

CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 3, Article 4, and Article 8 Funds
Financial Statements
For the Fiscal Year Ended June 30, 2025

CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 3, Article 4, and 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 3, Article 4, and Article 8 Funds ("TDA Funds") of the City of Fortuna, 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 where applicable, 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 years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are 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 November 12, 2024 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, budgetary comparison information and pension 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, Expenditures and Change in Fund Balance – Budget and Actual – Article 4 – Senior Bus 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 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.



Irvine, California
March 18, 2026

**CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 3 - 2% Set Aside Fund**

Balance Sheet

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

	TDA Article 3	
	2025	2024
Assets:		
Cash and investments (Note 3)	\$ 213,655	189,409
TDA funds receivable	-	13,561
Total assets	\$ 213,655	202,970
 Liabilities and Net Position:		
Liabilities:		
Accounts payable	\$ -	-
Total liabilities	-	-
 Fund balance:		
Restricted	213,655	202,970
Total fund balance	213,655	202,970
Total liabilities and fund balance	\$ 213,655	202,970

See notes to financial statements

**CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 3 - 2% Set Aside Fund**

Statement of Revenues, Expenditures and Changes in Fund Balance

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

	TDA Article 3	
	2025	2024
Revenues:		
Allocations - TDA	\$ -	13,561
Interest	10,685	9,827
Total revenues	10,685	23,388
Expenditures:		
Street and road projects	-	-
Total expenditures	-	-
Change in fund balance	10,685	23,388
Fund balance at beginning of year	202,970	179,582
Fund balance at end of year	\$ 213,655	202,970

See notes to financial statements

**CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 8 - Non-Transit Fund**

Balance Sheet

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

	TDA Article 8	
	2025	2024
Assets:		
Cash and investments (Note 3)	\$ 727,953	715,219
TDA funds receivable	-	60,047
Accounts receivable loans - non-current	10,978	10,978
Total assets	\$ 738,931	786,244
 Liabilities, Deferred Inflows of Resources, and Fund Balance:		
Deferred Inflows		
Unavailable revenue (Note 6)	\$ 10,978	10,978
Total liabilities	10,978	10,978
 Fund balance:		
Restricted	727,953	775,266
Total fund balance	727,953	775,266
Total liabilities, deferred inflows and fund balance	\$ 738,931	786,244

See notes to financial statements

**CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 8 - Non-Transit Fund**

Statement of Revenues, Expenditures and Changes in Fund Balance

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

	TDA Article 8	
	2025	2024
Revenues:		
Allocations - TDA	\$ -	60,047
Interest	37,744	38,165
Total revenues	37,744	98,212
Expenditures:		
Street and road projects	85,057	47,847
Total expenditures	85,057	47,847
Change in fund balance	(47,313)	50,365
Fund balance at beginning of year	775,266	724,901
Fund balance at end of year	\$ 727,953	775,266

See notes to financial statements

CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 4 - Senior Bus Fund

Statement of Net Position

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

	TDA Article 4	
	2025	2024
Assets:		
Current assets:		
Cash and investments (Note 3)	\$ 25,684	(40,047)
Due from other governments (Note 4)	157,623	177,597
Total current assets	183,307	137,550
Noncurrent assets:		
Depreciable capital assets, net (Note 6)	79,186	85,650
Total noncurrent assets	79,186	85,650
Total assets	262,493	223,200
Deferred outflows of resources related to pension	55,169	66,061
Liabilities, Deferred Inflow and Net Position:		
Current liabilities:		
Accounts payable and accrued liabilities	1,025	3,226
Total current liabilities	1,025	3,226
Long-term liabilities:		
Net pension liability (Note 9)	152,888	174,362
Total liabilities	153,913	177,588
Deferred inflows of resources related to pension	13,623	22,781
Net position:		
Net investment in capital asset	79,186	85,650
Restricted	70,940	3,242
Total net position	\$ 150,126	88,892

