

**CITY OF ORANGE COVE**  
**CALIFORNIA**

**INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2018**

**CITY OF ORANGE COVE  
FINANCIAL STATEMENTS  
JUNE 30, 2018**

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**CITY OF ORANGE COVE  
FINANCIAL STATEMENTS  
JUNE 30, 2018**

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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, 2018, 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 City's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used in 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, 2018, and the respective

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changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary information on pages 49-50, the City's Proportionate Share of the Net Pension Asset/Liability and Contributions on pages 51-52, 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, California's basic financial statements. The other supplementary information as listed in the table of contents (the other supplementary information) is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was 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 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 August 23, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Price Pange & Company*

Clovis, California  
August 23, 2019

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF ORANGE COVE  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 2,165,494	\$ 711,371	\$ 2,876,865
Cash and investments - restricted	66,694	-	66,694
Cash with fiscal agent - restricted	-	10,763	10,763
Accounts receivable	185,308	568,968	754,276
Interest receivable	247,630	1,367	248,997
Due from other governments	464,831	178,705	643,536
Internal balances	493,266	(493,266)	-
Notes receivable	3,007,717	-	3,007,717
Land held for resale	874,841	-	874,841
Net pension asset	222,540	-	222,540
Capital assets, net of depreciation	8,468,674	17,794,484	26,263,158
Total assets	16,196,995	18,772,392	34,969,387
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources from pensions	453,153	203,519	656,672
Total deferred outflows of resources	453,153	203,519	656,672
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	167,687	200,576	368,263
Accrued interest	18,501	12,228	30,729
Deposits	-	39,712	39,712
Compensated absences	129,009	40,897	169,906
Unearned revenues	200,606	-	200,606
Long-term liabilities:			
Due within one year	72,178	67,120	139,298
Due in more than one year	1,056,162	1,206,085	2,262,247
Net pension liability	-	557,254	557,254
Total liabilities	1,644,143	2,123,872	3,768,015
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources from pensions	123,983	82,516	206,499
Total deferred inflows of resources	123,983	82,516	206,499
<b>NET POSITION</b>			
Net investments in capital assets	7,340,334	16,521,279	23,861,613
Restricted for:			
Debt service	402,239	10,763	413,002
Community development	658,238	-	658,238
Capital projects	308,066	-	308,066
Public safety	8,864	-	8,864
Day care	76,668	-	76,668
Specific projects and programs	957,059	-	957,059
Total restricted	2,411,134	10,763	2,421,897
Unrestricted	5,130,554	237,481	5,368,035
Total net position	\$ 14,882,022	\$ 16,769,523	\$ 31,651,545

The notes to the basic financial statements are an integral part of this statement.

**CITY OF ORANGE COVE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 443,599	\$ 54,429	\$ -	\$ -	\$ (389,170)	\$ -	\$ (389,170)
Public safety	1,566,826	143,520	572,418	-	(850,888)	-	(850,888)
Public works	205,720	-	-	-	(205,720)	-	(205,720)
Planning and development	764,963	162,022	1,102,643	-	499,702	-	499,702
Streets	758,887	-	807,217	9,283	57,613	-	57,613
Parks and recreation	375,456	-	24,692	-	(350,764)	-	(350,764)
Day care	1,159,960	7,078	1,162,873	-	9,991	-	9,991
Interest and other fiscal charges	75,732	-	-	-	(75,732)	-	(75,732)
<b>Total governmental activities</b>	<b>5,351,143</b>	<b>367,049</b>	<b>3,669,843</b>	<b>9,283</b>	<b>(1,304,968)</b>	<b>-</b>	<b>(1,304,968)</b>
<b>Business-type activities:</b>							
Water	1,975,556	1,425,302	-	326,936	-	(223,318)	(223,318)
Sewer	1,520,551	827,123	-	17,987	-	(675,441)	(675,441)
Disposal	554,434	634,937	5,000	-	-	85,503	85,503
<b>Total business-type activities</b>	<b>4,050,541</b>	<b>2,887,362</b>	<b>5,000</b>	<b>344,923</b>	<b>-</b>	<b>(813,256)</b>	<b>(813,256)</b>
<b>Total primary government</b>	<b>\$ 9,401,684</b>	<b>\$ 3,254,411</b>	<b>\$ 3,674,843</b>	<b>\$ 354,206</b>	<b>(1,304,968)</b>	<b>(813,256)</b>	<b>(2,118,224)</b>
<b>General revenues:</b>							
<b>Taxes:</b>							
Property taxes and special assessments					332,471	-	332,471
Sales taxes					191,942	-	191,942
Franchise taxes					68,764	-	68,764
Utility users tax					499,477	-	499,477
Business licenses					23,709	-	23,709
Motor vehicle in-lieu					783,204	-	783,204
Unrestricted investment earnings					69,032	(202)	68,830
Other					70,868	-	70,868
Transfers					59,894	(59,894)	-
<b>Total general revenues and transfers</b>					<b>2,099,361</b>	<b>(60,096)</b>	<b>2,039,265</b>
Change in net position					794,393	(873,352)	(78,959)
Net position, beginning of year					14,087,629	17,642,875	31,730,504
Net position, end of year					<b>\$ 14,882,022</b>	<b>\$ 16,769,523</b>	<b>\$ 31,651,545</b>

The notes to the basic financial statements are an integral part of this statement.



**CITY OF ORANGE COVE  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2018**

	General	Local Transportation	Low-Moderate Housing Asset	Housing Grant
<b>ASSETS</b>				
Cash and investments	\$ 430,618	\$ 430,180	\$ 71,031	\$ 91,815
Cash and investments - restricted	-	-	-	-
Accounts receivable	185,308	-	-	-
Interest receivable	1,573	569	161,237	81,949
Due from other governments	106,515	70,792	-	-
Due from other funds	761,426	-	-	-
Notes receivable	-	-	275,000	2,710,105
Land held for resale	376,000	-	-	-
	<u>1,861,440</u>	<u>501,541</u>	<u>507,268</u>	<u>2,883,869</u>
Total assets	<u>\$ 1,861,440</u>	<u>\$ 501,541</u>	<u>\$ 507,268</u>	<u>\$ 2,883,869</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	\$ 137,124	\$ 1,390	\$ -	\$ -
Due to other funds	-	-	-	-
Unearned revenues	-	-	-	-
	<u>137,124</u>	<u>1,390</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>137,124</u>	<u>1,390</u>	<u>-</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenues	-	46,721	436,237	2,791,785
	<u>-</u>	<u>46,721</u>	<u>436,237</u>	<u>2,791,785</u>
Total deferred inflows of resources	<u>-</u>	<u>46,721</u>	<u>436,237</u>	<u>2,791,785</u>
<b>FUND BALANCE</b>				
Nonspendable:				
Notes receivable	-	-	-	-
Land held for resale	376,000	-	-	-
Restricted:				
Low-income housing activities	-	-	71,031	-
Daycare	-	-	-	-
Circulation improvements	-	453,430	-	92,084
Community development	-	-	-	-
Capital improvement projects	-	-	-	-
Public safety	-	-	-	-
Debt service	-	-	-	-
Unassigned	1,348,316	-	-	-
	<u>1,724,316</u>	<u>453,430</u>	<u>71,031</u>	<u>92,084</u>
Total fund balance	<u>1,724,316</u>	<u>453,430</u>	<u>71,031</u>	<u>92,084</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 1,861,440</u>	<u>\$ 501,541</u>	<u>\$ 507,268</u>	<u>\$ 2,883,869</u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF ORANGE COVE**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**JUNE 30, 2018**  
(Continued)

	Day Care	Streets	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 8,404	\$ -	\$ 1,133,446	\$ 2,165,494
Cash and investments - restricted	66,694	-	-	66,694
Accounts receivable	-	-	-	185,308
Interest receivable	11	-	2,291	247,630
Due from other governments	202,165	-	85,359	464,831
Due from other funds	-	-	-	761,426
Notes receivable	-	-	22,612	3,007,717
Land held for resale	-	-	498,841	874,841
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 277,274</u>	<u>\$ -</u>	<u>\$ 1,742,549</u>	<u>\$ 7,773,941</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	\$ -	\$ -	\$ 29,173	\$ 167,687
Due to other funds	-	16,360	251,800	268,160
Unearned revenues	200,606	-	-	200,606
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>200,606</u>	<u>16,360</u>	<u>280,973</u>	<u>636,453</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenues	-	-	-	3,274,743
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,274,743</u>
<b>FUND BALANCE</b>				
Nonspendable:				
Notes receivable	-	-	-	-
Land held for resale	-	-	-	376,000
Restricted:				
Low-income housing activities	-	-	8,715	79,746
Daycare	76,668	-	-	76,668
Circulation improvements	-	-	331,799	877,313
Community development	-	-	658,238	658,238
Capital improvement projects	-	-	308,066	308,066
Public safety	-	-	8,864	8,864
Debt service	-	-	402,239	402,239
Unassigned	-	(16,360)	(256,345)	1,075,611
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balance	<u>76,668</u>	<u>(16,360)</u>	<u>1,461,576</u>	<u>3,862,745</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 277,274</u>	<u>\$ -</u>	<u>\$ 1,742,549</u>	<u>\$ 7,773,941</u>

The notes to the basic financial statements are an integral part of this statement.

