

CITY OF ARCATA, CALIFORNIA
Transportation Development Act
Article 8 Funds
Financial Statements
Fiscal Year Ended June 30, 2025

CITY OF ARCATA, CALIFORNIA

**Transportation Development Act
Article 8 Funds**

Financial Statements

Fiscal Year Ended June 30, 2025

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Humboldt County Association of Governments
Eureka, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Transportation Development Act ("TDA") Article 8 Funds ("TDA Funds") of the City of Arcata California ("City") as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the TDA Funds as of June 30, 2025, and the respective changes in financial position, and cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the TDA Funds of the City and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2025, the changes in its financial position, for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Additionally, the financial statements for the TDA Fund year ended June 30, 2025 reflect prior period restatements as described further in Note 12 due to the allocation of Other Post Employment Benefits (OPEB). Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

The financial statements of the TDA Funds for the year ended June 30, 2024 were audited by other auditors whose report dated March 24, 2025 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and pension and OPEB schedules* be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinions are not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the TDA Funds of the City. The *Schedule of Revenues, Expenses and Change in Net Position – Budget and Actual – Article 8 – Transit Fund* listed as Supplementary Information in the Table of Contents, is presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Board of Directors
Humboldt County Association of Governments
Eureka, California

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2026 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Davis Lane" followed by a stylized flourish.

Irvine, California
March 27, 2026

CITY OF ARCATA, CALIFORNIA
Transportation Development Act
Article 8 - Transit

Statement of Net Position

June 30, 2025
(with Comparative Information for the Prior Year)

	TDA Article 4	
	2025	2024
Assets and Deferred Outflows of Resources:		
Current assets:		
Cash	\$ -	208,751
Due from other governments (note 3)	1,024,565	302,560
Total current assets	1,024,565	511,311
Noncurrent assets:		
Depreciable capital assets, net (note 4)	2,520,582	2,834,777
Total noncurrent assets	2,520,582	2,834,777
Total assets	3,545,147	3,346,088
Deferred outflows of resources		
Pension (note 7)	237,176	262,460
OPEB (note 8)	51,169	-
Total deferred outflows of resources	288,345	262,460
Liabilities, Deferred Inflows of Resources, and Net Position:		
Current liabilities:		
Accounts payable	278,701	135,055
Accrued payroll and benefits	4,171	11,127
Due to City of Arcata	362,731	-
Due to other governments	223,380	-
Total current liabilities	868,983	146,182
Other liabilities:		
Net pension liability (note 7)	685,273	726,156
OPEB liability (note 8)	135,239	-
Total liabilities	1,689,495	872,338
Deferred inflows of resources		
Pension (note 7)	55,131	61,124
OPEB (note 8)	38,057	-
Total deferred inflows of resources	93,188	61,124
Net position:		
Investment in capital asset	2,520,582	2,834,777
Unrestricted	(469,773)	(159,691)
Total net position	\$ 2,050,809	2,675,086

See notes to financial statements

CITY OF ARCATA, CALIFORNIA
Transportation Development Act
Article 8 - Transit Fund

Statement of Revenues, Expenses and Changes in Net Position

Fiscal Year Ended June 30, 2025
(with Comparative Information for the Prior Year)

	TDA Article 4	
	2025	2024
Operating Revenues:		
Passenger fares	\$ 114,131	59,853
Special transit fares - HSU	619,942	480,952
Dial-A-Ride/Dial-A-Lift ticket sales	4,068	48
Other revenue	3,006	263
Greyhound program (net)	-	(3,538)
Total operating revenues	741,147	537,578
Operating Expenses:		
Labor and benefits	121,870	159,209
Services and overhead	291,187	52,568
Materials and supplies	43	17,221
Insurance	63,526	73,849
Repairs and maintenance	10,629	20,172
Vehicle maintenance & fuel	915,066	798,052
Depreciation	314,195	338,793
Dial-A-Lift expenses	5,759	6,067
Total expenses	1,722,275	1,465,931
Operating income (loss)	(981,128)	(928,353)
Nonoperating Revenues (Expenses):		
Operating grant (LTF)	718,162	758,750
Operating grant (STAF)	129,623	250,000
LCTOP grant	-	28,712
SCR grant	-	43,484
Interest income, net	6,354	12,241
HTA/RTS assessment	(281,527)	(255,980)
DAR/DAL operating assessment	(97,605)	(89,174)
Total nonoperating revenue (expenses)	475,007	748,033
Change in net position	(506,121)	(180,320)
Net position at beginning of year, as previously reported (note 12)	2,675,086	2,855,406
Correction of error	(118,156)	-
Net position at beginning of year, as restated	2,556,930	2,855,406
Net position at end of year	\$ 2,050,809	2,675,086