See notes to financial statements

CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 4 - Senior Bus Fund

Statement of Revenues, Expenditures 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	\$ 24,929	16,257
Other income	<u>561</u>	<u>600</u>
Total operating revenues	<u>25,490</u>	<u>16,857</u>
Operating Expenses:		
Personal services, salaries and benefits	167,866	187,177
Supplies	496	690
Vehicle fuel and oil	21,413	19,705
Repairs and maintenance	4,231	3,475
Depreciation	6,464	10,491
Advertising and personnel	3,887	2,795
Insurance	19,458	16,134
Telephone and other	<u>910</u>	<u>1,233</u>
Total expenditures	<u>224,725</u>	<u>241,700</u>
Operating income (loss)	<u>(199,235)</u>	<u>(224,843)</u>
Nonoperating Revenues (Expenses):		
Governmental allocations -		
Local Transportation Fund	447,635	440,626
Transfer from City of Fortuna Measure E	9,643	7,379
Interest income (expense)	(1,996)	(2,955)
HTA assessment	<u>(194,813)</u>	<u>(177,097)</u>
Total nonoperating revenue (expenses)	<u>260,469</u>	<u>267,953</u>
Change in net position	61,234	43,110
Net position at beginning of year	<u>88,892</u>	<u>45,782</u>
Net position at end of year	<u>\$ 150,126</u>	<u>88,892</u>

See notes to financial statements

CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 4 - Senior Bus Fund

Statement of Cash Flows

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

	2025	2024
Cash flows from operating activities:		
Receipts from customers	\$ 24,929	16,257
Receipts from other income	561	600
Payments to employees	(187,606)	(187,177)
Payments to suppliers	(247,409)	(214,267)
Net cash provided by (used for) operating activities	(409,525)	(384,587)
Cash flows from noncapital financing activities:		
Receipts from transfers	9,643	7,379
Receipts from other governments	467,609	263,029
Net cash provided by (used for) noncapital financing activities	477,252	270,408
Cash flows from investing activities:		
Interest (loss) on investments	(1,996)	(2,955)
Net cash provided by (used for) investing activities	(1,996)	(2,955)
Net increase (decrease) in cash and cash equivalents	65,731	(117,134)
Cash and cash equivalents, beginning of year	(40,047)	77,087
Cash and cash equivalents, end of year	\$ 25,684	(40,047)
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (199,235)	(224,843)
Depreciation	6,464	10,491
Nonoperating expenses	(194,813)	(177,097)
Changes in assets, deferred outflow of resources, liabilities and deferred inflow of resources:		
(Increase)/decrease in deferred outflows of resources - pension	10,892	17,005
Increase/(decrease) in accounts payable and other liabilities	(2,201)	1,212
Increase/(decrease) in net pension liability	(21,474)	(13,887)
Increase/(decrease) in deferred inflows of resources - pension	(9,158)	2,532
Net cash provided by operating activities	\$ (409,525)	(384,587)

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

See accompanying notes to the basic financial statements.

CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 3, Article 4, and Article 8 Funds

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2025

(1) General Information

The financial statements of the Transportation Development Act Article 3, Article 4, and 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 Fortuna, 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 §99234 of the California Public Utilities Code, Article 3 monies may be used only for facilities provided for the exclusive use of pedestrians and bicycles, including the construction and related engineering expenditures of those facilities, the maintenance of bicycle trails (which are closed to motorized traffic) and bicycle safety education programs. Facilities that provide for the use of bicycles may include projects that serve the needs of commuting bicyclists, including, but not limited to, new trails serving major transportation corridors, secure bicycle parking at employment centers, park and ride lots, and transit terminals where other funds are unavailable. Funding for this program was authorized by the Humboldt County Association of Governments (HCAOG).

Pursuant to §99260 of the California Public Utilities Code, Article 4 monies may be used for the support of public transportation systems, aid to public transportation research and demonstration projects, and contributions for the construction of grade separation projects. Funding for this program was authorized by the Humboldt County Association of Governments (HCAOG).

