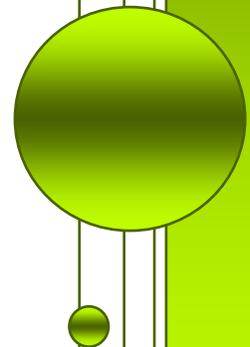




CITY OF ORANGE COVE  
INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS  
JUNE 30, 2014



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**INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and City Council  
City of Orange Cove, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange Cove, California, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange Cove, California, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 13, budgetary comparison information on pages 56 - 60 and the schedule of funding progress on page 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Orange Cove's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014, on our consideration of the City of Orange Cove's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Orange Cove's internal control over financial reporting and compliance.

November 25, 2014

A handwritten signature in black ink, appearing to be 'R. J. [unclear]', written over the date.

*MANAGEMENT'S DISCUSSION AND ANALYSIS*

**CITY OF ORANGE COVE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

*FINANCIAL ANALYSIS OF THE CITY AS A WHOLE*

The City's combined net position—decreasing from \$30,586,984 to \$29,191,713. In contrast, last year net position decreased by \$4,634,146. Looking at the net position of governmental and business-type activities separately, however, two very different stories emerge. Tables 1 and 2 below focus on the net position and changes in net position, respectively, of the City's governmental and business-type activities.

**Table 1: Condensed Statement of Net Position**

	Governmental activities		Business-type activities		Total	
	2013	2014	2013	2014	2013	2014
Current and other assets	\$ 9,298,631	\$ 8,359,056	\$ 1,378,704	\$ 1,421,440	\$ 10,677,335	\$ 9,780,496
Capital assets	6,661,123	6,941,056	17,240,883	16,705,901	23,902,006	23,646,957
Total assets	\$ 15,959,754	\$ 15,300,112	\$ 18,619,587	\$ 18,127,341	\$ 34,579,341	\$ 33,427,453
Long-term liabilities outstanding	\$ 1,418,000	\$ 1,363,000	\$ 1,585,132	\$ 1,719,525	\$ 3,003,132	\$ 3,082,525
Other liabilities	757,326	815,030	231,899	338,185	989,225	1,153,215
Total liabilities	2,175,326	2,178,030	1,817,031	2,057,710	3,992,357	4,235,740
Net Position:						
Net investment in capital assets	5,243,123	5,578,056	15,655,751	14,986,376	20,898,874	20,564,432
Restricted	2,069,961	1,763,768	13,118	17,767	2,083,079	1,781,535
Unrestricted	6,471,344	5,780,258	1,133,687	1,065,488	7,605,031	6,845,746
Total net position	\$ 13,784,428	\$ 13,122,082	\$ 16,802,556	\$ 16,069,631	\$ 30,586,984	\$ 29,191,713

Net position of the City's governmental activities decreased by 5 percent (\$13,122,082 compared to \$13,784,428). Unrestricted net position—the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—decreased by 11% (\$5,780,258 compared to \$6,471,344).

This decrease in unrestricted governmental net position arose primarily because of one main factor – the City does not generate enough revenues to cover operating costs. The City Council decided to draw down accumulated cash balances to cover budget shortfalls and costs. These factors are discussed in greater detail below.

The net position of the City's business-type activities decreased by \$732,925 or 5 percent (\$16,069,631 compared to \$16,802,566). If there were an increase in net position, the net position cannot be used to make up for the decrease reported in governmental activities. The City generally can only use this net position to finance the continuing operations of the water and sewer and disposal operations.

**CITY OF ORANGE COVE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

**Table 2: Condensed Statement of Activities**

	Governmental activities		Business-type activities		Total	
	2013	2014	2013	2014	2013	2014
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 187,947	\$ 201,976	\$ 2,273,323	\$ 2,305,781	\$ 2,461,270	\$ 2,507,757
Operating grants and contributions	2,092,691	2,637,290	-	-	2,092,691	2,637,290
Capital grants and contributions	358,034	594,970	279,966	67,997	638,000	662,967
General revenues:						
Property taxes	306,062	378,506	-	-	306,062	378,506
Sales tax	119,927	132,064	-	-	119,927	132,064
Franchise fees	60,453	59,702	-	-	60,453	59,702
Utility user tax	395,747	406,245	-	-	395,747	406,245
Motor vehicle in lieu	727,550	751,220	-	-	727,550	751,220
Interest and rent	103,070	79,692	2,271	3,459	105,341	83,151
Other	34,644	75,728	-	-	34,644	75,728
<b>Total Revenues</b>	<b>4,386,125</b>	<b>5,317,393</b>	<b>2,555,560</b>	<b>2,377,237</b>	<b>6,941,685</b>	<b>7,694,630</b>
<b>Expenses:</b>						
General government	602,832	498,661	-	-	602,832	498,661
Public safety	1,994,482	2,153,926	-	-	1,994,482	2,153,926
Public works	2,623,378	217,328	-	-	2,623,378	217,328
Planning and development	507,208	523,579	-	-	507,208	523,579
Streets	-	1,249,437	-	-	-	1,249,437
Parks and recreation	370,201	375,823	-	-	370,201	375,823
Daycare	1,201,537	977,539	-	-	1,201,537	977,539
Interest on long-term debt	77,357	72,562	-	-	77,357	72,562
Water	-	-	2,590,618	1,429,721	2,590,618	1,429,721
Sewer	-	-	1,044,339	1,158,546	1,044,339	1,158,546
Disposal	-	-	563,879	522,703	563,879	522,703
<b>Total expenses</b>	<b>7,376,995</b>	<b>6,068,855</b>	<b>4,198,836</b>	<b>3,110,970</b>	<b>11,575,831</b>	<b>9,179,825</b>
Increase/(decrease) in net position before transfers	(2,990,870)	(751,462)	(1,643,276)	(733,733)	(4,634,146)	(1,485,195)
Transfers	(417,886)	(808)	417,886	808	-	-
Increase/(decrease) in net position	(3,408,756)	(752,270)	(1,225,390)	(732,925)	(4,634,146)	(1,485,195)
Net position - beginning	17,193,184	13,784,428	18,015,328	16,802,556	35,208,512	30,586,984
Prior period adjustments	-	89,924	12,618	-	12,618	89,924
<b>Net position - ending</b>	<b>\$ 13,784,428</b>	<b>\$ 13,122,082</b>	<b>\$ 16,802,556</b>	<b>\$ 16,069,631</b>	<b>\$ 30,586,984</b>	<b>\$ 29,191,713</b>

The City's total revenues (excluding special items) increased by 11 percent (\$732,565). The total cost of all programs and services was \$9,159,445 (decreasing by \$2,416,386, or less than 21 percent) with new programs added this year. Even with an increase in revenues, the City still did not cover this year's costs. The factors that led to the decrease in net position for governmental activities also were the primary reasons for this year's shortfall. Our analysis below separately considers the operations of governmental and business-type activities.

*Governmental Activities*

Revenues for the City's governmental activities increased by 21 percent (\$910,888), while total expenses decreased just under 19 percent (\$1,328,520). This compares to a \$3,408,756 decrease in net position in 2013.

The City's management took major actions this year to avoid the level of decrease in net position reported last year. Some of the actions included:

- A hiring and overtime freeze was imposed in midyear. The City froze one sergeant position in the police department.
- Monitoring of the budget and cutting down expenditures by department heads.

More than half of the City's general revenue sources were above the final budget estimates. The City saw several increase in general revenues.

The cost of all governmental activities this year was \$6,048,475 compared to \$7,376,995 last year. However, as shown in the Statement of Activities on page 16, the amount that City taxpayers ultimately financed for these activities was only \$2,634,619 because some of the cost was paid by those who directly benefited from the programs (\$181,596) or by other governments and organizations that subsidized certain programs with grants and contributions (\$3,232,260). Overall, the City's governmental program revenues, including intergovernmental aid and fees for services, increased in 2014 from \$2,638,672 to \$3,413,856, principally based on increases in operating grants and contributions. The City paid for the remaining "public benefit" portion of governmental activities with \$2,967,619 in taxes (some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

Table 3 presents the cost of each of the City's five largest programs—public safety, streets, planning & development, daycare, and general government—as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

**Table 3: 5 Largest Programs**

Programs	Cost	Net Cost
Public safety	\$ 2,153,926	\$ (1,820,081)
Streets	\$ 1,249,437	\$ (368,298)
Planning and development	\$ 523,579	\$ 40,383
Day care	\$ 977,539	\$ -
General government	\$ 498,661	\$ (448,681)

*Business-type Activities*

Revenues of the City's business-type activities (see Table 2) increased by 7 percent (\$2,377,237 in 2014 compared to \$2,555,560 in 2013) and expenses decreased by 26 percent. The factors driving these results include:

- High emergency maintenance costs—caused by the drought months in 2013—did not occur this year.
- Increase in allowance for uncollectible utilities receivable

**CITY OF ORANGE COVE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

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*Government-wide Financial Analysis*

As noted earlier, over time, net position may serve as a useful indicator of a government's financial position. In the case of the City of Orange Cove, assets exceeded liabilities by \$29,191,713 at the close of the most recent fiscal year, which is a decrease of \$1,395,271. The City is able to report positive balances in all three categories of net position, (net investment in capital assets, restricted, and unrestricted) for the government as a whole.

**Table 4: Components of Net Position**

	Governmental activities		Business-type activities		Total	
	2013	2014	2013	2014	2013	2014
Net investment in capital assets	\$ 5,243,123	\$ 5,578,056	\$ 15,655,751	\$ 14,986,376	\$ 20,898,874	\$ 20,564,432
Restricted	2,069,961	1,763,768	13,118	17,767	2,083,079	1,781,535
Unrestricted	6,471,344	5,780,258	1,133,687	1,065,488	7,605,031	6,845,746
Total	\$ 13,784,428	\$ 13,122,082	\$ 16,802,556	\$ 16,069,631	\$ 30,586,984	\$ 29,191,713

By far the largest portion of the City's net position, \$20,564,432 or 71%, reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related outstanding debt used to acquire those assets. As the City uses capital assets to provide services to citizens, these assets are generally not available for future spending. Although the City's investment in its capital assets is reported net of related debt, resources needed to repay this debt must be provided from other sources. An additional portion, \$1,781,535 or 6% of the City's net position represents resources that are restricted, meaning they are subject to external restrictions on how they may be used. The remaining balance, unrestricted net position, \$6,845,746 or 23%, may be used to meet the City's obligations.

**Table 5: Revenue and Expenditures Comparison**

	Governmental activities		\$	%
	2013	2014	Change	Change
<b>Revenues:</b>				
Charges for services	\$ 187,947	\$ 201,976	\$ 14,029	7%
Operating grants and contributions	\$ 2,092,691	\$ 2,637,290	\$ 544,599	26%
Capital grants and contributions	\$ 358,034	\$ 594,970	\$ 236,936	66%
Property taxes	\$ 306,062	\$ 378,506	\$ 72,444	24%
Sales tax	\$ 119,927	\$ 132,064	\$ 12,137	10%
Franchise fees	\$ 60,453	\$ 59,702	\$ (751)	-1%
Utility user tax	\$ 395,747	\$ 406,245	\$ 10,498	3%
Motor vehicle in lieu	\$ 727,550	\$ 751,220	\$ 23,670	3%
Interest and rent	\$ 103,070	\$ 79,692	\$ (23,378)	-23%
Other	\$ 34,644	\$ 75,728	\$ 41,084	119%
<b>Expenses:</b>				
General government	\$ 602,832	\$ 498,661	\$ (104,171)	-17%
Public safety	\$ 1,994,482	\$ 2,153,926	\$ 159,444	8%
Public works	\$ 2,623,378	\$ 217,328	\$ (2,406,050)	-92%
Planning and development	\$ 507,208	\$ 523,579	\$ 16,371	3%
Streets	\$ -	\$ 1,249,437	\$ 1,249,437	100%
Parks and recreation	\$ 370,201	\$ 375,823	\$ 5,622	2%
Daycare	\$ 1,201,537	\$ 977,539	\$ (223,998)	-19%
Interest on long-term debt	\$ 77,357	\$ 72,562	\$ (4,795)	-6%
Water	\$ 2,590,618	\$ 1,429,721	\$ (1,160,897)	-45%
Sewer	\$ 1,044,339	\$ 1,158,546	\$ 114,207	11%
Disposal	\$ 563,879	\$ 522,703	\$ (41,176)	-7%

While in total, the City's net position is positive, results are very different for the governmental activities and the business-type activities. Readers should review the following analysis pertaining to those portions to fully understand the City's financial reports.

*Governmental activities.* Governmental activities, including transfers and special items, decreased the City's total net position by \$716,691. This decrease was \$2,692,065 lower than the decrease reported at the end of the previous fiscal year. The following points highlight the significant changes compared with changes that occurred in the previous year:

- Operating grants and contributions increased by \$544,599. This resulted from giving out 3 new home loans from the 2011 HOME grant and an increase in funding for the Domestic Violence grant.
- Capital grants and contributions increased by \$236,936, which was used to fund major street improvements project.
- Property taxes increased by \$72,444 due to new homes being added to the assessment roll and/or re-assessment of rehabilitated homes and an increase in residual and transfer tax received from the County of Fresno.

- Sales tax increased by \$12,137 due to the impact of having a Family Dollar in Orange Cove.
- Investment earnings decreased by \$23,378 or -23%. This decrease is largely due to the City's cash and cash equivalents continued to be invested in conservative, low-yielding instruments and the City using up the reserves to finance current operations.
- Total expenses decreased by \$2,489,417. The water function reported a decrease of \$1,160,897 in expenses, due to emergency water project from the prior year. Last year, the City spent about \$700,000 in just equipment lease for the emergency water project.
- Sewer expenses increased due to an increase in depreciation costs for new capital assets and licensing fees paid in the current year.
- Disposal expenses decreased due to the City no longer charging payroll and benefits to this fund.
- General government decreased due to general cut back of expenditures.
- Public safety increased due to hiring costs relating to building a reserve program, increase in vehicle repairs of \$123,743, victim advocate costs of \$65,576 and an increase in funding for the domestic violence grant.

