

CITY OF ORANGE COVE

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

JUNE 30, 2016

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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, 2016, 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, 2016, 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.

Emphasis of Matter – Change in Accounting Principles

As discussed in Note 1 to the financial statements, effective July 1, 2015, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

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 60-65, and the City's Proportionate Share of Net Pension Asset/Liability and Contributions on pages 66-67, 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.

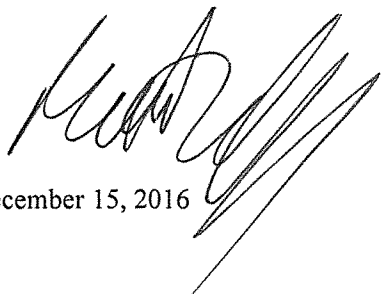
Other Information

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 Uniform Guidance 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 December 15, 2016, 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.

A handwritten signature in black ink, appearing to be 'Kurt', with a stylized flourish extending from the bottom right.

December 15, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF ORANGE COVE

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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—increasing from \$29,537,953 to \$32,530,187, an increase of \$2,992,234. In contrast, last year net position increased by \$346,780. 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	
	2015	2016	2015	2016	2015	2016
Current and other assets	\$ 8,659,830	\$ 7,679,704	\$ 1,473,666	\$ 2,250,516	\$ 10,133,496	\$ 9,930,220
Capital assets, net	7,454,147	9,161,543	16,493,715	18,440,107	23,947,862	27,601,650
Total assets	16,113,977	16,841,247	17,967,381	20,690,623	34,081,358	37,531,870
Deferred outflows of resources	92,056	251,493	15,079	26,441	107,135	277,934
Long-term liabilities outstanding	\$ 1,830,745	\$ 1,689,611	\$ 1,739,559	\$ 1,567,331	\$ 3,570,304	\$ 3,256,942
Other liabilities	358,180	426,968	252,875	1,023,754	611,055	1,450,722
Total liabilities	2,188,925	2,116,579	1,992,434	2,591,085	4,181,359	4,707,664
Deferred inflows of resources	400,832	480,898	68,349	91,055	469,181	571,953
Net Position:						
Net investment in capital assets	6,128,635	7,898,209	14,915,456	17,005,259	21,044,091	24,903,468
Restricted	2,074,644	768,404	13,854	14,364	2,088,498	782,768
Unrestricted	5,412,997	5,828,650	992,367	1,015,301	6,405,364	6,843,951
Total net position	\$ 13,616,276	\$ 14,495,263	\$ 15,921,677	\$ 18,034,924	\$ 29,537,953	\$ 32,530,187

Net position of the City's governmental activities increased by 6 percent or \$878,987 (\$14,495,263 compared to \$13,616,276). 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—increased by 8% (\$5,829,650 compared to \$5,412,997).

This increase in unrestricted governmental net position arose primarily because of one main factor – the City cutting back on spending in the police department and the passing of Measure O Safety tax measure. These factors are discussed in greater detail below.

The net position of the City's business-type activities increased by \$2,113,247 or 13 percent (\$18,034,924 compared to \$15,921,677). 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, 2016

Table 2: Condensed Statement of Activities

	Governmental activities		Business-type activities		Total	
	2015	2016	2015	2016	2015	2016
Revenues:						
Program revenues:						
Charges for services	\$ 332,167	\$ 363,292	\$ 2,459,854	\$ 2,528,110	\$ 2,792,021	\$ 2,891,402
Operating grants and contributions	2,590,578	3,084,122	258,924	547,366	2,849,502	3,631,488
Capital grants and contributions	678,169	451,400	518,357	2,491,123	1,196,526	2,942,523
General revenues:						
Property taxes	227,403	216,862	-	-	227,403	216,862
Sales tax	122,837	140,963	-	-	122,837	140,963
Franchise fees	59,037	60,952	-	-	59,037	60,952
Utility user tax	384,952	440,143	-	-	384,952	440,143
Motor vehicle in lieu	782,478	802,525	-	-	782,478	802,525
Interest and rent	95,703	91,034	2,724	3,528	98,427	94,562
Other	69,161	125,667	-	-	69,161	125,667
Total Revenues	5,342,485	5,776,960	3,239,859	5,570,127	8,582,344	11,347,087
Expenses:						
General government	469,986	411,033	-	-	469,986	411,033
Public safety	1,892,766	1,638,796	-	-	1,892,766	1,638,796
Public works	167,910	142,770	-	-	167,910	142,770
Planning and development	377,758	460,117	-	-	377,758	460,117
Streets	590,357	595,795	-	-	590,357	595,795
Parks and recreation	356,747	459,170	-	-	356,747	459,170
Daycare	997,465	1,060,038	-	-	997,465	1,060,038
Interest on long-term debt	72,387	68,054	-	-	72,387	68,054
Water	-	-	1,330,733	1,744,755	1,330,733	1,744,755
Sewer	-	-	1,285,730	1,259,322	1,285,730	1,259,322
Disposal	-	-	488,605	515,003	488,605	515,003
Total Expenses	4,925,376	4,835,773	3,105,068	3,519,080	8,030,444	8,354,853
Increase/(decrease) in net position before transfers	417,109	941,187	134,791	2,051,047	551,900	2,992,234
Transfers	74,267	(62,200)	(74,267)	62,200	-	-
Increase/(decrease) in net position	491,376	878,987	60,524	2,113,247	551,900	2,992,234
Net position - beginning	13,122,082	13,616,276	16,069,631	15,921,677	29,191,713	29,537,953
Cumulative effect of change in accounting principles	2,818	-	(208,478)	-	(205,660)	-
Net position - ending	\$ 13,616,276	\$ 14,495,263	\$ 15,921,677	\$ 18,034,924	\$ 29,537,953	\$ 32,530,187

The City's total revenues (excluding special items) increased by 32 percent (\$2,764,743). The total cost of all programs and services was \$8,354,433 (increasing by \$323,989, or less than 4 percent) with new programs added this year. Our analysis below separately considers the operations of governmental and business-type activities.

CITY OF ORANGE COVE

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Governmental Activities

Revenues for the City's governmental activities increased by 8 percent \$434,475, while total expenses decreased just below 2 percent (\$90,023). This compares to a \$1,143,479 decrease in net position in 2015.

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:

- The City froze one sergeant position in the police department since 2014 and freezing of Animal Control/Public Works employee since 2015.
- Reduction of overtime across all departments.
- Elimination of two positions – Public Works Superintendent and Sewer Plant Operator.
- 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 cost of all governmental activities this year was \$4,835,353 compared to \$4,925,376 last year. However, as shown in the Statement of Activities on page 15, the amount that City taxpayers ultimately financed for these activities was only \$936,539 because some of the cost was paid by those who directly benefited from the programs (\$363,292) or by other governments and organizations that subsidized certain programs with grants and contributions (\$3,535,522). Overall, the City's governmental program revenues, including intergovernmental aid and fees for services, increased in 2016 from \$3,898,814 to \$3,434,236, principally based on increases in operating grants and contributions. The City paid for the remaining "public benefit" portion of governmental activities with \$1,689,020 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	\$ 1,638,796	\$ (1,118,550)
Streets	\$ 595,795	\$ (332,028)
Planning and development	\$ 460,117	\$ 385,329
Day care	\$ 1,060,038	\$ -
General government	\$ 411,033	\$ (301,622)

CITY OF ORANGE COVE

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Business-type Activities

Revenues of the City's business-type activities (see Table 2) increased by 72 percent (\$3,239,857 in 2015 compared to \$5,570,127 in 2016) and expenses increased by \$414,012 or 13 percent. The factors driving these results include:

- CDBG Backwash project
- Water meter installation project
- Water Energy Project

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 \$32,530,607 at the close of the most recent fiscal year, which is an increase of \$2,992,654. 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	
	2015	2016	2015	2016	2015	2016
Net investment in capital assets	\$ 6,128,635	\$ 7,898,209	\$ 14,915,456	\$ 17,005,259	\$ 21,044,091	\$ 24,903,468
Restricted	2,074,644	768,404	13,854	14,364	2,088,498	782,768
Unrestricted	5,412,997	5,828,650	992,367	1,015,301	6,405,364	6,843,951
Total	\$ 13,616,276	\$ 14,495,263	\$ 15,921,677	\$ 18,034,924	\$ 29,537,953	\$ 32,530,187

By far the largest portion of the City's net position, \$24,903,468 or 77%, 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, \$782,768, 7% 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, \$6,844,371 or 21%, may be used to meet the City's obligations.

CITY OF ORANGE COVE

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Table 5: Revenue and Expenditures Comparison

	Governmental activities		\$	%
	2015	2016	Change	Change
Revenues:				
Charges for services	\$ 332,167	\$ 363,292	\$ 31,125	9%
Operating grants and contributions	\$ 2,590,578	\$ 3,084,122	\$ 493,544	19%
Capital grants and contributions	\$ 678,169	\$ 451,400	\$ (226,769)	-33%
Property taxes	\$ 227,403	\$ 216,862	\$ (10,541)	-5%
Sales tax	\$ 122,837	\$ 140,963	\$ 18,126	15%
Franchise fees	\$ 59,037	\$ 60,952	\$ 1,915	3%
Utility user tax	\$ 384,952	\$ 440,143	\$ 55,191	14%
Motor vehicle in lieu	\$ 782,478	\$ 802,525	\$ 20,047	3%
Interest and rent	\$ 95,703	\$ 91,034	\$ (4,669)	-5%
Other	\$ 69,161	\$ 125,667	\$ 56,506	82%
Expenses:				
General government	\$ 469,986	\$ 411,033	\$ (58,953)	-13%
Public safety	\$ 1,892,766	\$ 1,638,796	\$ (253,970)	-13%
Public works	\$ 167,910	\$ 142,770	\$ (25,140)	-15%
Planning and development	\$ 377,758	\$ 460,117	\$ 82,359	22%
Streets	\$ 590,357	\$ 595,795	\$ 5,438	1%
Parks and recreation	\$ 356,747	\$ 459,170	\$ 102,423	29%
Daycare	\$ 997,465	\$ 1,060,038	\$ 62,573	6%
Interest on long-term debt	\$ 72,387	\$ 68,054	\$ (4,333)	-6%
Water	\$ 1,330,733	\$ 1,744,755	\$ 414,022	31%
Sewer	\$ 1,285,730	\$ 1,259,322	\$ (26,408)	-2%
Disposal	\$ 488,605	\$ 515,003	\$ 26,398	5%

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 \$221,426. This decrease was \$530,844 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 \$493,544 due to CalHOME grant activities.
- Capital grants and contributions decreased due to less street projects in current year than prior year.

CITY OF ORANGE COVE

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

- Utility user tax increased due to monies coming in from cell phone users
- Other revenue increase due to a \$60,000 grant from Lowes and rental to Community Center parking lot to the Department of Forestry
- Public safety expenditures decreased due to general cut backs in over-time and no purchases of major capital outlays (police SUVs) and new K-9 acquisition
- Parks and recreation expenditures increased due to building of the soccer field
- Water expenses increased by \$414,022 due to costs associated with the backwash project, water meter, and water energy project.
- Planning and development costs increased due to CalHOME grant activities to help low-income families purchase homes

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 increased the City's total net position by \$2,113,247. This was a result of decrease in the Sewer Fund of \$430,680, offset by increases in the Water Fund for \$2,515,584 and in the Disposal Fund of \$28,343.

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, 2016, the Water Fund experienced an operating profit of \$2,408,074 due to the capitalization of expenses related to the water meter installation and backwash project.

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 an operating loss as the remaining expenses were \$10,570 more 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 the completion of the water meter project. The City is also reviewing the estimated life of, and exploring potential upgrades to these facilities.

The Disposal Fund ended the fiscal year with an operating income of \$28,343.

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.

CITY OF ORANGE COVE

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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.

CITY OF ORANGE COVE

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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 Special Revenue Fund, Low-Moderate Housing Asset Special Revenue Fund, Housing Grant Special Revenue Fund, Day Care Special Revenue and Streets Capital Project Fund, all of which are considered to be major funds. Data from the other seven 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 Special Revenue Fund, Low-Moderate Housing Asset Special Revenue Fund, Housing Grant Special Revenue Fund, Day Care Special Revenue Fund, and Streets Capital Project 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 16-19 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 20-22 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 Successor Agency Trust 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 25-59 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 pension benefits to its employees.

CITY OF ORANGE COVE

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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 appropriations between departments were not significant. The exception was the appropriation for the Police department in public safety function was increased by \$86,913 for the purchase three police vehicles.

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

Revenue Source	Estimated	Actual	Variance
Taxes	\$ 1,451,100	\$ 1,518,085	\$ 66,985
Intergovernmental	\$ 208,900	\$ 143,730	\$ (65,170)
Charges for service	\$ 124,942	\$ 126,440	\$ 1,498
Licenses and permits	\$ 104,655	\$ 146,738	\$ 42,083
Interest and rents	\$ 102,000	\$ 62,140	\$ (39,860)
Other	\$ 52,000	\$ 158,654	\$ 106,654

Expenditures	Estimated	Actual	Variance
General government	\$ 294,375	\$ 323,002	\$ (28,627)
Public safety	\$ 1,585,334	\$ 1,529,203	\$ 56,131
Public works	\$ 143,340	\$ 137,873	\$ 5,467
Planning and development	\$ 98,750	\$ 122,249	\$ (23,499)
Parks and recreation	\$ 219,780	\$ 243,286	\$ (23,506)
Capital outlay	\$ 35,000	\$ 40,105	\$ (5,105)

The shortfalls in the above revenue sources were caused by grant activities during the current year. Licenses and permits were more than estimated because an internal audit of business licenses was performed to ensure completeness. Interest and rents were less than budgeted due to the drawdown of our reserve account. Intergovernmental is the classification used to report grant revenues. Accordingly, the grants that these other governments were able to provide were less than expected. Actual grants from the state were approximately \$65,170 less than estimated.

The General Fund expenditures exceeded budget by \$19,139 in total. Many of the capital assets purchased during the year, emergency repairs, and one-time professional service fees were not budgeted.

The General Fund continues to draw down on the reserve since 2009 to cover expenditures for the year. General Fund does not generate enough revenues to cover current costs.

CITY OF ORANGE COVE

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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, 2016 amounts to \$27,601,650, net of accumulated depreciation. The investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, streets, and plants. The total increase in capital assets for the current fiscal year was approximately \$3,653,788 or 15%.

Capital Assets

	Governmental activities		Business-type activities		Total	
	2015	2016	2015	2016	2015	2016
Land	\$ 1,302,411	\$ 1,302,411	\$ 769,772	\$ 769,772	\$ 2,072,183	\$ 2,072,183
Building and improvements, net	5,720,598	5,510,510	15,294,023	15,294,022	21,014,621	20,804,532
Machinery and equipment, net	371,649	348,797	19,800	(475,792)	391,449	(126,995)
Construction in progress	59,489	1,999,825	410,120	2,852,105	469,609	4,851,930
Total	\$ 7,454,147	\$ 9,161,543	\$ 16,493,715	\$ 18,440,107	\$ 23,947,862	\$ 27,601,650

Major capital asset events during the current fiscal year included:

- Water meter installation project in the amount of \$2,115,622
- Street Projects (G Street, Anchor Street, and Sidewalks) in the amount of \$1,940,336
- CDBG Back wash project in the amount of \$505,876

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

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$2,698,182. Of this amount \$968,964 is for certificate of participation, \$1,245,000 is a special assessment debt, and the remaining is a loan payable of \$484,218.

Outstanding Debt

	Governmental activities		Business-type activities		Total	
	2015	2016	2015	2016	2015	2016
Certificate of participation	\$ -	\$ -	\$ 996,708	\$ 968,964	\$ 996,708	\$ 968,964
Loan payable	20,512	18,334	581,551	465,884	602,063	484,218
Assessment bonds payable	1,305,000	1,245,000	-	-	1,305,000	1,245,000
	\$ 1,325,512	\$ 1,263,334	\$ 1,578,259	\$ 1,434,848	\$ 2,903,771	\$ 2,698,182

The City's total debt decreased by \$178,754 (6%) during the current fiscal year. The reason for the decrease was that the regularly scheduled principal reductions on the existing outstanding debt was greater than the new debt. The new issuance was a loan payable of \$21,238 for a LED Street Lights.

Additional information on the City's long-term debt can be found on Note 7 on pages 44 to 48 of this report.

CITY OF ORANGE COVE

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

ECONOMIC FACTORS AND NEXT YEAR BUDGETS AND RATES

The following economic factors currently affect the City and were considered during the 2016-17 fiscal year budget:

- Interest rates are expected to remain at record low levels throughout 2016-17 fiscal year
- Water and sewer rates will take in effect upon completion of water meter installation project
- Potential development in the Industrial Park, possible increase in sales tax from new businesses
- Decrease in building department fees due to less rehabilitation project than previous year

NEW ACCOUNTING PRONOUNCEMENT

For the year ended June 30, 2016, the City implemented GASB Statement No. 72 (GASB 72), the City adopted the provisions of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Note 2 explains the effect of the current year GASB implementation.

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, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 2,015,661	\$ 1,223,860	\$ 3,239,521
Accounts receivable	446,308	860,964	1,307,272
Interest receivable	204,982	1,086	206,068
Due from other governments	411,254	664,322	1,075,576
Internal balances	499,716	(499,716)	-
Notes receivable	2,296,191	-	2,296,191
Land held for resale	975,986	-	975,986
Net pension asset	829,606	-	829,606
Capital assets, net of depreciation	9,161,543	18,440,107	27,601,650
Total assets	16,841,247	20,690,623	37,531,870
DEFERRED OUTFLOWS OF RESOURCES			
	251,493	26,441	277,934
LIABILITIES			
Accounts payable and accrued expenses	206,666	932,511	1,139,177
Accrued interest	20,683	14,065	34,748
Deposits	-	37,878	37,878
Compensated absences	112,584	39,300	151,884
Unearned revenues	87,035	-	87,035
Long-term liabilities:			
Due within one year	66,178	96,420	162,598
Due in more than one year	1,197,156	1,338,428	2,535,584
Net pension liability	426,277	132,483	558,760
Total liabilities	2,116,579	2,591,085	4,707,664
DEFERRED INFLOWS OF RESOURCES			
	480,898	91,055	571,953
NET POSITION			
Net investments in capital assets	7,898,209	17,005,259	24,903,468
Restricted for debt service	372,376	14,364	386,740
Restricted for capital projects	284,746	-	284,746
Restricted for specific projects and programs	111,282	-	111,282
Unrestricted	5,828,650	1,015,301	6,843,951
Total net position	\$ 14,495,263	\$ 18,034,924	\$ 32,530,187

CITY OF ORANGE COVE

STATEMENT OF ACTIVITIES

JUNE 30, 2016

Functions/Programs	Program Revenue			Net Revenue/(Expense) and Changes in Net Position		
	Expenses	Charges for		Governmental Activities	Business-Type Activities	Total
		Services	Operating Grants and Contributions			
Primary Government						
Governmental activities:						
General government	\$ 411,033	\$ 49,411	\$ 60,000	\$ -	\$ -	\$ (301,622)
Public safety	1,638,796	126,565	393,681	-	-	(1,118,550)
Public works	142,770	-	-	-	-	(142,770)
Planning and development	460,117	168,798	676,648	-	-	385,329
Streets	595,795	-	785,131	451,400	-	640,736
Parks and recreation	459,170	-	127,142	-	-	(332,028)
Day care	1,060,038	18,518	1,041,520	-	-	-
Debt service:						
Interest and other charges	68,054	-	-	-	-	(68,054)
Total government activities	4,835,773	363,292	3,084,122	451,400	-	(936,959)
Business-type activities:						
Water	1,744,755	1,225,404	541,418	2,385,932	2,407,999	2,407,999
Sewer	1,259,322	708,110	948	105,191	(445,073)	(445,073)
Disposal	515,003	594,596	5,000	-	84,593	84,593
Total business-type activities	3,519,080	2,528,110	547,366	2,491,123	2,047,519	2,047,519
Total primary government	\$ 8,354,853	\$ 2,891,402	\$ 3,631,488	\$ 2,942,523	2,047,519	1,110,560
General Revenue						
Property taxes and special assessments				216,862	-	216,862
Sales taxes				140,963	-	140,963
Franchise taxes				60,952	-	60,952
Business licenses				27,575	-	27,575
Utility users tax				440,143	-	440,143
Motor vehicle in-lieu				802,525	-	802,525
Interest and rent				91,034	3,528	94,562
Other				98,092	-	98,092
Transfers				(62,200)	62,200	-
Total general revenue and transfers				1,815,946	65,728	1,881,674
Change in Net Position				878,987	2,113,247	2,992,234
Net Position						
Beginning of year				13,616,276	15,921,677	29,537,953
End of year				\$ 14,495,263	\$ 18,034,924	\$ 32,530,187

See accompanying notes to the financial statements.

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

CITY OF ORANGE COVE

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2016

	General	Local Transportation	Low-Moderate Housing Asset	Housing Grant	Day Care	Streets	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and investments	\$ 1,114,196	\$ -	\$ 70,956	\$ -	\$ 38,053	\$ -	\$ 792,456	\$ 2,015,661
Accounts receivable	105,079	-	-	341,229	-	-	-	446,308
Interest receivable	1,708	174	144,743	58,002	-	-	355	204,982
Due from other governments	-	29,286	-	-	38,804	322,276	20,888	411,254
Due from other funds	1,153,816	-	-	-	-	-	-	1,153,816
Notes receivable	-	-	275,000	1,976,140	-	-	45,051	2,296,191
Land held for resale	376,000	-	-	-	-	-	599,986	975,986
Total assets	<u>\$ 2,750,799</u>	<u>\$ 29,460</u>	<u>\$ 490,699</u>	<u>\$ 2,375,371</u>	<u>\$ 76,857</u>	<u>\$ 322,276</u>	<u>\$ 1,458,736</u>	<u>\$ 7,504,198</u>
LIABILITIES								
Accounts payable and accrued expenses	\$ 64,816	\$ 28,613	\$ -	\$ -	\$ 38,804	\$ -	\$ 74,433	\$ 206,666
Due to other funds	-	847	-	310,825	-	322,276	20,152	654,100
Unearned revenues	-	-	-	-	38,053	-	48,982	87,035
Total liabilities	<u>64,816</u>	<u>29,460</u>	<u>-</u>	<u>310,825</u>	<u>76,857</u>	<u>322,276</u>	<u>143,567</u>	<u>947,801</u>
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenues	-	-	419,737	2,034,131	-	-	-	2,453,868
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>419,737</u>	<u>2,034,131</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,453,868</u>
FUND BALANCE								
Nonspendable:								
Notes receivables	-	-	-	-	-	-	45,051	45,051
Land held for resale	376,000	-	-	-	-	-	599,986	975,986
Restricted:								
Public safety	-	-	-	-	-	-	3,105	3,105
Low-income housing activities	-	-	70,962	30,415	-	-	-	101,377
Circulation improvements	-	-	-	-	-	-	9,905	9,905
Capital improvement projects	-	-	-	-	-	-	284,746	284,746
Debt service	-	-	-	-	-	-	372,376	372,376
Unassigned	2,309,983	-	-	-	-	-	-	2,309,983
Total fund balance	<u>2,685,983</u>	<u>-</u>	<u>70,962</u>	<u>30,415</u>	<u>-</u>	<u>-</u>	<u>1,315,169</u>	<u>4,102,529</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 2,750,799</u>	<u>\$ 29,460</u>	<u>\$ 490,699</u>	<u>\$ 2,375,371</u>	<u>\$ 76,857</u>	<u>\$ 322,276</u>	<u>\$ 1,458,736</u>	<u>\$ 7,504,198</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, 2016

Total governmental fund balance	\$ 4,102,529
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Amounts reported for governmental activities in the Statement of Net Position
are different because:

Capital assets used in governmental activities are current not financial resources and, therefore, are not reported in the funds	9,161,543
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Net pension asset used in governmental activities are current not financial resources and, therefore, are not reported in the funds	829,606
--	---------

Accrued interest on long-term liabilities is not due and payable in the current period and, therefore, is not reported in the funds	(20,683)
--	----------

Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds	(112,584)
---	-----------

Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities	251,493
---	---------

Net pension liability applicable to governmental activities are not due and and payable in the current period and accordingly is not reported in the the funds	(426,277)
--	-----------

Deferred inflows of resources related to net pension liability, represent an acquisition of net position or fund balance that applies to future period(s) and so will not be recognized as inflow of resources (revenue) until that time	(480,898)
--	-----------

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds	2,453,868
---	-----------

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	<u>(1,263,334)</u>
--	--------------------

Net position of governmental activities	<u><u>\$ 14,495,263</u></u>
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CITY OF ORANGE COVE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS JUNE 30, 2016

	General	Local Transportation	Low-Moderate Housing Asset	Housing Grant	Daycare	Streets	Other Governmental Funds	Total Governmental Funds
Revenues								
Taxes	\$ 1,518,085	\$ -	\$ -	\$ -	\$ -	-	\$ 401,253	\$ 1,919,338
Intergovernmental	143,730	294,234	-	341,229	1,041,520	451,400	610,041	2,882,154
Charges for service	126,440	-	-	-	18,518	-	-	144,958
Licenses, permits and impact fees	146,738	-	-	-	-	-	94,565	241,303
Interest and rent	62,140	564	20	9,729	-	1	2,938	75,392
Other	158,654	-	-	15,591	-	-	-	174,245
Total revenues	2,155,787	294,798	20	366,549	1,060,038	451,401	1,108,797	5,437,390
Expenditures								
Current:								
General government	322,998	-	-	-	-	-	-	322,998
Public safety	1,529,203	-	-	-	-	-	254,787	1,783,990
Public works	137,873	-	-	-	-	-	-	137,873
Streets	-	49,824	-	-	-	53,316	448,061	551,201
Planning and development	122,249	-	-	339,246	-	-	-	461,495
Parks and recreation	243,286	-	-	-	-	-	119,144	362,430
Day care	-	-	-	-	1,060,038	-	-	1,060,038
Capital outlay	40,105	881,055	-	-	17,926	1,059,281	-	1,998,367
Debt service:								
Principal	-	-	-	-	-	-	62,178	62,178
Interest and other charges	-	-	-	-	-	-	69,054	69,054
Total expenditures	2,395,714	930,879	-	339,246	1,077,964	1,112,597	953,224	6,809,624
Revenue over/(under) expenditures	(239,927)	(636,081)	20	27,303	(17,926)	(661,196)	155,573	(1,372,234)
Other Financing Sources/(Uses)								
Transfers in/(out) - net	73,524	(202,295)	-	(10,650)	17,926	678,842	(619,547)	(62,200)
Total other financing sources/(uses)	73,524	(202,295)	-	(10,650)	17,926	678,842	(619,547)	(62,200)
Change in Fund Balance	(166,403)	(838,376)	20	16,653	-	17,646	(463,974)	(1,434,434)
Fund Balance								
Beginning of year	2,852,386	838,376	70,942	13,762	-	(17,646)	1,779,143	5,536,963
End of year	\$ 2,685,983	\$ -	\$ 70,962	\$ 30,415	\$ -	\$ -	\$ 1,315,169	\$ 4,102,529

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 JUNE 30, 2016

Change in fund balance - total governmental funds	\$ (1,434,434)
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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 they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the funds	(290,971)
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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	1,998,365
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	339,569
---	---------

Pension expenses 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	207,826
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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	(4,546)
--	---------

Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position	62,178
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In the statement of activities, interest is accrued on long-term debt, whereas in governmental funds interest expenditure is reported when due	<u>1,000</u>
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Change in net position of governmental activities	<u>\$ 878,987</u>
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CITY OF ORANGE COVE

STATEMENT OF NET POSITION – PROPRIETARY FUNDS JUNE 30, 2016

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Disposal	Business-Type Funds
ASSETS				
Current assets				
Cash and investments	\$ 106,980	\$ 1,046,316	\$ 70,564	\$ 1,223,860
Accounts receivable	713,588	80,539	66,837	860,964
Due from other governments	664,322	-	-	664,322
Interest receivable	23	1,063	-	1,086
Total current assets	<u>1,484,913</u>	<u>1,127,918</u>	<u>137,401</u>	<u>2,750,232</u>
Non-current assets				
Property, plant and equipment (net of allowances for depreciation)	8,285,639	10,154,468	-	18,440,107
Total noncurrent assets	<u>8,285,639</u>	<u>10,154,468</u>	<u>-</u>	<u>18,440,107</u>
Total assets	<u>9,770,552</u>	<u>11,282,386</u>	<u>137,401</u>	<u>21,190,339</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>15,003</u>	<u>11,438</u>	<u>-</u>	<u>26,441</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	849,172	41,984	41,355	932,511
Accrued interest	14,065	-	-	14,065
Deposits	37,878	-	-	37,878
Compensated absences	23,855	15,445	-	39,300
Due to other funds	499,716	-	-	499,716
Current portion of long-term debt	62,636	33,784	-	96,420
Total current liabilities	<u>1,487,322</u>	<u>91,213</u>	<u>41,355</u>	<u>1,619,890</u>
Non-current liabilities				
Long-term debt	1,338,428	-	-	1,338,428
Net pension liability	71,962	60,521	-	132,483
Total non-current liabilities	<u>1,410,390</u>	<u>60,521</u>	<u>-</u>	<u>1,470,911</u>
Total liabilities	<u>2,897,712</u>	<u>151,734</u>	<u>41,355</u>	<u>3,090,801</u>
DEFERRED INFLOWS OF RESOURCES	<u>50,165</u>	<u>40,890</u>	<u>-</u>	<u>91,055</u>
NET POSITION				
Net investment in capital assets	6,884,575	10,120,684	-	17,005,259
Restricted for debt service	14,364	-	-	14,364
Unrestricted	(61,261)	980,516	96,046	1,015,301
Total net position	<u>\$ 6,837,678</u>	<u>\$ 11,101,200</u>	<u>\$ 96,046</u>	<u>\$ 18,034,924</u>

CITY OF ORANGE COVE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS JUNE 30, 2016

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Disposal	Business-Type Funds
Operating Revenue				
Charges for service	\$ 1,194,121	\$ 708,110	\$ 594,596	\$ 2,496,827
Connection fees	31,283	-	-	31,283
Total operating revenue	<u>1,225,404</u>	<u>708,110</u>	<u>594,596</u>	<u>2,528,110</u>
Operating Expense				
Contractual services and utilities	938,486	432,036	515,003	1,885,525
Personnel	394,051	337,682	-	731,733
Supplies and materials	162,799	58,554	-	221,353
Depreciation expense	197,742	431,050	-	628,792
Total operating expense	<u>1,693,078</u>	<u>1,259,322</u>	<u>515,003</u>	<u>3,467,403</u>
Operating income/(loss)	<u>(467,674)</u>	<u>(551,212)</u>	<u>79,593</u>	<u>(939,293)</u>
Nonoperating Revenue/(Expense)				
Intergovernmental	2,886,631	948	5,000	2,892,579
Development impact fees	40,717	105,193	-	145,910
Interest income	77	3,451	-	3,528
Interest expense	(51,677)	-	-	(51,677)
Total nonoperating revenue/(expense)	<u>2,875,748</u>	<u>109,592</u>	<u>5,000</u>	<u>2,990,340</u>
Net income/(loss) before transfers	2,408,074	(441,620)	84,593	2,051,047
Operating Transfers In/(Out)	<u>107,510</u>	<u>10,940</u>	<u>(56,250)</u>	<u>62,200</u>
Changes in Net Position	2,515,584	(430,680)	28,343	2,113,247
Net Position				
Beginning of year	4,322,094	11,531,880	67,703	15,921,677
End of the year	<u>\$ 6,837,678</u>	<u>\$ 11,101,200</u>	<u>\$ 96,046</u>	<u>\$ 18,034,924</u>

CITY OF ORANGE COVE

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS JUNE 30, 2016

	Business-Type Activities - Enterprise Funds			Total Business- Type Funds
	Water	Sewer	Disposal	
Operating Activities				
Receipts from customers and users	\$ 648,150	\$ 703,332	\$ 590,400	\$ 1,941,882
Payments for contractual services and utilities	(221,851)	(416,438)	(473,647)	(1,111,936)
Payments for employees	(403,307)	(348,457)	-	(751,764)
Payments to suppliers	(162,799)	(58,554)	-	(221,353)
Net cash provided by (used in) operating activities	(139,807)	(120,117)	116,753	(143,171)
Non-capital Financial Activities				
Payments from developers	40,714	105,193	-	145,907
Payments received from (paid to) other funds	(88,192)	-	-	(88,192)
Transfer (to)/from other funds	107,510	10,940	(56,250)	62,200
Net cash provided by (used in) non-capital financial activities	60,032	116,133	(56,250)	119,915
Capital and Related Financing Activities				
Purchase of property, plant and equipment	(2,275,017)	(300,167)	-	(2,575,184)
Capital grants and contributions received	2,576,355	948	5,000	2,582,303
Principal paid on long-term debt	(62,330)	(81,081)	-	(143,411)
Interest paid on long-term debt	(52,319)	-	-	(52,319)
Net cash provided by (used in) capital and related financing activities	186,689	(380,300)	5,000	(188,611)
Investing Activities				
Interest received	66	2,939	-	3,005
Net cash provided by (used in) investing activities	66	2,939	-	3,005
Net Increase (Decrease) in Cash	106,980	(381,345)	65,503	(208,862)
Cash				
Beginning of year	-	1,427,661	5,061	1,432,722
End of year	\$ 106,980	\$ 1,046,316	\$ 70,564	\$ 1,223,860
Cash Flows from Operating Activities				
Operating income (loss)	\$ (467,674)	\$ (551,212)	\$ 79,593	\$ (939,293)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	197,742	431,050	-	628,792
(Increase) Decrease in accounts receivable	(577,745)	(4,778)	(4,195)	(586,718)
(Increase) Decrease in deposits	491	-	-	491
(Increase) Decrease in deferred outflows of resources	(6,778)	(4,584)	-	(11,362)
Increase (Decrease) in compensated absences	658	(3,216)	-	(2,558)
Increase (Decrease) in deferred inflows of resources	12,884	9,822	-	22,706
Increase (Decrease) in net pension liability	(16,020)	(12,797)	-	(28,817)
Increase (Decrease) in accounts payable and accrued liabilities	716,635	15,598	41,355	773,588
Net Cash Provided (Used) by Operating Activities	\$ (139,807)	\$ (120,117)	\$ 116,753	\$ (143,171)

See accompanying notes to the financial statements.

CITY OF ORANGE COVE

STATEMENT OF FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2016

Assets

Cash and investments	
Held in City Treasury	\$ (308,022)
Held with trustees	722,461
Interest receivable	174
Note receivable	<u>200,000</u>
Total assets	<u>614,613</u>

Liabilities

Accounts payable and accrued liabilities	7,338
Interest payable	68,607
Long-term debt:	
Due in more than one year	<u>4,449,966</u>
Total liabilities	<u>4,525,911</u>

Net Position

Held in trust for other governments	<u><u>\$ (3,911,298)</u></u>
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CITY OF ORANGE COVE

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2016

Additions

Property taxes	\$ 189,180
Investment earnings and other	<u>610</u>
Total additions	<u>189,790</u>

Deductions

Program expenses	352,843
Administrative costs	214,201
Interest and fiscal agency expenses of former redevelopment agency	<u>164,649</u>
Total deductions	<u>731,693</u>

Change In Net Position	(541,903)
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Net Position

Beginning of year	<u>(3,369,395)</u>
End of year	<u><u>\$ (3,911,298)</u></u>

NOTES TO THE FINANCIAL STATEMENTS

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

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.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation – Fund Accounting (Continued)

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.

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 for related transportation projects and maintenance costs.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation – Fund Accounting (Continued)

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.

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

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.

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.

CITY OF ORANGE COVE

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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*.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

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 recorded at amortized cost or fair value. Fair value is based upon quoted market prices.

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.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

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

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

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.

Pension – For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employee Retirement System (CalPERS) plan and additions to/deduction from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Sick leave is accumulated at 12 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 5% to 25% depending on years of service, with a maximum payout of \$2,500. 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).

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

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.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's Pension Plan and additions to/deductions from the City's Pension Plan's fiduciary net position have been determined on the same basis as they are reported by the City's Pension Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Investments are reported at fair value.

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.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

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 presents 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.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

- 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.
- 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 Accounting Pronouncements Adopted

Governmental Accounting Standards Board Statement No. 72

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement was adopted by the City in the current fiscal year.

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.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

Note 2 – Stewardship, Compliance and Accountability (Continued)

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, 2016 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$ 3,239,521
Fiduciary Funds:	
Cash and Investments	(308,022)
Cash and Investments with fiscal agent	<u>722,461</u>
Total Cash and Investments	<u>\$ 3,653,960</u>

Cash and investments as of June 30, 2016 consist of the following:

Cash on hand	\$ 1,800
Deposit with Financial Institutions	331,374
Local Agency Investment Fund	2,583,961
Held by Fiscal Agent:	
U.S. Treasury Obligations	<u>736,825</u>
Total Cash and Investments	<u>\$ 3,653,960</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

Note 3 – Cash and Investments (Continued)

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2: Inputs to valuation methodology include inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within a fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

	Level 1	Level 2	Level 3	June 30, 2016 Balance
Investments by fair value level:				
Debt Securities:				
U.S. Treasury Obligations	\$ -	\$ 736,825	\$ -	\$ 736,825
Total Debt Securities	-	736,825	-	736,825
Equity Securities:				
LAIF	-	2,583,961	-	2,583,961
Total Equity Securities	-	2,583,961	-	2,583,961
Investments carried at amortized cost:				
Bank Deposits and Cash on Hand				333,174
Total Investments amortized at cost				333,174
Total Investments				\$ 3,653,960

LAIF is valued based on the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (Level 2 input).

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

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

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 3 – Cash and Investments (Continued)

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

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, 2016 the City had the following investments by maturity:

Investment Type	Amount	Maturity Date
Local Agency Investment Fund	\$ 3,871,719	N/A
Held by Bond Trustee:		
U.S. Treasury Obligations	<u>736,272</u>	N/A
Total	<u>\$ 4,607,991</u>	

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 3 – Cash and Investments (Continued)

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
Local Agency Investment Fund	\$ 3,871,719	N/A	\$	3,871,719
Held by Bond Trustee:				
U.S. Treasury Obligations	736,272	N/A		736,272
Total	<u>\$ 4,607,991</u>		\$	<u>4,607,991</u>

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.

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, 2016, the City's bank balance of \$46,290 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.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

Note 3 – Cash and Investments (Continued)

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, 2016 are as follows:

	Due From	Due To
General Fund	\$ 1,153,816	\$ -
Water Fund	-	499,716
Streets Project Fund	-	322,276
Measure C Fund	-	20,152
Housing Grant Fund	-	310,825
Local Transportation Fund	-	847
	<u>\$ 1,153,816</u>	<u>\$ 1,153,816</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.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

Note 4 – Interfund Activities (Continued)

Transfers in and out for the year ended June 30, 2016 consisted of the following:

	General Fund	Water	Sewer	Daycare	Streets	Total Transfers Out
General	\$ -	\$ -	\$ -	\$ 17,926	\$ -	\$ 17,926
Housing Grant	10,650	-	-	-	-	10,650
Disposal	56,250	-	-	-	-	56,250
Water	24,550	-	10,940	-	-	35,490
Community Development	-	143,000	-	-	-	143,000
Gas Tax	-	-	-	-	90,984	90,984
Local Transportation	-	-	-	-	202,295	202,295
Total Transfers In	<u>\$ 91,450</u>	<u>\$ 143,000</u>	<u>\$ 10,940</u>	<u>\$ 17,926</u>	<u>\$ 293,279</u>	<u>\$ 556,595</u>

- The transfers out from the Measure C, Gas Tax and Local Transportation to Streets in the amount of \$10,650, \$90,984, and \$202,295, respectively, were to cover street improvement costs.
- Transfer out from the Disposal Fund to the General Fund in the amount of \$56,250 was to transfer franchise taxes.
- Transfer out from Housing Grants to the General Fund in the amount of \$10,650 was to cover administrative cost.
- Transfer out of \$17,926 from the General Fund to Day Care was to cover Community Center improvement costs.
- Transfer out of the Water Fund of \$35,490 to the General and Sewer Fund was to cover water project costs.
- Transfer out of the Community Development Fund to Water Fund of \$143,000 was to cover water project costs.

Note 5 – Notes Receivable

Notes receivable at June 30, 2016 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, 2016 was \$18,972.

Housing Grant Notes – Through the grant, the City has loaned \$1,290,000 to forty-three families at 1% 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. As of June 30, 2016, the notes receivable balance was \$1,289,000. Deferred interest receivable on these notes was \$57,990 as of June 30, 2016.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

Note 5 – Notes Receivable (Continued)

The City loaned four loans totaling \$239,957 at 0% interest. The loan proceeds were used by these low and moderate income families to purchase homes. The loans are payable in thirty to forty-five years or when property ownership is transferred. The proceeds for the loans are provided through a Federal Housing Grant.

As of June 30, 2016, the City loaned twenty-six loans totaling \$447,184 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, 2016 was \$275,000. Deferred interest receivable on the note at June 30, 2016 was \$144,743.

Note 6 – Capital Assets

Capital assets activity of the governmental activities for the year ended June 30, 2016 was as follows:

Governmental Activities	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 1,302,411	\$ -	\$ -	\$ 1,302,411
Construction in progress	59,489	1,940,336	-	1,999,825
Total capital assets, not being depreciated	1,361,900	1,940,336	-	3,302,236
Capital assets, being depreciated:				
Buildings and improvements	8,189,525	17,926	-	8,207,451
Machinery and equipment	1,535,056	40,105	-	1,575,161
Total capital assets, being depreciated	9,724,581	58,031	-	9,782,612
Less accumulated depreciation for:				
Buildings and improvements	(2,468,927)	(228,014)	-	(2,696,941)
Machinery and equipment	(1,163,407)	(62,957)	-	(1,226,364)
Total accumulated depreciation	(3,632,334)	(290,971)	-	(3,923,305)
Total capital assets, being depreciated, net	6,092,247	(232,940)	-	5,859,307
Governmental activities capital assets, net	\$ 7,454,147	\$ 1,707,396	\$ -	\$ 9,161,543

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 6 – Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Governmental Activities Functions:

General Government	\$	93,661
Public Safety		43,079
Public Works		5,904
Parks and Recreation		96,933
Streets		51,394
	\$	<u>290,971</u>

Capital assets activity of the business-type activities for the year ended June 30, 2016 was as follows:

Business-Type Activities	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 769,772	\$ -	\$ -	\$ 769,772
Construction in progress	-	2,852,105	-	2,852,105
Total capital assets, not being depreciated	<u>769,772</u>	<u>2,852,105</u>	<u>-</u>	<u>3,621,877</u>
Capital assets, being depreciated:				
Buildings and improvements	23,679,901	-	-	23,679,901
Machinery and equipment	360,567	133,199	-	493,766
Total capital assets, being depreciated	<u>24,040,468</u>	<u>133,199</u>	<u>-</u>	<u>24,173,667</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,759,041)	(626,838)	-	(8,385,879)
Machinery and equipment	(967,604)	(1,954)	-	(969,558)
Total accumulated depreciation	<u>(8,726,645)</u>	<u>(628,792)</u>	<u>-</u>	<u>(9,355,437)</u>
Total capital assets being depreciated, net	<u>15,313,823</u>	<u>(495,593)</u>	<u>-</u>	<u>14,818,230</u>
Business-type activities capital assets, net	<u>\$ 16,083,595</u>	<u>\$ 2,356,512</u>	<u>\$ -</u>	<u>\$ 18,440,107</u>

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

Business-Type Functions:

Water	\$	197,742
Sewer		431,050
	\$	<u>628,792</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

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:

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Current Portion
Governmental Activities:					
Special Assessment Bonds	\$ 1,305,000	\$ -	\$ (60,000)	\$ 1,245,000	\$ 64,000
PG&E Streetlights Loan	20,512	-	(2,178)	18,334	2,178
Total Governmental Activities Debt	<u>\$ 1,325,512</u>	<u>\$ -</u>	<u>\$ (62,178)</u>	<u>\$ 1,263,334</u>	<u>\$ 66,178</u>
Business-Type Activities:					
Bonds Payable:					
1995 Water System Improvement Project	\$ 617,808	\$ -	\$ (21,444)	\$ 596,364	\$ 20,500
2005 COP Water Loan	378,900	-	(6,300)	372,600	6,500
Notes Payable:					
PG&E Sewer Loan	114,865	-	(81,081)	33,784	33,784
California Department of Water Resource	466,687	-	(34,587)	432,100	35,636
Total Business-Type Activities Debt	<u>1,578,260</u>	<u>-</u>	<u>(143,412)</u>	<u>1,434,848</u>	<u>96,420</u>
Compensated Absences:					
Governmental Activities	<u>\$ 108,038</u>	<u>\$ 4,546</u>	<u>\$ -</u>	<u>\$ 112,584</u>	
Business-Type Activities	<u>\$ 41,858</u>	<u>\$ -</u>	<u>\$ (2,558)</u>	<u>\$ 39,300</u>	

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 7 – Long-term Debt (Continued)

Long-term debt at June 30, 2016 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, 2016, bonds payable outstanding amounts to \$1,245,000.

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

Years ending in June 30,	Principal	Interest	Total
2017	\$ 64,000	\$ 60,450	\$ 124,450
2018	67,000	57,175	124,175
2019	70,000	53,750	123,750
2020	74,000	50,150	124,150
2021	78,000	46,350	124,350
2022-2026	445,000	168,475	613,475
2027-2030	447,000	45,775	492,775
	<u>\$ 1,245,000</u>	<u>\$ 482,125</u>	<u>\$ 1,727,125</u>

PG&E Street Lights Loan – In 2015, the City financed \$21,238 from Pacific Gas & Electric for the LED Street Lights project. The principal payments of \$182 are due monthly through November 2024. At June 30, 2016, the note payable outstanding amounts to \$18,334.

Annual debt service requirements for PG&E Street Lights Loan are as follows:

Years ending in June 30,	Principal	Interest	Total
2017	\$ 2,178	\$ -	\$ 2,178
2018	2,178	-	2,178
2019	2,178	-	2,178
2020	2,178	-	2,178
2021	2,178	-	2,178
2022-2025	7,444	-	7,444
	<u>\$ 18,334</u>	<u>\$ -</u>	<u>\$ 18,334</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 7 – Long-term Debt (Continued)

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, 2016, the bonds payable outstanding amounts to \$596,364.

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
2017	\$ 20,500	\$ 28,406	\$ 48,906
2018	21,500	27,461	48,961
2019	22,500	26,471	48,971
2020	23,500	25,436	48,936
2021	24,500	24,356	48,856
2022-2026	139,500	103,894	243,394
2027-2031	173,500	68,794	242,294
2032-2036	170,864	25,133	195,997
	<u>\$ 596,364</u>	<u>\$ 329,952</u>	<u>\$ 926,316</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7 – Long-term Debt (Continued)

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, 2016, the bonds payable outstanding amounts to \$372,600.

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

Years ending in June 30,	Principal	Interest	Total
2017	\$ 6,500	\$ 15,236	\$ 21,736
2018	6,800	14,961	21,761
2019	7,100	14,675	21,775
2020	7,300	14,378	21,678
2021	7,600	14,378	21,978
2022-2026	43,300	65,247	108,547
2027-2031	52,900	55,368	108,268
2032-2036	64,700	43,273	107,973
2037-2041	79,300	28,473	107,773
2042-2046	97,100	10,336	107,436
	<u>\$ 372,600</u>	<u>\$ 276,325</u>	<u>\$ 648,925</u>

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, 2016, the note payable outstanding amounts to \$432,100.

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

Years ending in June 30,	Principal	Interest	Total
2017	\$ 35,636	\$ 12,499	\$ 48,135
2018	36,697	11,437	48,134
2019	37,789	10,345	48,134
2020	38,914	9,220	48,134
2021	40,072	8,062	48,134
2022-2026	218,982	21,691	240,673
2027	24,010	350	24,360
	<u>\$ 432,100</u>	<u>\$ 73,604</u>	<u>\$ 505,704</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 7 – Long-term Debt (Continued)

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, 2016, the note payable outstanding amounts to \$33,784.

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

Years ending in June 30,	Principal	Interest	Total
2017	\$ 33,784	\$ -	\$ 33,784
	<u>\$ 33,784</u>	<u>\$ -</u>	<u>\$ 33,784</u>

Note 8 – Deferred Outflows/Inflows of Resources

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 reports the following deferred outflow of resources related to net pension liability in the Statement of Net Position:

Fiscal year 2015-16 pension contributions subsequent to measurement date	\$ 155,206
Adjustment due to differences in proportions	87,843
Difference between expected and actual experience	4,453
Difference between projected and actual contributions	<u>30,432</u>
Total deferred outflows of resources	<u>\$ 277,934</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

Note 8 – Deferred Outflows/Inflows of Resources (Continued)

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 reports the following deferred inflows related to net pension in the Statement of Net Position:

Net differences between projected and actual earnings on pension plan investments	\$ 48,471
Difference between expected and actual experience	11,736
Difference between projected and actual contributions	79,077
Changes in assumptions	96,100
Adjustment due to differences in proportions	<u>336,569</u>
Total deferred inflows of resources	<u>\$ 571,953</u>

The City also has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting as deferred inflows of resources. Accordingly, that item, unavailable revenues, is reported only in the governmental funds balance sheet. The City reports in the governmental funds \$2,453,868 as unavailable revenues in the governmental funds:

	<u>Housing Fund</u>	<u>Low- Moderate Housing Asset</u>	<u>Total</u>
Unavailable revenues:			
Program income	\$ 1,976,141	\$ -	\$ 1,976,141
Interest income	57,990	144,737	202,727
Loan repayments	-	275,000	275,000
	<u>\$ 2,034,131</u>	<u>\$ 419,737</u>	<u>\$ 2,453,868</u>

Note 9 – Deficit Fund Balances

The following is a summary of deficit fund balances and net position as of June 30, 2016:

The deficit fund balance in the Successor Agency is due to operating expenditures exceeding operating revenues and spending down unspent bond proceeds from prior years.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 10 – Defined Benefit Pension Plan

Plan Description - The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office - 400 P Street - Sacramento, CA 95814.

Fund 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 contribution requirements of plan members are established by State statute and the employer contribution is established and may be amended by PERS.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>Miscellaneous Classic</u>	<u>Safety Classic</u>
Hire Date	Prior to January 1, 2013	Prior to January 1, 2013
Benefit Formula	2% @ 60; maximum 2%	2.0% at 50; maximum 2%
	COLA	COLA
Benefit Vesting Schedule	5 years	5 years
Benefit Payments	monthly for life	monthly for life
Retirement Age	60	50
Monthly Benefits, as a % of Eligible Compensation	2%	2%
Required Employee Contribution Rates	7%	9%
Required Employer Contribution Rates	6.709%	14.644%

	<u>PEPRA Miscellaneous</u>	<u>PEPRA Safety</u>
Hire Date	Prior to January 1, 2013	Prior to January 1, 2013
Benefit Formula	2% @ 62; maximum 2%	2.0% at 57; maximum 2%
	COLA	COLA
Benefit Vesting Schedule	5 years	5 years
Benefit Payments	monthly for life	monthly for life
Retirement Age	62	57
Monthly Benefits, as a % of Eligible Compensation	2%	2%
Required Employee Contribution Rates	6.25%	11.50%
Required Employer Contribution Rates	6.237%	11.153%

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 10 – Defined Benefit Pension Plan (Continued)

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2016, the contributions recognized as part of the pension expense is as follows:

Contributions – employer	\$ 155,206
Contributions – employee	\$ 130,883

Pension Liability/(Asset), Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the City reported net pension liability/(asset) for its proportionate shares of the net pension liability/(asset) of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability (Asset)</u>
Miscellaneous - Classic	\$559,431
PEPRA Miscellaneous	(\$671)
Safety - Classic	(\$825,928)
PEPRA Safety	(\$3,678)

The City's net pension liability/(asset) for each Plan is measured as the proportionate share of the net pension liability/(asset). The net pension liability/(asset) of each of the Plan is measured as of June 30, 2014, and the total pension liability/(asset) for each Plan used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City's proportion of the net pension liability/(asset) was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability/(asset) for each Plan as of June 30, 2014 and 2015 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion – June 30, 2014	0.02697%	(0.02080%)
Proportion – June 30, 2015	0.02037%	(0.02013%)
Change – Increase/(Decrease)	(0.00660%)	(0.00067%)

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 10 – Defined Benefit Pension Plan (Continued)

For the year ended June 30, 2016, the City recognized pension expense of \$149,947. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 155,206	\$ -
Adjustment due to differences in proportions	87,843	(336,569)
Difference between expected and actual experience	4,453	(11,736)
Difference between projected and actual contributions	30,432	(79,077)
Changes in assumptions or other inputs	-	(96,100)
Net differences between projected and actual earnings on pension plan investments	-	(48,471)
Total	<u>\$ 277,934</u>	<u>\$ (571,953)</u>

The \$155,206 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability/(asset) in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2016	\$ (155,368)
2017	(147,538)
2018	(121,241)
2019	<u>(25,078)</u>
Total	<u>\$ (449,225)</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 10 – Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.50%
Mortality	Derived using CalPERS' Membership Data for all Funds ¹
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

¹ The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for fiscal years 1997-2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at CalPERS' website under Forms and Publications.

Change of assumptions – GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.5 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 10 – Defined Benefit Pension Plan (Continued)

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for public agency plans, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained on CalPERS’ website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected rate of returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees’ Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected nominal rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The long-term expected real rates of return by asset class can be found in CalPERS’ Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 10 – Defined Benefit Pension Plan (Continued)

The table below reflects long-term expected real rates of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return ¹ Years 1-10	Real Return ² Years 11+
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.83%	6.95%
Real Estate	11%	4.50%	5.13%
Infrastructure and Forestland	3%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
Total	100%		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

Sensitivity of the Proportionate Share of the Net Pension Liability/(Asset) to Changes in the Discount Rate The following presents the City's proportionate share of the net pension liability/(asset) for each Plan, calculating using the discount rate of each Plan, as well as what the City's proportionate share of the net pension liability/(asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.65%) or 1-percentage point higher (8.65%) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Miscellaneous Classic	\$ (938,205)	\$ (559,431)	\$ (246,709)
Safety Classic	\$ 1,324,247	\$ 825,928	\$ 417,316
PEPRA Miscellaneous	\$ 1,127	\$ 671	\$ 296
PEPRA Safety	\$ 5,896	\$ 3,678	\$ 1,858

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

Payable to the Pension Plan

At June 30, 2016, the City has no outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

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.

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.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

Note 12 – Risk Management (Continued)

The latest audited financial information and the most current information available for CSJVRMA for fiscal year ended June 30, 2016 is as follows:

Total assets	\$ 86,630,360
Total liabilities	\$ 73,673,710
Total equities	\$ 12,956,650
Total revenues	\$ 38,130,606
Total expenses	\$ 40,427,807
Revenues over (under) expenses	\$ (2,297,201)

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 \$1,182,971 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:	\$68,783
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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).

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 15 – Successor Agency Trust Fund (Continued)

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, 2016 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 \$55,340 to \$396,299 with interest payable semi-annually at a rate between 3.7% per annum. At June 30, 2016, the bond outstanding amounts to \$4,449,967.

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>
2017	\$ -	\$ 164,649	\$ 164,649
2018	176,066	163,020	339,086
2019	239,392	155,920	395,312
2020	249,311	146,970	396,281
2021	254,009	137,703	391,712
2022-2026	1,429,319	538,180	1,967,499
2027-2031	1,719,663	250,459	1,970,122
2032	382,206	10,606	392,812
	<u>\$ 4,449,966</u>	<u>\$ 1,567,507</u>	<u>\$ 6,017,473</u>

Note 16 – Subsequent Event

The City evaluated subsequent events for recognition and disclosure through December 15, 2016, the date which these financials were available to issue. Management concluded that no material subsequent events have occurred since June 30, 2016 that required recognition or disclosure in such financial statements.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

Note 17 – Excess of Expenditures over Appropriations

The excess of expenditures over appropriations are as follows:

General Fund:

Current:

General government	\$ 28,625
Planning and development	\$ 23,499
Parks and recreation	\$ 23,506

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

Local Transportation Special Revenue Fund:

Other Financing Uses:

Transfer out	\$ 202,294
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Housing Asset Special Revenue Fund:

Current:

Planning and development	\$ 339,246
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Other Financing Uses:

Transfer out	\$ 10,650
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Daycare Special Revenue Fund:

Current:

Day care	\$ 9,011
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Streets Capital Project Fund:

Current:

Streets	\$ 53,316
Capital outlay	\$ 1,059,281

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ORANGE COVE

BUDGETARY COMPARISON SCHEDULE GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,451,100	\$ 1,451,100	\$ 1,518,085	\$ 66,985
Intergovernmental	208,900	208,900	143,730	(65,170)
Charges for service	124,942	124,942	126,440	1,498
Licenses, permits and impact fees	104,655	104,655	146,738	42,083
Interest and rent	102,000	102,000	62,140	(39,860)
Other	52,000	52,000	158,654	106,654
Total revenues	<u>2,043,597</u>	<u>2,043,597</u>	<u>2,155,787</u>	<u>112,190</u>
Expenditures				
Current:				
General government	294,375	294,375	323,000	(28,625)
Public safety	1,585,334	1,585,334	1,529,203	56,131
Public works	143,340	143,340	137,873	5,467
Planning and development	98,750	98,750	122,249	(23,499)
Parks and recreation	219,780	219,780	243,286	(23,506)
Capital outlay	35,000	121,913	40,105	81,808
Total expenditures	<u>2,376,579</u>	<u>2,463,492</u>	<u>2,395,716</u>	<u>67,776</u>
Revenue over/(under) expenditures	(332,982)	(419,895)	(239,929)	179,966
Other Financing Sources/(Uses)				
Transfers in/(out) - net	-	-	73,526	73,526
Total other financing sources/(uses)	-	-	73,526	73,526
Change in Fund Balance	<u>\$ (332,982)</u>	<u>\$ (419,895)</u>	(166,403)	<u>\$ 253,492</u>
Fund Balance				
Beginning of year			2,852,386	
End of year			<u>\$ 2,685,983</u>	

CITY OF ORANGE COVE

BUDGETARY COMPARISON SCHEDULE LOCAL TRANSPORTATION SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 268,867	\$ 268,867	\$ 294,234	\$ 25,367
Interest and rent	300	300	564	264
Total revenues	<u>269,167</u>	<u>269,167</u>	<u>294,798</u>	<u>25,631</u>
Expenditures				
Current:				
Streets	<u>326,215</u>	<u>326,215</u>	<u>49,825</u>	<u>276,390</u>
Total expenditures	<u>870,251</u>	<u>870,251</u>	<u>930,880</u>	<u>276,390</u>
Revenue over/(under) expenditures	(57,048)	(57,048)	(636,082)	302,021
Other Financing Sources/(Uses)				
Transfers in/(out) - net	<u>-</u>	<u>-</u>	<u>(202,294)</u>	<u>(202,294)</u>
Total other financing sources/(uses)	<u>-</u>	<u>-</u>	<u>(202,294)</u>	<u>(202,294)</u>
Change in Fund Balance	<u>\$ (57,048)</u>	<u>\$ (57,048)</u>	<u>(838,376)</u>	<u>\$ 99,727</u>
Fund Balance				
Beginning of year			<u>838,376</u>	
End of year			<u>\$ -</u>	

CITY OF ORANGE COVE

BUDGETARY COMPARISON SCHEDULE LOW-MODERATE HOUSING ASSET SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenues				
Interest and rent	\$ -	\$ -	\$ 19	\$ 19
Total revenues	-	-	19	19
Expenditures				
Current:				
Planning and development	-	-	-	-
Total expenditures	-	-	-	-
Revenue over/(under) expenditures	-	-	19	19
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	19	<u>\$ 19</u>
Fund Balance				
Beginning of year			70,943	
End of year			<u>\$ 70,962</u>	

CITY OF ORANGE COVE

BUDGETARY COMPARISON SCHEDULE HOUSING GRANT SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Final Budget</u>
				<u>Positive/</u>
				<u>(Negative)</u>
Revenues				
Intergovernmental	\$ -	\$ -	\$ 341,229	\$ 341,229
Interest and rent	-	-	9,729	9,729
Other	-	-	15,591	15,591
Total revenues	-	-	366,549	366,549
Expenditures				
Current:				
Planning and development	-	-	339,246	(339,246)
Total expenditures	-	-	339,246	(339,246)
Revenue over/(under) expenditures	-	-	27,303	27,303
Other Financing Sources/(Uses)				
Transfers in/(out) - net	-	-	(10,650)	(10,650)
Total other financing sources/(uses)	-	-	(10,650)	(10,650)
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	16,653	<u>\$ 16,653</u>
Fund Balance				
Beginning of year			13,762	
End of year			<u>\$ 30,415</u>	

CITY OF ORANGE COVE

BUDGETARY COMPARISON SCHEDULE DAYCARE SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amount</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>with Final</u> <u>Budget</u> <u>Positive/</u> <u>(Negative)</u>
Revenues				
Intergovernmental	\$ 992,167	\$ 992,167	\$ 1,041,520	\$ 49,353
Charges for services	-	-	18,518	18,518
Interest	-	-	-	-
Total revenues	<u>992,167</u>	<u>992,167</u>	<u>1,060,038</u>	<u>67,871</u>
Expenditures				
Current:				
Day care	<u>1,051,027</u>	<u>1,051,027</u>	<u>1,060,038</u>	<u>(9,011)</u>
Total expenditures	<u>1,051,027</u>	<u>1,051,027</u>	<u>1,060,038</u>	<u>(9,011)</u>
Revenue over/(under) expenditures	<u>\$ (58,860)</u>	<u>\$ (58,860)</u>	-	<u>\$ (58,860)</u>
Fund Balance				
Beginning of year			-	
End of year			<u>\$ -</u>	

CITY OF ORANGE COVE

BUDGETARY COMPARISON SCHEDULE STREETS SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amount</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>with Final</u> <u>Budget</u> <u>Positive/</u> <u>(Negative)</u>
Revenues				
Intergovernmental	\$ 992,167	\$ 992,167	\$ 1,041,520	\$ 49,353
Charges for services	-	-	18,518	18,518
Interest	-	-	-	-
Total revenues	<u>992,167</u>	<u>992,167</u>	<u>1,060,038</u>	<u>67,871</u>
Expenditures				
Current:				
Day care	<u>1,051,027</u>	<u>1,051,027</u>	<u>1,060,038</u>	<u>(9,011)</u>
Total expenditures	<u>1,051,027</u>	<u>1,051,027</u>	<u>1,060,038</u>	<u>(9,011)</u>
Revenue over/(under) expenditures	<u>\$ (58,860)</u>	<u>\$ (58,860)</u>	-	<u>\$ (58,860)</u>
Fund Balance				
Beginning of year			-	
End of year			<u>\$ -</u>	

CITY OF ORANGE COVE

SCHEDULE OF CONTRIBUTIONS LAST 10 YEARS* FOR THE YEAR ENDED JUNE 30, 2016

	Miscellaneous Classic		Safety Classic		PEPRA Miscellaneous		PEPRA Safety	
	2015	2016	2015	2016	2016	2016	2016	2016
Proportion of the net pension liability	0.01071%	0.02039%	-0.01254%	-0.02004%	-0.00002%	-0.00009%		
Proportionate share of the net pension liability	\$ 666,533	\$ 559,431	\$ (780,109)	\$ (825,928)	\$ (671)	\$ (3,678)		
Covered - employee payroll	\$ 1,020,427	\$ 924,953	\$ 762,323	\$ 297,459	\$ 116,782	\$ 441,837		
Proportionate share of the net pension liability as a percentage of covered-employee payroll	65.32%	60.48%	-102.33%	-277.66%	-0.57%	-0.83%		
Plan's fiduciary net position	\$ 3,917,081	\$ 4,195,846	\$ 1,568,579	\$ 2,156,615	\$ 7,082	\$ 72,578		
Plan's fiduciary net position as a percentage of the Total Pension Liability	85.46%	88.24%	198.94%	162.07%	110%	105.34%		

*Fiscal year 2014-15 was the first year of implementation, therefore only two years are shown.

CITY OF ORANGE COVE

SCHEDULE OF CONTRIBUTIONS LAST 10 YEARS* FOR THE YEAR ENDED JUNE 30, 2016

	Miscellaneous Classic		Safety Classic		PEPRA		PEPRA Safety
	2015	2016	2015	2016	Miscellaneous	2016	
Contractually required contribution (actuarially determined)	\$ 70,820	\$ 62,311	\$ 59,090	\$ 44,824	\$ -	\$ -	-
Contributions in relation to the actuarially determined contributions	(70,820)	(62,311)	(59,090)	(44,824)	-	-	-
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
Covered-employee payroll	\$ 1,020,427	\$ 924,953	\$ 762,323	\$ 297,459	\$ 116,782	\$ 441,837	
Contributions as a percentage of covered-employee payroll	6.94%	6.74%	7.75%	15.07%	0.00%	0.00%	

*Fiscal year 2014-15 was the first year of implementation, therefore only two years are shown.

Notes to Schedule of Contributions

Valuation Date 6/30/2014

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method Entry-Age Normal Cost Method
Amortization Method Level Percent of Payroll
Asset Valuation Method Market Value

Actuarial Assumptions:

Discount Rate 7.65%

Inflation 2.75%

Salary Increases Varies by Entry Age and Service

Investment Rate of Return 7.50%, net of pension plan investment and administrative expenses, including inflation

Retirement Age The probabilities of Retirement are based on the 2010 CalPERS

Mortality Experience Study for the period from 1997 to 2007

Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of

Actuaries

Payroll Growth 3.00%

CITY OF ORANGE COVE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016

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.

OTHER SUPPLEMENTARY INFORMATION

CITY OF ORANGE COVE

COMBINING BALANCE SHEET- NON-MAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2016

	General Debt Service	Measure O	Gas Tax	Soccer Grant
ASSETS				
Cash and investments	\$ 372,164	\$ 3,105	\$ 16,641	\$ 115,812
Interest receivable	212	-	12	-
Due from other governments	-	-	-	-
Due to other funds	-	-	-	-
Notes receivable	-	-	-	-
Land held for resale	-	-	-	-
Total assets	<u>\$ 372,376</u>	<u>\$ 3,105</u>	<u>\$ 16,653</u>	<u>\$ 115,812</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable and accrued expenses	\$ -	\$ -	\$ 6,748	\$ 66,830
Unearned revenues	-	-	-	48,982
Total liabilities	<u>-</u>	<u>-</u>	<u>6,748</u>	<u>115,812</u>
Fund Balance				
Nonspendable:				
Notes receivable	-	-	-	-
Land held for resale	-	-	-	-
Restricted:				
Public safety	-	3,105	-	-
Circulation improvements	-	-	9,905	-
Capital improvement projects	-	-	-	-
Debt service	372,376	-	-	-
Total fund balance	<u>372,376</u>	<u>3,105</u>	<u>9,905</u>	<u>-</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 372,376</u>	<u>\$ 3,105</u>	<u>\$ 16,653</u>	<u>\$ 115,812</u>

CITY OF ORANGE COVE

COMBINING BALANCE SHEET-NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2016

	Community Development	Development Impact Fees	Measure C	Total Non-major Governmental Funds
ASSETS				
Cash and investments	\$ (3,230)	\$ 287,964	\$ -	\$ 792,456
Interest receivable	5	7	119	355
Due from other governments	-	-	20,888	20,888
Notes receivable	45,051	-	-	45,051
Land held for resale	599,986	-	-	599,986
Total assets	<u>\$ 641,812</u>	<u>\$ 287,971</u>	<u>\$ 21,007</u>	<u>\$ 1,458,736</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable and accrued expenses	\$ -	\$ -	\$ 855	\$ 74,433
Due to other funds	-	-	20,152	20,152
Unearned revenues	-	-	-	48,982
Total liabilities	-	-	<u>21,007</u>	<u>143,567</u>
Fund Balance				
Nonspendable:				
Notes receivable	45,051	-	-	45,051
Land held for resale	599,986	-	-	599,986
Restricted:				
Public safety	-	-	-	3,105
Circulation improvements	-	-	-	9,905
Capital improvement projects	(3,225)	287,971	-	284,746
Debt service	-	-	-	372,376
Total fund balance	<u>641,812</u>	<u>287,971</u>	<u>-</u>	<u>1,315,169</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 641,812</u>	<u>\$ 287,971</u>	<u>\$ 21,007</u>	<u>\$ 1,458,736</u>

CITY OF ORANGE COVE

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE NON-MAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2016

	General Debt Service	Measure O	Gas Tax	Soccer Grant
Revenues				
Taxes	\$ 143,361	\$ 257,892	\$ -	\$ -
Intergovernmental	-	-	202,356	119,144
Licenses, permits and impact fees	-	-	-	-
Interest and rent	687	-	40	-
Total revenues	<u>144,048</u>	<u>257,892</u>	<u>202,396</u>	<u>119,144</u>
Expenditures				
Current:				
Public safety	-	254,787	-	-
Streets	-	-	371,346	-
Parks and recreation	-	-	-	119,144
Debt service:				
Principal	60,000	-	2,178	-
Interest and other charges	69,054	-	-	-
Total expenditures	<u>129,054</u>	<u>254,787</u>	<u>373,524</u>	<u>119,144</u>
Revenue over/(under) expenditures	14,994	3,105	(171,128)	-
Other financing sources/(uses)				
Operating transfers in/(out) - net	-	-	(90,984)	-
Total other financing sources/(uses)	-	-	(90,984)	-
Change in Fund Balance	14,994	3,105	(262,112)	-
Fund Balance				
Beginning of year	357,382	-	272,017	-
End of year	<u>\$ 372,376</u>	<u>\$ 3,105</u>	<u>\$ 9,905</u>	<u>\$ -</u>

CITY OF ORANGE COVE

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2016

	Community Development	Development Impact Fees	Measure C	Total Non-major Governmental Funds
Revenues				
Taxes	\$ -	\$ -	\$ -	401,253
Intergovernmental	-	-	288,541	610,041
Licenses, permits and impact fees	-	94,565	-	94,565
Interest and rent	1,801	23	387	2,938
Total revenues	1,801	94,588	288,928	1,108,797
Expenditures				
Current:				
Public safety	-	-	-	254,787
Streets	-	-	76,715	448,061
Parks and recreation	-	-	-	119,144
Debt service:				
Principal	-	-	-	62,178
Interest and other charges	-	-	-	69,054
Total expenditures	-	-	76,715	953,224
Revenue over/(under) expenditures	1,801	94,588	212,213	155,573
Other financing sources/(uses)				
Operating transfers in/(out) - net	(143,000)	-	(385,563)	(619,547)
Total other financing sources/(uses)	(143,000)	-	(385,563)	(619,547)
Change in Fund Balance	(141,199)	94,588	(173,350)	(463,974)
Fund Balance				
Beginning of year	783,011	193,383	173,350	1,779,143
End of year	\$ 641,812	\$ 287,971	\$ -	\$ 1,315,169

CITY OF ORANGE COVE

JULIA A. LOPEZ CHILD DEVELOPMENT CENTER BALANCE SHEET JUNE 30, 2016

	<u>City Portion</u>	<u>Subcontractor Portion</u>	<u>Memo Total</u>
ASSETS			
Cash	\$ 38,053	\$ -	\$ 38,053
Accounts receivable - Daycare	<u>38,804</u>	<u>-</u>	<u>38,804</u>
Total assets	<u>76,857</u>	<u>-</u>	<u>76,857</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable - trade	\$ 38,804	\$ -	\$ 38,804
Accounts payable - State	-	-	-
Unearned revenue - reserve fund	<u>38,053</u>	<u>-</u>	<u>38,053</u>
Total liabilities	<u>76,857</u>	<u>-</u>	<u>76,857</u>
Fund Balance			
Unreserved, undesignated	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 76,857</u>	<u>\$ -</u>	<u>\$ 76,857</u>

CITY OF ORANGE COVE

JULIA A. LOPEZ CHILD DEVELOPMENT CENTER STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2016

	<u>City Portion</u>	<u>Subcontractor Portion</u>	<u>Memo Total</u>
REVENUES & SUPPORT			
State apportionments - Child Development Program	\$ 26,270	\$ 997,434	\$ 1,023,704
State apportionments - One Time Only	-	-	-
State apportionments - Reserve Transfer	-	-	-
Parent fees - Certified	-	18,518	18,518
Miscellaneous Income	-	172	172
Total revenues and support	<u>26,270</u>	<u>1,016,124</u>	<u>1,042,394</u>
EXPENSES			
Salaries and wages	26,270	506,182	532,452
Employee benefits	-	231,788	231,788
Food	-	119,324	119,324
Material and supplies	-	22,407	22,407
Other supplies	-	23,292	23,292
Travel and training	-	2,003	2,003
Repairs and maintenance	-	23,379	23,379
Dues and memberships	-	1,210	1,210
Rent	-	-	-
Operations and housekeeping services	-	31,071	31,071
Insurance	-	9,059	9,059
Professional services	-	46,237	46,237
Total expenses	<u>26,270</u>	<u>1,015,952</u>	<u>1,042,222</u>
Expenditures in Excess of Revenues	-	172	172
FUND BALANCE			
Beginning of year	-	-	-
End of year	<u>\$ -</u>	<u>\$ 172</u>	<u>\$ 172</u>

CITY OF ORANGE COVE

JULIA A. LOPEZ CHILD DEVELOPMENT CENTER SCHEDULE OF EXPENDITURES BY STATE CATEGORIES YEAR ENDED JUNE 30, 2016

		City	Subcontractor	State
		Portion	Portion	Preschool Program CSPP-5059
Expenditures				
1000	Certified Personnel Salaries	\$ -	\$ 124,247	\$ 124,247
2000	Classified Personnel Salaries	-	381,935	381,935
3000	Employee Benefits	-	231,788	231,788
4000	Books and Supplies	-	165,023	165,023
5000	Services and Other Operating Expenses	26,270	112,959	139,229
6000	Capital Outlay	-	-	-
Total expenses claimed for reimbursement		<u>\$ 26,270</u>	<u>\$ 1,015,952</u>	<u>\$ 1,042,222</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, 2016

	State Preschool Program CSPP-5059
EXPENSES	
City Payroll Expense	\$ 26,270
Accounting	38,265
Audit	<u>4,250</u>
Total expenses	<u>\$ 68,785</u>

The City is the prime contractor responsible for all administrative, fiscal, and program requirements of the CSPP contract. The City has Target Eight as its subcontract operator for the CSPP contract. The City is the contractor on record who is responsible for the quality and compliance with Title 5 regulations for the services.

Typically the prime contractor will incur some administrative and operating expenses for the oversight of its subcontractor, which includes the following:

1. City administrator, manager, and staff time (2.5% of the contract) to review, sign off, and authorize fiscal reports, attendance reports, annual program self-evaluation, and capital purchases.
2. Budget and expenditures review, coordination of audits and provision of supporting documents
3. Maintenance of accounting functions, location and review of documents, posting of transactions, and year-end adjustments
4. Supervising maintenance
5. Regular site visits to the child care facility. City staff time to support parents, Target Eight staff, consultants, and other parties
6. Staff time with EESD, EESD consultant, CDE audits office, fiscal analyst regarding contract, compliance, audit, and licensing

**CITY OF ORANGE COVE
JULIA A. LOPEZ CHILD DEVELOPMENT CENTER COMBINING SCHEDULE OF
RENOVATION AND REPAIR EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2016**

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

CITY OF ORANGE COVE

JULIA A. LOPEZ CHILD DEVELOPMENT CENTER SCHEDULE OF EQUIPMENT EXPENDITURES FOR THE YEAR ENDED JUNE 30, 2016

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

CITY OF ORANGE COVE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2016

Grantor	Federal CFDA Number	Grantor's Number	Award Amount			Expenditures		
			Federal	State	Total	Federal	State	Total
State:								
Passed-through California Department of Education								
Preschool Program:								
City of Orange Cove	93.596/93.575	CSPP-5059	\$ 4,773	\$ 21,253	\$ 26,025	\$ 4,818	\$ 21,452	\$ 26,270
Target 8*	93.596/93.575	CSPP-5059	<u>212,175</u>	<u>944,770</u>	<u>1,156,946</u>	<u>182,922</u>	<u>814,512</u>	<u>997,434</u>
			<u>\$ 216,948</u>	<u>\$ 966,023</u>	<u>\$ 1,182,971</u>	<u>\$ 187,740</u>	<u>\$ 835,964</u>	<u>\$ 1,023,704</u>
			<u>\$ 216,948</u>	<u>\$ 966,023</u>	<u>\$ 1,182,971</u>	<u>\$ 187,740</u>	<u>\$ 835,964</u>	<u>\$ 1,023,704</u>

*The City of Orange Cove subcontracted with Target Eight Advisory Council, Inc. to administer the Preschool Program

CITY OF ORANGE COVE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2016

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.

Note 2 – Subcontractor

For the year ended June 30, 2016, the City of Orange Cove subcontracted grant award number CSPP-5059 to Target Eight Advisory Council, Inc. in the amount of \$1,153,397; of that amount only \$998,111 was expended.

Note 3 – Cost Rate

The City does not elect to use the 10% de minimus cost rate.

CITY OF ORANGE COVE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CHILD CARE PROGRAM
YEAR ENDED JUNE 30, 2016**

None.

AUDITED ATTENDANCE AND FISCAL REPORT

for California State Preschool Programs

Agency Name: City of Orange Cove Vendor No. 2188

Fiscal Year Ended: June 30, 2016 Contract No. CSPP-5059

Independent Auditor's Name: Bryant L. 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	7,519	-	7,519	1.0000	7,519.000
Three-quarters-time	516	-	516	0.7500	387.000
One-half-time	1,672	-	1,672	0.6195	1,035.804
<i>Exceptional Needs</i>					
Full-time-plus			-	1.4160	-
Full-time			-	1.2000	-
Three-quarters-time			-	0.9000	-
One-half-time			-	0.6195	-
<i>Limited and Non-English Proficient</i>					
Full-time-plus			-	1.2980	-
Full-time	13,061	-	13,061	1.1000	14,367.100
Three-quarters-time	1,015	-	1,015	0.8250	837.375
One-half-time	5,433	-	5,433	0.6195	3,365.744
<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			-	0.6195	-
<i>Severely Disabled</i>					
Full-time-plus			-	1.7700	-
Full-time			-	1.5000	-
Three-quarters-time			-	1.1250	-
One-half-time			-	0.6195	-
TOTAL DAYS OF ENROLLMENT	29,216	-	29,216		27,512.023
DAYS OF OPERATION	246	-	246		
DAYS OF ATTENDANCE	29,144	-	29,144		

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

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

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

Agency Name: City of Orange Cove Vendor No. 2188

Fiscal Year End: June 30, 2016 Contract No. CSPP-5059

	COLUMN A	COLUMN B	COLUMN C
	CUMULATIVE FISCAL YEAR PER FORM CDFS 8501	AUDIT ADJUSTMENT INCREASE OR (DECREASE)	CUMULATIVE FISCAL YEAR PER AUDIT
SECTION III - REVENUE			
RESTRICTED INCOME			
Child Nutrition Programs			\$0
County Maintenance of Effort (EC § 8279)			0
Uncashed Checks to Providers			0
Other (Specify):			0
Other (Specify):			0
Subtotal	\$0	\$0	\$0
Transfer from Reserve - General			0
Transfer from Reserve - Professional Development			0
Subtotal	\$0	\$0	\$0
Family Fees for Certified Children	18,518	0	18,518
Interest Earned on Apportionments			0
UNRESTRICTED INCOME			
Family Fees for Noncertified Children			0
Head Start Program (EC § 8235(b))			0
Other (Specify):			0
Other (Specify):			0
TOTAL REVENUE	\$18,518	\$0	\$18,518

SECTION IV - REIMBURSABLE EXPENSES

<i>Direct Payments to Providers (FCCH Only)</i>			\$0
1000 Certificated Salaries	124,247		124,247
2000 Classified Salaries	381,936		381,936
3000 Employee Benefits	231,954		231,954
4000 Books and Supplies	138,402		138,402
5000 Services and Other Operating Expenses	101,152		101,152
6100/6200 Other Approved Capital Outlay	0		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: 7.04% (Rate is Self-Calculating)	64,533	4,252	68,785
TOTAL EXPENSES CLAIMED FOR REIMBURSEMENT	\$1,042,224	\$4,252	\$1,046,476
TOTAL ADMINISTRATIVE COSTS (included in section IV above)	\$64,533	\$4,252	\$68,785

FOR CDE-A&I USE ONLY:

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:

Eligibility, enrollment, and attendance records are being maintained as required (check YES or NO):

☒ YES

☐ NO - Explain any discrepancies.

Reimbursable expenses claimed above are eligible for reimbursement, reasonable, necessary, and adequately supported (check YES or NO):

☒ YES

☐ NO - Explain any discrepancies.

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

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

AUDITED RESERVE ACCOUNT ACTIVITY REPORT

Agency Name: City of Orange Cove

Fiscal Year End: June 30, 2016

Vendor No. 2188

Independent Auditor's Name: Bryant L. Jolley, CPA

RESERVE ACCOUNT TYPE (Check One):

- ☒ Center Based
☐ Resource and Referral
☐ Alternative Payment

COLUMN A	COLUMN B	COLUMN C
PER AGENCY	AUDIT ADJUSTMENT INCREASE OR (DECREASE)	PER AUDIT

LAST YEAR:

1. Beginning Balance (must equal ending balance from Last Year's AUD 9530-A)	\$29,306		\$29,306
2. Plus Transfers from Contracts to Reserve Account (based on last year's post-audit CDFS 9530, Section IV):			
Contract No. 4090	\$8,702		\$8,702
Contract No.			0
Contract No.			0
Contract No.			0
Contract No.			0
Contract No.			0
Total Transferred from Contracts to Reserve Account	\$8,702	\$0	\$8,702
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)			\$0
4. Ending Balance on Last Year's Post-Audit CDFS 9530	\$38,008	\$0	\$38,008

THIS YEAR:

5. Plus Interest Earned This Year on Reserve Funds (column A must agree with this year's CDFS 9530-A, Section II)	\$45		\$45
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):			
CSPP - General			
Contract No. 5090			\$0
Contract No.			0
CSPP - Professional Development			
Contract No.			\$0
Contract No.			0
Subtotal	\$0	\$0	\$0
Other Contracts			
Contract No.			\$0
Contract No.			0
Contract No.			0
Contract No.			0
Contract No.			0
Subtotal	\$0	\$0	\$0
Total Transferred to Contracts from Reserve Account	\$0	\$0	\$0
7. Ending Balance on June 30, 2016 (column A must agree with this year's CDFS 9530-A, Section IV)	\$38,053	\$0	\$38,053

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

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Orange Cove (the City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated December 15, 2016.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City'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.

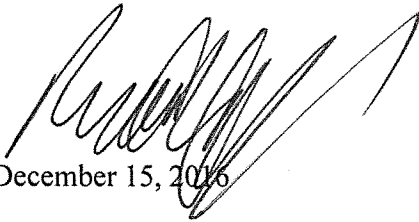
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not 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 the 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 result of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

December 15, 2016

**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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Orange Cove (the City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated December 15, 2016.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City'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.

Opinion on Each Major Federal Program

In our opinion, the City, 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, 2016.

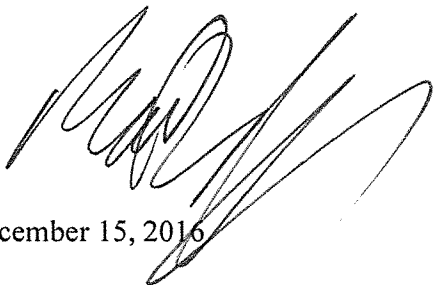
Report on Internal Control over Compliance

Management of the City 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 the 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 the Uniform Guidance, 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 the 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A large, stylized handwritten signature in black ink, likely belonging to the auditor or official responsible for the report.

December 15, 2016

CITY OF ORANGE COVE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016

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	\$ 448,100
Highway Planning and Construction	20.205	CML-5301	<u>52,394</u>
U.S. Department of Housing and Urban Development			
Passed through from the State Department of Housing and Community Development			
Community Development Block Grant	14.238	12-CDBG-8403	<u>538,805</u>
U.S. Department of Environmental Protection Agency			
Passed through from the Department of Water Resource Board			
SRF Water Meter Project	66.468	2014CX101/01	<u>1,705,502</u>
U.S. Department of Health & Human Services			
Passed through from the California Department of Aging			
Special Program for Aging	93.045	16-2061	<u>8,000</u>
U.S. Department of Health & Human Services			
Passed through California Department of Education			
Preschool Program	93.596/93.575	CSPP-5059	<u>187,740</u>
<i>Total Federal Expenditures</i>			<u><u>\$ 2,940,541</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.

NOTE 2 – COST RATE

The City does not elect to use the 10% de minimus cost rate.

CITY OF ORANGE COVE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ 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? ☐ Yes ☒ None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

☐ Yes ☒ No

Identification of Major Programs

CFDA Number

Name of Federal Program or Cluster

66.468

SRF Water Meter Project

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

\$750,000

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, 2016

Summary Schedule of Prior Audit Findings

There were no prior year audit findings.