

**MUNICIPAL IMPROVEMENT DISTRICT NO.1**

**BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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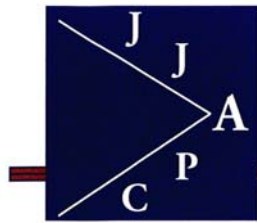
**Municipal Improvement District No.1**  
**Basic Financial Statements**  
**For the year ended June 30, 2017**

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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, 2017, 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, 2017, 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.

## ***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 December 29, 2017 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.

December 29, 2017

*JJACPA, Inc.*  
**JJACPA, Inc.**  
**Dublin, CA**

# **Municipal Improvement District No.1**

## **Financial Statements**

### **For the year ended June 30, 2017**

#### **Management's Discussion and Analysis**

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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, 2017. 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, 2017, the Utility's net position increased to \$10.5M from \$8.2M in 2016 or \$2.3M (28%) as can be seen on page 4.
- Operating revenues were essentially flat year over year with a \$27k decrease. Non-operating revenues increased by \$563k primarily due to The City of Fort Bragg's new cost allocation plan and the proportionate equity transfer of shared facilities from the General Fund to the MID.
- Operating expenses decreased year over year by \$51k (1.8 %) as MID staff continues to hold expenses from increasing.

#### **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.

**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Management's Discussion and Analysis, Continued**

**Financial Analysis of the Utility as a Whole**

<b>Net Position</b>			
<b>As of June 30, 2017 and 2016</b>			
	<b>2017</b>	<b>2016</b>	<b>Increase (Decrease)</b>
<b>Assets:</b>			
Current assets	\$3,963,390	\$1,915,482	\$2,047,908
Non-current assets	7,465,937	7,394,588	71,349
<b>Total assets</b>	<b>11,429,327</b>	<b>9,310,070</b>	<b>2,119,257</b>
<b>Deferred outflows</b>	<b>296,691</b>	<b>189,455</b>	<b>107,236</b>
<b>Liabilities:</b>			
Current liabilities	136,330	212,186	(75,856)
Non-current liabilities	927,445	789,695	137,750
<b>Total liabilities</b>	<b>1,063,775</b>	<b>1,001,881</b>	<b>61,894</b>
<b>Deferred inflows</b>	<b>195,123</b>	<b>294,359</b>	<b>(99,236)</b>
<b>Net position:</b>			
Net investment in capital assets	7,410,937	7,234,588	176,349
Unrestricted	3,056,183	968,697	2,087,486
<b>Total net position</b>	<b>\$10,467,120</b>	<b>\$8,203,285</b>	<b>\$(241,693)</b>

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 \$10.5M at June 30, 2017. As can be seen from the table above, Net position at June 30, 2017, increased \$2.3M (28 %) over the prior year. The increase is attributable to an increase in cash resulting from the City of Fort Bragg's new cost allocation plan and the correction of prior year over allocations from the City to the MID.



**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Management's Discussion and Analysis, Continued**

**Financial Analysis of the Utility as a Whole, Continued**

**Statement of Revenues, Expenses and Changes in Net Position**  
**For the years ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
<b>Operating revenues</b>	\$3,305,285	\$3,332,332	\$(27,047)
<b>Operating expenses</b>	<u>2,834,450</u>	<u>2,885,852</u>	<u>(51,402)</u>
<b>Operating income</b>	470,835	446,480	24,355
<b>Non-operating revenues</b>	654,306	91,378	562,928
<b>Non-operating expenses</b>	<u>(12,776)</u>	<u>(11,627)</u>	<u>1,149</u>
<b>Net income before transfers</b>	641,530	79,751	561,779
<b>Transfers</b>	<u>1,151,470</u>	<u>(10,347)</u>	<u>(1,161,817)</u>
<b>Net income</b>	2,263,835	515,884	1,747,951
<b>Net position:</b>			
Beginning	8,203,285	7,687,401	515,884
End of year	<u><u>\$10,467,120</u></u>	<u><u>\$8,203,285</u></u>	<u><u>\$2,263,835</u></u>

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 decreased \$27k or less than 1% 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's rate increase scheduled for 2017 was suspended in 2017 pending the final analysis regarding prior year over allocations from the City to the MID. Rate increase were resumed subsequently in FY 2017-18.

**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

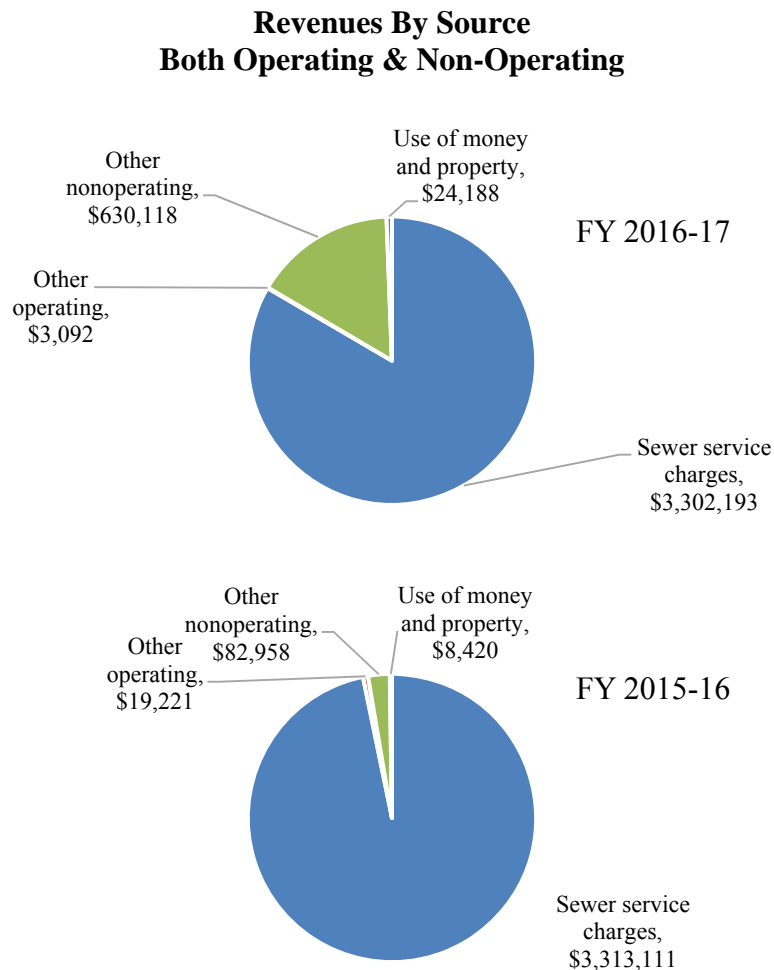
**Management's Discussion and Analysis, Continued**

**Financial Analysis of the Utility as a Whole, Continued**

Other non-operating revenues increased by \$547k primarily due to The City of Fort Bragg's new cost allocation plan and the proportionate equity transfer of shared facilities from the General Fund to the MID.

FY 2016-2017			FY 2015-2016			Increase (Decrease)
\$ 3,302,193	83.4%	<b>Sewer Service Charges</b>	\$ 3,313,111	83.7%	\$ (10,918)	
3,092	0.1%	<b>Other Operating</b>	19,221	0.5%	(16,129)	
630,118	15.9%	<b>Other nonoperating</b>	82,958	2.1%	547,160	
24,188	0.6%	<b>Use of Money and Property</b>	8,420	0.2%	15,768	
<u>\$ 3,959,591</u>	<u>100.0%</u>	<b>Totals</b>	<u>\$ 3,423,710</u>	<u>100.0%</u>	<u>\$ 535,881</u>	

The following is a graphic illustration of revenues by source:



**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Management's Discussion and Analysis, Continued**

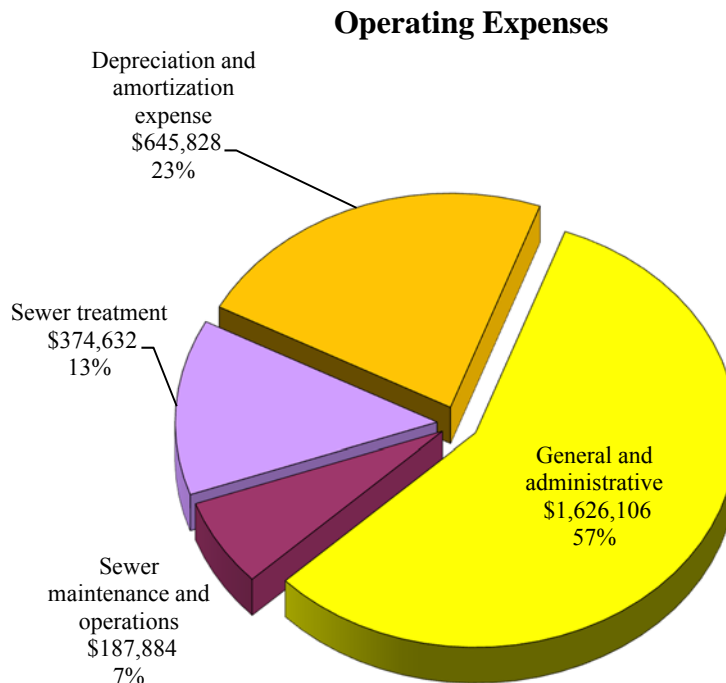
**Financial Analysis of the Utility as a Whole, Continued**

Operating expenses (not including depreciation) decreased \$51k or 1.8% year over year. Decreases were primarily decreases in the amount of non-personnel overhead allocated to the MID from the City's General Fund as well as a decrease in the costs in the Wastewater Treatment division.

**Operating Expenses**  
**For the years ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
<b>Operating expenses:</b>				
General and administrative	\$ 1,626,106	\$ 2,017,846	\$ (391,740)	(19.4)%
Sewer maintenance and operations	187,884	154,726	33,158	21.4%
Sewer treatment	374,632	395,495	(20,863)	(5.3)%
Depreciation and amortization expense	645,828	317,785	328,043	103.2%
<b>Total</b>	<u>\$ 2,834,450</u>	<u>\$ 2,885,852</u>	<u>\$ (51,402)</u>	<u>(1.8)%</u>

The following is a graphic illustration of operating expenses:



**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Management's Discussion and Analysis, Continued**

**Financial Analysis of the Utility as a Whole, Continued**

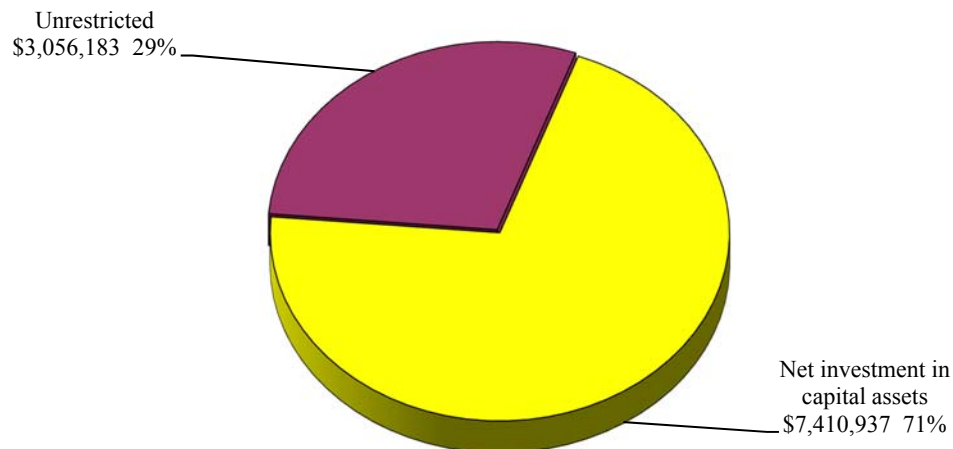
**Analysis of Net Position**  
**As of June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
<b>Net position:</b>				
Net investment in capital assets	\$7,410,937	\$7,234,588	\$176,349	(1.4)%
Unrestricted	<u>3,056,183</u>	<u>968,697</u>	<u>2,087,486</u>	<u>(14.7)%</u>
<b>Total</b>	<u><u>\$10,467,120</u></u>	<u><u>\$7,687,401</u></u>	<u><u>\$2,779,719</u></u>	<u><u>(3.0)%</u></u>

The annual change in Net position is an increase of \$2.3M, attributable to an increase in cash resulting from the City of Fort Bragg's new cost allocation plan and the correction of prior year over allocations from the City to the MID. 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. Net investment in capital assets as well as unrestricted net position increased year over year.

The following is a graphic illustration of Net Position:

**Analysis of \$10,467,120 in Net Position**



**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Management's Discussion and Analysis, Continued**

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**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 in the next five to seven years. Increased pension costs will 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. The plant will be upgraded beginning in FY17-18 with a project cost of over \$15M. The District has funded the upgrade project with a combination of grants (\$8.3M), loans (\$5M) and a contribution from the District (\$2.2M).

**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](http://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, 2017

	<u>2017</u>
<b>ASSETS</b>	
Current assets:	
Cash equivalents and investments - pooled	\$ 3,615,944
Accounts receivable	340,171
Prepaid items	86
Inventory	7,189
Total current assets	<u>3,963,390</u>
Non-current assets:	
Property, plant and equipment:	
Non-depreciable	836,937
Depreciable (net of accumulated depreciation)	<u>6,629,000</u>
Net property, plant and equipment	<u>7,465,937</u>
<b>Total assets</b>	<u>11,429,327</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension plan	<u>296,691</u>
<b>Total assets and deferred outflows of resources</b>	<u>11,726,018</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 55,895
Accrued payroll and benefits	11,937
Interest payable	1,457
Unearned revenue	6,376
Compensated absences - current portion	5,665
Current portion of long-term liabilities	<u>55,000</u>
Total current liabilities	<u>136,330</u>
Non-current liabilities:	
Compensated absences	71,033
Due after one year	55,000
Net pension liability	<u>801,412</u>
Total non-current liabilities	<u>927,445</u>
<b>Total liabilities</b>	<u>1,063,775</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension plan	<u>195,123</u>
<b>Total deferred outflows of resources</b>	<u>195,123</u>
Net position:	
Net investment in capital assets	7,410,937
Unrestricted (deficit)	<u>3,056,183</u>
<b>Total net position</b>	<u>10,467,120</u>
<b>Total liabilities, deferred inflows and net position</b>	<u>\$ 11,726,018</u>

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, 2017**

	<u>2017</u>
<b>OPERATING REVENUES:</b>	
Charges for services:	
Sewer service charges	\$ 3,302,193
Other	<u>3,092</u>
<b>Total operating revenues</b>	<u>3,305,285</u>
<b>OPERATING EXPENSES:</b>	
General and administrative	1,626,106
Sewer maintenance and operations	187,884
Sewer treatment	374,632
Depreciation and amortization expense	<u>645,828</u>
<b>Total operating expenses</b>	<u>2,834,450</u>
<b>OPERATING INCOME</b>	<u>470,835</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>	
Contributed capital	579,331
Other nonoperating revenues	50,787
Use of money and property	24,188
Bad debt expense	(3,709)
Interest and debt service expenses	<u>(9,067)</u>
<b>Total non-operating revenues (expenses)</b>	<u>641,530</u>
Transfers from(to) City of Fort Bragg	<u>1,151,470</u>
<b>Net income before capital contributions</b>	<u>2,263,835</u>
<b>Net income</b>	2,263,835
<b>NET POSITION:</b>	
Net position - beginning	<u>8,203,285</u>
Net Position - ending	<u><u>\$ 10,467,120</u></u>

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, 2017

	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers	\$ 3,362,534
Payments to vendors for services and supplies	(1,071,675)
Payments to City of Fort Bragg employees for salaries and benefits	(1,209,381)
<b>Net cash provided(used) by operating activities</b>	<b>1,081,478</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>	
Receipts from (to) the City of Fort Bragg	1,151,469
<b>Net cash provided by non-capital financing activities</b>	<b>1,151,469</b>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition and construction of capital assets	(137,846)
Principal payments on long-term debt	(50,000)
Interest and fees paid on long-term financing	(9,730)
<b>Net cash used by capital and related financing activities</b>	<b>(197,576)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Investment income received	24,188
<b>Net increase(decrease) in cash</b>	<b>2,059,559</b>
<b>CASH AND INVESTMENTS:</b>	
Beginning of year	1,555,118
End of year	<u><u>\$ 3,614,677</u></u>
<b>PRESENTATION IN STATEMENT OF NET POSITION:</b>	
Cash equivalents and investments-pooled	\$ 3,615,944
Restricted cash and investments	-
<b>Total</b>	<u><u>\$ 3,615,944</u></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income	\$ 470,835
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation and amortization	645,828
Pension	(28,105)
Bad debt	(3,709)
Changes in current assets and liabilities:	
Accounts receivable	10,171
Inventory	1,482
Accounts payable	(81,428)
Accrued payroll and benefits	1,863
Unearned revenue	50,787
Compensated absences	13,754
<b>Net cash provided(used) by operating activities</b>	<u><u>\$ 1,081,478</u></u>

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

**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Notes to Basic Financial Statements**

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**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, 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.

**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Notes to Basic Financial Statements, Continued**

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**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.

**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Notes to Basic Financial Statements, Continued**

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**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.

**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Notes to Basic Financial Statements, Continued**

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**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, 2017, approximated fair value of \$3,615,944

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 53601 & 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

**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Notes to Basic Financial Statements, Continued**

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**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, 2017, 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, 2017, LAIF had invested 2.89% of its pooled assets in structured notes and asset-backed securities and similar transactions.

**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Notes to Basic Financial Statements, Continued**

**3. CAPITAL ASSETS**

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

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Land	\$69,000	\$-	\$-	\$69,000
Construction in progress	764,292	137,846	(134,202)	767,936
Total nondepreciable assets	833,292	137,846	(134,202)	836,936
Buildings	3,453,693	579,331	-	4,033,024
Machinery, equipment and vehicles	1,971,867	96,267	(20,636)	2,047,498
Infrastructure	8,834,523	37,935	-	8,872,458
Total depreciable property, at cost	14,260,083	713,533	(20,636)	14,952,980
Less accumulated depreciation				
Buildings	(1,819,625)	(61,928)	(325,991)	(2,207,544)
Machinery, equipment and vehicles	(1,417,262)	(59,838)	20,636	(1,456,464)
Infrastructure	(4,461,900)	(198,071)	-	(4,659,971)
Total accumulated depreciation	(7,698,787)	(319,837)	(305,355)	(8,323,979)
Total depreciable property, net	6,561,296	393,696	(325,991)	6,629,001
Total capital assets, net	\$7,394,588	\$531,542	\$(460,193)	\$7,465,937

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, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year
Bonds payable:					
1998 Revenue Bond	\$ 160,000	\$ -	\$ (50,000)	\$ 110,000	\$ 55,000
Compensated absences	62,944	13,754	-	76,698	5,665
Net pension liability	623,045	178,367	-	801,412	-
Total	\$ 845,989	\$ 192,121	\$ (50,000)	\$ 988,110	\$ 60,665

**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.



**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Notes to Basic Financial Statements, Continued**

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**4. NON-CURRENT LIABILITIES, Continued**

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.

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
2018	\$ 55,000	\$ 4,372	\$ 59,372
2019	55,000	1,418	56,418
	<u>\$ 110,000</u>	<u>\$ 5,790</u>	<u>\$ 115,790</u>

**5. RISK MANAGEMENT**

The District 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 disaster. The District provides for property and liability insurance as a component unit of the City of Fort Bragg, which is a member of the Redwood Empire Municipal Insurance Fund (REMIF), a public entity risk pool currently operating as a common risk management and insurance program for several Northern California municipalities. The joint powers formation agreement of REMIF provides that REMIF will be self-sustaining through member premiums for liability insurance and will reinsure through commercial companies for other coverage.

The District's deductible is \$5,000 for property and liability loss, all per occurrence. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Notes to Basic Financial Statements, Continued**

**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 (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 Plan's provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous	PEPRA Miscellaneous
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
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	6.89%	6.50%
Required employer contribution rates	9.06%	6.93%

**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Notes to Basic Financial Statements, Continued**

**7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued**

**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 CalPERS. 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, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

	Miscellaneous
Contributions - employer	\$ 76,224

The Utility's average required contribution rate was 8.844% 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 \$76,224 for the year ended June 30, 2017.

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

As of June 30, 2017, 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	\$ 801,412
Total Net Pension Liability	\$ 801,412

**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Notes to Basic Financial Statements, Continued**

**7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued**

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, 2015, 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, 2015 rolled forward to June 30, 2016 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, 2016 was as follows:

	Miscellaneous
Proportion - June 30, 2015	0.10641%
Proportion - June 30, 2016	0.11210%
Change - Increase (Decrease)	0.00569%

For the year ended June 30, 2017, the Utility recognized pension expense of \$48,556. At June 30, 2017, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflow of Resources
Pension contributions subsequent to measurement date	\$ 76,224	\$ -
Adjustments due to differences in proportion	-	10,188
Changes in assumptions	-	33,256
Differences between the employer's contributions and the employer's proportionate share of the contributions	-	76,520
Differences between expected and actual experiences	-	3,980
Net differences between projected and actual earnings on plan investments	220,467	71,179
Total	\$ 296,691	\$ 195,123

\$71,243 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, 2017.

**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Notes to Basic Financial Statements, Continued**

**7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued**

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	
2016	\$ 26,500
2017	26,500
2018	16,290
2019	(64,330)
2020	(30,304)
Thereafter	-

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

	Miscellaneous	PEPRA - Miscellaneous
Valuation Date	30-Jun-14	30-Jun-14
Measurement	30-Jun-15	30-Jun-15
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3%	3%
Projected Salary Increase	3.3% - 14.2% (1)	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)	7.5% (2)
Mortality	Derived using CalPERS' Membership Data for all Funds	

(1) Depending on age, service, and type of employment

(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Notes to Basic Financial Statements, Continued**

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**7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued**

**Discount Rate** -The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the 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, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound 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.

**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Notes to Basic Financial Statements, Continued**

**7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued**

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 <sup>1</sup>	Real Return Year 11+ <sup>2</sup>
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.83%	6.95%
Real Estate	11%	4.50%	5.13%
Infrastructure and Forestland	3%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%

(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 (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Miscellaneous	\$ 1,248,579	\$ 801,412	\$ 431,851
Net Pension Liability as of June 30, 2016	\$ 1,248,579	\$ 801,412	\$ 431,851

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

**Municipal Improvement District No.1**  
**Financial Statements**  
**For the year ended June 30, 2017**

**Notes to Basic Financial Statements, Continued**

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**8. 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\*

	<b>2016</b>
Actuarially determined contribution	\$ 392,300
Contributions in relation to the actuarially determined contributions	<u>(392,300)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 2,598,675
Contribution as a percentage of covered-employee payroll	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\*

	<b>2016</b>
Plan's Proportion of the Net Pension Liability/(Asset)	0.11210%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$ 3,894,091
Plan's Covered-Employee Payroll	\$ 2,598,675
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	149.85%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	77.82%
Plan's Proportionate Share of Aggregate Employer Contribution	\$ 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, 2017 and 2016

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 2017 and 2016 is as follows:

	2017	2016
Operating income	\$ 470,835	\$ 446,481
Add:		
Depreciation and amortization expense	645,828	317,785
MID connection fees	50,787	82,957
Use of money and property	24,188	8,420
Net revenue	<u>\$ 1,191,638</u>	<u>\$ 855,643</u>
Debt service:		
Principal	\$ 50,000	\$ 50,000
Interest	9,730	12,289
Total debt service	<u>\$ 59,730</u>	<u>\$ 62,289</u>
Calculated coverage	<u>19.95</u>	<u>13.74</u>
<b>Note: Restricted cash and investments consist of the following amounts:</b>		
Cash with fiscal agents	\$ -	\$ -
Amounts set aside for future debt repayment	-	-
<b>Total restricted cash and investments</b>	<u>\$ -</u>	<u>\$ -</u>



JJACPA, Inc.

A Professional Accounting Services Corp.

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**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, 2017, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated December 29, 2017.

**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.

## **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.

December 29, 2017

*JJACPA, Inc.*

**JJACPA, Inc.**  
**Dublin, CA**