accounts payable		(223,077)
Accrued payroll and benefits		1,065
Unearned revenue		90
Compensated absences		(41,379)
Due to other funds		554,437
Net cash provided(used) by operating activities	$	1,754,097

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Municipal Improvement District No.1 (Utility) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental enterprises classified as proprietary fund types. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The reports are based on all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Review Boards of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the Utility's accounting policies are described below.

A. Description of the Reporting Entity

Municipal Improvement District No.1 is a fund of the City of Fort Bragg. The Utility provides sewage collection services for the City. The Utility is an integral part of the City and is included in the City's June 30, 2019 and 2017 basic financial statements. City personnel provide all engineering, management, and operational services to the wastewater collection system, including management and operational services for sewage collection pump station maintenance. The funding of the Utility's sewage facilities was funded by the Utility's users.

B. Fund Accounting Classification and Basis of Accounting

On the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position, business-like activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as Net position.

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition and capital improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds, and cash flow from operations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Fund Accounting Classification and Basis of Accounting, continued

The Utility's operations are funded almost entirely by user fees imposed as a rate based on type of usage (e.g. commercial, residential, etc.). The bulk of that rate is an amount charged primarily to residential users. Since July 2009, the residential rates have been based on average water used in the winter quarter.

C. Cash Equivalents and Investments

For the purposes of the Statement of Net Position and Statement of Cash Flows, "cash equivalents and investments" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less.

The Utility, through the City of Fort Bragg, pools cash and investments from all funds for the purpose of increasing income through investment activities. Highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Market value is used as fair value for those securities for which market quotations are readily available.

The Utility indirectly, through the City of Fort Bragg, 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 changes in interest rates.

D. Fixed Assets

Purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized. Depreciation is provided on a straight-line basis over estimated useful lives ranging from 5 to 40 years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Compensated Absences

The liability for vested vacation pay is recorded as an expense when the vacation is taken. Unused balances of vacation and sick time are accrued by employees when earned and may be subject to maximum accrual limits. Sick time accrued is paid based on the number of years of service to the employee when employment is terminated. There is no maximum accrual amount for sick time. Vacation time has a maximum accrual of 2 times the employee's annual accrual, dependent on the accrual rate of that employee, which is based on years of service. Upon termination of employment, sick time is paid out at a maximum of 50% and vacation is paid out at 100% of the accrued time available, depending on years of service. Compensatory time accrued is paid in full at the end of employment.

F. Deferred outflows/inflows of resources

In addition to assets, the statement of financial 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 Utility has only has one item that qualifies for reporting in this category. It is the deferred charge on pension plan contributions on the statement of net position.

In addition to liabilities, the statement of financial 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 so will not be recognized as an inflow of resources (revenue) until that time. The Utility has one item reported as a deferred inflow of resources. The deferred inflow our resources is the net difference between projected and actual earnings on pension plan investments and is reported on the statement of net position.

2. CASH AND INVESTMENTS

A. Cash Deposits

The Utility pools cash from all sources. The Utility invests excess cash in the City of Fort Bragg, an unrated investment pool, which at June 30, 2019, approximated fair value of $3,848.

The California Government Code requires California banks and savings and loan associations to secure government cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral is considered to be held in the government's name.

According to California law, the market value of pledged securities with banking institutions must equal at least 110% of the government's cash deposits. California law also allows institutions to secure government deposits by pledging first trust deed mortgage notes having a value of 150% of the government's total cash deposits. The government can waive collateral requirements for cash deposits, which are fully insured up to $250,000 by the Federal Deposit Insurance Corporation.

The City Treasurer maintains the cash and investment pool, on behalf of the Utility, as their custodian, which includes cash balances and authorized investments for all Utility funds, which is invested to enhance interest earnings. The pooled interest earned is allocated monthly to the Utility based on average daily cash and investment balance.

B. Authorized Investments

Under provisions of the Utility/City's Investment Policy and in accordance with California Government Code Section 5360l & 53635 (a-n), the Utility/City may invest or deposit in the following types of investments:

- Local Utility Bonds
- US Treasury Obligations
- US Agencies
- Time Deposits
- Negotiable Certificates of Deposit
- Bankers' Acceptances
- Commercial Paper
- Local Agency Investment Funds (LAIF) of California State Treasurer's Office (State Pool)
- State of California Obligations
- CA Local Utility Obligations
- Repurchase Agreements (Repos)
- Reverse Repurchase Agreements
- Medium-Term Notes (Corporate Debt Investment Grade)
- Mutual Funds
- Money Market Funds
- Collateralized Bank Deposits

2. CASH AND INVESTMENTS, Continued

Criteria for selecting investments and the order of priority are:

- *Safety* - The safety and risk associated with an investment refers to the potential loss of principal, interest, or a combination of these amounts. The Utility/City only invests in those investments that they consider very safe.

