

CITY OF ORANGE COVE
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2021

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BRYANT L. JOLLEY

CERTIFIED PUBLIC ACCOUNTANTS

Bryant L. Jolley C.P.A.
Ryan P. Jolley C.P.A.
Darryl L. Smith C.P.A.
Luis A. Perez C.P.A.
Lan T. Kimoto

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange Cove for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 22, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2021. We noted no transactions entered into by City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

- Management has determined the economic useful lives of fixed assets based on past history of similar types of assets, future plans as to their use, and other factors that impact their economic value to the City. We evaluated the key factors and assumptions used by management in computing depreciation expense and believe that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the allowance for doubtful accounts is based on an evaluation of collectability primarily focused on past due accounts. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements as a whole.

- Management's estimate of the net pension liability/asset and related deferrals is based on actuarial valuations which include significant assumptions regarding discount rate, inflation, payroll growth, projected salary increases and investment rate of return. We evaluated the key factors and assumptions used to develop the liability and related deferrals in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 16, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to City of Orange Cove's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as City of Orange Cove's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Budgetary Comparison Schedules, Proportionate Share of Net Pension Liability/(Asset), and Schedule of Contributions which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on supplementary information, as listed in the table of contents, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the City Council and management of City of Orange Cove and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to be 'M. J. ...', written in a cursive style.

November 16, 2022

Edith Cannon

From: Lan Kimoto <lankimoto@yahoo.com>
Sent: Thursday, November 17, 2022 4:51 PM
To: Rudy Hernandez; Edith Cannon
Cc: Ryan Jolley
Subject: Final PDF
Attachments: Orange Cove FINAL 6-30-21.pdf; Orange Cove FINAL Management Report 6-30-21.pdf

Follow Up Flag: Follow up
Flag Status: Flagged

CAUTION: This email originated from outside the organization. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Rudy/Edith -

Attached is our final PDFs of our audit reports for the City of Orange Cove for the year ended June 30, 2021. Have a great Thanksgiving week next week if we don't hear from you.

Lan Kimoto

Bryant L Jolley, CPA

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CITY OF ORANGE COVE

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

JUNE 30, 2021

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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, 2021, 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, 2021, 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

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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 48-50, and the City's Proportionate Share of Net Pension Asset/Liability and Contributions on pages 51-52, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

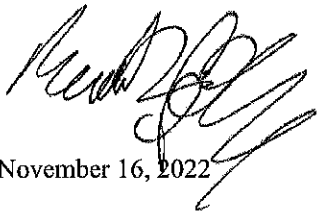
Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2022, on our consideration of the City of Orange Cove's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Orange Cove's internal control over financial reporting and compliance.



November 16, 2022

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ORANGE COVE

STATEMENT OF NET POSITION JUNE 30, 2021

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 3,409,657	\$ 970,184	\$ 4,379,841
Cash and investments - restricted	244,163	-	244,163
Cash with fiscal agent - restricted	-	37,403	37,403
Accounts receivable	-	718,388	718,388
Interest receivable	310,510	532	311,042
Due from other governments	528,585	25,084	553,669
Internal balances	75,349	(75,349)	-
Prepays	46,910	44,678	91,588
Notes receivable	3,114,794	-	3,114,794
Land held for resale	874,841	-	874,841
Net pension asset	803,253	-	803,253
Capital assets, net of depreciation	<u>9,005,233</u>	<u>17,374,798</u>	<u>26,380,031</u>
 Total assets	 <u>18,413,295</u>	 <u>19,095,718</u>	 <u>37,509,013</u>
 DEFERRED OUTFLOWS OF RESOURCES	 <u>538,885</u>	 <u>121,112</u>	 <u>659,997</u>
LIABILITIES			
Accounts payable and accrued expenses	491,085	437,873	928,958
Accrued interest	14,400	10,928	25,328
Deposits	-	49,725	49,725
Compensated absences	198,820	84,591	283,411
Unearned revenues	152,817	-	152,817
Long-term liabilities:			
Due within one year	83,178	74,173	157,351
Due in more than one year	812,264	991,161	1,803,425
Net pension liability	<u>977,453</u>	<u>423,301</u>	<u>1,400,754</u>
Total liabilities	<u>2,730,017</u>	<u>2,071,752</u>	<u>4,801,769</u>
 DEFERRED INFLOWS OF RESOURCES	 <u>262,344</u>	 <u>51,817</u>	 <u>314,161</u>
NET POSITION			
Net investments in capital assets	8,109,791	16,309,464	24,419,255
Restricted for debt service	467,315	37,403	504,718
Restricted for capital projects	858,399	-	858,399
Restricted for specific projects and programs	1,420,964	-	1,420,964
Unrestricted	<u>5,103,350</u>	<u>746,394</u>	<u>5,849,744</u>
 Total net position	 <u>\$ 15,959,819</u>	 <u>\$ 17,093,261</u>	 <u>\$ 33,053,080</u>

CITY OF ORANGE COVE
STATEMENT OF ACTIVITIES
JUNE 30, 2021

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	\$ 877,152	\$ 48,158	\$ 365,019	\$ 5,298	\$ (458,677)	\$ -	\$ (458,677)
Public safety	2,448,679	33,828	349,052	5,082	(2,060,717)	-	(2,060,717)
Public works	1,375,334	-	882,233	97,075	(396,026)	-	(396,026)
Planning and development	314,910	62,381	164,168	-	(88,361)	-	(88,361)
Parks and recreation	329,564	32,288	25,000	13,307	(258,969)	-	(258,969)
Day care	1,485,915	-	1,445,162	-	(40,753)	-	(40,753)
Debt service:							
Interest and other charges	22,617	-	-	-	(22,617)	-	(22,617)
Total government activities	6,854,171	176,655	3,230,634	120,762	(3,326,120)	-	(3,326,120)
Business-type activities:							
Water	1,816,706	1,698,148	-	892,032	-	773,474	773,474
Sewer	1,284,297	1,200,561	-	33,763	-	(49,973)	(49,973)
Disposal	597,455	644,231	-	-	-	46,776	46,776
Total business-type activities	3,698,458	3,542,940	-	925,795	-	770,277	770,277
Total primary government	\$ 10,552,629	\$ 3,719,595	\$ 3,230,634	\$ 1,046,557	(3,326,120)	770,277	(2,555,843)
General Revenue							
Property taxes and special assessments					576,136	-	576,136
Sales taxes					262,623	-	262,623
Franchise taxes					112,507	-	112,507
Business licenses					79,060	-	79,060
Utility users tax					513,112	-	513,112
Motor vehicle in-lieu					905,570	-	905,570
Interest and rent					28,116	3,356	31,472
Sale of land					95,902	-	95,902
Other					196,842	4,117	200,959
Transfers					64,230	(64,230)	-
Total general revenue and transfers					2,834,098	(56,757)	2,777,341
Change in Net Position					(492,022)	713,520	221,498
Net Position							
Beginning of year					16,451,841	16,379,741	32,831,582
End of year					\$ 15,959,819	\$ 17,093,261	\$ 33,053,080

See accompanying notes to the financial statements.

