



AGENDA

Special City Council Meeting

and Successor Agency to the
Former Redevelopment Agency

Tuesday, December 21, 2021 – 5:30 pm.

Council Chambers

746 8th Street, Wasco, CA 93280

www.cityofwasco.org

SPECIAL NOTICE REGARDING REMOTE PUBLIC PARTICIPATION DUE TO COVID-19*

Pursuant to the Governor's Executive Order N-08-21, the City Council Members and staff may choose to participate in person or by video conference. The City Council meetings are presented in a hybrid format, both in-person at City Hall and virtually via Zoom Webinar. The public may participate via the following options:

1. Attending in person: **Mask is required for all individuals at all times** while in the Council Chambers or City Hall regardless of vaccination status. Please maximize spacing by utilizing all seating in the Chambers.
2. Members of the public can view the City Council meetings live on the city's website: <https://www.cityofwasco.org/306/city-council-meeting-videos>,
3. Additionally, members of the public who wish to make a written comments during the meeting, please email the City Clerk cityclerk@cityofwasco.org. Every effort will be made to read your comment into the record; however, they are limited to two (2) minutes. If a comment is received after the comment portion of the meeting but before the meeting is adjourned, the comment will still be included as a part of the record of the meeting but will not be read into the record.

SPECIAL MEETING – 5:30 pm

- 1) **CALL TO ORDER:** Mayor Reyna
- 2) **ROLL CALL:** Mayor Reyna, Mayor Pro Tem Pallares, Council Members: Cortez, Garcia, Martinez
- 3) **FLAG SALUTE:** Mayor Reyna
- 4) **PUBLIC COMMENTS:**
This portion of the meeting is reserved for persons desiring to address the Council and including the Council acting as the Governing Board for the Successor Agency on any matter on this agenda and over which the Council and Successor Agency have jurisdiction. Speakers are limited to two (2) minutes. A maximum of Thirty (30) minutes will be allowed for any one subject. Please state your name for the record before making your presentation.

BROWN ACT REQUIREMENTS: The Brown Act does not allow action or Discussion on items, not on the agenda (subject to narrow exceptions). This will limit a Councilmember's response to questions and requests made during this comment period.

5) NEW BUSINESS:

- a. Receive and file the City of Wasco Financial Statements for the Year Ended June 30, 2021, and the City of Wasco Measure X Financial Statements for the Year Ended June 30, 2021.no longer provide any solid waste collection services. (Perez-Hernandez)

6) REPORTS FROM CITY MANAGER:

7) REPORTS FROM CITY COUNCIL:

8) CLOSED SESSION: None

9) CLOSED SESSION ACTION:

10) ADJOURNMENT:

This is to certify that this agenda was posted at Wasco City Hall on December 20, 2021, on/or before 5:30 p.m. The agenda is also available on the City website at www.cityofwasco.org

Maria O. Martinez, City Clerk

*All agenda item supporting documentation is available for public review in the city website www.cityofwasco.org and the office of the City Clerk of the City of Wasco, 746 8th Street, Wasco, CA 93280 during regular business hours, 7:30 am – 5:00 pm Monday through Thursday and 8–5 pm Friday (closed alternate Friday's), following the posting of the agenda. Any supporting documentation related to an agenda item for an open session of any regular meeting that is distributed after the agenda is posted and prior to the meeting will also be available for review at the same location and available at the meeting. **Please remember to turn off all cell phones, pagers, or electronic devices during Council meetings.***

The City of Wasco does not discriminate on the basis of disability in the access to, provision of, or employment in its programs and activities pursuant to 29 United States Code Section 12132 and California Civil Code Section 54. Information regarding the rights provided under the Americans with Disabilities Act (ADA) may be obtained from the City Clerk's Office.

If you need special assistance to participate in this meeting, please contact the City Clerk's Office at (661) 758-7215 to make reasonable arrangements to ensure accessibility to this meeting. Telephone (661) 758-7215 Requests for assistance should be made at least two (2) days in advance whenever possible.



STAFF REPORT City of Wasco

TO: Honorable Mayor and Council Members

FROM: M. Scott Hurlbert, City Manager
Isarel Perez-Hernandez, Finance Director

DATE: December 21, 2021

SUBJECT: Receive and file the City of Wasco Financial Statements for the Year Ended June 30, 2021, and the City of Wasco Measure X Financial Statements for the Year Ended June 30, 2021.

Recommendation:

Staff recommends that the City Council receive and file the City of Wasco Financial Statements for the Year Ended June 30, 2021, and the City of Wasco Measure X Financial Statements for the Year Ended June 30, 2021.

Background:

The City is required to prepare and have audited the financial statements for all financial transactions of all funds of the City on an annual basis. The audited financial statements are prepared to communicate the City's financial health with those charged with governance, state/federal oversight agencies, investors, and the general public.

The Government Finance Officers Association (GFOA) is an organization that was established to assist in the professional management of governments by developing and identifying financial policies and best practices through education, training, facilitation of member leadership, and networking. The objectives of the GFOA are to offer expert knowledge, education, training, leadership development, strategic use of technology, and raise public awareness of sound financial policy and practice. They do this by being a leading source of information in public financial management from research, practice and policy development, and information distribution. They improve the expertise and professionalism of financial managers and leaders and provide recognition for their achievements

GFOA released a publication on financial reporting best practices where it states that financial reporting should be issued within six months of the fiscal year-end in order for the information to be considered timely and useful by readers to make informed decisions.

In addition to the GFOA's best practices for timely financial reporting, the Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting standards for states and local governments. The Governmental Accounting Standards Board (GASB) states that "Financial reporting helps fulfill government's duty to be publicly accountable. Financial reporting also helps satisfy the needs of users who have limited authority, ability, or resources to obtain information and therefore rely on the reports as an important source of information. For that purpose, financial reporting objectives should consider the needs of users and the decisions they make."

Audit Opinions

Auditors have the option of choosing among four different types of auditor opinion reports. An auditor opinion report is a letter that auditors attach to the statutory audit report that reflects their opinion of the audit. The [four types of auditor opinions](#) are:

Unmodified – the opinion expressed when the auditor concludes that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

Qualified – the opinion that is expressed when the auditor either (a) having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements; or (b) is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse – the opinion that is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Disclaimer – the opinion that is expressed when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

All local auditees should strive to achieve the type of opinion that all local auditees should strive to achieve is an **unmodified opinion (clean opinion)**.

Discussion:

Badawi and Associates' independent certified public accounting firm has audited the City of Wasco's Financial Statements (Attachment 1). The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Wasco for the fiscal year ended June 30, 2021, are free of material misstatements. On a test basis, the audit involved examining the evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and estimates made

by management, and evaluating the overall presentation of financial statements.

Based upon the audit, the independent auditors concluded that there was a reasonable basis for rendering an **unmodified opinion** that the City of Wasco's financial statements for the fiscal year ended June 30, 2021, are fairly presented in conformity with generally accepted accounting principles ("GAAP").

Badawi and Associates have completed the Audited Financial Statements and Supplemental Information for the City of Wasco for the year ended June 30, 2021. Badawi and Associates have issued the following audit opinion:

"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 Wasco, 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."

Badawi and Associates have audited the City of Wasco Measure X Financial Statements (attachment 2), and the auditors also issued an unmodified (clean) opinion on these financial statements.

Fiscal Impact: None

Attachments:

1. City of Wasco Financial Statements for the year ended June 30, 2021.
2. City of Wasco Measure X Financial Statements for the year ended June 30, 2021.
3. Codification of Audit Opinions AU-C-00705

City of Wasco

Wasco, California

Basic Financial Statements

For the year ended June 30, 2021

City of Wasco
Basic Financial Statements
For the year ended June 30, 2021
Table of Contents

	Page
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report.....	1
Basic Financial Statements:	
Government-Wide Financial Statements	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements	
Governmental Funds:	
Balance Sheet.....	16
Reconciliation of the Fund Balances of Governmental Funds to the Net Position of Governmental Activities in the Statement of Net Position.....	18
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) – Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	22
Proprietary Funds	
Statement of Net Position.....	25
Statement of Revenues, Expenses, and Changes in Fund Net Position	26
Statement of Cash Flows	27
Fiduciary Funds:	
Statement of Fiduciary Net Position	31
Statement of Changes in Fiduciary Net Position.....	32
Notes to the Basic Financial Statements.....	35
Required Supplementary Information	
Defined Benefit Pension Plan:	
Schedule of the City's Proportionate Share of the Net Pension Liability	67
Schedule of City Contributions	68

City of Wasco
Basic Financial Statements
For the year ended June 30, 2021
Table of Contents

Page

FINANCIAL SECTION, Continued

Required Supplementary Information, Continued

Budgetary Comparison Schedules

General Fund.....	71
Streets Fund	72
TDA Grants.....	73
CDBG RLA.....	74
CalHOME Reuse	75
2005 HCD	76
RDA Low Income Housing.....	77
Park Impact Fund	78

Other Supplementary Information

Non-Major Governmental Funds:

Combining Balance Sheet – Non-major Special Revenue Funds	84
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Special Revenue Funds.....	90

Supplemental Schedules of Revenues, Expenditures and Changes
in Fund Balances – Budget and Actual::

Lighting & Landscape Fund.....	95
Emergency Response Fund	96
Sewer Lift Station Fund	97
Community Facilities District	98
Gas Tax Fund	99
Traffic Safety Fund	100
Traffic Impact Fund	101
COPS Grant Fund	102
BEGIN Grant Reuse.....	103
HOME Grant Reuse.....	104
Public Financing Authority Fund.....	105



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Wasco
Wasco, 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 Wasco, California (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 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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, and pension required supplementary information on pages 67-78, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules on pages 84-105 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

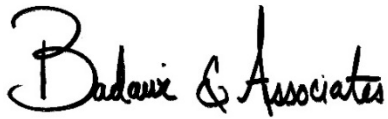
The combining and individual nonmajor fund financial statements, and the budgetary comparison schedules on pages 84-105 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information 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

To the Honorable Mayor and Members of the City Council
of the City of Wasco
Wasco, California
Page 3

nonmajor fund financial statements, and the budgetary comparison schedules on pages 84-105 are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2021, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi & Associates, CPAs
Berkeley, California
December 19, 2021

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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City of Wasco
Statement of Net Position
June 30, 2021

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 25,825,977	\$ 20,165,955	\$ 45,991,932
Receivables, net	1,405,073	1,259,116	2,664,189
Internal balances	(979,506)	979,506	-
Total current assets	26,251,544	22,404,577	48,656,121
Noncurrent assets:			
Notes receivable	5,505,071	-	5,505,071
Capital assets:			
No depreciable	3,270,067	4,653,772	7,923,839
Depreciable	44,683,899	53,224,361	97,908,260
Less accumulated depreciation	(16,541,833)	(27,621,703)	(44,163,536)
Total capital assets	31,412,133	30,256,430	61,668,563
Total noncurrent assets	36,917,204	30,256,430	67,173,634
Total assets	63,168,748	52,661,007	115,829,755
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension related items	859,404	926,927	1,786,331
Total deferred outflows of resources	859,404	926,927	1,786,331
LIABILITIES			
Current liabilities:			
Accounts payable	1,759,456	631,141	2,390,597
Accrued liabilities	170,172	29,568	199,740
Deposits payable	792,393	145,020	937,413
Unearned revenue	807,549	164,127	971,676
Compensated absences - current	42,565	61,011	103,576
Total current liabilities	3,572,135	1,030,867	4,603,002
Noncurrent liabilities:			
Compensated absences	63,848	85,289	149,137
Net pension liability	3,421,956	3,690,821	7,112,777
Total noncurrent liabilities	3,485,804	3,776,110	7,261,914
Total liabilities	7,057,939	4,806,977	11,864,916
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension	243,106	262,204	505,310
Total deferred inflows of resources	243,106	262,204	505,310
NET POSITION			
Net investment in capital assets	31,412,133	30,256,430	61,668,563
Restricted for:			
Streets and roads	2,724,735	-	2,724,735
Community development	6,654,534	-	6,654,534
Public safety	214,241	-	214,241
Capital projects	-	1,735,824	1,735,824
Total restricted	9,593,510	1,735,824	11,329,334
Unrestricted	15,721,464	16,526,499	32,247,963
Total net position	\$ 56,727,107	\$ 48,518,753	\$ 105,245,860

See accompanying notes to the basic financial statements.

City of Wasco
Statement of Activities
For the year ended June 30, 2021

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 705,305	\$ 55,530	\$ -	\$ -	\$ 55,530
Public safety	4,876,804	77,184	1,607,551	-	1,684,735
Public works	2,165,622	1,311,407	-	-	1,311,407
Community development	1,569,048	1,883	-	-	1,883
Total governmental activities	9,316,779	1,446,004	1,607,551	-	3,053,555
Business-type Activities:					
Water reclamation and sewer	2,298,354	2,661,077	-	-	2,661,077
Water utility	3,091,681	3,705,748	-	-	3,705,748
Refuse collection and disposal	2,876,966	3,223,807	-	11,704	3,235,511
Public transportation	336,814	2,517	-	-	2,517
CNG Fueling station	73,754	72,132	-	-	72,132
Total Business-Type activities	8,677,569	9,665,281	-	11,704	9,676,985
Total primary government	\$ 17,994,348	\$ 11,111,285	\$ 1,607,551	\$ 11,704	\$ 12,730,540

General Revenues:

Taxes:

Property tax

Sales tax

Franchise tax

State allocation of gas tax

Other Taxes

Intergovernmental, unrestricted:

Motor vehicle in-lieu tax

Total taxes

Unrestricted investment earnings

Miscellaneous revenue

Gain on sale of capital assets

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning of year

Net position - end of year

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (649,775)	\$ -	\$ (649,775)
(3,192,069)	-	(3,192,069)
(854,215)	-	(854,215)
(1,567,165)	-	(1,567,165)
(6,263,224)	-	(6,263,224)
-	362,723	362,723
-	614,067	614,067
-	358,545	358,545
-	(334,297)	(334,297)
-	(1,622)	(1,622)
-	999,416	999,416
(6,263,224)	999,416	(5,263,808)
1,006,325	-	1,006,325
4,750,519	-	4,750,519
375,823	-	375,823
1,119,967	-	1,119,967
244,628	-	244,628
3,172,544	-	3,172,544
10,669,806	-	10,669,806
170,337	122,294	292,631
431,093	-	431,093
-	495	495
(5,344)	5,344	-
11,265,892	128,133	11,394,025
5,002,668	1,127,549	6,130,217
51,724,439	47,391,204	99,115,643
\$ 56,727,107	\$ 48,518,753	\$ 105,245,860

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FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

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Governmental Fund Financial Statements

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The revenues of the General Fund consist mostly of property tax, sales tax, motor vehicle tax, and franchise fees.

The Streets Fund is used to account for the City's share of motor fuel tax revenues and special state grants that are legally restricted to construction and maintenance of local roads within the City limits.

The TDA Fund accounts for revenues allocated by the Kern Council of Governments under the Transportation Development Act (TDA). Revenues received are held in this fund and transferred to the Public Transportation Fund and Streets Fund when actual costs of transportations, repairs to streets or replacement of streets are incurred.

The CDBG RLA Fund accounts for several rounds of funding from Community Development Block Grants for low interest housing rehabilitation loans. As these funds pay back, they are counted as program income for the CDBG Revolving Loan Fund. Funds accumulated within this fund are loaned back out for additional low interest housing rehabilitation loans in accordance with the City's agreement with the State Department for Housing and Community Development (HCD). These funds are also used in conjunction with CalHome funds in order to fund larger rehabilitation and reconstruction needs.

The CalHOME Reuse Fund accounts for the several rounds of funding received from the CalHOME Program and as loans are repaid the money is placed in the CalHOME Reuse Fund. The CalHOME Reuse money is available to continue funding eligible activities.

The 2005 HCD Fund accounts for \$950,000 awarded from the California Department of Housing and Community Development to assist in the construction of Poso Place Senior Apartments. The money was lent to F & Poso Street Investors, a California limited partnership.

The RDA Low & Moderate Income Housing Fund is a special revenue fund type that accounts for the required 20% set-aside of tax revenues specifically to be used toward low and moderate income housing projects as required by State law.

The Park Impact Fund is a special revenue fund type that accounts for park impact fees collected from new residential developments within the city. These fees are used by the City to provide park and recreational facilities that reasonably serve the new development.

City of Wasco
Balance Sheet
Governmental Funds
June 30, 2021

	General	Streets	TDA	CDBG RLA
ASSETS				
Cash and investments	\$ 19,885,259	\$ -	\$ -	\$ 421,202
Receivables, net	1,395,560	-	-	-
Due from other funds	334,234	-	-	-
Notes receivable	-	-	-	1,235,285
Total assets	21,615,053	-	-	1,656,487
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	1,730,658	-	-	-
Accrued liabilities	170,081	-	-	-
Deposits payable	792,393	-	-	-
Due to other funds	-	-	184,767	-
Advances from other funds	1,127,298	-	-	-
Unearned revenue	51,211	-	-	-
Total liabilities	3,871,641	-	184,767	-
Fund Balances:				
Restricted for:				
Community development	-	-	-	1,656,487
Streets and transportation	-	-	-	-
Low and moderate income housing	-	-	-	-
Public safety	-	-	-	-
Other purposes	-	-	-	-
Assigned:				
General reserve	9,300,000	-	-	-
Community development	-	-	-	-
Unassigned	8,443,412	-	(184,767)	-
Total fund balances	17,743,412	-	(184,767)	1,656,487
Total liabilities, deferred inflows of resources and fund balances	\$ 21,615,053	\$ -	\$ -	\$ 1,656,487

CalHOME Reuse	2005 HCD Fund	RDA Low Income Housing	Park Impact	Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,089,083	\$ -	\$ 65,533	\$ 738,501	\$ 3,626,399	\$ 25,825,977
-	-	9,513	-	-	1,405,073
-	-	-	-	-	334,234
1,501,222	950,000	1,000,000	-	818,564	5,505,071
2,590,305	950,000	1,075,046	738,501	4,444,963	33,070,355
-	-	-	-	28,798	1,759,456
-	-	-	-	91	170,172
-	-	-	-	-	792,393
-	-	-	-	1,675	186,442
-	-	-	-	-	1,127,298
-	-	-	734,459	21,879	807,549
-	-	-	734,459	52,443	4,843,310
2,590,305	950,000	-	-	1,332,696	6,529,488
-	-	-	-	2,518,615	2,518,615
-	-	1,075,046	-	-	1,075,046
-	-	-	-	214,241	214,241
-	-	-	4,042	206,120	210,162
-	-	-	-	-	9,300,000
-	-	-	-	124,209	124,209
-	-	-	-	(3,361)	8,255,284
2,590,305	950,000	1,075,046	4,042	4,392,520	28,227,045
\$ 2,590,305	\$ 950,000	\$ 1,075,046	\$ 738,501	\$ 4,444,963	\$ 33,070,355

City of Wasco

Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position June 30, 2021

Total Fund Balances - Total Governmental Funds	\$ 28,227,045
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Amounts reported for governmental activities in the statement of net position are different from the amounts reported in the Governmental Funds Balance Sheet for the following reasons:

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. The capital assets were adjusted as follows:

No depreciable	3,270,067
Depreciable, net	28,142,066

In the Government-Wide Financial Statements, deferred employer contributions for pension, certain differences between actuarial estimates and actual results, and other adjustments resulting from changes in assumptions and benefits are deferred in the current year.