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 3 - Transportation 2% Set Aside Fund and Article 8 - Transportation Funds are accounted for as Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are usually required by law or administrative regulation to be accounted for in separate funds.

CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 3, Article 4, and Article 8 Funds

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

The TDA Article 4 – Senior Bus 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

Special Revenue Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred. 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 revenue recognition 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 3, 4, and 8 possess the characteristic of a voluntary nonexchange transaction similar to a grant. Revenues under TDA Article 3, 4, and 8 are recognized in the period when all eligibility requirements have been met.

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. TDA Articles 3 and 8 do not have any qualifying items. The TDA Article 4 – Senior Bus Fund has one item that qualifies for reporting in this category. This is the deferred outflows related to pension.

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. TDA Articles 3 does not have any qualifying items. The TDA Article 4 – Senior Bus Fund and Article 8 – Non-Transit Fund each has item that qualifies for reporting in this category, deferred inflows related to pension and unavailable revenue, respectively.

CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 3, Article 4, and Article 8 Funds

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

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

Fund Balance

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

- *Nonspendable Fund Balance* – this includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- *Restricted Fund Balance* – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Assigned Fund Balance* – includes amounts that are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted or committed.
- *Unassigned 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.

CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 3, Article 4, and Article 8 Funds

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Use of Estimates

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as needed. City Council Policy establishes the order of use of unrestricted fund balance. Committed amounts should be reduced first, followed by the assigned amounts, and then the unassigned amounts.

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.

(3) Cash and Investments

The City has pooled its cash and investments in order to achieve a higher return on investments while facilitating management of cash. The balance in the pool account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms. The TDA Article 3 Fund's cash and investments as of June 30, 2025 was \$213,655. The TDA Article 8 Fund's cash and investments as of June 30, 2025 was \$727,953. The TDA Article 4 Fund's cash and investments as of June 30, 2025 was \$25,684.

The TDA Fund's cash is deposited in the City's internal investment pool, which is reported at fair value. Interest income is allocated on the basis of average cash balances. Investment policies and associated risk factors applicable to the TDA Program are those of the City and are included in the City's basic financial statements.

See the City's basic financial statements for disclosures related to cash and investments including those disclosures relating to interest rate risk, credit rate risk, custodial credit risk and concentration risk.

(4) Due from Other Governments

Due from other governments in the amount of \$157,623 as of June 30, 2025 represents a receivable from HCAOG for reimbursement of eligible Article 4 TDA expenditures.

CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 3, Article 4, and Article 8 Funds

Notes to Financial Statements

(Continued)

(5) Unavailable Revenue

TDA Article 8 monies owed to the City by participants of the sidewalk rehabilitation program loans are considered earned when they are received upon the sale of the homeowner’s property. The outstanding loans receivable are reported as unearned revenue. The balance of unearned revenue as of June 30, 2025 was \$10,978.

(6) Capital Assets

The following is a summary of changes in capital assets for Article 4 – Senior Bus Fund activities for the year ended June 30, 2025:

	<u>Balance</u> <u>June 30, 2024</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2025</u>
Capital assets being depreciated:				
Vehicles*	\$ 181,587	-	-	181,587
Other improvements*	<u>129,283</u>	<u>-</u>	<u>-</u>	<u>129,283</u>
Total capital assets being depreciated	<u>310,870</u>	<u>-</u>	<u>-</u>	<u>310,870</u>
Less accumulated depreciation:				
Vehicles	(181,587)	-	-	(181,587)
Other improvements	<u>(43,633)</u>	<u>(6,464)</u>	<u>-</u>	<u>(50,097)</u>
Total accumulated depreciation	<u>(225,220)</u>	<u>(6,464)</u>	<u>-</u>	<u>(231,684)</u>
Total capital assets being depreciated, net	<u>\$ 85,650</u>	<u>(6,464)</u>	<u>-</u>	<u>79,186</u>

*Beginning balance adjusted to reflect a reclassification between the asset categories.

