

CITY OF ORANGE COVE

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

JUNE 30, 2017

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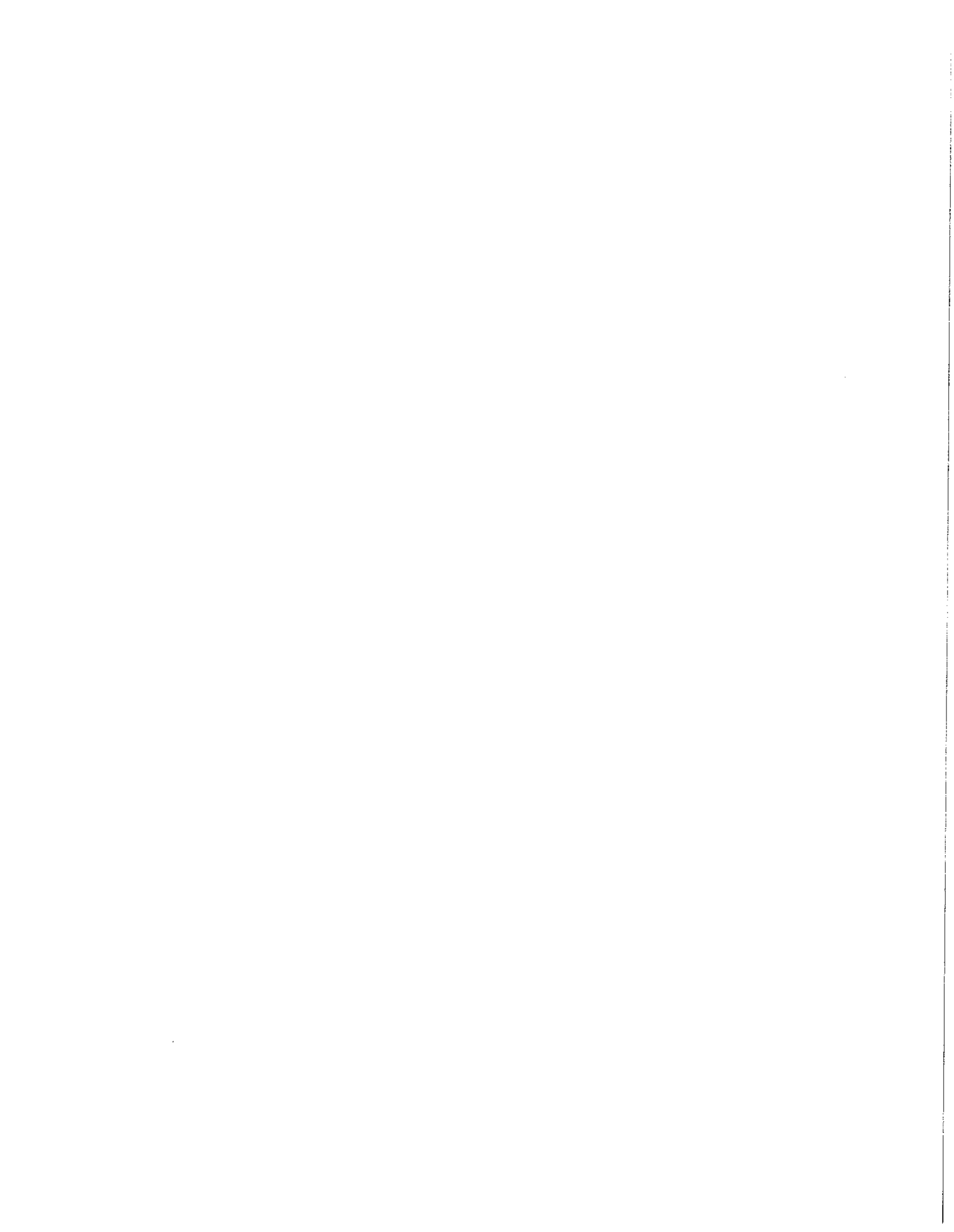
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INDEPENDENT AUDITOR'S REPORT

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange Cove, California, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 49-54, and the City's Proportionate Share of Net Pension Asset/Liability and Contributions on pages 55-56, 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the 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.

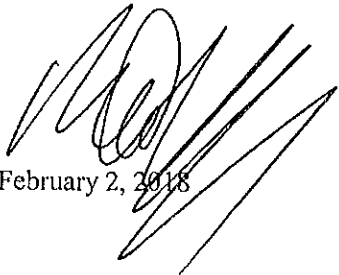
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Orange Cove's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2018, on our consideration of the City of Orange Cove's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Orange Cove's internal control over financial reporting and compliance.



February 2, 2018

GOVERNMENT-WIDE FINANCIAL STATEMENTS



CITY OF ORANGE COVE

STATEMENT OF NET POSITION JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 2,217,513	\$ 801,173	\$ 3,018,686
Accounts receivable	214,558	306,514	521,072
Interest receivable	223,416	1,849	225,265
Due from other governments	344,909	153,221	498,130
Internal balances	440,692	(440,692)	-
Notes receivable	2,565,476	-	2,565,476
Land held for resale	955,486	-	955,486
Net pension asset	727,001	-	727,001
Capital assets, net of depreciation	8,827,257	18,704,241	27,531,498
Total assets	16,516,308	19,526,306	36,042,614
DEFERRED OUTFLOWS OF RESOURCES			
	431,477	75,791	507,268
LIABILITIES			
Accounts payable and accrued expenses	581,499	186,485	767,984
Accrued interest	19,648	14,065	33,713
Deposits	-	38,946	38,946
Compensated absences	113,845	45,331	159,176
Unearned revenues	51,677	-	51,677
Long-term liabilities:			
Due within one year	69,178	64,997	134,175
Due in more than one year	1,127,978	1,273,212	2,401,190
Net pension liability	620,339	268,647	888,986
Total liabilities	2,584,164	1,891,683	4,475,847
DEFERRED INFLOWS OF RESOURCES			
	275,992	67,539	343,531
NET POSITION			
Net investments in capital assets	7,630,101	17,366,032	24,996,133
Restricted for debt service	236,795	10,758	247,553
Restricted for capital projects	290,066	-	290,066
Restricted for specific projects and programs	535,335	-	535,335
Unrestricted	5,395,332	266,085	5,661,417
Total net position	\$ 14,087,629	\$ 17,642,875	\$ 31,730,504

CITY OF ORANGE COVE

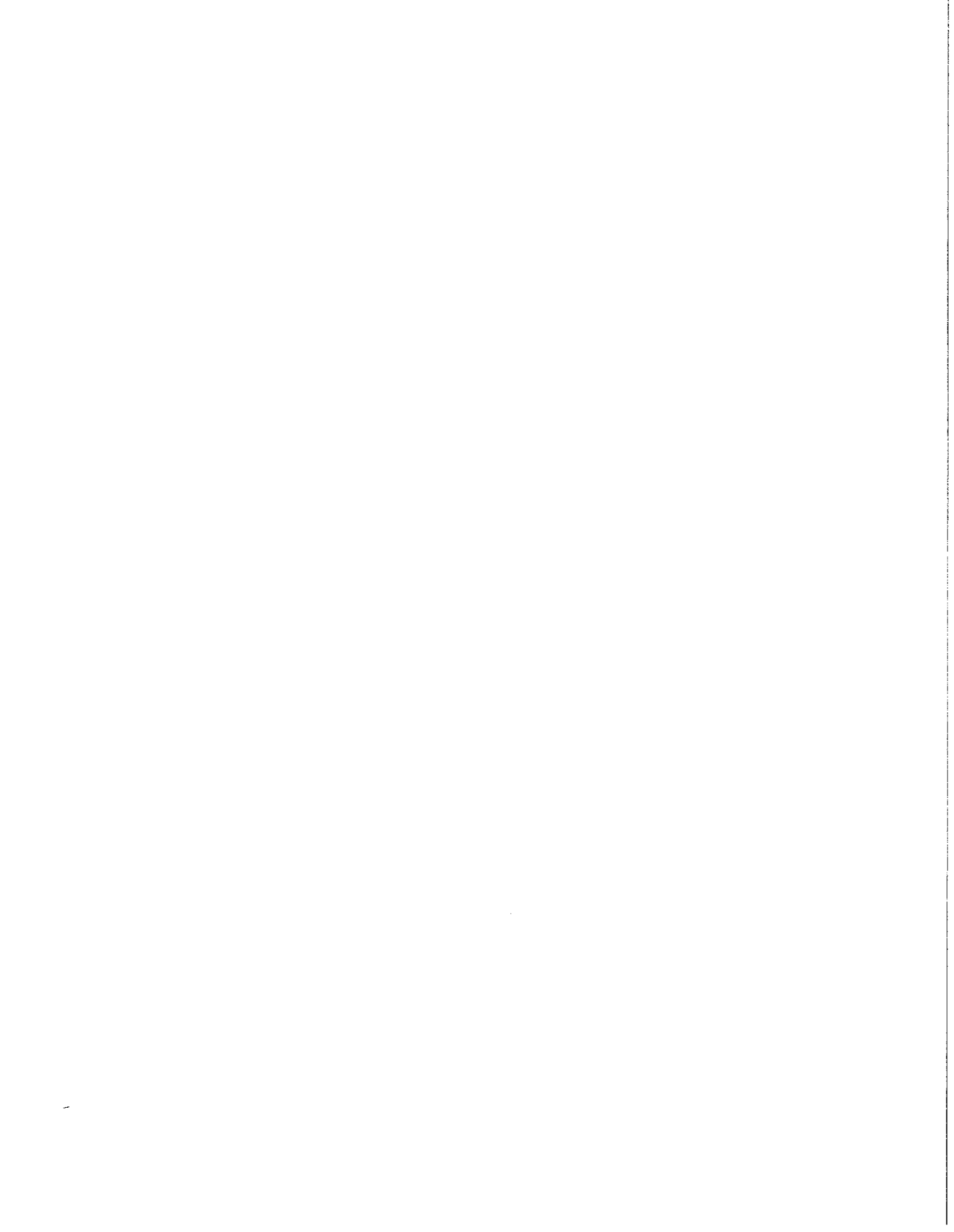
STATEMENT OF ACTIVITIES

JUNE 30, 2017

Functions/Programs	Program Revenue			Net Revenue/(Expense) and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 583,850	\$ 45,317	\$ 812	\$ -	\$ (537,721)	\$ -	\$ (537,721)
Public safety	1,832,979	117,312	473,089	-	(1,242,578)	-	(1,242,578)
Public works	188,810	-	-	-	(188,810)	-	(188,810)
Planning and development	434,162	62,371	612,792	-	241,001	-	241,001
Streets	1,241,443	-	759,336	565,050	82,943	-	82,943
Parks and recreation	534,720	-	60,689	-	(474,031)	-	(474,031)
Day care	1,094,196	20,421	1,087,337	-	13,562	-	13,562
Debt service:							
Interest and other charges	63,575	-	-	-	(63,575)	-	(63,575)
Total government activities	6,075,913	245,421	2,994,055	565,050	(2,271,387)	-	(2,271,387)
Business-type activities:							
Water	1,693,934	1,210,951	524,052	172,518	-	213,587	213,587
Sewer	1,372,953	713,660	-	-	-	(659,293)	(659,293)
Disposal	528,239	629,632	5,000	-	-	106,393	106,393
Total business-type activities	3,595,126	2,554,243	529,052	172,518	-	(339,313)	(339,313)
Total primary government	\$ 9,671,039	\$ 2,799,664	\$ 3,523,107	\$ 737,568	(2,271,387)	(339,313)	(2,610,700)
General Revenue							
Property taxes and special assessments					595,067	-	595,067
Sales taxes					170,136	-	170,136
Franchise taxes					48,005	-	48,005
Business licenses					24,500	-	24,500
Utility users tax					472,740	-	472,740
Motor vehicle in-lieu					382,645	-	382,645
Interest and rent					58,210	5,949	64,159
Other					53,764	-	53,764
Transfers					58,685	(58,685)	-
Total general revenue and transfers					1,863,752	(52,736)	1,811,016
Change in Net Position					(407,635)	(392,049)	(799,684)
Net Position							
Beginning of year					14,495,263	18,034,924	32,530,187
End of year					\$ 14,087,629	\$ 17,642,875	\$ 31,730,504

See accompanying notes to the financial statements.