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

CITY OF ORANGE COVE

BALANCE SHEET – GOVERNMENTAL FUNDS JUNE 30, 2021

	<u>Special Revenue Funds</u>				
	<u>General</u>	<u>Housing Grant</u>	<u>Day Care</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and investments	\$ 740,570	\$ 134,242	\$ 1,540	\$ 2,533,305	\$ 3,409,657
Cash and investments - restricted	-	-	244,163	-	244,163
Interest receivable	433	115,100	8,241	186,736	310,510
Due from other governments	198,469	-	94,085	236,031	528,585
Due from other funds	255,346	-	-	-	255,346
Prepays	41,242	-	5,668	-	46,910
Notes receivable	164,000	2,675,794	-	275,000	3,114,794
Land held for resale	376,000	-	-	498,841	874,841
Total assets	<u>\$ 1,776,060</u>	<u>\$ 2,925,136</u>	<u>\$ 353,697</u>	<u>\$ 3,729,913</u>	<u>\$ 8,784,806</u>
LIABILITIES					
Accounts payable and accrued expenses	\$ 207,512	\$ -	\$ 187,373	\$ 96,200	\$ 491,085
Due to other funds	-	-	-	179,997	179,997
Unearned revenues	-	-	152,817	-	152,817
Total liabilities	<u>207,512</u>	<u>-</u>	<u>340,190</u>	<u>276,197</u>	<u>823,899</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues	-	2,790,894	-	460,987	3,251,881
Total deferred inflows of resources	<u>-</u>	<u>2,790,894</u>	<u>-</u>	<u>460,987</u>	<u>3,251,881</u>
FUND BALANCE					
Nonspendable:					
Prepays	41,242	-	5,668	-	46,910
Notes receivables	164,000	-	-	-	164,000
Land held for resale	376,000	-	-	498,841	874,841
Restricted:					
Daycare	-	-	7,839	-	7,839
Public safety	-	-	-	2,336	2,336
Low-income housing activities	-	134,242	-	71,776	206,018
Parks and recreation	-	-	-	-	-
Circulation improvements	-	-	-	1,214,946	1,214,946
Capital improvement projects	-	-	-	858,399	858,399
Debt service	-	-	-	467,315	467,315
Unassigned	987,306	-	-	(120,884)	866,422
Total fund balance	<u>1,568,548</u>	<u>134,242</u>	<u>13,507</u>	<u>2,992,729</u>	<u>4,709,026</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 1,776,060</u>	<u>\$ 2,925,136</u>	<u>\$ 353,697</u>	<u>\$ 3,729,913</u>	<u>\$ 8,784,806</u>

CITY OF ORANGE COVE

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2021

Total governmental fund balance	\$ 4,709,026
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are current not financial resources and, therefore, are not reported in the funds	9,005,233
Accrued interest on long-term liabilities is not due and payable in the current period and, therefore, is not reported in the funds	(14,400)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds	(198,820)
Deferred outflows of resources related to net pension liability/asset represent a consumption of net position or fund balance that applies to future period(s) and so will not be recognized as outflow of resources (revenue) until that time	538,885
Net pension liability/asset applicable to governmental activities are not due and payable in the current period and accordingly is not reported in the funds	(174,200)
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	(262,344)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds	3,251,881
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	<u>(895,442)</u>
Net position of governmental activities	<u>\$ 15,959,819</u>

CITY OF ORANGE COVE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS JUNE 30, 2021

	<u>Special Revenue Funds</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Housing Grant</u>	<u>Daycare</u>		
Revenues					
Taxes	\$ 2,041,137	\$ -	\$ -	\$ 401,039	\$ 2,442,176
Intergovernmental	723,186	-	1,445,162	1,295,974	3,464,322
Charges for service	150,334	-	-	-	150,334
Licenses, permits and impact fees	107,229	-	-	35,062	142,291
Interest and rent	1,354	5,155	-	7,540	14,049
Other	156,089	-	40,753	-	196,842
Total revenues	<u>3,179,329</u>	<u>5,155</u>	<u>1,485,915</u>	<u>1,739,615</u>	<u>6,410,014</u>
Expenditures					
Current:					
General government	444,663	-	-	-	444,663
Public safety	1,977,572	-	-	283,635	2,261,207
Public works	326,918	-	-	778,669	1,105,587
Planning and development	187,401	-	-	123,676	311,077
Parks and recreation	226,732	-	-	-	226,732
Day care	-	-	1,485,915	-	1,485,915
Capital outlay	154,674	-	-	489,501	644,175
Debt service:					
Principal	-	-	-	80,178	80,178
Interest and other charges	-	-	-	24,300	24,300
Total expenditures	<u>3,317,960</u>	<u>-</u>	<u>1,485,915</u>	<u>1,779,959</u>	<u>6,583,834</u>
Revenue over/(under) expenditures	(138,631)	5,155	-	(40,344)	(173,820)
Other Financing Sources/(Uses)					
Sale of land	95,902	-	-	-	95,902
Transfers in/(out) - net	(36,913)	-	17,255	83,888	64,230
Total other financing sources/(uses)	<u>58,989</u>	<u>-</u>	<u>17,255</u>	<u>83,888</u>	<u>160,132</u>
Change in Fund Balance	(79,642)	5,155	17,255	43,544	(13,688)
Fund Balance					
Beginning of year	<u>1,648,190</u>	<u>129,087</u>	<u>(3,748)</u>	<u>2,949,185</u>	<u>4,722,714</u>
End of year	<u>\$ 1,568,548</u>	<u>\$ 134,242</u>	<u>\$ 13,507</u>	<u>\$ 2,992,729</u>	<u>\$ 4,709,026</u>

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, 2021

Change in fund balance - total governmental funds \$ (13,688)

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 it does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds (464,451)

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 644,175

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds (207,995)

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 (505,597)

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 governmental funds (26,327)

Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position 80,178

In the statement of activities, interest is accrued on long-term debt, whereas in governmental funds interest expenditure is reported when due 1,683

Change in net position of governmental activities \$ (492,022)

CITY OF ORANGE COVE

STATEMENT OF NET POSITION – PROPRIETARY FUNDS JUNE 30, 2021

	Business-Type Activities - Enterprise Funds			Total Business-Type Funds
	Water	Sewer	Disposal	
ASSETS				
Current assets				
Cash and investments	\$ -	\$ 760,526	\$ 209,658	\$ 970,184
Cash with fiscal agent - restricted	37,403	-	-	37,403
Accounts receivable, net	349,646	253,821	114,921	718,388
Due from other governments	25,084	-	-	25,084
Prepays	26,635	18,043	-	44,678
Interest receivable	215	262	55	532
Total current assets	<u>438,983</u>	<u>1,032,652</u>	<u>324,634</u>	<u>1,796,269</u>
Non-current assets				
Property, plant and equipment (net of allowances for depreciation)	<u>9,384,797</u>	<u>7,990,001</u>	<u>-</u>	<u>17,374,798</u>
Total noncurrent assets	<u>9,384,797</u>	<u>7,990,001</u>	<u>-</u>	<u>17,374,798</u>
Total assets	<u>9,823,780</u>	<u>9,022,653</u>	<u>324,634</u>	<u>19,171,067</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>68,721</u>	<u>52,391</u>	<u>-</u>	<u>121,112</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	334,590	62,128	41,155	437,873
Accrued interest	10,928	-	-	10,928
Deposits	49,725	-	-	49,725
Compensated absences	58,458	26,133	-	84,591
Due to other funds	75,349	-	-	75,349
Current portion of long-term debt	74,173	-	-	74,173
Total current liabilities	<u>603,223</u>	<u>88,261</u>	<u>41,155</u>	<u>732,639</u>
Non-current liabilities				
Long-term debt	991,161	-	-	991,161
Net pension liability	240,188	183,113	-	423,301
Total non-current liabilities	<u>1,231,349</u>	<u>183,113</u>	<u>-</u>	<u>1,414,462</u>
Total liabilities	<u>1,834,572</u>	<u>271,374</u>	<u>41,155</u>	<u>2,147,101</u>
DEFERRED INFLOWS OF RESOURCES	<u>29,402</u>	<u>22,415</u>	<u>-</u>	<u>51,817</u>
NET POSITION				
Net investment in capital assets	8,319,463	7,990,001	-	16,309,464
Restricted for debt service	37,403	-	-	37,403
Unrestricted	(328,339)	791,254	283,479	746,394
Total net position	<u>\$ 8,028,527</u>	<u>\$ 8,781,255</u>	<u>\$ 283,479</u>	<u>\$ 17,093,261</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, 2021