*Business-type activities.* The City's business-type activities consist of three enterprise funds: water, sewer, and disposal. The vast majority of the revenue is provided through charges for services.

The City's business-type activities decreased the City's total net position by \$732,925. This was a result of decreases in the Water Fund and Sewer Fund of \$325,604 and \$428,754 respectively, offset by increase in the Disposal Fund of \$21,433.

The major activity accounted for in the Water Fund is the operations of the Water Plant located on Park Avenue. For the year ended June 30, 2014, the Water Fund experienced a \$325,604 operating loss. This was largely due to costs associated with a water emergency project in fiscal year 2012-13. Most of this loss was anticipated as the user fees do not attempt to recover depreciation expenses. If depreciation was excluded, the fund would have experienced a smaller operating loss as the remaining expenses were \$123,707 more than revenues.

The Sewer Fund also experienced an operating loss. Most of this loss was anticipated as the user fees do not attempt to recover depreciation expenses. If depreciation was excluded, the fund would have experienced a small operating gain as the remaining expenses were \$1,084 less than revenues. While user fees for this fund have not changed since fiscal year 2003-04, the rates are periodically reviewed as to both sufficiency and method of levy. The next rate increase will not take into effect until July 2015. The City is also reviewing the estimated life of, and exploring potential upgrades to, these facilities.

The only enterprise fund experiencing an operating income is the Disposal Fund, which had an operating income of \$21,433 at year-end.

## THE FINANCIAL STATEMENTS

The financial statements presented herein include the activities of the City and its component units.

*Government-wide financial statements* provide both short-term and long-term information about the City's overall financial status. *Fund financial statements* focus on the individual activities of City government, reporting the City's operations in more detail than the government-wide financial statements.

*Government-wide financial statements.* The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting.

The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the components (assets and deferred outflows of resources, less liabilities and deferred inflows of resource) presented as net position. Net position is reported as one of three categories: net investment in capital assets, restricted, or unrestricted. Restricted net position is further classified as either net position restricted by enabling legislation or net position that is otherwise restricted. Over time, increases or decrease in net position may serve as useful indicators of whether the City's financial position is improving or deteriorating.

The statement of activities presents information showing how the net position changed during the most recent fiscal year. Revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). All changes in net position are reported as soon as the underlying event rise to the change occurs, regardless of the timing of related cash flows.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, planning and development, streets, parks and recreation, and daycare. The business-type activities of the City include water, sewer, and disposal utility operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also component units.

*Fund financial statements.* A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the City's funds can be divided into two categories: governmental funds and fiduciary funds.

*Governmental funds.* Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of resources, as well as on balances of nonspendable and spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eleven individual governmental funds. Information is presented separately for the General Fund, Local Transportation Fund, Low-Moderate Housing Asset Fund, Housing Grant Fund and Day Care, all of which are considered to be major funds. Data from the other six governmental funds (non-major funds) are combined into a single, aggregated presentation identified as "Other Governmental Funds".

The City adopts annual appropriated budgets for its General Fund, Local Transportation Fund, Low-Moderate Housing Asset Fund, Housing Grant Fund and Day Care Fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with the budgets.

The governmental fund financial statements can be found on pages 18-21 of this report.

*Proprietary funds.* The City maintains three proprietary funds, the Water, Sewer, and Disposal Enterprise Fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses its enterprise fund to account for its three utility operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements can be found on pages 22-24 of this report.

*Fiduciary funds.* Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The largest fiduciary fund is the City's pension fund. The City's fiduciary activities are reported in separate statements of fiduciary net position and statements of changes in fiduciary net position. The City's agency fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it does not present a statement of changes in fiduciary net position. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

*Notes to the financial statements.* The notes provide additional information that is essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-54 of this report.

*Other information.* In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

*Original budget compared to final budget.* During the year there was no need for any significant amendments to increase either the original estimated revenues or original budgeted appropriations. However, there was a need to make an amendment to reallocate appropriations among departments when it became clearer which departments would actually be charged for certain employee benefits such as pensions. Generally the movement of the appropriations between departments were not significant. The exception was the appropriation for the Police department in public safety function was increased by \$158,805 for the purchase of the fire engine.

*Final budget compared to actual results.* The most significant differences between estimated revenues and actual revenues were as follows:

<b>Revenue Source</b>	<b>Estimated</b>	<b>Actual</b>	<b>Variance</b>
Taxes	\$ 1,387,000	\$ 1,578,262	\$ 191,262
Intergovernmental	\$ 109,600	\$ 275,626	\$ 166,026
Charges for service	\$ 141,802	\$ 67,317	\$ (74,485)
Licenses and permits	\$ 130,590	\$ 117,829	\$ (12,761)
Interest and rents	\$ 111,320	\$ 70,005	\$ (41,315)
Other	\$ 13,865	\$ 70,651	\$ 56,786
<b>Expenditures</b>	<b>Estimated</b>	<b>Actual</b>	<b>Variance</b>
General government	\$ 298,509	\$ 395,389	\$ (96,880)
Public safety	\$ 1,598,079	\$ 2,026,233	\$ (428,154)
Public works	\$ 132,259	\$ 189,573	\$ (57,314)
Planning and development	\$ 70,910	\$ 163,545	\$ (92,635)
Parks and recreation	\$ 228,987	\$ 282,042	\$ (53,055)
Capital outlay	\$ 158,805	\$ 194,136	\$ (35,331)

**CITY OF ORANGE COVE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

The shortfalls in the above revenue sources were caused by the drought experienced during the current year. Licenses and permits were less than estimated because there were less of these items purchased, particularly in the case of business licenses and building permits. Intergovernmental is the classification used to report grant revenues. Accordingly, the grants that these other governments were able to provide were more than expected. Actual grants from the state were approximately \$166,026 more than estimated.

The General Fund expenditures exceeded budget by \$763,369 in total. Many of the capital assets purchased during the year and emergency repairs were not budgeted and City spending more than budgeted.

*CAPITAL ASSETS AND DEBT ADMINISTRATION*

*Capital assets.* The City of Orange Cove's investment in capital assets for its governmental and business-type activities as of June 30, 2014 amounts to \$23,646,957, net of accumulated depreciation. The investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, streets, and plants. The total decrease in capital assets for the current fiscal year was approximately \$255,050, or 1%.

**Capital Assets**

	Governmental activities		Business-type activities		Total	
	2013	2014	2013	2014	2013	2014
Land	\$ 1,302,411	\$ 1,302,411	\$ 769,772	\$ 769,772	\$ 2,072,183	\$ 2,072,183
Building and improvements, net	4,647,190	5,296,480	16,014,276	15,920,860	20,661,466	21,217,340
Machinery and equipment, net	316,903	342,165	456,836	15,269	773,739	357,434
Construction in progress	394,619	-	-	-	394,619	-
Total	\$ 6,661,123	\$ 6,941,056	\$ 17,240,884	\$ 16,705,901	\$ 23,902,007	\$ 23,646,957

Major capital asset events during the current fiscal year included:

- Park improvements of \$10,713
- Lawn mower of \$14,361
- Water pump of \$11,030
- Various projects related to streets, sidewalks and storm drain at a cost of \$206,501
- Fire engine and related equipment of \$161,426
- Radios for Police Department for \$7,636

Additional information on the City's capital assets can be found in Note 6 on pages 42 to 43 of this report.

**CITY OF ORANGE COVE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

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*Long-term debt.* At the end of the current fiscal year, the City had total debt outstanding of \$3,087,644. Of this amount \$1,028,680 is for certificate of participation, \$1,363,000 is a special assessment debt, and the remaining is a loan payable of \$695,964.

**Outstanding Debt**

	Governmental activities		Business-type activities		Total	
	2013	2014	2013	2014	2013	2014
Certificate of participation	\$ -	\$ -	\$ 1,052,480	\$ 1,028,680	\$ 1,052,480	\$ 1,028,680
Loan payable	-	-	532,652	695,964	532,652	695,964
Assessment bonds payable	1,418,000	1,363,000	-	-	1,418,000	1,363,000
	<u>\$ 1,418,000</u>	<u>\$ 1,363,000</u>	<u>\$ 1,585,132</u>	<u>\$ 1,724,644</u>	<u>\$ 3,003,132</u>	<u>\$ 3,087,644</u>

The City's total debt increased by \$84,512 (3%) during the current fiscal year. The reason for the increase was that the only new debt during the year was for an amount that was greater than the regularly scheduled principal reductions on the existing outstanding debt. The new issuance was a loan payable of \$250,000 for a retrofit project at the Sewer Plant.

Additional information on the City's long-term debt can be found on Note 7 on pages 44 to 47 of this report.

*ECONOMIC FACTORS AND NEXT YEAR BUDGETS AND RATES*

The following economic factors currently affect the City and were considered during the 2014-15 fiscal year budget:

- Interest rates are expected to remain at record low levels throughout 2014-15 fiscal year.
- Departmental budget reductions were implemented to close the gap between revenues and expenditures.
- Property values are expected to increase about 5%
- Water and sewer rates will take in effect July 2015
- Measure O parcel taxes are expected to come in January 2016

*REQUESTS FOR INFORMATION*

This financial report is designed to provide a general overview of the City of Orange Cove's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, City of Orange Cove, 633 Sixth Street, Orange Cove, California 93646.

*GOVERNMENT-WIDE FINANCIAL STATEMENTS*

CITY OF ORANGE COVE  
STATEMENT OF NET POSITION  
JUNE 30, 2014

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash and investments	\$ 3,665,341	\$ 1,706,743	\$ 5,372,084
Accounts receivable	134,646	263,319	397,965
Interest receivable	169,851	452	170,303
Due from other governments	1,034,894	-	1,034,894
Internal balances	549,074	(549,074)	-
Notes receivable	1,829,264	-	1,829,264
Land held for resale	975,986	-	975,986
Capital assets, net of depreciation	<u>6,941,056</u>	<u>16,705,901</u>	<u>23,646,957</u>
 Total assets	 <u>15,300,112</u>	 <u>18,127,341</u>	 <u>33,427,453</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	637,733	219,097	856,830
Accrued interest	22,650	15,326	37,976
Deposits	-	31,344	31,344
Compensated absences	107,458	72,418	179,876
Unearned revenues	47,189	-	47,189
Long-term liabilities:			
Due within one year	58,000	139,686	197,686
Due in more than one year	<u>1,305,000</u>	<u>1,579,839</u>	<u>2,884,839</u>
Total liabilities	<u>2,178,030</u>	<u>2,057,710</u>	<u>4,235,740</u>
<b>NET POSITION</b>			
Net investments in capital assets	5,578,056	14,986,376	20,564,432
Restricted for debt service	346,165	17,767	363,932
Restricted for capital projects	433,453	-	433,453
Restricted for specific projects and programs	984,150	-	984,150
Unrestricted	<u>5,780,258</u>	<u>1,065,488</u>	<u>6,845,746</u>
 Total net position	 <u>\$ 13,122,082</u>	 <u>\$ 16,069,631</u>	 <u>\$ 29,191,713</u>

See accompanying notes to the financial statements.

**CITY OF ORANGE COVE  
STATEMENT OF ACTIVITIES  
JUNE 30, 2014**

Functions/Programs	Program Revenue			Net Revenue/(Expense) and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary Government</b>							
Governmental activities:							
General government	\$ 498,661	\$ 34,148	\$ 15,832	\$ -	\$ (448,681)	\$ -	\$ (448,681)
Public safety	2,153,926	72,875	260,970	-	(1,820,081)	-	(1,820,081)
Public works	217,328	-	-	-	(217,328)	-	(217,328)
Planning and development	523,579	74,573	489,389	-	40,383	-	40,383
Streets	1,249,437	-	906,415	594,970	251,948	-	251,948
Parks and recreation	375,823	-	7,525	-	(368,298)	-	(368,298)
Day care	977,539	20,380	957,159	-	-	-	-
Debt service:							
Interest and other charges	72,562	-	-	-	(72,562)	-	(72,562)
Total government activities	6,068,855	201,976	2,637,290	594,970	(2,634,619)	-	(2,634,619)
Business-type activities:							
Water	1,429,721	1,103,203	-	-	-	(326,518)	(326,518)
Sewer	1,158,546	659,437	-	67,997	-	(431,112)	(431,112)
Disposal	522,703	543,141	-	-	-	20,438	20,438
Total business-type activities	3,110,970	2,305,781	-	67,997	-	(737,192)	(737,192)
<b>Total primary government</b>	<b>\$ 9,179,825</b>	<b>\$ 2,507,757</b>	<b>\$ 2,637,290</b>	<b>\$ 662,967</b>	<b>(2,634,619)</b>	<b>(737,192)</b>	<b>(3,371,811)</b>
<b>General Revenue</b>							
Property taxes and special assessments					378,506	-	378,506
Sales taxes					132,064	-	132,064
Franchise taxes					59,702	-	59,702
Business licenses					20,669	-	20,669
Utility Users tax					406,245	-	406,245
Motor vehicle in-lieu					751,220	-	751,220
Interest and rent					79,692	3,459	83,151
Other					55,059	-	55,059
Transfers					(808)	808	-
Total general revenue and transfers					1,882,349	4,267	1,886,616
<b>Change in Net Position</b>					(752,270)	(732,925)	(1,485,195)
<b>Net Position</b>							
Beginning of year					13,784,428	16,802,556	30,586,984
Prior period adjustments					89,924	-	89,924
End of year					<u>\$ 13,122,082</u>	<u>\$ 16,069,631</u>	<u>\$ 29,191,713</u>

See accompanying notes to the financial statements.

