



AGENCY: City Council
MEETING DATE: February 13, 2023
DEPARTMENT: Finance
PRESENTED BY: Isaac Whippy
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AGENDA ITEM SUMMARY

TITLE:

Receive Presentation on the Annual Comprehensive Financial Report (ACFR) for the Year Ending June 30, 2022, for the City of Fort Bragg and Consider Accepting the ACFR as Presented

ISSUE:

As required by State and federal law, an independent audit of the City's financial records must be performed on an annual basis. The financial records include those of the City of Fort Bragg ("City") and its component unit, the Fort Bragg Municipal Improvement District No. 1 ("District").

JJACPA, Inc., an independent audit firm, has performed and completed an audit review for the City and District. Copies of the reports will be forwarded to all federal, state, and banking entities as necessary.

The quality of the City's financial reporting and the ACFR are measured in two ways: (1) an unmodified audit report by the independent auditors; and (2) the Certificate of Achievement for Excellence in Financial Reporting, awarded by the Government Finance Officers Association (GFOA). The attainment of the latter is the highest form of recognition in governmental accounting and financial reporting.

Auditors follow audit industry standards established by the American Institute of Certified Public Accountants (AICPA). These standards require auditors to provide an opinion on specific areas of the City's financial statements based on observations, inquiries, testing of transactions, and analysis.

The City's ACFR includes the following major sections and information:

Introductory Section

- Letter of Transmittal – prepared by management and used to communicate information on areas that may impact the City's finances now and in the future. This includes economic factors as well as budget and management factors.

Financial Section (the main body of the ACFR for current-year information)

- Independent Auditors' Report – the City's report card on the content of the ACFR
- Management's Discussion and Analysis (MD&A) – provides an analytical overview of the City's financial status and results for the year
- Basic Financial Statements – reports finances at a point in time (assets - liabilities) and throughout the year (revenues - expenditures) and cash flows
- City-Wide Statements – overview of financial information, including all of the City's operations by the financial activity
- Fund Financial Statements – a detailed look at funds, reporting the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance
- Notes to the Financial Statements (Notes) – a narrative explanation accompanies the Basic Financial Statements

Required Supplementary Information Sections

- Budget to Actual Comparisons – for all governmental funds with a legally adopted budget
- Notes to Required Supplementary Information
- Pension Information – schedule of changes in the net pension liability and related ratios; schedule of contributions by plan
- OPEB Information – schedule of changes in the net Other Post-Employment Benefits (OPEB) liability and related ratios; schedule of contributions
- A breakout of individual non-major funds – for funds that were presented cumulatively in the Financial Section

Statistical Section (current and historical information – up to 10 years)

- Financial Trends
- Revenue Capacity Information
- Debt Capacity Information
- Demographic and Economic Information
- Operating Information

The ACFR communicates the City's financial condition and activity in a transparent and organized manner and in compliance with accounting and financial reporting standards established by the Governmental Accounting Standards Board (GASB). The report presents historical and comparative information useful to City staff, elected officials, and external users such as debt rating agencies, businesses, other public agencies, and the City's residents. The most recent ACFR and over ten years of prior year reports are available at the Library, the City's Finance Department, and on the City's Finance website at: <https://city.fortbragg.com/208/Publications>

Discussion

The attached ACFR for FY 2021/22 has received an unmodified opinion from JJACPA. An unmodified opinion communicates that the financial statements are fairly presented and that the information used in the report is reliable. In their written communications to Council, the auditors note that they encountered no significant difficulties with management performing or completing the audit.

Statement on Auditing Standards (SAS) 114 establishes standards for the auditors' communication with those charged with governance. SAS 115 provides guidance on communicating matters related to the City's internal controls over financial reporting that have been identified in an audit of the financial statements. These statements require the auditors to consider and report on internal controls, significant audit findings, and other matters as prescribed in the standards related to the audit of the financial statements. The letters that satisfy the SAS requirements are attached to this report.

Furthermore, the City of Fort Bragg received the Certificate of Achievement for Excellence in Financial Reporting award from the Government Finance Officers Association (GFOA) for FY 2020/21 financial statements.

Below are some of the financial highlights for the Fiscal Year 2021-22.

- The City's Net Position increased by \$4 million (assets and deferred outflows of resources of the City exceed its liabilities and deferred inflows of resources) to \$103 million as of June 30, 2022.
- The Net Position for governmental activities ended the year at \$41.4 million, while the net position for business activities was \$61.7 million. Of the \$41.4 million in total governmental

net position, a negative \$4 million was characterized as an unrestricted net position. In FY 2016, GASB 68 required all cities to recognize their pension liability as a deficit in unrestricted net position on their financial statements. The unrestricted position is now \$5.3 million due to restructuring the City's UAL with CALPERS.

- General Fund revenues continued their strong performance from a year ago. Transient Occupancy Tax (TOT) recorded its best year to date at \$3.4 million and Sales Tax at \$3.2 million.
- General Fund expenditures were \$10.3 million, \$283k below budget estimates. The positive variance resulted from cost savings, particularly personnel costs, insurance, and retiree medical costs.
- The City's General Fund recorded a surplus for FY 2021/22, and the fund balance improved by \$910,288.
- The City's governmental funds reported a combined fund balance of \$8.6 million. Committed balances include an Operating Reserve of \$1.9 million, a Recession Reserve of \$489,929, a Litigation Reserve of \$200,000, and \$3.5 million of restricted funds. The unassigned fund balance increased to \$2.4 million.
- The Water enterprise Net Position increased by \$3 million (16%), the Wastewater enterprise Net Position decreased by \$385k, and the C.V. Starr Center Net Position also decreased by \$323k. The most significant draw on C.V. Starr Center Net Position is the non-cash item depreciation.
- Total liabilities increased by \$5.3 million to \$28.7 million during the fiscal year.

RECOMMENDED ACTION:

Accept, by motion, the Annual Comprehensive Financial Report as presented.

ALTERNATIVE ACTION(S):

None.

ANALYSIS:

The Independent Auditor's Report (pages 1-2) and highlights of Management's Discussion and Analysis (pages 3-19) of the ACFR will be presented.

FISCAL IMPACT:

There is no fiscal impact with the presentation of this item.

IMPLEMENTATION/TIMEFRAMES:

Not applicable.

ATTACHMENTS:

1. City of Fort Bragg Annual Comprehensive Financial Report, together with Independent Auditors' Report for the Year Ended June 30, 2022
2. Auditor's Communication Letter 2022
3. Representation Letter 2022
4. Municipal Improvement District No. 1 Financial Statements

NOTIFICATION:

1. Joseph Arch, Brett Jones – JJACPA, Inc.