	Business-Type Activities - Enterprise Funds			Total Business-Type Funds
	Water	Sewer	Disposal	
Operating Revenue				
Charges for service	\$ 1,698,148	\$ 1,200,561	\$ 644,231	\$ 3,542,940
Total operating revenue	<u>1,698,148</u>	<u>1,200,561</u>	<u>644,231</u>	<u>3,542,940</u>
Operating Expense				
Contractual services and utilities	490,872	308,005	558,335	1,357,212
Personnel	455,329	352,610	-	807,939
Supplies and materials	261,350	160,197	39,120	460,667
Depreciation expense	540,285	463,485	-	1,003,770
Total operating expense	<u>1,747,836</u>	<u>1,284,297</u>	<u>597,455</u>	<u>3,629,588</u>
Operating income/(loss)	<u>(49,688)</u>	<u>(83,736)</u>	<u>46,776</u>	<u>(86,648)</u>
Nonoperating Revenue/(Expense)				
Capital Grants	861,516	-	-	861,516
Development impact	30,516	33,763	-	64,279
fees Other	4,117	-	-	4,117
Interest income	825	2,120	411	3,356
Interest expense	(68,870)	-	-	(68,870)
Total nonoperating revenue/(expense)	<u>828,104</u>	<u>35,883</u>	<u>411</u>	<u>864,398</u>
Net income/(loss) before transfers	778,416	(47,853)	47,187	777,750
Operating Transfers In/(Out)	<u>(64,230)</u>	<u>-</u>	<u>-</u>	<u>(64,230)</u>
Changes in Net Position	714,186	(47,853)	47,187	713,520
Net Position				
Beginning of year	<u>7,314,341</u>	<u>8,829,108</u>	<u>236,292</u>	<u>16,379,741</u>
End of the year	<u>\$ 8,028,527</u>	<u>\$ 8,781,255</u>	<u>\$ 283,479</u>	<u>\$ 17,093,261</u>

CITY OF ORANGE COVE

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS JUNE 30, 2021

	Business-Type Activities - Enterprise Funds			Total Business- Type Funds
	Water	Sewer	Disposal	
Operating Activities				
Receipts from customers and users	\$ 1,579,599	\$ 1,095,632	\$ 619,787	\$ 3,295,018
Payments for contractual services and utilities	(1,031,490)	(315,569)	(602,644)	(1,949,703)
Payments for employees	(569,271)	(496,487)	-	(1,065,758)
Payments to suppliers	(261,350)	(160,197)	-	(421,547)
Net cash provided by (used in) operating activities	(282,512)	123,379	17,143	(141,990)
Non-capital Financing Activities				
Payments from developers	34,633	33,763	-	68,396
Payments received from (paid to) other funds	(158,227)	-	-	(158,227)
Transfer (to)/from other funds	(64,230)	-	-	(64,230)
Net cash provided by (used in) non-capital financing activities	(187,824)	33,763	-	(154,061)
Capital and Related Financing Activities				
Purchase of property, plant and equipment	(1,129,685)	(59,246)	-	(1,188,931)
Capital grants and contributions received	1,744,588	-	-	1,744,588
Principal paid on long-term debt	(71,615)	-	-	(71,615)
Interest paid on long-term debt	(69,407)	-	-	(69,407)
Net cash provided by (used in) capital and related financing activities	473,881	(59,246)	-	414,635
Investing Activities				
Interest received	1,021	3,110	596	4,727
Net cash provided by (used in) investing activities	1,021	3,110	596	4,727
Net Increase (Decrease) in Cash	4,566	101,006	17,739	123,311
Cash				
Beginning of year	32,837	659,520	191,919	884,276
End of year	\$ 37,403	\$ 760,526	\$ 209,658	\$ 1,007,587
Cash Flows from Operating Activities				
Operating income (loss)	\$ (49,688)	\$ (83,736)	\$ 46,776	\$ (86,648)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	540,285	463,485	-	1,003,770
(Increase) Decrease in accounts receivable	(118,834)	(104,929)	(24,444)	(248,207)
(Increase) Decrease in deposits	285	-	-	285
(Increase) Decrease in prepaids	(26,635)	(18,043)	-	(44,678)
(Increase) Decrease in deferred outflows of resources	48,126	53,821	-	101,947
Increase (Decrease) in compensated absences	26,400	9,600	-	36,000
Increase (Decrease) in deferred inflows of resources	(31,509)	(33,883)	-	(65,392)
Increase (Decrease) in net pension liability	(156,959)	(173,415)	-	(330,374)
Increase (Decrease) in accounts payable and accrued liabilities	(513,983)	10,479	(5,189)	(508,693)
Net Cash Provided (Used) by Operating Activities	\$ (282,512)	\$ 123,379	\$ 17,143	\$ (141,990)

CITY OF ORANGE COVE

STATEMENT OF FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2021

Assets

Cash and investments	
Held in City Treasury	\$ 138,391
Held with trustees	403,030
Taxes receivables	119,489
Interest receivable	117
Note receivable	<u>200,000</u>
Total assets	<u>861,027</u>

Liabilities

Accounts payable and accrued liabilities	3,894
Interest payable	54,439
Long-term debt:	
Due within one year	263,596
Due in more than one year	<u>3,267,592</u>
Total liabilities	<u>3,589,521</u>

Net Position

Held in trust for other governments	\$ <u>(2,728,494)</u>
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CITY OF ORANGE COVE

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2021

Additions

Property taxes	\$ 496,346
Investment earnings and other	<u>5,844</u>
Total additions	<u>502,190</u>

Deductions

Program expenses	73,618
Administrative costs	37,341
Interest and fiscal agency expenses of former redevelopment agency	<u>133,787</u>
Total deductions	<u>244,746</u>

Change In Net Position

257,444

Net Position

Beginning of year	<u>(2,985,938)</u>
End of year	<u>\$ (2,728,494)</u>

NOTES TO THE FINANCIAL STATEMENTS

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

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, 2021

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.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

Note 1 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation – Fund Accounting (Continued)

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

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

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

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, 2021

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.

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, 2021

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.

Investments are reported at fair value.

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, 2021

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, 2021

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.

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 (primarily grants and subventions) received but not earned (qualifying expenditures not yet incurred).

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

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.

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 11 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.

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, 2021

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, 2021

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

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, 2021

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, 2021 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$ 4,379,841
Cash and Investments - restricted	244,163
Cash and Investment with fiscal agent - restricted	37,403
Fiduciary Funds:	
Cash and Investments	138,391
Cash and Investments with fiscal agent	<u>403,030</u>
Total Cash and Investments	<u>\$ 5,202,828</u>

Cash and investments as of June 30, 2021 consist of the following:

Cash on hand	\$ 1,791
Deposit with Financial Institutions	1,757,407
Local Agency Investment Fund	3,003,197
Held by Fiscal Agent:	
U.S. Treasury Obligations	37,403
U.S. Government Obligations	<u>403,030</u>
Total Cash and Investments	<u>\$ 5,202,828</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, 2021

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.

	Level 1	Level 2	Level 3	June 30, 2021 Balance
Investments by fair value level:				
Debt Securities:				
U.S. Treasury Obligations	\$ 37,403	\$ -	\$ -	\$ 37,403
U.S. Government Obligations	-	403,030	-	403,030
Total Debt Securities	<u>37,403</u>	<u>403,030</u>	<u>-</u>	<u>440,433</u>
Unclassified Investments				
LAIIF	-	-	-	3,003,197
Total Unclassified Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,003,197</u>
Cash:				
Bank Deposits and Cash on Hand				<u>1,759,198</u>
Total Investments amortized at cost				<u>1,759,198</u>
Total Cash and Investments				<u>\$ 5,202,828</u>

The fair values of the U.S. treasury bonds are based on quoted market prices in active markets and are included in the Level 1 fair value hierarchy. The market for U.S. Treasury obligations is an actively traded market give the high level of daily trading volume. The fair values of U.S. Government Obligations are determined using a matrix pricing technique that values securities based on their relationship to benchmark quoted prices and are in the Level 2 fair value hierarchy.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

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, 2021

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, 2021 the City had the following investments by maturity:

Investment Type	Amount	Maturity Date
Local Agency Investment Fund	\$ 3,003,197	N/A
Held by Bond Trustee:		
U.S. Treasury Obligations	37,403	N/A
U.S. Government Obligations	403,030	N/A
Total	\$ 3,406,227	

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

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	AAAm
Local Agency Investment Fund	\$ 3,003,197	N/A	\$ 3,003,197	\$ -
Held by Bond Trustee:				
U.S. Treasury Obligations	37,403	N/A	-	37,403
U.S. Government Obligations	403,030	N/A	-	403,030
Total	<u>\$ 3,443,630</u>		<u>\$ 3,003,197</u>	<u>\$ 440,433</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, 2021, the City's bank balance of \$1,542,039 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, 2021