*GOVERNMENTAL FUNDS FINANCIAL STATEMENTS*

CITY OF ORANGE COVE  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2014

	General	Local		Low-Moderate		Day Care	Other		Total
		Transportation	Housing Asset	Housing Grant	Governmental Funds		Governmental Funds		
<b>ASSETS</b>									
Cash and investments	\$ 2,089,163	\$ 351,908	\$ 60,927	\$ -	\$ 52,008	\$ 1,111,335	\$ 3,665,341		
Accounts receivable	134,646	-	-	-	-	-	134,646		
Interest receivable	1,786	72	128,240	39,605	-	148	169,851		
Due from other governments	-	309,565	-	302,559	45,476	377,294	1,034,894		
Due from other funds	819,928	-	-	-	-	-	819,928		
Notes receivable	-	-	303,504	1,489,957	-	35,803	1,829,264		
Land held for resale	376,000	-	-	-	-	599,986	975,986		
Total assets	<u>\$ 3,421,523</u>	<u>\$ 661,545</u>	<u>\$ 492,671</u>	<u>\$ 1,832,121</u>	<u>\$ 97,484</u>	<u>\$ 2,124,566</u>	<u>\$ 8,629,910</u>		
<b>LIABILITIES</b>									
Accounts payable and accrued expenses	\$ 151,437	\$ 6,196	\$ -	\$ 120,332	\$ 50,295	\$ 309,473	\$ 637,733		
Due to other funds	-	-	-	175,917	-	94,937	270,854		
Unearned revenues	-	-	-	-	47,189	-	47,189		
Total liabilities	<u>151,437</u>	<u>6,196</u>	<u>-</u>	<u>296,249</u>	<u>97,484</u>	<u>404,410</u>	<u>955,776</u>		
<b>DEFERRED INFLOWS OF RESOURCES</b>									
Unavailable revenues	3,844	-	403,237	1,529,557	-	-	1,936,638		
Total deferred inflows of resources	<u>3,844</u>	<u>-</u>	<u>403,237</u>	<u>1,529,557</u>	<u>-</u>	<u>-</u>	<u>1,936,638</u>		
<b>FUND BALANCE</b>									
Nonspendable:									
Notes receivables	-	-	-	-	-	35,803	35,803		
Land held for resale	376,000	-	-	-	-	599,986	975,986		
Restricted:									
Low-income housing activities	-	-	89,434	6,315	-	-	95,749		
Circulation improvements	-	655,349	-	-	-	322,486	977,835		
Capital improvement projects	-	-	-	-	-	433,453	433,453		
Debt service	-	-	-	-	-	346,165	346,165		
Unassigned	2,890,242	-	-	-	-	(17,737)	2,872,505		
Total fund balance	<u>3,266,242</u>	<u>655,349</u>	<u>89,434</u>	<u>6,315</u>	<u>-</u>	<u>1,720,156</u>	<u>5,737,496</u>		
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 3,421,523</u>	<u>\$ 661,545</u>	<u>\$ 492,671</u>	<u>\$ 1,832,121</u>	<u>\$ 97,484</u>	<u>\$ 2,124,566</u>	<u>\$ 8,629,910</u>		

See accompanying notes to the financial statements.

CITY OF ORANGE COVE  
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL  
 ACTIVITIES  
 JUNE 30, 2014

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Total governmental fund balance	\$ 5,737,496
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	6,941,056
Accrued interest on long-term liabilities is not due and payable in the current period and, therefore, is not reported in the funds	(22,650)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds	(107,458)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds	1,936,638
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	<u>(1,363,000)</u>
Net position of governmental activities	<u><u>\$ 13,122,082</u></u>

See accompanying notes to the financial statements.

CITY OF ORANGE COVE  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
 BALANCE – GOVERNMENTAL FUNDS  
 JUNE 30, 2014

	General	Local		Low-Moderate		Daycare	Other	Total
		Transportation	Housing Asset	Housing Grant	Governmental Funds			
<b>Revenues</b>								
Taxes	\$ 1,578,262	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 145,996	\$ 1,724,258
Intergovernmental	275,626	857,632	-	289,432	957,159	643,752	3,023,601	
Charges for service	67,317	-	-	-	20,380	-	87,697	
Licenses, permits and impact fees	117,829	-	-	-	-	9,863	127,692	
Interest and rent	70,005	401	737	27	-	8,523	79,693	
Other	70,651	-	-	-	-	-	70,651	
Total revenues	2,179,690	858,033	737	289,459	977,539	808,134	5,113,592	
<b>Expenditures</b>								
Current:								
General government	395,389	-	-	-	-	-	-	395,389
Public safety	2,026,233	-	-	-	-	-	-	2,026,233
Public works	189,573	-	-	-	-	-	-	189,573
Streets	-	371,809	-	-	-	846,470	-	1,218,279
Planning and development	163,545	-	-	291,855	-	67,757	-	523,157
Parks and recreation	282,042	-	-	-	-	-	-	282,042
Day care	-	-	-	-	977,539	-	-	977,539
Capital outlay	194,136	-	-	-	-	538,390	-	732,526
Debt service:								
Principal	-	-	-	-	-	55,000	-	55,000
Interest and other charges	-	-	-	-	-	73,479	-	73,479
Total expenditures	3,250,918	371,809	-	291,855	977,539	1,581,096	-	6,473,217
Revenue over/(under) expenditures	(1,071,228)	486,224	737	(2,396)	-	(772,962)	-	(1,359,625)
<b>Other Financing Sources/(Uses)</b>								
Transfers in/(out) - net	(216)	(536,983)	-	-	-	536,391	-	(808)
Total other financing sources/(uses)	(216)	(536,983)	-	-	-	536,391	-	(808)
<b>Change in Fund Balance</b>	(1,071,444)	(50,759)	737	(2,396)	-	(236,571)	-	(1,360,433)
<b>Fund Balance</b>								
Beginning of year	4,248,329	706,108	363,697	1,298,711	-	1,948,027	-	8,564,872
Prior period adjustments	89,357	-	(275,000)	(1,290,000)	-	8,700	-	(1,466,943)
End of year	3,266,242	655,349	89,434	6,315	-	1,720,156	-	5,737,496

See accompanying notes to the financial statements.

CITY OF ORANGE COVE  
 RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUNDS TO THE  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2014

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Change in fund balance- total governmental funds \$ (1,360,433)

Amounts reported for governmental activities in the Statement of Activities are different because:

Depreciation expense on capital assets is reported in the Statement of Activities, but the do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the funds (374,686)

Governmental Funds report capital outlay as expenditures. However, in Statement of Activities the cost of those assets are capitalized as an asset and depreciated over the period of service 732,526

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds 203,807

Compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds (9,401)

Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position 55,000

In the statement of activities, interest is accrued on long-term debt, whereas in governmental funds interest expenditures is reported when due 917

Change in net position of governmental activities \$ (752,270)

CITY OF ORANGE COVE  
STATEMENT OF NET POSITION – PROPRIETARY FUNDS  
JUNE 30, 2014

	Business-Type Activities - Enterprise Funds			Total Business-Type Funds
	Water	Sewer	Disposal	
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and investments	\$ -	\$ 1,667,537	\$ 39,206	\$ 1,706,743
Accounts receivable	131,249	76,247	55,823	263,319
Interest receivable	10	442	-	452
Total current assets	<u>131,259</u>	<u>1,744,226</u>	<u>95,029</u>	<u>1,970,514</u>
<b>Non-current assets</b>				
Property, plant and equipment (net of allowances for depreciation)	6,000,141	10,705,760	-	16,705,901
Total noncurrent assets	<u>6,000,141</u>	<u>10,705,760</u>	<u>-</u>	<u>16,705,901</u>
Total assets	<u>6,131,400</u>	<u>12,449,986</u>	<u>95,029</u>	<u>18,676,415</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued expenses	157,347	20,446	41,304	219,097
Accrued interest	15,326	-	-	15,326
Deposits	31,344	-	-	31,344
Compensated absences	38,392	34,026	-	72,418
Due to other funds	549,074	-	-	549,074
Current portion of long-term debt	58,605	81,081	-	139,686
Total current liabilities	<u>850,088</u>	<u>135,553</u>	<u>41,304</u>	<u>1,026,945</u>
<b>Non-current liabilities</b>				
Long -term debt	1,464,974	114,865	-	1,579,839
Total liabilities	<u>2,315,062</u>	<u>250,418</u>	<u>41,304</u>	<u>2,606,784</u>
<b>NET POSITION</b>				
Net investment in capital assets	4,476,562	10,509,814	-	14,986,376
Restricted for debt services	17,767	-	-	17,767
Unrestricted	(677,991)	1,689,754	53,725	1,065,488
Total net position	<u>\$ 3,816,338</u>	<u>\$ 12,199,568</u>	<u>\$ 53,725</u>	<u>\$ 16,069,631</u>

See accompanying notes to the financial statements.

CITY OF ORANGE COVE  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET  
POSITION – PROPRIETARY FUNDS  
JUNE 30, 2014

	Business-Type Activities - Enterprise Funds			Total Business-Type Funds
	Water	Sewer	Disposal	
<b>Operating Revenue</b>				
Charges for service	\$ 1,101,010	\$ 656,163	\$ 543,141	\$ 2,300,314
Connection fees	1,160	-	-	1,160
Total operating revenue	<u>1,102,170</u>	<u>656,163</u>	<u>543,141</u>	<u>2,301,474</u>
<b>Operating Expense</b>				
Contractual service and utilities	511,115	287,218	505,116	1,303,449
Personnel	492,511	415,790	15,146	923,447
Supplies and materials	169,935	25,794	2,442	198,171
Depreciation expense	201,897	429,744	-	631,641
Total operating expense	<u>1,375,458</u>	<u>1,158,546</u>	<u>522,704</u>	<u>3,056,708</u>
Operating income/(loss)	<u>(273,288)</u>	<u>(502,383)</u>	<u>20,437</u>	<u>(755,234)</u>
<b>Nonoperating Revenue/(Expense)</b>				
Intergovernmental	-	67,997	-	67,997
Development impact fees	1,033	3,274	-	4,307
Interest income	1,008	2,452	-	3,460
Interest expense	(54,263)	-	-	(54,263)
Total nonoperating revenue/(expense)	<u>(52,222)</u>	<u>73,723</u>	<u>-</u>	<u>21,501</u>
Net income/(loss) before transfers	(325,510)	(428,660)	20,437	(733,733)
<b>Operating Transfers In/(Out)</b>	<u>(94)</u>	<u>(94)</u>	<u>996</u>	<u>808</u>
<b>Changes in Net Position</b>	(325,604)	(428,754)	21,433	(732,925)
<b>Net Position</b>				
Beginning of year	4,141,942	12,628,322	32,292	16,802,556
End of the year	<u>\$ 3,816,338</u>	<u>\$ 12,199,568</u>	<u>\$ 53,725</u>	<u>\$ 16,069,631</u>

See accompanying notes to the financial statements.

**CITY OF ORANGE COVE**  
**STATEMENT OF CASH FLOW – PROPRIETARY FUNDS**  
**JUNE 30, 2014**

	<b>Business-Type Activities - Enterprise Funds</b>			<b>Total Business-Type Funds</b>
	<b>Water</b>	<b>Sewer</b>	<b>Disposal</b>	
<b>Operating Activities</b>				
Receipts from customers and users	\$ 1,195,289	\$ 703,462	\$ 562,052	\$ 2,460,803
Payments for contractual services and utilities	(363,356)	(378,916)	(503,713)	(1,245,985)
Payments for employees	(467,383)	(392,049)	(17,692)	(877,124)
Payments to suppliers	(169,935)	(25,794)	(2,442)	(198,171)
Net cash provided by (used in) operating activities	<u>194,615</u>	<u>(93,297)</u>	<u>38,205</u>	<u>139,523</u>
<b>Non-capital Financial Activities</b>				
Payments from developers	1,033	3,274	-	4,307
Payments received from (paid to) other funds	(319,166)	-	-	(319,166)
Transfer (to)/from other funds	(94)	(94)	996	808
Net cash provided by (used in) non-capital financial activities	<u>(318,227)</u>	<u>3,180</u>	<u>996</u>	<u>(314,051)</u>
<b>Capital and Related Financing Activities</b>				
Purchase of property, plant and equipment	(11,030)	(85,628)	-	(96,658)
Capital grants and contributions received	250,000	67,997	-	317,997
Proceeds from debt	-	250,000	-	250,000
Principal paid on long-term debt	(61,553)	(54,054)	-	(115,607)
Interest paid on long-term debt	(54,859)	-	-	(54,859)
Net cash provided by (used in) capital and related financing activities	<u>122,558</u>	<u>178,315</u>	<u>-</u>	<u>300,873</u>
<b>Investing Activities</b>				
Interest received	<u>1,054</u>	<u>2,300</u>	<u>-</u>	<u>3,354</u>
Net cash provided by (used in) investing activities	<u>1,054</u>	<u>2,300</u>	<u>-</u>	<u>3,354</u>
<b>Net Increase (Decrease) in Cash</b>	-	90,498	39,201	129,699
<b>Cash</b>				
Beginning of year	-	1,577,039	5	1,577,044
End of year	<u>\$ -</u>	<u>\$ 1,667,537</u>	<u>\$ 39,206</u>	<u>\$ 1,706,743</u>
<b>Cash Flows from Operating Activities</b>				
Operating income (loss)	\$ (273,288)	\$ (502,383)	\$ 20,437	\$ (755,234)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	201,897	429,744	-	631,641
(Increase) Decrease in accounts receivable	89,709	47,614	18,912	156,235
(Increase) Decrease in deposits	3,412	-	-	3,412
Increase (Decrease) in compensated absences	25,128	23,741	(2,546)	46,323
Increase (Decrease) in accounts payable and accrued liabilities	<u>147,757</u>	<u>(92,013)</u>	<u>1,402</u>	<u>57,146</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 194,615</u>	<u>\$ (93,297)</u>	<u>\$ 38,205</u>	<u>\$ 139,523</u>

See accompanying notes to the financial statements.

CITY OF ORANGE COVE  
STATEMENT OF FIDUCIARY NET POSITION  
PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY  
JUNE 30, 2014

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**Assets**

Cash and investments	
Held in City Treasury	\$ (65,517)
Held with trustees	1,259,863
Interest receivable	72
Note receivable	200,000
Total assets	<u>1,394,418</u>

**Liabilities**

Accounts payable and accrued liabilities	1,408
Interest payable	89,930
Long-term debt:	
Due within one year	180,000
Due in more than one year	4,545,000
Total liabilities	<u>4,816,338</u>

**Net Position**

Held in trust for other governments	<u>\$ (3,421,920)</u>
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See accompanying notes to the financial statements.