See notes to financial statements

CITY OF ARCATA, CALIFORNIA
Transportation Development Act
Article 8 - Transit Fund

Statement of Cash Flows

Fiscal Year Ended June 30, 2025
(with Comparative Information for the Prior Year)

	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Receipts from customers	\$ 741,147	378,591
Payments to employees	(146,447)	(159,209)
Payments to suppliers	<u>(1,158,965)</u>	<u>(1,223,328)</u>
Net cash provided by (used for) operating activities	<u>(564,265)</u>	<u>(1,003,946)</u>
Cash flows from noncapital financing activities:		
Receipts from operating grants	-	250,000
Receipts from other governments	<u>349,160</u>	<u>987,140</u>
Net cash provided by (used for) noncapital financing activities	<u>349,160</u>	<u>1,237,140</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	-	<u>(36,884)</u>
Net cash provided by (used for) capital and related financing activities	-	<u>(36,884)</u>
Cash flows from investing activities:		
Interest on investments	<u>6,354</u>	<u>12,241</u>
Net cash provided by (used for) investing activities	<u>6,354</u>	<u>12,241</u>
Net increase (decrease) in cash and cash equivalents	(208,751)	208,551
Cash and cash equivalents, beginning of year	<u>208,751</u>	<u>200</u>
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>208,751</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (981,128)	(928,353)
Depreciation	314,195	338,793
Nonoperating revenue (expenses)	(379,132)	(345,154)
Changes in assets, deferred outflow of resources, liabilities and deferred inflow of resources:		
(Increase)/decrease in deferred outflows of resources - pension	25,284	6,140
(Increase)/decrease in deferred outflows of resources - OPEB	1,616	-
Increase/(decrease) in accounts payable and other liabilities	136,690	(65,555)
Increase/(decrease) in due to City of Arcata	362,731	-
Increase/(decrease) in net pension liability	(40,883)	(14,063)
Increase/(decrease) in OPEB liability	(10,229)	-
Increase/(decrease) in deferred inflows of resources - pension	(5,993)	4,246
Increase/(decrease) in deferred inflows of resources - OPEB	<u>12,584</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ (564,265)</u>	<u>(1,003,946)</u>

There were no noncash investing, capital and financing activities during the fiscal years ended June 30, 2025 or 2024.

See notes to the financial statements.

CITY OF ARCATA, CALIFORNIA

**Transportation Development Act
Article 8 Funds**

Notes to Financial Statements

Fiscal Year Ended June 30, 2025

(1) General Information

The financial statements of the Transportation Development Act (TDA) Article 8 Funds Activity are intended to present the financial position and changes in financial position of only those transactions attributable to the TDA Funds administered and disbursed by the City of Arcata, California and do not purport to, and do not, present fairly the financial position of the City, the changes in its financial position in accordance with accounting principles generally accepted in the United States of America.

Pursuant to §99400 of the California Public Utilities Code, Article 8 monies may be used for local streets and roads, pedestrian and bicycle projects, passenger rail services, capital improvements, contracted public support transportation services, and other transit-related purposes as determined by the Humboldt County Association of Governments (HCAOG). Eligible uses include street maintenance, payments to transit operators under contract, administrative and planning costs, and certain vehicle or equipment acquisitions. Funding for this program was authorized by the Humboldt County Association of Governments (HCAOG).

(2) Summary of Significant Accounting Policies

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, obligations, reserves and equity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The TDA Article 8 – Transit Fund is accounted for as an Enterprise Fund and accounts for the various transit activities provided by the City.

Measurement Focus and Basis of Accounting

Enterprise funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses when they are incurred, regardless of the timing of related cash flows. The 60-day availability rule does not apply to Enterprise Funds.

Revenue Recognition

Recognition of revenues arising from nonexchange transactions, which include revenues from taxes, certain grants and contributions, is based on the primary characteristic from which the revenues are received by the City. For the City, TDA funds received under TDA Article 8 possess the characteristic of a voluntary nonexchange transaction similar to a grant. Revenues under TDA Article 8 are recognized in the period when all eligibility requirements have been met.

CITY OF ARCATA, CALIFORNIA

**Transportation Development Act
Article 8 Funds**

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Deferred Outflows and Inflows of Resources

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of fund balance that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure) until that time. The TDA Article 8 – Transit Fund has two items that qualify for reporting in this category. This is the deferred outflows related to pension and OPEB.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of fund balance that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The TDA Article 8 – Transit Fund has two items that qualify for reporting in this category, deferred inflows related to pension and OPEB.

Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, pension expense, information about the net position and additions to/deductions from the net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2023
Measurement Date	June 30, 2024
Measurement Period	July 1, 2023 to June 30, 2024

Other Post Employment Benefits

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Agency’s plan (OPEB Plan) and additions to/deductions from the OPEB Plan’s fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to the liability information within certain defined timeframes.

CITY OF ARCATA, CALIFORNIA

**Transportation Development Act
Article 8 Funds**

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

For this report, the following timeframes are used:

Valuation Date	June 30, 2025
Measurement Date	June 30, 2025
Measurement Period	July 1, 2024 to June 30, 2025

Net Position

The components of the fund balances of enterprise funds reflect the classifications described below.

- *Investment in Capital Assets* – This amount consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that was issued for the acquisition, construction, or improvement of the assets.
- *Restricted Fund Balance* – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Unrestricted Fund Balance* – includes the remaining spendable amounts which are not included in one of the other classifications, plus any deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

It is the City's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the City Council.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. The information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's prior year TDA Fund financial statements from which this selected data was derived.

CITY OF ARCATA, CALIFORNIA

**Transportation Development Act
Article 8 Funds**

Notes to Financial Statements

(Continued)

(3) Due from Other Governments

The City's Article 8 – Transit Fund has an amount due from other governments of \$1,024,565 as of June 30, 2025. This represents receivables of \$773,448 and \$251,117 from HCAOG and Cal Poly respectively for reimbursement of eligible Article 8 TDA expenditures.

(4) Capital Assets

The following is a summary of changes in capital assets for Article 8 – Transit Fund activities for the year ended June 30, 2025:

	Balance June 30, 2024	Additions	Deletions	Balance June 30, 2025
Capital assets being depreciated:				
Buildings	\$ 939,572	-	-	939,572
Other improvements	809,146	-	-	809,146
Furniture and equipment	416,667	-	-	416,667
Vehicles	<u>4,798,973</u>	<u>-</u>	<u>-</u>	<u>4,798,973</u>
Total capital assets being depreciated	<u>6,964,358</u>	<u>-</u>	<u>-</u>	<u>6,964,358</u>
Less accumulated depreciation:				
Buildings	(705,430)	(23,667)	-	(729,097)
Other improvements	(367,770)	(42,255)	-	(410,025)
Furniture and equipment	(388,284)	(14,004)	-	(402,288)
Vehicles	<u>(2,668,097)</u>	<u>(234,269)</u>	<u>-</u>	<u>(2,902,366)</u>
Total accumulated depreciation	<u>(4,129,581)</u>	<u>(314,195)</u>	<u>-</u>	<u>(4,443,776)</u>
Total capital assets being depreciated, net	<u>\$ 2,834,777</u>	<u>(314,195)</u>	<u>-</u>	<u>2,520,582</u>

Article 8 depreciation expense for the year ended June 30, 2025, is \$314,195.

CITY OF ARCATA, CALIFORNIA

**Transportation Development Act
Article 8 Funds**

Notes to Financial Statements

(Continued)

(5) Eligibility for Funds

Pursuant to Section 6634 of the California Administrative Code relating to the Transportation Development Act, a transit claimant is eligible to receive monies from the Local Transportation Fund in an amount which does not exceed the claimants operating costs, less actual fare revenues received. For the fiscal year ended June 30, 2025, the calculation is as follows:

Operating costs	\$	1,819,880
Less: Fare revenues		(114,131)
Less: HSU subsidy for extended operational hours of service		<u>(619,942)</u>
Maximum fund eligibility	\$	1,085,807
STA funds received		129,623
LTF funds received		<u>718,162</u>
Excess funds received	\$	<u><u>(238,022)</u></u>

In accordance with the rules and regulations of the Transportation Planning Agency, any excess amounts are required to be adjusted on a succeeding year's TDA claim. They can also be re-identified as monies claimed for capital purchases if sufficient reserves have been used to help purchase new capital assets.

(6) Fare Box Recovery Ratio

The City met its required Fare Box Recovery Ratio for specialized transit services as calculated under section 6633.5 of the TDA code for the year ended June 30, 2025. The calculations for this fare box ratio compliance for year ended June 30, 2025, is as follows:

Total operating costs	\$	1,402,321
Less: Insurance premiums per Section 99268.17		<u>(63,526)</u>
Net operating costs	\$	<u><u>1,465,847</u></u>
Prior required fare box recovery ratio		18.8%
Required fare box recover ratio % (7/1/16)		10.0%
Required minimum fares	\$	146,585
Actual fares collected	\$	114,131
Actual fare box recovery ratio % achieved		7.79%

CITY OF ARCATA, CALIFORNIA

**Transportation Development Act
Article 8 Funds**

Notes to Financial Statements

(Continued)

(7) Pension

Qualified permanent and probationary employees are eligible to participate in pension benefits through the California Public Employees' Retirement System (CalPERS).