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 – Accounts Receivable

Accounts receivable balances of the City’s enterprise funds, including the applicable allowance for uncollectible accounts as of June 30, 2021, are as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Disposal</u>	<u>Total</u>
Accounts receivable	\$ 573,894	\$ 374,776	\$ 194,690	\$ 1,143,360
Allowance for uncollectible accounts	<u>(224,248)</u>	<u>(120,955)</u>	<u>(79,769)</u>	<u>(424,972)</u>
Total accounts receivable, net	<u>\$ 349,646</u>	<u>\$ 253,821</u>	<u>\$ 114,921</u>	<u>\$ 718,388</u>

Note 5 – 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, 2021 are as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 255,346	\$ -
Water Fund	-	75,349
Streets Capital Project Fund	-	102,139
SB2 Special Revenue Fund	-	77,858
	<u>\$ 255,346</u>	<u>\$ 255,346</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

Note 5 – Interfund Activities (Continued)

OPERATING TRANSFERS

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

Transfers in and out for the year ended June 30, 2021 consisted of the following:

	<u>Transfer In</u>	<u>Transfer Out</u>
Major Governmental Funds:		
General	\$ -	\$ 36,913
Daycare	17,255	-
Major Enterprise Fund:		
Water	-	64,230
Nonmajor Governmental Funds:		
Community Development	165,410	-
Bureau of Reclamation	1,280	-
Serna Project	-	8,821
Soccer	9,989	-
Measure C	-	18,104
Streets	-	83,970
Streets Capital Project	18,104	-
	<u>\$ 212,038</u>	<u>\$ 212,038</u>

- The transfers out from the General Fund to Soccer, Serna Project, and Bureau of Reclamation were to close out the funds.
- Transfer out of the Water Fund of \$64,230 to the Community Development Fund was to cover water project costs.
- Transfer out of the Streets Fund to the Community Development Fund of \$83,970 was to cover street costs.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

Note 6 – Notes Receivable

Notes receivable at June 30, 2021 are as follows:

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, 2021, the notes receivable balance was \$1,259,000. Deferred interest receivable on these notes was \$115,100 as of June 30, 2021.

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, 2021, the City loaned forty-eight loans totaling \$1,176,837 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, 2021 was \$275,000. Deferred interest receivable on the note at June 30, 2021 was \$185,987.

Valley Small Business Development Note – A note receivable is due from Valley Small Business Development Corporation ("Valley") in which funds were used to assist Valley in retaining control of a community medical clinic (Orchard Medical Center) in the City of Orange Cove and enable the property to again be used as a financially viable medical clinic. The note is due if and when Valley sells the Property. The first \$200,000 of net appreciation would be due to the Successor Agency in addition to 25% of any excess appreciation. The balance due on the note at June 30, 2021 was \$200,000.

Target 8 Note – A note receivable is due from Target 8 in the amount of \$164,000, payment will be made upon receipts of day care funding at zero percent interest.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

Note 7 – Capital Assets

Capital assets activity of the governmental activities for the year ended June 30, 2021 was as follows:

Governmental Activities	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021
Capital assets, not being depreciated:				
Land	\$ 1,302,411	\$ -	\$ -	\$ 1,302,411
Construction in progress	493,664	-	-	493,664
Total capital assets, not being depreciated	<u>1,796,075</u>	-	-	<u>1,796,075</u>
Capital assets, being depreciated:				
Buildings and improvements	10,687,845	165,588	-	10,853,433
Machinery and equipment	1,717,325	478,587	-	2,195,912
Total capital assets, being depreciated	<u>12,405,170</u>	<u>644,175</u>	-	<u>13,049,345</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,792,423)	(317,107)	-	(4,109,530)
Machinery and equipment	(1,583,313)	(147,344)	-	(1,730,657)
Total accumulated depreciation	<u>(5,375,736)</u>	<u>(464,451)</u>	-	<u>(5,840,187)</u>
Total capital assets, being depreciated, net	<u>7,029,434</u>	<u>179,724</u>	-	<u>7,209,158</u>
Governmental activities capital assets, net	<u>\$ 8,825,509</u>	<u>\$ 179,724</u>	\$ -	<u>\$ 9,005,233</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities Functions:

General Government	\$ 101,248
Public Safety	19,746
Public Works	93,432
Parks and Recreation	100,678
Streets	<u>149,347</u>
	<u>\$ 464,451</u>

CITY OF ORANGE COVE

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

Note 7 – Capital Assets (Continued)

Capital assets activity of the business-type activities for the year ended June 30, 2021 was as follows:

<u>Business-Type Activities</u>	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021
Capital assets, not being depreciated:				
Land	\$ 769,772	\$ -	\$ -	\$ 769,772
Construction in progress	1,185,499	931,325	-	2,116,824
Total capital assets, not being depreciated	<u>1,955,271</u>	<u>931,325</u>	-	<u>2,886,596</u>
Capital assets, being depreciated:				
Buildings and improvements	25,001,901	198,360	-	25,200,261
Machinery and equipment	3,081,527	59,246	-	3,140,773
Total capital assets, being depreciated	<u>28,083,428</u>	<u>257,606</u>	-	<u>28,341,034</u>
Less accumulated depreciation for:				
Buildings and improvements	(11,646,951)	(702,095)	-	(12,349,046)
Machinery and equipment	(1,202,111)	(301,675)	-	(1,503,786)
Total accumulated depreciation	<u>(12,849,062)</u>	<u>(1,003,770)</u>	-	<u>(13,852,832)</u>
Total capital assets being depreciated, net	<u>15,234,366</u>	<u>(746,164)</u>	-	<u>14,488,202</u>
Business-type activities capital assets, net	<u>\$ 17,189,637</u>	<u>\$ 185,161</u>	<u>\$ -</u>	<u>\$ 17,374,798</u>

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

Business-Type Functions:

Water	\$ 540,285
Sewer	<u>463,485</u>
	<u>\$ 1,003,770</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

Note 8 – Long-term Debt

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

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

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2021</u>	<u>Current</u> <u>Portion</u>
Governmental Activities:					
<i>Direct Placement:</i>					
Special Assessment Bonds	\$ 966,000	\$ -	\$ (78,000)	\$ 888,000	\$ 81,000
<i>Direct Borrowing:</i>					
PG&E Streetlights Loan	9,620	-	(2,178)	7,442	2,178
Total Governmental Activities Debt	<u>\$ 975,620</u>	<u>\$ -</u>	<u>\$ (80,178)</u>	<u>\$ 895,442</u>	<u>\$ 83,178</u>
Business-Type Activities:					
<i>Direct Placements:</i>					
<i>Bonds Payable:</i>					
1995 Water System Improvement Project	\$ 508,364	\$ -	\$ (24,500)	\$ 483,864	\$ 25,500
2005 COP Water Loan	344,900	-	(7,600)	337,300	8,000
<i>Direct Borrowing:</i>					
<i>Notes Payable:</i>					
California Department of Water Resource	283,685	-	(39,515)	244,170	40,673
Total Business-Type Activities Debt	<u>1,136,949</u>	<u>-</u>	<u>(71,615)</u>	<u>1,065,334</u>	<u>74,173</u>
Net Pension Liability/(Asset):					
<i>Governmental Activities</i>					
Net Pension Asset	<u>\$ (358,030)</u>	<u>\$(445,223)</u>	<u>\$ -</u>	<u>\$ (803,253)</u>	
Net Pension Liability	<u>\$ -</u>	<u>\$ 977,453</u>	<u>\$ -</u>	<u>\$ 977,453</u>	
<i>Business-Type Activities</i>					
Net Pension Liability	<u>\$ 753,675</u>	<u>\$ -</u>	<u>\$ (330,374)</u>	<u>\$ 423,301</u>	

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

Note 8 – Long-term Debt (Continued)

Long-term debt at June 30, 2021 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, 2021, bonds payable outstanding amounts to \$888,000.

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>
2022	\$ 81,000	\$ 42,375	\$ 123,375
2023	85,000	38,225	123,225
2024	88,000	33,900	121,900
2025	93,000	29,375	122,375
2026	98,000	24,600	122,600
2027-2030	443,000	45,775	488,775
	<u>\$ 888,000</u>	<u>\$ 214,250</u>	<u>\$ 1,102,250</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, 2021, the note payable outstanding amounts to \$7,442.