CITY OF ORANGE COVE  
STATEMENT OF FIDUCIARY NET POSITION  
PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY  
JUNE 30, 2014

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**Additions**

Property taxes	\$ 279,657
Investment earnings and other	402
Total additions	<u>280,059</u>

**Deductions**

Program expenses of former redevelopment agency	-
Administrative costs	228,471
Interest and fiscal agency expenses of former redevelopment agency	219,502
Total deductions	<u>447,973</u>

**Change In Net Position**

(167,914)

**Net Position**

Beginning of year	<u>(3,254,006)</u>
End of year	<u>\$ (3,421,920)</u>

*NOTES TO THE FINANCIAL STATEMENTS*

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Orange Cove, California (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles.

These financial statements present the government and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and data from these units are combined with data of the primary government. Each blended component unit has a June 30 year-end. The City has no component units to report. The following sections further describe the significant policies of the City.

**REPORTING ENTITY**

The City was incorporated as a general law city in 1948. The City operates under a Council-Manager form of government. The City's major operations include public safety, public works, water, sewer, disposal, parks and recreation, streets, planning and community development, and general administrative services.

**BASIS OF PRESENTATION – FUND ACCOUNTING**

*Government-Wide Financial Statements* – The statement of net position and the statement of activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental and business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The *Statement of Activities* presents a comparison between direct expenses and program revenues for each different identifiable activity of the City's *business-type activities* and for each function of the City's *governmental activities*. Direct expenses are those that are specifically associated with a program or function and, therefore, are included in the program expense reported for individual functions. Certain indirect costs, which cannot be identified and broken down, are included in the program expense reported for individual functions and activities. Program revenues include, 1) fines, fees, and charges paid by the recipients of goods and services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Certain eliminations have been made as prescribed by GASB No. 34 in regards to interfund activities, payables and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated: due to/due from other funds, advances from/to other funds, and transfers in/transfers out.

Net position is restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**BASIS OF PRESENTATION – FUND ACCOUNTING (CONTINUED)**

**Governmental Fund Financial Statements** – The fund financial statements provide information about the City's funds. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. An accompanying schedule is presented to reconcile and explain the differences in funds and changes in fund balances as presented in these statements of net position and changes in net position presented in the government-wide financial statements.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The City reports the following major governmental funds:

**General Fund** – The General Fund is the general operating fund of the City. It is used for all financial resources except those required legally, or by sound financial management to be accounted for in another fund. Generally, the General Fund is used to account for those traditional governmental services of the City, such as police protection, planning and general administrative services.

**Local Transportation Special Revenue Fund** – This Fund is used to account for transportation funds received from the State of California and to for related transportation projects and maintenance costs.

**Low-Moderate Housing Asset Special Revenue Fund** – This fund accounts for former for the former Orange Cove Redevelopment Agency's affordable housing assets following its dissolution on January 31, 2012.

**Housing Grant Special Revenue Fund** – The Housing Grant Fund is used to account for grant revenues and expenditures related to housing assistance loans for low income individuals.

**Daycare Special Revenue Fund** – The Daycare Fund is used to account for grant revenues and expenditures related to the operation of the Daycare.

Enterprise fund financial statements include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows for each major enterprise fund and non-major fund.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**BASIS OF PRESENTATION – FUND ACCOUNTING (CONTINUED)**

The City has three major enterprise funds, the Water, Sewer and Disposal, which are used to account for operations that are financed and operated in a manner similar to private business enterprises. In an enterprise fund, the intent of the City Council is that costs (expenses, including depreciation) of providing services to the general public, on a continuing basis, be financed or recovered primarily through user charges.

The City reports the following three major enterprise funds:

- ♦ The **Water Fund** is used to account for financial activity of the water utility system.
- ♦ The **Sewer Fund** is used to account for the financial activity of the sewer utility system.
- ♦ The **Disposal Fund** is used to account for the financial activity of the disposal utility system.

The City's fiduciary funds represent agency trust funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency trust funds are accounted for on an *economic resources* measurement focus and the accrual basis of accounting

The City reports the following fiduciary fund:

- ♦ **Private-Purpose Trust Fund** – The Private Purpose Trust Fund accounts for assets held by the City as trustee for Successor Agency.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING**

*Government-Wide, Proprietary and Fiduciary Fund Financial Statements* – The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales taxes are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements* – Governmental funds are reported using current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants, and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments and compensated absences, are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING (CONTINUED)**

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect), as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. *Operating revenues*, such as charges for services, result from exchange transactions associated with the principal activity of each fund. *Nonoperating revenues*, such as interest income, state and federal grants, and subsidies, result from nonexchange transactions or ancillary activities. *Operating expenses* include costs for providing services and delivering goods such as administrative expenses and depreciation on capital assets. All other expenses not meeting this definition are reported as *nonoperating expenses*.

**ASSETS, LIABILITIES AND EQUITY**

*Cash and Cash Equivalents* – Cash and cash equivalents represent the City's cash bank accounts including, but not limited to, certificates of deposit, money market funds and cash management pools for reporting purposes in the statement of cash flows. Additionally, investments with maturities of three months or less when purchased are included as cash equivalents in the statement of cash flows.

The City maintains a cash and investment pool that is available for use by all funds. Interest earnings as a result of this pooling are distributed to the appropriate funds based on month end cash balances in each fund.

Investments of the pool include only those investments authorized by the California Government Code such as United States Treasury securities, agencies guaranteed by the United States Government, registered state warrants, and other investments. Investments primarily consist of deposits in the State of California Local Agency Investment Fund. Investments are stated at cost or amortized cost.

*Accounts Receivable* – Billed, but unpaid, services provided to individuals or non-governmental entities are recorded as accounts receivable. The proprietary funds include a year-end accrual for services through the end of the fiscal year which have not yet been billed. Accounts receivable are reported net of an allowance for uncollectible.

*Property Tax Calendar* – Fresno County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. Property taxes are levied in equal installments on November 1 and February 1. They become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes are accounted for in the General Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities. The City considers property taxes as available if they are collected within 60 days after the year-end. Property taxes on the unsecured roll are due on July 1 and become delinquent if unpaid on August 31. However, unsecured property taxes are not susceptible to year-end accrual.

The City is permitted by Article XIII A of the State of California Constitution (known as Proposition 13) to levy a maximum tax of \$1.00 per \$100 of full cash value.

*Interfund Receivables/Payables* – Items classified as interfund receivable/payable represent short-term lending/borrowing transactions between funds. This classification also includes the current portion of an advance to or from another fund.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**ASSETS, LIABILITIES AND EQUITY (CONTINUED)**

*Advances To/From Other Funds* – This classification represents non-current portions of any long-term lending/borrowing transactions between funds. This amount will be equally offset by a reserve of fund balance which indicates that it does not represent available financial resources and, therefore, is not available for appropriation. The current portion of any interfund long-term loan (advance) is included as an interfund receivable/payable.

*Capital Assets* – Capital outlays are recorded as expenditures of the general, special revenue, and capital projects funds, and capitalized assets in the government-wide financial statements to the extent the City’s capitalization threshold is met.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the Government-Wide Financial Statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements .....	10-50 years
Plant system .....	20-40 years
Machinery and equipment .....	5-10 years
Infrastructure.....	40 years

*Compensated Absences* – Accumulated unpaid vacation benefits, sick pay, and compensatory time benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements as long-term debt. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**ASSETS, LIABILITIES AND EQUITY (CONTINUED)**

Sick leave is accumulated at 15 days per year for full-time regular employees. Vacation is accumulated at 12 days per year for full-time regular employees with less than five years of service to a maximum of 25 days per year for full-time regular employees with over 20 years of service with no limit on accrual of unused hours. Upon employment termination, unused sick leave is paid out at 50% for less than 20 years of service and 75% for more than 20 years of service. These amounts are included as liabilities in the government-wide and enterprise fund financial statements.

Vested leave of Proprietary Funds are recorded as an expense and liability as the benefits accrue.

*Interest Payable* – In the government-wide financial statements, interest payable of long-term debt is recognized as the liability is incurred for governmental fund-types and proprietary fund-types. In the fund financial statements, proprietary fund-types recognize the interest payable when the liability is incurred.

*Unearned Revenue* – Unearned revenue is that for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City typically records unearned revenue related to uncollected outstanding, performing loans and intergovernmental revenues (primary grants and subventions) received but not earned (qualifying expenditures not yet incurred).

*Long-term Obligations* – In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Debt principal payments of both governmental and business-type activities are reported as decreases in the balance of the liability on the statement of net position. Bond premiums and discounts, as well as insurance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, however, debt principal payments of governmental funds are recognized as expenditures when paid. Governmental fund-types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

*Pension Plan* – All full-time City employees are members of the State of California Public Employees' Retirement System. The City's policy is to fund all pension costs accrued; such as costs to be funded are determined annually as of July 1 by the System's actuary. See Note 10 for further discussion.

*Encumbrances* – The City does not use encumbrance accounting.

*Budgetary and Budgetary Accounting* – Budgets are adopted annually for the general fund, special revenue funds, capital funds, debt service funds, and enterprise funds. Formal budgetary integration is employed as a management control device during the year for these funds. The annual budgets are prepared on the basis of accounting utilized by the fund.

Expenditures may not legally exceed budgeted appropriations at the fund level. The City Manager is authorized to make budget transfers between accounts within any fund. All revisions must be reported to the City Council.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**ASSETS, LIABILITIES AND EQUITY (CONTINUED)**

*Use of Estimates* – The preparation of the 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 and disclosures. Accordingly, actual results could differ from those estimates.

*Net Position* - In the government-wide financial statements, net position is classified in the following categories:

***Net investment in capital assets*** – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

***Restricted net position*** – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

***Unrestricted net position*** – This category present the net position of assets that do not meet the definition of “net investment in capital assets” or “restricted net position”.

When both restricted and unrestricted net position are available, restricted resources are depleted first before the unrestricted resources are used.

*Fund Balances* - The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the City’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the Finance Director through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the general fund.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- **Unassigned:** This classification is the residual classification for the general fund and represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. In other governmental funds it includes any negative residual amounts that may exist as a result of expenditures incurred for specific purposes in excess of amounts restricted, committed or assigned to those purposes.

The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**NEW PRONOUNCEMENTS**

**Government Accounting Standards Board Statement No. 68**

In June 30, 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27. The provisions of GASB Statement No. 68 are effective for the fiscal year ended June 30, 2015.

**Government Accounting Standards Board Statement No. 69**

In January 2013, GASB issued Statement No. 69, Government Combinations and Disposals of Government Operations. The objective of this Statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement requires disclosure to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2015.

**Government Accounting Standards Board Statement No. 70**

In April 2013, GASB issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2014.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

California law authorizes the City to invest in obligations of the United States Treasury, agencies, instrumentalities, certificate of deposit or time deposits in banks and savings and loan associations which are insured by the Federal Deposit Insurance Corporation.

In accordance with applicable sections of the California Government Code and the Orange Cove Municipal Code, the City prepares and legally adopts an annual balanced budget on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, specific Special Revenue Funds, and specific Capital Projects Funds. Budget plans are adopted for Proprietary Funds. A proposed budget is presented to the City Council during May of each year for review. The Council holds public hearings and may add to, subtract from, or change appropriations within the revenues and reserves estimated as available. Expenditures may not legally exceed budgeted appropriations at the fund level. Supplementary appropriations which alter the total expenditures of any fund, or expenditures in excess of total budgeted fund appropriations, must be approved by the City Council.

All annual appropriations lapse at fiscal year-end to the extent they have not been expended or encumbered.

**NOTE 3 – CASH AND INVESTMENTS**

The City pools all of its cash and investments except those funds required to be held by bond trustee or outside fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash is allocated to the various funds on average cash balances. Interest income from cash investments held by bond trustee is credited directly to the related funds.

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$ 5,372,084
Fiduciary Funds:	
Cash and Investments	(65,517)
Cash and Investments with fiscal agent	1,259,863
Total Cash and Investments	<u>\$ 6,566,430</u>

Cash and investments as of June 30, 2014 consist of the following:

Cash on hand	\$ 1,800
Deposit with Financial Institutions	825,353
Local Agency Investment Fund	4,461,647
Held by Fiscal Agent:	
Money Market Mutual Funds	1,277,630
Total Cash and Investments	<u>\$ 6,566,430</u>

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**INVESTMENTS AUTHORIZED BY THE CALIFORNIA GOVERNMENT CODE AND THE CITY'S INVESTMENTS POLICY**

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investments policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. The City's investment policy does not contain any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debts proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

**INVESTMENTS AUTHORIZED BY DEBT AGREEMENTS**

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code of the City's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identified certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Certificates of Deposits	1 year	None	None
Repurchase Agreements	30 days	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Municipal Bonds	None	None	None

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**DISCLOSURES RELATING TO INTEREST RATE RISK**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City manages its exposure to interest rate risk is by investing funds in liquid, short-term investments which can be converted to cash when necessary to meet disbursement requirements. As of June 30, 2014 the City had the following investments by maturity:

Investment Type	Amount	Maturity Date
Local Agency Investment Fund	\$ 4,461,647	N/A
Held by Bond Trustee:		
Money Market Mutual Funds	1,277,630	N/A
Total	\$ 5,739,277	

**DISCLOSURE RELATING TO CREDIT RISK**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required (where applicable) by the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Rating as of Year Ended	
			Not Rated	Not Rated
Local Agency Investment Fund	\$ 4,461,647	N/A	\$	4,461,647
Held by Bond Trustee:				
Money Market Mutual Funds	1,277,630	N/A	\$	1,277,630
Total	\$ 5,739,277		\$	5,739,277

**CONCENTRATION OF CREDIT RISK**

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The City does not have any investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments.

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**CUSTODIAL CREDIT RISK-DEPOSITS**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by the state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2014, the City's bank balance of \$291,638 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the City.

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investments pools such as the Local Agency Investment Fund (LAIF).