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS



CITY OF ORANGE COVE

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017

	General	Local Transportation	Low-Moderate Housing Asset	Housing Grant	Day Care	Streets	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and investments	\$ 1,120,947	\$ 214,647	\$ 71,009	\$ -	\$ 71,230	\$ -	\$ 739,680	\$ 2,217,513
Accounts receivable	57,773	-	-	156,785	-	-	-	214,558
Interest receivable	715	296	152,998	68,800	-	-	607	223,416
Due from other governments	-	72,729	-	65,000	119,522	69,822	17,836	344,909
Due from other funds	585,563	-	-	-	-	-	99,772	685,335
Notes receivable	-	-	275,000	2,258,813	-	-	31,663	2,565,476
Land held for resale	376,000	-	-	-	-	-	579,486	955,486
Total assets	\$ 2,140,998	\$ 287,672	\$ 499,007	\$ 2,549,398	\$ 190,752	\$ 69,822	\$ 1,469,044	\$ 7,206,693
LIABILITIES								
Accounts payable and accrued expenses	\$ 241,049	\$ 1,476	\$ -	\$ 63,047	\$ 139,075	\$ 25,058	\$ 111,794	\$ 581,499
Due to other funds	-	-	-	100,107	-	44,764	99,772	244,643
Unearned revenues	-	-	-	-	51,677	-	-	51,677
Total liabilities	241,049	1,476	-	163,154	190,752	69,822	211,566	877,819
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenues	-	-	427,987	2,327,593	-	69,822	-	2,825,402
Total deferred inflows of resources	-	-	427,987	2,327,593	-	69,822	-	2,825,402
FUND BALANCE								
Nonspendable:								
Notes receivables	-	-	-	-	-	-	31,663	31,663
Land held for resale	376,000	-	-	-	-	-	579,486	955,486
Restricted:								
Low-income housing activities	-	-	71,020	58,651	-	-	-	129,671
Circulation improvements	-	286,196	-	-	-	-	119,468	405,664
Capital improvement projects	-	-	-	-	-	-	290,066	290,066
Debt service	-	-	-	-	-	-	236,795	236,795
Unassigned	1,523,949	-	-	-	-	(69,822)	-	1,454,127
Total fund balance	1,899,949	286,196	71,020	58,651	-	(69,822)	1,257,478	3,503,472
Total liabilities, deferred inflows of resources, and fund balance	\$ 2,140,998	\$ 287,672	\$ 499,007	\$ 2,549,398	\$ 190,752	\$ 69,822	\$ 1,469,044	\$ 7,206,693

See accompanying notes to the financial statements.

CITY OF ORANGE COVE

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2017

Total governmental fund balance	\$ 3,503,472
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are current not financial resources and, therefore, are not reported in the funds	8,827,257
Net pension asset used in governmental activities are current not financial resources and, therefore, are not reported in the funds	727,001
Accrued interest on long-term liabilities is not due and payable in the current period and, therefore, is not reported in the funds	(19,648)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds	(113,845)
Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities	431,477
Net pension liability applicable to governmental activities are not due and payable in the current period and accordingly is not reported in the the funds	(620,339)
Deferred inflows of resources related to net pension liability, represent an acquisition of net position or fund balance that applies to future period(s) and so will not be recognized as inflow of resources (revenue) until that time	(275,992)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds	2,825,402
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	<u>(1,197,156)</u>
Net position of governmental activities	<u>\$ 14,087,629</u>

CITY OF ORANGE COVE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
 JUNE 30, 2017

	General	Local Transportation	Low-Moderate		Housing Grant	Daycare	Streets	Other		Total
			Housing Asset	Housing Grant				Governmental Funds	Governmental Funds	
Revenues										
Taxes	\$ 1,518,071	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 402,766	\$ -	\$ 1,920,837
Intergovernmental	225,402	308,756	-	324,600	1,073,775	495,229	-	505,074	-	2,932,836
Charges for service	124,383	-	-	-	20,421	-	-	-	-	144,804
Licenses, permits and impact fees	129,576	-	-	-	-	-	-	-	-	129,576
Interest and rent	47,248	964	58	2,157	-	-	-	2,205	-	52,632
Other	44,171	-	-	5,520	-	-	-	7,685	-	57,376
Total revenues	2,088,851	309,720	58	332,277	1,094,196	495,229	-	917,730	-	5,238,061
Expenditures										
Current:										
General government	495,710	-	-	-	-	-	-	-	-	495,710
Public safety	1,603,702	-	-	-	-	-	-	260,862	-	1,864,564
Public works	224,975	-	-	-	-	-	-	-	-	224,975
Streets	-	51,715	-	-	-	586,339	-	448,709	-	1,086,763
Planning and development	227,549	-	-	296,191	-	-	-	-	-	523,740
Parks and recreation	242,858	-	-	-	-	-	-	195,081	-	437,939
Day care	-	-	-	-	1,094,196	-	-	-	-	1,094,196
Capital outlay	37,126	-	-	-	-	-	-	-	-	37,126
Debt service:										
Principal	-	-	-	-	-	-	-	66,178	-	66,178
Interest and other charges	-	-	-	-	-	-	-	64,610	-	64,610
Total expenditures	2,831,920	51,715	-	296,191	1,094,196	586,339	-	1,035,440	-	5,895,801
Revenue over/(under) expenditures	(743,069)	258,005	58	36,086	-	(91,110)	-	(117,710)	-	(657,740)
Other Financing Sources/(Uses)										
Transfers in/(out) - net	(42,966)	28,191	-	(7,850)	-	21,288	-	60,019	-	58,682
Total other financing sources/(uses)	(42,966)	28,191	-	(7,850)	-	21,288	-	60,019	-	58,682
Change in Fund Balance	(786,035)	286,196	58	28,236	-	(69,822)	-	(57,691)	-	(599,058)
Fund Balance										
Beginning of year	2,685,983	-	70,962	30,415	-	-	-	1,315,169	-	4,102,529
End of year	\$ 1,899,949	\$ 286,196	\$ 71,020	\$ 58,651	\$ -	\$ (69,822)	\$ -	\$ 1,257,478	\$ -	\$ 3,503,472

See accompanying notes to the financial statements.

CITY OF ORANGE COVE

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES JUNE 30, 2017

Change in fund balance - total governmental funds \$ (599,058)

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

Depreciation expense on capital assets is reported in the Statement of Activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the funds (371,412)

Governmental Funds report capital outlay as expenditures. However, in Statement of Activities the cost of those assets are capitalized as an asset and depreciated over the period of service 37,126

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds 371,534

Pension expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the funds 88,223

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 (1,261)

Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position 66,178

In the statement of activities, interest is accrued on long-term debt, whereas in governmental funds interest expenditure is reported when due 1,035

Change in net position of governmental activities \$ (407,635)

CITY OF ORANGE COVE

STATEMENT OF NET POSITION – PROPRIETARY FUNDS JUNE 30, 2017

	Business-Type Activities - Enterprise Funds			Total Business-Type Funds
	Water	Sewer	Disposal	
ASSETS				
Current assets				
Cash and investments	\$ -	\$ 730,750	\$ 70,423	\$ 801,173
Accounts receivable	148,664	84,519	73,331	306,514
Due from other governments	153,221	-	-	153,221
Interest receivable	38	1,811	-	1,849
Total current assets	<u>301,923</u>	<u>817,080</u>	<u>143,754</u>	<u>1,262,757</u>
Non-current assets				
Property, plant and equipment (net of allowances for depreciation)	<u>8,987,096</u>	<u>9,717,145</u>	<u>-</u>	<u>18,704,241</u>
Total noncurrent assets	<u>8,987,096</u>	<u>9,717,145</u>	<u>-</u>	<u>18,704,241</u>
Total assets	<u>9,289,019</u>	<u>10,534,225</u>	<u>143,754</u>	<u>19,966,998</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>43,005</u>	<u>32,786</u>	<u>-</u>	<u>75,791</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	165,024	21,461	-	186,485
Accrued interest	14,065	-	-	14,065
Deposits	38,946	-	-	38,946
Compensated absences	25,411	19,920	-	45,331
Due to other funds	440,692	-	-	440,692
Current portion of long-term debt	64,997	-	-	64,997
Total current liabilities	<u>749,135</u>	<u>41,381</u>	<u>-</u>	<u>790,516</u>
Non-current liabilities				
Long-term debt	1,273,212	-	-	1,273,212
Net pension liability	152,435	116,212	-	268,647
Total non-current liabilities	<u>1,425,647</u>	<u>116,212</u>	<u>-</u>	<u>1,541,859</u>
Total liabilities	<u>2,174,782</u>	<u>157,593</u>	<u>-</u>	<u>2,332,375</u>
DEFERRED INFLOWS OF RESOURCES	<u>38,323</u>	<u>29,216</u>	<u>-</u>	<u>67,539</u>
NET POSITION				
Net investment in capital assets	7,648,887	9,717,145	-	17,366,032
Restricted for debt service	10,758	-	-	10,758
Unrestricted	<u>(540,726)</u>	<u>663,057</u>	<u>143,754</u>	<u>266,085</u>
Total net position	<u>\$ 7,118,919</u>	<u>\$ 10,380,202</u>	<u>\$ 143,754</u>	<u>\$ 17,642,875</u>

See accompanying notes to the financial statements.

CITY OF ORANGE COVE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION --
 PROPRIETARY FUNDS
 JUNE 30, 2017

	Business-Type Activities - Enterprise Funds			Total Business-Type Funds
	Water	Sewer	Disposal	
Operating Revenue				
Charges for service	\$ 1,208,575	\$ 713,660	\$ 629,632	\$ 2,551,867
Connection fees	2,376	-	-	2,376
Total operating revenue	<u>1,210,951</u>	<u>713,660</u>	<u>629,632</u>	<u>2,554,243</u>
Operating Expense				
Contractual services and utilities	396,421	347,316	528,239	1,271,976
Personnel	620,210	486,287	-	1,106,497
Supplies and materials	423,630	80,924	-	504,554
Depreciation expense	197,742	458,426	-	656,168
Total operating expense	<u>1,638,003</u>	<u>1,372,953</u>	<u>528,239</u>	<u>3,539,195</u>
Operating income/(loss)	<u>(427,052)</u>	<u>(659,293)</u>	<u>101,393</u>	<u>(984,952)</u>
Nonoperating Revenue/(Expense)				
Intergovernmental	696,570	-	5,000	701,570
Interest income	129	5,820	-	5,949
Interest expense	(55,931)	-	-	(55,931)
Total nonoperating revenue/(expense)	<u>640,768</u>	<u>5,820</u>	<u>5,000</u>	<u>651,588</u>
Net income/(loss) before transfers	213,716	(653,473)	106,393	(333,364)
Operating Transfers In/(Out)	<u>67,525</u>	<u>(67,525)</u>	<u>(58,685)</u>	<u>(58,685)</u>
Changes in Net Position	281,241	(720,998)	47,708	(392,049)
Net Position				
Beginning of year	<u>6,837,678</u>	<u>11,101,200</u>	<u>96,046</u>	<u>18,034,924</u>
End of the year	<u>\$ 7,118,919</u>	<u>\$ 10,380,202</u>	<u>\$ 143,754</u>	<u>\$ 17,642,875</u>