Article 4 depreciation expense for the year ended June 30, 2025, is \$6,464.

CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 3, Article 4, and Article 8 Funds

Notes to Financial Statements

(Continued)

(7) 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:	
Salaries	\$ 119,374
Benefits and unfunded liability payments	48,492
Supplies	496
Vehicle fuel and oil	21,413
Vehicle repair and maintenance	4,231
Advertising and personnel	3,887
Insurance	19,458
Telephone and other	<u>910</u>
Net operating costs	218,261
Less: DAR fares received	<u>(24,929)</u>
Maximum TDA fund eligibility	193,332
TDA funds received (before prior year offset)	<u>231,979</u>
Excess TDA allocation	<u><u>\$ (38,647)</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.

CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 3, Article 4, and Article 8 Funds

Notes to Financial Statements

(Continued)

(8) 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	\$	218,261
Less: Insurance premiums per Section 99268.17		-
Net operating costs	<u>\$</u>	<u>218,261</u>
Required fare box recovery ratio %		10.0%
Required minimum fares	\$	21,826
Actual fares collected	\$	24,929
Actual fare box recovery ratio % achieved		11.42%

(9) Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan or PERF C) administered by the California Public Employees' Retirement System (CalPERS.) The Plan consists of a miscellaneous pool and a safety pool (also referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under generally accepted accounting principles. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The City participates in the miscellaneous rate plan. The City provides the plan to its employees and is classified as a cost-sharing plan for TDA Article 4 Senior Bus Fund. Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS' website, at www.calpers.ca.gov.

CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 3, Article 4, and Article 8 Funds

Notes to Financial Statements

(Continued)

(9) Pension Plan (Continued)

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 5 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 operates under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plan's authority to establish and amend the benefit terms are set by the PERL and PEPRA and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) 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. The total plan contributions are determined through CalPERS's annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

Net Pension Liability

The City's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2024, using an annual actuarial valuation as of June 30, 2023 rolled forward to June 30, 2024 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows :

CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 3, Article 4, and Article 8 Funds

Notes to Financial Statements

(Continued)

(9) Pension (Continued)

Valuation Date	June 30, 2023
Measurement Date	June 30, 2024
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Fair Value of Assets
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	The lesser of contract COLA or 2.30% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.30% thereafter.

(1) The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. Pre-retirement and Post-retirement mortality rates include generational mortality using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from November 2021 that can be found on the CalPERS website.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

All other actuarial assumptions used in the June 30, 2024 valuation were based on the results of an actuarial experience study for the period from 2001 to 2019, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS's website at www.calpers.ca.gov.

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 FORTUNA, CALIFORNIA
Transportation Development Act
Article 3, Article 4, and Article 8 Funds

Notes to Financial Statements

(Continued)

(9) 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 FORTUNA, CALIFORNIA
Transportation Development Act
Article 3, Article 4, and Article 8 Funds

Notes to Financial Statements

(Continued)

(9) Pension Plan (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 Senior Bus Fund for measurement period of July 1, 2023 to June 30, 2024:

	June 30, 2025	June 30, 2024	Change
Proportionate share	\$ 152,888	174,362	(21,474)
Proportionate share (%)	1.49517%	1.67067%	-0.17550%

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 Senior Bus 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:

	Discount Rate - 1% 5.90%	Current Discount Rate 6.90%	Discount Rate + 1% 7.90%
Net Pension Liability	\$ 253,289	152,888	70,470

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 FORTUNA, CALIFORNIA
Transportation Development Act
Article 3, Article 4, and Article 8 Funds

Notes to Financial Statements

(Continued)