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>
2022	\$ 2,178	\$ -	\$ 2,178
2023	2,178	-	2,178
2024	2,178	-	2,178
2025	908	-	908
	<u>\$ 7,442</u>	<u>\$ -</u>	<u>\$ 7,442</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

Note 8 – 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, 2021, the bonds payable outstanding amounts to \$483,864.

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>
2022	\$ 25,500	\$ 23,231	\$ 48,731
2023	26,500	22,061	48,561
2024	28,000	20,835	48,835
2025	29,000	19,553	48,553
2026	30,500	18,214	48,714
2027-2031	173,500	68,794	242,294
2032-2036	170,864	25,134	195,998
	<u>\$ 483,864</u>	<u>\$ 197,822</u>	<u>\$ 681,686</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

Note 8 – 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, 2021, the bonds payable outstanding amounts to \$337,300.

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

Years ending in June 30,	Principal	Interest	Total
2022	\$ 8,000	\$ 13,749	\$ 21,749
2023	8,300	13,413	21,713
2024	8,600	13,064	21,664
2025	9,000	12,701	21,701
2026	9,400	12,322	21,722
2027-2031	52,900	55,369	108,269
2032-2036	64,700	43,273	107,973
2037-3041	79,300	28,473	107,773
2042-2047	97,100	10,337	107,437
	<u>\$ 337,300</u>	<u>\$ 202,701</u>	<u>\$ 540,001</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, 2021, the note payable outstanding amounts to \$244,170.

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

Years ending in June 30,	Principal	Interest	Total
2022	\$ 40,673	\$ 7,472	\$ 48,145
2023	41,884	6,261	48,145
2024	43,121	5,024	48,145
2025	44,423	3,721	48,144
2026	45,736	2,408	48,144
2027-2031	28,333	-	28,333
	<u>\$ 244,170</u>	<u>\$ 24,886</u>	<u>\$ 269,056</u>

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

Note 9 – Deferred Outflows/Inflows of Resources

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 \$659,997 in deferred outflow of resources related to net pension liability in the Statement of Net Position, see Note 11 for more details.

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 \$314,161 in deferred inflows related to net pension in the Statement of Net Position, see Note 11 for more details.

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 \$3,251,881 as unavailable revenues in the governmental funds:

	<u>Housing Fund</u>	<u>Low- Moderate Housing Asset</u>	<u>Total</u>
Unavailable revenues:			
Interest income	\$ 115,100	\$ 185,987	\$ 301,087
Loan repayments	<u>2,675,794</u>	<u>275,000</u>	<u>2,950,794</u>
	<u>\$2,790,894</u>	<u>\$ 460,987</u>	<u>\$3,251,881</u>

Note 10 – Deficit Fund Balances

The following is a summary of deficit fund balances and net position as of June 30, 2021:

The deficit fund balance of \$2,728,494 in the Successor Agency is due to a bond payable, which will be paid down with future tax increments.

The deficit fund balance of \$120,883 in the Streets Capital Project Fund is due to operating expenditures exceeding operating revenues in the current year.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

Note 11 – 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, 2021, are summarized as follows:

	<u>Miscellaneous Classic</u>	<u>Safety Classic</u>
Hire Date	Prior to <u>January 1, 2013</u>	Prior to <u>January 1, 2013</u>
Benefit Formula	2% @ 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>
Hire Date	Prior to <u>January 1, 2013</u>	Prior to <u>January 1, 2013</u>
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, 2021**

Note 11 – 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, 2021, the contributions recognized as part of the pension expense is as follows:

Contributions – employer	\$ 299,510
Contributions – employee	\$ 141,698

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

As of June 30, 2021, 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	\$1,400,754
Safety	(\$803,253)

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, 2019, 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, 2019 rolled forward to June 30, 2020 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, 2020 and 2021 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion – June 30, 2020	0.03093%	(0.01350%)
Proportion – June 30, 2021	0.03321%	(0.01206%)
Change – Increase/(Decrease)	0.00228%	(0.00144%)

CITY OF ORANGE COVE

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

Note 11 – Defined Benefit Pension Plan (Continued)

For the year ended June 30, 2021, the City recognized pension expense of \$161,151. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 299,510	\$ -
Adjustment due to differences in proportions	244,014	-
Difference between expected and actual experience	72,185	(62,288)
Difference between projected and actual contributions	-	(224,426)
Changes in assumptions or other inputs	2,676	(9,990)
Net differences between projected and actual earnings on pension plan investments	41,612	(17,457)
Total	\$ 659,997	\$ (314,161)

The \$299,510 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2022	\$ 36,375
2023	(5,978)
2024	4,717
2025	11,212
	<u>\$ 46,326</u>

CITY OF ORANGE COVE

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

Note 11 – Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – The total pension liability in the June 30, 2019 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
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	7.15%
Inflation	2.50%
Payroll Growth	2.80%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.15%
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, 2020.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

Note 11 – Defined Benefit Pension Plan (Continued)

Discount rate – The discount rate used to measure the total pension liability was 7.15 percent.

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, 2020.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

Note 11 – 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	50%	4.80%	5.98%
Fixed Income	28%	1.00%	2.62%
Inflation Assets	0%	0.77%	1.81%
Private Equity	8%	6.30%	7.23%
Real Estate	13%	3.75%	4.93%
Liquidity	1%	0.00%	-92.00%
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 (6.15%) or 1-percentage point higher (8.15%) than the current rate:

	Current		
	1% Decrease (6.15%)	Discount Rate (7.15%)	1% Increase (8.15%)
Miscellaneous	\$ 2,287,793	\$ 1,400,754	\$ 667,823
Safety	\$ (456,601)	\$ (803,253)	\$ (1,087,714)

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, 2021, the City has no outstanding amount of contributions to the pension plan required for the year ended June 30, 2021.

CITY OF ORANGE COVE

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2021

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, 2021, 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, 2021, 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, 2021

Note 12 – Risk Management (Continued)

The latest audited financial information and the most current information available for CSJVRMA for fiscal year ended June 30, 2021 is as follows:

Total assets	\$ 140,373,479
Total liabilities	\$ 120,609,137
Total equities	\$ 19,764,342
Total revenues	\$ 58,244,856
Total expenses	\$ 57,261,330
Revenues over (under) expenses	\$ 983,526

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 \$1,440,648 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:	\$62,918
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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, 2021

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, 2021 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, 2021, the bond outstanding amounts to \$3,531,188.

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>
2022	\$ 263,596	\$ 128,216	\$ 391,812
2023	277,432	118,334	395,766
2024	286,027	107,990	394,017
2025	294,468	97,329	391,797
2026	307,796	86,311	394,107
2027-2031	1,719,663	250,460	1,970,123
2032	382,206	10,606	392,812
	<u>\$ 3,531,188</u>	<u>\$ 799,246</u>	<u>\$ 4,330,434</u>

Note 16 – Subsequent Event

The City evaluated subsequent events for recognition and disclosure through November 16, 2022, the date which these financials were available to issue. Management concluded that no material subsequent events have occurred since June 30, 2021 that required recognition or disclosure in such financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ORANGE COVE

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,843,107	\$ 1,843,107	\$ 2,041,137	\$ 198,030
Intergovernmental	125,000	125,000	723,186	598,186
Charges for service	426,392	426,392	150,334	(276,058)
Licenses, permits and impact fees	215,830	215,830	107,229	(108,601)
Interest and rent	23,538	23,538	1,354	(22,184)
Other	175,780	175,780	156,089	(19,691)
Total revenues	<u>2,809,647</u>	<u>2,809,647</u>	<u>3,179,329</u>	<u>369,682</u>
Expenditures				
Current:				
General government	429,131	429,131	444,663	(15,532)
Public safety	1,933,318	1,933,318	1,977,572	(44,254)
Public works	335,232	335,232	326,918	8,314
Planning and development	-	-	187,401	(187,401)
Parks and recreation	297,216	297,216	226,732	70,484
Total expenditures	<u>2,994,897</u>	<u>2,994,897</u>	<u>3,317,960</u>	<u>(323,063)</u>
Revenue over/(under) expenditures	(185,250)	(185,250)	(138,631)	46,619
Other Financing Sources/(Uses)				
Sale of land	375,000	375,000	95,902	(279,098)
Transfers in/(out) - net	-	-	(36,913)	(36,913)
Total other financing sources/(uses)	<u>375,000</u>	<u>375,000</u>	<u>58,989</u>	<u>(316,011)</u>
Change in Fund Balance	<u>\$ (560,250)</u>	<u>\$ (560,250)</u>	(79,642)	<u>\$ (269,392)</u>
Fund Balance				
Beginning of year			<u>1,648,190</u>	
End of year			<u>\$ 1,568,548</u>	

CITY OF ORANGE COVE

**BUDGETARY COMPARISON SCHEDULE
HOUSING GRANT SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2021**

	<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	\$ -	\$ -	\$ 5,155	\$ 5,155
Total revenues	-	-	5,155	5,155
Expenditures				
Current:				
Planning and development	-	-	-	-
Total expenditures	-	-	-	-
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	5,155	<u>\$ 5,155</u>
Fund Balance				
Beginning of year			<u>129,087</u>	
End of year			<u>\$ 134,242</u>	

CITY OF ORANGE COVE

**BUDGETARY COMPARISON SCHEDULE
 DAY CARE SPECIAL REVENUE FUND
 FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Budgeted Amount</u>		<u>Actual Amount</u>	Variance with Final Budget Positive/ (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$1,440,647	\$1,440,647	\$1,445,162	\$ 4,515
Other	-	-	40,753	40,753
Total revenues	<u>1,440,647</u>	<u>1,440,647</u>	<u>1,485,915</u>	<u>45,268</u>
Expenditures				
Current:				
Day care	<u>1,440,647</u>	<u>1,440,647</u>	<u>1,485,915</u>	<u>(45,268)</u>
Total expenditures	<u>1,440,647</u>	<u>1,440,647</u>	<u>1,485,915</u>	<u>(45,268)</u>
Revenue over/(under) expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Other Financing Sources/(Uses)				
Transfers in/(out) - net	-	-	17,255	-
Total other financing sources/(uses)	-	-	17,255	-
Change in Fund Balance	<u>-</u>	<u>-</u>	17,255	<u>-</u>
Fund Balance				
Beginning of year			(3,748)	
End of year			<u>\$ 13,507</u>	

CITY OF ORANGE COVE

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY/ASSET
LAST 10 YEARS*
FOR THE YEAR ENDED JUNE 30, 2021**

	Proportion of the net pension liability	Proportionate share of the net pension liability	Covered - employee payroll	Proportionate share of the net pension liability as a percentage of covered-employee payroll	Plan's fiduciary net position	Plan's fiduciary net position as a percentage of the Total Pension Liability
Miscellaneous						
2015	0.01071%	\$ 666,533	\$ 1,092,158	65.32%	\$ 3,917,081	85.46%
2016	0.02037%	\$ 558,760	\$ 1,041,735	53.64%	\$ 4,202,928	99.12%
2017	0.02559%	\$ 888,986	\$ 852,798	104.24%	\$ 4,235,032	82.65%
2018	0.02784%	\$ 1,097,391	\$ 877,360	125.08%	\$ 4,622,119	80.81%
2019	0.02870%	\$ 1,081,502	\$ 773,792	139.77%	\$ 4,965,531	82.12%
2020	0.03093%	\$ 1,238,376	\$ 776,655	159.45%	\$ 5,340,241	81.18%
2021	0.03321%	\$ 1,400,755	\$ 781,468	179.25%	\$ 5,264,916	78.99%
Safety						
2015	-0.01254%	(780,109)	\$ 762,323	-102.33%	\$ 1,568,579	198.94%
2016	-0.02013%	(829,606)	\$ 739,296	-112.22%	\$ 2,229,193	133.71%
2017	-0.01404%	(727,001)	\$ 720,786	-100.86%	\$ 2,223,046	148.59%
2018	-0.01276%	(762,676)	\$ 734,007	-103.91%	\$ 2,551,526	142.63%
2019	-0.01432%	(840,277)	\$ 763,507	-110.05%	\$ 2,871,423	141.37%
2020	-0.01350%	(842,730)	\$ 750,151	-112.34%	\$ 3,193,989	135.84%
2021	-0.01206%	(803,253)	\$ 800,023	-100.40%	\$ 3,355,850	131.47%

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

CITY OF ORANGE COVE
SCHEDULE OF CONTRIBUTIONS
LAST 10 YEARS*
FOR THE YEAR ENDED JUNE 30, 2021

	Contractually required contribution (actuarially determined)	Contributions in relation to the actuarially determined contributions	Contributions deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
Miscellaneous					
2015	\$ 70,820	\$ (70,820)	\$ -	\$ 1,092,158	6.48%
2016	\$ 62,311	\$ (62,311)	\$ -	\$ 1,041,735	5.98%
2017	\$ 68,123	\$ (68,123)	\$ -	\$ 852,798	7.99%
2018	\$ 84,070	\$ (84,070)	\$ -	\$ 877,360	9.58%
2019	\$ 89,462	\$ (89,462)	\$ -	\$ 773,792	11.56%
2020	\$ 103,360	\$ (103,360)	\$ -	\$ 776,655	13.31%
2021	\$ 120,367	\$ (120,367)	\$ -	\$ 781,468	15.40%
Safety					
2015	\$ 59,090	\$ (59,090)	\$ -	\$ 762,323	7.75%
2016	\$ 44,824	\$ (44,824)	\$ -	\$ 739,296	6.06%
2017	\$ 87,083	\$ (87,083)	\$ -	\$ 720,786	12.08%
2018	\$ 102,006	\$ (102,006)	\$ -	\$ 734,007	13.90%
2019	\$ 105,577	\$ (105,577)	\$ -	\$ 763,507	13.83%
2020	\$ 103,755	\$ (103,755)	\$ -	\$ 750,151	13.83%
2021	\$ 116,069	\$ (116,069)	\$ -	\$ 800,023	14.51%

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

CITY OF ORANGE COVE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2021

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.

CITY OF ORANGE COVE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2021

Note 2 – Excess of Expenditures over Appropriations

The excess of expenditures over appropriations are as follows:

General Fund:

Current:

General government	\$ 15,532
Public safety	\$ 44,254
Planning and development	\$ 187,401

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

Daycare Special Revenue Fund:

Current:

Day care	\$ 45,268
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OTHER SUPPLEMENTARY INFORMATION

CITY OF ORANGE COVE

**COMBINING BALANCE SHEET-NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021**

	Special Revenue Funds				
	Low-Moderate Housing Asset	Streets	Measure O	Gas Tax	Soccer Grant
ASSETS					
Cash and investments	\$ 71,776	\$ 29,233	\$ 2,927	\$ 90,095	\$ -
Interest receivable	185,987	31	-	37	-
Due from other governments	-	-	-	31,945	-
Notes receivable	275,000	-	-	-	-
Land held for resale	-	-	-	-	-
Total assets	<u>\$ 532,763</u>	<u>\$ 29,264</u>	<u>\$ 2,927</u>	<u>\$ 122,077</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable and accrued expenses	\$ -	\$ -	\$ 591	\$ 10,066	\$ -
Due to other funds	-	-	-	-	-
Total liabilities	-	-	<u>591</u>	<u>10,066</u>	-
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues	460,987	-	-	-	-
Total deferred inflows of resources	<u>460,987</u>	-	-	-	-
Fund Balance					
Nonspendable:					
Land held for resale	-	-	-	-	-
Restricted:					
Public safety	-	-	2,336	-	-
Low-income housing activities	71,776	-	-	-	-
Circulation improvements	-	29,264	-	112,011	-
Capital improvement projects	-	-	-	-	-
Debt service	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balance	<u>71,776</u>	<u>29,264</u>	<u>2,336</u>	<u>112,011</u>	<u>-</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 532,763</u>	<u>\$ 29,264</u>	<u>\$ 2,927</u>	<u>\$ 122,077</u>	<u>\$ -</u>