CITY OF ORANGE COVE

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS JUNE 30, 2017

	Business-Type Activities - Enterprise Funds			Total Business-Type Funds
	Water	Sewer	Disposal	
Operating Activities				
Receipts from customers and users	\$ 1,208,279	\$ 709,676	\$ 623,139	\$ 2,541,094
Payments for contractual services and utilities	(1,080,569)	(367,839)	(569,595)	(2,018,003)
Payments for employees	(578,025)	(459,143)	-	(1,037,168)
Payments to suppliers	(423,635)	(80,920)	-	(504,555)
Net cash provided by (used in) operating activities	(873,950)	(198,226)	53,544	(1,018,632)
Non-capital Financial Activities				
Payments from developers	-	-	-	-
Payments received from (paid to) other funds	(59,024)	-	-	(59,024)
Transfer (to)/from other funds	67,525	(67,525)	(58,685)	(58,685)
Net cash provided by (used in) non-capital financial activities	8,501	(67,525)	(58,685)	(117,709)
Capital and Related Financing Activities				
Purchase of property, plant and equipment	(899,199)	(21,103)	-	(920,302)
Capital grants and contributions received	1,776,340	-	5,000	1,781,340
Principal paid on long-term debt	(62,855)	(33,784)	-	(96,639)
Interest paid on long-term debt	(55,931)	-	-	(55,931)
Net cash provided by (used in) capital and related financing activities	758,355	(54,887)	5,000	708,468
Investing Activities				
Interest received	114	5,072	-	5,186
Net cash provided by (used in) investing activities	114	5,072	-	5,186
Net Increase (Decrease) in Cash	(106,980)	(315,566)	(141)	(422,687)
Cash				
Beginning of year	106,980	1,046,316	70,564	1,223,860
End of year	\$ -	\$ 730,750	\$ 70,423	\$ 801,173
Cash Flows from Operating Activities				
Operating income (loss)	\$ (427,052)	\$ (659,293)	\$ 101,393	\$ (984,952)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	197,742	458,426	-	656,168
(Increase) Decrease in accounts receivable	(3,745)	(3,980)	(6,494)	(14,219)
(Increase) Decrease in deposits	1,068	-	-	1,068
(Increase) Decrease in deferred outflows of resources	(28,002)	(21,348)	-	(49,350)
Increase (Decrease) in compensated absences	1,556	4,475	-	6,031
Increase (Decrease) in deferred inflows of resources	(11,842)	(11,674)	-	(23,516)
Increase (Decrease) in net pension liability	80,473	55,691	-	136,164
Increase (Decrease) in accounts payable and accrued liabilities	(684,148)	(20,523)	(41,355)	(746,026)
Net Cash Provided (Used) by Operating Activities	\$ (873,950)	\$ (198,226)	\$ 53,544	\$ (1,018,632)

See accompanying notes to the financial statements.

CITY OF ORANGE COVE

STATEMENT OF FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND -- SUCCESSOR AGENCY JUNE 30, 2017

Assets

Cash and investments	
Held in City Treasury	\$ 272,083
Held with trustees	389,551
Interest receivable	297
Note receivable	<u>200,000</u>
Total assets	<u>861,931</u>

Liabilities

Interest payable	68,607
Long-term debt:	
Due in more than one year	<u>4,449,966</u>
Total liabilities	<u>4,518,573</u>

Net Position

Held in trust for other governments	<u>\$ (3,656,642)</u>
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CITY OF ORANGE COVE

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2017

Additions

Property taxes	\$ 463,359
Investment earnings and other	<u>1,175</u>
Total additions	<u>464,534</u>

Deductions

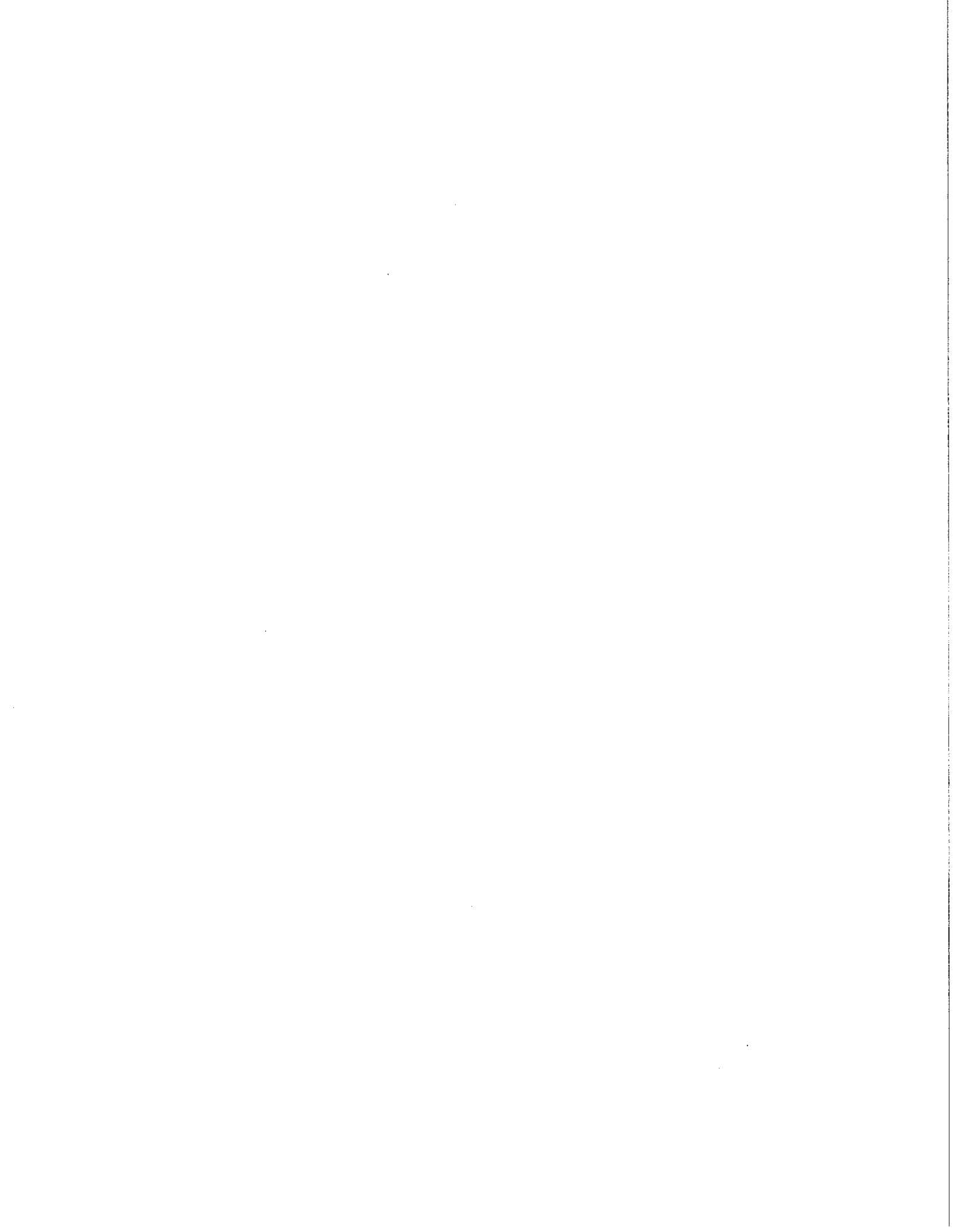
Administrative costs	45,234
Interest and fiscal agency expenses of former redevelopment agency	<u>164,644</u>
Total deductions	<u>209,878</u>

Change In Net Position

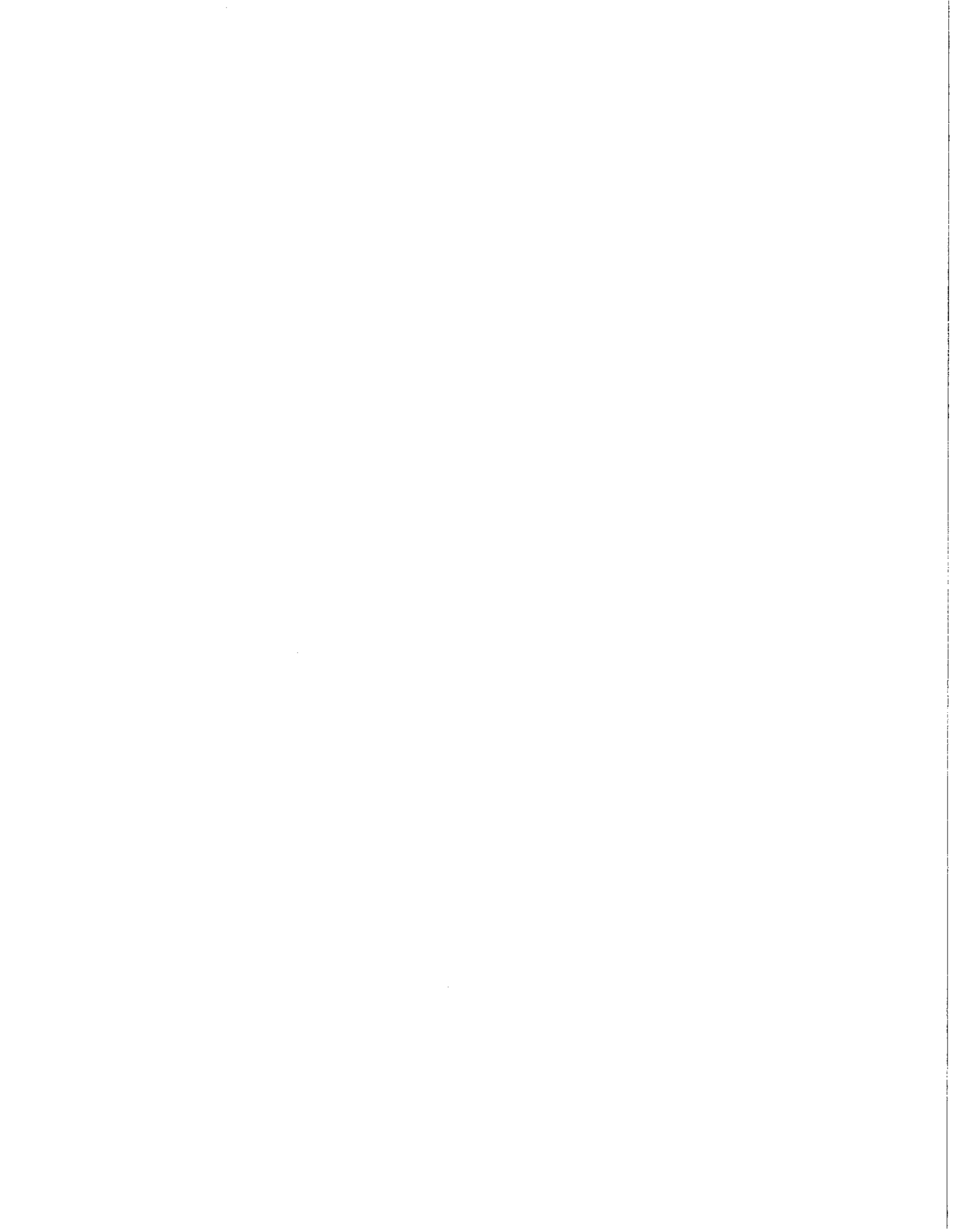
254,656

Net Position

Beginning of year	<u>(3,911,298)</u>
End of year	<u>\$ (3,656,642)</u>



NOTES TO THE FINANCIAL STATEMENTS



CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies

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

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

Reporting Entity

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

Basis of Presentation – Fund Accounting

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

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

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation – Fund Accounting (Continued)

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

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

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

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

The City reports the following major governmental funds:

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

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

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation – Fund Accounting (Continued)

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

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

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

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

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

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

The City reports the following three major enterprise funds:

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

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

The City reports the following fiduciary fund:

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

CITY OF ORANGE COVE

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting

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

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

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

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

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Equity

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

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

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

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

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

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

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

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

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

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

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

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

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

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

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

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

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

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

Sick leave is accumulated at 12 days per year for full-time regular employees. Vacation is accumulated at 12 days per year for full-time regular employees with less than five years of service to a maximum of 25 days per year for full-time regular employees with over 20 years of service with no limit on accrual of unused hours. Upon employment termination, unused sick leave is paid out at 5% to 25% depending on years of service, with a maximum payout of \$2,500. These amounts are included as liabilities in the government-wide and enterprise fund financial statements.