Deferred outflows of resources related to pension	859,404
Deferred inflows of resources related to pension	(243,106)

Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.

Compensated absences - current	(42,565)
Compensated absences - noncurrent	(63,848)
Net pension liability	(3,421,956)

Net Position of Governmental Activities	\$ 56,727,107
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City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the year ended June 30, 2021

	General	Streets	TDA	CDBG RLA
REVENUES:				
Taxes	\$ 9,568,140	\$ -	\$ -	\$ -
Licenses and permits	591,749	-	-	-
Intergovernmental	1,609,976	-	-	-
Charges for services	250,326	-	-	-
Fines, forfeitures and assessments	29,537	-	-	-
Use of money and property	121,274	-	-	7,526
Miscellaneous	430,015	-	-	-
Total revenues	12,601,017	-	-	7,526
EXPENDITURES:				
Current:				
General government	448,738	-	-	-
Public safety	4,853,680	-	-	-
Public works	1,090,136	-	-	-
Community development	1,536,161	-	-	7,486
Non-departmental	96,407	-	-	-
Capital outlay:				
General capital outlay	1,876,473	-	-	-
Total expenditures	9,901,595	-	-	7,486
REVENUES OVER (UNDER) EXPENDITURES	2,699,422	-	-	40
OTHER FINANCING SOURCES (USES):				
Transfers in	1,548,002	842,213	-	-
Transfers out	(856,341)	-	(51,955)	-
Total other financing sources (uses)	691,661	842,213	(51,955)	-
Net change in fund balances	3,391,083	842,213	(51,955)	40
FUND BALANCES:				
Beginning of year, as restated	14,352,329	(842,213)	(132,812)	1,656,447
End of year	\$ 17,743,412	\$ -	\$ (184,767)	\$ 1,656,487

Cal HOME Reuse	2005 HCD Fund	RDA Low Income Housing	Park Impact	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 1,388,023	\$ 10,956,163
-	-	-	-	96,088	687,837
-	-	-	-	156,726	1,766,702
-	-	-	-	20,082	270,408
-	-	-	-	12,712	42,249
19,718	-	-	4,042	17,777	170,337
-	-	-	-	1,080	431,095
19,718	-	-	4,042	1,692,488	14,324,791
-	-	-	-	-	448,738
-	-	-	-	-	4,853,680
-	-	-	-	176,502	1,266,638
3,458	-	-	-	21,943	1,569,048
-	-	-	-	-	96,407
-	-	-	-	-	1,876,473
3,458	-	-	-	198,445	10,110,984
16,260	-	-	4,042	1,494,043	4,213,807
-	-	-	-	-	2,390,215
-	-	-	-	(1,487,263)	(2,395,559)
-	-	-	-	(1,487,263)	(5,344)
16,260	-	-	4,042	6,780	4,208,463
2,574,045	950,000	1,075,046	-	4,385,740	24,018,582
\$ 2,590,305	\$ 950,000	\$ 1,075,046	\$ 4,042	\$ 4,392,520	\$ 28,227,045

City of Wasco

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities For the year ended June 30, 2021

Net Change in Fund Balances - Total Governmental Funds	\$ 4,208,463
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Amounts reported for governmental activities in the Government-Wide Statement of Activities were different because:

Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets was allocated over their estimated lives as depreciation expense.

Capital outlay and other capitalized expenditures are added back to fund balance	1,780,415
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Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the governmental funds.

(1,026,537)

Accrued compensated leave payments were reported as expenditures in the governmental funds, however expense is recognized in the Government-Wide Statement of Activities based on earned leave accruals.

16,852

Current year employer pension contributions are recorded as expenditures in the governmental funds, however, these amounts are reported as a deferred outflow of resources in the Government-Wide Statement of Net Position.

547,486

Pension expense is reported in the Government-Wide Statement of Activities does not require the use of current financial resources, and therefore is not reported as expenditures in governmental funds.

(524,011)

Change in Net Position of Governmental Activities	\$ 5,002,668
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<u><u>\$ 5,002,668</u></u>

Proprietary Fund Financial Statements

The Water Reclamation and Sewer Fund is used to account for the provisions of sewer service to the residents of the City. All activities necessary to provide such service are accounted for in this fund.

The Water Utility Fund is used to account for the provisions of water service to residents of the City. All activities necessary to provide such service are accounted for in this fund.

The Refuse Collection and Disposal Fund is used to account for the collection and disposal of refuse within the City. All activities necessary to provide such service are accounted for in this fund.

The Public Transportation Fund accounts for the operations of a Dial-A-Ride system for general transportation of all citizens and a Social Services System which transports seniors and handicapped.

The Compressed Natural Gas (CNG) Fueling Station Fund accounts for two fill pumps available to the City of Wasco, Local School Districts, and the general public.

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City of Wasco
Statement of Net Position
Proprietary Funds
June 30, 2021

	Business-Type Activities - Enterprise Funds					Total
	Water Reclamation and Sewer	Water Utility	Refuse Collection and Disposal	Public Transportation	CNG Fueling Station	Proprietary Funds
ASSETS						
Current Assets:						
Cash and investments	\$ 6,181,537	\$ 9,808,621	\$ 3,923,632	\$ -	\$ 252,165	\$ 20,165,955
Receivables, net	204,500	638,950	417,911	(351)	(1,894)	1,259,116
Total current assets	6,386,037	10,447,571	4,341,543	(351)	250,271	21,425,071
Noncurrent:						
Advances to other funds	-	1,127,298	-	-	-	1,127,298
Capital assets:						
Nondepreciable	245,919	4,346,053	30,900	30,900	-	4,653,772
Depreciable	28,948,242	16,376,349	4,723,138	1,814,628	1,362,004	53,224,361
Less accumulated depreciation	(15,301,027)	(7,225,950)	(3,780,137)	(961,596)	(352,993)	(27,621,703)
Net capital assets	13,893,134	13,496,452	973,901	883,932	1,009,011	30,256,430
Total noncurrent assets	13,893,134	14,623,750	973,901	883,932	1,009,011	31,383,728
Total assets	20,279,171	25,071,321	5,315,444	883,581	1,259,282	52,808,799
DEFERRED OUTFLOWS OF RESOURCES						
Deferred pension related items	239,011	275,988	362,089	48,231	1,608	926,927
Total deferred outflows of resources	239,011	275,988	362,089	48,231	1,608	926,927
LIABILITIES						
Current liabilities:						
Accounts payable	482,444	122,539	23,988	2,030	140	631,141
Deposits payable	(160)	144,818	362	-	-	145,020
Accrued liabilities	9,851	7,959	9,583	2,125	50	29,568
Due to other funds	-	-	-	147,792	-	147,792
Unearned revenue	-	-	-	164,127	-	164,127
Compensated absences - current	15,496	19,017	23,508	2,913	77	61,011
Total current liabilities	507,631	294,333	57,441	318,987	267	1,178,659
Noncurrent liabilities:						
Compensated absences	16,604	23,524	41,752	3,209	200	85,289
Net pension liability	951,690	1,098,924	1,441,760	192,045	6,402	3,690,821
Total noncurrent liabilities	968,294	1,122,448	1,483,512	195,254	6,602	3,776,110
Total liabilities	1,475,925	1,416,781	1,540,953	514,241	6,869	4,954,769
DEFERRED INFLOWS OF RESOURCES						
Deferred pension related items	67,610	78,070	102,426	13,643	455	262,204
Total deferred inflows of resources	67,610	78,070	102,426	13,643	455	262,204
NET POSITION						
Net investment in capital assets	13,893,134	13,496,452	973,901	883,932	1,009,011	30,256,430
Restricted for capital projects	1,735,824	-	-	-	-	1,735,824
Unrestricted	3,345,689	10,356,006	3,060,253	(480,004)	244,555	16,526,499
Total net position	\$ 18,974,647	\$ 23,852,458	\$ 4,034,154	\$ 403,928	\$ 1,253,566	\$ 48,518,753

See accompanying notes to the basic financial statements.

City of Wasco

Statement of Revenues, Expenditures and Changes in Net Position

Proprietary Funds

For the year ended June 30, 2021

	Business-Type Activities - Enterprise Funds					Total Proprietary Funds
	Water Reclamation and Sewer	Water Utility	Refuse Collection and Disposal	Public Transportation	CNG Fueling Station	
OPERATING REVENUES:						
Charges for services	\$ 2,271,275	\$ 3,406,625	\$ 3,194,272	\$ 2,517	\$ 72,132	\$ 8,946,821
Rental income	76,642	-	-	-	-	76,642
Cost recoveries	-	286,247	29,113	-	-	315,360
Miscellaneous	13,920	12,876	422	-	-	27,218
Total operating revenues	2,361,837	3,705,748	3,223,807	2,517	72,132	9,366,041
OPERATING EXPENSES:						
Wages and benefits	911,950	1,035,943	1,367,943	207,877	6,225	3,529,938
Administration	738,754	944,474	1,190,367	73,989	10,788	2,958,372
Materials and supplies	12,029	12,565	55,651	1,388	-	81,633
Maintenance and repairs	52,013	148,565	1,049	-	7,351	208,978
Utilities	22,118	502,624	9,569	-	22,150	556,461
Depreciation	561,490	447,510	252,387	53,560	27,240	1,342,187
Total operating expenses	2,298,354	3,091,681	2,876,966	336,814	73,754	8,677,569
Operating income (loss)	63,483	614,067	346,841	(334,297)	(1,622)	688,472
NONOPERATING REVENUES (EXPENSES):						
Interest income	36,563	61,628	22,662	-	1,441	122,294
Grants	-	-	11,704	-	-	11,704
Connection fees	299,240	-	-	-	-	299,240
Gain on sale of capital assets	-	-	495	-	-	495
Total nonoperating revenues (expenses)	335,803	61,628	34,861	-	1,441	433,733
Income before contributions and transfers	399,286	675,695	381,702	(334,297)	(181)	1,122,205
CONTRIBUTIONS AND TRANSFERS:						
Transfers in	5,137	4,857	2,439	1,695	-	14,128
Transfers out	(2,928)	(2,928)	(2,928)	-	-	(8,784)
Total contributions and transfers	2,209	1,929	(489)	1,695	-	5,344
Change in net position	401,495	677,624	381,213	(332,602)	(181)	1,127,549
NET POSITION:						
Beginning of year	18,573,152	23,174,834	3,652,941	736,530	1,253,747	47,391,204
End of year	<u>\$ 18,974,647</u>	<u>\$ 23,852,458</u>	<u>\$ 4,034,154</u>	<u>\$ 403,928</u>	<u>\$ 1,253,566</u>	<u>\$ 48,518,753</u>

See accompanying notes to the basic financial statements.

City of Wasco

Statement of Revenues, Expenditures and Changes in Net Position

Proprietary Funds

For the year ended June 30, 2021

	Business-Type Activities - Enterprise Funds					
	Water Reclamation and Sewer	Water Utility	Refuse Collection and Disposal	Public Transportation	CNG Fueling Station	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash received from customers, including cash deposits	\$ 2,252,245	\$ 3,269,895	\$ 3,113,902	\$ 388,997	\$ 74,026	\$ 9,099,065
Cash received from rental activities	76,642	-	-	-	-	76,642
Cash received from reimbursements and cost recoveries	-	286,247	29,113	-	-	315,360
Cash paid to suppliers	(392,536)	(2,565,914)	(1,279,980)	(75,347)	(45,674)	(4,359,451)
Cash paid to employees	(867,454)	(979,280)	(1,388,375)	(213,506)	(6,593)	(3,455,208)
Net cash provided by (used in) operating activities	1,068,897	10,948	474,660	100,144	21,759	1,676,408
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Cash transferred from other funds	5,137	4,857	2,439	1,695	-	14,128
Cash transferred to other funds	(2,928)	(2,928)	(2,928)	-	-	(8,784)
Interfund borrowings	-	563,649	-	(101,839)	(77)	461,733
Connection fees	299,240	-	-	-	-	299,240
Subsidy from grants	-	-	11,704	-	-	11,704
Net cash provided by (used in) noncapital financing activities	301,449	565,578	11,215	(100,144)	(77)	778,021
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Purchase of capital assets	(1,013,164)	(1,518,262)	(48,962)	-	(1)	(2,580,389)
Proceeds from sale of capital assets	-	-	495	-	-	495
Net cash provided by (used in) capital and related financing activities	(1,013,164)	(1,518,262)	(48,467)	-	(1)	(2,579,894)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest received	36,871	61,992	23,916	-	1,469	124,248
Net cash provided by (used in) investing activities	36,871	61,992	23,916	-	1,469	124,248
Net cash flows	394,053	(879,744)	461,324	-	23,150	(1,217)
CASH AND INVESTMENTS - Beginning of year	5,787,484	10,688,365	3,462,308	-	229,015	20,167,172
CASH AND INVESTMENTS - End of year	\$ 6,181,537	\$ 9,808,621	\$ 3,923,632	\$ -	\$ 252,165	\$ 20,165,955
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:						
Operating income (loss)	\$ 63,483	\$ 614,067	\$ 346,841	\$ (334,297)	\$ (1,622)	688,472
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	561,490	447,510	252,387	53,560	27,240	1,342,187
(Increase) decrease in accounts receivable	(32,790)	(73,537)	(80,792)	334,758	1,894	149,533
Increase (decrease) in accounts payable	444,434	(939,480)	(1,697)	1,992	(5,384)	(500,135)
Increase (decrease) in accrued liabilities	(12,056)	(18,206)	(21,647)	(1,962)	(1)	(53,872)
Increase (decrease) in unearned revenues	-	-	-	51,722	-	51,722
Increase (decrease) in deposits payable	(160)	(76,069)	-	-	-	(76,229)
Increase (decrease) in compensated absences	(9,783)	(8,856)	1,726	(1,750)	145	(18,518)
Increase (decrease) in net pension liability	110,116	130,446	45,815	5,028	(277)	291,128
Increase (decrease) in deferred inflows of resources	(49,268)	(56,432)	(91,443)	(12,330)	(473)	(209,946)
Increase (decrease) in deferred outflows of resources	(6,569)	(8,495)	23,470	3,423	237	12,066
Net cash provided by (used in) operating activities	\$ 1,068,897	\$ 10,948	\$ 474,660	\$ 100,144	\$ 21,759	\$ 1,676,408

See accompanying notes to the basic financial statements.

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Fiduciary Fund Financial Statements

The RDA Successor Agency Private Purpose Trust Fund accounts for monies received from the Kern County Auditor Controller for the repayment of the enforceable obligations of the former Wasco Redevelopment Agency. These funds are restricted for the sole purpose of payment of items on an approved Recognized Payment Obligation Schedule (ROPS).

The Wasco Public Financing Authority Custodial Fund is used to account for assets held by the City of Wasco Public Financing Authority as an agent for various local governments and other entities.

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City of Wasco
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2021

	RDA Successor Agency Private Purpose Trust Fund	Wasco Public Financing Authority Custodial Fund
ASSETS		
Cash and investments	\$ 572,525	\$ 491,890
Investments with fiscal agents - restricted	-	438,393
Receivables, net	75,300	147
Total assets	647,825	930,430
LIABILITIES		
Accounts payable	-	75,782
Due to County of Kern	647,825	-
Bonds payable	-	100,000
Total liabilities	647,825	175,782
NET POSITION		
Held in trust for Wasco Public Financing Authority	-	754,648
Total Net Position	\$ -	\$ 754,648

City of Wasco
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the year ended June 30, 2021

	RDA Successor Agency Private Purpose Trust Fund	Wasco Public Financing Authority Custodial Fund
ADDITIONS:		
Property taxes	\$ -	\$ 117,485
Investment earnings	-	145
Other revenues	-	1,940
Total additions	-	119,570
DEDUCTIONS:		
Administration fees	-	20,082
Interest expense	-	16,362
Total deductions	-	36,444
Change in net position	-	83,126
NET POSITION:		
Beginning of year, as restated	-	671,522
End of year	\$ -	\$ 754,648

NOTES TO BASIC FINANCIAL STATEMENTS

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City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the City of Wasco (the "City") have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The following summary of the City's more significant accounting policies is presented to assist the reader in interpreting the basic financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying basic financial statements.

A. Reporting Entity

The City of Wasco, California was incorporated on December 17, 1945. The City is a full-service city and operates under a Council - Manager form of government, providing the following services: general government; public safety; public works; and development and conservation. The City is located in Kern County approximately 25 miles northwest of Bakersfield, the County government seat.

The City has defined its reporting entity in accordance with accounting principles generally accepted in the United States of America which provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. The Basic Financial Statements present information on the activities of the reporting entity, including all of the fund types of the City (the primary government) and its component units.

Accounting principles generally accepted in the United States of America require that the component units be separated into blended or discretely presented units for reporting purposes. Although legally separate entities, blended component units are, in substance, part of the City's operations. Therefore, they are reported as part of the primary government. Discretely presented component units are reported in a separate column in the basic financial statements to emphasize that they are legally separate from the City. The City has no discretely presented component units.

Blended Component Units

On March 6, 1989, the City and the former Wasco Redevelopment Agency entered into a Joint Exercise of Powers Agreement establishing the Wasco Public Financing Authority (the "Authority") for the purpose of issuing its bonds to be used to provide financial assistance to the City, the Agency or any other public entity of the State of California. The funds of this component unit are reported in the Special Revenue Funds and the Custodial Fund. Separate financial statements are not available for the Authority. The City Council of Wasco is the governing body for the Authority.

B. Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation, Continued

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's sewer, water and refuse function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses have been allocated to major functions in order to present a more accurate and complete picture of the cost of services. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Financial Statements

The accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operation fund of the City or meets the following criteria:

- a. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- c. The government has determined that a fund is important to the financial statement user.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation, Continued

The major funds are as follows:

Governmental Funds

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The revenues of the General Fund consist mostly of property tax, sales tax, motor vehicle tax, and franchise fees.

The Streets Fund is used to account for the City's share of motor fuel tax revenues and special state grants that are legally restricted to construction and maintenance of local roads within the City limits.

The TDA Fund accounts for revenues allocated by the Kern Council of Governments under the Transportation Development Act (TDA). Revenues received are held in this fund and transferred to the Public Transportation Fund and Streets Fund when actual costs of transportations, repairs to streets or replacement of streets are incurred.

The CDBG RLA Fund accounts for several rounds of funding from Community Development Block Grants for low interest housing rehabilitation loans. As these funds pay back, they are counted as program income for the CDBG Revolving Loan Fund. Funds accumulated within this fund are loaned back out for additional low interest housing rehabilitation loans in accordance with the City's agreement with the State Department for Housing and Community Development (HCD). These funds are also used in conjunction with CalHome funds in order to fund larger rehabilitation and reconstruction needs.

The CalHOME Reuse Fund accounts for the several rounds of funding received from the CalHOME Program and as loans are repaid the money is placed in the CalHOME Reuse Fund. The CalHOME Reuse money is available to continue funding eligible activities.