(9) Pension Plan (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 Senior Bus Fund recognized a pension expense of \$59,188 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 Senior Bus Fund as of June 30, 2025:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 3,115	-
Difference between expected and actual experience	10,404	413
Net difference between projected and actual earnings on plan investments	6,568	-
Differences between actual contributions and the proportionate share of contributions	9,400	1,948
Change in employer's proportion	1,024	11,262
Pension contributions subsequent to measurement date	24,658	-
Total Miscellaneous Plan	<u>\$ 55,169</u>	<u>13,623</u>

CITY OF FORTUNA, CALIFORNIA
Transportation Development Act
Article 3, Article 4, and Article 8 Funds

Notes to Financial Statements

(Continued)

(9) Pension Plan (Continued)

The deferred outflows of resources of the Senior Bus Fund related to pension resulting from employer contributions subsequent to the measurement date of June 30, 2024, totaling \$24,658, 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 4 that will be recognized in future periods as pension expense:

Fiscal Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2026	\$ 5,683
2027	14,909
2028	(190)
2029	(3,514)
	\$ 16,888

(10) 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.

(11) 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.

(12) 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.

REQUIRED **SUPPLEMENTARY INFORMATION**

City of Fortuna, California

**Transportation Development Act
Article 3 - 2% Set Aside Fund**

**Statement of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

Year Ended June 30, 2025

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
Allocations - TDA	\$ 9,420	9,420	-	(9,420)
Interest	<u>-</u>	<u>-</u>	<u>10,685</u>	<u>10,685</u>
Total revenues	<u>9,420</u>	<u>9,420</u>	<u>10,685</u>	<u>10,685</u>
Expenditures:				
Street and road projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	9,420	9,420	10,685	1,265
Fund balance at beginning of year	<u>202,970</u>	<u>202,970</u>	<u>202,970</u>	<u>-</u>
Fund balance at end of year	<u>\$ 212,390</u>	<u>212,390</u>	<u>213,655</u>	<u>10,685</u>

See notes to required supplementary information

City of Fortuna, California

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

**Statement of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

Year Ended June 30, 2025

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
Allocations - TDA	\$ 210	210	-	(210)
Interest	8,000	8,000	37,744	29,744
Total revenues	8,210	8,210	37,744	29,534
Expenditures:				
Street and road projects	100,000	100,000	85,057	14,943
Total expenditures	100,000	100,000	85,057	14,943
Change in net position	(91,790)	(91,790)	(47,313)	44,477
Fund balance at beginning of year	775,266	775,266	775,266	-
Fund balance at end of year	\$ 683,476	683,476	727,953	14,591

See notes to required supplementary information

City of Fortuna, California

**Transportation Development Act
Article 4 - 2% Senior Bus Fund**

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

Measurement Date	2024	2023	2022	2021	2020
Proportion of the Collective Net Pension Liability	1.49517%	1.67067%	1.67066%	1.67066%	1.67066%
Proportionate Share of the Collective Net Pension Liability	\$ 152,888	\$ 174,362	\$ 188,249	\$ 106,342	\$ 184,553
Covered Payroll	\$ 77,121	\$ 72,870	\$ 60,313	\$ 67,597	\$ 66,262
Proportionate Share of the Collective Net Pension Liability as a Percentage of Covered Payroll	198.24%	239.28%	312.12%	157.32%	278.52%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.59%	73.14%	88.29%	75.10%	75.26%

*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 6 years are available. Therefore only six years are shown.

Measurement Date	2019
Proportion of the Collective Net Pension Liability	1.67066%
Proportionate Share of the Collective Net Pension Liability	\$ 169,938
Covered Payroll	\$ 66,262
Proportionate Share of the Collective Net Pension Liability as a Percentage of Covered Payroll	256.46%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.26%

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 Fortuna, California

**Transportation Development Act
Article 4 - 2% Senior Bus Fund**

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

Fiscal Year	2025	2024	2023	2022	2021
Actuarially Determined Contribution	\$ 24,658	\$ 7,889	\$ 11,162	\$ 11,212	\$ 9,938
Contribution in Relation to the Actuarially Determined Contribution	<u>24,658</u>	<u>7,889</u>	<u>35,903</u>	<u>39,515</u>	<u>15,276</u>
Contribution Excess (Deficiency)	\$ -	\$ -	\$ (24,741)	\$ (28,303)	\$ (5,338)
Covered Payroll	\$ 83,039	\$ 77,121	\$ 72,870	\$ 60,313	\$ 67,597
Contributions as a Percentage of Covered Payroll	29.69%	10.23%	15.32%	18.59%	14.70%