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

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

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

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

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

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

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

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

Investments are reported at fair value.

Encumbrances – The City does not use encumbrance accounting.

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

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

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

Use of Estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

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

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

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

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

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

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the Finance Director through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the general fund.
- Unassigned: This classification is the residual classification for the general fund and represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. In other governmental funds it includes any negative residual amounts that may exist as a result of expenditures incurred for specific purposes in excess of amounts restricted, committed or assigned to those purposes.

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

Note 2 – Stewardship, Compliance and Accountability

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

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

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

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 3 – Cash and Investments

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

Cash and investments as of June 30, 2017 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$ 3,018,686
Fiduciary Funds:	
Cash and Investments	272,083
Cash and Investments with fiscal agent	<u>389,551</u>
Total Cash and Investments	<u>\$ 3,680,320</u>

Cash and investments as of June 30, 2017 consist of the following:

Cash on hand	\$ 1,800
Deposit with Financial Institutions	
Local Agency Investment Fund	3,278,211
Held by Fiscal Agent:	
U.S. Treasury Obligations	<u>400,309</u>
Total Cash and Investments	<u>\$ 3,680,320</u>

Fair Value Measurements

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

- Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2: Inputs to valuation methodology include inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 3 – Cash and Investments (Continued)

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

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>June 30, 2017 Balance</u>
Investments by fair value level:				
Debt Securities:				
U.S. Treasury Obligations	\$ -	\$ 400,309	\$ -	\$ 400,309
Total Debt Securities	<u>-</u>	<u>400,309</u>	<u>-</u>	<u>400,309</u>
Equity Securities:				
LAIF	<u>-</u>	<u>3,278,211</u>	<u>-</u>	<u>3,278,211</u>
Total Equity Securities	<u>-</u>	<u>3,278,211</u>	<u>-</u>	<u>3,278,211</u>
Investments carried at amortized cost:				
Bank Deposits and Cash on Hand				<u>1,800</u>
Total Investments amortized at cost				<u>1,800</u>
Total Investments				<u>\$ 3,680,320</u>

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

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 3 – Cash and Investments (Continued)

Investments Authorized by the California Government Code and the City's Investments Policy

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

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

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 3 – Cash and Investments (Continued)

Investments Authorized by Debt Agreements

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

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City manages its exposure to interest rate risk is by investing funds in liquid, short-term investments which can be converted to cash when necessary to meet disbursement requirements. As of June 30, 2017 the City had the following investments by maturity:

Investment Type	Amount	Maturity Date
Local Agency Investment Fund	\$ 1,647,816	N/A
Held by Bond Trustee:		
U.S. Treasury Obligations	389,551	N/A
Total	<u>\$ 2,037,367</u>	

CITY OF ORANGE COVE

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 3 – Cash and Investments (Continued)

Disclosure Relating to Credit Risk

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

Investment Type	Amount	Minimum Legal Rating	Rating as of Year Ended	
				Not Rated
Local Agency Investment Fund Held by Bond Trustee:	\$ 1,647,816	N/A	\$	1,647,816
U.S. Treasury Obligations	<u>389,551</u>	N/A		<u>389,551</u>
Total	<u>\$ 2,037,367</u>		\$	<u>2,037,367</u>

Concentration of Credit Risk

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

Custodial Credit Risk-Deposits

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The California Government Code and the City’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by the state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2017, the City’s bank balance of \$1,100,021 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the name of the City.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 3 – Cash and Investments (Continued)

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

Investment in State Investment Pool

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

Note 4 – Interfund Activities

Due From/To Other Funds

Interfund receivables and payables consist of short-term loans resulting from regular transactions. These loans are expected to be repaid as soon as the borrowing fund has cash, and carry an interest rate equal to the rate earned on pooled cash. Individual fund interfund receivables and payables balances as of June 30, 2017 are as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 585,563	\$ -
Water Fund	-	440,692
Streets Project Fund	-	44,764
Measure C Fund	99,772	-
Housing Grant Fund	-	100,107
Gas Tax Fund	-	99,772
	<u>\$ 685,335</u>	<u>\$ 685,335</u>

OPERATING TRANSFERS

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

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 4 – Interfund Activities (Continued)

Transfers in and out for the year ended June 30, 2017 consisted of the following:

	General Fund	Water	Local Transportation	Soccer Grant	Streets	Total Transfers Out
General	\$ -	\$ -	\$ -	\$ 146,000	\$ -	\$ 146,000
Housing Grant	7,850	-	-	-	-	7,850
Disposal	58,685	-	-	-	-	58,685
Sewer	-	67,525	-	-	-	67,525
Development Impact Fees	36,499	-	-	-	-	36,499
Measure C	-	-	-	-	49,480	49,480
Streets	-	-	28,191	-	-	28,191
Local Transportation	-	-	-	-	21,288	21,288
Total Transfers In	<u>\$ 103,034</u>	<u>\$ 67,525</u>	<u>\$ 28,191</u>	<u>\$ 146,000</u>	<u>\$ 70,768</u>	<u>\$ 415,518</u>

- The transfers out from the Measure C and Local Transportation to Streets in the amount of \$49,480 and \$21,288, respectively, were to cover street improvement costs.
- Transfer out from the Disposal Fund to the General Fund in the amount of \$8,685 was to transfer franchise taxes.
- Transfer out from Housing Grants to the General Fund in the amount of \$7,850 was to cover administrative cost.
- Transfer out of the Water Fund of \$67,525 to the Sewer Fund was to cover water project costs.
- Transfer out of the General Fund to Soccer Grant Fund of \$146,000 was to cover soccer field costs.

Note 5 – Notes Receivable

Notes receivable at June 30, 2017 are as follows:

Community Development Note – Note receivable due from Joe Trevino and is secured by real estate purchased from the City. The note amount at June 30, 2017 was \$9,051.

Housing Grant Notes – Through the grant, the City has loaned \$1,290,000 to forty-three families at 1% interest. The loan proceeds were used by these low and moderate income families to purchase homes. The loans are payable in thirty years or when property ownership is transferred. The proceeds for the loans are provided through a State Housing Grant. As of June 30, 2017, the notes receivable balance was \$1,289,000. Deferred interest receivable on these notes was \$68,800 as of June 30, 2017.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 5 – Notes Receivable (Continued)

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

As of June 30, 2017, the City loaned thirty-eight loans totaling \$728,856 at 0% interest. The loan proceeds were used by these low and moderate income families to purchase homes. The loans are payable in thirty years or when property ownership is transferred. The proceeds for the loans are provided through a State Housing Grant.

Low and Moderate Housing Notes – Note receivable is due from Citrus Gardens '98 LP, to assist in the construction of low income apartment complex. The note incurs interest at three percent and requires annual payments of 50% of residual receipts" (revenues less debt service, property tax and maintenance and operating expenses). To date, there have been no payments on the note. The note is due in full in November 2029 with interest. The balance due on the note at June 30, 2017 was \$275,000. Deferred interest receivable on the note at June 30, 2017 was \$152,998.

Note 6 – Capital Assets

Capital assets activity of the governmental activities for the year ended June 30, 2017 was as follows:

Governmental Activities	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	\$ 1,302,411	\$ -	\$ -	\$ 1,302,411
Construction in progress	<u>1,999,825</u>	<u>-</u>	<u>(1,999,825)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>3,302,236</u>	<u>-</u>	<u>(1,999,825)</u>	<u>1,302,411</u>
Capital assets, being depreciated:				
Buildings and improvements	8,207,451	1,999,825	-	10,207,276
Machinery and equipment	<u>1,575,161</u>	<u>37,126</u>	<u>-</u>	<u>1,612,287</u>
Total capital assets, being depreciated	<u>9,782,612</u>	<u>2,036,951</u>	<u>-</u>	<u>11,819,563</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,696,941)	(308,455)	-	(3,005,396)
Machinery and equipment	<u>(1,226,364)</u>	<u>(62,957)</u>	<u>-</u>	<u>(1,289,321)</u>
Total accumulated depreciation	<u>(3,923,305)</u>	<u>(371,412)</u>	<u>-</u>	<u>(4,294,717)</u>
Total capital assets, being depreciated, net	<u>5,859,307</u>	<u>1,665,539</u>	<u>-</u>	<u>7,524,846</u>
Governmental activities capital assets, net	<u>\$ 9,161,543</u>	<u>\$ 1,665,539</u>	<u>\$ (1,999,825)</u>	<u>\$ 8,827,257</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 6 – Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Governmental Activities Functions:

General Government	\$ 94,109
Public Safety	43,079
Public Works	5,904
Parks and Recreation	96,933
Streets	<u>131,387</u>
	<u>\$ 371,412</u>

Capital assets activity of the business-type activities for the year ended June 30, 2017 was as follows:

<u>Business-Type Activities</u>	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	\$ 769,772	\$ -	\$ -	\$ 769,772
Construction in progress	<u>2,852,105</u>	<u>881,632</u>	<u>(166,968)</u>	<u>3,566,769</u>
Total capital assets, not being depreciated	<u>3,621,877</u>	<u>881,632</u>	<u>(166,968)</u>	<u>4,336,541</u>
Capital assets, being depreciated:				
Buildings and improvements	23,679,901	166,968	-	23,846,869
Machinery and equipment	<u>493,766</u>	<u>38,670</u>	<u>-</u>	<u>532,436</u>
Total capital assets, being depreciated	<u>24,173,667</u>	<u>205,638</u>	<u>-</u>	<u>24,379,305</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,759,041)	(635,186)	-	(8,394,227)
Machinery and equipment	<u>(1,596,396)</u>	<u>(20,982)</u>	<u>-</u>	<u>(1,617,378)</u>
Total accumulated depreciation	<u>(9,355,437)</u>	<u>(656,168)</u>	<u>-</u>	<u>(10,011,605)</u>
Total capital assets being depreciated, net	<u>14,818,230</u>	<u>(450,530)</u>	<u>-</u>	<u>14,367,700</u>
Business-type activities capital assets, net	<u>\$ 18,440,107</u>	<u>\$ 431,102</u>	<u>\$ (166,968)</u>	<u>\$ 18,704,241</u>

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

Business-Type Functions:

Water	\$ 197,742
Sewer	<u>458,426</u>
	<u>\$ 656,168</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 7 – Long-term Debt

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

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

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017	Current Portion
Governmental Activities:					
Special Assessment Bonds	\$ 1,245,000	\$ -	\$ (64,000)	\$ 1,181,000	\$ 67,000
PG&E Streetlights Loan	18,334	-	(2,178)	16,156	2,178
Total Governmental Activities Debt	<u>\$ 1,263,334</u>	<u>\$ -</u>	<u>\$ (66,178)</u>	<u>\$ 1,197,156</u>	<u>\$ 69,178</u>
Business-Type Activities:					
Bonds Payable:					
1995 Water System Improvement Project	\$ 596,364	\$ -	\$ (20,500)	\$ 575,864	\$ 21,500
2005 COP Water Loan	372,600	-	(6,500)	366,100	6,800
Notes Payable:					
PG&E Sewer Loan	33,784	-	(33,784)	-	-
California Department of Water Resource	432,101	-	(35,856)	396,245	36,697
Total Business-Type Activities Debt	<u>1,434,849</u>	<u>-</u>	<u>(96,640)</u>	<u>1,338,209</u>	<u>64,997</u>
Compensated Absences:					
Governmental Activities	<u>\$ 112,584</u>	<u>\$ 1,261</u>	<u>\$ -</u>	<u>\$ 113,845</u>	
Business-Type Activities	<u>\$ 39,300</u>	<u>\$ 6,031</u>	<u>\$ -</u>	<u>\$ 45,331</u>	

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 7 – Long-term Debt (Continued)

Long-term debt at June 30, 2017 was comprised of the following individual issues:

GOVERNMENTAL ACTIVITIES

Special Assessment Bond Payable – In March 1990, the City issued \$2,450,684 in special assessment bonds with interest rates at 5% payable semi-annually. The proceeds were used to finance a sewer plant expansion project. These bonds are payable from assessments on the property owners within the City. The principal payments range from \$21,000 to \$120,000 and are due annually through 2029. At June 30, 2017, bonds payable outstanding amounts to \$1,181,000.