Plan Description

The City provides the plan to its employees and is classified as a cost-sharing plan for TDA Article 8 - Transit Fund. The benefit pension plan is administered by CalPERS. CalPERS acts as a common investment and administrative agent for its participating public employers within the State of California. An agent multiple-employer plan is one in which the assets of the multiple employers are pooled together for investment purposes, but separate accounts are maintained for each individual employer.

Benefit provisions under the plan 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, which include public employees and their beneficiaries. The City has three classes of plan members, based on date of hire. Benefits for all plan members are based on years of credited service, equal to one year of full-time employment.

The Plan also provides optional benefits for survivor and disability benefits. The benefit provisions and all other requirements are established by contracts with CalPERS in accordance with the provisions of the Public Employees' Retirement law.

CalPERS issues an annual audited stand-alone financial report and a copy can be obtained by submitting a written request to CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709 or by visiting its website at calpers.ca.gov.

Contributions

Section 20814 of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employees 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. The total plan contributions are determined through the CalPERS annual actuarial valuation process. The actuarially determined rate is 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 employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

CITY OF ARCATA, CALIFORNIA

**Transportation Development Act
Article 8 Funds**

Notes to Financial Statements

(Continued)

(7) Pension (Continued)

Net Pension Liability

The Plan's net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2023.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2024 (the measurement date), total pension liability was based on the following actuarial methods and assumptions applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increases	Varies by entry age and service
Mortality Rate Table ⁽¹⁾	Derived using CalPERS Membership Data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

(1) The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. Mortality rates incorporate full generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the 2021 experience study report from November 2021 that can be found on the CalPERS website.

Changes of Assumptions

In 2024 there were no changes of assumptions.

Discount Rate

The discount rate used to measure the total pension liability was 6.90 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability

CITY OF ARCATA, CALIFORNIA

**Transportation Development Act
Article 8 Funds**

Notes to Financial Statements

(Continued)

(7) Pension (Continued)

Long-term Expected Rate of Return

In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and, combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return.

The expected real rates of return by asset class are as follows:

<u>Asset Class¹</u>	<u>Assumed Asset Allocation</u>	<u>Real Return^{1,2}</u>
Global Equity - Cap-weighted	30.00%	4.54%
Global Equity - Non-Cap-weighted	12.00	3.84
Private Equity	13.00	7.28
Treasury	5.00	0.27
Mortgage-backed Securities	5.00	0.50
Investment Grade Corporates	10.00	1.56
High Yield	5.00	2.27
Emerging Market Debt	5.00	2.48
Private Debt	5.00	3.57
Real Assets	15.00	3.21
Leverage	(5.00)	(0.59)

¹ An expected inflation of 2.30% used for this period.

² Figures are based on the 2021-22 Asset Liability Management Study.

Subsequent Events

During the time period between the valuation date and the publication of this report, price inflation has been higher than the assumed rate of 2.3% per annum. Since inflation influences cost-of-living adjustments for retirees and beneficiaries and active member pay increases, higher inflation is likely to put at least some upward pressure on the pension expense and the net pension liability in future valuations. The actual impact of higher inflation on future valuation results will depend on, among other factors, how long higher inflation persists.

Pension Plan Fiduciary Net Position

The plan fiduciary net position disclosed in the GASB 68 accounting report may differ from the plan assets reported in the funding valuation report due to several reasons. For example, for the accounting reports, CalPERS must keep items such as deficiency reserves and fiduciary self-insurance included as assets. These amounts are excluded for rate setting purposes in the funding valuation.

CITY OF ARCATA, CALIFORNIA

**Transportation Development Act
Article 8 Funds**

Notes to Financial Statements

(Continued)

(7) Pension (Continued)

Changes in Proportionate Share of Net Pension Liability

The following table is the aggregate changes in the pension plans' net pension liabilities of The Transit Fund for measurement period of July 1, 2023 to June 30, 2024:

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>Change</u>
Proportionate share	\$ 685,273	726,156	(40,883)
Proportionate share (%)	2.78127%	2.39410%	0.38717%

The proportion of the net pension liability of the plan is measured as of June 30, 2024, and the total pension liability for the plan to calculate the net pension liability was determined by an actuarial valuation of June 30, 2023. The proportion of the net pension liability was based on the Transit Fund's share of contributions to the pension plan relative to the total of the City's contributions.