Fiscal Year	2020
Actuarially Determined Contribution	\$ 8,787
Contribution in Relation to the Actuarially Determined Contribution	<u>8,787</u>
Contribution Excess (Deficiency)	\$ -
Covered Payroll	\$ 66,262
Contributions as a Percentage of Covered Payroll	13.26%

*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 6 years are available. Therefore only six 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 Fortuna, California

Notes to Required Supplementary Information

Year ended June 30, 2025

Note 1: Budgets and Budgetary Accounting

City of Fortuna adopts an annual budget prepared on the modified accrual basis of accounting for its governmental funds. The City Manager or designee is authorized to transfer budgeted amounts between the accounts of any department. Revisions that alter the total appropriations of any department or fund are approved by the City Council. Prior year appropriations lapse unless they are approved for carryover into the following fiscal year. Expenditures may not legally exceed appropriations at the fund level.

SUPPLEMENTARY INFORMATION

City of Fortuna, California

**Transportation Development Act
Article 4 - 2% Senior Bus Fund**

**Statement of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

Year Ended June 30, 2025

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Operating Revenues:				
Passenger fares	\$ 16,000	16,000	24,929	8,929
Other income	<u>2,000</u>	<u>2,000</u>	<u>561</u>	<u>(1,439)</u>
Total operating revenues	<u>18,000</u>	<u>18,000</u>	<u>25,490</u>	<u>(1,439)</u>
Operating Expenditures:				
Personal Services, Salaries and Benefits	221,302	221,302	167,866	53,436
Supplies	800	800	496	304
Vehicle fuel and oil	17,000	17,000	21,413	(4,413)
Repairs and maintenance	5,500	5,500	4,231	1,269
Depreciation	-	-	6,464	(6,464)
Advertising and personnel	1,200	1,200	3,887	(2,687)
Insurance	18,099	18,099	19,458	(1,359)
Telephone and other	<u>4,000</u>	<u>4,000</u>	<u>910</u>	<u>3,090</u>
Total expenditures	<u>267,901</u>	<u>267,901</u>	<u>224,725</u>	<u>43,176</u>
Operating income (loss)	<u>(249,901)</u>	<u>(249,901)</u>	<u>(199,235)</u>	<u>(50,666)</u>
Nonoperating Revenues (Expenses):				
Governmental allocations -				
Local Transportation Fund	461,356	461,356	447,635	(13,721)
Transfer from City of Fortuna Measure E	10,000	10,000	9,643	(357)
Interest income (expense)	-	-	(1,996)	(1,996)
HTA Assessment	<u>(194,000)</u>	<u>(194,000)</u>	<u>(194,813)</u>	<u>(813)</u>
Total nonoperating revenue (expenses)	<u>277,356</u>	<u>277,356</u>	<u>260,469</u>	<u>(16,887)</u>
Change in net position	27,455	27,455	61,234	33,779
Net position at beginning of year	<u>88,892</u>	<u>88,892</u>	<u>88,892</u>	<u>-</u>
Net position at end of year	<u><u>\$ 116,347</u></u>	<u><u>116,347</u></u>	<u><u>150,126</u></u>	<u><u>33,779</u></u>

See notes to required supplementary information

**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 3, Article 4, and Article 8 Funds (TDA Funds) of the City of Fortuna, 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 18, 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) 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 entity'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.

Board of Directors
Humboldt County Association of Governments
Eureka, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the TDA Funds of the City are free of 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 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*, including §6666 of Part 21 of the California Code of Regulations.

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 18, 2026