- *Liquidity* - This refers to the ability to "cash in" at any moment in time with a minimal possibility of losing some portion of principal or interest. Liquidity is an important investment quality especially when the need for unexpected funds occurs occasionally.

- *Yield* - This refers to the rate of return and is the least important of the criteria. Safe, liquid investments do not enjoy the yields of investments not having those characteristics.

C. Safekeeping

Securities purchased from broker-dealers are held in third party safekeeping by the trust department of the broker-dealer or other designated third party trust in the Utility/City's name and control, whenever possible.

D. Investments in External Investment Pools

The Utility's investments with the City at June 30, 2019, included a portion of the pool funds invested in structured notes and asset backed securities and similar transactions through the Local Agency Investment Fund (LAIF). These investments may include the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depends on one or more indices and/or that have embedded forwards or options.

Asset-backed Securities, the bulk of which are mortgage-backed securities, entitle their purchaser to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMOs) or credit card receivables.

As of June 30, 2019, LAIF had invested 1.77% of its pooled assets in structured notes and asset-backed securities and similar transactions.

3. CAPITAL ASSETS

The following is a summary of changes in property, plant and equipment during the fiscal year:

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Land	$69,000	$-00	$-00	$69,000
Construction in progress	1,615,371	9,625,761	-	11,241,132
Total nondepreciable assets	1,684,371	9,625,761	-	11,310,132
Buildings	4,033,024	-	-	4,033,024
Machinery, equipment and vehicles	2,002,727	30,976	-	2,033,703
Infrastructure	8,902,451	-	-	8,902,451
Total depreciable property, at cost	14,938,202	30,976	-	14,969,178
Less accumulated depreciation				
Buildings	(2,262,931)	(55,388)	-	(2,318,319)
Machinery, equipment and vehicles	(1,351,874)	(54,111)	-	(1,405,985)
Infrastructure	(4,855,789)	(230,122)	-	(5,085,911)
Total accumulated depreciation	(8,470,594)	(339,621)	-	(8,810,215)
Total depreciable property, net	6,467,608	(308,645)	-	6,158,963
Total capital assets, net	$8,151,979	$9,317,116	$-00	$17,469,095

These assets are being depreciated on a straight-line basis over their estimated useful lives ranging from 5 to 40 years.

4. NON-CURRENT LIABILITIES

The Utility generally incurs debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The Utility's debt issues and transactions related to Utility activities are summarized below and discussed in detail subsequently:

	Balance June 30, 2018	Additions	Retirements	Balance June 30, 2018	Due Within One Year
Bonds payable:					
1998 Revenue Bond	$ 55,000	$ -	$ (55,000)	$ -	$ -
2018 WW Plant Certificates of Participation	-	4,999,999	-	4,999,999	86,000
Compensated absences	70,998	-	(34,120)	36,878	2,962
Net pension liability	928,768	-	(8,067)	920,701	-
Total	$ 988,110	$ 4,999,999	$ (97,187)	$ 5,957,578	$ 88,962

4. NON-CURRENT LIABILITIES, Continued

1998 Wastewater Revenue Bonds

In 1998, the City on behalf of the Utility entered into an agreement with the Association of Bay Area Governments (ABAG) whereby ABAG issued $770,000 in revenue bonds to provide resources for the Utility to acquire and construct capital improvements to the Utility's wastewater system. The bonds are an obligation of ABAG and are payable solely from and secured by revenues that consist primarily of payments on an installment obligation of the Utility.

For the purposes of this report, the Utility has reported its liability under the terms of the installment agreement as 1998 Wastewater Revenue Bonds. Annual interest accrues at varying rates between 3.75% and 5.30%. Interest became payable commencing October 1, 1998, and semi-annually thereafter each October 1st and April 1st. Principal is paid in annual installments commencing October 1, 1998, through the year 2018 in amounts ranging from $25,000 to $55,000. The bonds were repaid in full in FY 2018/19.

2018 Wastewater Revenue Refunding Bonds

In 2018, the City issued $5,000,000 in Certificates of Participation as partial funding to acquire and construct the District's Wastewater Treatment Facility. The Certificates of Participation are secured by an Installment Sale agreement between the City and City of Fort Bragg Joint Powers Financing Authority (JPFA) with the JPFA acting as seller and the City as purchaser. The obligation is secured and payable from net revenues of the Wastewater Enterprise. The outstanding principal balance as of June 30, 2019 was $5,000,000.

Debt service requirements to maturity for bonds payable by the Fort Bragg Municipal Improvement District No. 1 are presented on the following schedule.

Fiscal Year Ended June 30,	Principal	Interest	Total
2020	$ 86,000	$ 99,140	$ 185,140
2021	87,000	97,410	184,410
2022	89,000	95,650	184,650
2023	91,000	93,850	184,850
2024	93,000	92,010	185,010
2025-2058	4,553,999	1,719,940	6,273,939
Total	$ 4,999,999	$ 2,198,000	$ 7,197,999
Due within one year	$ 86,000	$ 99,140	$ 185,140
Due after one year	4,913,999	2,098,860	7,012,859
Total	$ 4,999,999	$ 2,198,000	$ 7,197,999

5. RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utility provides property, liability, and worker's compensation insurance through the Redwood Empire Municipal Insurance Fund (REMIF), a public entity risk pool currently operating as a common risk management and self-insurance program for fifteen Northern California municipalities. The Utility pays quarterly and annual contributions and premiums to REMIF for its general insurance and self-insurance coverage. The joint powers formation agreement of the REMIF provides that the REMIF will self-insure through member contributions and collect premiums for insurance and reinsurance for liability insurance and other coverage.

REMIF is a risk sharing, self-funded pool which is a direct purchase program. The REMIF cost sharing pool provides coverage between the Utility's deductible and $500,000 (liability program) and $1,000,000 (workers' compensation program). Losses in excess of the REMIF cost sharing pool limits are covered by REMIF through the California Joint Powers Risk Management Authority for liability and commercial insurance policies for workers' compensation. Loss limits and deductibles are per occurrence as detailed on the table below. Losses exceeding these limits are the responsibility of the Utility. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

A. General Information about the Pension Plans

***Plan Descriptions* -** All qualified full-time employees are eligible to participate in the Utility's Miscellaneous Plan and PEPRA Miscellaneous Plan (The Plans), agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CaIPERS), 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 Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued

The Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Miscellaneous	PEPRA Miscellaneous
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	55	52 - 67
Monthly benefits, as a % of eligible compensation	1.4% - 2.0%	1.0% to 2.5%
Required employee contribution rates	6.90%	6.50%
Required employer contribution rates	9.64%	7.27%

A. General Information about the Pension Plans, Continued

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 the Plan is determined annually on an actuarial basis as of June 30 by CaIPERS. The actuarially determined rate is based on the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Utility is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2019, the contributions recognized as part of pension expense for the Plan were as follows:

	Miscellaneous
Contributions - employer	$ 130,699

The Utility's average required contribution rate was 8.84% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Utility were $130,699 for the year ended June 30, 2019.

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued

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

As of June 30, 2019, the District reported a net pension liability for its proportionate shares of the net pension liability of the Plans as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$ 920,701
Total Net Pension Liability	$ 920,701

The Utility's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The Utility's proportion of the net pension liability was based on a projection of the Utility's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Utility's proportionate share of the net pension liability for the Plan as of June 30, 2018 was as follows:

	Miscellaneous
Proportion - June 30, 2018	0.11653%
Proportion - June 30, 2019	0.12037%
Change - Increase (Decrease)	0.00384%

For the year ended June 30, 2019, the Utility recognized pension expense of $130,668. At June 30, 2019, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued

	Deferred Outflows of Resources	Deferred Inflow of Resources
Changes in assumptions	$ 89,724	$ 29,803
Differences between expected and actual experiences	30,196	13,928
Net differences between projected and actual investment	3,891	-
Differences between the employer's contributions and the employer's proportionate share of the contributions	22,269	25,735
Change in Employer's Proporation	22,898	-
Pension contributions subsequent to measurement date	78,956	-
Total	$ 247,934	$ 69,466

$78,956 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 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:

Year Ended 30-Jun	
2020	$ 81,235
2021	44,323
2022	(20,062)
2023	(5,984)
Thereafter	-
	$ 99,512

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued

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

	Miscellaneous	PEPRA - Miscellaneous
Valuation Date	30-Jun-17	30-Jun-17
Measurement	30-Jun-18	30-Jun-18
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.625%	2.625%
Projected Salary Increase	Varies by entry age and service	
Mortality	Derived using CalPERS' Membership Data for all Funds	

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of a January 2015 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

All other actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at CalPERS' website under Forms and Publications.

Discount Rate **-** The discount rate used to measure the total pension liability was 7.25 percent. To determine whether the municipal bond rate should be used in the calculation of the 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. The tests revealed the assets would not run out. Therefore, the current 7.25 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 7.25 percent is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. 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 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 (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), 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 PERF fund.