CITY OF ORANGE COVE

**COMBINING BALANCE SHEET- NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2021**

	Special Revenue Funds				
	Community Development	Traffic Congestion	Local		
			Transportation Fund	Bureau of Reclamation	Serna Project
ASSETS					
Cash and investments	\$ 191,156	\$ 10,758	\$ 690,461	\$ -	\$ -
Interest receivable	114	-	189	-	-
Due from other governments	6,180	-	22,185	-	-
Notes receivable	-	-	-	-	-
Land held for resale	498,841	-	-	-	-
Total assets	\$ 696,291	\$ 10,758	\$ 712,835	\$ -	\$ -
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable and accrued expenses	\$ -	\$ -	\$ 4,914	\$ -	\$ -
Due to other funds	-	-	-	-	-
Total liabilities	-	-	4,914	-	-
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues	-	-	-	-	-
Total deferred inflows of resources	-	-	-	-	-
Fund Balance					
Nonspendable:					
Land held for resale	498,841	-	-	-	-
Restricted:					
Public safety	-	10,758	-	-	-
Circulation improvements	-	-	707,921	-	-
Capital improvement projects	197,450	-	-	-	-
Debt service	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balance	696,291	10,758	707,921	-	-
Total liabilities, deferred inflows of resources, and fund balance	\$ 696,291	\$ 10,758	\$ 712,835	\$ -	\$ -

CITY OF ORANGE COVE

**COMBINING BALANCE SHEET- NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2021**

	Special Revenue Funds			Capital Project Fund		Debt Service Fund	Total Non-major Governmental Funds
	SB2	Development Impact Fees	Measure C	Streets Capital Project	General Debt Service		
ASSETS							
Cash and investments	\$ -	\$ 660,796	\$ 317,584	\$ -	\$ -	\$ 468,519	\$ 2,533,305
Interest receivable	-	153	97	-	-	128	186,736
Due from other governments	77,858	-	45,111	52,752	-	-	236,031
Notes receivable	-	-	-	-	-	-	275,000
Land held for resale	-	-	-	-	-	-	498,841
Total assets	\$ 77,858	\$ 660,949	\$ 362,792	\$ 52,752	\$ -	\$ 468,647	\$ 3,729,913
LIABILITIES AND FUND BALANCE							
Liabilities:							
Accounts payable and accrued expenses	\$ -	\$ -	\$ 7,800	\$ 71,497	\$ 1,332	\$ -	\$ 96,200
Due to other funds	77,858	-	-	102,139	-	-	179,997
Total liabilities	77,858	-	7,800	173,636	1,332	-	276,197
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenues	-	-	-	-	-	-	460,987
Total deferred inflows of resources	-	-	-	-	-	-	460,987
Fund Balance							
Nondeductible:							
Land held for resale	-	-	-	-	-	-	498,841
Restricted:							
Public safety	-	-	-	-	-	-	2,336
Low-income housing activities	-	-	-	-	-	-	71,776
Circulation improvements	-	-	354,992	-	-	-	1,214,946
Capital improvement projects	-	660,949	-	-	-	-	858,399
Debt service	-	-	-	-	-	467,315	467,315
Unassigned	-	-	-	(120,884)	-	-	(120,884)
Total fund balance	-	660,949	354,992	(120,884)	-	467,315	2,992,729
Total liabilities, deferred inflows of resources, and fund balance	\$ 77,858	\$ 660,949	\$ 362,792	\$ 52,752	\$ -	\$ 468,647	\$ 3,729,913

CITY OF ORANGE COVE

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021**

	Special Revenue Funds				
	Low-Moderate Housing Asset	Streets	Measure O	Gas Tax	Soccer Grant
Revenues					
Taxes	\$ -	\$ -	\$ 260,002	\$ -	\$ -
Intergovernmental	-	-	26,086	382,791	-
Licenses, permits and impact fees	-	-	-	-	-
Interest and rent	132	285	303	1,192	-
Total revenues	132	285	286,391	383,983	-
Expenditures					
Current:					
Public safety	-	-	283,635	-	-
Public works	-	-	-	134,018	-
Planning and development	-	-	-	-	-
Capital outlay	-	-	-	412,596	-
Debt service:					
Principal	-	-	-	1,089	-
Interest and other charges	-	-	-	-	-
Total expenditures	-	-	283,635	547,703	-
Revenue over/(under) expenditures	132	285	2,756	(163,720)	-
Other financing sources/(uses)					
Operating transfers in/(out) - net	-	(83,970)	-	-	9,989
Total other financing sources/(uses)	-	(83,970)	-	-	9,989
Change in Fund Balance	132	(83,685)	2,756	(163,720)	9,989
Fund Balance					
Beginning of year	71,644	112,949	(420)	275,731	(9,989)
End of year	\$ 71,776	\$ 29,264	\$ 2,336	\$ 112,011	\$ -

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, 2021**

	Special Revenue Funds				
	Community Development	Traffic Congestion	Local Transportation	Bureau of Reclamation	Serna Project
Revenues					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	325,148	-	-
Licenses, permits and impact fees	-	-	-	-	-
Interest and rent	890	20	1,582	-	16
Total revenues	890	20	326,730	-	16
Expenditures					
Current:					
Public safety	-	-	-	-	-
Public works	-	-	222,093	-	-
Planning and development	2,500	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and other charges	-	-	-	-	-
Total expenditures	2,500	-	222,093	-	-
Revenue over/(under) expenditures	(1,610)	20	104,637	-	16
Other financing sources/(uses)					
Operating transfers in/(out) - net	165,410	-	-	1,280	(8,821)
Total other financing sources/(uses)	165,410	-	-	1,280	(8,821)
Change in Fund Balance	163,800	20	104,637	1,280	(8,805)
Fund Balance					
Beginning of year	532,491	10,738	603,284	(1,280)	8,805
End of year	\$ 696,291	\$ 10,758	\$ 707,921	\$ -	\$ -

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, 2021**

	Special Revenue Funds		Capital Project Fund		Debt Service Fund		Total Non-major Governmental Funds
	SB2	Development Impact Fees	Streets	Capital Project	General Debt Service		
Revenues							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 141,037	\$ -	\$ 401,039
Intergovernmental	124,989	-	353,108	83,852	-	-	1,295,974
Licenses, permits and impact fees	-	35,062	-	-	-	-	35,062
Interest and rent	-	1,450	742	-	928	-	7,540
Total revenues	<u>124,989</u>	<u>36,512</u>	<u>353,850</u>	<u>83,852</u>	<u>141,965</u>	<u>-</u>	<u>1,739,615</u>
Expenditures							
Current:							
Public safety	-	-	-	-	-	-	283,635
Public works	9,000	31,866	233,203	148,489	-	-	778,669
Planning and development	115,989	-	-	-	5,187	-	123,676
Capital outlay	-	76,905	-	-	-	-	489,501
Debt service:							
Principal	-	-	1,089	-	-	78,000	80,178
Interest and other charges	-	-	-	-	-	24,300	24,300
Total expenditures	<u>124,989</u>	<u>108,771</u>	<u>234,292</u>	<u>148,489</u>	<u>107,487</u>	<u>-</u>	<u>1,779,959</u>
Revenue over/(under) expenditures	-	(72,259)	119,558	(64,637)	34,478	(40,344)	
Other financing sources/(uses)							
Operating transfers in/(out) - net	-	-	(18,104)	18,104	-	-	83,888
Total other financing sources/(uses)	-	-	(18,104)	18,104	-	-	83,888
Change in Fund Balance							
	-	(72,259)	101,454	(46,533)	34,478	43,544	
Fund Balance							
Beginning of year	-	733,208	253,538	(74,351)	432,837	2,949,185	
End of year	\$ -	\$ 660,949	\$ 354,992	\$ (120,884)	\$ 467,315	\$ 2,992,729	

COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange Cove (the City) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated November 16, 2022.

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 and significant deficiencies.

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. We consider the deficiencies described in items 2021-01 through 2021-02 to be material weaknesses.

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 the accompanying schedule of findings and questioned costs as items 2021-03 through 2021-04 to be significant deficiencies.

Compliance and Other Matters

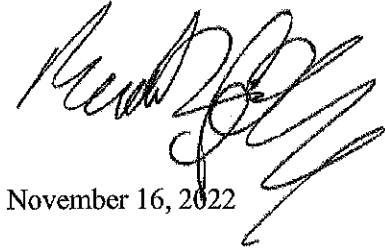
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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.

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

November 16, 2022

CITY OF ORANGE COVE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2021

A. Summary of Auditor's Results

Financial Statements

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

B. Findings – Financial Statements Audit

2021-01 Year-End Closing Process (Material Weakness)

Condition: As described in the California State Controllers “2015 Internal Control Guidelines” an effective internal control system and timely financial reporting of all financial activity provides reasonable assurance for the safeguarding of assets, the reliability of financial information, and compliance with laws and regulations.

Criteria: The City's year-end financial closing process was not timely, complete or accurate. The lack of a complete and proper close resulted in numerous audit adjustments and significant delays in completing the annual audit.

Cause: The City's Finance Director, who also serves as the City Manager, oversees the closing of the City's general ledger while balancing the duties as City Manager. In addition to these responsibilities, there were numerous other financial statement, compliance, and control environment matters to resolve that were inherited from accounting errors and decisions made in previous fiscal years. Additionally, during the closing process, the City's accounting department lost experienced staff positions, which had to be replaced with new staff requiring significant training. Lastly, the City has had significant disruptions as a result of the COVID-19 pandemic.

Effect: Various areas of the financial statements, including fund balance/net position, governmental and enterprise accounts receivable, accounts payable, unavailable revenue, and revenue were materially misstated, which required journal entries to be posted subsequent to receiving the City's final trial balance.

Recommendation: We recommend that the City perform the following steps in order to address the matters described above:

- Create a closing checklist to assist with the preparation of audit schedules that are complete, accurate, and reconcile to the City's general ledger account balances. Additionally, ensure that a system is in place to allow the City to perform this in a timely matter.
- Provide additional assistance to the Finance Department through the hiring of additional competent personnel.

CITY OF ORANGE COVE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2021

B. Findings – Financial Statements Audit (continued)

2021-01 Year-End Closing Process (Material Weakness) (continued)

- Provide additional training in accounting specific to governmental entities to Finance Department staff in order to ensure that they are current with all financial accounting and reporting requirements as directed by the Governmental Accounting Standards Board.

Management's Response: See client's corrective action plan as listed in the table of contents.

2021-02 Bank Reconciliations (Material Weakness)

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

Criteria: A strong system of internal controls and management review requires that bank reconciliations be performed on a timely basis.

Cause: The City hired an outside consultant to perform the bank reconciliations, however, this resulted in delays in rectifying any unreconciled differences. In addition, the demands placed on the Finance Director (loss of experienced staff, audit preparation, and other matters) prevented the timely completion of the bank reconciliation process.

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

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

Management's Response: See client's corrective action plan as listed in the table of contents.

2021-03 Employee/Board Medical Reimbursements (Significant Deficiency)

Condition: The City is not in line with its medical reimbursement policy.

Criteria: The City offers medical reimbursements for out-of-pocket costs to employees and officers who waive coverage through the City's health plan. These reimbursements must not exceed the cost of the medical health plan's annual premium per family member, per year. The City's medical reimbursement policy states, "the City should have a uniform Claim Form that is completed for each request and should not make payment based on receipts only" Additionally, the policy also states, "the City should maintain a running total for each person to ensure the annual amount is not exceeded".

Cause: The City's latest medical reimbursement policy was implemented in 2011. Over the years, the City has had significant turnover which created difficulties in overseeing eligibility and enforcing the policy.

CITY OF ORANGE COVE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2021

B. Findings – Financial Statements Audit (continued)

2021-03 Employee/Board Medical Reimbursements (Significant Deficiency) (continued)

Effect: Of 5 reimbursements selected for testing:

- 3 reimbursements were approved using previously submitted documentation for the reimbursement of medical premiums
- The City did not maintain a cumulative reimbursement log for any of the claimants tested.

Recommendation: We recommend the City follow its medical reimbursement plan.

- Ensure all claimants remain eligible for reimbursement under the policy
- Create a medical reimbursement claim form with appropriate approvals that lists all requirements for reimbursement. This allows the claimant and approver to ensure all requisites are met prior to reimbursement.
- Ensure supporting documentation received from claimant is up-to-date and not previously submitted and is eligible under the City's policy.
- Maintain a log of annual reimbursements per claimant to ensure the total does not exceed the threshold as stated in the policy.

Management's Response: See client's corrective action plan as listed in the table of contents.

Finding 2021-004 Credit Card Authorization and Documentation (Significant Deficiency)

Condition: During our audit, we noted the City's process in ensuring credit card charges were approved and included supporting documentation was not effective. Our review of credit card charges found that charges made on the City's credit cards did not always have supporting documentation or documented approvals.

Criteria: Per the City's credit card policy, all credit card charges must include a receipt for all charges. Additionally, the City requires an expense and reimbursement report for all credit card charges.

Cause: The City had not enforced documentation or claim forms for the month tested as required by the City's credit card policy.

Effect: Of the 2 months that were selected for testing, the we found two transaction that did not have any supporting receipts or approval documentation.

Recommendation: We recommend the City actively monitor the use of credit cards and require all cardholders to submit receipts of all charges and indicate the nature of charges. Cardholders should be given no more than 30 days after the charge to submit their receipts. Documentation and a brief description of all transactions help detect any questionable charges paid via credit card.

Management's Response: See client's corrective action plan as listed in the table of contents.

Mayor
Victor P. Lopez

Mayor Pro Tem
Diana Guerra Silva

City Council Members:
Roy Rodriguez
Jasie Cervantes
Esperanza Rodriguez



Incorporated January 20, 1948

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

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

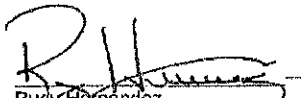
City Clerk
June V. Bracamontes
(559) 626-4488 ext. 214

633 6th St. Orange Cove, CA 93646 | Phone: (559) 626-4488 | FAX: (559) 626-4653

**CITY OF ORANGE COVE
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2021**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2021-001	The City's year-end closing process was delayed by the loss of long-time accounting personnel in the finance department. In addition, the City had significant disruptions as a result of COVID-19 pandemic. To deal with the loss 2 long-time accounting staff members, the City hired new staff members who had no prior experience in working in a City finance department. As a result, the Finance Director spent an excessive amount of time training new staff in the areas of cash handling, accounts payable, payroll and other accounting operations. While this was a good thing, it also had an effect of delaying the year-end closing process. On February 27, 2019, the City Council approved a resolution adopting a new fiscal year end closing policy. That being said, the City does have a fiscal year-end policy that acts as a check list in getting the books ready for the forthcoming audit. I agree with our auditors that having additional assistance in the Finance Department through the hiring of additional competent personnel would be immensely helpful especially during the fiscal year-end process.	6-30-2022	Rudy Hernandez City Manager/Finance Director
2021-002	The loss of 2 long-time accounting staff members and having to train 2 newly hired finance staff members with no accounting background played a major part in not being able to reconcile the bank statements on a timely basis. Another factor was COVID-19 which resulted in long time absences of	6-30-2022	Rudy Hernandez City Manager/Finance Director

	finance staff. The finance Director has periodic meetings with finance staff to insure that all finance members have an understanding of what's involved in the monthly bank reconciliations. With a better trained finance staff, bank statements are now once again being reconciled on a timely basis.		
2021-003	When the new finance director arrived in fiscal year 2018-19, the City's accounts payable files lacked supporting documentation, claimant signatures and management approvals. This poor accounting system carried over into FY 2019-20. In early FY 2020-21, the Finance Director implemented a new procurement system whereby all invoices are approved by management department heads and the City Manager. Today accounts payable files are well organized and supported by proper documentation. What staff has not implemented is a log of annual reimbursements per claimant. This will be implemented during the FY 2021-22.	6-30-2022	Rudy Hernandez City Manager/Finance Director
2021-004	Prior to FY 2018-19 and including FY 2019-20, the City's credit card statements were not reconciled by the City's finance staff. Credit card receipts were also not brought back by some card holders. During FY 2020-21, the City finance director developed a system whereby the City's finance administrative assistant reconciles all credit card statements on a monthly basis which is also reviewed and approved by the City Manager/Finance Director. Card holders must turn in credit card receipts within 5 days of purchase or 5 days from returning from an out-of-town conference.	6-30-2022	Rudy Hernandez City Manager/Finance Director


 Rudy Hernandez
 City Manager/Finance Director