**INVESTMENT IN STATE INVESTMENT POOL**

The City is a voluntary participant in the LAIF that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investments in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**NOTE 4 – INTERFUND ACTIVITIES**

**DUE FROM/TO OTHER FUNDS**

Interfund receivables and payables consist of short-term loans resulting from regular transactions. These loans are expected to be repaid as soon as the borrowing fund has cash, and carry an interest rate equal to the rate earned on pooled cash. Individual fund interfund receivables and payables balances as of June 30, 2014 are as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 819,928	\$ -
Water Fund	-	549,074
Housing Fund	-	175,917
Community Development Fund	-	94,937
	<u>\$ 819,928</u>	<u>\$ 819,928</u>

**OPERATING TRANSFERS**

With the City Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund that has made expenditures on behalf of another fund. Transfers within fund types have been eliminated with the government-wide financial statements.

Transfers in and out for the year ended June 30, 2014 consisted of the following:

	General Fund	Disposal	Nonmajor	Total Transfers Out
General	\$ -	\$ 996	\$ -	\$ 996
Local Transportation Fund	-	-	536,983	536,983
Water	94	-	-	94
Sewer	94	-	-	94
Nonmajor	592	-	-	592
Total Transfers In	<u>\$ 780</u>	<u>\$ 996</u>	<u>\$ 536,983</u>	<u>\$ 538,759</u>

Of the \$536,983 transfers out from the Local Transportation, \$506,308 was to the Measure C and Streets Fund to cover street improvement costs and the remaining amount of \$30,675 was to close out rails to trails.

Transfer out of the General Fund to the Disposal Fund of \$996 was to close out the Cal-Recycle grant.

Transfers out in the Water and Sewer Fund for \$94 was to cover water conservation efforts provided by the Police Department.

Transfer in of \$592 to the General Fund was to close out a grant.

**NOTE 5 – NOTES RECEIVABLE**

Note receivable at June 30, 2013 are as follows:

*Community Development Note* – Note receivable due from Joe Trevino and is secured by real estate purchased from the City. The note amount at June 30, 2014 was \$35,803.

*Housing Grant Notes* – Through the fiscal year ended June 30, 2014, the City has loaned \$1,290,000 to forty-three families at 3% interest. The loan proceeds were used by these low and moderate income families to purchase homes. The loans are payable in thirty years or when property ownership is transferred. The proceeds for the loans are provided through a State Housing Grant. Deferred interest receivable on these notes was \$39,600 as of June 30, 2014.

During fiscal year 2013-14, the City loaned three loans totaling \$199,957 at 0% interest. The loan proceeds were used by these low and moderate income families to purchase homes. The loans are payable in thirty years or when property ownership is transferred. The proceeds for the loans are provided through a State Housing Grant.

*Low and Moderate Housing Notes* – Note receivable is due from Citrus Gardens '98 LP, to assist in the construction of low income apartment complex. The note incurs interest at three percent and requires annual payments of 50% of residual receipts" (revenues less debt service, property tax and maintenance and operating expenses). To date, there have been no payments on the note. The note is due in full in November 2029 with interest. The balance due on the note at June 30, 2014 was \$275,000. Deferred interest receivable on the note at June 30, 2014 was \$128,237.

Note receivable is due from Mike Ekizian, to assist in the purchase of lots for construction of low income residences. The note incurs interest at two percent per annum and was due in full on December 30, 2011. The balance due on the note at June 30, 2014 was \$28,504.

CITY OF ORANGE COVE  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2014

**NOTE 6 – CAPITAL ASSETS**

Capital assets activity of the governmental activities for the year ended June 30, 2014 was as follows:

<b>Governmental Activities</b>	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 1,302,411	\$ -	\$ -	\$ 1,302,411
Construction in progress	394,619	-	(394,619)	-
Total capital assets, not being depreciated	<u>1,697,030</u>	<u>-</u>	<u>(394,619)</u>	<u>1,302,411</u>
Capital assets, being depreciated:				
Buildings and improvements	6,681,656	855,102	-	7,536,758
Machinery and equipment	1,315,900	194,136	(35,102)	1,474,934
Total capital assets, being depreciated	<u>7,997,556</u>	<u>1,049,238</u>	<u>(35,102)</u>	<u>9,011,692</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,034,466)	(205,809)	-	(2,240,275)
Machinery and equipment	(998,997)	(168,877)	35,102	(1,132,772)
Total accumulated depreciation	<u>(3,033,463)</u>	<u>(374,686)</u>	<u>35,102</u>	<u>(3,373,047)</u>
Total capital assets, being depreciated, net	<u>4,964,093</u>	<u>674,552</u>	<u>-</u>	<u>5,638,645</u>
Governmental activities capital assets, net	<u>\$ 6,661,123</u>	<u>\$ 674,552</u>	<u>\$ (394,619)</u>	<u>\$ 6,941,056</u>

Depreciation expense was charged to governmental functions as follows:

<b>Governmental Activities Functions:</b>	
General Government	\$ 101,365
Public Safety	122,598
Public Works	27,601
Parks and Recreation	93,753
Streets	29,369
	<u>\$ 374,686</u>

CITY OF ORANGE COVE  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2014

**NOTE 6 – CAPITAL ASSETS (Continued)**

Capital assets activity of the business-type activities for the year ended June 30, 2014 was as follows:

<u>Business-Type Activities</u>	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 769,772	\$ -	\$ -	\$ 769,772
Total capital assets, not being depreciated	<u>769,772</u>	<u>-</u>	<u>-</u>	<u>769,772</u>
Capital assets, being depreciated:				
Buildings and improvements	23,594,270	85,631	-	23,679,901
Machinery and equipment	485,397	11,030	(147,403)	349,024
Total capital assets, being depreciated	<u>24,079,667</u>	<u>96,661</u>	<u>(147,403)</u>	<u>24,028,925</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,134,412)	(624,629)	-	(7,759,041)
Machinery and equipment	(474,146)	(7,012)	147,403	(333,755)
Total accumulated depreciation	<u>(7,608,558)</u>	<u>(631,641)</u>	<u>147,403</u>	<u>(8,092,796)</u>
Total capital assets being depreciated, net	<u>16,471,109</u>	<u>(534,980)</u>	<u>-</u>	<u>15,936,129</u>
Business-type activities capital assets, net	<u>\$ 17,240,881</u>	<u>\$ (534,980)</u>	<u>\$ -</u>	<u>\$ 16,705,901</u>

Depreciation expense was charged to business-type functions as follows:

**Business-Type Functions:**

Water	\$ 201,897
Sewer	429,744
	<u>\$ 631,641</u>

CITY OF ORANGE COVE  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2014

**NOTE 7 – LONG-TERM DEBT**

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

In government fund-types, debt discounts and issuance costs are recognized in the current period. Debt discounts incurred in proprietary funds are deferred and amortized over the term of the debt using the bonds-outstanding method, which approximates the effective interest method. The City's debt activities are summarized below and discussed in detail thereafter:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Current</u> <u>Portion</u>
<b>Governmental Activities:</b>					
Special Assessment Bonds	\$ 1,418,000	\$ -	\$ (55,000)	\$ 1,363,000	\$ 58,000
Total Governmental Activities	<u>\$ 1,418,000</u>	<u>\$ -</u>	<u>\$ (55,000)</u>	<u>\$ 1,363,000</u>	<u>\$ 58,000</u>
<b>Business-Type Activities:</b>					
Bonds Payable:					
1995 Water System Improvement Project	\$ 658,447	\$ -	\$ (19,780)	\$ 638,667	\$ 19,000
2005 COP Water Loan	390,700	-	(5,800)	384,900	6,000
Note Payable:					
PG&E Sewer Loan	-	250,000	(54,054)	195,946	81,081
California Department of Water Resource	532,652	-	(32,634)	500,018	33,605
Total Business-Type Activities Debt	<u>\$ 1,581,799</u>	<u>\$ 250,000</u>	<u>\$ (112,268)</u>	<u>\$ 1,719,531</u>	<u>\$ 139,686</u>
<b>Compensated Absences:</b>					
Governmental Activities	\$ 98,057	\$ 9,401	\$ -	\$ 107,458	
Business-Type Activities	<u>\$ 26,095</u>	<u>\$ 46,322</u>	<u>\$ -</u>	<u>\$ 72,417</u>	

**NOTE 7 – LONG-TERM DEBT (Continued)**

Long-term debt at June 30, 2014 was comprised of the following individual issues:

**GOVERNMENTAL ACTIVITIES**

**Special Assessment Bond Payable** – In March 1990, the City issued \$2,450,684 in special assessment bonds with interest rates at 5% payable semi-annually. The proceeds were used to finance a sewer plant expansion project. These bonds are payable from assessments on the property owners within the City. The principal payments range from \$21,000 to \$120,000 and are due annually through 2029. At June 30, 2014, bonds payable outstanding amounts to \$1,363,000.

Annual debt service requirements for Special Assessment Bond Payable are as follows:

Years ending in June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 58,000	\$ 66,500	\$ 124,500
2016	60,000	63,550	123,550
2017	64,000	60,450	124,450
2018	67,000	57,175	124,175
2019	70,000	53,750	123,750
2020-2024	406,000	211,000	617,000
2025-2029	514,000	96,750	610,750
2030	124,000	3,000	127,000
	<u>\$ 1,363,000</u>	<u>\$ 612,175</u>	<u>\$ 1,975,175</u>

**BUSINESS-TYPE ACTIVITIES**

**1995 Orange Cove Public Financing Authority Revenues Bond Payable** – In 1995, the City issued \$907,650 in revenue bonds with interest rates at 4.5% payable semi-annually thru 2035. The proceeds were used to finance a Water System Improvement Project. The City signed a lease agreement with the Authority with loan payments plus interest due semiannually. The principal payments range from \$8,650 to \$47,000 and are due annually through 2035. At June 30, 2014, the bonds payable outstanding amounts to \$638,667.

CITY OF ORANGE COVE  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2014

**NOTE 7 – LONG-TERM DEBT (Continued)**

Annual debt service requirements for the 1995 Orange Cove Public Financing Authority Revenue Bonds Payable are as follows:

Years ending in June 30,	Principal	Interest	Total
2015	\$ 19,000	\$ 30,173	\$ 49,173
2016	19,500	29,306	48,806
2017	20,500	28,406	48,906
2018	21,500	27,461	48,961
2019	22,500	26,471	48,971
2020-2024	128,000	115,920	243,920
2025-2029	159,000	83,745	242,745
2030-2034	198,000	43,763	241,763
2035-2036	50,667	4,185	54,852
	<u>\$ 638,667</u>	<u>\$ 389,430</u>	<u>\$ 1,028,097</u>

**2005 Certificate of Participation Water Loan** – In July 2005, the City borrowed \$425,000 from the U.S. Government to facilitate water plant improvements. The interest rates is at 4.125% payable semi-annually. The principal payments in amounts from \$4,300 to \$21,000 are due annually through 2045. At June 30, 2014, the bonds payable outstanding amounts to \$384,900.

Annual debt service requirements for the 2005 Certificate of Participation Water Loan are as follows:

Years ending in June 30,	Principal	Interest	Total
2015	\$ 6,000	\$ 15,753	\$ 21,753
2016	6,300	15,500	21,800
2017	6,500	15,236	21,736
2018	6,800	14,961	21,761
2019	7,100	14,675	21,775
2020-2024	39,800	68,673	108,473
2025-2029	48,800	59,561	108,361
2030-2034	59,700	48,405	108,105
2035-2039	73,100	34,755	107,855
2040-2044	89,600	18,035	107,635
2045-2046	41,200	1,716	42,916
	<u>\$ 384,900</u>	<u>\$ 307,269</u>	<u>\$ 692,169</u>

**NOTE 7 – LONG-TERM DEBT (Continued)**

**BUSINESS-TYPE ACTIVITIES (CONTINUED)**

**Department of Water Resource Note Payable** – In 1996, the City borrowed \$943,280 from the California Department of Water Resource to finance water system improvements. The interest rates is at 2.955% payable semi-annually. The principal payments in amounts from \$9,900 to \$23,800 are due annually through 2026. At June 30, 2014, the note payable outstanding amounts to \$500,018.

Annual debt service requirements for the Department of Water Resource Note Payable are as follows:

Years ending in June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 33,605	\$ 14,529	\$ 48,134
2016	34,606	13,529	48,134
2017	35,636	12,499	48,134
2018	36,697	11,438	48,134
2019	37,789	10,345	48,134
2020-2024	206,504	34,168	240,672
2025-2026	115,181	5,155	120,336
	<u>\$ 500,018</u>	<u>\$ 101,663</u>	<u>\$ 601,681</u>

**PG&E Sewer Note Payable** – In 2014, the City financed \$250,000 from Pacific Gas & Electric for the wastewater retrofit project. The principal payments of \$6,757 are due monthly through November 2016. At June 30, 2014, the note payable outstanding amounts to \$195,946.

Annual debt service requirements for the PG&E Sewer Note Payable are as follows:

Years ending in June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 81,081	\$ -	\$ 81,081
2016	81,081	-	81,081
2017	33,784	-	33,784
	<u>\$ 195,946</u>	<u>\$ -</u>	<u>\$ 195,946</u>

**NOTE 8 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

The City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities* as of June 30, 2014.

GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has no items to report in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. Deferred inflows of resources reported in the governmental funds are unavailable revenues of \$1,936,638 as follows:

	<b>General Fund</b>	<b>Housing Fund</b>	<b>Low- Moderate Housing Asset</b>	<b>Total</b>
Unavailabe revenues:				
Property taxes	\$ 3,844	\$ -	\$ -	\$ 3,844
Program income	-	1,489,957	-	1,489,957
Interest income	-	39,600	128,237	167,837
Loan repayments	-	-	275,000	275,000
	<u>\$ 3,844</u>	<u>\$ 1,529,557</u>	<u>\$ 403,237</u>	<u>\$ 1,936,638</u>

**NOTE 9 – DEFICIT FUND BALANCES**

The following is a summary of deficit fund balances and net position as of June 30, 2014:

The deficit fund balance in the Streets Fund of \$17,737 is due to expenditures exceeding revenues.

The deficit fund balance in the Successor Agency is due to operating expenditures exceeding operating revenues.