Sensitivity of the Net Position Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<u>Discount Rate - 1%</u> <u>5.90%</u>	<u>Current Discount Rate</u> <u>6.90%</u>	<u>Discount Rate + 1%</u> <u>7.90%</u>
Net Pension Liability	\$ <u>1,090,961</u>	<u>685,273</u>	<u>352,085</u>

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows of resources related to pensions and are to be recognized in future pension expense.

CITY OF ARCATA, CALIFORNIA

**Transportation Development Act
Article 8 Funds**

Notes to Financial Statements

(Continued)

(7) Pension (Continued)

The amortization period differs depending on the source of the gain or loss:

Source	Amortization Period
Net difference between projected and actual earnings on pension plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average service lifetime (EARSL) of all members that are provided with benefits (active, inactive, and retired as of the beginning of the measurement period.

Pension Expense and Deferred Outflows and Deferred Inflows of Resources related to Pensions

For the fiscal year ending June 30, 2025 (the reporting period), the Transit Fund recognized a pension expense of \$21,592 for the plan.

Deferred outflows of resources and deferred inflows of resources represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

The following are the sources of deferred outflows of resources and deferred inflows of resources for the Transit Fund as of June 30, 2025:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 27,440	-
Difference between expected and actual experience	88,375	-
Net difference between projected and actual earnings on plan investments	58,216	-
Differences between actual contributions and the proportionate share of contributions	11,826	5,142
Change in employer's proportion	4,990	49,989
Pension contributions subsequent to measurement date	46,329	-
Total Miscellaneous Plan	<u>\$ 237,176</u>	<u>55,131</u>

CITY OF ARCATA, CALIFORNIA

**Transportation Development Act
Article 8 Funds**

Notes to Financial Statements

(Continued)

(7) Pension (Continued)

The deferred outflows of resources of the Transit Fund related to pension resulting from employer contributions subsequent to the measurement date of June 30, 2024, totaling \$46,329, will be recognized as a reduction of the net pension liability in fiscal year ending June 30, 2026.

The following amounts reported as deferred outflows and inflows of resources related to pension for Article 8 that will be recognized in future periods as pension expense:

Fiscal Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2026	\$ 5,425
2027	182,021
2028	(31,792)
2029	(19,938)
	<u>\$ 135,716</u>

(8) Other Post Employment Benefits (OPEB)

Plan Description

The City provides certain health insurance benefits to retired employees in accordance with memorandums of understanding with each employee group as follows:

For employees who retire from the City of Arcata after at least ten (10) years of service with the City and who continue health insurance through a City-sponsored health insurance plan, the City will contribute two percent (2%) of the health insurance premium for each year of service, as an employee with the City, rounded to the nearest whole year. For employees with at least twenty (20) years of service for the City who qualify for this benefit, the rate of the City's contribution will be three percent (3%) of the health insurance premium. Such contributions will not continue past Medicare eligibility.

Plan Membership

At June 30, 2025, the measurement date, the following numbers of participants were covered by the benefit terms:

Active members	125
Inactive plan members or beneficiaries	
currently receiving benefit payments	<u>8</u>
Total plan members	<u>133</u>

CITY OF ARCATA, CALIFORNIA

**Transportation Development Act
Article 8 Funds**

Notes to Financial Statements

(Continued)

(8) Other Post Employment Benefits (OPEB) (Continued)

Net OPEB Liability

The City used an actuarial study of retiree health liabilities with a valuation date of June 30, 2025. Net OPEB liability for the Transit Fund was estimated at \$135,239, with a beginning of the year amount based on a valuation date of June 30, 2023, estimated at \$175,643.

Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2024	\$ 193,884	18,241	175,643
Changes recognized for the measurement period:			
Service cost	15,132	-	15,132
Interest	8,568	-	8,568
Experience (gains)/losses	(40,572)	-	(40,572)
Changes in assumptions	(16,320)	-	(16,320)
Expected investment income	-	1,140	(1,140)
Administrative expenses	-	(14)	14
Employer contributions as benefit payments	-	5,291	(5,291)
Actual benefit payments from employer	(5,291)	(5,291)	-
Investments gains/(losses)	-	795	(795)
Net Changes	<u>(38,483)</u>	<u>1,921</u>	<u>(40,404)</u>
Balance at June 30, 2025 (Measurement Date June 30, 2025)	<u>\$ 155,401</u>	<u>20,162</u>	<u>135,239</u>

Discount Rate

The discount rate used to measure the net OPEB liability was 5.30 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