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

Years ending in June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 67,000	\$ 57,175	\$ 124,175
2019	70,000	53,750	123,750
2020	74,000	50,150	124,150
2021	78,000	46,350	124,350
2022	81,000	42,375	123,375
2023-2027	466,000	145,700	611,700
2028-2030	345,000	26,175	371,175
	<u>\$ 1,181,000</u>	<u>\$ 421,675</u>	<u>\$ 1,602,675</u>

PG&E Street Lights Loan – In 2015, the City financed \$21,238 from Pacific Gas & Electric for the LED Street Lights project. The principal payments of \$182 are due monthly through November 2024. At June 30, 2017, the note payable outstanding amounts to \$16,156.

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

Years ending in June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,178	\$ -	\$ 2,178
2019	2,178	-	2,178
2020	2,178	-	2,178
2021	2,178	-	2,178
2022	2,178	-	2,178
2023-2025	5,266	-	5,266
	<u>\$ 16,156</u>	<u>\$ -</u>	<u>\$ 16,156</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 7 – Long-term Debt (Continued)

Business-Type Activities

1995 Orange Cove Public Financing Authority Revenues Bond Payable – In 1995, the City issued \$907,650 in revenue bonds with interest rates at 4.5% payable semi-annually thru 2035. The proceeds were used to finance a Water System Improvement Project. The City signed a lease agreement with the Authority with loan payments plus interest due semiannually. The principal payments range from \$8,650 to \$47,000 and are due annually through 2035. At June 30, 2017, the bonds payable outstanding amounts to \$575,864

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

Years ending in June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 21,500	\$ 27,461	\$ 48,961
2019	22,500	26,471	48,971
2020	23,500	25,436	48,936
2021	24,500	24,356	48,856
2022	25,500	23,231	48,731
2023-2027	146,000	97,470	243,470
2028-2032	181,000	60,818	241,818
2033-2036	131,364	16,301	147,665
	<u>\$ 575,864</u>	<u>\$ 301,544</u>	<u>\$ 877,408</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 7 – Long-term Debt (Continued)

2005 Certificate of Participation Water Loan – In July 2005, the City borrowed \$425,000 from the U.S. Government to facilitate water plant improvements. The interest rates is at 4.125% payable semi-annually. The principal payments in amounts from \$4,300 to \$21,000 are due annually through 2045. At June 30, 2017, the bonds payable outstanding amounts to \$366,100.

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

Years ending in June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 6,800	\$ 14,961	\$ 21,761
2019	7,100	14,675	21,775
2020	7,300	14,378	21,678
2021	7,600	14,070	21,670
2022	8,000	13,749	21,749
2023-2027	45,000	63,426	108,426
2028-2032	55,100	53,140	108,240
2033-2037	67,400	40,549	107,949
2038-2042	82,600	25,134	107,734
2043-2046	79,200	6,699	85,899
	<u>\$ 366,100</u>	<u>\$ 260,781</u>	<u>\$ 626,881</u>

Department of Water Resource Note Payable – In 1996, the City borrowed \$943,280 from the California Department of Water Resource to finance water system improvements. The interest rates is at 2.955% payable semi-annually. The principal payments in amounts from \$9,900 to \$23,800 are due annually through 2026. At June 30, 2017, the note payable outstanding amounts to \$396,245.

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

Years ending in June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 36,697	\$ 11,438	\$ 48,135
2019	37,789	10,345	48,134
2020	38,914	9,220	48,134
2021	40,072	8,062	48,134
2022	41,265	6,869	48,134
2023-2027	201,508	15,172	216,680
	<u>\$ 396,245</u>	<u>\$ 61,106</u>	<u>\$ 457,351</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 7 – Long-term Debt (Continued)

PG&E Sewer Note Payable – In 2014, the City financed \$250,000 from Pacific Gas & Electric for the wastewater retrofit project. The principal payments of \$6,757 are due monthly through November 2017. At June 30, 2017, the note payable was paid off.

Note 8 – Deferred Outflows/Inflows of Resources

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

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

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports the following deferred outflow of resources related to net pension liability in the Statement of Net Position:

Fiscal year 2016-17 pension contributions subsequent to measurement date	\$ 186,076
Adjustment due to differences in proportions	45,384
Difference between expected and actual experience	1,870
Net differences between projected and actual earnings on pension plan investments	266,443
Difference between projected and actual contributions	<u>7,495</u>
Total deferred outflows of resources	<u>\$ 507,268</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

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

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

Difference between expected and actual experience	\$ 6,861
Difference between projected and actual contributions	101,692
Changes in assumptions	52,870
Adjustment due to differences in proportions	<u>182,108</u>
Total deferred inflows of resources	<u>\$ 343,531</u>

The City also has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting as deferred inflows of resources. Accordingly, that item, unavailable revenues, is reported only in the governmental funds balance sheet. The City reports in the governmental funds \$2,825,402 as unavailable revenues in the governmental funds:

	Housing Fund	Low- Moderate Housing Asset	Streets	Total
Unavailable revenues:				
Grants	\$ -	\$ -	\$ 69,822	\$ 69,822
Program income	2,258,814	-	-	2,258,814
Interest income	68,779	152,987	-	221,766
Loan repayments	-	275,000	-	275,000
	<u>\$ 2,327,593</u>	<u>\$ 427,987</u>	<u>\$ 69,822</u>	<u>\$ 2,825,402</u>

Note 9 – Deficit Fund Balances

The following is a summary of deficit fund balances and net position as of June 30, 2017:

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

The deficit fund balance in the Gas Tax is due to operating expenditures exceeding operating revenues in the current year.

The deficit fund balance in the Streets Fund is due to operating expenditures exceeding operating revenues in the current year.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 10 – Defined Benefit Pension Plan

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

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

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u>Miscellaneous Classic</u>	<u>Safety Classic</u>
	Prior to <u>January 1, 2013</u>	Prior to <u>January 1, 2013</u>
Hire Date		
Benefit Formula	2% @ 60; maximum 2%	2.0% at 50; maximum 2%
	COLA	COLA
Benefit Vesting Schedule	5 years	5 years
Benefit Payments	monthly for life	monthly for life
Retirement Age	60	50
Monthly Benefits, as a % of Eligible Compensation	2%	2%
Required Employee Contribution Rates	7%	9%
Required Employer Contribution Rates	7.159%	15.742%
	<u>PEPRA Miscellaneous</u>	<u>PEPRA Safety</u>
	Prior to <u>January 1, 2013</u>	Prior to <u>January 1, 2013</u>
Hire Date		
Benefit Formula	2% @ 62; maximum 2%	2.0% at 57; maximum 2%
	COLA	COLA
Benefit Vesting Schedule	5 years	5 years
Benefit Payments	monthly for life	monthly for life
Retirement Age	62	57
Monthly Benefits, as a % of Eligible Compensation	2%	2%
Required Employee Contribution Rates	6.25%	11.50%
Required Employer Contribution Rates	6.555%	12.082%

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

Note 10 – Defined Benefit Pension Plan (Continued)

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

For the year ended June 30, 2017, the contributions recognized as part of the pension expense is as follows:

Contributions – employer	\$ 186,076
Contributions – employee	\$ 141,698

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

As of June 30, 2017, the City reported net pension liability/(asset) for its proportionate shares of the net pension liability/(asset) of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability (Asset)</u>
Miscellaneous	\$888,986
Safety	(\$727,001)

The City’s net pension liability/(asset) for each Plan is measured as the proportionate share of the net pension liability/(asset). The net pension liability/(asset) of each of the Plan is measured as of June 30, 2015, and the total pension liability/(asset) for each Plan used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The City’s proportion of the net pension liability/(asset) was based on a projection of the City’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City’s proportionate share of the net pension liability/(asset) for each Plan as of June 30, 2015 and 2016 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion – June 30, 2015	0.02037%	(0.02013%)
Proportion – June 30, 2016	0.02559%	(0.01404%)
Change – Increase/(Decrease)	0.00522%	0.00610%

CITY OF ORANGE COVE

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 10 – Defined Benefit Pension Plan (Continued)

For the year ended June 30, 2017, the City recognized pension expense of \$161,151. At June 30, 2017, 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 measurement date	\$ 186,076	\$ -
Adjustment due to differences in proportions	45,384	(182,108)
Difference between expected and actual experience	1,870	(6,861)
Difference between projected and actual contributions	7,495	(101,692)
Changes in assumptions or other inputs		(52,870)
Net differences between projected and actual earnings on pension plan investments	<u>266,443</u>	<u>-</u>
Total	<u>\$ 507,268</u>	<u>\$ (343,531)</u>

The \$186,076 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability/(asset) in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	
2018	\$ (126,754)
2019	(79,959)
2021	115,167
2022	<u>69,207</u>
	<u>\$ (22,339)</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 10 – Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.50%
Mortality	Derived using CalPERS' Membership ¹ Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for fiscal years 1997-2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at CalPERS' website under Forms and Publications.

Change of assumptions – There were no changes of assumptions during the measurement period ended June 30, 2016. Deferred inflows of resources for changes of assumptions presented in the Schedule of Collective Pension Amounts represents the unamortized portion of the changes of assumptions related to prior measurement periods.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 10 – Defined Benefit Pension Plan (Continued)

Discount rate – The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for public agency plans, the amortization and smoothing periods recently adopted by the Board were used. For the Plan, the crossover test was performed for a miscellaneous agent rate plan and a safety agent rate plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for Public Employees' Retirement Fund (PERF) C. PERF C is a cost-sharing multiple-employer plan of public agencies with generally less than 100 active members. The crossover test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained on CalPERS' website under the GASB 68 section.

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

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

The long-term expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 10 – Defined Benefit Pension Plan (Continued)

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

Asset Class	New Strategic Allocation	Real Return Years 1-10	Real Return ¹ Years 11+
Global Equity	51%	5.25%	5.71%
Global Fixed Income	20%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	1%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
Total	100%		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

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

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Miscellaneous	\$ 1,578,839	\$ 888,986	\$ 318,858
Safety	\$ (523,923)	\$ (727,001)	\$ (893,708)

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

Payable to the Pension Plan

At June 30, 2017, the City has no outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 11 – Post-Retirement Healthcare Benefits

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

Note 12 – Risk Management

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

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

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

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

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

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 12 – Risk Management (Continued)

The latest audited financial information and the most current information available for CSJVRMA for fiscal year ended June 30, 2017 is as follows:

Total assets	\$ 97,743,162
Total liabilities	\$ 77,308,330
Total equities	\$ 15,434,832
Total revenues	\$ 40,680,321
Total expenses	\$ 38,202,139
Revenues over (under) expenses	\$ 2,478,182

Note 13 – Contingencies

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

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

Note 14 – Julia A. Lopez Day Care

The City operates a full day care program funded by the State of California Department of Education. The City was awarded the contract not to exceed \$1,305,609 for child care reimbursements. The City sub-contracts the daily operation to Target 8 Advisory Council, a non-profit that operates another day care program in the City. The following administrative costs, not to exceed 15% of the grant were incurred:

Accounting and oversight:	\$69,033
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Note 15 – Successor Agency Trust Fund

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

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

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 15 – Successor Agency Trust Fund (Continued)

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

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

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

Long-term Debt

Long-term debt reported in the Successor Agency Trust Fund at June 30, 2017 was comprised of the following individual issue:

Orange Cove RDA Tax Refunding Bonds – The former Redevelopment Agency of the City of Orange Cove issued a tax allocation bond payable in annual installments ranging from \$55,340 to \$396,299 with interest payable semi-annually at a rate between 3.7% per annum. At June 30, 2017, the bond outstanding amounts to \$4,449,967.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 176,066	\$ 163,020	\$ 339,086
2019	239,392	155,920	395,312
2020	249,311	146,970	396,281
2021	254,009	137,703	391,712
2022	263,596	128,216	391,812
2023-2027	1,486,634	484,765	1,971,399
2028-2032	<u>1,780,958</u>	<u>186,264</u>	<u>1,967,222</u>
	<u>\$ 4,449,966</u>	<u>\$ 1,402,858</u>	<u>\$ 5,852,824</u>