The 2005 HCD Fund accounts for \$950,000 awarded from the California Department of Housing and Community Development to assist in the construction of Poso Place Senior Apartments. The money was lent to F & Poso Street Investors, a California limited partnership.

The RDA Low & Moderate Income Housing fund is a special revenue fund type that accounts for the required 20% set-aside of tax revenues specifically to be used toward low and moderate income housing projects as required by State law.

The Park Impact Fund is a special revenue fund type that accounts for park impact fees collected from new residential developments within the city. These fees are used by the City to provide park and recreational facilities that reasonably serve the new development.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation, Continued

Fund Financial Statements, Continued

Proprietary Funds

The Water Reclamation and Sewer Fund is used to account for the provisions of sewer service to the residents of the City. All activities necessary to provide such service are accounted for in this fund.

The Water Utility Fund is used to account for the provisions of water service to residents of the City. All activities necessary to provide such service are accounted for in this fund.

The Refuse Collection and Disposal Fund is used to account for the collection and disposal of refuse within the City. All activities necessary to provide such service are accounted for in this fund.

The Public Transportation Fund accounts for the operations of a Dial-A-Ride system for general transportation of all citizens and a Social Services System which transports seniors and handicapped.

The Compressed Natural Gas (CNG) Fueling Station Fund accounts for two fill pumps available to the City of Wasco, Local School Districts, and the general public.

Fiduciary Fund

The RDA Successor Agency Private Purpose Trust Fund accounts for monies received from the Kern County Auditor Controller for the repayment of the enforceable obligations of the former Wasco Redevelopment Agency. These funds are restricted for the sole purpose of payment of items on an approved Recognized Payment Obligation Schedule (ROPS).

The Wasco Public Financing Authority Custodial Fund is used to account for assets held by the City of Wasco Public Financing Authority as an agent for various local governments and other entities.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus. The accounting objectives of the economic measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Measurement Focus and Basis of Accounting, Continued

Measurement Focus

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

1. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
2. The proprietary fund, and the fiduciary funds utilizes an “economic resources” measurement focus. It Equity is classified as net position.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Revenues which are susceptible to accrual include property taxes and special assessments that are levied for and due for the fiscal year and collected within 60 days after year-end. Licenses, permits, fines, forfeits, charges for services and miscellaneous revenues are recorded as governmental fund type revenues when received in cash because they are not generally measurable until actually received. Revenue from taxpayer assessed taxes, such as sales taxes, are recognized in the accounting period in which they became both measurable and available to finance expenditures of the fiscal period. Grant funds and reimbursements of expenses under contractual agreements are reported in governmental fund types and are recorded as a receivable when earned rather than when susceptible to accrual. Generally, this occurs when authorized expenditures are made under the grant program or contractual agreement. Expenditures are recognized when the fund liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

The accrual basis of accounting is followed by the proprietary fund and fiduciary funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund’s principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, Liabilities, Net Position or Equity, and Other Financial Statement Items

Cash and Investments

Cash and investment balances of each of the City's funds, except for funds required to be held by outside fiscal agents under the provisions of bond indentures, are pooled in order to take advantage of an effective investment strategy. Income earned from pooled investments is allocated to each of the funds based on average pooled cash balances during the year. Deficit cash balances are classified as due to other funds and funded by the General Fund or related operating fund.

Statutes authorize investments in obligations of the United States Treasury, agencies and instrumentalities, commercial paper, bankers' acceptances, repurchase agreements, money market funds, and investment pools. Investments are primarily comprised of holdings in investment pools, certificates of deposit, corporate bonds, muni bonds, and mutual funds. Investments are stated at fair value.

Investment of debt proceeds held by bond trustees are governed by the provisions of the Agency's debt agreement rather than the general provisions of the California Government Code.

For purposes of the Combined Statement of Cash Flows for the Proprietary fund types, cash and cash equivalents includes all pooled cash investments, non-pooled restricted cash and restricted investments with an original maturity of three months or less. The City considers the investments held in LAIF, CSJVRMA, and CalTRUST to be demand deposit accounts where funds may be withdrawn and deposited at any time without prior notice or penalty.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/interfund payables (i.e., the current portion of interfund loans) or advances to/from other funds (the noncurrent portion) of interfund loans. All other outstanding balances between funds are reported as interfund receivables/interfund payables. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as internal balances.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. All trade and tax receivables are shown net of an allowance for uncollectible accounts and estimated refunds due.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, Liabilities, Net Position or Equity, and Other Financial Statement Items, Continued

Property Taxes

Secured property taxes are levied during September of each year for the fiscal year beginning with the preceding July 1 and ending the following June 30. They become a lien on real property on January 1 preceding the fiscal year for which taxes are levied. The Kern County Assessor establishes the value of the property on January 1. Taxes are payable in two installments on November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. In 1978, a state constitutional amendment (Proposition 13) provided that the tax rate be limited to 1% of market value, levied only by the County and shared with all other jurisdictions. Such limitation on the rate may only be increased through voter approval. The County collects property taxes and distributes them to taxing jurisdictions on the basis of the taxing jurisdiction's assessed valuations and on the tax rate for voter-approved debt.

Prepaid Items

Certain payments to vendors applicable to future accounting periods are reported as prepaid items using the consumption method of accounting. Prepaid items do not reflect current appropriable resources and, thus, an equivalent portion of fund balance is reported as nonspendable in governments funds.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, traffic signals, drainage systems 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 City as assets with an initial cost of more than \$5,000 (\$50,000 for infrastructure) and an estimated 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 acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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:

Assets	Years
Buildings	40
Improvements other than buildings	20
Machinery and Equipment	5 - 8
Infrastructure	20 - 75

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, Liabilities, Net Position or Equity, and Other Financial Statement Items, Continued

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, comp time, and sick pay benefits. Accumulated sick leave is available for illness or personal use but not paid out to employees. Vacation and comp time pay liabilities are calculated at full value based on the employee's current rate of pay. All compensated absence pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Pensions

The City implemented GASB Statements No. 68 "Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27" and No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment to GASB Statement No. 68".

In government-wide and proprietary financial statements, retirement plans (pensions) are required to be recognized and disclosed using the accrual basis of accounting, regardless of the amount recognized as pension expenditures on the governmental fund statements, which use the modified accrual basis of accounting.

In general, the City recognizes a net pension liability that represents the City's proportionate share of the excess of the total pension liability over the fiduciary net position of the pension reflected in the actuarial reports provided by CalPERS. The net pension liability is measured as of the City's prior fiscal year-end. Changes in the net pension liability are recorded in the period incurred as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The change in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits as of the beginning of the measurement period and are recorded as a component of pension expense.

For purposes of measuring the net pension liability and deferred outflows/inflows or resources relating to pension and pension expense, information about the fiduciary net position of the City's pension plan with CalPERS and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Projected earnings on pension investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, Liabilities, Net Position or Equity, and Other Financial Statement Items, 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. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Bonds payables are reported net of the unamortized portion of applicable premium, discount or deferred amount on refunding. Amortization of bond premiums or discounts, and deferred amounts on refunding are included in interest expense. Bond issuance costs, except for prepaid bond insurance are expenses in the year of issuance. Prepaid bond insurance is deferred and amortized over the life of the bond.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," the City recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position that applies to a future reporting period and so will not be recognized as an expense or expenditure until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. A deferred inflows of resources is defined as an acquisition of net position that applies to a future reporting period and so will not be recognized as revenue until then.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, Liabilities, Net Position or Equity, and Other Financial Statement Items, Continued

Net Position

The government-wide and business-type activities fund financial statements utilize a net position presentation. Net position is categorized as follows:

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 the balance in 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. The government-wide statement of net position reports \$11,333,376 of restricted net position, of which \$9,597,552 is restricted externally by grantors, creditors, or laws or regulations of other governments and \$1,735,824 is restricted by enabling legislation.

Unrestricted Net Position – This category represents net position of the City, not restricted for any project or other purpose.

When both restricted and unrestricted net position are available, it is the City's policy to use restricted net position first, and then unrestricted net position as they are needed.

Fund Balance – Government Funds

Fund balances of the governmental funds are presented in the financial statements 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. Fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – Amounts that are obligated to a specific purpose which are internally imposed by the government through formal action (Ordinances and Resolutions) at the highest level of decision making authority (City Council). These commitments can only be overturned by a like action.

Assigned – Amounts that are intended to be used for specific purposes that are considered neither restricted nor committed. Undesignated excess Fund Balances may be assigned by the City Council, City Manager, or Finance Director for specific purposes through the budget process or agenda items. The assigned designation may be reversed by the City Council at any public meeting.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, Liabilities, Net Position or Equity, and Other Financial Statement Items, Continued

Net Position, Continued

Unassigned – Residual positive fund balances within the General Fund, which have not been classified within the other above mentioned categories. Unassigned Fund Balances may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

When expenditures are incurred for purposes for which all restricted, committed, assigned, and unassigned fund balances are available, the City's policy is to apply in the following order, except for instances wherein an ordinance specifies the fund balance: Restricted, Committed, Assigned, and Unassigned.

The City does not have a formal minimum fund balance requirement.

Appropriated Budget and Budgetary Control

The City Council is required to adopt an annual budget resolution by July 1 of each fiscal year for the General, Special Revenue, Debt Service and Capital Projects funds. The budgets are presented for reporting purposes on a budgetary basis consistent with accounting principles generally accepted in the United States of America. The City of Wasco Public Financing Authority does not adopt a budget for its general fund.

The appropriated budget is prepared by fund, function, and department. The City Manager may make transfers of appropriations within a department. Transfers of appropriations between departments requires the approval of the council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Unexpended or unencumbered appropriations lapse at the end of the fiscal year. Encumbered appropriations are reappropriated in the ensuing year's budget.

The City Council adopts budgets for the Enterprise. However, all Proprietary fund types are accounted for on a cost of service (net income), or "capital maintenance" measurement focus. As a result, budget comparisons are impractical. Additionally, the City is not legally mandated to report the results of operations for these Proprietary fund types on a budget comparison basis; therefore, budgetary data related to these funds has not been presented.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, Liabilities, Net Position or Equity, and Other Financial Statement Items, Continued

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The laws governing deferred compensation plan assets require plan assets to be held in a Trust for the exclusive benefit of plan participants and their beneficiaries. The assets, all property and rights purchased with such amounts and all income attributable to such amounts, are held in trust for the exclusive benefit of the participants and the beneficiaries. The plan is administered by independent plan administrators through administrative service agreements and hence they have been excluded from these financial statements.

In the year 2021, The City has evaluated the requirements of GASB Statement No. 84, Fiduciary Activities and GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans and determined that plan didn't meet the criteria to be reported as a fiduciary activity, as required by the above Statements. Moreover, the plan is classified as other employee benefit plan for financial reporting purposes per GASB 97 requirements.

2. CASH AND INVESTMENTS

The City pools all of its cash and investments except those funds required to be held by outside fiscal agents under the provisions of bond indentures.

The following is a summary of the City's cash and investments as classified in the accompanying financial statements:

Pooled Cash and Investments - Governmental Funds	\$ 25,825,977
Pooled Cash and Investments - Business-type Funds	20,165,955
Fiduciary Funds:	
Cash and Investments - WPFA	491,890
Restricted Investments - WPFA	438,393
Cash and Investments - RDA Successor Private Purpose Trust	572,525
Total	<u>\$ 47,494,740</u>

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

2. CASH AND INVESTMENTS, Continued

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

Cash on hand	\$ 2,500
Deposits with financial institutions	5,577,349
Total Cash on hand and deposits	<u>5,579,849</u>
Money Market	3,119,414
Central San Joaquin Valley RMA Pool (CSJVRMA)	1,288,444
Local Agency Investment Funds (LAIF)	32,621,171
CalTrust	4,885,862
Total investments	<u>41,914,891</u>
Total cash and investments	<u>\$ 47,494,740</u>

A. Deposits:

The carrying amount of the City's cash deposit was \$5,577,349 on June 30, 2021. Balance before reconciling amounts were a positive amount of \$5,686,955 on June 30, 2021. The City has waived collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The remaining amount was collateralized with securities pledged by the pledging financial Institution as permitted by the California Government Code.

The California Government Code requires that a financial institution secure deposits made by state or local governmental 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 public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2021, all of the City's deposits with financial institutions in excess of federal depository insurance limits were held in fully collateralized accounts, as permitted by the California Government Code.

Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an Agent of Depository has the effect of perfecting the security interest in the name of the local governmental agency.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

2. CASH AND INVESTMENTS, Continued

B. Investment Valuation

The City categorizes the fair value measurements of its investments based on the hierarchy established by Generally Accepted Accounting Principles (GAAP). The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All the City's investments are valued using Level 1 inputs based on quoted market prices. The City had the following investments on June 30, 2021:

Investment Type	Total Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments	\$ -	\$ -	\$ -	\$ -
Total	-	\$ -	\$ -	\$ -
<i>Investments not subject to leveling:</i>				
Money Market	3,119,414			
Central San Joaquin Valley RMA Pool (CSJVRMA)	1,288,444			
Local Agency Investment Funds (LAIF)	32,621,171			
CalTrust	4,885,862			
Total	<u>\$41,914,891</u>			

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments with LAIF on June 30, 2021, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

Structured Notes - are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities - the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2021, the City had \$32,621,171 invested in LAIF, which had invested 2.31% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 3.37% in the previous year. The LAIF fair value factor of 1.00008297 was used to calculate the fair value of the investments in LAIF.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

2. CASH AND INVESTMENTS, Continued

B. Investment Valuation, Continued

The City is a member of CSJVRMA for the purpose of pooling insurance coverage. The CSJVRMA maintains an investment pool which is available to its members. The City invested cash in this pool which is highly liquid. Deposits can be converted to cash within 24 hours without loss of interest. Included in the pool's investment portfolio are securities that are within the statutory limits imposed by government code. The pool's and the City's exposure to credit, market, or legal risk is not available. The fair value of the City's position in the pool is the same as the value of the pool shares. CSJVRMA is regulated by the California Government Code.

CalTRUST is a Joint Powers Authority created by public agencies in 2005 to provide a convenient method for public agencies to pool their assets for investment purposes. It is governed by a Board of Trustees made up of experienced local agency treasurers and investment officers. The Board sets overall policies for the program and selects and supervises the activities of the investment manager and other agents. Any California public agency that is authorized to join a Joint Powers Authority can participate in CalTRUST. The specific sections of the California Government Code that govern participation in CalTRUST are Sections 6500 and 6509.7, which offers four account options – Government Fund, Money Market Fund, Short-Term Fund and Medium-Term Fund with varying interest rates and terms of length of deposit and withdrawals.

C. 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. One of the ways that the City's interest rate risk is mitigated is by purchasing a combination of shorter term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

The sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity as of June 30, 2021:

Investment Type	Remaining Maturity		Total Fair Value
	12 Months or less	1 - 5 years	
Money Market	\$ 3,119,414	\$ -	\$ 3,119,414
Central San Joaquin Valley RMA Pool (CSJVRMA)	1,288,444	-	1,288,444
Local Agency Investment Funds (LAIF)	32,621,171	-	32,621,171
CalTrust	4,885,862	-	4,885,862
Total	<u>\$41,914,891</u>	<u>\$ -</u>	<u>\$41,914,891</u>

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

2. CASH AND INVESTMENTS, Continued

D. 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. The actual ratings as of June 30, 2021, were as follows:

Investment Type	Total Fair Value	Rating as of Fiscal Year-End		
		S&P	Moody's	N/A
Money Market	\$ 3,119,414			Not rated
Central San Joaquin Valley RMA Pool (CSJVRMA)	1,288,444			Not rated
Local Agency Investment Funds (LAIF)	32,621,171			Not rated
CalTrust	4,885,862			Not rated
Total	<u>\$41,914,891</u>			

Concentration of credit risk – The City is required to disclose any investment in any one issuer that represents 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. As such, the City has no concentration of credit risk that exceeds 5% as June 30, 2021.

Custodial credit risk – For an investment, this is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

3. RECEIVABLES

Receivables on June 30, 2021 consist of the following:

	Governmental Funds	Streets	TDA	RDA Low Income Housing	Non-Major Governmental Funds	Total Governmental
Governmental Activities						
Interest receivable	\$ 38,740	\$ -	\$ -	\$ -	\$ -	\$ 38,740
Taxes receivable	959,703	-	-	-	-	959,703
Due from governments	405,573	-	-	9,513	-	415,086
Miscellaneous Receivable	3,471	-	-	-	-	3,471
Allowance for doubtful accounts	(11,927)	-	-	-	-	(11,927)
Total	<u>\$ 1,395,560</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,513</u>	<u>\$ -</u>	<u>\$ 1,405,073</u>
	Water Reclamation And Sewer	Water Utility	Refuse Collection And Disposal	Public Transportation	CNG Fueling Station	Total Business-Type
Business-Type Activities						
Accounts receivable	\$ 222,695	\$ 658,593	\$ 439,659	\$ -	\$ -	\$ 1,320,947
Interest receivable	759	-	-	-	-	759
Miscellaneous Receivable	-	8,315	-	(351)	(1,894)	6,070
Allowance for doubtful accounts	(18,954)	(27,958)	(21,748)	-	-	(68,660)
Total	<u>\$ 204,500</u>	<u>\$ 638,950</u>	<u>\$ 417,911</u>	<u>\$ (351)</u>	<u>\$ (1,894)</u>	<u>\$ 1,259,116</u>

4. INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS

Due to/from Other Funds - These balances represent short term loans between funds for cash shortages or expenditures and are expected to be reimbursed within one year. The composition of due to/from balances at June 30, 2021 consisted of the following:

Fund	Due From Other Funds	Due To Other Funds
Governmental Activities		
General Fund	\$ 334,234	\$ -
TDA	-	184,767
Non-Major Funds	-	1,675
Total Governmental Funds	<u>334,234</u>	<u>186,442</u>
Proprietary Funds		
Public Transportation	-	147,792
Total Proprietary Funds	<u>-</u>	<u>147,792</u>
Total Due From/To	<u>\$ 334,234</u>	<u>\$ 334,234</u>

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

4. INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS, Continued

Advances to/from other Funds - On June 30, 2021 advances to/from other funds were as follows:

Fund	Advanced From	Advanced To
Governmental Funds		
General Fund	\$ -	\$ 1,127,298
Total Governmental Funds	-	1,127,298
Proprietary Funds		
Water Utility	1,127,298	-
Total Proprietary Funds	1,127,298	-
Total Advances	\$ 1,127,298	\$ 1,127,298

\$1,127,298 advance from Water Utility to Streets fund was for a commercial infrastructure project to be paid back over seven years from assessment collections. During FY2021 Streets fund has been rolled over to the general fund and therefore the advance amount is reported in the general fund.