**NOTE 10 – DEFINED BENEFIT PENSION PLAN**

**(A) PLAN DESCRIPTION**

The City's defined benefit pension plans, (Miscellaneous and Safety Plan) provide retirement and disability benefits which include annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Miscellaneous Plan, Safety Fire Plan, and the Safety Police Plan are part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer defined benefit pension plan administered by CalPERS, which acts a common investment and administrative agent for participating public employers within the State of California. State statutes within the Public Employees' Retirement Law establish a menu of benefit provisions as well as other requirements. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. Copies of CalPERS annual financial report may be obtained from their Executive Office, 400 Q Street, Sacramento, CA 95814.

**(B) FUNDING POLICY**

Active plan members in the Plan are required to contribute 5% of their covered salary for miscellaneous members and 9% to 11.5% for safety members. The City makes the employees' contributions on their behalf. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2014 was 6.565% for the miscellaneous plan and 12.398% for the safety plan. The contribution requirements of plan members are established by State statute and the employer contribution is established and may be amended by PERS.

**(C) ANNUAL PENSION COSTS AND NET PENSION OBLIGATION**

For the year ended June 30, 2014, the City's annual pension cost of \$184,049 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.5 percent investment rate of return (net of administrative expenses); (b) projected annual salary increases that vary by duration of service and (c) 3.00 percent cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.75 percent. The actuarial value of PERS assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012 was 7 years for miscellaneous and 13 years for safety.

**NOTE 10 – DEFINED BENEFIT PENSION PLAN (continued)**

**(D) TREND INFORMATION**

The City’s contributions to CalPERS for the Miscellaneous Plan and Safety Plan for the three years ending June 30, 2012, 2013, and 2014 are presented below:

THREE- YEAR TREND INFORMATION FOR PERS			
<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2012	\$ 162,071	100%	-
June 30, 2013	\$ 178,626	100%	-
June 30, 2014	\$ 184,049	100%	-

**(E) FUNDED STATUS AND FUNDING PROGRESS**

The information presented above relates to the plan as a whole, of which the City is one participating employer.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The City participates in risk pooling. Risk pooling consists of combining assets and liabilities across employers to produce large groups where the impact of a catastrophic demographic event is shared among the employers of the same risk pool. Participation in the risk pool is mandatory for all rate plans with less than 100 active members. Mandated participation in risk pools was initially based on the active membership of each rate plan as of June 30, 2005. The implementation of risk pools was done in a way that minimizes the impact on employer contribution rates. For the first year risk pools, the employer contribution rates are almost identical to what the rates would have been outside the pool. Future rates will be based on the experience of each pool. Pooling will reduce the volatility of future employer rates.

**NOTE 11 – POST-RETIREMENT HEALTHCARE BENEFITS**

The City provides no post-employment benefits for its employees. However, former employees may be maintained on the City’s health insurance programs through the City’s Consolidated Omnibus Budget Reconciliation Act (COBRA) insurance continuation plan.

**NOTE 12 – RISK MANAGEMENT**

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes.

The City is a member of the Central San Joaquin Valley Risk Management Authority (CSJVRMA), which is a joint powers authority established under the provisions of California Government Code Section 6500, et. seq. The CSJVRMA is comprised of 54 member cities, and is governed by a Board of Directors which meets three times per year. The Board is comprised of one Board member and one alternate Board member appointed by each member city. The day-to-day business is handled by a management firm under contract with the CSJVRMA. The audited financial statements of the CSJVRMA are available at 1750 Creekside Oaks Drive, Suite 200, Sacramento, CA 95833.

**NOTE 12 – RISK MANAGEMENT (continued)**

The City purchases liability coverage through the CSJVRMA at a \$10,000 self-insured retention. This risk sharing pool covers the first \$1 million of losses (CSJVRMA's retained limit). The CSJVRMA is a member of the California Affiliated Risk Management Authorities (CARMA) for the purpose of obtaining excess coverage in a risk sharing pool. CARMA provides coverage in excess of the CSJVRMA's retained limit up to \$29 million. As of June 30, 2014, 54 cities participated in the CSJVRMA's liability program. The City also purchases workers' compensation coverage through the CSJVRMA at a \$10,000 self-insured retention. This risk sharing pool covers the first \$500,000 of losses (CSJVRMA's retained limit). The CSJVRMA is a member of the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX) for excess workers' compensation coverage. LAWCX provides \$4.5 million of coverage in excess of the CSJVRMA's retained limit and participates in the California State Association of Counties Excess Insurance Authority (CSAC-EIA) for coverage in excess of \$5 million up to statutory. As of June 30, 2014, 51 cities participated in the CSJVRMA's workers' compensation program.

For both the liability and workers' compensation coverage, expected claims are actuarially determined and deposited with the CSJVRMA along with all estimated operating costs each program year. Each program year is retrospectively adjusted five years following its conclusion and any funds remaining in excess of the minimum funding requirements established by the Board are returned to the member city. Any funding shortfalls are collected from the member city.

The City also purchases various property coverage programs. Deductibles and limits per property type can be obtained from the City Manager.

The latest audited financial information and the most current information available for CSJVRMA for fiscal year ended June 30, 2013 is as follows:

Total assets	\$ 82,190,005
Total liabilities	\$ 66,304,596
Total equities	\$ 15,885,409
Total revenues	\$ 31,386,818
Total expenses	\$ 27,784,428
Revenues over (under) expenses	\$ 3,602,390

**NOTE 13 – CONTINGENCIES**

The City participates in several federal and state grant programs. These programs have been audited, as needed, in accordance with the provisions of federal Single Audit Act of 1984 and applicable state requirements. No cost disallowances were proposed as of results of these audits. However, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits and claims. The City attorney anticipates that actual or potential claims against the City, not covered by insurance, would not materially affect the financial position of the City.

**NOTE 14 – JULIA A. LOPEZ DAY CARE**

The City operates a full day care program funded by the State of California Department of Education. The City was awarded the contract not to exceed \$992,167 for child care reimbursements. The City sub-contracts the daily operation to Target 8 Advisory Council, a non-profit that operates another day care program in the City. The following administrative costs, not to exceed 15% of the grant were incurred:

Accounting and oversight:	\$72,912
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**NOTE 15 – SUCCESSOR AGENCY TRUST FUND**

On January 18, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with Assembly Bill 1X26 (the "Bill") which dissolved all redevelopment agencies in the State of California.

Under the control of an oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution of the redevelopment agency (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

Successor agencies are only allocated revenue in the amount that is necessary to pay estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue favorably for the City.

After the date of the dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

Long-term Debt

Long-term debt reported in the Successor Agency Trust Fund at June 30, 2014 was comprised of the following individual issue:

**Orange Cove RDA Tax Refunding Bonds** – The former Redevelopment Agency of the City of Orange Cove issued a tax allocation bond payable in annual installments ranging from \$170,000 to \$375,000 with interest payable semi-annually at a rate between 1.25% to 4.75% per annum. At June 30, 2014, the bond outstanding amounts to \$4,725,000.

**NOTE 15 – SUCCESSOR AGENCY TRUST FUND (continued)**

Annual debt service requirements to maturity for the Orange Cove RDA Tax Refunding Bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 180,000	\$ 215,833	\$ 395,833
2016	185,000	208,903	393,903
2017	190,000	201,503	391,503
2018	200,000	193,713	393,713
2019	210,000	185,313	395,313
2020-2024	1,190,000	779,593	1,969,593
2025-2029	1,490,000	474,818	1,964,818
2030-2033	1,080,000	104,025	1,184,025
	<u>\$ 4,725,000</u>	<u>\$ 2,363,698</u>	<u>\$ 7,088,698</u>

**NOTE 16 – SUBSEQUENT EVENTS**

The City evaluated subsequent events for recognition and disclosure through November 25, 2014, the date which these financials were available to issue.

On September 17, 2014, the California Department of Finance approved the City's refinancing terms for the 2004 Orange Cove RDA Tax Refunding Bonds. It did not change the maturity date, but reduced in interest rate on the bonds from 4.689% to 3.7%.

**NOTE 17 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The excess of expenditures over appropriations are as follows:

General Fund:

Current:

General government	\$ 96,880
Public safety	\$ 428,154
Public works	\$ 57,314
Planning and development	\$ 92,635
Parks and recreation	\$ 53,055
Capital outlay	\$ 35,331

The excess of expenditures over appropriations are covered by the available fund balance in the General Fund.

Housing Grant Fund:

Current:

Planning and development	\$ 291,855
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**NOTE 18 – PRIOR PERIOD ADJUSTMENTS**

The City had the following prior period adjustments as of June 30, 2014:

*Government-Wide:*

In the Statement of Activities, prior period adjustments consisted of the following:

To remove construction in progress	\$394,619
To capitalize costs relating to a street project	-\$316,706
To recognize prior years interest income	<u>-\$167,837</u>
Total prior period adjustments	<u>\$ 89,924</u>

The net effect of the above adjustments increased the government-wide's net position by \$89,924.

*Fund Financials:*

In the General Fund, there was a prior period adjustment of \$89,357 to eliminate compensated absences per GASB 34, the net effect of this increased fund balance by the same amount.

In the Low Moderate Housing Assets, there was a prior period adjustment of \$275,000 to recognize note receivable as unavailable revenues per GASB 63, the net effect of this decreased fund balance by the same amount.

In the Housing Fund, there was a prior period adjustment of \$1,290,000 to recognize notes receivables as unavailable revenues per GASB 63, the net effect of this decreased fund balance by the same amount.

In the Gas Tax Fund, a nonmajor fund, there was a prior period adjustment of \$5,600 to eliminate compensated absences per GASB 34, the net effect of this increased fund balance by the same amount.

In the Measure C Fund, a nonmajor fund, there was a prior period adjustment of \$3,100 to eliminate compensated absences per GASB 34, the net effect of this increased fund balance by the same amount.

*REQUIRED SUPPLEMENTARY INFORMATION*

CITY OF ORANGE COVE  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,387,000	\$ 1,387,000	\$ 1,578,262	\$ 191,262
Intergovernmental	109,600	109,600	275,626	166,026
Charges for service	141,802	141,802	67,317	(74,485)
Licenses and permits	130,590	130,590	117,829	(12,761)
Interest and rent	111,320	111,320	70,005	(41,315)
Other	13,865	13,865	70,651	56,786
Total revenues	<u>1,894,177</u>	<u>1,894,177</u>	<u>2,179,690</u>	<u>285,513</u>
<b>Expenditures</b>				
Current:				
General government	298,509	298,509	395,389	(96,880)
Public safety	1,598,079	1,598,079	2,026,233	(428,154)
Public works	132,259	132,259	189,573	(57,314)
Planning and development	70,910	70,910	163,545	(92,635)
Parks and recreation	228,987	228,987	282,042	(53,055)
Capital outlay	158,805	158,805	194,136	(35,331)
Total expenditures	<u>2,487,549</u>	<u>2,487,549</u>	<u>3,250,918</u>	<u>(763,369)</u>
Revenue over/(under) expenditures	(593,372)	(593,372)	(1,071,228)	(477,856)
<b>Other Financing Sources/(Uses)</b>				
Transfers in/(out) - net	-	-	(216)	(216)
Total other financing sources/(uses)	<u>-</u>	<u>-</u>	<u>(216)</u>	<u>(216)</u>
<b>Change in Fund Balance</b>	<u>\$ (593,372)</u>	<u>\$ (593,372)</u>	(1,071,444)	<u>\$ (478,072)</u>
<b>Fund Balance</b>				
Beginning of year			4,248,329	
Prior period adjustments			89,357	
End of year			<u>\$ 3,266,242</u>	

See accompanying notes to required supplementary information.

CITY OF ORANGE COVE  
 BUDGETARY COMPARISON SCHEDULE  
 LOCAL TRANSPORTATION SPECIAL REVENUE FUND  
 FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 257,209	\$ 257,209	\$ 857,632	\$ 600,423
Interest and rent	600	600	401	(199)
Total revenues	<u>257,809</u>	<u>257,809</u>	<u>858,033</u>	<u>600,224</u>
<b>Expenditures</b>				
Current:				
Streets	<u>837,862</u>	<u>837,862</u>	<u>371,809</u>	<u>466,053</u>
Total expenditures	<u>837,862</u>	<u>837,862</u>	<u>371,809</u>	<u>466,053</u>
Revenue over/(under) expenditures	(580,053)	(580,053)	486,224	1,066,277
<b>Other Financing Sources/(Uses)</b>				
Transfers in/(out) - net	-	-	<u>(536,983)</u>	<u>(536,983)</u>
Total other financing sources/(uses)	-	-	<u>(536,983)</u>	<u>(536,983)</u>
<b>Change in Fund Balance</b>	<u><u>\$ (580,053)</u></u>	<u><u>\$ (580,053)</u></u>	(50,759)	<u><u>\$ 529,294</u></u>
<b>Fund Balance</b>				
Beginning of year			<u>706,108</u>	
End of year			<u><u>\$ 655,349</u></u>	

See accompanying notes to required supplementary information.

CITY OF ORANGE COVE  
 BUDGETARY COMPARISON SCHEDULE  
 LOW-MODERATE HOUSING ASSET SPECIAL REVENUE FUND  
 FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive/ (Negative)
	Original	Final		
<b>Revenues</b>				
Interest and rent	\$ -	\$ -	\$ 737	\$ 737
Total revenues	-	-	737	737
<b>Expenditures</b>				
Current:				
Planning and development	-	-	-	-
Total expenditures	-	-	-	-
Revenue over/(under) expenditures	-	-	737	737
<b>Other Financing Sources/(Uses)</b>				
Transfers in/(out) -net	-	-	-	-
Total other financing sources/(uses)	-	-	-	-
<b>Change in Fund Balance</b>	<u>\$ -</u>	<u>\$ -</u>	737	<u>\$ 737</u>
<b>Fund Balance</b>				
Beginning of year			363,697	
Prior period adjustments			(275,000)	
End of year			<u>\$ 89,434</u>	

See accompanying notes to required supplementary information.