Note 16 – Subsequent Event

The City evaluated subsequent events for recognition and disclosure through February 2, 2018, the date which these financials were available to issue. Management concluded that no material subsequent events have occurred since June 30, 2017 that required recognition or disclosure in such financial statements.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

Note 17 – Excess of Expenditures over Appropriations

The excess of expenditures over appropriations are as follows:

General Fund:

Current:

General government	\$ 204,137
Public safety	\$ 107,143
Public works	\$ 87,925
Planning and development	\$ 131,149
Parks and recreation	\$ 47,408
Capital outlay	\$ 37,126

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

Housing Asset Special Revenue Fund:

Current:

Planning and development	\$ 296,192
Other Financing Uses:	
Transfer out	\$ 7,850

Daycare Special Revenue Fund:

Current:

Day care	\$ 1,094,196
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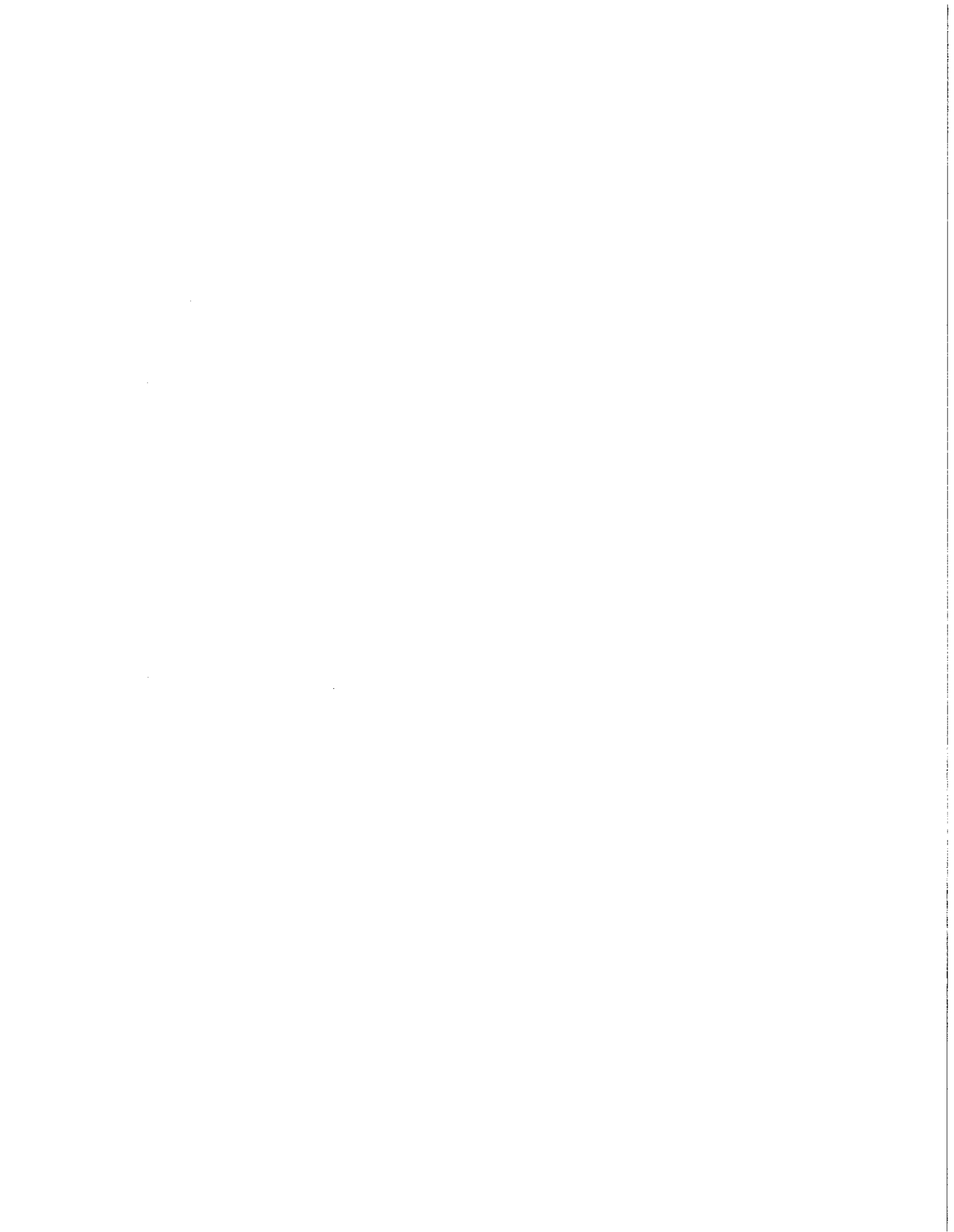
Streets Capital Project Fund:

Current:

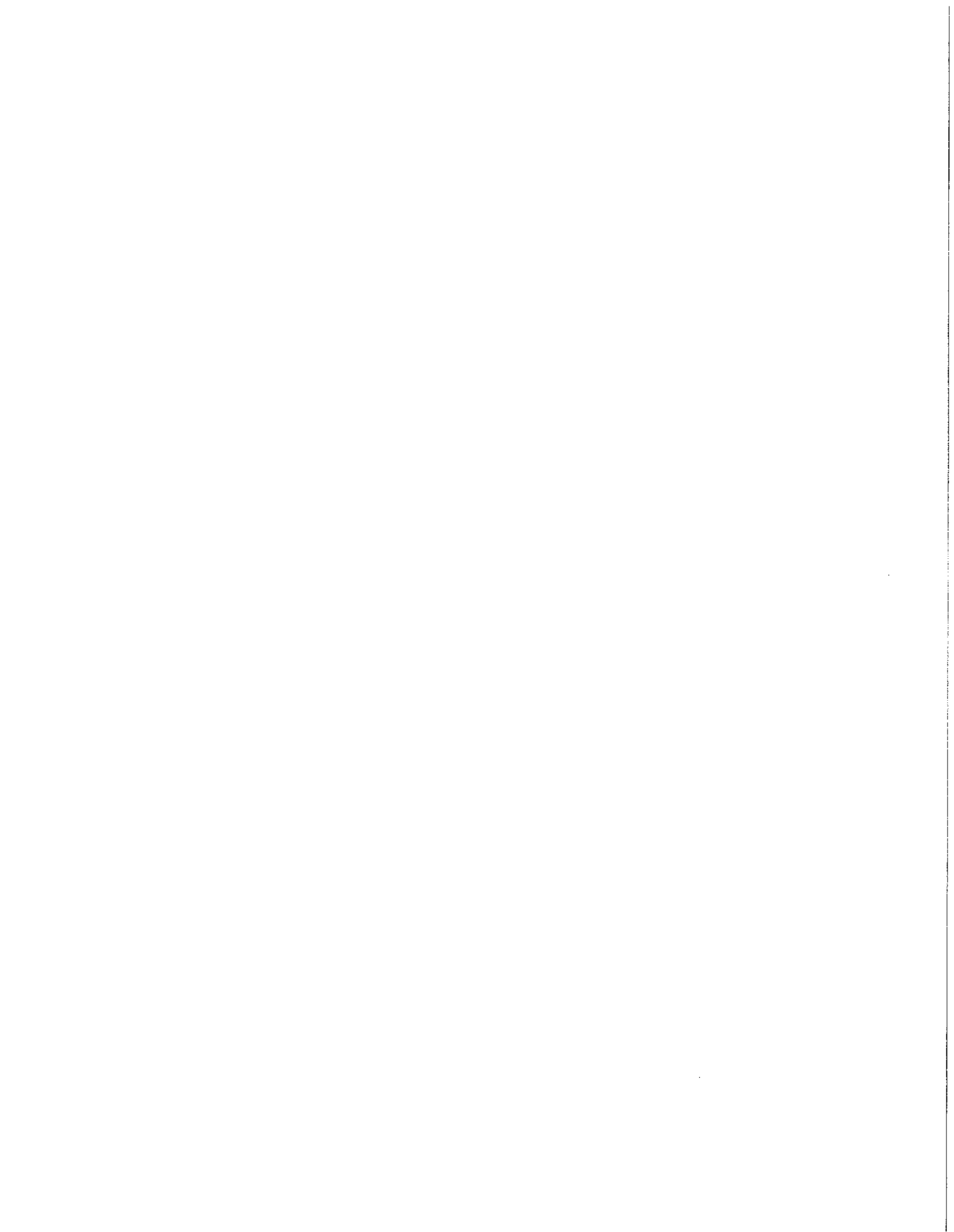
Streets	\$ 586,339
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Note 18 – Commitments

The City has a commitment of \$245,000 payable to PG&E for work performed regarding Investment Grade Energy Assessment. Payment is due November 27, 2017 and has not been reflected on the financial statements.



REQUIRED SUPPLEMENTARY INFORMATION



CITY OF ORANGE COVE

BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive/ (Negative)
Revenues				
Taxes	\$ 1,638,300	\$ 1,638,300	\$ 1,518,071	\$ (120,229)
Intergovernmental	119,000	119,000	225,402	106,402
Charges for service	136,000	136,000	124,383	(11,617)
Licenses, permits and impact fees	161,900	161,900	129,576	(32,324)
Interest and rent	61,500	61,500	47,248	(14,252)
Other	60,500	60,500	44,171	(16,329)
Total revenues	<u>2,177,200</u>	<u>2,177,200</u>	<u>2,088,851</u>	<u>(88,349)</u>
Expenditures				
Current:				
General government	291,575	291,575	495,712	(204,137)
Public safety	1,496,559	1,496,559	1,603,702	(107,143)
Public works	137,050	137,050	224,975	(87,925)
Planning and development	96,400	96,400	227,549	(131,149)
Parks and recreation	195,450	195,450	242,858	(47,408)
Capital outlay	-	-	37,126	(37,126)
Total expenditures	<u>2,217,034</u>	<u>2,217,034</u>	<u>2,831,922</u>	<u>(614,888)</u>
Revenue over/(under) expenditures	(39,834)	(39,834)	(743,071)	(703,237)
Other Financing Sources/(Uses)				
Transfers in/(out) - net	-	-	(42,964)	(42,964)
Total other financing sources/(uses)	-	-	(42,964)	(42,964)
Change in Fund Balance	<u>\$ (39,834)</u>	<u>\$ (39,834)</u>	(786,035)	<u>\$ (746,201)</u>
Fund Balance				
Beginning of year			<u>2,685,983</u>	
End of year			<u>\$ 1,899,949</u>	

CITY OF ORANGE COVE

**BUDGETARY COMPARISON SCHEDULE
LOCAL TRANSPORTATION SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ -	\$ -	\$ 308,756	\$ 308,756
Interest and rent	-	-	964	964
Total revenues	-	-	309,720	309,720
Expenditures				
Current:				
Streets	51,950	51,950	51,716	234
Total expenditures	51,950	51,950	51,716	234
Revenue over/(under) expenditures	(51,950)	(51,950)	258,004	309,954
Other Financing Sources/(Uses)				
Transfers in/(out) - net	-	-	28,192	28,192
Total other financing sources/(uses)	-	-	28,192	28,192
Change in Fund Balance	<u>\$ (51,950)</u>	<u>\$ (51,950)</u>	286,196	<u>\$ 338,146</u>
Fund Balance				
Beginning of year			-	
End of year			<u>\$ 286,196</u>	

CITY OF ORANGE COVE

BUDGETARY COMPARISON SCHEDULE LOW-MODERATE HOUSING ASSET SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amount</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Interest and rent	\$ -	\$ -	\$ 57	\$ 57
Total revenues	-	-	57	57
Expenditures				
Current:				
Planning and development	-	-	-	-
Total expenditures	-	-	-	-
Revenue over/(under) expenditures	-	-	57	57
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	57	<u>\$ 57</u>
Fund Balance				
Beginning of year			<u>70,963</u>	
End of year			<u>\$ 71,020</u>	