Transfers Between Funds - With the Council approval, resources may be transferred from one City fund to another. Transfers between funds during the fiscal year ended June 30, 2021, were as follows:

Transfers Out	Transfers In						Total Transfers out
	General Fund	Street Fund	Water Reclamation and Sewer	Water Utility	Refuse Collection and Disposal	Public Transportation	
Governmental Funds							
General Fund	\$ -	\$ 842,213	\$ 5,137	\$ 4,857	\$ 2,439	\$ 1,695	\$ 856,341
TDA	51,955	-	-	-	-	-	51,955
Non-Major Fund	1,487,263	-	-	-	-	-	1,487,263
Proprietary Funds							
Water Reclamation and Sewer	2,928	-	-	-	-	-	2,928
Water Utility	2,928	-	-	-	-	-	2,928
Refuse Collection and Disposal	2,928	-	-	-	-	-	2,928
Total Transfers In	\$ 1,548,002	\$ 842,213	\$ 5,137	\$ 4,857	\$ 2,439	\$ 1,695	\$ 2,404,343

General Fund transfers in of \$1,548,002 consist of \$1,487,263 of Gas Tax Fund (Non-Major) to be applied to street operations and various street capital projects, \$51,955 from TDA Fund of State allocation of TDA revenue, and \$2,928 each from Water Reclamation & Sewer Fund, Water Utility Fund & Refuse Collection & Disposal Fund for Munis software upgrades.

Streets Fund transfers in of \$842,213 is to close out and transfer its remaining fund balance into the general fund.

The transfers into Water Reclamation and Sewer, Water Utility, Refuse Collection and Disposal, and Public Transportation of \$5,137, \$4,857, \$2,439, and \$1,695 respectively, are from the General fund for CARES Act related expenditures.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

5. CAPITAL ASSETS

Governmental Activities Capital asset for the year ended June 30, 2021, was as follows:

Governmental Activities	Balance June 30, 2020	Additions	Deletions	Transfers	Balance June 30, 2021
Capital Assets Not Being Depreciated					
Land	\$ 2,149,729	\$ 1,137	\$ -	\$ -	\$ 2,150,866
Construction in Progress	89,175	1,030,026	-	-	1,119,201
Total Capital Assets Not Being Depreciated	2,238,904	1,031,163	-	-	3,270,067
Capital Assets Being Depreciated					
Land Improvements	9,096,825	-	-	-	9,096,825
Construction	2,993,488	740,687	-	-	3,734,175
Infrastructure	28,109,918	-	-	-	28,109,918
Machinery and Other	2,304,624	8,565	-	-	2,313,189
Vehicles	1,475,600	-	(45,808)	-	1,429,792
Total Capital Assets Being Depreciated	43,980,455	749,252	(45,808)	-	44,683,899
Less Accumulated Depreciation For					
Land Improvements	5,315,946	452,128	-	-	5,768,074
Construction	974,560	57,563	-	-	1,032,123
Infrastructure	6,706,213	365,290	-	-	7,071,503
Machinery and Other	1,433,238	87,762	-	-	1,521,000
Vehicles	1,131,147	63,794	(45,808)	-	1,149,133
Total Accumulated Depreciation	15,561,104	1,026,537	(45,808)	-	16,541,833
Total Capital Assets Being Depreciated, Net	28,419,351	(277,285)	-	-	28,142,066
Governmental Activities Capital Assets, net	\$ 30,658,255	\$ 753,878	\$ -	\$ -	\$ 31,412,133

Depreciation expense for capital assets was charged to functions as follows:

General government	\$ 104,429
Public safety	23,124
Public works	898,984
	<u>\$ 1,026,537</u>

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

5. CAPITAL ASSETS, Continued

Business-Type Activities' Capital Assets for the year ended June 30, 2021, was as follows:

Business-Type Activities	Balance June 30, 2020	Additions	Deletions	Transfers	Balance June 30, 2021
Capital Assets Not Being Depreciated					
Land	\$ 767,323	\$ -	\$ -	\$ -	\$ 767,323
Construction in Progress	2,346,461	1,650,393	(110,405)	-	3,886,449
Total Capital Assets Not Being Depreciated	3,113,784	1,650,393	(110,405)	-	4,653,772
Capital Assets Being Depreciated					
Land Improvements	7,210,841	-	-	-	7,210,841
Construction	21,108,481	-	-	-	21,108,481
Infrastructure	7,895,037	488,067	-	-	8,383,104
Machinery and Other	11,923,537	87,685	-	-	12,011,222
Vehicles	4,061,064	464,649	(15,000)	-	4,510,713
Total Capital Assets Being Depreciated	52,198,960	1,040,401	(15,000)	-	53,224,361
Less Accumulated Depreciation For					
Land Improvements	6,242,288	122,617	-	-	6,364,905
Construction	7,855,833	419,131	-	-	8,274,964
Infrastructure	3,297,197	89,404	-	-	3,386,601
Machinery and Other	5,878,831	446,074	-	-	6,324,905
Vehicles	3,020,367	264,961	(15,000)	-	3,270,328
Total Accumulated Depreciation	26,294,516	1,342,187	(15,000)	-	27,621,703
Total Capital Assets Being Depreciated, Net	25,904,444	(301,786)	-	-	25,602,658
Business-Type Activities Capital Assets, net	\$ 29,018,228	\$ 1,348,607	\$ (110,405)	\$ -	\$ 30,256,430

Depreciation expense for Business-Type Activities were as follows:

Water Reclamation and Sewer	\$ 561,490
Water Utility	447,510
Refuse Collection and Disposal	225,387
Public Transportation	53,560
CNG Fueling Station	27,240
	<u>\$ 1,315,187</u>

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

6. ACCRUED LIABILITIES

Accrued Liabilities on June 30, 2021, as reported on the Statement of Net Position are detailed as follows:

	General	Streets	Total Governmental			
Governmental Activities						
Accrued Payroll	\$ 22,133	\$ -	\$ 22,133			
Employee Withholdings	80,443	-	51,692			
Other Liabilities	67,596	-	67,596			
Total	<u>\$ 170,172</u>	<u>\$ -</u>	<u>\$ 170,172</u>			
	Water		Refuse			
	Reclamation	Water	Collection	Public	CNG Fueling	Total
	And Sewer	Utility	and Disposal	Transportation	Station	Business-Type
Business-Type Activities						
Accrued Payroll	\$ 6,579	\$ 7,959	\$ 9,583	\$ 2,125	\$ 50	\$ 26,296
Accrued Interest Payable	3,272	-	-	-	-	3,272
Total	<u>\$ 9,851</u>	<u>\$ 7,959</u>	<u>\$ 9,583</u>	<u>\$ 2,125</u>	<u>\$ 50</u>	<u>\$ 29,568</u>

7. LONG-TERM LIABILITIES

	Balance June 30, 2020	Additions	Reductions	Balance June 30, 2021	Due Within One Year
Governmental Activities					
Compensated Absences	\$ 123,265	\$ 111,940	\$ (128,792)	\$ 106,413	\$ 42,565
Total Governmental Activities	<u>123,265</u>	<u>111,940</u>	<u>(128,792)</u>	<u>106,413</u>	<u>42,565</u>
Business-Type Activities					
Compensated Absences	<u>164,895</u>	<u>145,461</u>	<u>(164,056)</u>	<u>146,300</u>	<u>61,011</u>
Total Business-Type Activities	<u>164,895</u>	<u>145,461</u>	<u>(164,056)</u>	<u>146,300</u>	<u>61,011</u>
Total Statement of Net Position	<u>\$ 288,160</u>	<u>\$ 257,401</u>	<u>\$ (292,848)</u>	<u>\$ 252,713</u>	<u>\$ 103,576</u>

The compensated absences for business-type activities will be paid by the respective funds in which the expense was accrued. Compensated absences for governmental activities are typically paid from the General Fund.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

8. UNEARNED REVENUE

Unearned Revenue consists of moneys received where the City has not yet incurred the qualifying expenditures as follows:

	Governmental Activities	Business-Type Activities	Fiduciary Fund
General Grant	\$ 51,211	\$ -	\$ -
Emergency Response	21,879	-	-
Park Impact Fees	734,459	-	-
TDA - Dial A Ride	-	164,127	-
Total	<u>\$ 807,549</u>	<u>\$ 164,127</u>	<u>\$ -</u>

9. PUBLIC ENTITY RISK POOLS

The City maintains self-insurance programs for workers' compensation, general public liability, auto liability and property coverage through its membership in the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The CSJVRMA is comprised of 55 member cities and special districts and is organized under a Joint Powers Agreement pursuant to the California Government Code. The purpose of the CSJVRMA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. Each member has a representative on the Board of Directors with officers of the CSJVRMA being elected annually by the Board Members.

Liability Program: The program provides \$54 million of coverage per occurrence for general & automobile liability and public officials errors & omission coverage. CSJVRMA members self-fund the first \$1 million of exposure; losses above \$1 million to \$54 million are covered through CSJVRMA's participation in the California Affiliated Risk Management Authority's (CARMA) excess pool. The California Affiliated Risk Management Authority (CARMA) is comprised of six member Joint Power Authorities and is organized under a Joint Powers Agreement pursuant to the California Government Code. Losses exceeding \$1 million up to \$54 million are covered through reinsurance. Within CSJVRMA's \$1 million retention, the City of Wasco selected a self-insured retention of \$25,000. The pool shares all losses exceeding a member's self-insured retention.

Employment Practices Liability (EPL): This program from CSJVRMA covers the EPL exposures through the Employment Risk Management Authority (ERMA). ERMA is comprised of eight members Joint Power Authorities and is organized under a Joint Powers Agreement pursuant to the California Government Code. ERMA covers \$2 million for each occurrence less the members' retained limit of \$1 million.

Workers' Compensation: The program is a risk sharing pool. The City self-insures for the first \$500,000 of liability. Losses in excess of \$500,000, up to \$5 million are covered through CSJVRMA's participation in the Local Agency Workers' Compensation Excess JPA (LAWCX) which is comprised of 32 different Joint Power Authorities. For excess coverage, LAWCX is a member of the California State Association of Counties Excess Insurance Authority which provides coverage up to the statutory limit.

Property Insurance: The City, through its membership in CSJVRMA participates in a pooled program. CSJVRMA members self-fund the first \$25,000 of loss; losses above \$25,000 to \$1,000,000,000 are covered through excess property and boiler & machinery policies. The City of Wasco's deductible is \$5,000 or \$10,000 per loss.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

9. PUBLIC ENTITY RISK POOLS, Continued

The latest audited financial information available from CSJVRMA is for the year ended June 30, 2021 as follows:

Total Assets	\$ 150,621,596
Total Liabilities	129,774,819
Total Net Position	<u>\$ 20,846,777</u>
Total Revenue	\$ 55,167,054
Total Expenses	54,084,619
Change in Net Position	<u>\$ 1,082,435</u>

10. RETIREMENT PLAN

A. General Information about the Pension Plans

Plan Description. The City contributes to the Miscellaneous Plan and the Safety Plan, which are both cost sharing multiple employers defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS). CalPERS acts as a common investment and administrative agent for participating public employers within the State of California. Benefit provisions are established by state statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through board resolution. CalPERS issues a separate comprehensive annual financial report which is publicly available and can be obtained at CalPERS' website under Forms and Publications.

Benefits Provided and Employees Covered. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and plan beneficiaries. The Miscellaneous Plan has three Tiers of benefits. Tier I - Applicable to employees hired prior to January 1, 2013, with a formula of 3% at age 60. Tier II - Also applicable to employees hired prior to January 1, 2013, with a formula of 2.5% at age 55. Tier III - Applicable to new CalPERS members hired on or after January 1, 2013, as a result of Public Employees' Pension Reform Act of 2013 (PEPRA) with a formula of 2% at age 62. The Safety Plan with a formula of 2% at age 55 is for the City's inactive police department and therefore has no active employees.

As of the June 30, 2020 measurement date, the City had the following employees covered by benefit term:

	Miscellaneous Plan			Safety
	Tier I	Tier II	Tier III	Plan
Active	25	4	37	-
Transferred	25	2	9	-
Separated	11	2	15	-
Retired	59	4	-	16

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

10. RETIREMENT PLAN, Continued

A. General Information about the Pension Plans, Continued

Contributions. Active plan members are required to contribute 10% of their annual covered salary for Miscellaneous Plan Tier I and Tier II and 6.25% for Miscellaneous Plan Tier III. The City makes the contributions required of City's contract employees on their behalf and for their account for Tier 1 and Tier II. The City is also required to contribute the actuarially determined annual required contributions necessary to fund the plans. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The average required employer contribution rate for the fiscal year 2020-21 was 15.445% (Tier I) and 11.742% (Tier II) and 7.732% (Tier III) and 0% (Safety) of annual covered salary. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

On June 30, 2021, the City reported net pension liability of \$7,112,777 for its proportionate share of the net pension liability.

The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using the standard update procedure. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share of the net pension liability for the Plan as of June 30, 2019 and 2020 was as follows:

Proportion - June 30, 2019	0.06518%
Proportion - June 30, 2020	<u>0.06537%</u>
Change - Increase (Decrease)	<u>0.00019%</u>

B. Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended June 30, 2021, the City recognized pension expense of \$1,207,774. On June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ -	\$ 48,944
Difference between Expected and Actual Experience	378,771	-
Difference between Projected and Actual Investment Earnings	207,548	-
Differences between Employer's Contributions and Proportionate Share of Contributions	13,620	153,727
Changes in Employer's Proportion	48,405	302,639
Pension Contributions Made Subsequent to Measurement Date	1,137,987	-
Total	<u>\$ 1,786,331</u>	<u>\$ 505,310</u>

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

10. RETIREMENT PLAN, Continued

B. Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources, Continued

\$1,137,987 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

Fiscal Year Ending June 30,	
2022	\$ (111,113)
2023	30,012
2024	124,369
2025	99,766

Actuarial Methods and Assumptions. The total pension liability for the June 30, 2020 measurement period was determined by an actuarial valuation as of June 30, 2019, rolled forward to June 30, 2020 using standard update procedures. The total pension liability for the measurement date June 30, 2020 were determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.15%
Inflation 2.50%	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table *	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies,

*The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

Changes in Assumption. There were no changes of assumptions during the measurement period June 30, 2020. Deferred inflows of resources for changes in assumptions presented in the deferred outflows/inflows table above represents the portion of the changes of assumptions related to prior measurement periods.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

10. RETIREMENT PLAN, Continued

B. Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources, Continued

Discount Rate. The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS website under the GASB 68 section.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical and forecasted information for all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

10. RETIREMENT PLAN, Continued

B. Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources, Continued

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

Asset Class ⁽¹⁾	Assumed Asset Allocation	Real Return Years 1 - 10 ⁽²⁾	Real Return Years 11+ ⁽³⁾
Global equity	50.00%	4.80%	5.98%
Fixed income	28.00%	1.00%	2.62%
Inflation assets	0.00%	0.77%	1.81%
Private equity	8.00%	6.30%	7.23%
Real assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100%		

⁽¹⁾ In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-Term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

⁽²⁾ An expected inflation of 2.00% used for this period.

⁽³⁾ An expected inflation of 2.92% used for this period.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability calculated using a discount rate of 7.15%, as well as what the net pension liability 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:

1% Decrease	6.15%
Net Pension Liability	\$ 11,197,009
Current Discount Rate	7.15%
Net Pension Liability	\$ 7,112,777
1% Increase	8.15%
Net Pension Liability	\$ 3,738,742

Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial report. The plan fiduciary net position may differ from the plan assets reported in the actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included in fiduciary net position. These amounts are excluded for rate setting purposes in the funding actuarial valuation.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

10. RETIREMENT PLAN, Continued

B. Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources, Continued

Payable to the Pension Plan. On June 30, 2021, the City reported a payable of \$0 for outstanding amount of contributions to the pension plan required for the year ended June 30, 2021.

11. CONDUIT DEBT OBLIGATIONS

In addition to the Long-Term Liabilities discussed in Note 7, Long-Term Liabilities have been issued in the name of the Wasco Public Financing Authority. Neither the City, nor the Authority, is obligated in any manner for the repayment of these obligations. The Authority acts as an agent to property owners for the collection and repayment of Special Assessment Debt.

These bonds were issued for the purpose of enabling the Authority to acquire qualified obligations and were issued under the authority of the Marks-Roos Local Bond Pooling Act of 1985. The purchased obligations are generally repaid by a special assessment against real estate and were used to finance the construction of necessary infrastructure, including but not limited to curbs, gutters, sidewalks, waterlines, and sanitary sewer facilities. The special assessment obligations serve as security for the bonds issued by the Authority. The bonds payable and special assessments outstanding are detailed as follows:

Assessment Districts	Remaining Collections	Outstanding Debt Service
91-2B Summerfield	\$ 14,760	\$ 10,850
93-1 Southside - Childress	181,042	101,475
Total	<u>\$ 195,802</u>	<u>\$ 112,325</u>

The "Remaining Collections" represents the sum of the remaining principal and interest for each active parcel after 2020/21 debt service has been billed.

12. DEFICIT FUND BALANCES AND NET POSITION

As of June 30, 2021 the following funds had a fund deficit:

Governmental Funds	
TDA	\$ (184,767)
Total Governmental Funds	<u>\$ (184,767)</u>

The above deficits are a result of expenditures prior to grant reimbursement.

13. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2021 some expenditures exceeded appropriations. The over expenditures were funded from current tax revenue and charges for services. All City expenditures were approved by the City Council.

City of Wasco
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

14. CONTINGENCIES AND COMMITMENTS

Grant Awards - The City participates in certain Federal and State assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives.

An audit of the City's Caltrans projects by the California Department of Transportation (Caltrans), determined that a violation of Caltrans regulations existed. Consequently, Caltrans determined that \$224,699 potentially be disallowed and may require that the City reimburse this amount to Caltrans. However, the City has not reimbursed Caltrans for any disallowed amounts as it is contesting the finding including in the Caltrans final audit report. Since the probable outcome of this matter cannot yet be determined, it has not been provided for in the financial statement.

15. PRIOR PERIOD ADJUSTMENT

The City's prior period adjustments in the governmental funds were (1) to reverse deferred inflows of resources - unavailable revenues relating to loans/notes receivables, and (2) to update beginning fiduciary net position balance of the custodial fund, as part of implementation of GASB Statement No. 84. The beginning fund balance adjustments were as follows:

	Fund Balance, as Previously Reported at June 30, 2020	Prior Period Adjustments Deferred Inflows of Resources (Unavailable Revenues)	Fund Balance, as Restated at June 30, 2020
Fund Financial Statements:			
Major-Governmental Funds:			
CDBG RLA Fund	\$ 382,259	\$ 1,274,188	\$ 1,656,447
CalHome Reuse Fund	1,016,678	1,557,367	2,574,045
2005 HCD Fund	-	950,000	950,000
RDA Low Income Housing Fund	75,046	1,000,000	1,075,046
Non-Major Funds:			
Begin Grant Reuse	11,313	86,447	97,760
Home Grant Reuse	341,280	803,718	1,144,998
Total Governmental Funds	\$ 1,826,576	\$ 5,671,720	\$ 7,498,296
	Net Position, as Previously Reported at June 30, 2020	Prior Period Adjustments Liabilities	Net Position, as Restated at June 30, 2020
Fiduciary Funds - Custodial Fund			
Wasco Public Financing Authority	\$ -	\$ 671,522	\$ 671,522

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REQUIRED SUPPLEMENTARY INFORMATION

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City of Wasco
Required Supplementary Information
Cost Sharing Defined Benefit Pension Plan
For the year ended June 30, 2021

*Schedule of the City's Proportionate Share of the Net Pension Liability and Related Ratios
as of the Measurement Date*

Fiscal year	2021	2020	2019	2018
Measurement date:	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Proportion share of the net pension liability	0.06537%	0.06518%	0.07044%	0.07368%
Proportionate share of the net pension liability	\$ 7,112,777	\$ 6,679,161	\$ 6,787,909	\$ 7,307,480
Covered payroll	\$ 3,159,408	\$ 3,061,133	\$ 2,823,120	\$ 3,187,601
Proportionate share of the net pension liability / (asset) as a percentage of its covered payroll	225.13%	218.19%	240.44%	229.25%
Proportionate share of the fiduciary net position as a percentage of the City's net pension liability	75.10%	75.26%	75.26%	73.31%

Fiscal year	2017	2016	2015
Measurement date:	6/30/2016	6/30/2015	6/30/2014
Proportion share of the net pension liability	0.07712%	0.08293%	0.09319%
Proportionate share of the net pension liability	\$ 6,673,668	\$ 5,692,558	\$ 5,450,478
Covered payroll	\$ 2,976,881	\$ 3,004,620	\$ 2,525,280
Proportionate share of the net pension liability / (asset) as a percentage of its covered payroll	224.18%	189.46%	215.84%
Proportionate share of the fiduciary net position as a percentage of the City's net pension liability	74.06%	78.40%	79.82%

Notes to Schedule

*Fiscal year 2015 was the 1st year of implementation, therefore only seven years are shown.

