



AGENCY: City Council
MEETING DATE: February 12, 2024
DEPARTMENT: Finance
PRESENTED BY: Isaac Whippy
EMAIL ADDRESS: iwhippy@fortbragg.com

AGENDA ITEM SUMMARY

TITLE:

RECEIVE PRESENTATION ON THE ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR) FOR THE YEAR ENDED JUNE 30, 2023, 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 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.

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- 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 and 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 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 2022/23 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 (GFOA) for FY 21/22 financial statements.

Below are some of the financial highlights for the Fiscal Year 2022-23.

- The City's Net Position increased by \$1.9 million (assets and deferred outflows of resources of the City exceed its liabilities and deferred inflows of resources) to \$105 million as of June 30, 2023.
- The Net position for governmental activities ended the year at \$44.8 million, while the net position for business activities was \$60.2 million. Of the \$44.8 million in total governmental net position, a negative \$3.7 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.
- Although the General Fund exhibited robust revenue performance in FY 21/22, FY 22/23 saw a decline in revenues. Specifically, there was a 7% decrease in Transient Occupancy Tax (TOT), a 3% decrease in Sales Tax revenue, and a 1.5% decrease in Property Tax revenue.

On the other hand, Enterprise revenues for Water and Wastewater remained consistent with the previous year. Additionally, CV Starr experienced a notable increase of \$600k in revenue since its reopening in 2021.

- General Fund expenditures were \$10.5 million (excluding \$3.5 million return of 2021 Lease Revenue Bonds), \$811k below budget estimates. The positive variance resulted from cost savings, particularly personnel costs, insurance, and retiree medical costs offset by increases in indirect costs paid to Enterprise funds and Internal Service Funds.
- The City's General Fund recorded a \$1.3 million surplus for FY 2023, and the fund balance ended the year at \$5.9 million, a decrease of \$1.04 million.
- The City's combined fund balance in its governmental funds stands at \$5.9 million, which comprises various committed balances. These committed balances include:
 - Operating Reserve: A total of \$1.9 million is allocated to the Operating Reserve.
 - Recession Reserve: \$489,929 has been set aside for the Recession Reserve.
 - Litigation Reserve: holds \$200,000.

Additionally, \$3.5 million (Debt) from restricted funds were returned. Notably, the unassigned fund balance experienced a decrease of \$2.6 million. Of this amount, \$1.6 million has been invested in a Section 115 Trust. This investment serves as a buffer against potential future volatility with CalPERS.

- The City's governmental funds combined fund balance of \$5.9 million consists of Committed balances including an Operating Reserve of \$1.9 million, a Recession Reserve of \$489,929, and a Litigation Reserve of \$200,000 with a return of \$3.5 million of restricted funds. The unassigned fund balance decreased by \$2.6 million

with \$1.6 million invested in a Section 115 Trust to offset future volatility with CalPERS.

- The Water enterprise Net Position increased by \$78k, the Wastewater enterprise Net Position decreased by \$1.1 million, and the C.V. Starr Center Net Position also decreased by \$399k. The most significant draw on C.V. Starr Center's and Wastewater enterprise Net Position is the non-cash item depreciation.
- Total liabilities decreased by \$4.3 million to \$24.4 million during the fiscal year.

RECOMMENDED ACTION:

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

ALTERNATIVE ACTION(S):

Request for additional information.

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, 2023
2. Representation Letter 2023
3. City of Fort Bragg Communication Letter
4. City of Fort Bragg Single Audit Reports

NOTIFICATION:

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