CITY OF ORANGE COVE  
 BUDGETARY COMPARISON SCHEDULE  
 HOUSING GRANT FUND  
 FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive/ (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ -	\$ -	\$ 289,432	\$ 289,432
Interest and rent	-	-	27	27
Total revenues	-	-	289,459	289,459
<b>Expenditures</b>				
Current:				
Planning and development	-	-	291,855	(291,855)
Total expenditures	-	-	291,855	(291,855)
Revenue over/(under) expenditures	-	-	(2,396)	(2,396)
<b>Other Financing Sources/(Uses)</b>				
Transfers in/(out) - net	-	-	-	-
Total other financing sources/(uses)	-	-	-	-
<b>Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(2,396)</b>	<b>\$ (2,396)</b>
<b>Fund Balance</b>				
Beginning of year			1,298,711	
Prior period adjustments			(1,290,000)	
End of year			<u>\$ 6,315</u>	

See accompanying notes to required supplementary information.

CITY OF ORANGE COVE  
 BUDGETARY COMPARISON SCHEDULE  
 DAY CARE FUND  
 FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amount		Actual Amount	Variance with Final Budget Positive/ (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 976,376	\$ 976,376	\$ 957,159	\$ (19,217)
Total revenues	<u>976,376</u>	<u>976,376</u>	<u>957,159</u>	<u>(19,217)</u>
<b>Expenditures</b>				
Current:				
Day care	<u>976,376</u>	<u>976,376</u>	<u>957,159</u>	<u>19,217</u>
Total expenditures	<u>976,376</u>	<u>976,376</u>	<u>957,159</u>	<u>19,217</u>
Revenue over/(under) expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
<b>Fund Balance</b>				
Beginning of year			-	
End of year			<u>\$ -</u>	

See accompanying notes to required supplementary information.

**CITY OF ORANGE COVE**  
**SCHEDULE OF FUNDING PROGRESS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**MISCELLANEOUS EMPLOYEES RETIREMENT SYSTEM**

**Schedule of Funding Progress**

	(1)	(2)	(3)	(4)	(5)	(6)
		Actuarial	Percentage	(Prefunded)/	Annual	(Prefunded)/
Actuarial	Actuarial	Accrued	Funded	Unfunded	Covered	Unfunded AAL
Valuation	Value of	Liabilities		AAL	Payroll	Percentage of
Date	Assets	(AAL)	(1) / (2)	(2) - (1)		Covered Payroll
						(4) / (5)
2011	\$ 2,967,539	\$ 3,414,307	86.91%	\$ 446,768	\$ 844,272	52.92%
2012	\$ 3,191,787	\$ 3,868,439	82.51%	\$ 676,652	\$ 1,076,056	62.88%
2013	\$ 3,593,665	\$ 4,135,393	86.90%	\$ 541,728	\$ 990,706	54.68%

**PEPRA MISCELLANEOUS EMPLOYEES RETIREMENT SYSTEM**

**Schedule of Funding Progress**

	(1)	(2)	(3)	(4)	(5)	(6)
		Actuarial	Percentage	(Prefunded)/	Annual	(Prefunded)/
Actuarial	Actuarial	Accrued	Funded	Unfunded	Covered	Unfunded AAL
Valuation	Value of	Liabilities		AAL	Payroll	Percentage of
Date	Assets	(AAL)	(1) / (2)	(2) - (1)		Covered Payroll
						(4) / (5)
2011	\$ -	\$ -	0.00%	\$ -	\$ -	0.00%
2012	\$ -	\$ -	0.00%	\$ -	\$ -	0.00%
2013	\$ 1,554	\$ 1,158	134.20%	\$ (396)	\$ 24,960	-1.59%

**SAFETY EMPLOYEES RETIREMENT SYSTEM**

**Schedule of Funding Progress**

	(1)	(2)	(3)	(4)	(5)	(6)
		Actuarial	Percentage	(Prefunded)/	Annual	(Prefunded)/
Actuarial	Actuarial	Accrued	Funded	Unfunded	Covered	Unfunded AAL
Valuation	Value of	Liabilities		AAL	Payroll	Percentage of
Date	Assets	(AAL)	(1) / (2)	(2) - (1)		Covered Payroll
						(4) / (5)
2011	\$ 1,191,760	\$ 365,784	325.81%	\$ (825,976)	\$ 928,838	-88.93%
2012	\$ 1,190,784	\$ 504,874	235.86%	\$ (685,910)	\$ 711,464	-96.41%
2013	\$ 1,376,697	\$ 669,825	205.53%	\$ (706,872)	\$ 740,119	-95.51%

**PEPRA SAFETY POLICE EMPLOYEES RETIREMENT SYSTEM**

**Schedule of Funding Progress**

	(1)	(2)	(3)	(4)	(5)	(6)
		Actuarial	Percentage	(Prefunded)/	Annual	(Prefunded)/
Actuarial	Actuarial	Accrued	Funded	Unfunded	Covered	Unfunded AAL
Valuation	Value of	Liabilities		AAL	Payroll	Percentage of
Date	Assets	(AAL)	(1) / (2)	(2) - (1)		Covered Payroll
						(4) / (5)
2011	\$ -	\$ -	0.00%	\$ -	\$ -	0.00%
2012	\$ -	\$ -	0.00%	\$ -	\$ -	0.00%
2013	\$ 7,358	\$ 5,013	146.78%	\$ (2,345)	\$ 138,971	-1.69%

See accompanying notes to required supplementary information.

**NOTE 1 – BUDGETARY INFORMATION**

The City follows the following procedures, annually, in establishing the budgetary data reflected in the budgetary comparison schedules:

1. The City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. The City Council reviews the proposed budget at specially scheduled sessions, which are open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested persons.
3. Prior to July 1, the budget is legally adopted through passage of an ordinance. This budget is reported as Original Budget in the budgetary comparison schedules.
4. During the fiscal year, changes to the adopted budget may be authorized as follows:
  - a. Items requiring City Council action – appropriation of fund balance reserves; transfers of appropriations between funds; appropriation of any non-departmental revenue; new interfund loans or advances; and creation of new capital projects or increases to existing capital projects.
  - b. Items delegated to the City Manager – transfers between departments within funds; appropriation of unbudgeted departmental revenues; and approval of transfers which increase salary and benefit appropriations.
  - c. Items delegated to the department head – allocation of departmental appropriations to line item level.
5. Formal budgetary integration is employed as a management tool for all funds. Annual budgets are legally adopted and amended as required for the general, special revenue, and enterprise funds. Project-length budgets are adopted for the capital projects funds. All budgets are prepared on a basis consistent with generally accepted accounting principles (GAAP), and budgetary comparisons for the general and major special revenue funds are presented on that basis in the required supplementary information. A debt service payment schedule for the debt service funds is also approved as part of the budget process.
6. Budget amounts are reflected after all authorized amendments and revisions. This budget is reported as the Final Budget in the budgetary comparison schedules.
7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the activity level. The legal appropriation basis is at the level called “department”. A “department” for legal appropriation purposes may be a single organization or an entire department having multiple organizations within the same fund, or an entire fund.

**NOTE 2 – FUNDING PROGRESS**

The City’s defined benefit pension plans, the Miscellaneous Plan, PEPRA Miscellaneous Plan, Safety Plan and the PEPRA Safety Police Plan, are cost-sharing multiple employer defined benefit pension plans that provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The information presented in the previous page in the schedule of funding progress and employer contributions relates to the plan as a whole, of which the City is one participating employer.

*OTHER SUPPLEMENTARY INFORMATION*

**CITY OF ORANGE COVE  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2014**

	General Debt Service	Gas Tax	Streets Project	Community Development	Development Impact Fees	Measure C	Total Non-major Governmental Funds
<b>ASSETS</b>							
Cash and investments	\$ 346,077	\$ 274,264	\$ 269,392	\$ -	\$ 209,749	\$ 11,853	\$ 1,111,335
Interest receivable	88	5	-	2	3	50	148
Due from other governments	-	34,237	-	324,741	-	18,316	377,294
Notes receivable	-	-	-	35,803	-	-	35,803
Land held for resale	-	-	-	599,986	-	-	599,986
Total assets	<u>\$ 346,165</u>	<u>\$ 308,506</u>	<u>\$ 269,392</u>	<u>\$ 960,532</u>	<u>\$ 209,752</u>	<u>\$ 30,219</u>	<u>\$ 2,124,566</u>
<b>LIABILITIES AND FUND BALANCE</b>							
Liabilities:							
Accounts payable and accrued expenses	\$ -	\$ 8,896	\$ 287,129	\$ -	\$ 6,105	\$ 7,343	\$ 309,473
Due to other funds	-	-	-	94,937	-	-	94,937
Total liabilities	<u>-</u>	<u>8,896</u>	<u>287,129</u>	<u>94,937</u>	<u>6,105</u>	<u>7,343</u>	<u>404,410</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable revenues	-	-	-	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balance</b>							
Nonspendable:							
Notes receivable	-	-	-	35,803	-	-	35,803
Land held for resale	-	-	-	599,986	-	-	599,986
Restricted:							
Circulation improvements	-	299,610	-	-	-	22,876	322,486
Capital improvement projects	-	-	-	229,806	203,647	-	433,453
Debt service	346,165	-	-	-	-	-	346,165
Unassigned	-	-	(17,737)	-	-	-	(17,737)
Total fund balance	<u>346,165</u>	<u>299,610</u>	<u>(17,737)</u>	<u>865,595</u>	<u>203,647</u>	<u>22,876</u>	<u>1,720,156</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 346,165</u>	<u>\$ 308,506</u>	<u>\$ 269,392</u>	<u>\$ 960,532</u>	<u>\$ 209,752</u>	<u>\$ 30,219</u>	<u>\$ 2,124,566</u>

See accompanying notes to financial statements.

CITY OF ORANGE COVE  
 COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE  
 NON-MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2014

	General Debt Service	Gas Tax	Streets Project	Community Development	Development Impact Fees	Measure C	Total Non-major Governmental Funds
<b>Revenues</b>							
Taxes	\$ 145,996	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 145,996
Intergovernmental	-	343,729	24,834	1,000	-	274,189	643,752
Licenses, permits and impact fees	-	-	-	-	9,863	-	9,863
Interest and rent	489	28	-	7,717	16	273	8,523
Total revenues	146,485	343,757	24,834	8,717	9,879	274,462	808,134
<b>Expenditures</b>							
Current:							
Streets	-	245,321	382,582	-	-	218,567	846,470
Planning and development	-	-	-	67,757	-	-	67,757
Capital outlay	-	-	-	-	120,873	417,517	538,390
Debt service:							
Principal	55,000	-	-	-	-	-	55,000
Interest and other charges	73,479	-	-	-	-	-	73,479
Total expenditures	128,479	245,321	382,582	67,757	120,873	636,084	1,581,096
<b>Revenue over/(under) expenditures</b>	18,006	98,436	(357,748)	(59,040)	(110,994)	(361,622)	(772,962)
<b>Other financing sources/(uses)</b>							
Operating transfers in/(out) - net	-	-	340,011	30,083	-	166,297	536,391
Total other financing sources/(uses)	-	-	340,011	30,083	-	166,297	536,391
<b>Change in Fund Balance</b>	18,006	98,436	(17,737)	(28,957)	(110,994)	(195,325)	(236,571)
<b>Fund Balance</b>							
Beginning of year	328,159	195,574	-	894,552	314,641	215,101	1,948,027
Prior period adjustments	-	5,600	-	-	-	3,100	8,700
End of year	\$ 346,165	\$ 299,610	\$ (17,737)	\$ 865,595	\$ 203,647	\$ 22,876	\$ 1,720,156

See accompanying notes to financial statements.

CITY OF ORANGE COVE  
 JULIA A. LOPEZ CHILD DEVELOPMENT CENTER BALANCE SHEET  
 JUNE 30, 2014

	<u>Preschool Program</u>	<u>One-Time Only</u>	<u>Memo Total</u>
<b>ASSETS</b>			
Cash	\$ 52,008	\$ -	\$ 52,008
Accounts receivable - State	45,476	-	45,476
Total assets	<u>97,484</u>	<u>-</u>	<u>97,484</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable - trade	\$ 46,174	\$ -	\$ 46,174
Accounts payable - State	4,121	-	4,121
Unearned revenue - reserve fund	<u>47,189</u>	<u>-</u>	<u>47,189</u>
Total liabilities	<u>97,484</u>	<u>-</u>	<u>97,484</u>
<b>Fund Balance</b>			
Unreserved, undesignated	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 97,484</u>	<u>\$ -</u>	<u>\$ 97,484</u>

CITY OF ORANGE COVE  
 JULIA A. LOPEZ CHILD DEVELOPMENT CENTER STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2014

	<u>Preschool Program</u>	<u>One-Time Only Funds</u>
<b>REVENUES &amp; SUPPORT</b>		
State apportionments - Child Development Program	\$ 957,159	\$ -
State apportionments - One Time Only	-	-
State apportionments - Reserve Transfer	-	-
Parent fees - Certified	20,380	-
Total revenues and support	<u>977,539</u>	<u>-</u>
<b>EXPENSES</b>		
Salaries and wages	462,446	-
Employee benefits	185,674	-
Food	121,369	-
Material and supplies	11,254	-
Travel and training	2,573	-
Repairs and maintenance	6,320	-
Dues and memberships	2,974	-
Rent	35,616	-
Operations and housekeeping services	68,695	-
Insurance	7,706	-
Professional services	72,912	-
Total expenses	<u>977,539</u>	<u>-</u>
Expenditures in Excess of Revenues	-	-
<b>FUND BALANCE</b>		
Beginning of year	-	-
End of year	<u>\$ -</u>	<u>\$ -</u>

CITY OF ORANGE COVE  
 JULIA A. LOPEZ CHILD DEVELOPMENT CENTER SCHEDULE OF EXPENDITURES BY STATE CATEGORIES  
 YEAR ENDED JUNE 30, 2014

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	<u>City Portion</u>	<u>Subcontractor Portion</u>	<u>State Preschool Program CSPP-3060</u>
<b>Expenditures</b>			
1000 Certified Personnel Salaries	\$ -	\$ 136,806	\$ 136,806
2000 Classified Personnel Salaries	-	325,640	325,640
3000 Employee Benefits	-	185,674	185,674
4000 Books and Supplies	-	132,623	132,623
5000 Services and Other Operating Expenses	34,647	162,149	196,796
6000 Capital Outlay	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total expenses claimed for reimbursement</b>	<u>\$ 34,647</u>	<u>\$ 942,892</u>	<u>\$ 977,539</u>

NOTE: We have examined the claims filed for reimbursement and the original records supporting the transactions recorded under the contract listed about to an extent considered necessary to assure ourselves that the amounts claimed by the contractor were eligible for reimbursement, reasonable, necessary, and adequately supported, according to governing laws, regulations, and contract provisions.

CITY OF ORANGE COVE  
JULIA A. LOPEZ CHILD DEVELOPMENT CENTER SCHEDULE OF REIMBURSABLE  
ADMINISTRATIVE COSTS  
YEAR ENDED JUNE 30, 2014

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	<b>State Preschool Program CSPP-3060</b>
<b>EXPENSES</b>	
Administrative oversight	\$ 34,647
Accounting	38,265
Total expenses	<u>\$ 72,912</u>

CITY OF ORANGE COVE  
 JULIA A. LOPEZ CHILD DEVELOPMENT CENTER COMBINING SCHEDULE OF RENOVATION AND REPAIR  
 EXPENDITURES  
 YEAR ENDED JUNE 30, 2014

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	<b>Julia Lopez General Child Care Center</b>
<b>Unit Cost Under \$10,000 Item:</b>	
None	\$ -
Total	<u>-</u>
<b>Unit Cost Over \$10,000 With CDD Approval:</b>	
None	-
Total	<u>-</u>
<b>Unit Cost Over \$10,000 Without CDD Approval:</b>	
None	-
Total	<u>-</u>
<b>Total Renovation and Repair Expenditures</b>	<u><u>\$ -</u></u>

CITY OF ORANGE COVE  
 JULIA A. LOPEZ CHILD DEVELOPMENT CENTER SCHEDULE OF  
 EQUIPMENT EXPENDITURES  
 FOR THE YEAR ENDED JUNE 30, 2014

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	<u>General Child Care</u>
<b>Expenditures Under \$7,500 Unit Cost:</b>	
None	\$ -
Total	<u>-</u>
<b>Expenditures Over \$7,500 Unit Cost With CDD Approval:</b>	
None	-
Total	<u>-</u>
<b>Expenditures Over \$7,500 Unit Cost Without CDD Approval:</b>	
None	-
Total	<u>-</u>
<b>Total Equipment Expenditures</b>	<u><u>\$ -</u></u>

CITY OF ORANGE COVE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2014

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Grantor	Federal CFDA Number	Grantor's Number	Award Amount			Expenditures		
			Federal	State	Total	Federal	State	Total
<b>State:</b>								
Passed-through California Department of Education								
Preschool Program	93.596/93.575	CSPP-3060	<u>\$ 209,778</u>	<u>\$ 782,389</u>	<u>\$ 992,167</u>	<u>\$ 202,375</u>	<u>\$ 754,784</u>	<u>\$ 957,159</u>

See accompanying Notes to the Schedule of Expenditures of Federal and State Awards.

CITY OF ORANGE COVE  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014

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**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal and State Awards reports expenditures on the modified accrual basis of accounting. Accordingly, expenditures represent amounts incurred during the fiscal year which meet federal grant eligibility requirements.

CITY OF ORANGE COVE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CHILD CARE PROGRAM  
YEAR ENDED JUNE 30, 2014

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None.

Please Read Instructions Before Completing Report

**AUDITED ATTENDANCE AND FISCAL REPORT**  
**for California State Preschool Programs**

Agency Name: CITY OF ORANGE COVE Vendor No. 2188  
 Fiscal Year Ended: June 30, 2014 Contract No. CSPP-3060  
 Independent Auditor's Name: BRYANT JOLLEY CPA

SECTION I - CERTIFIED CHILDREN DAYS OF ENROLLMENT	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
	CUMULATIVE FISCAL YEAR PER FORM CDFS 8501	AUDIT ADJUSTMENTS	CUMULATIVE FISCAL YEAR PER AUDIT	ADJUSTMENT FACTOR	ADJUSTED DAYS OF ENROLLMENT PER AUDIT
<i>Three and Four Year Olds</i>					
Full-time-plus	-		-	1.1800	-
Full-time	9,225		9,225	1.0000	9,225.000
Three-quarters-time	1,651		1,651	0.7500	1,238.250
One-half-time	682		682	0.6172	420.930
<i>Exceptional Needs</i>					
Full-time-plus	-		-	1.4160	-
Full-time	-		-	1.2000	-
Three-quarters-time	-		-	0.9000	-
One-half-time	-		-	0.6172	-
<i>Limited and Non-English Proficient</i>					
Full-time-plus	-		-	1.2980	-
Full-time	13,715		13,715	1.1000	15,086.500
Three-quarters-time	1,720		1,720	0.8250	1,419.000
One-half-time	1,691		1,691	0.6172	1,043.685
<i>At Risk of Abuse or Neglect</i>					
Full-time-plus	-		-	1.2980	-
Full-time	-		-	1.1000	-
Three-quarters-time	-		-	0.8250	-
One-half-time	-		-	0.6172	-
<i>Severely Disabled</i>					
Full-time-plus	-		-	1.7700	-
Full-time	-		-	1.5000	-
Three-quarters-time	-		-	1.1250	-
One-half-time	-		-	0.6172	-
<b>TOTAL DAYS OF ENROLLMENT</b>	<b>28,684</b>	<b>-</b>	<b>28,684</b>		<b>28,433.366</b>
<b>DAYS OF OPERATION</b>	<b>248</b>	<b>-</b>	<b>248</b>		
<b>DAYS OF ATTENDANCE</b>	<b>28,358</b>	<b>-</b>	<b>28,358</b>		

NO NONCERTIFIED CHILDREN - Check this box, omit page 2, and continue to Section III if no noncertified children were enrolled in the program.

Comments - If necessary, attach additional sheets to explain adjustments:

Please Read Instructions Before Completing Report

<b>AUDITED ATTENDANCE AND FISCAL REPORT</b>			
<b>for California State Preschool Programs</b>			
Agency Name: <u>CITY OF ORANGE COVE</u>		Vendor No. <u>2188</u>	
Fiscal Year End: <u>June 30, 2014</u>		Contract No. <u>CSPP-3060</u>	
	COLUMN A CUMULATIVE FISCAL YEAR PER FORM CDFS 8501	COLUMN B AUDIT ADJUSTMENT INCREASE OR (DECREASE)	COLUMN C CUMULATIVE FISCAL YEAR PER AUDIT
<b>SECTION III - REVENUE</b>			
<b>RESTRICTED INCOME</b>			
Child Nutrition Programs	\$0	\$0	\$0
County Maintenance of Effort (EC § 8279)			0
Other (Specify):			0
Other (Specify):			0
<b>Subtotal</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Transfer from Reserve			0
Family Fees for Certified Children Full-Day Program	19,424		19,424
Family Fees for Certified Children Part-Day Program	956		956
Interest Earned on Apportionments			0
<b>UNRESTRICTED INCOME</b>			
Family Fees for Noncertified Children			0
Head Start Program (EC § 8235(b))			0
Other (Specify):			0
Other (Specify):			0
<b>TOTAL REVENUE</b>	<b>\$20,380</b>	<b>\$0</b>	<b>\$20,380</b>
<b>SECTION IV - REIMBURSABLE EXPENSES</b>			
1000 Certificated Salaries	\$136,806	\$0	\$136,806
2000 Classified Salaries	325,640		325,640
3000 Employee Benefits	186,097	(423)	185,674
4000 Books and Supplies	132,553	70	132,623
5000 Services and Other Operating Expenses	195,972	824	196,796
6100/6200 Other Approved Capital Outlay			0
6400 New Equipment (program-related)			0
6500 Replacement Equipment (program-related)			0
Depreciation or Use Allowance			0
Start-Up Expenses (service level exemption)			0
Budget Impasse Credit			0
Indirect Costs. Rate: 0.00% (Rate is Self-Calculating)			0
<b>TOTAL EXPENSES CLAIMED FOR REIMBURSEMENT</b>	<b>\$977,068</b>	<b>\$471</b>	<b>\$977,539</b>
<b>TOTAL ADMINISTRATIVE COSTS</b> (included in section IV above)	<b>\$72,441</b>	<b>\$471</b>	<b>\$72,912</b>
<b>FOR CDE-A&amp;I USE ONLY:</b>			
<p><b>Independent Auditor's Assurances on Agency's compliance with Contract Funding Terms and Conditions and Program Requirements of the California Department of Education, Early Education and Support Division:</b></p> <p>Eligibility, enrollment, and attendance records are being maintained as required (check YES or NO):</p> <p><input checked="" type="checkbox"/> YES</p> <p><input type="checkbox"/> NO - Explain any discrepancies.</p> <p>Reimbursable expenses claimed above are eligible for reimbursement, reasonable, necessary, and adequately supported (check YES or NO):</p> <p><input checked="" type="checkbox"/> YES</p> <p><input type="checkbox"/> NO - Explain any discrepancies.</p>			
		<p>COMMENTS - If necessary, attach additional sheets to explain adjustments:</p> <div style="border: 1px solid black; height: 100px; width: 100%;"></div>	

NO SUPPLEMENTAL REVENUES OR EXPENSES - Check this box and omit page 4 if there are no supplemental revenues or expenses to report.

<b>AUDITED RESERVE ACCOUNT ACTIVITY REPORT</b>			
Agency Name: <u>CITY OF ORANGE COVE</u>			
Fiscal Year End: <u>June 30, 2014</u>		Vendor No. <u>2188</u>	
Independent Auditor's Name: <u>BRYANT JOLLEY CPA</u>			
RESERVE ACCOUNT TYPE (Check One): <input checked="" type="checkbox"/> Center Based <input type="checkbox"/> Resource and Referral <input type="checkbox"/> Alternative Payment	<b>COLUMN A</b>	<b>COLUMN B</b>	<b>COLUMN C</b>
	<b>PER AGENCY</b>	<b>AUDIT ADJUSTMENT INCREASE OR (DECREASE)</b>	<b>PER AUDIT</b>
<b>LAST YEAR:</b>			
<b>1. Beginning Balance (must equal ending balance from Last Year's AUD)</b>	\$47,049	\$0	\$47,049
<b>2. Plus Transfers from Contracts to Reserve Account (based on last year's post-audit CDFS 9530, Section IV):</b>			
Contract No.	\$0	\$0	\$0
Contract No.			0
<b>Total Transferred from Contracts to Reserve Account</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>3. Less Excess Reserve to be Billed (enter as a positive amount any excess amount calculated by CDFS on last year's post-audit CDFS 9530)</b>	\$0		\$0
<b>4. Ending Balance on Last Year's Post-Audit CDFS 9530</b>	<b>\$47,049</b>	<b>\$0</b>	<b>\$47,049</b>
<b>THIS YEAR:</b>			
<b>5. Plus Interest Earned This Year on Reserve Funds (column A must agree with this year's CDFS 9530-A, Section II)</b>	\$140	\$0	\$140
<b>6. Less Transfers to Contracts from Reserve Account (column A amounts must agree with this year's CDFS 9530-A, Section III; and column C amounts must be reported on this year's AUD forms for respective contracts):</b>			
Contract No.	\$0	\$0	\$0
Contract No.			0
<b>Total Transferred to Contracts from Reserve Account</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>7. Ending Balance on June 30, 2014 (column A must agree with this year's CDFS 9530-A, Section IV)</b>	<b>\$47,189</b>	<b>\$0</b>	<b>\$47,189</b>
<b>COMMENTS - If necessary, attach additional sheets to explain adjustments:</b>			

*COMPLIANCE SECTION*

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and City Council  
City of Orange Cove, 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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange Cove, California, (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated November 25, 2014.

**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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of 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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## 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.

A handwritten signature in black ink, appearing to be 'Kurt J. [unclear]', written in a cursive style.

November 25, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Honorable Mayor and City Council  
City of Orange Cove, California

**Report on Compliance for Each Major Federal Program**

We have audited City of Orange Cove, California's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended June 30, 2014. City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City's compliance.

**Opinion on Each Major Federal Program**

In our opinion, City of Orange Cove, California, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

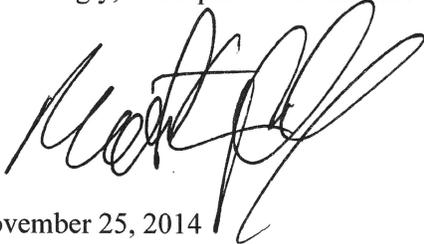
## Report on Internal Control Over Compliance

Management of City of Orange Cove, California, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to be 'Mark J. [unclear]', written over the date.

November 25, 2014

**CITY OF ORANGE COVE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Transportation			
Passed through from the California Department of Transportation			
Highway Planning and Construction	20.205	STPL-5301	\$ 474,260
Highway Planning and Construction	20.205	CML-5301	<u>136,474</u>
			<u>610,734</u>
U.S. Department of Housing and Urban Development			
Passed through from the State Department of Housing and Community Development			
HOME Investment Partnership Program	14.239	11-HOME-7663	<u>289,432</u>
U.S. Department of Health & Human Services			
Passed through from the California Department of Aging			
Special Program for Aging	93.044	14-0261	<u>6,001</u>
U.S. Department of Health & Human Services			
Passed through California Department of Education			
Preschool Program	93.596/93.575	CSPP-3060	<u>202,375</u>
<i>Total Federal Expenditures</i>			<u><u>\$ 1,108,542</u></u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards reports expenditures on the modified accrual basis of accounting. Accordingly, expenditures represent amounts incurred during the fiscal year which meet federal grant eligibility requirements.

CITY OF ORANGE COVE  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2014

**A. Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weaknesses identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None reported
- Non-compliance material to financial statements noted?  Yes  No

***Federal Awards***

Internal control over major programs:

- Material weaknesses identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

Yes  No

***Identification of Major Programs***

CFDA Number	Name of Federal Program or Cluster
20.205	Highway Planning and Construction Grants

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

Yes  No

**B. Findings – Financial Statements Audit**

None noted.

**C. Findings and Questioned Costs – Major Federal Award Programs Audit**

None noted.

CITY OF ORANGE COVE  
STATUS OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014

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**Summary Schedule of Prior Audit Findings**

There were no prior year audit findings.