Assumption Changes : The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016, and then decreased from 7.65% to 7.15% in fiscal year 2018. CalPERS mortality assumptions were adjusted in fiscal year 2019.

City of Wasco
Required Supplementary Information
Cost Sharing Defined Benefit Pension Plan
For the year ended June 30, 2021

Schedule of City Contributions

Fiscal Year	6/30/2021	6/30/2020	6/30/2019	6/30/2018
Actuarially determined contribution	\$ 1,137,987	\$ 846,598	\$ 1,031,256	\$ 934,521
Contributions in relation to actuarially determined contribution	(1,137,987)	(846,598)	(1,031,256)	(934,521)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 3,607,271	\$ 3,159,408	\$ 3,061,133	\$ 2,823,120
Contributions as a percentage of covered payroll	31.55%	26.80%	33.69%	33.10%

Fiscal Year	6/30/2017	6/30/2016	6/30/2015
Actuarially determined contribution	\$ 915,447	\$ 861,299	\$ 650,046
Contributions in relation to actuarially deemed contributions	(915,447)	(861,299)	(650,046)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee-payroll	\$ 3,187,601	\$ 2,976,881	\$ 3,004,620
Contributions as a percentage of covered payroll	28.72%	28.93%	21.63%

Notes to the Schedule:

*Fiscal year 2015 was the 1st year of implementation, therefore only seven years are shown

Methods and assumptions used to determine contribution rates:

Valuation date	6/30/2018
Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Assets valuation method	Market Value
Inflation	2.50%
Salary increases	Depending on age, service and type of employment
Investment rate of return	7.00%
Retirement age	50 for all plans, with the exception of 52 for miscellaneous PEPRA 2%@62
Mortality	Based on rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board

City of Wasco
Required Supplementary Information
For the Year Ended June 30, 2021

1. BUDGET AND BUDGETARY ACCOUNTING

Budgeting Procedures

The City's fiscal year runs from July 1 through June 30. Each year, the Finance Director prepares the Proposed Operating Budget and Capital Improvement Program which are adopted in June. The budget process is as follows:

- In January, the City Council meets to set the goals and priorities for the upcoming fiscal year.
- In February, the department supervisors, superintendents, and deputy directors meet with the department directors to review the budget requests.
- In February and March, the department directors meet with the Finance Director and Accounting Manager to review the budget requests.
- In April, each department director meets with the City Manager, Finance Director and Accounting Manager to review the budget requests.
- In May and June, the City Council holds special budget workshop meetings. At these meetings, the public is invited to comment on the Proposed Operating Budget and Capital Improvement Program and the Council makes a number of important policy decisions regarding the budget.
- In June, the Proposed Operating Budget and Capital Improvement Program, and any changes made to them during the budget workshops, are adopted by resolution.

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City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

General Fund

For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES:				
Taxes	\$ 7,390,000	\$ 8,633,810	\$ 9,568,140	\$ 934,330
Licenses and permits	255,400	450,700	591,749	141,049
Intergovernmental	5,212,000	12,862,600	1,609,976	(11,252,624)
Charges for services	182,800	182,800	250,326	67,526
Fines, forfeitures and assessments	48,000	48,000	29,537	(18,463)
Use of money and property	24,110	24,110	121,274	97,164
Miscellaneous	41,500	41,500	430,015	388,515
Total revenues	13,153,810	22,243,520	12,601,017	(9,642,503)
EXPENDITURES:				
Current:				
General government				
City Council	219,353	219,353	123,063	96,290
City Manager	448,902	485,002	25,327	459,675
City clerk	200,030	230,830	2,458	228,372
Finance and accounting	466,344	466,344	13,550	452,794
Human resources and risk management	67,118	67,118	3,071	64,047
City attorney	200,000	235,000	281,269	(46,269)
Total general government	1,601,747	1,703,647	448,738	1,254,909
Public safety				
Sheriff	4,362,159	4,361,859	4,049,560	312,299
Animal control	351,908	352,208	274,986	77,222
Fire	530,000	530,000	529,134	866
Total public safety	5,244,067	5,244,067	4,853,680	390,387
Public works	1,611,693	1,614,193	1,090,136	524,057
Community development				
Planning	751,342	756,342	381,952	374,390
Engineering	382,587	492,087	372,001	120,086
Building inspection	475,568	475,568	404,388	71,180
Code compliance	410,631	410,631	377,820	32,811
Total community development	2,020,128	2,134,628	1,536,161	598,467
Non-departmental	137,000	150,540	96,407	54,133
Capital outlay:				
General capital outlay	5,584,000	17,015,106	1,876,473	15,138,633
Total expenditures	16,198,635	27,862,181	9,901,595	17,960,586
REVENUES OVER (UNDER)				
EXPENDITURES	(3,044,825)	(5,618,661)	2,699,422	8,318,083
OTHER FINANCING SOURCES (USES):				
Transfers in	-	5,134,328	1,548,002	(3,586,326)
Transfers out	(1,499,278)	(2,695,043)	(856,341)	1,838,702
Total other financing sources (uses)	(1,499,278)	2,439,285	691,661	(1,747,624)
Net change in fund balances	\$ (4,544,103)	\$ (3,179,376)	3,391,083	\$ 6,570,459
FUND BALANCES:				
Beginning of year			14,352,329	
End of year			\$ 17,743,412	

City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Streets Fund

For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES:				
Use of money and property	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
EXPENDITURES:				
Current:				
Community development	-	-	-	-
Total expenditures	-	-	-	-
REVENUES OVER (UNDER)				
EXPENDITURES	-	-	-	-
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	842,213	842,213
Total other financing sources (uses)	-	-	842,213	842,213
Net change in fund balances	\$ -	\$ -	842,213	\$ 842,213
FUND BALANCES:				
Beginning of year			(842,213)	
End of year			\$ -	

City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual TDA Grant For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES:				
Intergovernmental	\$ 250,000	\$ 250,000	\$ -	\$ (250,000)
Total revenues	250,000	250,000	-	(250,000)
EXPENDITURES:				
Current:				
Community development	-	-	-	-
Total expenditures	-	-	-	-
REVENUES OVER (UNDER)				
EXPENDITURES	250,000	250,000	-	(250,000)
OTHER FINANCING SOURCES (USES):				
Transfers out	(250,000)	(250,000)	(51,955)	198,045
Total other financing sources (uses)	(250,000)	(250,000)	(51,955)	198,045
Net change in fund balances	\$ -	\$ -	(51,955)	\$ (51,955)
FUND BALANCES:				
Beginning of year			(132,812)	
End of year			\$ (184,767)	

City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual CDBG RLA

For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES:				
Use of money and property	\$ 6,000	\$ 6,000	\$ 7,526	\$ 1,526
Total revenues	6,000	6,000	7,526	1,526
EXPENDITURES:				
Current:				
Community development	-	-	7,486	(7,486)
Total expenditures	-	-	7,486	(7,486)
REVENUES OVER (UNDER)				
EXPENDITURES	6,000	6,000	40	(5,960)
Net change in fund balances	\$ 6,000	\$ 6,000	40	\$ (5,960)
FUND BALANCES:				
Beginning of year, as restated			1,656,447	
End of year			\$ 1,656,487	

City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual CalHOME Reuse

For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES:				
Use of money and property	\$ 5,000	\$ 5,000	\$ 19,718	\$ 14,718
Total revenues	5,000	5,000	19,718	14,718
EXPENDITURES:				
Current:				
Community development	-	-	3,458	(3,458)
Total expenditures	-	-	3,458	(3,458)
REVENUES OVER (UNDER)				
EXPENDITURES	5,000	5,000	16,260	18,176
Net change in fund balances	\$ 5,000	\$ 5,000	16,260	\$ 18,176
FUND BALANCES:				
Beginning of year, as restated			2,574,045	
End of year			\$ 2,590,305	

City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual 2005 HCD Fund For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES:				
Use of money and property	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
EXPENDITURES:				
Current:				
Community development	-	-	-	-
Total expenditures	-	-	-	-
REVENUES OVER (UNDER)				
EXPENDITURES	-	-	-	-
Net change in fund balances	\$ -	\$ -	-	\$ -
FUND BALANCES:				
Beginning of year, as restated			950,000	
End of year			\$ 950,000	

City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

RDA Low Income Housing

For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES:				
Use of money and property	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
EXPENDITURES:				
Current:				
Community development	-	-	-	-
Total expenditures	-	-	-	-
REVENUES OVER (UNDER)				
EXPENDITURES	-	-	-	-
Net change in fund balances	\$ -	\$ -	-	\$ -
FUND BALANCES:				
Beginning of year, as restated			1,075,046	
End of year			\$ 1,075,046	

City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Park Impact Fund

For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES:				
Use of money and property	\$ -	\$ -	\$ 4,042	\$ 4,042
Total revenues	-	-	4,042	4,042
Net change in fund balances	\$ -	\$ -	4,042	\$ 4,042
FUND BALANCES:				
Beginning of year			-	
End of year			\$ 4,042	

SUPPLEMENTARY INFORMATION

Nonmajor Governmental Funds

Nonmajor Special Revenue Funds

Lighting & Landscape Fund – Accounts for revenues received for maintenance and operation of the majority of the streetlights and parkways in the City. Revenues are derived from benefit assessments to properties within the City’s three maintenance districts. Expenditures include the direct costs of labor, supplies and equipment to maintain the districts and parks.

Emergency Response – Accounts for the activities of the emergency response team. The emergency response team will work in close cooperation with the State and County standardized emergency management system and their associates.

Sewer Lift Station Fund – Accounts for funds collected from a special assessment district created around properties benefiting from the lift station. The funds collected are used to operate and maintain the sewer lift station.

Community Facilities District – Accounts for revenues received pursuant to Resolution 2017-3211 and Ordinance 2017-688 for the purpose of providing public safety, street maintenance, landscape maintenance in the public right-of-way and other services within the district.

Gas Tax Fund – Accounts for revenues apportioned under the Street and Highway Code of the State of California. These funds can be used for any street-related purpose.

Traffic Safety Fund – Accounts for revenues derived from vehicle fines paid on violations issued by the Kern County Sheriff’s Department within the City limits. These revenues are used for traffic striping and marking the City streets.

Traffic Impact Fund – Accounts for revenues charged to new businesses as they move into the City. These fees are used to install traffic lights, widen streets and any other traffic control in the area that is impacted by the traffic created by the new business.

COPS Grant Fund – Accounts for revenues that the State of California issues to the County of Kern funds for front line law enforcement services. These funds are distributed to local Municipalities by an internal formula. The funds are utilized by the Sheriff for anti-gang and community crime prevention programs in the City.

Nonmajor Governmental Funds, Continued

Nonmajor Special Revenue Funds, Continued

2002 CalHome Grant Fund – Accounts for all grant funds awarded to the City for low and moderate income rehabilitations. This fund also utilizes available funds from the CDBG reuse money and the Redevelopment Agency's 20% low and moderate housing set-a-side funds.

2003 CDBG Grant Fund – Accounts for the Community Development Block Grant (CDBG) received in 2003. The grant funds are disbursed to homeowners who meet low and moderate income guidelines and qualify for the CDBG program as deferred loans, grants or below market interest rate loans. The revenue collected year to year as loan payments or loan payoffs is used to fund the City's local portion of CDBG projects and helps enhance the programs offered by the Special Programs Financing Department.

2003 CalHome Grant Fund – The City was awarded \$500,000 in funding through the 2004 CalHome Program funding. These funds will be used for the City's housing rehabilitation program toward more owner-occupied housing rehabilitation. This funding will allow the City to continue to meet the rehabilitation needs of the low and moderate income homeowners in Wasco through making 3% interest 20 year deferred loans for the purpose of housing rehabilitation. This fund also utilizes available funds from the CDBG reuse money and the Redevelopment Agency's 20% low and moderate housing set-aside funds.

2004 CDBG Grant Fund – The City applied for \$500,000 in funding through the 2004 Community Development Block Grant (CDBG) Program. These funds will be used by the City's housing rehabilitation department. Most of this grant will be spent on housing rehabilitation loans, however, \$46,250 of this grant will be spent on infill sidewalks for Census Tract 44 through the 10% set-aside component of the CDBG grant.

2004 CalHome Grant Fund – The City was awarded \$500,000 in funding through the 2004 CalHome Program funding. These funds will be used for the City's housing rehabilitation program toward more owner-occupied housing rehabilitation. This funding will allow the City to continue to meet the rehabilitation needs of the low and moderate income homeowners in Wasco through making 3% interest 20 year deferred loans for the purpose of housing rehabilitation. This fund also utilizes available funds from the CDBG reuse money and the Redevelopment Agency's 20% low and moderate housing set-aside funds.

Nonmajor Governmental Funds, Continued

Nonmajor Special Revenue Funds, Continued

2005 CalHome Grant Fund – The City was awarded \$500,000 in funding through the 2005 CalHome Program funding. These funds will be used for the City’s housing rehabilitation program toward more owner-occupied housing rehabilitation. This funding will allow the City to continue to meet the rehabilitation needs of the low and moderate income homeowners in Wasco through making 3% interest 20 year deferred loans for the purpose of housing rehabilitation. This fund also utilizes available funds from the CDBG reuse money and the Redevelopment Agency’s 20% low and moderate housing set-aside funds.

2006 CalHome Grant Fund – The City was awarded \$500,000 in funding through the 2006 CalHome Program funding. These funds will be used for the City’s housing rehabilitation program toward more owner-occupied housing rehabilitation. This funding will allow the City to continue to meet the rehabilitation needs of the low and moderate income homeowners in Wasco through making 3% interest 20 year deferred loans for the purpose of housing rehabilitation. This fund also utilizes available funds from the CDBG reuse money and the Redevelopment Agency’s 20% low and moderate housing set-aside funds.

BEGIN Grant Reuse Fund – Accounts for program income from the City’s BEGIN grant program. In accordance with the BEGIN program guidelines, all program income must be accounted for and kept in a reuse fund where it can then be accumulated and lent back out on BEGIN eligible activities.

2009 CDBG Grant Fund – The City was awarded \$800,000 from CDBG for a housing combo grant to assist citizens with First Time Homebuyer Down Payment Assistance and Housing Rehabilitation Loans. This money is currently being lent to qualified low income applicants at 1% interest.

HOME Grant Reuse Fund – Accounts for program income from the City’s HOME grant program. In accordance with the HOME program guidelines, all program income must be accounted for and kept in a reuse fund where it can then be accumulated and lent back out on HOME eligible activities.

Nonmajor Governmental Funds, Continued

Nonmajor Special Revenue Funds, Continued

2008 CDBG Grant Fund – The City was awarded \$300,000 in funding through the 2008 CDBG Economic Development Grant. These funds are to be used to provide business assistance loans to qualified local businesses in the form of below market interest rate loans. This grant will be expiring in December 2012.

Public Finance Authority (component unit) – Accounts for the general fund the Wasco Public Finance Authority (a component unit of the City). The Wasco Public Finance Authority was created for the purpose of issuing its bonds to be used to provide financial assistance to the City, the Agency or any other public entity of the State of California.

2010 HOME Grant Fund – The City was awarded \$800,000 in HOME funds to assist citizens with the purchase of their first home. This money is currently being lent out to qualified low income recipients as a "silent-second" at 1% interest.