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued

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 equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below 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. The target allocation shown was adopted by the Board effective on July 1, 2014.

The table below 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.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10[1]	Real Return Year 11+[2]
Global Equity	47%	4.90%	5.38%
Global Fixed Income	19%	0.80%	2.27%
Inflation Sensitive	6%	0.60%	1.39%
Private Equity	12%	6.60%	6.63%
Real Estate	11%	2.80%	5.21%
Infrastructure and Forestland	3%	3.90%	5.36%
Liquidity	2%	-0.55%	-0.90%

(1) An expected inflation of 2.5% used for this period.
(2) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for Plan, as well as what the District's proportionate share of the 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%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Miscellaneous	$ 1,462,272	$ 920,701	$ 473,646

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

7. COMMITMENTS AND CONTINGENCIES

The District is subject to litigation arising in the normal course of business. In the opinion of the District's management and legal counsel, there is no pending litigation that is likely to have a material adverse effect on the financial position of the District.

REQUIRED SUPPLEMENTARY INFORMATION

Municipal Improvement District No. 1

Required Supplementary Information - Schedule of Contributions

Miscellaneous Plan

Last 10 Fiscal Years*

	2019	2018	2017
Actuarially determined contribution	$ 394,321	$ 430,051	$ 392,300
Contributions in relation to the actuarially determined contributions	(394,321)	(430,051)	(392,300)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 2,413,488	$ 2,641,425	$ 2,598,675
Contribution as a percentage of covered-employee payroll	16.34%	16.28%	15.10%

Notes to Schedule

1) Covered employee payroll represents compensation earnable and pensionable compensation. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included.

* - At June 30, 2016 CalPERS combined the Miscellaneous Plan and PEPRA Miscellaneous Plan for purposes of calculating net pension liability. Due to the change in methodology, comparisons to prior years 2014 and 2015 have been removed.

Municipal Improvement District No. 1

Required Supplementary Information - Schedule of the Utility's Proportionate Share of the Net Pension Liability

Miscellaneous Plan

Last 10 Fiscal Years*

	2019	2018	2017
Plan's Proportion of the Net Pension Liability/(Asset)	0.12037%	0.11653%	0.11210%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	$ 4,536,264	$ 4,593,661	$ 3,894,091
Plan's Covered-Employee Payroll	$ 2,413,488	$ 2,641,425	$ 2,598,675
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	187.95%	173.91%	149.85%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	74.72%	76.38%	77.82%
Plan's Proportionate Share of Aggregate Employer Contribution	$ 394,321	$ 430,051	$ 392,300

Notes to Schedule

1) Covered employee payroll represents compensation earnable and pensionable compensation. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included.

* - At June 30, 2016 CalPERS combined the Miscellaneous Plan and PEPRA Miscellaneous Plan for purposes of calculating net pension liability. Due to the change in methodology, comparisons to prior years 2014 and 2015 have been removed.

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SUPPLEMENTARY SCHEDULES

Municipal Improvement District No. 1

Schedule of Debt Service Coverage

June 30, 2019 and 2018

In conjunction with the State of California Water Resources Control Board Loan, the Utility has covenanted to fix, prescribe and collect rates and charges for the MID service which will be sufficient to yield during the year net revenues equal to 110% of the debt service paid during the year. For purposes of this calculation, net revenues equals net income plus depreciation and amortization expenses. The debt service requirement for 2019 and 2018 is as follows:

	2019	2018
Operating income	$ 3,277,104	$ 932,004
Add:		
Depreciation and amortization expense	339,621	293,317
MID connection fees	58,147	252,801
Use of money and property	58,578	54,542
Net revenue	$ 3,733,450	$ 1,532,664
Debt service:		
Principal	$ 55,000	$ 55,000
Interest	13,097	5,469
Total debt service	$ 68,097	$ 60,469
Calculated coverage	54.83	25.35

Note: Restricted cash and investments consist of the following amounts:		
Cash with fiscal agents	$ -	$ -
Amounts set aside for future debt repayment	-	-
Total restricted cash and investments	$ -	$ -

JJACPA, Inc.
A Professional Accounting Services Corp.

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 City Council
of the City of Fort Bragg
Fort Bragg, California

We have audited, in accordance with the 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 accompanying financial statements of the Municipal Improvement District No.1 (Utility), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated November 25, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Utility'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 Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control.

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 Utility's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Utility's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Utility'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 Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

JJACPA, Inc.

November 25, 2019

JJACPA, Inc.
Dublin, CA