CITY OF ORANGE COVE

**BUDGETARY COMPARISON SCHEDULE
HOUSING GRANT SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amount	Variance with Final Budget
	Original	Final		Positive/ (Negative)
Revenues				
Intergovernmental	\$ -	\$ -	\$ 324,600	\$ 324,600
Interest and rent	-	-	2,157	2,157
Other	-	-	5,520	5,520
Total revenues	-	-	332,277	332,277
Expenditures				
Current:				
Planning and development	-	-	296,192	(296,192)
Total expenditures	-	-	296,192	(296,192)
Revenue over/(under) expenditures	-	-	36,085	36,085
Other Financing Sources/(Uses)				
Transfers in/(out) - net	-	-	(7,850)	(7,850)
Total other financing sources/(uses)	-	-	(7,850)	(7,850)
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	28,235	<u>\$ 28,235</u>
Fund Balance				
Beginning of year			<u>30,416</u>	
End of year			<u>\$ 58,651</u>	

CITY OF ORANGE COVE

**BUDGETARY COMPARISON SCHEDULE
 DAYCARE SPECIAL REVENUE FUND
 FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amount</u>		<u>Actual Amount</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ -	\$ -	\$1,087,337	\$1,087,337
Charges for services	-	-	20,421	20,421
Interest	-	-	(13,562)	(13,562)
Total revenues	<u>-</u>	<u>-</u>	<u>1,094,196</u>	<u>1,094,196</u>
Expenditures				
Current:				
Day care	-	-	1,094,196	(1,094,196)
Total expenditures	<u>-</u>	<u>-</u>	<u>1,094,196</u>	<u>(1,094,196)</u>
Revenue over/(under) expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance				
Beginning of year			-	
End of year			<u>\$ -</u>	

CITY OF ORANGE COVE

**BUDGETARY COMPARISON SCHEDULE
STREETS SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amount</u>		<u>Actual Amount</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ -	\$ -	\$ 495,229	\$ 495,229
Interest	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>495,229</u>	<u>495,229</u>
Expenditures				
Current:				
Streets	-	-	586,339	(586,339)
Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>586,339</u>	<u>(586,339)</u>
Revenue over/(under) expenditures	<u>\$ -</u>	<u>\$ -</u>	(91,110)	<u>\$ 91,110</u>
Other Financing Sources/(Uses)				
Transfers in/(out) - net			<u>21,288</u>	
Total other financing sources/(uses)				
Change in Fund Balance			(69,822)	
Fund Balance				
Beginning of year			<u>-</u>	
End of year			<u>\$ (69,822)</u>	

CITY OF ORANGE COVE

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST 10 YEARS*
FOR THE YEAR ENDED JUNE 30, 2017**

	Miscellaneous			Safety		
	2015	2016	2017	2015	2016	2017
Proportion of the net pension liability	0.01071%	0.02037%	0.02559%	-0.01254%	-0.02013%	0.01404%
Proportionate share of the net pension liability	\$ 666,533	\$ 558,760	\$ 888,986	\$ (780,109)	\$ (829,606)	\$ (727,001)
Covered - employee payroll	\$ 1,020,427	\$ 1,041,735	\$ 926,107	\$ 762,323	\$ 739,296	\$ 720,786
Proportionate share of the net pension liability as a percentage of covered-employee payroll	65.32%	53.64%	95.99%	-102.33%	-112.22%	-100.86%
Plan's fiduciary net position	\$ 3,917,081	\$ 4,202,928	\$ 4,235,032	\$ 1,568,579	\$ 2,229,193	\$ 2,223,046
Plan's fiduciary net position as a percentage of the Total Pension Liability	85.46%	99.12%	82.65%	198.94%	133.71%	148.59%

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

CITY OF ORANGE COVE

**SCHEDULE OF THE CONTRIBUTIONS
LAST 10 YEARS*
FOR THE YEAR ENDED JUNE 30, 2017**

	Miscellaneous		Safety	
	2015	2016	2015	2016
Contractually required contribution (actuarially determined)	\$ 70,820	\$ 62,311	\$ 59,090	\$ 44,824
Contributions in relation to the actuarially determined contributions	(70,820)	(62,311)	(59,090)	(44,824)
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 1,020,427	\$ 1,041,735	\$ 762,323	\$ 739,296
Contributions as a percentage of covered-employee payroll	6.94%	5.98%	7.75%	6.06%
				12.08%

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

Notes to Schedule of Contributions
Valuation Date 6/30/2015

Methods and assumptions used to determine contribution rates:

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

Actuarial Assumptions:

Discount Rate 7.65%
Inflation 2.75%
Salary Increases Varies by Entry Age and Service
Investment Rate of Return 7.50%, net of pension plan investment and administrative expenses, including inflation
Retirement Age The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007

Mortality

The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries

Payroll Growth 3.00%

CITY OF ORANGE COVE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017

Note 1 – Budgetary Information

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

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

OTHER SUPPLEMENTARY INFORMATION

CITY OF ORANGE COVE

**COMBINING BALANCE SHEET- NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	General Debt Service	Measure O	Gas Tax	Soccer Grant
ASSETS				
Cash and investments	\$ 389,576	\$ 25,521	\$ -	\$ 27,529
Interest receivable	361	-	22	-
Due from other governments	-	-	-	-
Due to other funds	-	-	-	-
Notes receivable	-	-	-	-
Land held for resale	-	-	-	-
Total assets	<u>\$ 389,937</u>	<u>\$ 25,521</u>	<u>\$ 22</u>	<u>\$ 27,529</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable and accrued expenses	\$ -	\$ 25,521	\$ 53,392	\$ 27,529
Due to other funds	-	-	99,772	-
Total liabilities	-	<u>25,521</u>	<u>153,164</u>	<u>27,529</u>
Fund Balance				
Nonspendable:				
Notes receivable	-	-	-	-
Land held for resale	-	-	-	-
Restricted:				
Circulation improvements	-	-	-	-
Capital improvement projects	-	-	-	-
Debt service	<u>389,937</u>	-	<u>(153,142)</u>	-
Total fund balance	<u>389,937</u>	-	<u>(153,142)</u>	-
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 389,937</u>	<u>\$ 25,521</u>	<u>\$ 22</u>	<u>\$ 27,529</u>

CITY OF ORANGE COVE

**COMBINING BALANCE SHEET-NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

	Community Development	Development Impact Fees	Measure C	Total Non-major Governmental Funds
ASSETS				
Cash and investments	\$ 38,666	\$ 251,379	\$ 7,009	\$ 739,680
Interest receivable	9	12	203	607
Due from other governments	-	-	17,836	17,836
Due from other funds	-	-	99,772	99,772
Notes receivable	31,663	-	-	31,663
Land held for resale	579,486	-	-	579,486
Total assets	\$ 649,824	\$ 251,391	\$ 124,820	\$ 1,469,044

LIABILITIES AND FUND BALANCE

Liabilities:				
Accounts payable and accrued expenses	\$ -	\$ -	\$ 5,352	\$ 111,794
Due to other funds	-	-	-	99,772
Total liabilities	-	-	5,352	211,566

Fund Balance

Nonspendable:				
Notes receivable	31,663	-	-	31,663
Land held for resale	579,486	-	-	579,486
Restricted:				
Circulation improvements	-	-	119,468	119,468
Capital improvement projects	38,675	251,391	-	290,066
Debt service	-	-	-	236,795
Total fund balance	649,824	251,391	119,468	1,257,478
Total liabilities, deferred inflows of resources, and fund balance	\$ 649,824	\$ 251,391	\$ 124,820	\$ 1,469,044

CITY OF ORANGE COVE

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	General Debt Service	Measure O	Gas Tax	Soccer Grant
Revenues				
Taxes	\$ 145,009	\$ 257,757	\$ -	\$ -
Intergovernmental	-	-	174,865	48,981
Licenses, permits and impact fees	-	-	-	-
Interest and rent	1,162	-	38	-
Total revenues	146,171	257,757	174,903	48,981
Expenditures				
Current:				
Public safety	-	260,862	-	-
Streets	-	-	335,772	-
Parks and recreation	-	-	-	195,081
Debt service:				
Principal	64,000	-	2,178	-
Interest and other charges	64,610	-	-	-
Total expenditures	128,610	260,862	337,950	195,081
Revenue over/(under) expenditures	17,561	(3,105)	(163,047)	(146,100)
Other financing sources/(uses)				
Operating transfers in/(out) - net	-	-	-	146,100
Total other financing sources/(uses)	-	-	-	146,100
Change in Fund Balance	17,561	(3,105)	(163,047)	-
Fund Balance				
Beginning of year	372,376	3,105	9,905	-
End of year	\$ 389,937	\$ -	\$ (153,142)	\$ -

CITY OF ORANGE COVE

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

	Community Development	Development Impact Fees	Measure C	Total Non-major Governmental Funds
Revenues				
Taxes	\$ -	\$ -	\$ -	402,766
Intergovernmental	-	-	281,228	505,074
Interest and rent	327	21	657	2,205
Other	7,685	-	-	7,685
Total revenues	<u>8,012</u>	<u>21</u>	<u>281,885</u>	<u>917,730</u>
Expenditures				
Current:				
Public safety	-	-	-	260,862
Streets	-	-	112,937	448,709
Parks and recreation	-	-	-	195,081
Debt service:				
Principal	-	-	-	66,178
Interest and other charges	-	-	-	64,610
Total expenditures	<u>-</u>	<u>-</u>	<u>112,937</u>	<u>1,055,440</u>
Revenue over/(under) expenditures	8,012	21	168,948	(117,710)
Other financing sources/(uses)				
Operating transfers in/(out) - net	-	(36,601)	(49,480)	60,019
Total other financing sources/(uses)	<u>-</u>	<u>(36,601)</u>	<u>(49,480)</u>	<u>60,019</u>
Change in Fund Balance	8,012	(36,580)	119,468	(57,691)
Fund Balance				
Beginning of year	641,812	287,971	-	1,315,169
End of year	<u>\$ 649,824</u>	<u>\$ 251,391</u>	<u>\$ 119,468</u>	<u>\$ 1,257,478</u>

CITY OF ORANGE COVE

JULIA A. LOPEZ CHILD DEVELOPMENT CENTER BALANCE SHEET JUNE 30, 2017

	<u>City Portion</u>	<u>Subcontractor Portion</u>	<u>Memo Total</u>
ASSETS			
Cash	\$ 71,230	\$ -	\$ 71,230
Accounts receivable - Daycare	119,522	-	119,522
Total assets	<u>190,752</u>	<u>-</u>	<u>190,752</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable - trade	\$ 139,075	\$ -	\$ 139,075
Accounts payable - State	-	-	-
Unearned revenue - reserve fund	51,677	-	51,677
Total liabilities	<u>190,752</u>	<u>-</u>	<u>190,752</u>
Fund Balance			
Unreserved, undesignated	-	-	-
Total liabilities and fund balance	<u>\$ 190,752</u>	<u>\$ -</u>	<u>\$ 190,752</u>

CITY OF ORANGE COVE

**JULIA A. LOPEZ CHILD DEVELOPMENT CENTER STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

	<u>City Portion</u>	<u>Subcontractor Portion</u>	<u>Memo Total</u>
REVENUES & SUPPORT			
State apportionments - Child Development Program	\$ 26,268	\$ 1,065,170	\$ 1,091,438
State apportionments - One Time Only	-	-	-
State apportionments - Reserve Transfer	-	-	-
Parent fees - Certified	-	20,421	20,421
Miscellaneous Income	-	-	-
Total revenues and support	<u>26,268</u>	<u>1,085,591</u>	<u>1,111,859</u>
EXPENSES			
Salaries and wages	26,268	555,585	581,853
Employee benefits	-	236,199	236,199
Food	-	94,119	94,119
Material and supplies	-	24,302	24,302
Other supplies	-	21,430	21,430
Travel and training	-	825	825
Repairs and maintenance	-	1,210	1,210
Dues and memberships	-	8,453	8,453
Rent	-	49,965	49,965
Operations and housekeeping services	-	3,491	3,491
Insurance	-	47,247	47,247
Professional services	-	42,765	42,765
Total expenses	<u>26,268</u>	<u>1,085,591</u>	<u>1,111,859</u>
Expenditures in Excess of Revenues	-	-	-
FUND BALANCE			
Beginning of year	-	-	-
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF ORANGE COVE