City of Wasco
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2021

	Special Revenue Funds			
	Lighting & Landscape	Emergency Response	Sewer Lift Station	Community Facilities District
ASSETS				
Cash and investments	\$ 45,375	\$ 23,446	\$ 206,439	\$ 90,167
Notes receivable	-	-	-	-
Total assets	45,375	23,446	206,439	90,167
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	21,951	-	319	-
Accrued liabilities	91	-	-	-
Due to other funds	-	-	-	-
Unearned revenue	-	21,879	-	-
Total liabilities	22,042	21,879	319	-
Fund Balances:				
Restricted for:				
Community development	-	-	-	90,167
Streets and transportation	23,333	-	-	-
Public safety	-	1,567	-	-
Other purposes	-	-	206,120	-
Assigned:				
Community development	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	23,333	1,567	206,120	90,167
Total liabilities, deferred inflows of resources and fund balances	\$ 45,375	\$ 23,446	\$ 206,439	\$ 90,167

Special Revenue Funds					
Gas Tax	Traffic Safety	Traffic Impact	COPS Grant Fund	2002 CalHome Grant Fund	2003 CDBG Grant Fund
\$ 409,638	\$ -	\$ 2,085,644	\$ 212,674	\$ -	\$ -
-	-	-	-	-	-
409,638	-	2,085,644	212,674	-	-
-	1,686	-	-	-	-
-	-	-	-	-	-
-	1,675	-	-	-	-
-	-	-	-	-	-
-	3,361	-	-	-	-
-	-	-	-	-	-
409,638	-	2,085,644	-	-	-
-	-	-	212,674	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	(3,361)	-	-	-	-
409,638	(3,361)	2,085,644	212,674	-	-
\$ 409,638	\$ -	\$ 2,085,644	\$ 212,674	\$ -	\$ -

City of Wasco
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2021

	Special Revenue Funds			
	2003 CalHome Grant Fund	2004 CDBG Grant Fund	2004 CalHome Grant Fund	2005 CalHome Grant Fund
ASSETS				
Cash and investments	\$ -	\$ -	\$ -	\$ -
Notes receivable	-	-	-	-
Total assets	-	-	-	-
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	-	-	-
Accrued liabilities	-	-	-	-
Due to other funds	-	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	-	-	-	-
Fund Balances:				
Restricted for:				
Community development	-	-	-	-
Streets and transportation	-	-	-	-
Public safety	-	-	-	-
Other purposes	-	-	-	-
Assigned:				
Community development	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	-	-	-	-
Total liabilities, deferred inflows of resources and fund balances	\$ -	\$ -	\$ -	\$ -

Special Revenue Funds					
2006 CalHome Grant Fund	BEGIN Grant Reuse	2009 CDBG Grant Fund	HOME Grant Reuse	2008 CDBG Grant Fund	Public Financing Authority
\$ -	\$ 11,381	\$ -	\$ 412,584	\$ -	\$ 129,051
-	86,447	-	732,117	-	-
-	97,828	-	1,144,701	-	129,051
-	-	-	-	-	4,842
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	4,842
-	97,828	-	1,144,701	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	124,209
-	-	-	-	-	-
-	97,828	-	1,144,701	-	124,209
\$ -	\$ 97,828	\$ -	\$ 1,144,701	\$ -	\$ 129,051

City of Wasco
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2021

	Special Revenue Funds	
	2010 Home Grant Fund	Total Nonmajor Governmental Funds
ASSETS		
Cash and investments	\$ -	\$ 3,626,399
Notes receivable	-	818,564
Total assets	-	4,444,963
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
Liabilities:		
Accounts payable	-	28,798
Accrued liabilities	-	91
Due to other funds	-	1,675
Unearned revenue	-	21,879
Total liabilities	-	52,443
Fund Balances:		
Restricted for:		
Community development	-	1,332,696
Streets and transportation	-	2,518,615
Public safety	-	214,241
Other purposes	-	206,120
Assigned:		
Community development	-	124,209
Unassigned	-	(3,361)
Total fund balances	-	4,392,520
Total liabilities, deferred inflows of resources and fund balances	\$ -	\$ 4,444,963

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City of Wasco

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the year ended June 30, 2021

	Special Revenue Funds			
	Lighting & Landscape	Emergency Response	Sewer Lift Station	Community Facilities District
REVENUES:				
Taxes	\$ 174,463	\$ -	\$ 11,302	\$ 82,291
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines, forfeitures and assessments	-	-	-	-
Use of money and property	120	-	1,215	-
Miscellaneous	1,080	-	-	-
Total revenues	175,663	-	12,517	82,291
EXPENDITURES:				
Current:				
Public works	130,237	-	6,168	249
Community development	-	-	-	-
Total expenditures	130,237	-	6,168	249
REVENUES OVER (UNDER) EXPENDITURES	45,426	-	6,349	82,042
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	-	(45,000)
Total other financing sources (uses)	-	-	-	(45,000)
Net change in fund balances	45,426	-	6,349	37,042
FUND BALANCES:				
Beginning of year, as restated	(22,093)	1,567	199,771	53,125
End of year	\$ 23,333	\$ 1,567	\$ 206,120	\$ 90,167

Special Revenue Funds					
Gas Tax	Traffic Safety	Traffic Impact	COPS Grant Fund	2002 CalHome Grant Fund	2003 CDBG Grant Fund
\$ 1,119,967	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	96,088	-	-	-
-	-	-	156,726	-	-
-	-	-	-	-	-
-	12,712	-	-	-	-
5,636	-	12,418	-	-	-
-	-	-	-	-	-
1,125,603	12,712	108,506	156,726	-	-
-	15,680	24,168	-	-	-
-	-	-	-	-	-
-	15,680	24,168	-	-	-
1,125,603	(2,968)	84,338	156,726	-	-
(1,393,173)	(8,000)	(41,090)	-	-	-
(1,393,173)	(8,000)	(41,090)	-	-	-
(267,570)	(10,968)	43,248	156,726	-	-
677,208	7,607	2,042,396	55,948	-	-
\$ 409,638	\$ (3,361)	\$ 2,085,644	\$ 212,674	\$ -	\$ -

City of Wasco

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the year ended June 30, 2021

	Special Revenue Funds			
	2003 CalHome Grant Fund	2004 CDBG Grant Fund	2004 CalHome Grant Fund	2005 CalHome Grant Fund
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines, forfeitures and assessments	-	-	-	-
Use of money and property	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	-	-	-	-
EXPENDITURES:				
Current:				
Public works	-	-	-	-
Community development	-	-	-	-
Total expenditures	-	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	-	-	-	-
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	-	-
FUND BALANCES:				
Beginning of year	-	-	-	-
End of year	\$ -	\$ -	\$ -	\$ -

Special Revenue Funds

2006 CalHome Grant Fund	BEGIN Grant Reuse	2009 CDBG Grant Fund	HOME Grant Reuse	2008 CDBG Grant Fund	Public Financing Authority
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	20,082
-	-	-	-	-	-
-	68	-	7,375	-	(9,055)
-	-	-	-	-	-
-	68	-	7,375	-	11,027
-	-	-	-	-	-
-	-	-	7,672	-	14,271
-	-	-	7,672	-	14,271
-	68	-	(297)	-	(3,244)
-	-	-	-	-	-
-	-	-	-	-	-
-	68	-	(297)	-	(3,244)
-	97,760	-	1,144,998	-	127,453
\$ -	\$ 97,828	\$ -	\$ 1,144,701	\$ -	\$ 124,209

City of Wasco

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds For the year ended June 30, 2021

	<u>Special Revenue Funds</u>	
	<u>2010 Home Grant Fund</u>	Total Nonmajor Governmental Funds
REVENUES:		
Taxes	\$ -	\$ 1,388,023
Licenses and permits	-	96,088
Intergovernmental	-	156,726
Charges for services	-	20,082
Fines, forfeitures and assessments	-	12,712
Use of money and property	-	17,777
Miscellaneous	-	1,080
Total revenues	-	1,692,488
EXPENDITURES:		
Current:		
Public works	-	176,502
Community development	-	21,943
Total expenditures	-	198,445
REVENUES OVER (UNDER) EXPENDITURES	-	1,494,043
OTHER FINANCING SOURCES (USES):		
Transfers out	-	(1,487,263)
Total other financing sources (uses)	-	(1,487,263)
Net change in fund balances	-	6,780
FUND BALANCES:		
Beginning of year	-	4,385,740
End of year	\$ -	\$ 4,392,520

City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Lighting & Landscape Fund

For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES:				
Taxes	\$ 158,810	\$ 158,810	\$ 174,463	\$ 15,653
Use of money and property	-	-	120	120
Miscellaneous	-	-	1,080	1,080
Total revenues	158,810	158,810	175,663	16,853
EXPENDITURES:				
Current:				
Public works	\$ 116,630	\$ 116,630	\$ 130,237	\$ (13,607)
Total expenditures	116,630	116,630	130,237	(13,607)
REVENUES OVER (UNDER)				
EXPENDITURES	42,180	42,180	45,426	3,246
Net change in fund balances	\$ 42,180	\$ 42,180	45,426	\$ 3,246
FUND BALANCES:				
Beginning of year			(22,093)	
End of year			\$ 23,333	

City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Emergency Response For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES:				
Intergovernmental	\$ -	\$ 934,000	\$ -	\$ (934,000)
Total revenues	-	934,000	-	(934,000)
EXPENDITURES:				
Current:				
General government	-	-	-	-
Total expenditures	-	-	-	-
REVENUES OVER (UNDER)				
EXPENDITURES	-	934,000	-	(934,000)
Net change in fund balances	\$ -	\$ 934,000	-	\$ (934,000)
FUND BALANCES:				
Beginning of year			1,567	
End of year			\$ 1,567	

City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Sewer Lift Station Fund

For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES:				
Taxes	\$ 10,000	\$ 10,000	\$ 11,302	\$ 1,302
Use of money and property	-	-	1,215	1,215
Total revenues	<u>10,000</u>	<u>10,000</u>	<u>12,517</u>	<u>2,517</u>
EXPENDITURES:				
Current:				
Public works	\$ 6,414	\$ 6,414	\$ 6,168	\$ 246
Total expenditures	<u>6,414</u>	<u>6,414</u>	<u>6,168</u>	<u>246</u>
REVENUES OVER (UNDER)				
EXPENDITURES	<u>3,586</u>	<u>3,586</u>	<u>6,349</u>	<u>2,763</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	<u>(5,000)</u>	<u>(5,000)</u>	<u>-</u>	<u>5,000</u>
Total other financing sources (uses)	<u>(5,000)</u>	<u>(5,000)</u>	<u>-</u>	<u>5,000</u>
Net change in fund balances	<u>\$ (1,414)</u>	<u>\$ (1,414)</u>	<u>6,349</u>	<u>\$ 7,763</u>
FUND BALANCES:				
Beginning of year			<u>199,771</u>	
End of year			<u>\$ 206,120</u>	

City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Community Facilities District For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 45,000	\$ 45,000	\$ 82,291	\$ 37,291
Total revenues	45,000	45,000	82,291	37,291
EXPENDITURES:				
Current:				
Public works	-	-	249	(249)
Total expenditures	-	-	249	(249)
REVENUES OVER (UNDER)				
EXPENDITURES	45,000	45,000	82,042	37,042
OTHER FINANCING SOURCES (USES):				
Transfers out	(45,000)	(45,000)	(45,000)	-
Total other financing sources (uses)	(45,000)	(45,000)	(45,000)	-
Net change in fund balances	\$ -	\$ -	37,042	\$ 37,042
FUND BALANCES:				
Beginning of year			53,125	
End of year			\$ 90,167	

City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Gas Tax Fund

For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES:				
Taxes	\$ 923,424	\$ 923,424	\$ 1,119,967	\$ 196,543
Use of money and property	-	-	5,636	5,636
Total revenues	923,424	923,424	1,125,603	202,179
EXPENDITURES:				
Current:				
General government	-	-	-	-
Total expenditures	-	-	-	-
REVENUES OVER (UNDER)				
EXPENDITURES	923,424	923,424	1,125,603	202,179
OTHER FINANCING SOURCES (USES):				
Transfers out	(1,494,722)	(1,494,722)	(1,393,173)	101,549
Total other financing sources (uses)	(1,494,722)	(1,494,722)	(1,393,173)	101,549
Net change in fund balances	\$ (571,298)	\$ (571,298)	(267,570)	\$ 303,728
FUND BALANCES:				
Beginning of year			677,208	
End of year			\$ 409,638	

City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Traffic Safety Fund

For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES:				
Fines, forfeitures and assessments	\$ 20,000	\$ 20,000	\$ 12,712	\$ (7,288)
Total revenues	20,000	20,000	12,712	(7,288)
EXPENDITURES:				
Current:				
Public works	23,000	23,000	15,680	7,320
Total expenditures	23,000	23,000	15,680	7,320
REVENUES OVER (UNDER)				
EXPENDITURES	(3,000)	(3,000)	(2,968)	32
OTHER FINANCING SOURCES (USES):				
Transfers out	(8,000)	(8,000)	(8,000)	-
Total other financing sources (uses)	(8,000)	(8,000)	(8,000)	-
Net change in fund balances	\$ (11,000)	\$ (11,000)	(10,968)	\$ 32
FUND BALANCES:				
Beginning of year			7,607	
End of year			\$ (3,361)	

City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Traffic Impact Fund

For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES:				
Licenses and permits	\$ 87,000	\$ 87,000	\$ 96,088	\$ 9,088
Use of money and property	-	-	12,418	12,418
Total revenues	87,000	87,000	108,506	21,506
EXPENDITURES:				
Current:				
Public works	-	-	24,168	(24,168)
Total expenditures	-	-	24,168	(24,168)
REVENUES OVER (UNDER)				
EXPENDITURES	87,000	87,000	84,338	(2,662)
OTHER FINANCING SOURCES (USES):				
Transfers out	(595,563)	(595,563)	(41,090)	554,473
Total other financing sources (uses)	(595,563)	(595,563)	(41,090)	554,473
Net change in fund balances	\$ (508,563)	\$ (508,563)	43,248	\$ 551,811
FUND BALANCES:				
Beginning of year			2,042,396	
End of year			\$ 2,085,644	

City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

COPS Grant Fund

For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ 156,726	\$ 156,726
Total revenues	-	-	156,726	156,726
EXPENDITURES:				
Current:				
General government	-	-	-	-
Total expenditures	-	-	-	-
REVENUES OVER (UNDER)				
EXPENDITURES	-	-	156,726	156,726
Net change in fund balances	\$ -	\$ -	156,726	\$ 156,726
FUND BALANCES:				
Beginning of year			55,948	
End of year			\$ 212,674	

City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

BEGIN Grant Reuse

For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES:				
Use of money and property	\$ -	\$ -	\$ 68	\$ 68
Total revenues	-	-	68	68
EXPENDITURES:				
Current:				
General government	-	-	-	-
Total expenditures	-	-	-	-
REVENUES OVER (UNDER)				
EXPENDITURES	-	-	68	68
Net change in fund balances	\$ -	\$ -	68	\$ 68
FUND BALANCES:				
Beginning of year			97,760	
End of year			\$ 97,828	

City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

HOME Grant Reuse

For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES:				
Use of money and property	\$ -	\$ -	\$ 7,375	\$ 7,375
Total revenues	-	-	7,375	7,375
EXPENDITURES:				
Current:				
Community development	-	-	7,672	(7,672)
Total expenditures	-	-	7,672	(7,672)
REVENUES OVER (UNDER)				
EXPENDITURES	-	-	(297)	(297)
Net change in fund balances	\$ -	\$ -	(297)	\$ (297)
FUND BALANCES:				
Beginning of year			1,144,998	
End of year			\$ 1,144,701	

City of Wasco

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Public Financing Authority

For the year ended June 30, 2021

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES:				
Charges for services	\$ -	\$ -	\$ 20,082	\$ 20,082
Use of money and property	-	-	(9,055)	(9,055)
Total revenues	-	-	11,027	11,027
EXPENDITURES:				
Current:				
Community development	20,000	20,000	14,271	5,729
Total expenditures	20,000	20,000	14,271	5,729
REVENUES OVER (UNDER)				
EXPENDITURES	(20,000)	(20,000)	25,298	5,298
Net change in fund balances	\$ (20,000)	\$ (20,000)	25,298	\$ 5,298
FUND BALANCES:				
Beginning of year			127,453	
End of year			\$ 152,751	

City of Wasco

Measure X

Wasco, California

*Basic Financial Statements
and Independent Auditors' Reports*

For the year ended June 30, 2021

City of Wasco, Measure X
Table of Contents
June 30, 2021

	<u>Page</u>	
Independent Auditors’ Report.....	1	
 Basic Financial Statements		
Balance Sheet – Measure X.....	3	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Measure X.....	4	
Notes to Basic Financial Statements	5	
 Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		9

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Wasco
Wasco, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure X of the City of Wasco, California (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 Measure X'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.

To the Honorable Mayor and Members of the City Council
of the City of Wasco
Wasco, California
Page 2

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Measure X of the City as of June 30, 2021, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, these financial statements present only Measure X and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2021, or the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

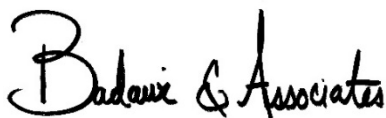
Other Matters

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19 2021, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance relating to Measure X 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 the City's internal control over financial reporting and compliance relating to Measure X.



Badawi & Associates, CPAs
Berkeley, California
December 19, 2021

City of Wasco Measure X
Balance Sheet
June 30, 2021

	<u>2021</u>
ASSETS	
Cash and investments	\$ 5,014,089
Total assets	<u>\$ 5,014,089</u>
LIABILITIES	
Accounts payable	\$ -
Total current liabilities	<u>-</u>
FUND BALANCE	
Restricted - Essential city services	5,014,089
Total fund balance	<u>5,014,089</u>
Total liabilities and fund balance	<u>\$ 5,014,089</u>

See accompanying Notes to Basic Financial Statements.

City of Wasco Measure X
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the fiscal year ended June 30, 2021

	2021
OPERATING REVENUES:	
Measure X Sales Tax	\$ 2,900,705
Total operating revenues	2,900,705
OPERATING EXPENSES:	
Street and Road Construction and Maintenance:	
Sidewalk Rehab and ADA Ramps Program	53,080
Palm Avenue Rehab	198
Palm Avenue Shoulder Paving	991
Construction of New Animal Shelter	43,434
Street Maintenance of Effort	210,043
Neighborhood Camera Rebate Program	669
General and Administrative	14,510
Public Safety:	
Police Services	725,000
Fire Services	50,000
Code Compliance	50,000
Total expenditures	1,147,925
Net Change in Fund Balance	1,752,780
FUND BALANCE:	
Beginning of year	3,261,309
End of year	\$ 5,014,089

See accompanying Notes to Basic Financial Statements.

City of Wasco – Measure X

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

Measure X – On November 8, 2016, Measure X was approved by the citizens of the City of Wasco. Measure X created an ordinance establishing a new 1% sales tax. This ordinance stipulated that the additional sales tax proceeds were to provide funding for basic City services which were defined as essential general services, including but not limited to police, fire, streets, parks and recreation as well as other general fund services.

The financial statements of Measure X of the City of Wasco (the "City") have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The following summary of the City's more significant accounting policies is presented to assist the reader in interpreting the basic financial statements and other data in this report.

The financial statements are intended to reflect the financial position, results of operation, and compliance of the City with the laws, rules, and regulations of Measure X. They do not present fairly the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

B. *Basis of Presentation*

Fund Financial Statements

The accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into one generic fund type and one broad fund category as follows:

Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. Measure X is a Special Revenue Fund.

C. *Measurement Focus and Basis of Accounting*

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

City of Wasco – Measure X

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

C. Measurement Focus and Basis of Accounting, Continued

Measurement Focus – All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Basis of Accounting – In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Revenues which are susceptible to accrual include property taxes and special assessments that are levied for and due for the fiscal year and collected within 60 days after year-end. Licenses, permits, fines, forfeits, charges for services and miscellaneous revenues are recorded as governmental fund type revenues when received in cash because they are not generally measurable until actually received. Revenue from taxpayer assessed taxes, such as sales taxes, are recognized in the accounting period in which they became both measurable and available to finance expenditures of the fiscal period. Grant funds and reimbursements of expenses under contractual agreements are reported in governmental fund types and are recorded as a receivable when earned rather than when susceptible to accrual. Generally, this occurs when authorized expenditures are made under the grant program or contractual agreement. Expenditures are recognized when the fund liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

D. Cash and Investments

Cash and investment balances of each of the City’s funds, except for funds required to be held by outside fiscal agents under the provisions of bond indentures, are pooled in order to take advantage of an effective investment strategy. Income earned from pooled investments is allocated to each of the funds based on average pooled cash balances during the year. Deficit cash balances are classified as due to other funds and funded by the General Fund or related operating fund.

E. Receivables

All trade and tax receivables are shown net of an allowance for uncollectible accounts and estimated refunds due.

City of Wasco – Measure X

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

F. Fund Balance - Governmental Funds

Fund balances of the governmental funds are presented in the financial statements 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. Fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – Amounts that are obligated to a specific purpose which are internally imposed by the government through formal action (Ordinances and Resolutions) at the highest level of decision making authority (City Council). These commitments can only be overturned by a like action.

Assigned – Amounts that are intended to be used for specific purposes that are considered neither restricted nor committed. Undesignated excess Fund Balances may be assigned by the City Council, City Manager, or Finance Director for specific purposes through the budget process or agenda items. The assigned designation may be reversed by the City Council at any public meeting.