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**CITY OF ORANGE COVE  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2018**

Total fund balances - governmental funds	\$	3,862,745
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.		8,468,674
Net pension asset used in governmental activities are not current financial resources and, therefore, are not reported in the funds.		222,540
Interest payable on long-term debt does not require the use of current financial resources. Therefore, interest payable is not reported as a liability in the governmental funds balance sheet.		(18,501)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.		(129,009)
Pension related deferrals are reported as deferred outflows and inflows of resources on the statement of net position:		
Deferred outflows of resources		453,153
Deferred inflows of resources		(123,983)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds and loans payable		(1,128,340)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds.		<u>3,274,743</u>
Net position of governmental activities	\$	<u><u>14,882,022</u></u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF ORANGE COVE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2018**

	General	Local Transportation	Low-Moderate Housing Asset	Housing Grant
<b>REVENUES</b>				
Taxes	\$ 1,732,158	\$ -	\$ -	\$ -
Intergovernmental	319,674	237,325	-	604,946
Charges for services	155,394	-	-	-
Licenses, permits and impact fees	174,986	-	-	-
Interest and rent	50,806	-	11	114
Other	69,174	-	-	-
	<u>2,502,192</u>	<u>237,325</u>	<u>11</u>	<u>605,060</u>
Total revenues				
<b>EXPENDITURES</b>				
Current:				
General government	387,734	-	-	-
Public safety	1,653,156	-	-	-
Public works	191,205	-	-	-
Streets	-	69,532	-	-
Planning and development	130,072	-	-	571,627
Parks and recreation	246,956	-	-	-
Day care	-	-	-	-
Capital outlay	37,794	-	-	-
Debt service:				
Principal	11,103	-	-	-
Interest and other fiscal charges	-	559	-	-
	<u>2,658,020</u>	<u>70,091</u>	<u>-</u>	<u>571,627</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	(155,828)	167,234	11	33,433
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	59,894	-	-	-
Transfers out	(79,699)	-	-	-
	<u>(19,805)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)				
Net change in fund balances	(175,633)	167,234	11	33,433
Fund balances (deficit), beginning of year	1,899,949	286,196	71,020	58,651
Fund balances (deficit), end of year	<u>\$ 1,724,316</u>	<u>\$ 453,430</u>	<u>\$ 71,031</u>	<u>\$ 92,084</u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF ORANGE COVE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2018**  
(Continued)

	Day Care	Streets	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ 400,910	\$ 2,133,068
Intergovernmental	1,162,873	79,105	595,889	2,999,812
Charges for services	7,078	-	-	162,472
Licenses, permits and impact fees	-	-	57,272	232,258
Interest and rent	-	-	-	50,931
Other	-	-	175	69,349
	<u>1,169,951</u>	<u>79,105</u>	<u>1,054,246</u>	<u>5,647,890</u>
Total revenues				
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	387,734
Public safety	-	-	250,249	1,903,405
Public works	-	-	1,280	192,485
Streets	-	25,393	405,005	499,930
Planning and development	-	-	50,589	752,288
Parks and recreation	-	-	20,780	267,736
Day care	1,159,977	-	-	1,159,977
Capital outlay	-	250	-	38,044
Debt service:				
Principal	-	-	68,815	79,918
Interest and other fiscal charges	-	-	66,435	66,994
	<u>1,159,977</u>	<u>25,643</u>	<u>863,153</u>	<u>5,348,511</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	9,974	53,462	191,093	299,379
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	66,694	-	13,005	139,593
Transfers out	-	-	-	(79,699)
	<u>66,694</u>	<u>-</u>	<u>13,005</u>	<u>59,894</u>
Total other financing sources (uses)				
Net change in fund balances	76,668	53,462	204,098	359,273
Fund balances (deficit), beginning of year	-	(69,822)	1,257,478	3,503,472
Fund balances (deficit), end of year	<u>\$ 76,668</u>	<u>\$ (16,360)</u>	<u>\$ 1,461,576</u>	<u>\$ 3,862,745</u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF ORANGE COVE  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Changes in fund balance - total governmental funds \$ 359,273

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of these assets are allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Depreciation expense (358,583)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Repayment of the principal of long-term debt 68,815

Accrued interest payable on long-term debt is reported in the government-wide statement of activities, but does not require the use of current financial resources. This amount represents the change in accrued interest payable not reported in governmental funds.

1,148

Changes to net pension liability and pension related deferred outflows and inflows of resources do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

289,563

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

(1,951)

The distribution of housing loans and corresponding payments that were recognized in the governmental funds are not recognized in the statement of activities.

451,292

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.

(15,164)

Change in net position of governmental activities \$ 794,393

**CITY OF ORANGE COVE  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2018**

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Disposal	Total
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ -	\$ 578,801	\$ 132,570	\$ 711,371
Cash with fiscal agent - restricted	10,763	-	-	10,763
Accounts receivable	319,274	170,757	78,937	568,968
Due from other governments	178,705	-	-	178,705
Interest receivable	222	1,026	119	1,367
Total current assets	<u>508,964</u>	<u>750,584</u>	<u>211,626</u>	<u>1,471,174</u>
Noncurrent assets:				
Property, plant and equipment (net of allowances for depreciation)	8,538,786	9,255,698	-	17,794,484
Total noncurrent assets	<u>8,538,786</u>	<u>9,255,698</u>	<u>-</u>	<u>17,794,484</u>
Total assets	<u>9,047,750</u>	<u>10,006,282</u>	<u>211,626</u>	<u>19,265,658</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows of resources from pensions	<u>102,836</u>	<u>100,683</u>	<u>-</u>	<u>203,519</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued expenses	90,161	67,975	42,440	200,576
Accrued interest	12,228	-	-	12,228
Deposits	39,712	-	-	39,712
Compensated absences	23,775	17,122	-	40,897
Due to other funds	493,266	-	-	493,266
Current portion of long-term debt	67,120	-	-	67,120
Total current liabilities	<u>726,262</u>	<u>85,097</u>	<u>42,440</u>	<u>853,799</u>
Noncurrent liabilities:				
Long-term debt	1,206,085	-	-	1,206,085
Net pension liability	279,834	277,420	-	557,254
Total noncurrent liabilities	<u>1,485,919</u>	<u>277,420</u>	<u>-</u>	<u>1,763,339</u>
Total liabilities	<u>2,212,181</u>	<u>362,517</u>	<u>42,440</u>	<u>2,617,138</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources for pensions	<u>43,097</u>	<u>39,419</u>	<u>-</u>	<u>82,516</u>
<b>NET POSITION</b>				
Net investment in capital assets	7,265,581	9,255,698	-	16,521,279
Restricted for debt service	10,763	-	-	10,763
Unrestricted	<u>(381,036)</u>	<u>449,331</u>	<u>169,186</u>	<u>237,481</u>
Total net position	<u>\$ 6,895,308</u>	<u>\$ 9,705,029</u>	<u>\$ 169,186</u>	<u>\$ 16,769,523</u>

The notes to the basic financial statements are an integral part of this statement.



**CITY OF ORANGE COVE**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Disposal	Total
<b>Operating revenues</b>				
Charges for services	\$ 1,422,799	\$ 827,123	\$ 634,937	\$ 2,884,859
Connection fees	<u>2,503</u>	<u>-</u>	<u>-</u>	<u>2,503</u>
Total operating revenue	<u>1,425,302</u>	<u>827,123</u>	<u>634,937</u>	<u>2,887,362</u>
<b>Operating expenses</b>				
Contractual services and utilities	565,291	418,559	542,045	1,525,895
Personnel	590,567	562,852	-	1,153,419
Supplies and materials	302,040	66,804	5,001	373,845
Depreciation expense	448,311	461,448	-	909,759
Bad debt expense	<u>20,609</u>	<u>10,888</u>	<u>7,388</u>	<u>38,885</u>
Total operating expenses	<u>1,926,818</u>	<u>1,520,551</u>	<u>554,434</u>	<u>4,001,803</u>
Operating income (loss)	<u>(501,516)</u>	<u>(693,428)</u>	<u>80,503</u>	<u>(1,114,441)</u>
<b>Nonoperating revenues (expenses)</b>				
Intergovernmental	317,809	-	5,000	322,809
Interest income	-	268	-	268
Interest expense	(49,031)	-	(177)	(49,208)
Developmental fees	<u>9,127</u>	<u>17,987</u>	<u>-</u>	<u>27,114</u>
Total nonoperating revenues (expenses)	<u>277,905</u>	<u>18,255</u>	<u>4,823</u>	<u>300,983</u>
Net income (loss) before transfers	(223,611)	(675,173)	85,326	(813,458)
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>(59,894)</u>	<u>(59,894)</u>
Changes in net position	(223,611)	(675,173)	25,432	(873,352)
Net position, beginning of year	<u>7,118,919</u>	<u>10,380,202</u>	<u>143,754</u>	<u>17,642,875</u>
Net position, end of year	<u>\$ 6,895,308</u>	<u>\$ 9,705,029</u>	<u>\$ 169,186</u>	<u>\$ 16,769,523</u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF ORANGE COVE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Disposal	Total
Cash flows from operating activities:				
Receipts from customers and users	\$ 1,234,115	\$ 729,997	\$ 621,943	\$ 2,586,055
Payments to suppliers	(941,428)	(438,849)	(504,606)	(1,884,883)
Payments for employees	(519,861)	(462,136)	-	(981,997)
Net cash provided (used) by operating activities	<u>(227,174)</u>	<u>(170,988)</u>	<u>117,337</u>	<u>(280,825)</u>
Cash flows from noncapital financing activities:				
Payments from developers	9,127	17,987	-	27,114
Noncapital grants and contributions received	-	-	5,000	5,000
Payments received (paid to) other funds	52,574	-	-	52,574
Transfer (to)/from other funds	-	-	(59,894)	(59,894)
Net cash provided (used) by noncapital financing activities	<u>61,701</u>	<u>17,987</u>	<u>(54,894)</u>	<u>24,794</u>
Capital and related financing activities:				
Capital grants and contributions received	292,325	-	-	292,325
Principal paid on long-term debt	(65,004)	-	-	(65,004)
Interest paid on long-term debt	(50,868)	-	(177)	(51,045)
Net cash provided (used) by financing activities	<u>176,453</u>	<u>-</u>	<u>(177)</u>	<u>176,276</u>
Cash flows from investing activities:				
Interest received	(217)	1,052	(119)	716
Net cash provided (used) by investing activities	<u>(217)</u>	<u>1,052</u>	<u>(119)</u>	<u>716</u>
Net increase (decrease) in cash	10,763	(151,949)	62,147	(79,039)
Cash, beginning of year	-	730,750	70,423	801,173
Cash, end of year	<u>\$ 10,763</u>	<u>\$ 578,801</u>	<u>\$ 132,570</u>	<u>\$ 722,134</u>
Reconciliation of operating income (loss) to net cash provide (used) by operating activities:				
Operating income (loss)	\$ (501,516)	\$ (693,428)	\$ 80,503	\$ (1,114,441)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	448,311	461,448	-	909,759
(Increase) decrease in accounts receivable	(170,578)	(86,238)	(5,606)	(262,422)
(Increase) decrease in deferred outflows of resources	(59,831)	(67,897)	-	(127,728)
Increase (decrease) in accounts payable and accrued liabilities	(74,863)	46,514	42,440	14,091
Increase (decrease) in customer deposits	766	-	-	766
Increase (decrease) in compensated absences	(1,636)	(2,798)	-	(4,434)
Increase (decrease) in net pension liability	127,399	161,208	-	288,607
Increase (decrease) in deferred inflows of resources	4,774	10,203	-	14,977
Net cash provided (used) by operating activities	<u>\$ (227,174)</u>	<u>\$ (170,988)</u>	<u>\$ 117,337</u>	<u>\$ (280,825)</u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF ORANGE COVE  
STATEMENT OF FIDUCIARY NET POSITION  
PRIVATE PURPOSE TRUST FUND – SUCCESSOR AGENCY  
JUNE 30, 2018**

**ASSETS**

Cash and investments	\$	358,046
Cash and investments with fiscal agents		392,267
Interest receivable		642
Note receivable		<u>200,000</u>
Total assets		<u>950,955</u>

**LIABILITIES**

Accounts payable		47
Interest payable		65,889
Bond payable		<u>4,273,900</u>
Total liabilities		<u>4,339,836</u>

**NET POSITION**

Held in trust for other governments		<u>\$ (3,388,881)</u>
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The notes to the basic financial statements are an integral part of this statement.

**CITY OF ORANGE COVE  
STATEMENT OF CHANGES FIDUCIARY NET POSITION  
PRIVATE PURPOSE TRUST FUND –SUCCESSOR AGENCY  
FOR THE YEAR ENDED JUNE 30, 2018**

**Additions**

Property taxes	\$ 457,948
Investment earning and other	<u>3,578</u>

Total additions	<u>461,526</u>
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**Deductions**

Administrative costs	33,462
Interest and fiscal agency expenses of former redevelopment agency	<u>160,303</u>

Total deductions	<u>193,765</u>
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Change in net position	267,761
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Net position, beginning of year	<u>(3,656,642)</u>
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Net position, end of year	<u><u>\$ (3,388,881)</u></u>
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The notes to the basic financial statements are an integral part of this statement.

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## NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**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, 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 or activities. Program revenues include: 1) fines, fees, and charges paid by the recipients of goods and services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Certain eliminations have been made as prescribed by GASB No. 34 in regards to interfund activities. All internal balances in the statement of net position have been eliminated except those representing balances between governmental activities and 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 from/due to other funds, advances from/advances to other funds, and interfund 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.

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**Basis of Presentation – Fund Accounting (Continued)**

**Governmental Fund Financial Statements** – The fund financial statements provide information about the City's funds. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor 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. Nonoperating revenues, such as subsidiaries 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 nonoperating 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 traditional governmental services of the City, such as police protection 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.

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

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

**Daycare Special Revenue Fund** – This fund is used to account for grant revenues and expenditures related to the operation of the Julia A. Lopez Child Development Center.

**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, statement of revenues, expenses and changes in net position, and a statement of cash flows for each major enterprise fund and nonmajor fund.

The City has three major enterprise funds, the Water, Sewer and Disposal Fund, 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.



**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**Basis of Presentation – Fund Accounting (Continued)**

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 are used to account for resources held for the benefit of parties outside the government. The fund's activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. The City uses a private purpose trust fund to account for activities and changes in fiduciary net position of the Successor Agency. This fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it presents only a statement of fiduciary net position and does not present a statement of changes in fiduciary net position.

Fiduciary funds are not reflected in the government-wide statements because the resources of those funds are not available to support the City's own programs. Fiduciary funds are presented on an economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements.

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 the *Successor Agency*.

**Measurement Focus, Basis of Accounting**

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

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**Measurement Focus, Basis of Accounting (Continued)**

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect), as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the City applies all acceptable 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 nonoperating 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, usually result from nonexchange transactions or ancillary activities. *Operating expenses* include costs for providing services and delivering goods such as administrative expenses and depreciation on capital assets. All other expenses not meeting this definition are reported as *nonoperating expenses*.

**Assets, Liabilities and Equity**

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

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

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

*Due From/To Other Funds* – Items classified as due from/to other funds 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 THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**Assets, Liabilities and Equity (Continued)**

*Advances From/To Other Funds* – This classification represents noncurrent 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 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.

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

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

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

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. 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 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.

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**Assets, Liabilities and Equity (Continued)**

*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 by not earned (qualifying expenditures not yet incurred).

*Unavailable Revenue* - In the fund financial statements, unavailable revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records unavailable revenue for transactions for which revenues have been earned, but for which funds are not available to meet current financial obligations.

*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 expensed in the year the bond was issued.

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 position 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 THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**Assets, Liabilities and Equity (Continued)**

*Use of Estimates* – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts 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 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 to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

***Nonspendable*** – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

***Restricted*** – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

***Committed*** – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

***Assigned*** – This classification includes amounts that are constrained by the City’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the Finance Director through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the general fund.

***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.

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

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

In accordance with applicable sections of the California Government Code and the Orange Cove Municipal Code, the City prepares and legally adopts an annual balanced budget on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, specific Special Revenue Funds, and specific Capital Projects Funds. Budget plans are adopted for Proprietary Funds. A proposed budget is presented to the City Council during May of each year for review. The Council holds public hearings and may add to, subtract from, or change appropriations within the revenues and reserves estimate 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 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, 2018 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	\$ 2,876,865
Cash and investments - restricted	66,694
Cash and investments with fiscal agent	10,763
Fiduciary Funds:	
Cash and investments	358,046
Cash and investments with fiscal agent	<u>392,267</u>
 Total cash and investments	 <u>\$ 3,704,635</u>

Cash and investments as of June 30, 2018 consist of the following:

Cash on hand and in bank	\$ 1,884,770
Investments	<u>1,819,865</u>
 Total cash and investments	 <u>\$ 3,704,635</u>

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**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 and liabilities (Level 1) and the 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 measurements.

The asset 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.

<u>Investments by fair value level</u>	<u>Fair Value</u>	<u>Level 2</u>
Debt securities:		
U.S. Treasury Obligations	\$ 10,763	\$ 10,763
U.S. Government Obligations	392,267	392,267
Total debt securities	<u>403,030</u>	<u>\$ 403,030</u>
<u>Unclassified Investments</u>		
LAIF	<u>1,416,835</u>	
Total investments	<u>\$ 1,819,865</u>	

LAIF is 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 THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**Investments Authorized by the California Government Code and the City's Investment 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 debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment Policy.

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

**Investments Authorized by Debt Agreements**

Investments of debt proceeds 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 identifies certain provisions of these debt agreements that address interest rate 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. Bank 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



**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City manages its exposure to interest rate risk by investing funds in liquid, short-term investments which can be converted to cash when necessary to meet disbursement requirements. As of June 30, 2018 the City had the following investments by maturity:

Investment Type	Amount	Maturity Date
Local Agency Investment Fund	\$ 1,416,835	N/A
Held by Bond Trustee:		
U.S. Treasury Obligations	10,763	N/A
U.S. Government Obligations	<u>392,267</u>	N/A
 Total	 <u>\$ 1,819,865</u>	

**Disclosures 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	Maximum Legal Rating	Rating as of Year-End
			Not Rated
Local Agency Investment Fund	\$ 1,416,835	N/A	\$ 1,416,835
Held by Bond Trustee:			
U.S. Treasury Obligations	10,763	N/A	10,763
U.S. Government Obligations	<u>392,267</u>	N/A	<u>392,267</u>
 Total	 <u>\$ 1,819,865</u>		 <u>\$ 1,819,865</u>

**Concentration of Credit Risk**

The investment policy of the City contains no limitations on the amount that can be invested in any on 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.

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**Custodial Credit Risk**

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 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, 2018, the City's balance of \$403,028 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the City.

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a governmental 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 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 investment 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 for the 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 payables balances as of June 30, 2018 are as follows:

	Due From	Due To
General Fund	\$ 761,426	\$ -
Water Fund	-	493,266
Street Projects Fund	-	16,360
Gas Tax Fund	-	238,914
Soccer Grant Fund	-	9,989
Bureau of Reclamation Fund	-	1,280
BSCC Grant Fund	-	1,617
	\$ 761,426	\$ 761,426

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 4 – INTERFUND ACTIVITIES (Continued)**

**Operating Transfers**

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

Transfers in and out for the year ended June 30, 2018 consisted of the following:

<u>Transfers Out</u>	<u>Transfers In</u>			
	General Fund	Day Care Fund	USDA Kitchen Grant Fund	Total
General fund	\$ -	\$ 66,694	\$ 13,005	\$ 79,699
Disposal fund	59,894	-	-	59,894
Total	<u>\$ 59,894</u>	<u>\$ 66,694</u>	<u>\$ 13,005</u>	<u>\$ 139,593</u>

- Transfer out from the Disposal Fund to the General Fund in the amount of \$59,894 was to transfer franchise taxes.
- Transfer out from the General Fund to the Day Care fund of \$66,694 was to cover the ending reserve cash balance.
- Transfer out from the General Fund to the USDA Kitchen Grant fund in the amount of \$13,005 was to cover community center kitchen expenses which are reimbursed by the USDA.

**NOTE 5 – NOTES RECEIVABLE**

Notes receivable at June 30, 2018 are as follows:

*Housing Grants Note* – The City has loaned \$1,290,000 to forty-three families at 1.00% 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 HOME Grant. As of June 30, 2018, the notes receivable balance was \$1,289,000. Deferred interest receivable on these notes was \$81,680 as of June 30, 2018.

The City loaned four loans totaling \$239,957 at 0% interest. The loan proceeds were used by 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 HOME Grant.

As of June 30, 2018, the City loaned forty-nine loans totaling \$1,275,819 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 CalHOME Grant.

*Low and Moderate Housing Notes* – A note receivable is due from Citrus Gardens '98 LP, to assist in the construction of a 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, 2018 was \$275,000. Deferred interest receivable on the note at June 30, 2018 was \$161,237.

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 5 – NOTES RECEIVABLE (Continued)**

*Valley Small Business Development Note* - A note receivable is due from Valley Small Business Development Corporation ("Valley") in which funds were used to assist Valley in retaining control of a community medical clinic (Orchard Medical Center) in the City of Orange Cove, and enable the property to again be used as a financially viable medical clinic. The note is due if and when Valley sells the Property. The first \$200,000 of net appreciation would be due to the City in addition to 25% of any excess appreciation. The balance due on the note at June 30, 2018 was \$200,000.

**NOTE 6 – CAPITAL ASSETS**

***Governmental Activities***

Capital assets activity of the governmental activities for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Capital assets, not being depreciated:				
Land	\$ 1,302,411	\$ -	\$ -	\$ 1,302,411
Total capital assets, not being depreciated	<u>1,302,411</u>	<u>-</u>	<u>-</u>	<u>1,302,411</u>
Capital assets, being depreciated:				
Buildings and improvements	10,207,276	-	-	10,207,276
Machinery and equipment	<u>1,612,287</u>	<u>-</u>	<u>-</u>	<u>1,612,287</u>
Total capital assets, being depreciated	<u>11,819,563</u>	<u>-</u>	<u>-</u>	<u>11,819,563</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,005,396)	(308,457)	-	(3,313,853)
Machinery and equipment	<u>(1,289,321)</u>	<u>(50,126)</u>	<u>-</u>	<u>(1,339,447)</u>
Total accumulated depreciation	(4,294,717)	(358,583)	-	(4,653,300)
Total capital assets being depreciated, net	<u>7,524,846</u>	<u>(358,583)</u>	<u>-</u>	<u>7,166,263</u>
Governmental activities capital assets, net	<u>\$ 8,827,257</u>	<u>\$ (358,583)</u>	<u>\$ -</u>	<u>\$ 8,468,674</u>

Depreciation expense was charged to governmental functions as follows:

<i>Governmental Activities:</i>	
General government	95,916
Public safety	29,923
Public works	4,424
Parks and recreation	96,933
Streets	<u>131,387</u>
	<u>\$ 358,583</u>

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

***Business-Type Activities***

Capital assets activity of the business-type activities for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Additions	Retirements	Adjustments	Balance June 30, 2018
Capital assets, not being depreciated:					
Land	\$ 769,772	\$ -	\$ -	\$ -	\$ 769,772
Construction in progress	<u>3,566,769</u>	-	<u>(2,475,374)</u>	-	<u>1,091,395</u>
Total capital assets, not being depreciated	<u>4,336,541</u>	-	<u>(2,475,374)</u>	-	<u>1,861,167</u>
Capital assets, being depreciated:					
Buildings and improvements	23,846,869	63,636	-	5,148	23,915,653
Machinery and equipment	<u>532,436</u>	<u>2,411,736</u>	-	-	<u>2,944,172</u>
Total capital assets, being depreciated	<u>24,379,305</u>	<u>2,475,372</u>	-	<u>5,148</u>	<u>26,859,825</u>
Less accumulated depreciation for:					
Buildings and improvements	(8,394,223)	(630,913)	-	(1,253,677)	(10,278,813)
Machinery and equipment	<u>(1,617,378)</u>	<u>(278,846)</u>	-	<u>1,248,529</u>	<u>(647,695)</u>
Total accumulated depreciation	<u>(10,011,601)</u>	<u>(909,759)</u>	-	<u>(5,148)</u>	<u>(10,926,508)</u>
Total capital assets being depreciated	<u>14,367,704</u>	<u>1,565,613</u>	-	-	<u>15,933,317</u>
Business-type activities capital assets, net	<u>\$ 18,704,245</u>	<u>\$ 1,565,613</u>	<u>\$ (2,475,374)</u>	<u>\$ -</u>	<u>\$ 17,794,484</u>

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

<i>Business-Type Activities:</i>	
Water	\$ 448,311
Sewer	<u>461,448</u>
	<u>\$ 909,759</u>

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**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 governmental 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, 2017	Additions	Retirements	Balance June 30, 2018	Current Portion
<b>Governmental Activities:</b>					
Special Assessment Bonds	\$ 1,181,000	\$ -	\$ (67,000)	\$ 1,114,000	\$ 70,000
PG&E Street Lights Loan	16,156	-	(1,816)	14,340	2,178
Total Governmental Activities Debt	<u>\$ 1,197,156</u>	<u>\$ -</u>	<u>\$ (68,816)</u>	<u>\$ 1,128,340</u>	<u>\$ 72,178</u>
<b>Business-Type Activities:</b>					
Bonds Payable:					
1995 Water System Improvement Project	\$ 575,864	\$ -	\$ (21,500)	\$ 554,364	\$ 22,500
2005 COP Water Loan	366,100	-	(6,800)	359,300	7,100
Notes Payable:					
California Department of Water Resources	396,245	-	(36,704)	359,541	37,520
Total Business-Type Activities Debt	<u>\$ 1,338,209</u>	<u>\$ -</u>	<u>\$ (65,004)</u>	<u>\$ 1,273,205</u>	<u>\$ 67,120</u>
<b>Compensated Absences:</b>					
Governmental Activities	<u>\$ 113,845</u>	<u>\$ 15,164</u>	<u>\$ -</u>	<u>\$ 129,009</u>	<u>\$ 129,009</u>
Business-Type Activities	<u>\$ 45,331</u>	<u>\$ -</u>	<u>\$ (4,434)</u>	<u>\$ 40,897</u>	<u>\$ 40,897</u>

Long-term debt at June 30, 2018 was comprised if 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 5.00% 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 FY2030. At June 30, 2018 bonds payable outstanding amounts to \$1,114,000.

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

Years Ending June 30,	Principal	Interest	Total
2019	\$ 70,000	\$ 53,750	\$ 123,750
2020	74,000	50,150	124,150
2021	78,000	46,350	124,350
2022	81,000	42,375	123,375
2023	85,000	38,225	123,225
2024-2028	381,000	121,825	502,825
2029-2030	345,000	11,825	356,825
	<u>\$ 1,114,000</u>	<u>\$ 364,500</u>	<u>\$ 1,478,500</u>

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**Governmental Activities (Continued)**

**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 FY2025. At June 30, 2018 the note payable outstanding amounts to \$14,340.

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

Years Ending June 30,	Principal	Interest	Total
2019	\$ 2,178	\$ -	\$ 2,178
2020	2,178	-	2,178
2021	2,178	-	2,178
2022	2,178	-	2,178
2023	2,178	-	2,178
2024-2025	3,450	-	3,450
	<u>\$ 14,340</u>	<u>\$ -</u>	<u>\$ 14,340</u>

**Business-Type Activities**

**1995 Orange Cove Public Financing Authority Revenues Bond Payable**

In 1995, the City issued \$907,650 in revenue bonds with interest rates at 4.5% payable semi-annually through 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 are due annually through FY2036. At June 30, 2018, the bonds payable outstanding amounts to \$554,364.

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

For the Years Ending June 30,	Principal	Interest	Total
2019	\$ 22,500	\$ 26,471	\$ 48,971
2020	23,500	25,436	48,936
2021	24,500	24,356	48,856
2022	25,500	23,231	48,731
2023	26,500	22,061	48,561
2024-2028	152,500	90,754	243,254
2029-2033	189,500	52,481	241,981
2034-2036	89,864	9,293	99,157
	<u>\$ 554,364</u>	<u>\$ 274,083</u>	<u>\$ 828,447</u>

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**Business-Type Activities (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 rate is at 4.125% payable semi-annually. The principal payments in amounts from \$4,300 to \$21,000 are due annually through FY2046. At June 30, 2018, the bonds payable outstanding amount to \$359,300.

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

For the Years Ending June 30,	Principal	Interest	Total
2019	\$ 7,100	\$ 14,675	\$ 21,775
2020	7,300	14,378	21,678
2021	7,600	14,070	21,670
2022	8,000	13,749	21,749
2023	8,300	13,412	21,712
2024-2028	46,800	61,533	108,333
2029-2033	57,400	50,820	108,220
2034-2038	70,200	37,711	107,911
2039-2043	86,000	21,656	107,656
2044-2046	60,600	3,816	64,416
	<u>\$ 359,300</u>	<u>\$ 245,820</u>	<u>\$ 605,120</u>

**Department of Water Resources Note Payable**

In 1996 the City borrowed \$943,280 from the California Department of Water Resources to finance water system improvements. The interest rate is 2.955% payable semi-annually. The principal payments in amounts ranging from \$9,900 to \$23,280 are due annually through FY2027. At June 30, 2018, the note payable outstanding amounts to \$359,541.

Annual debt service requirements for the Department of Water Resources note payable are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2019	\$ 37,520	\$ 10,625	\$ 48,145
2020	38,346	9,799	48,145
2021	39,515	8,630	48,145
2022	40,673	7,472	48,145
2023	41,884	6,261	48,145
2024-2027	161,603	11,355	172,958
	<u>\$ 359,541</u>	<u>\$ 54,142</u>	<u>\$ 413,683</u>



**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has pension related items that qualify to be reported in deferred outflows of resources. The pension related deferred outflows of resources are described in detail in Note 10.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The City has one type of item which arises only under a modified 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 \$3,274,743 as unavailable revenue in the governmental funds:

	Housing Fund	Low- Moderate Housing Asset	Local Transportation Fund	Total
Unavailable revenues:				
Grants	\$ -	\$ -	\$ 46,721	\$ 46,721
Program income	2,710,105	-	-	2,710,105
Interest income	81,680	161,237	-	242,917
Loan repayments	-	275,000	-	275,000
	<u>\$ 2,791,785</u>	<u>\$ 436,237</u>	<u>\$ 46,721</u>	<u>\$ 3,274,743</u>

**NOTE 9 – DEFICIT FUND BALANCES**

The following is a summary of deficit fund balances and net position as of June 30, 2018:

The deficit fund balance of \$16,360 in the Streets Fund is due to operating expenditures exceeding operating revenues in the current year.

The deficit fund balance of \$243,459 in the Gas Tax Fund is due to operating expenditures exceeding operating revenues in the current year.

The deficit fund balance of \$9,989 in the Soccer Grant Fund is due to expenditures in the current year without a funding source.

The deficit fund balance of \$1,280 in the Bureau of Reclamation Fund is due to expenditures in the current year without a funding source.

The deficit fund balance of \$1,617 in the BSCC grant is due to expenditures in the current year without a funding source.

The deficit fund balance of \$3,388,881 in the Successor Agency Fund is due to operating expenditures exceeding operating revenues, the bond payable will be paid down with future tax increments.

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 10 – DEFINED BENEFIT PENSION PLAN**

**A. General Information about the Pension Plan**

**Plan Description** – All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost Sharing Multiple-Employer Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The City of Orange Cove (City) sponsors four rate plans (two miscellaneous and two safety). Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**Benefits Provided** – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

The rate plan provisions and benefits in effect at June 30, 2018 are summarized as follows:

	<u>Miscellaneous Classic</u>	<u>Safety Classic</u>
Hire date	Prior to <u>January 1, 2013</u>	Prior to <u>January 1, 2013</u>
Benefit formula	2% at 60;	2% at 55;
Benefit vesting schedule	5 years	5 years
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	50-55
Monthly benefits, as a % of eligible compensation	1.092% to 2.418%	1.426% to 2.0%
Required employee contribution rates	7%	7%
Required employer contribution rates	7.200%	15.928%
	<u>Miscellaneous PEPRA</u>	<u>Safety PEPRA</u>
Hire date	Prior to <u>January 1, 2013</u>	Prior to <u>January 1, 2013</u>
Benefit formula	2% at 62;	2% at 57
Benefit vesting schedule	5 years	5 years
Benefits payable	monthly for life	monthly for life
Retirement age	52 - 67	50-57
Monthly benefits, as a % of eligible compensation	1.0% to 2.5%	1.426% to 2.0%
Required employee contribution rates	6.25%	9.50%
Required employer contribution rates	6.533%	11.990%

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**A. General Information about the Pension Plan**

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability and side fund, if applicable. The dollar amounts are billed on a monthly basis. The City's required contribution for the unfunded liability was \$28,038 for the fiscal year ended June 30, 2018.

**Contributions** – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan 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.

The City's contributions to the plan recognized as a part of pension expense for the year ended June 30, 2018 were \$186,076.

**B. Pension Liability, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions**

As of June 30, 2018, the City reported net position liability for its proportionate shares of the net pension liability of the Plan of \$334,714.

The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for the Plan as of June 30, 2016 and 2017 was as follows:

Proportion - June 30, 2016	0.0019%
Proportion - June 30, 2017	0.0034%
Change - increase (decrease)	0.0015%

For the year ended June 30, 2018, the City recognized pension expense of \$81,332. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to the measurement date	\$ 195,039	\$ -
Changes of assumptions	314,426	24,012
Difference between expected and actual experience	977	22,749
Net differences between projected and actual earnings on plan investments	70,496	-
Change in employer's proportion	75,734	53,493
Differences between the employer's actual contributions and the employer's proportionate share of contributions	-	106,245
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 656,672</u>	<u>\$ 206,499</u>

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**B. Pension Liability, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

\$195,039 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflow of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Years Ending June 30,	
2019	\$ 4,578
2020	180,144
2021	112,127
2022	(41,714)
2023	-

**C. Actuarial Assumptions**

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.30% to 14.20% <sup>(1)</sup>
Investment Rate of Return	7.50% <sup>(2)</sup>
Mortality	Derived using CalPERS' Membership Data for all Funds <sup>(3)</sup>

<sup>(1)</sup> Depending on age, service and type of employment

<sup>(2)</sup> Net pension plan investment expenses, including inflation

<sup>(3)</sup> The mortality table was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB

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

**Change of Assumptions** –In 2017, the accounting discount rate was reduced from 7.65 percent to 7.15 percent.

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**D. Discount Rate**

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 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 7.15 percent is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at 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 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 (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), 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 for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return <sup>1</sup> Years 1-10</u>	<u>Real Return <sup>2</sup> Years 11+</u>
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	<u>100%</u>		

<sup>1</sup> An expected inflation of 2.5% used for this period

<sup>2</sup> An expected inflation of 3.0% used for this period

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**D. Discount Rate (Continued)**

***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** – The following presents the City’s proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

Discount Rate -1%	Current Discount Rate	Discount Rate +1%
6.15%	7.15%	8.15%
\$ 1,371,706	\$ 334,714	\$ (521,446)

**E. Pension Plan Fiduciary Net Position**

Detailed information about the Plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

**F. Payable to the Pension Plan**

The City did not have an outstanding amount of contributions due to the pension plan required for the year ended June 30, 2018.

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

The City provides no post-employment benefits to 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, 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 meet 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 at 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.

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

The City purchases liability coverage through the CSJVRMA at a \$10,000 self-insured retention. This risk sharing pool covers the first \$1 million of losses (CSJVRMA's retained limit). The CSJVRMA is a member of the California Affiliated Risk Management Authorities (CARMA) for the purpose of obtaining excess coverage in a risk sharing pool. CARMA provides coverage in excess of CSJVRMA's retained limit up to \$29 million. As of June 30, 2018, 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. The 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 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 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.

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

The latest audited financial information and the most current information available for CSJVRMA for fiscal year ended June 30, 2018 is as follows:

Statement of Net Position	
Current assets	\$ 34,817,411
Noncurrent assets	<u>75,417,222</u>
Total assets	<u>110,234,633</u>
Current liabilities	19,167,959
Noncurrent liabilities	<u>73,041,272</u>
Total liabilities	<u>92,209,231</u>
Total net position	<u>\$ 18,025,402</u>

Statement of Revenues, Expenses, and Changes in Net Position	
Operating revenues	\$ 46,355,775
Operating expenses	<u>46,619,021</u>
Operating income (loss)	(263,246)
Nonoperating income (loss)	<u>314,077</u>
Increase (decrease) in net position	50,831
Net position, beginning of year	<u>17,974,571</u>
Net position, end of year	<u>\$ 18,025,402</u>

**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 13 – CONTINGENCIES**

The City has received federal grants for specific purposes that are subject to review and audit by the federal government. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

**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 \$1,337,374 for child care reimbursements. The City subcontracts the daily operation to Target 8 Advisory Council, a nonprofit organization that operates another day care program in the City. The day care incurred administrative costs of \$56,568, not to exceed 15% of the grant.

**NOTE 15 – SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER REDEVELOPMENT AGENCY**

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X26 (“the Bill”) that dissolved all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Chowchilla that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 10, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City Resolution Number 5-12.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments.)

In future years, successor agencies will only be allocated revenue in the amount that is necessary to pay the 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.

The Bill directs the State Controller of the State of California to renew the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure of encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

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 to the City.



**CITY OF ORANGE COVE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 15 – SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER REDEVELOPMENT AGENCY**  
(Continued)

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

After the date of 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 as June 30, 2018 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 the 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, 2018 the bond outstanding amounts to \$4,273,900.

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

For the Years Ending June 30,	Principal	Interest	Total
2019	\$ 239,392	\$ 155,920	\$ 395,312
2020	249,311	146,970	396,281
2021	254,009	137,703	391,712
2022	263,596	128,216	391,812
2023	277,432	118,335	395,767
2024-2028	1,537,808	429,286	1,967,094
2029-2032	<u>1,452,352</u>	<u>123,408</u>	<u>1,575,760</u>
	<u>\$ 4,273,900</u>	<u>\$ 1,239,838</u>	<u>\$ 5,513,738</u>

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF ORANGE COVE  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE – BUDGET TO ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance Final Budget
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 1,460,860	\$ 1,460,860	\$ 1,732,158	\$ 271,298
Intergovernmental	218,000	218,000	319,674	101,674
Charges for services	136,000	136,000	155,394	19,394
Licenses, permits and impact fees	169,304	169,304	174,986	5,682
Interest and rent	41,500	41,500	50,806	9,306
Other	54,500	54,500	69,174	14,674
	<u>2,080,164</u>	<u>2,080,164</u>	<u>2,502,192</u>	<u>422,028</u>
<b>EXPENDITURES</b>				
Current:				
General government	493,210	493,210	387,734	105,476
Public safety	1,620,057	1,620,057	1,653,156	(33,099)
Public works	224,300	224,300	191,205	33,095
Planning and development	117,351	117,351	130,072	(12,721)
Parks and recreation	248,963	248,963	246,956	2,007
Capital outlay	38,000	38,000	37,794	206
Debt service:				
Principal	-	-	11,103	(11,103)
	<u>2,741,881</u>	<u>2,741,881</u>	<u>2,658,020</u>	<u>83,861</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(661,717)</u>	<u>(661,717)</u>	<u>(155,828)</u>	<u>505,889</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	258,000	258,000	59,894	(198,106)
Transfers out	-	-	(79,699)	(79,699)
	<u>258,000</u>	<u>258,000</u>	<u>(19,805)</u>	<u>(277,805)</u>
Net change in fund balance	(403,717)	(403,717)	(175,633)	228,084
Fund balances (deficit), beginning of year	<u>1,899,949</u>	<u>1,899,949</u>	<u>1,899,949</u>	<u>-</u>
Fund balances (deficit), end of year	<u>\$ 1,496,232</u>	<u>\$ 1,496,232</u>	<u>\$ 1,724,316</u>	<u>\$ 228,084</u>

**CITY OF ORANGE COVE  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2018**

**NOTE A – 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 revenues; transfers of appropriations between funds; appropriation of any non-departmental revenue; new interfund loans or advances; and creation of a 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.

**CITY OF ORANGE COVE  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN  
SCHEDULE OF THE CITY'S  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
LAST 10 YEARS\*  
AS OF JUNE 30, 2018**

	2015	2016	2017	2018
Proportion of the net pension liability	-0.0018%	-0.0039%	0.0019%	0.0034%
Proportionate share of the net pension liability	\$ (112,285)	\$ (270,847)	\$ 161,985	\$ 334,714
Covered payroll	\$ 1,787,519	\$ 1,782,750	\$ 1,781,031	\$ 1,693,061
Proportionate share of the net pension liability as percentage of covered payroll	-6.28%	-15.19%	9.10%	19.77%
Plan fiduciary net position as a percentage of the total pension liability	102.09%	104.40%	97.55%	95.54%

**NOTES TO THE SCHEDULE**

**Changes in Benefit Terms** - None

**Changes of Assumptions** - The discount rate decreased from 7.65 percent to 7.15 percent.

\*Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**CITY OF ORANGE COVE  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN  
SCHEDULE OF CONTRIBUTIONS  
LAST 10 YEARS\*  
AS OF JUNE 30, 2018**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially required contribution (actuarially determined)	\$ 149,758	\$ 158,678	\$ 155,206	\$ 186,076	\$ 195,039
Contributions in relation to the actuarially determined contributions	<u>149,758</u>	<u>158,678</u>	<u>155,206</u>	<u>186,076</u>	<u>195,039</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$1,787,519	\$1,782,750	\$1,781,031	\$1,693,061	\$1,640,504
Contributions as a percentage of covered payroll	8.38%	8.90%	8.71%	10.99%	11.89%

\*Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

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## OTHER SUPPLEMENTARY INFORMATION



**CITY OF ORANGE COVE  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2018**

	Special Revenue Funds					
	Measure O	Gas Tax	Soccer Grant	Community Development	Development Impact Fees	Measure C
<b>ASSETS</b>						
Cash and investments	\$ 8,874	\$ -	\$ -	\$ 84,278	\$ 307,662	\$ 308,053
Interest receivable	99	317	-	521	404	406
Due from other governments	-	11,882	-	46,405	-	16,281
Notes receivable	-	-	-	22,612	-	-
Land held for resale	-	-	-	498,841	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>498,841</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 8,973</u>	<u>\$ 12,199</u>	<u>\$ -</u>	<u>\$ 652,657</u>	<u>\$ 308,066</u>	<u>\$ 324,740</u>
<b>LIABILITIES</b>						
Accounts payable and accrued expenses	\$ 109	\$ 16,744	\$ -	\$ 7,424	\$ -	\$ 3,571
Due to other funds	-	238,914	9,989	-	-	-
	<u>-</u>	<u>238,914</u>	<u>9,989</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>109</u>	<u>255,658</u>	<u>9,989</u>	<u>7,424</u>	<u>-</u>	<u>3,571</u>
<b>FUND BALANCES (DEFICITS)</b>						
Restricted:						
Low-income housing activities	-	-	-	-	-	-
Circulation improvements	-	-	-	-	-	321,169
Community development	-	-	-	645,233	-	-
Capital improvement projects	-	-	-	-	308,066	-
Public safety	8,864	-	-	-	-	-
Debt service	-	-	-	-	-	-
Unassigned	-	(243,459)	(9,989)	-	-	-
	<u>-</u>	<u>(243,459)</u>	<u>(9,989)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances (deficits)	<u>8,864</u>	<u>(243,459)</u>	<u>(9,989)</u>	<u>645,233</u>	<u>308,066</u>	<u>321,169</u>
Total liabilities, deferred inflows of resources, and fund balances (deficits)	<u>\$ 8,973</u>	<u>\$ 12,199</u>	<u>\$ -</u>	<u>\$ 652,657</u>	<u>\$ 308,066</u>	<u>\$ 324,740</u>

**CITY OF ORANGE COVE  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2018  
(Continued)**

	Special Revenue Funds					Debt Service Fund	Total Nonmajor Governmental Funds
	Traffic Congestion	Bureau of Reclamation	Serna Project	USDA Kitchen Grant	BSCC Grant	General Debt Service	
<b>ASSETS</b>							
Cash and investments	\$ 10,616	\$ -	\$ 8,715	\$ 2,214	\$ -	\$ 403,034	\$ 1,133,446
Interest receivable	14	-	-	-	-	530	2,291
Due from other governments	-	-	-	10,791	-	-	85,359
Notes receivable	-	-	-	-	-	-	22,612
Land held for resale	-	-	-	-	-	-	498,841
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>498,841</u>
Total assets	<u>\$ 10,630</u>	<u>\$ -</u>	<u>\$ 8,715</u>	<u>\$ 13,005</u>	<u>\$ -</u>	<u>\$ 403,564</u>	<u>\$ 1,742,549</u>
<b>LIABILITIES</b>							
Accounts payable and accrued expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,325	\$ 29,173
Due to other funds	-	1,280	-	-	1,617	-	251,800
	<u>-</u>	<u>1,280</u>	<u>-</u>	<u>-</u>	<u>1,617</u>	<u>-</u>	<u>251,800</u>
Total liabilities	<u>-</u>	<u>1,280</u>	<u>-</u>	<u>-</u>	<u>1,617</u>	<u>1,325</u>	<u>280,973</u>
<b>FUND BALANCES (DEFICITS)</b>							
Restricted:							
Low-income housing activities	-	-	8,715	-	-	-	8,715
Circulation improvements	10,630	-	-	-	-	-	331,799
Community development	-	-	-	13,005	-	-	658,238
Capital improvement projects	-	-	-	-	-	-	308,066
Public safety	-	-	-	-	-	-	8,864
Debt service	-	-	-	-	-	402,239	402,239
Unassigned	-	(1,280)	-	-	(1,617)	-	(256,345)
	<u>-</u>	<u>(1,280)</u>	<u>-</u>	<u>-</u>	<u>(1,617)</u>	<u>-</u>	<u>(256,345)</u>
Total fund balances (deficits)	<u>10,630</u>	<u>(1,280)</u>	<u>8,715</u>	<u>13,005</u>	<u>(1,617)</u>	<u>402,239</u>	<u>1,461,576</u>
Total liabilities, deferred inflows of resources, and fund balances (deficits)	<u>\$ 10,630</u>	<u>\$ -</u>	<u>\$ 8,715</u>	<u>\$ 13,005</u>	<u>\$ -</u>	<u>\$ 403,564</u>	<u>\$ 1,742,549</u>

**CITY OF ORANGE COVE  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	Special Revenue Funds					
	Measure O	Gas Tax	Soccer Grant	Community Development	Development Impact Fees	Measure C
<b>REVENUES</b>						
Taxes	\$ 257,210	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	243,975	-	46,405	-	275,527
Licenses, permits and impact fees	-	-	-	-	57,272	-
Other	-	-	-	-	-	-
Total revenues	<u>257,210</u>	<u>243,975</u>	<u>-</u>	<u>46,405</u>	<u>57,272</u>	<u>275,527</u>
<b>EXPENDITURES</b>						
Current:						
Public safety	248,196	436	-	-	-	-
Public works	-	-	-	-	-	-
Streets	-	331,586	-	-	-	73,419
Planning and development	-	-	-	50,589	-	-
Parks and recreation	-	-	9,989	-	-	-
Debt service:						
Principal	-	1,815	-	-	-	-
Interest and other charges	150	455	-	407	597	407
Total expenditures	<u>248,346</u>	<u>334,292</u>	<u>9,989</u>	<u>50,996</u>	<u>597</u>	<u>73,826</u>
Excess (deficiency) of revenues over (under) expenditures	<u>8,864</u>	<u>(90,317)</u>	<u>(9,989)</u>	<u>(4,591)</u>	<u>56,675</u>	<u>201,701</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	8,864	(90,317)	(9,989)	(4,591)	56,675	201,701
Fund balances (deficits), beginning of year	<u>-</u>	<u>(153,142)</u>	<u>-</u>	<u>649,824</u>	<u>251,391</u>	<u>119,468</u>
Fund balances (deficits), end of year	<u>\$ 8,864</u>	<u>\$ (243,459)</u>	<u>\$ (9,989)</u>	<u>\$ 645,233</u>	<u>\$ 308,066</u>	<u>\$ 321,169</u>

**CITY OF ORANGE COVE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**  
(Continued)

	Special Revenue Funds					Debt Service Fund	Total Nonmajor Governmental Funds
	Traffic Congestion	Bureau of Reclamation	Serna Project	USDA Kitchen Grant	BSCC Grant	General Debt Service	
<b>REVENUES</b>							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 143,700	\$ 400,910
Intergovernmental	10,651	-	8,540	10,791	-	-	595,889
Licenses, permits and impact fees	-	-	-	-	-	-	57,272
Other	-	-	175	-	-	-	175
Total revenues	<u>10,651</u>	<u>-</u>	<u>8,715</u>	<u>10,791</u>	<u>-</u>	<u>143,700</u>	<u>1,054,246</u>
<b>EXPENDITURES</b>							
Current:							
Public safety	-	-	-	-	1,617	-	250,249
Public works	-	1,280	-	-	-	-	1,280
Streets	-	-	-	-	-	-	405,005
Planning and development	-	-	-	-	-	-	50,589
Parks and recreation	-	-	-	10,791	-	-	20,780
Debt service:							
Principal	-	-	-	-	-	67,000	68,815
Interest and other charges	21	-	-	-	-	64,398	66,435
Total expenditures	<u>21</u>	<u>1,280</u>	<u>-</u>	<u>10,791</u>	<u>1,617</u>	<u>131,398</u>	<u>863,153</u>
Excess (deficiency) of revenues over (under) expenditures	<u>10,630</u>	<u>(1,280)</u>	<u>8,715</u>	<u>-</u>	<u>(1,617)</u>	<u>12,302</u>	<u>191,093</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	-	-	-	13,005	-	-	13,005
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,005</u>	<u>-</u>	<u>-</u>	<u>13,005</u>
Net changes in fund balances	10,630	(1,280)	8,715	13,005	(1,617)	12,302	204,098
Fund balances (deficits), beginning of year	-	-	-	-	-	389,937	1,257,478
Fund balances (deficits), end of year	<u>\$ 10,630</u>	<u>\$ (1,280)</u>	<u>\$ 8,715</u>	<u>\$ 13,005</u>	<u>\$ (1,617)</u>	<u>\$ 402,239</u>	<u>\$ 1,461,576</u>

**CITY OF ORANGE COVE  
 JULIA A. LOPEZ CHILD DEVELOPMENT CENTER  
 BALANCE SHEET  
 JUNE 30, 2018**

	City Portion	Subcontractor Portion	Memo Total
<b>ASSETS</b>			
Cash	\$ 8,404	\$ -	\$ 8,404
Restricted cash	66,694	-	66,694
Accounts receivable	202,165	-	202,165
Interest receivable	11	-	11
 Total assets	 \$ 277,274	 \$ -	 \$ 277,274
<b>LIABILITIES</b>			
Unearned revenue - reserve fund	\$ 200,606	\$ -	\$ 200,606
 Total liabilities	 200,606	 -	 200,606
<b>FUND BALANCES</b>			
Unreserved, undesignated	76,668	-	76,668
 Total fund balances	 76,668	 -	 76,668
 Total liabilities and fund balances	 \$ 277,274	 \$ -	 \$ 277,274

**CITY OF ORANGE COVE  
 JULIA A. LOPEZ CHILD DEVELOPMENT CENTER  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2018**

	<u>City Portion</u>	<u>Subcontractor Portion</u>	<u>Memo Total</u>
<b>REVENUES AND SUPPORT</b>			
State apportionments - Child development program	\$ 26,268	\$ 1,136,605	\$ 1,162,873
Parent fees - certified	<u>-</u>	<u>7,078</u>	<u>7,078</u>
 Total revenues and support	 <u>26,268</u>	 <u>1,143,683</u>	 <u>1,169,951</u>
<b>EXPENSES</b>			
Salaries and wages	26,268	536,292	562,560
Employee benefits	-	268,079	268,079
Food	-	126,459	126,459
Materials and supplies	-	25,946	25,946
Other supplies	-	31,084	31,084
Travel and training	-	2,801	2,801
Dues and memberships	-	1,210	1,210
Rent	-	4,890	4,890
Operations and housekeeping services	-	61,560	61,560
Insurance	-	9,924	9,924
Professional services	-	61,999	61,999
Depreciation	<u>-</u>	<u>3,465</u>	<u>3,465</u>
 Total expenses	 <u>26,268</u>	 <u>1,133,709</u>	 <u>1,159,977</u>
 Excess (deficiency) of revenues over (under) expenditures	 <u>-</u>	 <u>9,974</u>	 <u>9,974</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	<u>66,694</u>	<u>-</u>	<u>66,694</u>
 Total other financing sources (uses)	 <u>66,694</u>	 <u>-</u>	 <u>66,694</u>
 Net changes in fund balance	 <u>66,694</u>	 <u>9,974</u>	 <u>76,668</u>
 Fund balances, beginning of year	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Fund balances, end of year	 <u>\$ 66,694</u>	 <u>\$ 9,974</u>	 <u>\$ 76,668</u>

**CITY OF ORANGE COVE  
 JULIA A. LOPEZ CHILD DEVELOPMENT CENTER  
 SCHEDULE OF EXPENDITURES BY STATE CATEGORY  
 FOR THE YEAR ENDED JUNE 30, 2018**

		City Portion	Subcontractor Portion	State Preschool Program CSP-7065
<b>Expenditures</b>				
1000	Certified Personnel Salaries	\$ -	\$ 148,327	\$ 148,327
2000	Classified Personnel Salaries	-	387,965	387,965
3000	Employee Benefits	-	268,079	268,079
4000	Books and Supplies	-	183,489	183,489
5000	Services and Other Operating Expenses	26,268	116,584	142,852
6000	Capital Outlay	-	64,146	64,146
<b>Total expenses claimed for reimbursement</b>		<u>\$ 26,268</u>	<u>\$ 1,168,590</u>	<u>\$ 1,194,858</u>

NOTE: We have examined the claims filed for reimbursement and the original records supporting the transactions recorded under the contract listed 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  
 FOR THE YEAR ENDED JUNE 30, 2018**

	<u>State Preschool Program CSPP-7065</u>
<b>Expenses</b>	
City payroll expense	\$ 26,268
Accounting	25,800
Audit	<u>4,500</u>
Total expenses	<u>\$ 56,568</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 childcare 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, 2018**

	<u>Julia Lopez General Child Care</u>
Expenditures Under \$7,500 Unit Cost:	
None	\$ <u>          -</u>
Total	<u>                  -</u>
Expenditures Over \$7,500 Unit Cost With CDE Approval:	
Surveillance equipment	<u>          16,975</u>
Total	<u>          16,975</u>
Expenditures Over \$7,500 Unit Cost Without CDE Approval	
None	<u>                  -</u>
Total	<u>                  -</u>
Total Equipment Expenditures	<u><u>          \$ 16,975</u></u>

**CITY OF ORANGE COVE  
 JULIA A. LOPEZ CHILD DEVELOPMENT CENTER  
 SCHEDULE OF EQUIPMENT EXPENDITURES  
 FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Julia Lopez General Child Care Center</u>
Unit Cost Under \$10,000 Item:	
None	\$ <u>          -</u>
Total	<u>                  -</u>
Unit Cost Over \$10,000 With CDE Approval:	
Flooring	<u>          47,171</u>
Total	<u>          47,171</u>
Unit Cost Over \$10,000 Without CDE Approval:	
None	<u>                  -</u>
Total	<u>                  -</u>
Total Renovation and Repair Expenditures	<u><u>          \$ 47,171</u></u>

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## COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange Cove, California (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 23, 2019.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001 through 2018-007 that we consider to be material weaknesses.

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Clovis, CA 93612

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## **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*.

## **The City's Response to Findings**

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion of 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Price Pange & Company*

Clovis, California  
August 23, 2019

**CITY OF ORANGE COVE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**FINANCIAL STATEMENTS**

Type of auditor's report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weaknesses identified?	<u>  X  </u> yes	<u>      </u> no
Significant deficiencies identified - not considered to be material weaknesses?	<u>      </u> yes	<u>  X  </u> no
Noncompliance material to financial statements noted?	<u>      </u> yes	<u>  X  </u> no

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 2018-001 Internal Control Over Financial Reporting (Material Weakness)**

**Condition:** We have determined that processes utilized for closing and reporting of financial activity for the fiscal year ended June 30, 2018, were not effective, which contributed to the City’s unpreparedness for the audit. We experienced continuing delays throughout the audit process due to the City’s inability to provide the requested supporting documents in a timely manner and the inadequacy of supporting documents received.

**Criteria:** An effective internal control system and timely financial reporting provides reasonable assurance for the safeguarding of assets, the reliability of financial information and compliance with laws and regulations.

**Cause:** The City’s policies and procedures for recording financial transactions were disrupted due to significant inefficiencies in how the finance department staff performed their duties.

**Effect:** The City was not able to close its books and generate year-end reports in a timely manner. As a result, during the performance of the financial statement audit for the year ended June 30, 2018, there were significant delays in receiving the requested audit documents and various schedule received required further reconciliation and adjustment.

**Recommendation:** We recommend that the City close its books in a timely manner and have all accounts reconciled and balanced to the general ledger, and a detailed review of all financial statements be conducted prior to the start of the audit fieldwork. We also recommend that all reconciliations and detailed listings be reviewed to ensure accuracy.

**Management’s Response:** See client’s corrective action plan (attached).



**CITY OF ORANGE COVE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2018-002 Bank Reconciliation (Material Weakness)**

**Condition:** Cash was not reconciled to the general ledger on a monthly basis. Bank statements accumulated for several months to a year before they were reconciled to the appropriate general ledger accounts.

**Criteria:** Failure to recognize cash in a timely manner is a weakness in internal controls over a significant account balance.

**Cause:** Failure on the part of the Finance Director to prioritize the cash reconciliation process.

**Effect:** By not reconciling the bank accounts to the general ledger on a monthly basis, errors or other problems might not be recognized and resolved on a timely basis.

**Recommendation:** Timely preparation of complete and accurate bank reconciliations is key to maintaining adequate internal control over cash. Bank reconciliations should be performed on all bank accounts in a timely manner after month-end. The bank reconciliations should be formally approved. Any discrepancies should be investigated and all errors and omissions should be posted to the general ledger.

**Management's Response:** See client's corrective action plan (attached).

**Finding 2018-003 Reporting of Capital Assets (Material Weakness)**

**Condition:** The City does not have a documented capital asset policy in place to ensure all capital assets are identified and does not maintain the schedule of capital assets.

**Criteria:** Cities are required to adopt adequate internal controls to properly record, summarize, and report accounting transactions, including those associated with the acquisition and disposition of capital assets, to provide reasonable assurance that the financial statements are not materially misstated.

**Cause:** The City does not have adequate policies and procedures to ensure all capital assets are properly identified and recorded.

**Effect:** Capital assets represent a significant account balance for the City and improper accounting could result in a material misstatement of the financial statements.

**Recommendation:** We recommend the City establish internal control policies and procedures to provide reasonable assurance that the following occurs on a routine basis:

- Prepare periodic reconciliation schedules of capital assets including construction in progress balances to ensure that all amounts are properly recorded in the financial statements.
- Capital asset inventory is performed at least annually.
- Review detail schedules on an ongoing basis to ensure that balances recorded are capital in nature and individual assets are properly classified on the capital asset detail schedules.

**Management's Response:** See client's corrective action plan (attached).

**CITY OF ORANGE COVE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2018-004 Grant Accounting (Material Weakness)**

**Condition:** The City's grant management process operates in a decentralized format which has resulted in ineffective oversight over grant administrators. The City experienced improper coding of cash receipts from grant reimbursements and improper coding of grant expenditures.

**Criteria:** The City's internal control system should be designed to ensure that the grant agreements, and other similar documents are properly accounted for, recorded, and in compliance with requirements that could have a direct and material effect on the determination of financial statement amounts. Claims for reimbursements should be filed in a timely manner, soon after the incurrence and payment of qualified rated expenditures, and recorded in the proper fund.

**Cause:** There is a lack of communication between the grant administrators and the Finance Department in regards to the grant activity. Finance department staffs are not properly trained on how to effectively keep track of grant balances.

**Effect:** The City's lack of grant accounting increases the likelihood of material misstatements in the financial statements due to improper accounting of grant activity.

**Recommendation:** We recommend that the City establish a control system to ensure that amounts expended are timely submitted for reimbursement, all required forms are completed and prepared in the format prescribed by the grantor, and reimbursement packages are reviewed and approved by supervisory personnel, and the staff is properly trained on how to account for grant activity in the general ledger.

**Management's Response:** See client's corrective action plan (attached).

**Finding 2018-005 Loan Receivables (Material Weakness)**

**Condition:** The City does not have proper authorization schedules for outstanding loan balances to track principal and interest payments on the loans receivable.

**Criteria:** The City's internal control system should be designed to ensure that the loans receivable are properly accounted for and recorded.

**Cause:** The Finance Department did not account for loan payments accurately and the City does not have policies on how to treat loans that are in default.

**Effect:** The City's failure to track loans receivable accurately increases the likelihood that there may be improper loan receivable balances and loans that are in default are not properly resolved.

**Recommendation:** We recommend that the City establish an internal control system for loans receivable and maintain current amortization schedules for each loan to ensure that payments received are properly recorded. In addition, the City should establish procedures to document proper treatment of loans that are in default.

**Management's Response:** See client's corrective action plan (attached).

**CITY OF ORANGE COVE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2018-006 General Ledger Coding of Deposits and Disbursements (Material Weakness)**

**Condition:** The City does not have adequate controls in place to monitor that deposits and disbursements are properly coded. Finance Department staff are not recording activity in the proper funds and general ledger accounts.

**Criteria:** The City's internal control system should be designed to ensure that deposits and disbursements are coded in the proper general ledger accounts and in the correct funds.

**Cause:** The City's policies and procedures for recording deposits and disbursements are not adequate to monitor the coding process. Finance Department staff are not adequately trained to know which codes to use for the deposits and disbursements, and management is not adequately reviewing and monitoring the process to ensure that deposits and disbursements are being properly recorded.

**Effect:** The City's lack of monitoring the general ledger coding process for deposits and disbursements increases the likelihood that deposits and disbursements are not recorded in the proper account and proper fund and thus will reflect misstatements in the financial statements.

**Recommendation:** We recommend that the City train staff who are responsible for the coding process to be proficient in where each deposit and disbursement should be coded. Management should review the deposits and disbursements to ensure that they are properly coded.

**Management's Response:** See client's corrective action plan (attached).

**Finding 2018-007 Council Member Fringe Benefits (Material Weakness)**

**Condition:** The City's policy for health insurance coverage for council members is not comprehensive enough to ensure the plan is compliant with IRS regulations and does not properly address reimbursements to council members for expenditures that are not typically covered by health insurance.

**Criteria:** The Internal Revenue Service requires that certain fringe benefits be taxed to council members unless the law specifically excludes it.

**Cause:** The City's policy for council member health insurance is not adequately designed to ensure it meets with IRS laws.

**Effect:** The City is reimbursing council members for expenditures that are not typically covered by health insurance and are providing benefits to themselves that are not available to all City employees. In addition, the City is not treating these benefits as a taxable fringe benefit to the recipients as these benefits do not qualify for an exclusion under current law.

**Recommendation:** We recommend that the City have a plan reviewed by the City's insurance representative and legal counsel to ensure the plan is in compliance with IRS law. Additionally, council members who received the taxable fringe benefits should either receive a W-2 reporting these amounts as taxable wages or reimburse the City for the amounts.

**Management's Response:** See client's corrective action plan (attached).

**SECTION III – FEDERAL AWARDS FINDINGS**

None noted.

**CITY OF ORANGE COVE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018**

**FINANCIAL STATEMENT FINDINGS**

**Finding 2017-001 Internal Control Over Financial Reporting (Material Weakness)**

**Condition:** We have determined that processes utilized for closing and reporting of financial activity for the fiscal year ended June 30, 2017, were not effective, which contributed to the City's unpreparedness for the audit. We experienced continuing delays throughout the audit process due to the City's inability to provide the requested supporting documents in a timely manner and the inadequacy of supporting documents received.

**Criteria:** An effective internal control system and timely financial reporting provides reasonable assurance for the safeguarding of assets, the reliability of financial information and compliance with laws and regulations.

**Cause:** The City's policies and procedures for recording financial transactions were disrupted due to significant inefficiencies in how the finance department staff performed their duties.

**Effect:** The City was not able to close its books and generate year-end reports in a timely manner. As a result, during the performance of the financial statement audit for the year ended June 30, 2017, there were significant delays in receiving the requested audit documents and various schedule received required further reconciliation and adjustment.

**Recommendation:** We recommend that the City close its books in a timely manner and have all accounts reconciled and balanced to the general ledger, and a detailed review of all financial statements be conducted prior to the start of the audit fieldwork. We also recommend that all reconciliations and detailed listings be reviewed to ensure accuracy.

**Status:** Not implemented.

**Finding 2017-002 Bank Reconciliation (Material Weakness)**

**Condition:** Cash was not reconciled to the general ledger on a monthly basis. Bank statements accumulated for several months to a year before they were reconciled to the appropriate general ledger accounts.

**Criteria:** Failure to recognize cash in a timely manner is a weakness in internal controls over a significant account balance.

**Cause:** Failure on the part of the Finance Director to prioritize the cash reconciliation process.

**Effect:** By not reconciling the bank accounts to the general ledger on a monthly basis, errors or other problems might not be recognized and resolved on a timely basis.

**Recommendation:** Timely preparation of complete and accurate bank reconciliations is key to maintaining adequate internal control over cash. Bank reconciliations should be performed on all bank accounts in a timely manner after month-end. The bank reconciliations should be formally approved. Any discrepancies should be investigated and all errors and omissions should be posted to the general ledger.

**Status:** Not implemented.

**CITY OF ORANGE COVE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018**

**FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2017-003 Reporting of Schedule of Expenditures of Federal Awards (Material Weakness)**

**Condition:** The City's internal controls over the compilation of the annual Schedule of Expenditures of Federal Awards did not identify all the federal expenditures required to prepare a complete Schedule of Expenditures of Federal Awards as of June 30, 2017.

**Criteria:** OMB Circular A-133 in Subpart C – states that the City shall:

- a) Identify, in its accounts, all Federal awards received and expended in the Federal programs under which they were received.
- b) Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards, including notes that describe the significant accounting policies used in preparing the schedule.

**Cause:** The departments responsible for overseeing the City's federal grants are not communicating effectively with the Finance Department regarding the total federal expenditures incurred during the year. The Finance Department is responsible for preparing the Schedule of Expenditures of Federal Awards.

**Effect:** The City was not able to compile a complete and accurate Schedule of Expenditures of Federal Awards for audit. As a result, additional audit procedures and auditor assistance was necessary to ensure the accuracy and completeness of the City's Schedule of Expenditures of Federal Awards.

**Recommendation:** The Finance Department should work with all departments to accumulate the data that is necessary to compile the Schedule of Expenditures of Federal Awards. We recommend that this compilation take place at least quarterly. The Finance Department must coordinate with all departments to obtain the data that is necessary to prepare an accurate and complete Schedule of Expenditures of Federal Awards.

**Status:** Not implemented.

**Finding 2017-005 Grant Accounting (Material Weakness)**

**Condition:** The City's grant management process operates in a decentralized format which has resulted in ineffective oversight over grant administrators. The City experienced improper coding of cash receipts from grant reimbursements and improper coding of grant expenditures.

**Criteria:** The City's internal control system should be designed to ensure that the grant agreements, and other similar documents are properly accounted for, recorded, and in compliance with requirements that could have a direct and material effect on the determination of financial statement amounts. Claims for reimbursements should be filed in a timely manner, soon after the incurrence and payment of qualified rated expenditures, and recorded in the proper fund.

**Cause:** There is a lack of communication between the grant administrators and the Finance Department in regards to the grant activity. Finance department staffs are not properly trained on how to effectively keep track of grant balances.

**Effect:** The City's lack of grant accounting increases the likelihood of material misstatements in the financial statements due to improper accounting of grant activity.

**Recommendation:** We recommend that the City establish a control system to ensure that amounts expended are timely submitted for reimbursement, all required forms are completed and prepared in the format prescribed by the grantor, and reimbursement packages are reviewed and approved by supervisory personnel, and the staff is properly trained on how to account for grant activity in the general ledger.

**Status:** Not implemented.

**CITY OF ORANGE COVE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018**

**FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2017-006 Loan Receivables (Material Weakness)**

**Condition:** The City does not have proper authorization schedules for outstanding loan balances to track principal and interest payments on the loans receivable.

**Criteria:** The City's internal control system should be designed to ensure that the loans receivable are properly accounted for and recorded.

**Cause:** The Finance Department did not account for loan payments accurately and the City does not have policies on how to treat loans that are in default.

**Effect:** The City's failure to track loans receivable accurately increases the likelihood that there may be improper loan receivable balances and loans that are in default are not properly resolved.

**Recommendation:** We recommend that the City establish an internal control system for loans receivable and maintain current amortization schedules for each loan to ensure that payments received are properly recorded. In addition, the City should establish procedures to document proper treatment of loans that are in default.

**Status:** Not implemented.

**Finding 2017-007 General Ledger Coding of Deposits and Disbursements (Material Weakness)**

**Condition:** The City does not have adequate controls in place to monitor that deposits and disbursements are properly coded. Finance Department staff are not recording activity in the proper funds and general ledger accounts.

**Criteria:** The City's internal control system should be designed to ensure that deposits and disbursements are coded in the proper general ledger accounts and in the correct funds.

**Cause:** The City's policies and procedures for recording deposits and disbursements are not adequate to monitor the coding process. Finance Department staff are not adequately trained to know which codes to use for the deposits and disbursements, and management is not adequately reviewing and monitoring the process to ensure that deposits and disbursements are being properly recorded.

**Effect:** The City's lack of monitoring the general ledger coding process for deposits and disbursements increases the likelihood that deposits and disbursements are not recorded in the proper account and proper fund and thus will reflect misstatements in the financial statements.

**Recommendation:** We recommend that the City train staff who are responsible for the coding process to be proficient in where each deposit and disbursement should be coded. Management should review the deposits and disbursements to ensure that they are properly coded.

**Status:** Not implemented.

**CITY OF ORANGE COVE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018**

**FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2017-008 Council Member Fringe Benefits (Material Weakness)**

**Condition:** The City's policy for health insurance coverage for council members is not comprehensive enough to ensure the plan is compliant with IRS regulations and does not properly address reimbursements to council members for expenditures that are not typically covered by health insurance.

**Criteria:** The Internal Revenue Service requires that certain fringe benefits be taxed to council members unless the law specifically excludes it.

**Cause:** The City's policy for council member health insurance is not adequately designed to ensure it meets with IRS laws.

**Effect:** The City is reimbursing council members for expenditures that are not typically covered by health insurance and are providing benefits to themselves that are not available to all City employees. In addition, the City is not treating these benefits as a taxable fringe benefit to the recipients as these benefits do not qualify for an exclusion under current law.

**Recommendation:** We recommend that the City have a plan reviewed by the City's insurance representative and legal counsel to ensure the plan is in compliance with IRS law. Additionally, council members who received the taxable fringe benefits should either receive a W-2 reporting these amounts as taxable wages or reimburse the City for the amounts.

**Status:** Not implemented.

**FEDERAL AWARDS FINDINGS**

None noted.

**CITY OF ORANGE COVE  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2018**

*Mayor:  
Victor P. Lopez*

*Mayor Pro Tem:  
Diana Guerra Silva*

*City Council Members:  
Roy Rodriguez  
Josie Cervantes  
Esperanza Rodriguez*



*Rudy Hernandez  
Interim City Manager:  
(559) 626-4488 ext. 216*

*Rudy Hernandez:  
Financial Consultant  
(559) 626-4488 ext. 216*

*City Clerk:  
June V. Bracamontes  
(559) 626-4488 ext. 214*

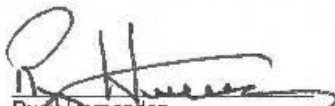
**CITY OF ORANGE COVE  
CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2018**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2018-001	The delay in completing the FY 2017-18 audit was due to the lack of accounting procedures in place as well as providing training to the City's finance and administrative staff. To address this issue, on February 27, 2019, the City Council approved a resolution adopting the Fiscal Year End Closing Policy. It should be further noted that the City's new auditing Firm Price, Paige and Company reviewed and approved the new Fiscal Year End Closing Policy. Lastly, all reconciliations and accounting schedules related to the fiscal year end closing are prepared by the City's finance staff under the close watch of the Finance Director who also reviews and approves all financial transactions/schedules/reports.	Implemented for FY 2019	Rudy Hernandez, Finance Director
2018-002	When the City's new Finance Director arrived in July 2018, it was discovered that the last bank statement that was reconciled was July 2017 (Almost one year behind). Under the direction of the City's new Finance Director, the system of reconciling the bank statement changed from using an excel format to using the MOMS bank reconciliation program. This resulted in getting the bank reconciliations completed on a timely manner and reconciling the bank statements to the general ledger (Including investigating all errors and omissions). Having to go back one (1) year and reconcile all bank statement was time consuming but was done. The City now is reconciling the bank reconciliations to the general ledger on a monthly basis. The Finance Director reviews and approves all bank reconciliations.	Implemented for FY 2019	Rudy Hernandez, Finance Director
2018-003	On August 8, 2018, the City Council adopted a resolution approving the Fixed Assets Policy. City staff believes that this Fixed Asset Policy addresses the concerns raised by the City's prior auditor. The City has also implemented a new accounting procedure where all fixed asset schedules are reconciled to the general ledger. It should be further noted that the City's new auditing Firm Price, Paige and Company reviewed and approved the new Fixed Assets Policy.	Implemented for FY 2019	Rudy Hernandez, Finance Director
2018-004	On February 27, 2019, the City Council adopted a resolution approving the Grants Management Policy. The Grants Management Policy makes reference to the roles and responsibilities of all City Departments including the City Council. In addition, on February 12, 2019, the City hired an administrative assistant to assist in administering, accounting, and preparing any reports (Compliance) related to County, State and Federal	Implemented for FY 2019	Rudy Hernandez, Finance Director



**CITY OF ORANGE COVE  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2018  
(Continued)**

	Grants. In addition, our City Engineer also plays a major role in helping the City administer the City grants. The Finance Director also provides training to finance staff for all matters related to grants. In addition, the Finance Director reviews and approves all financial activity related to grants.		
2018-005	During FY 2016-17, the City did not have proper accounting procedures in place for loans receivable and the finance staff was not trained to handle the treatment of loans receivable including maintaining current amortization schedules for City loans. As part of the FY 2017-18 audit, the City's new Finance Director implemented new accounting procedures to insure loan payments received are properly recorded and loan amortization schedules are updated. The City will utilize the services of a collection to collect loans that in default and place liens on property whenever legally possible.	Implemented for FY 2019	Rudy Hernandez, Finance Director
2018-006	On January 14, 2019, the City Council adopted a resolution approving the Accounts Payable Policy. City staff believes this new Accounts Payable Policy addresses the concerns raised by the City's prior auditor regarding the coding of cash disbursements. In addition, the Finance Director approves all purchases made by City Staff and reviews the coding to insure purchases are properly expensed as per adopted budget. As part of the month-end process, the Finance Director performs a revenue analysis to ensure that all revenues are being recorded properly.	Implemented for FY 2019	Rudy Hernandez, Finance Director
2018-007	On May 8, 2019, the City Council approved Resolutions 2019-27 and 2019-29 allowing City Council members to participate in the City's Health Insurance Program offered by the California Public Retirement System (CalPERS). This same Health Insurance Plan is offered to City Employees. Health insurance premiums paid by the City on behalf of Employees/Council members are not taxable fringe benefits.	Implemented for FY 2019	Rudy Hernandez, Finance Director

  
 Rudy Hernandez  
 Finance Director, City of Orange Cove