CITY OF ARCATA, CALIFORNIA

**Transportation Development Act
Article 8 Funds**

Notes to Financial Statements

(Continued)

(8) Other Post Employment Benefits (OPEB) (Continued)

Sensitivity of Total OPEB Liability

The following presents the net OPEB liability of the City's Transit Fund if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2025:

	1% Decrease (4.30%)	Current Discount Rate (5.30%)	1% Increase (6.30%)
Net OPEB Liability (Asset)	\$ 151,732	135,239	120,383

The following presents the net OPEB liability of the City's Transit Fund if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2025:

	1% Decrease (3.00%HMO/ PPO)	Current Healthcare Cost Trend Rates (4.00%HMO/ PPO)	1% Increase (5.00%HMO/ PPO)
Net OPEB Liability (Asset)	\$ 114,459	135,239	160,208

OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2025, the Transit Fund recognized a total OPEB expense of \$3,971. At June 30, 2025, the Transit Fund reported deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 46,807	10,876
Difference between expected and actual experience	34	-
Net difference between projected and actual earnings		
OPEB plan investments	4,328	27,181
Total	\$ 51,169	38,057

CITY OF ARCATA, CALIFORNIA

**Transportation Development Act
Article 8 Funds**

Notes to Financial Statements

(Continued)

(8) Other Post Employment Benefits (OPEB) (Continued)

Amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2026	\$ 2,740
2027	2,029
2028	1,942
2029	2,010
2030	2,172
Thereafter	2,219

Significant Actuarial Assumptions Used for Total OPEB Liability

The total OPEB liability was determined by an actuarial valuation as of June 30, 2025, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	5.30%
Inflation	2.50%
Salary Increases	2.75% per annum
Investment Rate of Return	5.20%
Mortality Rate ⁽¹⁾	Derived using CalPERS' Membership Data for all funds
Pre-Retirement Turnover ⁽²⁾	Derived using CalPERS' Membership Data for all funds
Healthcare Trend Rate	4.00%

⁽¹⁾ The mortality assumptions are based on the 2021 CalPERS Mortality for Miscellaneous and Schools Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.

⁽²⁾ The retirement assumptions are based on the 2021 CalPERS 2.0%@ 62 Rates for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

CITY OF ARCATA, CALIFORNIA

**Transportation Development Act
Article 8 Funds**

Notes to Financial Statements

(Continued)

(9) Transit Operator Vehicle Code Compliance

Section 99251 of the Transportation Development Act requires operators submitting claims for TDA funds to provide evidence of compliance with Section 1808.1 of the Vehicle Code, regarding participation on the Department of Motor Vehicles Pull Notice Program. Such compliance is generally provided by the routine inspections performed by the California Highway Patrol on transit operator vehicles.

The City currently participates in the Pull Notice Program and is otherwise deemed compliant in this area.

(10) Budgetary Data

The City adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America and utilizes an encumbrance system as a management control technique to assist in controlling expenditures and enforcing revenue provisions. Under this system, the current year expenditures are charged against appropriations. Accordingly, actual revenues and expenditures can be compared with related budget amounts without any significant reconciling items.

(11) Contingencies

Disclosures related to contingencies including those related to various legal actions, administrative proceedings, or claims in the ordinary course of operations, can be found in the audited financial statements of the City.

(12) Restatement

The City recorded a restatement to reflect the allocation of net OPEB liability, deferred outflows, and deferred inflows to the Transit Fund.

	<u>Transit Fund</u>
Beginning net position, as previously reported	\$ 2,675,086
Error correction - record allocation of OPEB	<u>(118,156)</u>
Beginning fund balance, as restated	<u>\$ 2,556,930</u>

(13) Subsequent Events

Effective July 1, 2025, the City of Arcata effectively transferred its Arcata and Mad River Transit System operations and assets, including busses and rolling stock to the Humboldt Transit Authority, which will assume all responsibilities and ownership of the transit system.

REQUIRED SUPPLEMENTARY INFORMATION

City of Arcata, California

**Transportation Development Act
Article 8 - Transit Fund**

**Schedule of Proportionate Share of Net Pension Liability
Last Ten Years*
June 30, 2025**

Measurement Date	2024	2023
Proportion of the Collective Net Pension Liability	2.78127%	2.39410%
Proportionate Share of the Collective Net Pension Liability	\$ 685,273	726,156
Covered Payroll	\$ 93,650	97,826
Proportionate Share of the Collective Net Pension Liability as a Percentage of Covered Payroll	731.74%	742.29%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.59%	73.14%

*Historical information is required only for measurement date for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, however only 2 years are available. Therefore only two years are shown.

Summary of Changes of Benefits or Assumptions:

Benefit Changes: There were no changes to benefit terms that applied to all members of the Public Agency Pool. However, individual employers in the Plan may have provided a benefit improvement to their employees by granting Two Years Additional Service Credit to members retiring during a specified time period (a.k.a Golden Handshakes). Employers that have done so may need to report this information as a separate liability in their financial statements as CalPERS considers such amounts to be separate financed employer-specific liabilities.

Changes in Assumptions: There were no assumption changes in 2023. In 2021, demographic assumptions and the inflation rate assumption were changed in accordance to CalPERS Experience Study and Review of Actuarial Assumptions. In 2021, the accounting discount rate was reduced from 7.15 percent to 6.90 percent. In 2018, demographic assumptions and inflation rate were changed in accordance to CalPERS Experience Study and Review of Actuarial Assumptions December 2017. In 2017, the accounting discount rate was reduced from 7.65 percent to 7.15 percent.

City of Arcata, California

**Transportation Development Act
Article 8 - Transit Fund**

**Schedule of the Employer's Pension Contributions
Last Ten Years*
June 30, 2025**

Fiscal Year	<u>2025</u>	<u>2024</u>
Actuarially Determined Contribution	\$ 46,329	\$ 28,781
Contribution in Relation to the Actuarially Determined Contribution	<u>46,329</u>	<u>28,781</u>
Contribution Excess (Deficiency)	<u>\$ -</u>	<u>-</u>
Covered Payroll	\$ 93,650	\$ 97,826
Contributions as a Percentage of Covered Payroll	49.47%	29.42%

*Historical information is required only for measurement date for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, however only 2 years are available. Therefore only two years are shown.

Methods and assumptions used to determine contribution rates:

Actuarial Valuation Date	June 30, 2022
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Discount Rate	6.80%
Projected Salary	Varies by entry age and service
Inflation	2.30%
Payroll Growth	2.80%

Changes in Assumptions: There were no assumption changes in 2023. Effective with the June 30, 2021 valuation (2022 measurement date), the CalPERS Board of Administration lowered the discount rate from 7.15 percent to 6.90. The minimum employer contributions for Fiscal Year 2021-22 determined in this valuation were calculated using a discount rate of 7.25 percent.

On December 19, 2017, the CalPERS Board of Administration adopted new actuarial assumptions based on the recommendations in the December 2017 CalPERS Experience Study and Review of Actuarial Assumptions. This study reviewed the retirement rates, termination rates, mortality rates, rates of salary increases and inflation assumption for Public Agencies. In addition, the Board adopted a new asset portfolio as part of its Asset Liability Management. The new asset mix supports a 7.00 percent discount rate. The reduction of the inflation assumption will be implemented in two steps in conjunction with the decreases in the discount rate. For the June 30, 2017 valuation an inflation rate of 2.625 percent will be used and a rate of 2.50 percent in the following valuation.

The CalPERS Board of Administration has adopted a new amortization policy effective with the June 30, 2019 actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed using a level dollar amount. In addition, the new policy removes the 5-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non investment gains/losses. The new policy removes the 5-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019.

City of Arcata, California

**Transportation Development Act
Article 8 - Transit Fund**

**Schedule of Changes in Net OPEB Liability
Last Ten Fiscal Years*
June 30, 2025**

Measurement Date	<u>2025</u>
TOTAL OPEB LIABILITY	
Service cost	\$ 15,132
Interest	8,568
Actual vs. expected experience	(40,572)
Assumption changes	(16,320)
Benefit payments	<u>(5,291)</u>
Net Changes	(38,483)
Total OPEB Liability - Beginning	<u>193,884</u>
Total OPEB Liability - Ending (a)	<u>\$ 155,401</u>
PLAN FIDUCIARY NET POSITION	
Contributions - employer	\$ 5,291
Net investment income	1,140
Benefit payments	(5,291)
Administrative expenses	(14)
Other changes	<u>795</u>
Net Changes	1,921
Plan Fiduciary Net Position - Beginning	<u>18,241</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 20,162</u>
PLAN NET OPEB LIABILITY - ENDING (a) - (b)	<u>\$ 135,239</u>
Fiduciary Net Position	
as a Percentage of the Total OPEB Liability	12.97%
Covered-Employee Payroll	\$ 93,650
Net OPEB Liability as a Percentage of	
Covered-Employee Payroll	144.41%

*Historical information is required only for measurement dates for which GASB 75 is applicable. Fiscal Year 2018 was the first year of implementation, however only 1 year is available. Therefore only one year is shown.

City of Arcata, California

**Transportation Development Act
Article 8 - Transit Fund**

**Schedule of Changes in Employer's Contributions
Last Ten Fiscal Years*
June 30, 2025**

Fiscal Year	2025
Actuarially Determined Contribution	\$ 5,291
Contributions in relation to the Actuarially Determined Contribution in relation to the	<u>5,291</u>
Contribution Excess (Deficiency)	<u>\$ -</u>
Retiree Healthcare Plan Covered-Employee Payroll	\$ 93,650
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	5.65%

*Historical information is required only for measurement dates for which GASB 75 is applicable. Fiscal Year 2018 was the first year of implementation, however only 1 year is available. Therefore only one year is shown.

SUPPLEMENTARY INFORMATION

City of Arcata, California
Transportation Development Act
Article 8 - Transit Fund
Statement of Revenues, Expenses and
and Change in Net Position - Budget and Actual
Fiscal Year Ended June 30, 2025

	Budget		Actual	Variance From
	Original	Final		Final Budget
				Favorable
				(Unfavorable)
Operating Revenues:				
Passenger fares	\$ 50,000	50,000	114,131	64,131
Special transit fares - HSU	325,000	325,000	619,942	294,942
Dial-A-Ride/Dial-A-Lift ticket sales	3,100	3,100	4,068	968
Other revenue	<u>2,400</u>	<u>2,400</u>	<u>3,006</u>	<u>606</u>
Total operating revenues	<u>380,500</u>	<u>380,500</u>	<u>741,147</u>	<u>(360,647)</u>
Operating Expenditures:				
Labor and benefits	166,261	168,261	121,870	46,391
Services and overhead	81,839	80,334	291,187	(210,853)
Insurance	88,022	88,022	63,526	24,496
Vehicle maintenance & fuel	842,554	842,554	915,066	(72,512)
Depreciation	<u>-</u>	<u>-</u>	<u>314,195</u>	<u>(314,195)</u>
Total expenditures	<u>1,178,676</u>	<u>1,179,171</u>	<u>1,722,275</u>	<u>(543,104)</u>
Operating income (loss)	<u>(798,176)</u>	<u>(798,671)</u>	<u>(981,128)</u>	<u>182,457</u>
Nonoperating Revenues (Expenses):				
Operating grant (LTF)	718,162	718,162	718,162	-
Operating grant (STAF)	329,416	329,416	129,623	(199,793)
SCR grant	18,000	18,000	-	(18,000)
Other state grant	28,172	28,172	-	(28,172)
Interest income (expense)	7,200	7,200	6,354	(846)
HTA/RTS assessment	(287,527)	(287,527)	(281,527)	6,000
DAR/DAL operating assessment	<u>(100,000)</u>	<u>(100,000)</u>	<u>(97,605)</u>	<u>2,395</u>
Total nonoperating revenue (expenses)	<u>713,423</u>	<u>713,423</u>	<u>475,007</u>	<u>(238,416)</u>
Change in net position	(84,753)	(85,248)	(506,121)	(420,873)
Net position at beginning of year, as restated	<u>2,556,930</u>	<u>2,556,930</u>	<u>2,556,930</u>	<u>-</u>
Net position at end of year	<u>\$ 2,472,177</u>	<u>2,471,682</u>	<u>2,050,809</u>	<u>(420,873)</u>

**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***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Humboldt County Association of Governments
Eureka, 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 Transportation Development Act (TDA) Article 8 Funds (TDA Funds) of the City of Arcata, California (City), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements, and have issued our report thereon dated March 27, 2026.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses.

(1) Errors Detected in the Financial Statements

As a result of our audit procedures, we identified several material misstatements in the financial statements. We proposed corrections to eliminate negative STAF revenue and remove non-transit revenue from the Transit Fund.

Additionally, we recorded a prior period restatement and to record the Trans Fund's portion of Other Post-Employment Benefits (OPEB).

Recommendation

We recommend that the City record OPEB transactions in the Transit Fund and to improve controls over year end closing to reduce errors.

Management's Comments Regarding Corrective Action Planned

Management concurs with the finding. The City acknowledges that errors were identified in the recording and presentation of Other Post-Employment Benefits (OPEB) activity in the financial statements.

To address this issue, the City will implement year-end financial reporting review procedures and timely reconciliations. The City provided adjusting entries to correct the negative STAF revenue and to record the OPEB transactions for FY 2025. Going forward the City will incorporate the OPEB transactions as part of its year-end financial reporting review procedures.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether financial statements of the TDA Funds of the City are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including §6666 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the financial statements. 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 City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our engagement and described previously. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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



Irvine, California
March 27, 2026