Unassigned – Residual positive fund balances within the General Fund, which have not been classified within the other above mentioned categories. Unassigned Fund Balances may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

When expenditures are incurred for purposes for which all restricted, committed, assigned, and unassigned fund balances are available, the City's policy is to apply in the following order, except for instances wherein an ordinance specifies the fund balance: Restricted, Committed, Assigned, and Unassigned.

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

City of Wasco – Measure X
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

2. CASH AND INVESTMENTS

Cash balances of the City's Measure X are pooled with those of other funds and invested by the City to maximize investment opportunities and yields. Income earned from pooled investments is allocated to each of the funds based on average pooled cash balances during the year. Deficit cash balances are classified as due to other funds and funded by the General Fund or related operating fund. Further information regarding the City's cash and cash equivalents pool may be found in the City's financial statements.

Cash and investments of the Measure X at June 30, 2021 consisted of the following:

Cash in the City of Wasco pooled cash	<u>\$5,014,089</u>
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**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**

Independent Auditor's Report

To the Honorable Mayor and Members of the city Council
of the City of Wasco
Wasco, 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 Measure X of the City of Wasco, (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 Measure X's basic financial statements and have issued our report thereon dated December 19, 2021.

Internal Control over Financial Reporting

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

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

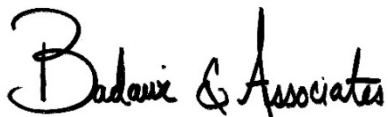
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi & Associates, CPA's
Berkeley, California
December 19, 2021

AU-C Section 705

Modifications to the Opinion in the Independent Auditor's Report

(Supersedes SAS No. 122 section 705.)

Source: SAS No. 134; SAS No. 137; SAS No. 141.

Effective for audits of financial statements for periods ending on or after December 15, 2021.

Introduction

Scope of This Section

.01 This section addresses the auditor's responsibility to issue an appropriate report in circumstances in which, in forming an opinion in accordance with section 700, *Forming an Opinion and Reporting on Financial Statements*, or section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary. This section also deals with how the form and content of the auditor's report is affected when the auditor expresses a modified opinion. In all cases, the reporting requirements in section 700 or section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, apply; those requirements are not repeated in this section unless they are explicitly addressed or amended by the requirements of this section.

Types of Modified Opinions

.02 This section establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends on the following:

- a. The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated
- b. The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements (Ref: par. .A1)

.03 Section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*, and section 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, address additional communications in the auditor's report that are not modifications to the auditor's opinion.

Effective Date

.04 This section is effective for audits of financial statements for periods ending on or after December 15, 2021. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 141.]

Objective

.05 The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary in the following circumstances:

- a. The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are materially misstated.
- b. The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Definitions

.06 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Modified opinion. A qualified opinion, an adverse opinion, or a disclaimer of opinion on the financial statements.

Pervasive. A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment,

- are not confined to specific elements, accounts, or items of the financial statements;
- if so confined, represent or could represent a substantial proportion of the financial statements; or
- regarding disclosures, are fundamental to users' understanding of the financial statements.

Requirements

Circumstances in Which a Modification to the Auditor's Opinion Is Required

.07 The auditor should modify the opinion in the auditor's report when

- a. the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are materially misstated or (Ref: par. A2–A8)
- b. the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. (Ref: par. A9–A13)

Determining the Type of Modification to the Auditor's Opinion

Qualified Opinion

.08 The auditor should express a qualified opinion in the following circumstances:

- a. The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements.
- b. The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse Opinion

.09 The auditor should express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Disclaimer of Opinion

.10 The auditor should disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. (Ref. par. .A14–.A15)

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation After the Auditor Has Accepted the Engagement

.11 If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor should request that management remove the limitation.

.12 If management refuses to remove the limitation referred to in paragraph .11, the auditor should communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity,¹ and, if appropriate, determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

.13 If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor should determine the implications as follows:

- a. If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor should qualify the opinion.
- b. If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would

¹ Paragraph .09 of section 260, *The Auditor's Communication With Those Charged With Governance*.

be inadequate to communicate the severity of the situation, the auditor should

- i. disclaim an opinion on the financial statements or
- ii. withdraw from the audit, when practicable. (Ref: par. .A16–.A17)

.14 If the auditor decides to withdraw from the audit in accordance with paragraph .13bii, before doing so, the auditor should communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion. (Ref: par. .A17)

Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion

.15 When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report should not also include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts, or items of a financial statement (piecemeal opinion). To include such an unmodified opinion in the same report² in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the financial statements as a whole. (Ref: par. .A18–.A19)

Auditor Is Not Independent But Is Required by Law or Regulation to Report on the Financial Statements

.16 When the auditor is not independent but is required by law or regulation to report on the financial statements, the auditor should disclaim an opinion and should specifically state that the auditor is not independent. The auditor is neither required to provide, nor precluded from providing, the reasons for the lack of independence; however, if the auditor chooses to provide the reasons for the lack of independence, the auditor should include all the reasons therefor. (Ref: par. .A20)

Form and Content of the Auditor's Report When the Opinion Is Modified

Auditor's Opinion

.17 When the auditor modifies the audit opinion, the auditor should use the heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," as appropriate, for the "Opinion" section. (Ref: par. .A21–.A23)

Qualified Opinion

.18 When the auditor expresses a qualified opinion due to a material misstatement in the financial statements, the auditor should state that, in the auditor's opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" section of the auditor's report, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [*the applicable financial reporting framework*]. When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor should

² Section 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, addresses special considerations relevant to an audit of a single financial statement or of a specific element, account, or item of a financial statement.

use the corresponding phrase "except for the possible effects of the matters..." for the modified opinion. (Ref: par. .A24–.A25)

Adverse Opinion

.19 When the auditor expresses an adverse opinion, the auditor should state that, in the auditor's opinion, because of the significance of the matters described in the "Basis for Adverse Opinion" section of the auditor's report, the accompanying financial statements do not present fairly [...] in accordance with [*the applicable financial reporting framework*].

Disclaimer of Opinion

.20 When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor should do the following:

- a. State that the auditor does not express an opinion on the accompanying financial statements.
- b. State that, because of the significance of the matters described in the "Basis for Disclaimer of Opinion" section of the auditor's report, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.
- c. Amend the statement required by paragraph .25b of section 700, or paragraph .64b of section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, as applicable, which indicates that the financial statements have been audited, to state that the auditor was engaged to audit the financial statements.

Basis for Opinion

.21 When the auditor modifies the opinion on the financial statements, the auditor should, in addition to including the specific elements required by section 700 or section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, do the following: (Ref: par. .A26)

- a. Amend the heading "Basis for Opinion" required by paragraph .28 of section 700 or paragraphs .67 or .107 of section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, as applicable, to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate.
- b. Within this section of the auditor's report, include a description of the matter giving rise to the modification.

.22 If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures), the auditor should include in the "Basis for Opinion" section a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor should state that in the "Basis for Opinion" section. (Ref: par. .A27–.A28)

.23 If there is a material misstatement of the financial statements that relates to qualitative disclosures, the auditor should include an explanation of how the disclosures are misstated in the "Basis for Opinion" section.

.24 If there is a material misstatement of the financial statements that relates to the omission of information required to be presented or disclosed, the auditor should do the following:

- a. Discuss the omission of such information with those charged with governance.
- b. Describe in the "Basis for Opinion" section the nature of the omitted information.
- c. Include the omitted information, provided that it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information. (Ref: par. .A29–.A30)

.25 If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor should include the reasons for that inability in the "Basis for Opinion" section. (Ref. par. .A31)

.26 When the auditor expresses a qualified or an adverse opinion, the auditor should amend the statement required by paragraph .28d of section 700 or paragraphs .67 or .107 of section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, as applicable, about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion, to include the word "qualified" or "adverse," as appropriate.

.27 When the auditor disclaims an opinion on the financial statements, the auditor's report should not include the elements required by paragraphs .28b and .28d of section 700 or paragraphs .67b and .67d or .107b and .107d of section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, as applicable. Those elements are

- a. a reference to the section of the auditor's report where the auditor's responsibilities are described and
- b. a statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

.28 Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor should describe the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof, in the "Basis for Opinion" section. (Ref: par. .A32–.A33)

Description of Auditor's Responsibilities for the Audit of the Financial Statements When the Auditor Disclaims an Opinion on the Financial Statements

.29 When the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor should amend the description of the auditor's responsibilities required by paragraphs .35–.37 of section 700 or paragraphs .74–.76 or .115–.119 of section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, as applicable, to include only the following: (Ref: par. .A34)

- a. A statement that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with auditing standards generally accepted in the United States of America and to issue an auditor's report

- b. A statement that, however, because of the matters described in the "Basis for Disclaimer of Opinion" section of the auditor's report, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements
- c. A statement that the auditor is required to be independent and to meet other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audit, required by paragraph .28c of section 700 or paragraph .67c or .107c of section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, as applicable

Considerations When the Auditor Expresses an Adverse Opinion or Disclaims an Opinion on the Financial Statements

.30 When the auditor expresses an adverse opinion or disclaims an opinion on the financial statements, the auditor's report should not include a "Key Audit Matters" section in accordance with section 701.³ (Ref: par. .A35–.A36) Also, when the auditor disclaims an opinion on the financial statements, the auditor's report should not include an "Other Information" section in accordance with section 720, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 137.]

Communication With Those Charged With Governance

.31 When the auditor expects to modify the opinion in the auditor's report, the auditor should communicate with those charged with governance the circumstances that led to the expected modification and the wording of the modification. (Ref: par. .A37)

Application and Other Explanatory Material

Types of Modified Opinions (Ref: par. .02)

.A1 The following table illustrates how the auditor's professional judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed:

<i>Nature of Matter Giving Rise to the Modification</i>	<i>Auditor's Professional Judgment About the Pervasiveness of the Effects or Possible Effects on the Financial Statements</i>	
	<i>Material but Not Pervasive</i>	<i>Material and Pervasive</i>
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

³ Paragraphs .10–.12 of section 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

Circumstances in Which a Modification to the Auditor's Opinion Is Required

Nature of Material Misstatements (Ref: par. .07a)

.A2 Sections 700 and 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, require the auditor, in order to form an opinion on the financial statements, to conclude whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement.¹ This conclusion takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements, in accordance with section 450, *Evaluation of Misstatements Identified During the Audit*.

.A3 Section 450 defines a *misstatement* as a difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Accordingly, a material misstatement of the financial statements may arise in relation to the following:

- The appropriateness of the selected accounting policies
- The application of the selected accounting policies
- The appropriateness of the financial statement presentation, or the appropriateness or adequacy of disclosures in the financial statements

Appropriateness of the Selected Accounting Policies

.A4 Regarding the appropriateness of the accounting policies management has selected, material misstatements of the financial statements may arise, for example, when

- the selected accounting policies are not consistent with the applicable financial reporting framework,
- the financial statements do not correctly describe an accounting policy relating to a significant item therein, or
- the financial statements do not represent or disclose the underlying transactions and events in a manner that achieves fair presentation.

.A5 Financial reporting frameworks often contain requirements for the accounting for, and disclosure of, changes in accounting policies. When the entity has changed its selection of significant accounting policies, a material misstatement of the financial statements may arise when the entity has not complied with these requirements. If a change in accounting policy does not meet the conditions described in section 708, *Consistency of Financial Statements*, then a material misstatement of the financial statements may arise.

Application of the Selected Accounting Policies

.A6 Regarding the application of the selected accounting policies, material misstatements of the financial statements may arise

¹ Paragraph .13 of section 700, *Forming an Opinion and Reporting on Financial Statements* and paragraph .38 of section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*.

- when management has not applied the selected accounting policies consistently with the financial reporting framework, including when management has not applied the selected accounting policies consistently between periods or to similar transactions and events (consistency in application).
- due to the method of application of the selected accounting policies (such as an unintentional error in application).

Appropriateness of the Financial Statement Presentation or Appropriateness or Adequacy of Disclosures in the Financial Statements

.A7 Regarding the appropriateness of the financial statement presentation or the appropriateness or adequacy of disclosures in the financial statements, material misstatements of the financial statements may arise when the following occur:

- The financial statements do not include all the disclosures required by the applicable financial reporting framework.
- The disclosures in the financial statements are not presented in accordance with the applicable financial reporting framework.
- The financial statements do not provide the additional disclosures necessary to achieve fair presentation beyond disclosures specifically required by the applicable financial reporting framework.
- Information required to be presented in accordance with the applicable financial reporting framework is omitted either because a required statement (for example, a statement of cash flows) has not been included or because the information has not otherwise been disclosed in the financial statements.

Paragraph .A23 of section 450 provides further examples of material misstatements that may arise in qualitative disclosures.

.A8 Adequate disclosures relate to the presentation of the financial statements and the related notes, including, for example, the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth.

Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence (Ref: par. .07b)

.A9 The auditor's inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit) may arise from the following:

- Circumstances beyond the control of the entity
- Circumstances relating to the nature or timing of the auditor's work
- Limitations imposed by management

.A10 An inability to perform a specific procedure does not constitute a limitation on the scope of the audit if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. If this is not possible, the requirements in paragraphs .08b and .10 apply as appropriate. Limitations imposed by management may have other implications for the audit, such as for the auditor's assessment of risks of material misstatement due to fraud and consideration of engagement continuance.

.A11 Examples of circumstances beyond the control of the entity include the following:

- The entity's accounting records have been destroyed.
- The accounting records of a significant component have been seized indefinitely by governmental authorities.

.A12 Examples of circumstances relating to the nature or timing of the auditor's work include the following:

- The entity is required to use the equity method of accounting for an investee, and the auditor is unable to obtain sufficient appropriate audit evidence about the latter's financial information to evaluate whether the equity method has been appropriately applied.
- The timing of the auditor's appointment is such that the auditor is unable to observe the counting of the physical inventories, and the auditor is unable to obtain sufficient appropriate audit evidence through other appropriate procedures, such as performing a rollback of inventory.
- The auditor determines that performing substantive procedures alone is not sufficient, but the entity's controls are not effective.

.A13 Examples of an inability to obtain sufficient appropriate audit evidence arising from a limitation on the scope of the audit imposed by management include the following:

- Management prevents the auditor from observing the counting of the physical inventory.
- Management prevents the auditor from requesting external confirmation of specific account balances.

Determining the Type of Modification to the Auditor's Opinion

Effect of Uncertainties (Ref: par. .10)

.A14 Absence of the existence of information related to the outcome of an uncertainty does not necessarily lead to a conclusion that the audit evidence supporting management's assertion is not sufficient. Rather, the auditor's professional judgment regarding the sufficiency of the audit evidence is based on the audit evidence that is, or should be, available. If, after considering the existing conditions and available evidence, the auditor concludes that sufficient appropriate audit evidence supports management's assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements, an unmodified opinion ordinarily is appropriate.

.A15 In cases involving multiple uncertainties, the auditor may conclude that it is not possible to form an opinion on whether the financial statements as a whole are fairly presented in accordance with the applicable financial reporting framework due to the interaction and possible cumulative effects of the uncertainties.

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation After the Auditor Has Accepted the Engagement (Ref: par. .13)

.A16 The practicality of withdrawing from the audit may depend on the stage of completion of the engagement at the time that management imposes the scope limitation. If the auditor has substantially completed the audit, the auditor may decide to complete the audit to the extent possible, disclaim an

opinion, and explain the scope limitation in the "Basis for Disclaimer of Opinion" section.

.A17 In certain circumstances, withdrawal from the audit may not be possible if the auditor is required by law or regulation to continue the audit engagement. This may be the case for an auditor who is appointed or elected to audit the financial statements of governmental entities. It may also be the case in circumstances in which the auditor is appointed to audit the financial statements covering a specific period or is appointed for a specific period and is prohibited from withdrawing before the completion of the audit of those financial statements or before the end of that period. In such circumstances, the auditor may consider it necessary to include an other-matter paragraph in the auditor's report.²

Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion (Ref: par. .15)

.A18 The following are examples of reporting circumstances that would not contradict the auditor's adverse opinion or disclaimer of opinion:

- In an initial audit, the expression of an unmodified opinion regarding the financial position and a disclaimer of opinion regarding the results of operations and cash flows, when relevant. In this case, the auditor has not disclaimed an opinion on the financial statements as a whole.
- The expression of an unmodified opinion on financial statements prepared under a given financial reporting framework and, within the same report, the expression of an adverse opinion on the same financial statements under a different financial reporting framework.

Considerations Specific to Audits of Governmental Entities

.A19 Because the auditor of a state or local governmental entity expresses an opinion or disclaims an opinion for each opinion unit,³ an auditor's report in these circumstances may include an unmodified opinion with respect to one or more opinion units and a modified opinion for one or more other opinion units.

Auditor Is Not Independent but Is Required by Law or Regulation to Report on the Financial Statements (Ref: par. .16)

Considerations Specific to Governmental Entities

.A20 The nature of a government auditor's lack of independence may have a limited effect because the impairment may result from the government auditor's association with only a component of the overall governmental entity. A government auditor may determine that the lack of independence affects only one or more, but not all, of the governmental entity's opinion units, and in such circumstances, the auditor may disclaim an opinion on the affected opinion units while expressing unmodified, qualified, or adverse opinions on other opinion units. The more significant the affected opinion units are to the overall governmental entity, the more likely that it will be appropriate for the auditor to disclaim an opinion on the financial statements of the overall governmental entity.

² Paragraphs .10–.11 of section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*.

³ Paragraph .A6 of section 700, *Forming an Opinion and Reporting on Financial Statements*.

Form and Content of the Auditor's Report When the Opinion Is Modified

Illustrative Auditor's Reports (Ref: par. .17)

.A21 Illustrations 1 and 3 in the exhibit to this section contain auditor's reports with qualified and adverse opinions, respectively, because the financial statements are materially misstated.

.A22 Illustration 4 in the exhibit contains an auditor's report with a qualified opinion because the auditor is unable to obtain sufficient appropriate audit evidence. Illustration 5 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about a single element of the financial statements. Illustration 6 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. In each of the latter two cases, the possible effects on the financial statements of the inability to obtain sufficient appropriate audit evidence are both material and pervasive. The exhibits to other AU-C sections that include reporting requirements also include illustrations of auditor's reports with modified opinions.

Auditor's Opinion (Ref: par. .17)

.A23 Amending the heading required by paragraph .17 makes it clear to the user that the auditor's opinion is modified and indicates the type of modification.

Qualified Opinion (Ref: par. .18)

.A24 When the auditor expresses a qualified opinion, it would not be appropriate to use phrases such as "with the foregoing explanation" or "subject to" in the "Opinion" section because these are not sufficiently clear or forceful. Because accompanying notes are part of the financial statements, wording such as "fairly presented, in all material respects, when read in conjunction with note 1" is likely to be misunderstood and would also not be appropriate.

.A25 When the auditor expresses a qualified opinion due to a scope limitation, paragraph .18 requires that the auditor state in the opinion paragraph that the qualification pertains to the possible effects of the matter on the financial statements and not to the scope limitation itself. Wording such as "In our opinion, except for the above-mentioned limitation on the scope of our audit..." bases the exception on the restriction itself rather than on the possible effects on the financial statements and, therefore, is unacceptable.