**JULIA A. LOPEZ CHILD DEVELOPMENT CENTER SCHEDULE OF EXPENDITURES BY
STATE CATEGORIES
YEAR ENDED JUNE 30, 2017**

		<u>City Portion</u>	<u>Subcontractor Portion</u>	<u>State Preschool Program CSPP-6059</u>
Expenditures				
1000	Certified Personnel Salaries	\$ -	\$ 162,759	\$ 162,759
2000	Classified Personnel Salaries	-	392,826	392,826
3000	Employee Benefits	-	236,199	236,199
4000	Books and Supplies	-	139,851	139,851
5000	Services and Other Operating Expenses	26,268	153,956	180,224
6000	Capital Outlay	-	-	-
Total expenses claimed for reimbursement		<u>\$ 26,268</u>	<u>\$ 1,085,591</u>	<u>\$ 1,111,859</u>

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

CITY OF ORANGE COVE

**JULIA A. LOPEZ CHILD DEVELOPMENT CENTER SCHEDULE OF REIMBURSABLE
ADMINISTRATIVE COSTS
YEAR ENDED JUNE 30, 2017**

	State Preschool Program CSPP-6059
EXPENSES	
City Payroll Expense	\$ 26,268
Accounting	38,265
Audit	<u>4,500</u>
Total expenses	<u>\$ 69,033</u>

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

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

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

**CITY OF ORANGE COVE
JULIA A. LOPEZ CHILD DEVELOPMENT CENTER COMBINING SCHEDULE OF
RENOVATION AND REPAIR EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2017**

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

CITY OF ORANGE COVE

**JULIA A. LOPEZ CHILD DEVELOPMENT CENTER SCHEDULE OF
EQUIPMENT EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2017**

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

CITY OF ORANGE COVE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2017

Grantor	Federal CFDA Number	Grantor's Number	Award Amount			Expenditures		
			Federal	State	Total	Federal	State	Total
State:								
Passed-through California Department of Education								
Preschool Program:								
City of Orange Cove	93.596/93.575	CSPP-6059	\$ 26,268	\$ -	\$ 26,268	\$ 26,268	\$ -	\$ 26,268
Target 8*	93.596/93.575	CSPP-6059	<u>190,680</u>	<u>966,023</u>	<u>1,156,946</u>	<u>173,069</u>	<u>892,101</u>	<u>1,065,170</u>
			<u>\$ 216,948</u>	<u>\$ 966,023</u>	<u>\$ 1,183,214</u>	<u>\$ 199,337</u>	<u>\$ 892,101</u>	<u>\$ 1,091,438</u>

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

CITY OF ORANGE COVE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2017

Note 1 – Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the City of Orange Cove, California (the City). Federal awards received directly from federal agencies as well as federal awards passed through other nonfederal agencies, primarily the State of California, are included in the SEFA. The City's reporting entity is defined in Note 1 to the City's basic financial statements.

Note 2 – Basis of Accounting

The accompanying SEFA is presented using the modified accrual basis of accounting for grants accounted for in the governmental fund types and the accrual basis of accounting for grants accounted for in the proprietary fund types, as described in Note 1 to the City's basic financial statements. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in, or used in the preparation of, the SEFA may differ from amounts presented in the basic financial statements

Note 3 – Catalog of Federal Domestic Assistance (CFDA) Numbers

The CFDA numbers included in the accompanying SEFA were determined based on program name, review of grant contract information, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

Note 4 – Relationship to the Financial Statements

Expenditures of federal awards are reported in the City's basic financial statements as expenditures/expenses in the General Fund, nonmajor special revenue funds, nonmajor capital project funds, and the enterprise funds.

Note 5 – Indirect Cost Rate

The City did not elect to use the 10% de minimus cost rate as covered in 2 CFR §200.414.

CITY OF ORANGE COVE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CHILD CARE PROGRAM
YEAR ENDED JUNE 30, 2017**

None.

Print day care reports

12/15/2011 10:00 AM

12/15/2011 10:00 AM

12/15/2011 10:00 AM

COMPLIANCE SECTION

BRYANT L. JOLLEY

CERTIFIED PUBLIC ACCOUNTANTS

Bryant L. Jolley C.P.A.
Ryan P. Jolley C.P.A.
Darryl L. Smith C.P.A.
Jaribu Nelson C.P.A.
Lan T. Kimoto
Jeffrey M. Schill

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Orange Cove (the City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated February 2, 2018.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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. We consider the deficiencies described in items 2017-01 through 2017-08 in the accompany schedule of findings and questioned costs to be material weaknesses.

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*.

City of Orange Cove, CA Response to Findings

City of Orange Cove, California'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 the 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 result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

February 2, 2018

BRYANT L. JOLLEY

CERTIFIED PUBLIC ACCOUNTANTS

Bryant L. Jolley C.P.A.
Ryan P. Jolley C.P.A.
Darryl L. Smith C.P.A.
Jaribu Nelson C.P.A.
Ian T. Kinoto
Jeffrey M. Schill

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Orange Cove's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2017. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

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

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

February 2, 2018

CITY OF ORANGE COVE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Transportation			
Passed through from the California Department of Transportation			
Highway Planning and Construction	20.205	STPL-5301	\$ 2,891
Highway Planning and Construction	20.205	CML-5301	<u>492,338</u>
U.S. Department of Housing and Urban Development			
Passed through from the State Department of Housing and Community Development			
Community Development Block Grant	14.218	12-CDBG-8403	511,164
Home Investment Partnerships Program	14.239	14-HOME-1039	<u>66,564</u>
U.S. Department of Environmental Protection Agency			
Passed through from the California State Water Resources Control Board			
SRF Water Meter Project	66.468	2014CX101/01	<u>95,196</u>
U.S. Department of Health & Human Services			
Passed through from the California Department of Aging			
Special Program for Aging	93.045	17-2061	<u>11,708</u>
U.S. Department of Health & Human Services			
Passed through California Department of Education			
Preschool Program	93.596/93.575	CSPP-6059	<u>199,337</u>
<i>Total Federal Expenditures</i>			<u>\$ 1,379,198</u>

CITY OF ORANGE COVE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2017

Note 1 – Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the City of Orange Cove, California (the City). Federal awards received directly from federal agencies as well as federal awards passed through other nonfederal agencies, primarily the State of California, are included in the SEFA. The City's reporting entity is defined in Note 1 to the City's basic financial statements.

Note 2 – Basis of Accounting

The accompanying SEFA is presented using the modified accrual basis of accounting for grants accounted for in the governmental fund types and the accrual basis of accounting for grants accounted for in the proprietary fund types, as described in Note 1 to the City's basic financial statements. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in, or used in the preparation of, the SEFA may differ from amounts presented in the basic financial statements

Note 3 – Catalog of Federal Domestic Assistance (CFDA) Numbers

The CFDA numbers included in the accompanying SEFA were determined based on program name, review of grant contract information, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

Note 4 – Relationship to the Financial Statements

Expenditures of federal awards are reported in the City's basic financial statements as expenditures/expenses in the General Fund, nonmajor special revenue funds, nonmajor capital project funds, and the enterprise funds.

Note 5 – Indirect Cost Rate

The City did not elect to use the 10% de minimus cost rate as covered in 2 CFR §200.414.

CITY OF ORANGE COVE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Non-compliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of Major Programs

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

CITY OF ORANGE COVE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2017

B. Findings – Financial Statements Audit

2017-01 Internal Controls over Financial Reporting (Material Weakness)

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.

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 timely manner and the inadequacy of supporting documents received.

Cause:

The City's policies and procedures for recording financial transactions were disrupted due to significant inefficiencies in the 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 audit for the year ended June 30, 2017, there were significant delays in receiving the requested audit documents and various schedules 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 Corrective Action Plan:

Management acknowledges there was delay in the year end closing due implementation of a new accounting software. Management plans to remedy the situation by training employees on how to perform their daily tasks. With the implementation of the new accounting software, management will train staff regarding best practices to ensure each account is reviewed and reconciled on a timely basis.

CITY OF ORANGE COVE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

2017-02 Bank Reconciliations (Material Weakness)

Criteria:

Failure to reconcile cash in a timely manner is a weakness in internal controls over a significant account balance.

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.

Cause:

Failure on the part of the Finance Department 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 Corrective Action Plan:

Management acknowledges there was a failure to perform bank reconciliations on a monthly basis. Management has begun to review the completed bank reconciliations for the current fiscal year, and to verify that it does reconcile to the general ledger.

CITY OF ORANGE COVE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2017

2017-03 Reporting of Schedule of Expenditures of Federal Awards (Material Weakness)

Criteria:

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

- a. Identify, in its accounts, all Federal awards received and expended and 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.

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.

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.

Management Corrective Action Plan:

Management understands that the Schedule of Expenditures of Federal Awards must include all federally-funded expenditures. Therefore, the City will ensure each grant received has a responsible employee assigned to the grant to coordinate grant information to the Finance Department. The grant administrator will communicate this information to Finance department staff, who will update the Schedule of Expenditures of Federal Awards throughout the year, so it is complete at year-end.

CITY OF ORANGE COVE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2017

2017-04 Reporting of Capital Assets (Material Weakness)

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.

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.

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 reported 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 Corrective Action Plan:

Management acknowledges that there is a weakness in the accounting of capital assets. The City performed an inventory by department of capital assets owned by the City. The City intends to reconcile these records with the capital asset records maintained by the Finance Department. Also, the Finance Department will work to formulate a process to ensure periodic reconciliations of the construction in progress balances going forward.

CITY OF ORANGE COVE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2017

2017-05 Grant Accounting (Material Weakness)

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 related expenditures, and recorded in the proper fund.

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.

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 misstatement 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 compiled 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 Corrective Action Plan:

Management is aware of the problems with the grant accounting. The City is implementing procedures to properly record grant activity with the implementation of the new accounting software.

CITY OF ORANGE COVE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2017

2017-06 Loan Receivables (Material Weakness)

Criteria:

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

Condition:

The City does not have proper amortization schedules for outstanding loan balances to track principal and interest payment on the loans receivable.

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 Corrective Action Plan:

Management is aware of the problems with the loan receivable balances. The City is implementing amortization schedules for each loan and management will monitor that the employees are properly accounting and recording the correct amounts.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

2017-07 General Ledger Coding of Deposits and Disbursements (Material Weakness)

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.

Condition:

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

Cause:

The City's policies and procedures for recording deposits and disbursements are not adequate to monitor the coding process. Finance Department staffs 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 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 Corrective Action Plan:

Management is aware of the problems with the coding process for deposits and disbursements. The City's management has begun to train staff responsible for the coding process to be proficient in where each deposit and disbursement should be coded. A new chart of accounts has also been developed to simplify coding. Management will review the deposits and disbursements to ensure that they are properly coded.

CITY OF ORANGE COVE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2017

2017-08 Council Member Fringe Benefits (Material Weakness)

Criteria:

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

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.

Cause:

The City's policy for council member health insurance is not adequately designed to ensure it meets 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 the 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 Corrective Action Plan:

Management is aware of the problems with the City Councils benefits plan. The City's management will meet with the City's insurance representative and legal counsel to ensure the plan going forward is in compliance with IRS laws and will also work with the City council to determine how to treat taxable benefits received in the past.

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

None noted.

CITY OF ORANGE COVE

**STATUS OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

Summary Schedule of Prior Audit Findings

There were no prior year audit findings.