Basis for Opinion (Ref: par. .21, .22, .24, .28)

.A26 Consistency in the auditor's report helps promote users' understanding and helps users identify unusual circumstances when they occur. Accordingly, although uniformity in the wording of a modified opinion and the description of the reasons for the modification may not be possible, consistency in both the form and content of the auditor's report is desirable.

.A27 An example of the financial effects of misstatements that the auditor may describe within the "Basis for Opinion" section in the auditor's report is the quantification of the effects on income before taxes, income taxes, net income, and equity if inventory is overstated. If such disclosures are made in a note to the financial statements, the "Basis for Opinion" section may refer to the note.

.A28 In considering the adequacy of disclosure, and in other aspects of the audit, the auditor uses information received in confidence from management. Without such confidence, the auditor would find it difficult to obtain information necessary to form an opinion on the financial statements. The "Confidential Client Information Rule" (ET sec. 1.700.001) of the AICPA Code of Professional Conduct states that the auditor should not disclose any confidential client information without the specific consent of the client. Accordingly, the auditor may not make available, without management's consent, information that is not required to be disclosed in the financial statements to comply with the applicable financial reporting framework.

.A29 *Practicable*, as used in the context of paragraphs .22 and .24c, means that the information is reasonably obtainable from management's accounts and records and that providing the information in the report does not require the auditor to assume the position of a preparer of financial information. For example, the auditor would not be expected to prepare a basic financial statement and include it in the auditor's report when management omits such information.

.A30 Disclosing the omitted information within the "Basis for Opinion" section would not be practicable if

- the information has not been prepared by management or the information is otherwise not readily available to the auditor or,
- in the auditor's judgment, the information would be unduly voluminous in relation to the auditor's report.

.A31 When the auditor modifies the opinion due to an inability to obtain sufficient appropriate audit evidence, it is not appropriate for the scope of the audit to be explained in a note to the financial statements because the description of the audit scope is the responsibility of the auditor and not that of management.

.A32 An adverse opinion or a disclaimer of opinion relating to a specific matter described within the "Basis for Opinion" section does not justify the omission of a description of other identified matters that would have otherwise required a modification of the auditor's opinion. In such cases, the disclosure of such other matters of which the auditor is aware may be relevant to users of the financial statements.

.A33 The auditor may consider whether there is a need to describe in an emphasis-of-matter or other-matter paragraph⁴ any other matters of which the auditor is aware that would not require a modification of the auditor's opinion.

Description of Auditor's Responsibilities for the Audit of the Financial Statements When the Auditor Disclaims an Opinion on the Financial Statements (Ref: par. .29)

.A34 When the auditor disclaims an opinion on the financial statements, the following statements are better positioned within the "Auditor's Responsibilities for the Audit of the Financial Statements" section of the auditor's report, as illustrated in illustrations 5–6 of the exhibit to this section:

⁴ See section 706.

- The statement required by paragraph .28a of section 700 or paragraph .67a or .107a of section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, as applicable, amended to state that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with auditing standards generally accepted in the United States of America
- The statement required by paragraph .28c of section 700 or paragraph .67c or .107c of section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, as applicable, about independence and other ethical responsibilities

Considerations When the Auditor Issues an Adverse Opinion or Disclaims an Opinion on the Financial Statements (Ref: par. .30)

.A35 Describing the reasons for the modification of the opinion within the "Basis for Opinion" section of the auditor's report provides information to users that is useful in understanding why the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements. Furthermore, describing these reasons may guard against inappropriate reliance on the financial statements. However, providing further details about the audit may overshadow the reasons for the modification of the opinion and may potentially be confusing to users.

.A36 When the auditor expresses an adverse opinion, the communication of any key audit matters other than the matters giving rise to the modified opinion may overshadow the fact that the financial statements as a whole are materially misstated. When the auditor disclaims an opinion, the communication of any key audit matters other than the matters giving rise to the disclaimer of opinion may suggest that the financial statements are more credible in relation to those matters than would be appropriate in the circumstances and would be inconsistent with the disclaimer of opinion on the financial statements as a whole. Similarly, it would not be appropriate for the auditor to make any statements about the auditor's consideration of the consistency of other information in an annual report with the financial statements. Accordingly, paragraph .30 of this section prohibits the inclusion of a "Key Audit Matters" section in the auditor's report when the auditor issues an adverse opinion or disclaims an opinion on the financial statements and also prohibits the inclusion of an "Other Information" section in the auditor's report when the auditor disclaims an opinion on the financial statements. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 137.]

Communication With Those Charged With Governance (Ref: par. .31)

.A37 Communicating with those charged with governance the circumstances that lead to an expected modification to the auditor's opinion and the proposed wording of the modification enables the following:

- The auditor to give notice to those charged with governance of the intended modification and the reasons (or circumstances) for the modification
- The auditor to seek the concurrence of those charged with governance regarding the facts of the matters giving rise to the expected

Modifications to the Opinion in the Independent Auditor's Report **1211**

modification, or to confirm matters of disagreement with management as such

- Those charged with governance to have an opportunity, when appropriate, to provide the auditor with further information and explanations regarding the matters giving rise to the expected modification

.A38

Exhibit — Illustrations of Auditor's Reports With Modifications to the Opinion

Illustration 1 — An Auditor's Report Containing a Qualified Opinion Due to a Material Misstatement of the Financial Statements

Illustration 2 — An Auditor's Report Containing a Qualified Opinion for Inadequate Disclosure

Illustration 3 — An Auditor's Report Containing an Adverse Opinion Due to a Material Misstatement of the Financial Statements

Illustration 4 — An Auditor's Report Containing a Qualified Opinion Due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence

Illustration 5 — An Auditor's Report Containing a Disclaimer of Opinion Due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence About a Single Element of the Financial Statements

Illustration 6 — An Auditor's Report Containing a Disclaimer of Opinion Due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence About Multiple Elements of the Financial Statements

Illustration 7 — An Auditor's Report in Which the Auditor Is Expressing an Unmodified Opinion in the Prior Year and a Modified Opinion (Qualified Opinion) in the Current Year

Illustration 8 — An Auditor's Report in Which the Auditor Is Expressing an Unmodified Opinion in the Current Year and a Disclaimer of Opinion on the Prior-Year Statements of Income, Changes in Stockholders' Equity, and Cash Flows

Illustration 1 — An Auditor's Report Containing a Qualified Opinion Due to a Material Misstatement of the Financial Statements

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (comparative). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in section 210, *Terms of Engagement*.
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements. Accordingly, the auditor's report contains a qualified opinion.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- The auditor has obtained all the other information prior to the date of the auditor's report, and the matter giving rise to the qualified opinion on the financial statements also affects the other information included in the annual report.
- The auditor has not been engaged to communicate key audit matters.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements¹

Qualified Opinion

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

¹ The subtitle "Report on the Audit of the Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

Basis for Qualified Opinion

ABC Company has stated inventories at cost in the accompanying balance sheets. Accounting principles generally accepted in the United States of America require inventories to be stated at the lower of cost or market. If the Company stated inventories at the lower of cost or market, a write down of \$XXX and \$XXX would have been required as of December 31, 20X1 and 20X0, respectively. Accordingly, cost of sales would have been increased by \$XXX and \$XXX, and net income, income taxes, and stockholders' equity would have been reduced by \$XXX, \$XXX, and \$XXX, and \$XXX, \$XXX, and \$XXX, as of and for the years ended December 31, 20X1 and 20X0, respectively.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for [insert the time period set by the applicable financial reporting framework].

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 ABC Company's internal control. Accordingly, no such opinion is expressed.²

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information [or another title, if appropriate, such as "Information Other Than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in section 720, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports.]

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of the auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

² In circumstances in which the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed."

Illustration 2 — An Auditor's Report Containing a Qualified Opinion for Inadequate Disclosure

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (comparative). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in section 210, *Terms of Engagement*.
- The financial statements have inadequate disclosures. The auditor has concluded that (a) it is not practicable to present the required information and (b) the effects are such that an adverse opinion is not appropriate. Accordingly, the auditor's report contains a qualified opinion.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- The auditor has obtained all the other information prior to the date of the auditor's report, and the matter giving rise to the qualified opinion on the financial statements also affects the other information included in the annual report.
- The auditor has been engaged to communicate key audit matters.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements³

Qualified Opinion

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, except for the omission of the information described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

ABC Company's financial statements do not disclose [describe the nature of the omitted information that is not practicable to present in the auditor's report]. In

³ The subtitle "Report on the Audit of the Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Key Audit Matters

Key audit matters are those matters that were communicated with those charged with governance and, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with section 701, Communicating Key Audit Matters in the Independent Auditor's Report]

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for *[insert the time period set by the applicable financial reporting framework]*.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and

perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 ABC Company's internal control. Accordingly, no such opinion is expressed.⁴
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information [or another title, if appropriate, such as "Information Other Than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in section 720, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports.]

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of the auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

⁴ In circumstances in which the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed."

Illustration 3 — An Auditor's Report Containing an Adverse Opinion Due to a Material Misstatement of the Financial Statements

Circumstances include the following:

- Audit of a complete set of consolidated general purpose financial statements (single year). The audit is a group audit. The auditor is not making reference to a component auditor in the auditor's report.
- Management is responsible for the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in section 210, *Terms of Engagement*.
- The financial statements are materially misstated due to the nonconsolidation of a subsidiary. The material misstatement is deemed to be pervasive to the financial statements. Accordingly, the auditor's report contains an adverse opinion. The effects of the misstatement on the financial statements have not been determined because it was not practicable to do so.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- The auditor has obtained all the other information prior to the date of the auditor's report, and the matter giving rise to the qualified opinion on the financial statements also affects the other information included in the annual report.
- The auditor is precluded from communicating key audit matters when issuing an adverse opinion.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements⁵

Adverse Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 20X1, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated

⁵ The subtitle "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

financial statements do not present fairly the financial position of ABC Company and its subsidiaries as of December 31, 20X1, or the results of their operations or their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Adverse Opinion

As described in Note X, ABC Company has not consolidated the financial statements of subsidiary XYZ Company that it acquired during 20X1 because it has not yet been able to ascertain the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis by the Company. Under accounting principles generally accepted in the United States of America, the subsidiary should have been consolidated because it is controlled by the Company. Had XYZ Company been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for *[insert the time period set by the applicable financial reporting framework]*.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 ABC Company's internal control. Accordingly, no such opinion is expressed.⁶
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Information [or another title, if appropriate, such as "Information Other Than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in section 720, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports.]

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of the auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

⁶ In circumstances in which the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed."

Illustration 4 — An Auditor's Report Containing a Qualified Opinion Due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (single year). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in section 210, *Terms of Engagement*.
- The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign affiliate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the financial statements. Accordingly, the auditor's report contains a qualified opinion.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- The auditor has obtained all the other information prior to the date of the auditor's report, and the matter giving rise to the qualified opinion on the financial statements also affects the other information included in the annual report.
- The auditor has not been engaged to communicate key audit matters.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements⁷

Qualified Opinion

We have audited the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

⁷ The subtitle "Report on the Audit of the Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

Basis for Qualified Opinion

ABC Company's investment in XYZ Company, a foreign affiliate acquired during the year and accounted for under the equity method, is carried at \$XXX on the balance sheet at December 31, 20X1, and ABC Company's share of XYZ Company's net income of \$XXX is included in ABC Company's net income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC Company's investment in XYZ Company as of December 31, 20X1, and ABC Company's share of XYZ Company's net income for the year then ended because we were denied access to the financial information, management, and the auditors of XYZ Company. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for [insert the time period set by the applicable financial reporting framework].

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 ABC Company's internal control. Accordingly, no such opinion is expressed.⁸
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Information [or another title, if appropriate, such as "Information Other Than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in section 720, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports.]

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of the auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

⁸ In circumstances in which the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed."

Illustration 5 — An Auditor's Report Containing a Disclaimer of Opinion Due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence About a Single Element of the Financial Statements

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (single year). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in section 210, *Terms of Engagement*.
- The auditor was unable to obtain sufficient appropriate audit evidence about a single element of the financial statements. That is, the auditor was unable to obtain audit evidence about the financial information of a joint venture investment accounted for under the proportionate consolidation approach. The investment represents over 90 percent of the Company's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. Accordingly, the auditor's report contains a disclaimer of opinion.
- The auditor concluded that it was unnecessary to include in the auditor's report specific amounts for the Company's proportional share of the assets, liabilities, income, and expenses of the joint venture investment because the investment represents over 90 percent of the Company's net assets, and that fact is disclosed in the auditor's report.
- The auditor is precluded from including an Other Information section in the auditor's report when disclaiming an opinion on the financial statements.
- The auditor is precluded from communicating key audit matters when disclaiming an opinion on the financial statements.
- A more limited description of the Auditor's Responsibilities section is required because of the disclaimer of opinion.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements⁹

Disclaimer of Opinion

We were engaged to audit the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

⁹ The subtitle "Report on the Audit of the Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

We do not express an opinion on the accompanying financial statements of ABC Company. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Basis for Disclaimer of Opinion

ABC Company's investment in XYZ Company, a joint venture, is carried at \$XXX on the Company's balance sheet, which represents over 90 percent of the Company's net assets as of December 31, 20X1. We were not allowed access to the management and the auditors of XYZ Company. As a result, we were unable to determine whether any adjustments were necessary relating to the Company's proportional share of XYZ Company's assets that it controls jointly, its proportional share of XYZ Company's liabilities for which it is jointly responsible, its proportional share of XYZ Company's income and expenses for the year, and the elements making up the statements of changes in stockholders' equity and cash flows.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for *[insert the time period set by the applicable financial reporting framework]*.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of ABC Company's financial statements in accordance with auditing standards generally accepted in the United States of America and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of the auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

Illustration 6 — An Auditor's Report Containing a Disclaimer of Opinion Due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence About Multiple Elements of the Financial Statements

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (single year). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in section 210, *Terms of Engagement*.
- The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. That is, the auditor was unable to obtain audit evidence about the entity's inventories and accounts receivable at year-end because at that time the auditor had not been engaged. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. Accordingly, the auditor's opinion contains a disclaimer of opinion.
- The auditor is precluded from including an Other Information section in the auditor's report when disclaiming an opinion on the financial statements.
- The auditor is precluded from communicating key audit matters when disclaiming an opinion on the financial statements.
- A more limited description of the Auditor's Responsibilities section is required because of the disclaimer of opinion.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements¹⁰

Disclaimer of Opinion

We were engaged to audit the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

We do not express an opinion on the accompanying financial statements of ABC Company. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

¹⁰ The subtitle "Report on the Audit of the Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

Basis for Disclaimer of Opinion

We were not engaged as auditors of ABC Company until after December 31, 20X1, and, therefore, did not observe the counting of physical inventories at the beginning or end of the year. We were unable to satisfy ourselves by other auditing procedures concerning the inventory held at December 31, 20X1, which is stated in the balance sheet at \$XXX. In addition, the introduction of a new computerized accounts receivable system in September 20X1 resulted in numerous misstatements in accounts receivable. As of the date of our audit report, management was still in the process of rectifying the system deficiencies and correcting the misstatements. We were unable to confirm or verify by alternative means accounts receivable included in the balance sheet at a total amount of \$XXX at December 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statements of income, changes in stockholders' equity, and cash flows.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for *[insert the time period set by the applicable financial reporting framework]*.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of ABC Company's financial statements in accordance with auditing standards generally accepted in the United States of America and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of the auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

Illustration 7 — An Auditor's Report in Which the Auditor Is Expressing an Unmodified Opinion in the Prior Year and a Modified Opinion (Qualified Opinion) in the Current Year

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (comparative). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in section 210, *Terms of Engagement*.
- Certain lease obligations have been excluded from the financial statements in the current year. The effect of the exclusion is material but not pervasive. The auditor expressed an unmodified opinion in the prior year and is expressing a modified opinion (qualified opinion) in the current year.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- The auditor has not been engaged to communicate key audit matters.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements¹¹

Qualified Opinion

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, except for the effects on the accompanying 20X1 financial statements of not capitalizing certain lease obligations as described in the Basis for Qualified Opinion section of our report, the financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on the 20X1 Financial Statements

ABC Company has excluded, from property and debt in the accompanying 20X1 balance sheet, certain lease obligations that were entered into in 20X1 that, in

¹¹ The subtitle "Report on the Audit of the Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

our opinion, should be capitalized in accordance with accounting principles generally accepted in the United States of America. If these lease obligations were capitalized, property would be increased by \$XXX, long-term debt by \$XXX, and retained earnings by \$XXX as of December 31, 20X1, and net income and earnings per share would be increased (decreased) by \$XXX and \$XXX, respectively, for the year then ended.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the 20X1 financial statements and for our opinion on the 20X0 financial statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for *[insert the time period set by the applicable financial reporting framework]*.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 ABC Company's internal control. Accordingly, no such opinion is expressed.¹²

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of the auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

¹² In circumstances in which the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed."

Illustration 8 — An Auditor's Report in Which the Auditor Is Expressing an Unmodified Opinion in the Current Year and a Disclaimer of Opinion on the Prior-Year Statements of Income, Changes in Stockholders' Equity, and Cash Flows

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (comparative). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in section 210, *Terms of Engagement*.
- The auditor was unable to observe the physical inventory as of December 31, 20X0, because at that time the auditor had not been engaged. Accordingly, the auditor was unable to obtain sufficient appropriate audit evidence regarding the net income and cash flows for the year ended December 31, 20X1. The effects of the inability to obtain sufficient appropriate audit evidence are deemed material and pervasive.
- In accordance with paragraph .A26 of section 700, the opinion does not separately refer to the statement of changes in stockholders' equity because changes in stockholders' equity accounts are considered part of the presentation of financial position, results of operations, and cash flows.
- The auditor expressed an unmodified opinion on the December 31, 20X2 and 20X1, balance sheets and a disclaimer of opinion on the 20X1 statements of income, changes in stockholders' equity, and cash flows.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- The auditor has not been engaged to communicate key audit matters.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements¹³

Opinion

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X2 and 20X1, and the related statements

¹³ The subtitle "Report on the Audit of the Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying balance sheets of ABC Company as of December 31, 20X2 and 20X1, and the statements of income, changes in stockholders' equity, and cash flows for the year ended December 31, 20X2, present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X2 and 20X1, and the results of its operations and its cash flows for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on 20X1 Operations and Cash Flows

We do not express an opinion on the accompanying results of operations and cash flows for the year ended December 31, 20X1. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations and cash flows.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the balance sheets as of December 31, 20X2 and 20X1, and the statements of income, changes in stockholders' equity, and cash flows for the year ended December 31, 20X2.

Basis for Disclaimer of Opinion on 20X1 Operations and Cash Flows

We did not observe the taking of the physical inventory as of December 31, 20X0, because that date was prior to our engagement as auditors for ABC Company, and we were unable to satisfy ourselves regarding inventory quantities by means of other auditing procedures. Inventory amounts as of December 31, 20X0, enter into the determination of net income and cash flows for the year ended December 31, 20X1.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for [insert the time period set by the applicable financial reporting framework].

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one

resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 ABC Company's internal control. Accordingly, no such opinion is expressed.¹⁴
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of the auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

[As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 137. Revised, June 2020, to reflect conforming changes necessary due to the issuance of SAS No. 138.]

¹⁴ In circumstances in which the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed."