

CITY OF McFARLAND, CALIFORNIA

FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2012

CITY OF McFARLAND

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Independent Auditor's Report

To the Members of the City Council of the
City of McFarland, California:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of City of McFarland, California, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of McFarland, California's management. 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 *Governmental 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 and each major fund of the City of McFarland, California, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2013, on our consideration of the City of McFarland, California'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 34 through 42 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. The City has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of McFarland, California's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Albert & Associates, LLP

Wasco, California
February 19, 2013

City of McFarland
STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities	Business-Type Activities	Total
Assets:			
Current Assets:			
Cash and Investments	\$ 2,775,020	\$ 4,807,152	\$ 7,582,172
Restricted Cash:			
With Fiscal Agents	-	6,146,488	6,146,488
Receivables, net	493,720	402,398	896,118
Deposits Paid	180,124	-	180,124
Due From RDA Successor Private Purpose Trust Fund	210,456	-	210,456
Supplies on Hand	-	10,115	10,115
	3,659,320	11,366,153	15,025,473
Total Current Assets			
Noncurrent Assets:			
Capital Assets:			
Land	493,248	1,166,042	1,659,290
Construction in Progress	1,390,726	414,556	1,805,282
Depreciable Buildings, Property, Equipment and Infrastructure, net of accumulated depreciation	9,035,221	7,828,636	16,863,857
Notes Receivable	711,816	-	711,816
Deferred Charges	-	342,695	342,695
	11,631,011	9,751,929	21,382,940
Total Noncurrent Assets			
Total Assets			
	15,290,331	21,118,082	36,408,413
Liabilities:			
Current Liabilities:			
Accounts Payable	303,384	167,608	470,992
Accrued Liabilities	42,357	79,867	122,224
Deposits Received	-	7,794	7,794
Unearned Revenue	121,891	81,574	203,465
Bonds and Notes Payable Due Within One Year	279,535	150,000	429,535
	747,167	486,843	1,234,010
Total Current Liabilities			
Noncurrent Liabilities:			
Bonds and Notes Payable Due in More Than One Year	1,763,261	7,200,000	8,963,261
Compensated Absences	33,544	19,760	53,304
	1,796,805	7,219,760	9,016,565
Total Noncurrent Liabilities			
Total Liabilities			
	2,543,972	7,706,603	10,250,575
Net Assets:			
Invested in Capital Assets, net of related debt	10,487,936	8,205,722	18,693,658
Restricted For:			
Streets and Roads	19,365	-	19,365
Community Development	687,792	-	687,792
Capital Projects	2,771,604	1,856,216	4,627,820
Unrestricted	(1,220,338)	3,349,541	2,129,203
	12,746,359	13,411,479	26,157,838
Net Assets	\$ 12,746,359	\$ 13,411,479	\$ 26,157,838

The accompanying notes are an integral part of these financial statements.

City of McFarland
STATEMENT OF ACTIVITIES
Year ended June 30, 2012

Functions / Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 551,282	\$ 212,373		\$ 17,411	\$ (321,498)	\$ -	\$ (321,498)
Public Safety	1,698,623	111,791	219,160		(1,367,672)	-	(1,367,672)
Public Works	796,304	331,700		1,130,441	665,837	-	665,837
Community Development	2,242,442	337,832		2,078,068	173,458	-	173,458
Total Governmental Activities	5,288,651	993,696	219,160	3,225,920	(849,875)	-	(849,875)
Business-Type Activities:							
Sewer	1,368,980	1,805,421	-	-	-	436,441	436,441
Refuse	940,437	1,057,673	-	-	-	117,236	117,236
Water	984,374	964,750	-	24,175	-	4,551	4,551
Public Transportation	108,617	12,405	121,136	-	-	24,924	24,924
Total Business-Type Activities	3,402,408	3,840,249	121,136	24,175	-	583,152	583,152
Total	\$ 8,691,059	\$ 4,833,945	\$ 340,296	\$ 3,250,095	(849,875)	583,152	(266,723)
General Revenues:							
Taxes:							
Property Tax					518,754	-	518,754
Sales Tax					246,601	-	246,601
Franchise Tax					186,061	-	186,061
State Allocation of Gas Tax					374,154	-	374,154
Transient Occupancy Tax					-	-	-
Intergovernmental, Unrestricted:							
Motor Vehicle In-lieu Tax					952,734	-	952,734
Total Taxes					2,278,304	-	2,278,304
Unrestricted investment earnings					173,099	-	173,099
Transfers					-	-	-
Extraordinary Gain from Dissolution of RDA					64,268	-	64,268
Total General Revenues and Transfers					2,515,671	-	2,515,671
Change in Net Assets					1,665,796	583,152	2,248,948
Net Assets - Beginning					11,080,563	12,828,327	23,908,890
Net Assets - Ending					\$ 12,746,359	\$ 13,411,479	\$ 26,157,838

The accompanying notes are an integral part of these financial statements.

City of McFarland
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2012

	General	TDA - LTF	Gas Tax	CDBG	CalHome	HOME	Development Impact	RDA Debt Service	RDA Capital Projects	RDA Low & Moderate Income Housing	McFarland Improvement Authority	Total Governmental Funds
Assets:												
Cash and Investments	\$ 125,845	\$ -	\$ 31,148	\$ 26,385	\$ -	\$ -	\$ 2,562,164	\$ -	\$ -	\$ 11,118	\$ 18,360	\$ 2,775,020
Receivables, net	135,871	134,296	38,919	42,901	-	141,733	-	-	-	-	-	493,720
Deposits Paid	180,124	-	-	-	-	-	-	-	-	-	-	180,124
Due from Other Funds	260,218	-	-	-	-	-	210,456	-	-	-	-	470,674
Notes Receivable	-	-	-	-	-	711,816	-	-	-	-	-	711,816
Land Held for Resale	-	-	-	-	-	-	-	-	-	-	-	-
Total Assets	\$ 702,058	\$ 134,296	\$ 70,067	\$ 69,286	\$ -	\$ 853,549	\$ 2,772,620	\$ -	\$ -	\$ 11,118	\$ 18,360	\$ 4,631,354
Liabilities:												
Accounts Payable	\$ 123,868	\$ 103,550	\$ -	\$ 69,286	\$ -	\$ 5,664	\$ 1,016	\$ -	\$ -	\$ -	\$ -	\$ 303,384
Accrued Liabilities	36,778	-	-	-	-	-	-	-	-	-	-	36,778
Deposits Received	-	-	-	-	-	-	-	-	-	-	-	-
Due to Other Funds	-	33,821	-	-	10,630	215,767	-	-	-	-	-	260,218
Deferred Revenue	60,227	47,627	-	-	14,037	711,816	-	-	-	-	-	833,707
Advances from Other Funds	-	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities	220,873	184,998	-	69,286	24,667	933,247	1,016	-	-	-	-	1,434,087
Fund Balances:												
Nonspendable:												
Land Held for Resale	-	-	-	-	-	-	-	-	-	-	-	-
Restricted:												
Streets and Transportation	-	-	70,067	-	-	-	-	-	-	-	-	70,067
Low and Moderate Income Housing Impact Fees	-	-	-	-	-	-	-	-	-	11,118	-	11,118
Impact Fees	-	-	-	-	-	-	2,771,604	-	-	-	-	2,771,604
Assigned:												
Redevelopment Capital Projects	-	-	-	-	-	-	-	-	-	-	-	-
Unassigned	481,185	(50,702)	-	-	(24,667)	(79,698)	-	-	-	-	18,360	344,478
Total Fund Balances	481,185	(50,702)	70,067	-	(24,667)	(79,698)	2,771,604	-	-	11,118	18,360	3,197,267
Total Liabilities & Fund Balances	\$ 702,058	\$ 134,296	\$ 70,067	\$ 69,286	\$ -	\$ 853,549	\$ 2,772,620	\$ -	\$ -	\$ 11,118	\$ 18,360	\$ 4,631,354

The accompanying notes are an integral part of these financial statements.

City of McFarland

RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS TO THE NET ASSETS OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS June 30, 2012

Fund balances of governmental funds		\$ 3,197,267
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the Governmental Funds Balance Sheet. However, the Statement of Net Assets includes those capital assets among the assets of the City as a whole.</p>		
Beginning Balance, net of depreciation	\$ 9,644,622	
Current Year Additions	1,655,472	
Current Year Depreciation	<u>(380,899)</u>	
Ending Balance, net of depreciation		10,919,195
<p>Long-term assets that are not available to pay for current-period expenditures are considered deferred revenue for the Government Funds Balance Sheet. However, these assets are included in the Statement of Net Assets.</p>		
		711,816
<p>Accrued interest payable for the period between the final interest payment date and the end of the fiscal year is not reported as a liability in the governmental funds balance sheet.</p>		
		(5,579)
<p>Long-term liabilities are not due and payable in the current period, and therefore, are not reported as liabilities in the Governmental Funds Balance Sheet. All liabilities, both current and long-term, are reported in the Statement of Net Assets.</p>		
Compensated Absences	(33,544)	
Long-Term Debt	<u>(2,042,796)</u>	
Total Long-Term Liabilities		<u>(2,076,340)</u>
Net assets of governmental activities		<u><u>\$ 12,746,359</u></u>

The accompanying notes are an integral part of these financial statements.

City of McFarland
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS) – GOVERNMENTAL FUNDS
Year ended June 30, 2012

	General	TDA - LTF	Gas Tax	CDBG	CalHome	HOME	Development Impact	RDA Debt Service	RDA Capital Projects	RDA Low & Moderate Income Housing	McFarland Improvement Authority	Total Governmental Funds
Revenues:												
Taxes	\$ 1,897,188	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,953	\$ -	\$ -	\$ -	\$ 1,900,141
Licenses & Permits	125,561	-	-	-	-	-	463,895	-	-	-	-	589,456
Fines, Forfeitures & Assessments	55,507	-	-	-	-	-	-	-	-	-	-	55,507
Use of Money or Property	168,732	-	-	-	-	-	4,367	-	-	-	-	173,099
Intergovernmental	275,013	1,091,998	374,154	406,877	1,396,500	141,733	-	-	-	-	-	3,686,275
Charges for Services	181,776	330	-	-	-	-	-	-	-	-	-	182,106
Contributions and Donations	80,609	-	-	-	-	-	-	-	-	-	-	80,609
Other Income	90,028	-	-	-	-	-	-	-	-	-	-	90,028
Total Revenues	2,874,414	1,092,328	374,154	406,877	1,396,500	141,733	468,262	2,953	-	-	-	6,757,221
Expenditures:												
Current:												
General Government	535,386	-	-	-	-	-	-	-	-	-	-	535,386
Public Safety	1,600,289	-	-	-	-	-	-	-	-	-	-	1,600,289
Public Works	283,638	185,684	25,945	-	-	-	5,077	-	-	-	-	500,344
Community Development	347,122	-	-	6,847	1,421,167	186,289	-	560	-	-	280,540	2,242,525
Capital Outlay	212,724	879,431	126,655	444,147	-	-	6,228	-	-	-	-	1,669,185
Debt Service:												
Principal Retirement	253,678	-	-	-	-	-	-	-	-	-	-	253,678
Interest and Finance Charges	665	-	-	-	-	-	-	-	-	-	-	665
Total Expenditures	3,233,502	1,065,115	152,600	450,994	1,421,167	186,289	11,305	560	-	-	280,540	6,802,072
Excess of Revenues Over (Under) Expenditures	(359,088)	27,213	221,554	(44,117)	(24,667)	(44,556)	456,957	2,393	-	-	(280,540)	(44,851)
Other Financing Sources (Uses):												
Transfers In	279,767	-	-	44,117	-	-	-	-	-	-	-	323,884
Transfers Out	-	(58,213)	(221,554)	-	-	-	(44,117)	-	-	-	-	(323,884)
Proceeds From Long-Term Debt	169,640	-	-	-	-	-	-	-	-	-	298,900	468,540
Total Other Financing Sources (Uses)	449,407	(58,213)	(221,554)	44,117	-	-	(44,117)	-	-	-	298,900	468,540
Net Change in Fund Balances Before Extraordinary Items	90,319	(31,000)	-	-	(24,667)	(44,556)	412,840	2,393	-	-	18,360	423,689
Extraordinary Items:												
Gain / (Loss) on Dissolution of RDA	-	-	-	-	-	-	-	194,268	(130,000)	-	-	64,268
Net Change in Fund Balances	90,319	(31,000)	-	-	(24,667)	(44,556)	412,840	196,661	(130,000)	-	18,360	487,957
Fund Balances - Beginning	390,866	(19,702)	70,067	-	-	(35,142)	2,358,764	(196,661)	130,000	11,118	-	2,709,310
Fund Balances - Ending	\$ 481,185	\$ (50,702)	\$ 70,067	\$ -	\$ (24,667)	\$ (79,698)	\$ 2,771,604	\$ -	\$ -	\$ 11,118	\$ 18,360	\$ 3,197,267

The accompanying notes are an integral part of these financial statements.

City of McFarland
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2012

Net change in fund balance - total governmental funds	\$	487,957
Amounts reported for governmental activities in the statement of activities are different because:		
Government funds report capital outlay as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives, and reported as depreciation expense. This is the amount by which capital expenditures (\$1,655,472) exceeded depreciation (\$380,899) in the current period.		1,274,573
The issuance of long-term debt provides current financial resources to governmental funds, but the issuance has no affect on net assets.		(468,540)
Repayment of long-term debt principal is an expenditure in the government funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		253,678
Accrued interest payable for the period between the final interest payment date and the end of the fiscal year is not reported as an expense in the governmental fund statements. This difference between the prior year's accrued interest expense and the current year's accrued interest expense is reported in the Statement of Activities.		(5,579)
Long-term compensated absence expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in government funds.		(9,251)
Earned long-term assets not available to pay for current-period expenditures are not recognized as revenue in the government funds. Revenue in the Statement of Activities is not limited by availability. This adjustment is the amount by which unavailable deferred revenue at the beginning of the year (\$578,858) is exceeded by unavailable deferred revenue at the end of the year (\$711,816)		<u>132,958</u>
Change in net assets of governmental activities	\$	<u><u>1,665,796</u></u>

The accompanying notes are an integral part of these financial statements.

City of McFarland
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	Sewer	Refuse	Water	Public Transit	Total Proprietary
Assets:					
Current Assets:					
Cash and Investments	\$ 1,753,266	\$ 427,774	\$ 2,544,632	\$ 81,480	\$ 4,807,152
Investments With Fiscal Agents - Restricted	4,316,539	-	1,829,949	-	6,146,488
Receivables	161,605	122,387	108,411	9,995	402,398
Supplies	-	-	10,115	-	10,115
Total Current Assets	6,231,410	550,161	4,493,107	91,475	11,366,153
Noncurrent Assets:					
Deferred Charges	259,852	-	82,843	-	342,695
Capital Assets:					
Land	1,120,000	-	46,042	-	1,166,042
Construction in Progress	-	-	414,556	-	414,556
Depreciable Buildings, Property, Equipment and Infrastructure, net of accumulated depreciation	4,178,872	13,936	3,509,234	126,594	7,828,636
Total Noncurrent Assets	5,558,724	13,936	4,052,675	126,594	9,751,929
Total Assets	\$ 11,790,134	\$ 564,097	\$ 8,545,782	\$ 218,069	\$ 21,118,082
Liabilities:					
Current Liabilities:					
Accounts Payable	\$ 52,790	\$ 7,725	\$ 95,946	\$ 11,147	\$ 167,608
Accrued Interest Payable	53,247	-	26,620	-	79,867
Customer Deposits	-	-	7,794	-	7,794
Due to Other Funds	-	-	-	-	-
Deferred Revenue	-	-	17,775	63,799	81,574
Current Portion of Long-Term Debt	100,000	-	50,000	-	150,000
Total Current Liabilities	206,037	7,725	198,135	74,946	486,843
Noncurrent Liabilities:					
Compensated Absences Payable	6,154	4,003	8,828	775	19,760
Bonds Payable	4,800,000	-	2,400,000	-	7,200,000
Total Noncurrent Liabilities	4,806,154	4,003	2,408,828	775	7,219,760
Total Liabilities	5,012,191	11,728	2,606,963	75,721	7,706,603
Net Assets:					
Invested in Capital Assets, net of related debt	4,715,411	13,936	3,349,781	126,594	8,205,722
Restricted For:					
Capital Projects (expendable)	710,287	-	1,145,929	-	1,856,216
Unrestricted	1,352,245	538,433	1,443,109	15,754	3,349,541
Net Assets	\$ 6,777,943	\$ 552,369	\$ 5,938,819	\$ 142,348	\$ 13,411,479

The accompanying notes are an integral part of these financial statements.

City of McFarland
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year ended June 30, 2012

	Sewer	Refuse	Water	Public Transit	Total Proprietary
Operating Revenues:					
Charges for Services	\$ 1,587,982	\$ 1,056,807	\$ 946,471	\$ 12,405	\$ 3,603,665
Total Operating Revenues	1,587,982	1,056,807	946,471	12,405	3,603,665
Operating Expenses:					
Wages and Benefits	287,135	109,753	240,058	64,928	701,874
Administration	161,762	810,216	87,535	5,420	1,064,933
Materials and Supplies	17,772	4,599	30,454	17,237	70,062
Maintenance and Repair	74,728	2,532	23,301	4,033	104,594
Utilities	243,967	6,406	220,827	-	471,200
Franchise Fees	112,704	-	69,742	-	182,446
Depreciation	246,664	6,931	203,319	16,999	473,913
Total Operating Expenses	1,144,732	940,437	875,236	108,617	3,069,022
Operating Income (Loss)	443,250	116,370	71,235	(96,212)	534,643
Nonoperating Revenues (Expenses):					
Interest Income	2,566	866	6,819	-	10,251
Rent Income	62,223	-	-	-	62,223
Connection Fees	152,650	-	11,460	-	164,110
Intergovernmental	-	-	24,175	121,136	145,311
Interest Expense	(224,248)	-	(109,138)	-	(333,386)
Total Nonoperating Revenues (Expenses)	(6,809)	866	(66,684)	121,136	48,509
Income (Loss) Before Contributions and Transfers	436,441	117,236	4,551	24,924	583,152
Capital Contributions	-	-	-	-	-
Transfers In	-	-	-	-	-
Change in Net Assets	436,441	117,236	4,551	24,924	583,152
Net Assets - Beginning	6,341,502	435,133	5,934,268	117,424	12,828,327
Net Assets - Ending	\$ 6,777,943	\$ 552,369	\$ 5,938,819	\$ 142,348	\$ 13,411,479

The accompanying notes are an integral part of these financial statements.

City of McFarland
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2012

	Sewer	Refuse	Water	Public Transportation	Total Proprietary
Cash flows from operating activities:					
Cash received from:					
Customers, including cash deposits	\$ 1,613,805	\$ 1,079,654	\$ 930,927	\$ 12,405	\$ 3,636,791
Cash paid to:					
Suppliers	(618,565)	(900,968)	(416,701)	(18,956)	(1,955,190)
Employees	(286,321)	(110,110)	(237,955)	(64,768)	(699,154)
Net cash provided (used) by operating activities	<u>708,919</u>	<u>68,576</u>	<u>276,271</u>	<u>(71,319)</u>	<u>982,447</u>
Net cash provided from noncapital financing activities:					
Cash transferred from other funds	-	-	-	-	-
Cash transferred to other funds	-	-	-	(59,602)	(59,602)
Connection fees	152,650	-	11,460	-	164,110
Intergovernmental revenue	-	-	19,637	221,210	240,847
Net cash provided (used) by noncapital financing activities	<u>152,650</u>	<u>-</u>	<u>31,097</u>	<u>161,608</u>	<u>345,355</u>
Cash flows from capital and related financing activities:					
Principal payments:					
Revenue Bonds	(100,000)	-	(50,000)	-	(150,000)
Capital Lease	(54,409)	-	-	-	(54,409)
Interest paid	(216,653)	-	(106,168)	-	(322,821)
Purchase of capital assets	(233,551)	-	(1,128,931)	(8,809)	(1,371,291)
Net cash provided (used) by capital and related financing activities	<u>(604,613)</u>	<u>-</u>	<u>(1,285,099)</u>	<u>(8,809)</u>	<u>(1,898,521)</u>
Cash flows from investing activities:					
Interest received	2,566	866	6,819	-	10,251
Rents Received	62,223	-	-	-	62,223
Net cash provided by investing activities	<u>64,789</u>	<u>866</u>	<u>6,819</u>	<u>-</u>	<u>72,474</u>
Net increase (decrease) in cash	321,745	69,442	(970,912)	81,480	(498,245)
Cash and cash equivalents - Beginning of year	<u>5,748,060</u>	<u>358,332</u>	<u>5,345,493</u>	<u>-</u>	<u>11,451,885</u>
Cash and cash equivalents - End of year	<u>\$ 6,069,805</u>	<u>\$ 427,774</u>	<u>\$ 4,374,581</u>	<u>\$ 81,480</u>	<u>\$ 10,953,640</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:					
Operating income (loss)	\$ 443,250	\$ 116,370	\$ 71,235	\$ (96,212)	\$ 534,643
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	246,664	6,931	203,319	16,999	473,913
(Increase) decrease in accounts receivable	25,823	22,847	(15,544)	-	33,126
Increase (decrease) in accounts payable	(7,632)	(77,215)	15,158	7,734	(61,955)
Increase (decrease) in compensated absences	814	(357)	2,103	160	2,720
Net cash provided (used) by operating activities	<u>\$ 708,919</u>	<u>\$ 68,576</u>	<u>\$ 276,271</u>	<u>\$ (71,319)</u>	<u>\$ 982,447</u>
Cash and cash equivalents per Statement of Net Assets:					
Cash and investments	\$ 1,753,266	\$ 427,774	\$ 2,544,632	\$ 81,480	\$ 4,807,152
Investments with fiscal agents - restricted	<u>4,316,539</u>	<u>-</u>	<u>1,829,949</u>	<u>-</u>	<u>6,146,488</u>
Total cash and cash equivalents at end of year	<u>\$ 6,069,805</u>	<u>\$ 427,774</u>	<u>\$ 4,374,581</u>	<u>\$ 81,480</u>	<u>\$ 10,953,640</u>

The accompanying notes are an integral part of these financial statements.

City of McFarland
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year ended June 30, 2012

	RDA Successor Agency Private Purpose Trust Fund
Assets:	
Cash and Investments	\$ -
Land Held for Resale	<u>129,720</u>
Total Assets	<u><u>\$ 129,720</u></u>
Liabilities:	
Accounts Payable	-
Due to City of McFarland	<u>210,456</u>
Total Liabilities	<u>210,456</u>
Net Assets:	
Held in Trust for Retirement of Obligations of the Former Wasco Redevelopment Agency	<u><u>\$ (80,736)</u></u>

The accompanying notes are an integral part of these financial statements.

City of McFarland
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year ended June 30, 2012

	RDA Successor Agency Private Purpose Trust Fund
Additions:	
Property Taxes	\$ -
Total Additions	-
Deductions:	
Enforceable Obligations Administration	- 16,468
Total Deductions	16,468
Change in Net Assets	(16,468)
Net Assets Received Upon Dissolution of RDA	(64,268)
Net Assets - Beginning	-
Net Assets - Ending	\$ (80,736)

The accompanying notes are an integral part of these financial statements.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 1 – Summary of Significant Accounting Policies

The accompanying financial statements of the City of McFarland (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 McFarland, California was incorporated on July 18, 1957. The City is a full-service city and operates under a Council – City Administrator 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 north 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 and account groups of the City.

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 component units.

Blended Component Units

The McFarland Redevelopment Agency (the "Agency") was formed by the City of McFarland in 2007 by Ordinance No. 318-2007. The Agency is the legislative body of the City of McFarland which is undertaking the implementation of the McFarland Redevelopment Project, as adopted by the McFarland City Council. The fundamental aim of the Agency is to create and maintain an urban environment that meets the needs of all the City's people through a balanced pattern of residential, commercial, industrial and recreational areas. In working toward this objective, the Agency is concerned with better housing, job creation and social economic and racial integration. The funds of this component unit are reported in the Special Revenue Funds and the Capital Projects Funds. Separate financial statements are not available for the Agency. The City Council of McFarland is the governing body for the Agency.

On July 31, 2001, the City and the Agency entered into a Joint Exercise of Powers Agreement establishing the McFarland Public Financing Corporation (the "Corporation") 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 the component unit are reported in the Special Revenue Funds and the Agency Fund. Separate financial statements are not available for the Corporation. The City Council of McFarland is the governing body for the Corporation.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 1 – Summary of Significant Accounting Policies, (continued)

The McFarland Parking Authority of the City of McFarland (the “Parking Authority”) was formed by the City on April 12, 2012, by Resolution No. 2012-069, under Part 2 of Division 18 of the California Streets and Highways Code, Section 32650. The Parking Authority’s legislative body is the City Council as Board of Directors of the Parking Authority. The fundamental aim of the Parking Authority is to purchase property and construct a public parking lot on that property. On April 12, 2012, under Resolution No., 2012-070, the Parking Authority and the City entered into a Joint Exercise of Powers Agreement to create the McFarland Improvement Authority (the “Improvement Authority”). The Improvement Authority’s legislative body is the City Council as Commissioners of the Improvement Authority. The fundamental aim of the Improvement Authority is to provide for the financing of capital improvements and working capital. The Improvement Authority issued bonds for the purpose of funding the purchase of land for and construction of a public parking facility. The Improvement Authority then leased the property to the City. The rent proceeds will be used by the Improvement Authority to service bond debt and maintain the parking facility.

B - Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets 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.

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.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 1 – Summary of Significant Accounting Policies, (continued)

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, liabilities, 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, liabilities, 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, liabilities, 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.

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 TDA - LTF accounts for the City's share of the Transportation Development Allocation which is legally restricted for specific purposes, primarily street construction and maintenance and related street expenses. This fund also accounts for other State and Federal grant revenues related to street maintenance or construction.

The State Gas Tax Fund is used to account for the City's share, based on population, of state gasoline taxes. State law requires these gasoline taxes to be used to maintain streets or for major street construction. This fund also accounts for other State and Federal grant revenues related to street maintenance or construction.

The CDBG Fund is used to account for CDBG grant funds.

The CalHome Fund is used to account for a CalHome Homeownership Project Development Program Award.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 1 – Summary of Significant Accounting Policies, (continued)

The HOME Fund is used to account for HOME grant funds.

The Development Impact Fund accounts for developer fees received for future government impact, police impact, park impact, traffic impact and storm drain costs.

The RDA Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs of the McFarland Redevelopment Agency.

The RDA Capital Projects Fund accounts for all revenues and costs of funding the McFarland Redevelopment Agency's redevelopment activities such as land acquisition, public improvements, and other project costs in compliance with the California redevelopment law.

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 McFarland Improvement Authority accounts for the activities of the McFarland Parking Authority and the McFarland Improvement Authority.

Proprietary Funds

The 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 Refuse 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 Water 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 Public Transit Fund is used to account 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 City received funds under the Transportation Development Act.

Fiduciary Funds

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 McFarland Redevelopment Agency. These funds are restricted for the sole purpose of payment of items on an approved Recognized Payment Obligation Schedule (ROPS).

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 McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 1 – Summary of Significant Accounting Policies, (continued)

Measurement Focus

On the government-wide Statement of Net Assets 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 assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

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

- a. 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.
- b. The proprietary fund utilizes an “economic resources” measurement focus. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets 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.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 1 – Summary of Significant Accounting Policies, (continued)

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.

Private-sector standards of accounting and financial reporting issued prior to December 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

D - Assets, Liabilities, Net Assets 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.

<u>Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Specified % Of Portfolio</u>	<u>Minimum Quality Requirements</u>
Local Agency Bonds	5 Years	None	None
U.S. Treasury Obligations	5 Years	None	None
State Obligations	5 Years	None	None
CA Local Agency Obligations	5 Years	None	None
U.S. Agency Obligations	5 Years	None	None
Bankers' Acceptance	180 Days	40%	None
Commercial Paper - Select Agencies	270 Days	25%	A-1
Commercial Paper - Other Agencies	270 Days	40%	A-1
Negotiable Certificates of Deposit	5 Years	30%	None
CD Placement Service	5 Years	30%	None
Repurchase Agreements	1 Year	None	None
Reverse Repurchase Agreements	92 Days	20%	None
Medium-Term Notes	5 Years	30%	A
Mutual and Money Market Fund	N/A	20%	Multiple
Collateralized Bank Deposits	5 Years	None	None
Mortgage Pass-Through Securities	5 Years	20%	AA
Bank/Time Deposits	5 Years	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple
Local Agency Investment Fund (LAIF)	N/A	None	None

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.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 1 – Summary of Significant Accounting Policies, (continued)

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 to be a demand deposit account 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.

Assessed values are determined on an annual basis by the Kern County Assessor as of January 1. Taxes are levied annually and become a lien on real property at July 1. Taxes are due 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.

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 \$1,000 (\$25,000 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 estimated fair market 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.

The City elected not to retroactively report all of its major general infrastructure assets prior to July 1, 2003, as permitted to phase 3 governments under GASB 34, Paragraph 148.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 1 – Summary of Significant Accounting Policies, (continued)

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

Assets	Years
Buildings	15 - 40
Improvements other than buildings	20
Machinery and Equipment	5 - 20
Infrastructure	20 - 50
Vineyard	20

Compensated Absences

It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits up to certain limits. All vacation pay is accrued when incurred in the government-wide financial statements and the proprietary fund type 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. There is no liability for unpaid accumulated sick leave since the City does not pay such amounts when employees separate from service with the City.

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 assets. 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 payable are reported net of the unamortized portion of applicable premium, discount or deferred amount on refunding. Bond issuance costs, including underwriters’ discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs and deferred amounts on refunding are included in interest expense.

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.

Net Assets

The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

Invested In Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. 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.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 1 – Summary of Significant Accounting Policies, (continued)

Restricted Net Assets – 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 assets reports \$5,334,977 of restricted net assets, all of which is restricted externally by grantors, creditors, or laws or regulations of other governments.

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

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

Fund Balance – Government Funds

GASB Statement No. 54 defines how 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 can be used only for specific purposes determined by a formal action by Board of Director resolution. This includes the budget reserve account.

Assigned – Amounts the City intends to use for a specific purposes. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The City Council has authorized the City Manager and the Director of Finance for that purpose.

Unassigned – All other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the board has provided otherwise in its commitment or assignment actions.

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.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 1 – Summary of Significant Accounting Policies, (continued)

The appropriated budget is prepared by fund, function, and department. The City Manager may make transfers of appropriations within a department and make transfers of appropriations between departments as long as there is no increase or decrease to the overall budget. 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 funds. 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.

Note 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 - Government Funds	\$	2,775,020
Pooled Cash and Investments - Business-Type Funds		4,807,152
Restricted Investments with Fiscal Agents - Business-Type Funds		6,146,488
Total	\$	13,728,660

Cash and investments at June 30, 2012 consist of the following:

Cash on Hand	\$	2,600
Demand Deposits		5,903,899
Investments		7,822,161
Total	\$	13,728,660

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 2 – Cash and Investments, (continued)

Deposits:

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has no deposit policy for custodial credit risk.

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, 2012, 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. Accordingly, all collateral held by California Agents of Depository is considered to be held for, and in the name of, the local governmental agency.

Investments:

The City had the following investments at June 30, 2012:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity Date</u>
State Treasurer's Investment Pool (LAIF)	\$ 1,376,773	N/A
Local Government Revenue Bonds	298,900	5 years
Held by Trustees:		
Cash and Short Term Investments	<u>6,146,488</u>	N/A
Total Investments	<u>\$ 7,822,161</u>	

LAIF is a special fund of the California State Treasury through which local governments may pool investments. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. Included in LAIF's investment portfolio are certain derivative securities or similar products, such as structured notes and asset backed securities. LAIF'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. LAIF is regulated by the California Government Code.

Interest rate risk – The City's exposure to interest rate risk is identified by the above weighted average maturities. The City has no investment policy for interest rate risk.

Credit rating risk – The City is required to disclose the credit quality ratings of investments in debt securities as issued by nationally recognized statistical rating organizations (NRSROs). At June 30, 2012, the Credit ratings for the money market funds, government bonds, and investment in LAIF was unavailable. The City has no investment policy for credit risk.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 2 – Cash and Investments, (continued)

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%. The City has no investment policy for concentration of credit risk.

Custodial credit risk – For an investment, this is the risk that, in the event of the failure of the counterparty, 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). The City has no investment policy for custodial credit risk.

Restricted Investments with Fiscal Agents

Business-Type Activities:

Revenue Bonds – The trustee is required to hold, in a reserve account, funds necessary to secure bonds until 2020 and to hold unexpended funds for future construction projects.

\$ 6,146,488

Note 3 – Receivables

Receivables at June 30, 2012 consist of the following:

	General Fund	TDA - LTF	State Gas Tax	CDBG	HOME	Total
Governmental Activities:						
Accounts receivable, net	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due from Governments	135,871	134,296	38,919	42,901	141,733	493,720
Less Allowance for Doubtfull Accounts	-	-	-	-	-	-
Total	<u>\$ 135,871</u>	<u>\$ 134,296</u>	<u>\$ 38,919</u>	<u>\$ 42,901</u>	<u>\$ 141,733</u>	<u>\$ 493,720</u>
	Sewer	Refuse	Water	Public Transit	Total	
Business-Type Activities:						
Accounts receivable, net	\$ 160,770	\$ 121,552	\$ 101,480	\$ -	\$ 383,802	
Due from Governments	835	835	6,931	9,995	18,596	
Less Allowance for Doubtfull Accounts	-	-	-	-	-	
Total	<u>\$ 161,605</u>	<u>\$ 122,387</u>	<u>\$ 108,411</u>	<u>\$ 9,995</u>	<u>\$ 402,398</u>	

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 4 – Interfund Receivables, Payables, Advances and Transfers

The composition of interfund balances as of June 30, 2012 is as follows:

Fund	Due From Other Funds	Due To Other Funds
Government Funds:		
General	\$ 260,218	\$ -
TDA-LTF	-	33,821
CalHome	-	10,630
HOME	-	215,767
Development Impact	210,456	-
Total Governmental Funds	470,674	260,218
Proprietary Funds:		
None	-	-
Total Proprietary Funds	-	-
Fiduciary Funds:		
RDA Successor Private Purpose Trust	-	210,456
Total Fiduciary Funds	-	210,456
Total Due From/To	<u>\$ 470,674</u>	<u>\$ 470,674</u>

Composition and purpose of interfund receivables and payables is as follows:

The above balances represent money advanced for cash shortages or expenditures to be reimbursed.

Interfund transfers at June 30, 2012 consisted of the following:

	Transfers In	Transfers Out
Governmental Funds:		
General	\$ 279,767	\$ -
TDA-LTF	-	58,213
Gas Tax	-	221,554
CDBG	44,117	-
Development Impact	-	44,117
Proprietary Funds:		
None	-	-
Total Transfers	<u>\$ 323,884</u>	<u>\$ 323,884</u>

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 4 – Interfund Receivables, Payables, Advances and Transfers, (continued)

Composition and purpose of interfund transfers is as follows:

General fund transfers in of \$279,767 consist of \$58,213 from TDA-LTF and \$221,554 from Gas Tax fund to reimburse for street maintenance.

CDBG fund transfers in of \$44,117 consist of \$44,117 from the Development Impact fund for community center construction costs.

Note 5 – Land Held for Resale

At June 30, 2012, inventory consisted of one commercial lot in the RDA Successor Agency Private Purpose Trust Fund valued at \$129,720. All values are stated at original cost.

Note 6 – Deferred Charges

Deferred charges represent the capitalized costs of issuing debt. The deferred charges are being amortized over the term of the debt on the straight line basis. Deferred charges at June 30, 2012, net of amortization, are as follows:

	Sewer	Water	Total
Revenue Bonds	<u>\$ 259,852</u>	<u>\$ 82,843</u>	<u>\$ 342,695</u>

Note 7 – Capital Assets

Capital asset activity for the year ended June 30, 2012 is as follows:

Governmental Activities	Balance June 30, 2011	Additions	Deletions	Transfers	Balance June 30, 2012
Capital Assets Not Being Depreciated:					
Land	\$ 493,248	\$ -	\$ -	\$ -	\$ 493,248
Construction in Progress	940,351	450,375	-	-	1,390,726
Total Capital Assets Not Being Depreciated	1,433,599	450,375	-	-	1,883,974
Capital Assets Being Depreciated:					
Infrastructure	8,999,875	1,006,085	-	-	10,005,960
Machinery and Equipment	471,990	199,012	-	-	671,002
Total Capital Assets Being Depreciated	9,471,865	1,205,097	-	-	10,676,962
Less Accumulated Depreciation For:					
Infrastructure	1,131,022	292,960	-	-	1,423,982
Machinery and Equipment	129,820	87,939	-	-	217,759
Total Accumulated Depreciation	1,260,842	380,899	-	-	1,641,741
Total Capital Assets Being Depreciated, net	8,211,023	824,198	-	-	9,035,221
Governmental Activities Capital Assets, net	\$ 9,644,622	\$ 1,274,573	\$ -	\$ -	\$ 10,919,195

Depreciation charged to governmental functions on the Statement of Activities during the year is as follows: \$6,646 to General Government, \$78,293 to Public Safety and \$295,960 to Public Works.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 7 – Capital Assets, (continued)

Proprietary fund type property, plant and equipment are as follows:

<u>Business-Type Activities</u>	Balance June 30, 2011	Additions	Deletions	Transfers	Balance June 30, 2012
Capital Assets Not Being Depreciated:					
Land	\$ 1,166,042	\$ -	\$ -	\$ -	\$ 1,166,042
Construction in Progress	-	414,556	-	-	414,556
Total Capital Assets Not Being Depreciated	1,166,042	414,556	-	-	1,580,598
Capital Assets Being Depreciated:					
Building and Improvements	3,393,017	337,799	(1,258)	-	3,729,558
Infrastructure	559,361	-	-	-	559,361
Machinery and Other	9,647,401	8,809	-	-	9,656,210
Vehicles	271,878	-	-	-	271,878
Vineyards	611,398	-	-	-	611,398
Total Capital Assets Being Depreciated	14,483,055	346,608	(1,258)	-	14,828,405
Less Accumulated Depreciation For:					
Building and Improvements	1,184,803	123,443	(1,155)	-	1,307,091
Infrastructure	97,888	13,984	-	-	111,872
Machinery and Other	4,785,191	280,816	-	-	5,066,007
Vehicles	214,569	25,100	-	-	239,669
Vineyards	244,560	30,570	-	-	275,130
Total Accumulated Depreciation	6,527,011	473,913	(1,155)	-	6,999,769
Total Capital Assets Being Depreciated, net	7,956,044	(127,305)	(103)	-	7,828,636
Business-Type Activities Capital Assets, net	\$ 9,122,086	\$ 287,251	\$ (103)	\$ -	\$ 9,409,234

Depreciation charged to business-type activities on the Statement of Activities during the year is as follows: \$246,664 to Sewer, \$203,319 to Water, \$6,931 to Refuse, and \$16,999 to Public Transit.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 8 – Long-Term Liabilities

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Governmental Activities:					
Revenue Bonds	\$ -	\$ 298,900	\$ -	\$ 298,900	\$ 58,144
Note Payable	1,795,476	-	(183,939)	1,611,537	190,658
Capital Lease	32,458	169,640	(69,739)	132,359	30,733
Compensated Absences	24,293	9,251	-	33,544	-
Total Governmental Activities	1,852,227	477,791	(253,678)	2,076,340	279,535
Business-Type Activities:					
Revenue Bonds	7,500,000	-	(150,000)	7,350,000	150,000
Capital Lease	54,409	-	(54,409)	-	-
Compensated Absences	17,040	2,720	-	19,760	-
Total Business-Type Activities	7,571,449	2,720	(204,409)	7,369,760	150,000
Total Long-Term Liabilities	\$ 9,423,676	\$ 480,511	\$ (458,087)	\$ 9,446,100	\$ 429,535

The compensated absences for governmental and 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.

Governmental Activities:

Revenue Bonds:

Series 2012A Lease Revenue Bonds dated June 15, 2012 in the original amount of \$298,900 (\$179,705 sold as of June 30, 2012), at 1.383% interest; principal and interest payable each March 2 and September 2 until March 2, 2017 maturity. Bonds are secured by lease revenues paid from the General Fund to the McFarland Improvement Authority.

\$ 298,900

Note Payable:

Settlement agreement payable to the County of Kern dated November 17, 2009, in the amount of \$2,059,303; principal and interest at 3.62% due each July 1 and December 1 through 2019.

1,611,537

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 8 – Long-Term Liabilities, (continued)

Capital Lease:

Lease/Purchase obligation payable to Kansas State Bank of Manhattan dated August 23, 2011, in the amount of \$169,640; annual principal payments due each August 23 through 2016 and accrued interest at 4.948% payable annually. Secured by five police cars.

132,359

Compensated Absences Payable

33,544

Total Governmental Activities

\$ 2,076,340

Business-Type Activities:

Revenue Bonds:

Revenue Bonds dated September 21, 2010, in the original amount of \$7,500,000 at .65% to 5% interest; payable semi-annually commencing April 1, 2011. Principal is due annually commencing October 1, 2011, with final payment due October 1, 2040. Secured by a pledge of water and wastewater net revenues.

\$ 7,350,000

Compensated Absences Payable

19,760

Total Business-Type Activities

\$ 7,369,760

The annual requirements to amortize all indebtedness and other long-term liabilities outstanding at June 30, 2012, are as follows:

Year Ending June 30	Governmental Activities					
	Revenue Bonds		Note Payable		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 58,144	\$ 4,622	\$ 190,658	\$ 56,628	\$ 30,733	\$ 6,549
2014	58,951	3,127	197,622	49,663	32,253	5,028
2015	59,769	2,308	204,841	42,445	33,849	3,432
2016	60,598	1,479	212,323	34,962	35,524	1,758
2017	61,438	638	220,079	27,207		
2018-2020	-	-	586,014	32,201	-	-
Total	\$ 298,900	\$ 12,174	\$ 1,611,537	\$ 243,106	\$ 132,359	\$ 16,767

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 8 – Long-Term Liabilities, (continued)

Business-Type Activities

Year Ending June 30	Revenue Bonds	
	Principal	Interest
2013	\$ 150,000	\$ 321,293
2014	150,000	319,468
2015	155,000	317,443
2016	155,000	314,885
2017	160,000	311,785
2018-2022	865,000	1,492,458
2023-2027	1,040,000	1,319,850
2028-2032	1,315,000	1,043,500
2033-2037	1,680,000	680,000
2038-2041	1,680,000	215,000
Total	\$ 7,350,000	\$ 6,335,682

Note 9 – Deferred Revenue

Deferred Revenue at June 30, 2012 is detailed as follows:

	Governmental Activities		Total
	Unearned	Unavailable	Deferred Revenue
CalEMA Grant	\$ 60,227	\$ -	\$ 60,227
PTSMEA Grant	47,627	-	47,627
CalHome Grants	14,037	-	14,037
HOME Grants	-	711,816	711,816
Total	\$ 121,891	\$ 711,816	\$ 833,707

Business-Type Activities

	Unearned
TDA - Dial A Ride	\$ 63,799
Water - State of California Grant	17,775
Total	\$ 81,574

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 10 – Public Entity Risk Pools

The City maintains self-insurance programs for workers' compensation, general liability and auto liability.

For general liability and workers' compensation programs, the City is a member of the Central San Joaquin Valley Risk Management Authority (the RMA). The RMA 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 RMA 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 RMA being elected annually by the Board Members.

General Liability – Annual deposits are paid by members and are adjusted retrospectively to cover costs. Each member has a specific self insured retention (SIR) level. The City of McFarland's SIR is \$25,000. The city is responsible for the first \$25,000 of each occurrence. The City does not share or pay for losses of other members with SIRs under \$25,000. Specific coverage includes general and automobile liability, personal injury, errors and omissions, and certain other coverage. Claims from \$25,000 to \$1,000,000 are covered by a special pre-funded self-insurance pool maintained by the RMA. Claims from \$1,000,000 to \$13,000,000 are self-insured by the California Affiliated Risk Management Authorities (CARMA), a joint powers authority providing excess coverage to a membership consisting of six underlying joint powers authorities, representing approximately 175 cities and special districts. Claims from \$14,000,000 to \$29,000,000 are covered by an Excess Comprehensive General Liability Policy.

Workers' Compensation – Annual deposits are paid by members and are adjusted retrospectively to cover costs. Each member has a specific self insured retention (SIR) level. The City of McFarland's SIR is \$25,000 per occurrence. The City is responsible for the first \$25,000 of each occurrence. The City does not share or pay for losses of other members with SIRs under \$25,000. Losses between \$25,000 and \$500,000 are covered by a special pre-funded self-insurance pool maintained by the RMA. Claims from \$500,000 to \$5,000,000 are self-insured by the Local Agency Workers' Compensation Excess Joint Powers Authority which is a joint powers authority providing excess coverage to 36 members including cities, special districts, and joint powers authorities. Claims in excess of \$5,000,000 are self-insured by the California State Association of Counties Excess Insurance Authority, another joint powers authority.

The latest audited financial information available from CSJVRMA is for the year ended June 30, 2011 as follows:

Total Assets	\$ 69,444,059
Total Liabilities	<u>55,945,081</u>
Total Members' Equity	<u>\$ 13,498,978</u>
Total Revenue	\$ 27,941,713
Total Expenses	<u>26,326,659</u>
Net Increase in Members' Equity	<u>\$ 1,615,054</u>

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 11 – Retirement Plan

Plan Description – The City’s defined contribution plan provides for retirement benefits to plan members and beneficiaries. The Plan is administrated by John Hancock Life Insurance Company.

Funding Policy – The City contributes 10% of permanent employees’ salaries who have at least three years of service. Vesting is at 33% per year over three years. In the event an employee terminates service prior to retirement, the employee is entitled to a refund of the employee’s contributions plus interest plus the vested portion of the City’s contributions. During the current year, the City was required to make contributions to the plan in the amount of \$122,308.

Note 12 – Other Disclosures

Pledged Revenues

The City has pledged certain sewer and water revenues for the repayment of long-term debt obligations.

Economic Dependency

The City is dependent upon taxes and user fees received from the residents of the McFarland area.

Fund Deficits

The City had accumulated fund deficits in the following individual funds:

Governmental Funds:		
TDA - LTF	\$	(50,702)
CalHome		(24,667)
HOME		<u>(79,698)</u>
Total Governmental Funds	\$	<u>(155,067)</u>

The TDA-LTF, CalHome and HOME deficits are a result of expenditures prior to grant reimbursement.

Date of Management Evaluation

Management has evaluated subsequent events through February 19, 2013, the date on which the financial statements were available to be issued.

Excess of Expenditures over Appropriations

For the year ended June 30, 2012, 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 McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 12 – Other Disclosures, (continued)

Contingencies

Property Tax Liability – The City has a contingent property tax liability for its share of tax refund claims pending against the County of Kern attributable to taxes paid by property owners but disputed. Because both the amount of the contingency and the expected outcome cannot be determined, the liability has not been provided for in the financial statements. At June 30, 2012, the latest date reported by the County, the contingent liability was \$40,921.

Federal and State Government Programs – The City participates in several federal and state grant programs. These programs are subject to audit and review by the grantor pursuant to grant provisions. Expenditures may be disallowed by the granting agencies that cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

Note 13 – Successor Agency Trust For Assets of Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of McFarland that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 12, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 2012-050.

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

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

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

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

Note 13 – Successor Agency Trust For Assets of Former Redevelopment Agency, (continued)

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

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

Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private purpose trust fund) in the financial statements of the City.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary gain (loss) in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private purpose trust fund as net assets received upon dissolution of RDA.

Even though the measurement focus of the governmental funds (*current financial resources measurement focus*) is different from the measurement focus of the trust funds (*economic resources measurement focus*), the extraordinary gain (loss) recognized in the governmental funds was the same amount as net assets received upon dissolution of RDA that was recognized in the fiduciary fund financial statements as there were no reconciling items between the two methods of accounting.

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REQUIRED SUPPLEMENTARY INFORMATION

City of McFarland
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL
GENERAL FUND
Year ended June 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	\$ 1,838,500	\$ 1,838,500	\$ 1,897,188	\$ 58,688
Licenses & Permits	205,000	205,000	125,561	(79,439)
Fines, Forfeitures & Assessment	48,000	48,000	55,507	7,507
Use of Money or Property	55,000	55,000	168,732	113,732
Intergovernmental	180,000	180,000	275,013	95,013
Loan Repayments	-	-	-	-
Charges for Services	101,000	101,000	181,776	80,776
Contributions and Donations	75,000	75,000	80,609	5,609
Other Income	8,000	8,000	90,028	82,028
Total Revenues	2,510,500	2,510,500	2,874,414	363,914
Expenditures:				
Current:				
General Government	\$ 525,245	\$ 525,245	\$ 535,386	\$ 10,141
Public Safety	1,303,557	1,303,557	1,600,289	296,732
Public Works	381,963	381,963	283,638	(98,325)
Community Development	265,674	265,674	347,122	81,448
Capital Outlay	47,000	47,000	212,724	165,724
Debt Service:				
Principal Retirement	183,940	183,940	253,678	69,738
Interest and Finance Charges	63,345	63,345	665	(62,680)
Total Expenditures	2,770,724	2,770,724	3,233,502	462,778
Excess of Revenues Over (Under) Expenditures	(260,224)	(260,224)	(359,088)	(98,864)
Other Financing Sources (Uses):				
Transfers In	275,592	275,592	279,767	4,175
Transfers Out	-	-	-	-
Proceeds From Long-Term Debt	-	-	169,640	169,640
Total Other Financing Sources (Uses)	275,592	275,592	449,407	173,815
Net Change in Fund Balances	15,368	15,368	90,319	74,951
Fund Balances - Beginning	390,866	390,866	390,866	-
Total Liabilities & Fund Balances	\$ 406,234	\$ 406,234	\$ 481,185	\$ 74,951

City of McFarland
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL
TDA - LTF
Year ended June 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Intergovernmental	\$ 1,321,898	\$ 1,321,898	\$ 1,091,998	\$ (229,900)
Charges for Services	-	-	330	330
Total Revenues	1,321,898	1,321,898	1,092,328	(229,570)
Expenditures:				
Current:				
Public Works	\$ -	\$ -	\$ 185,684	\$ 185,684
Capital Outlay	1,302,197	1,302,197	879,431	(422,766)
Total Expenditures	1,302,197	1,302,197	1,065,115	(237,082)
Excess of Revenues Over (Under) Expenditures	19,701	19,701	27,213	7,512
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	-	-	(58,213)	(58,213)
Total Other Financing Sources (Uses)	-	-	(58,213)	(58,213)
Net Change in Fund Balances	19,701	19,701	(31,000)	(50,701)
Fund Balances - Beginning	(19,702)	(19,702)	(19,702)	-
Total Liabilities & Fund Balances	\$ (1)	\$ (1)	\$ (50,702)	\$ (50,701)

City of McFarland
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL
GAS TAX FUND
Year ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Intergovernmental	\$ 362,040	\$ 362,040	\$ 374,154	\$ 12,114
Total Revenues	362,040	362,040	374,154	12,114
Expenditures:				
Current:				
Public Works	\$ -	\$ -	\$ 25,945	\$ 25,945
Capital Outlay	143,540	143,540	126,655	(16,885)
Total Expenditures	143,540	143,540	152,600	9,060
Excess of Revenues Over (Under) Expenditures	218,500	218,500	221,554	3,054
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	(218,500)	(218,500)	(221,554)	(3,054)
Total Other Financing Sources (Uses)	(218,500)	(218,500)	(221,554)	(3,054)
Net Change in Fund Balances	-	-	-	-
Fund Balances - Beginning	70,067	70,067	70,067	-
Total Liabilities & Fund Balances	\$ 70,067	\$ 70,067	\$ 70,067	\$ -

City of McFarland
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL
CDBG FUND
Year ended June 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Intergovernmental	\$ 475,508	\$ 475,508	\$ 406,877	\$ (68,631)
Total Revenues	475,508	475,508	406,877	(68,631)
Expenditures:				
Current:				
Community Development	\$ -	\$ -	\$ 6,847	\$ 6,847
Capital Outlay	365,480	365,480	444,147	78,667
Total Expenditures	365,480	365,480	450,994	85,514
Excess of Revenues Over (Under) Expenditures	110,028	110,028	(44,117)	(154,145)
Other Financing Sources (Uses):				
Transfers In	130,843	130,843	44,117	(86,726)
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	130,843	130,843	44,117	(86,726)
Net Change in Fund Balances	240,871	240,871	-	(240,871)
Fund Balances - Beginning	-	-	-	-
Total Liabilities & Fund Balances	\$ 240,871	\$ 240,871	\$ -	\$ (240,871)

City of McFarland
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL
CALHOME
Year ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Intergovernmental	\$ 3,499,019	\$ 3,499,019	\$ 1,396,500	\$ (2,102,519)
Total Revenues	3,499,019	3,499,019	1,396,500	(2,102,519)
Expenditures:				
Current:				
Community Development	\$ 1,745,000	\$ 1,745,000	\$ 1,421,167	\$ (323,833)
Capital Outlay	1,716,927	1,716,927	-	(1,716,927)
Total Expenditures	3,461,927	3,461,927	1,421,167	(2,040,760)
Excess of Revenues Over (Under) Expenditures	37,092	37,092	(24,667)	(61,759)
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	(37,092)	(37,092)	-	37,092
Total Other Financing Sources (Uses)	(37,092)	(37,092)	-	37,092
Net Change in Fund Balances	-	-	(24,667)	(24,667)
Fund Balances - Beginning	-	-	-	-
Total Liabilities & Fund Balances	\$ -	\$ -	\$ (24,667)	\$ (24,667)

City of McFarland
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL
HOME FUND
Year ended June 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Intergovernmental	\$ 790,000	\$ 790,000	\$ 141,733	\$ (648,267)
Total Revenues	790,000	790,000	141,733	(648,267)
Expenditures:				
Current:				
Community Development	\$ 100,000	\$ 100,000	\$ 186,289	\$ 86,289
Capital Outlay	-	-	-	-
Total Expenditures	100,000	100,000	186,289	86,289
Excess of Revenues Over (Under) Expenditures	690,000	690,000	(44,556)	(734,556)
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	(20,000)	(20,000)	-	20,000
Total Other Financing Sources (Uses)	(20,000)	(20,000)	-	20,000
Net Change in Fund Balances	670,000	670,000	(44,556)	(714,556)
Fund Balances - Beginning	(35,142)	(35,142)	(35,142)	-
Total Liabilities & Fund Balances	\$ 634,858	\$ 634,858	\$ (79,698)	\$ (714,556)

City of McFarland
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL
DEVELOPMENT IMPACT FUND
Year ended June 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Licenses & Permits	\$ 1,001,000	\$ 1,001,000	\$ 463,895	\$ (537,105)
Use of Money or Property	9,260	9,260	4,367	(4,893)
Total Revenues	1,010,260	1,010,260	468,262	(541,998)
Expenditures:				
Current:				
Public Works	\$ -	\$ -	\$ 5,077	\$ 5,077
Capital Outlay	-	-	6,228	6,228
Total Expenditures	-	-	11,305	11,305
Excess of Revenues Over (Under) Expenditures	1,010,260	1,010,260	456,957	(553,303)
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	(130,843)	(130,843)	(44,117)	86,726
Total Other Financing Sources (Uses)	(130,843)	(130,843)	(44,117)	86,726
Net Change in Fund Balances	879,417	879,417	412,840	(466,577)
Fund Balances - Beginning	2,358,764	2,358,764	2,358,764	-
Total Liabilities & Fund Balances	\$ 3,238,181	\$ 3,238,181	\$ 2,771,604	\$ (466,577)

City of McFarland
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL
RDA DEBT SERVICE
Year ended June 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	\$ 76,000	\$ 76,000	\$ 2,953	\$ (73,047)
Other Income	-	-	-	-
Total Revenues	76,000	76,000	2,953	(73,047)
Expenditures:				
Current:				
Community Development	\$ 12,200	\$ 12,200	\$ 560	\$ (11,640)
Debt Service:				
Principal Retirement	15,000	15,000	-	(15,000)
Tax Increment Pass-Through Payments	-	-	-	-
Interest and Finance Charges	-	-	-	-
County Administrative Fee	-	-	-	-
Total Expenditures	27,200	27,200	560	(26,640)
Excess of Revenues Over (Under) Expenditures	48,800	48,800	2,393	(46,407)
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	(47,200)	(47,200)	-	47,200
Total Other Financing Sources (Uses)	(47,200)	(47,200)	-	47,200
Net Change in Fund Balances Before Extraordinary Items	1,600	1,600	2,393	793
Extraordinary Items:				
Gain / (Loss) on Dissolution of RDA	195,061	195,061	194,268	194,268
Net Change in Fund Balances	196,661	196,661	196,661	195,061
Fund Balances - Beginning	(196,661)	(196,661)	(196,661)	(196,661)
Total Liabilities & Fund Balances	\$ -	\$ -	\$ -	\$ (1,600)

City of McFarland
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL
RDA CAPITAL PROJECTS
Year ended June 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Other Income	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
Expenditures:				
Current:				
Community Development	\$ 40,000	\$ 40,000	\$ -	\$ (40,000)
Total Expenditures	40,000	40,000	-	(40,000)
Excess of Revenues Over (Under) Expenditures	(40,000)	(40,000)	-	40,000
Other Financing Sources (Uses):				
Transfers In	40,000	40,000	-	(40,000)
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	40,000	40,000	-	(40,000)
Net Change in Fund Balances Before Extraordinary Items	-	-	-	-
Extraordinary Items:				
Gain / (Loss) on Dissolution of RDA	(130,000)	(130,000)	(130,000)	-
Net Change in Fund Balances	(130,000)	(130,000)	(130,000)	-
Fund Balances - Beginning	130,000	130,000	130,000	-
Total Liabilities & Fund Balances	\$ -	\$ -	\$ -	\$ -

City of McFarland
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL
RDA LOW & MODERATE INCOME HOUSING
Year ended June 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Other Income	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
Expenditures:				
Current:				
Community Development	\$ -	\$ -	\$ -	\$ -
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	-	-	-	-
Other Financing Sources (Uses):				
Transfers In	7,200	7,200	-	(7,200)
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	7,200	7,200	-	(7,200)
Net Change in Fund Balances	7,200	7,200	-	(7,200)
Fund Balances - Beginning	11,118	11,118	11,118	-
Total Liabilities & Fund Balances	\$ 18,318	\$ 18,318	\$ 11,118	\$ (7,200)

City of McFarland
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL
McFARLAND IMPROVEMENT AUTHORITY
Year ended June 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Other Income	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
Expenditures:				
Current:				
Community Development	\$ -	\$ -	\$ 280,540	\$ 280,540
Total Expenditures	-	-	280,540	280,540
Excess of Revenues Over (Under) Expenditures	-	-	(280,540)	(280,540)
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Proceeds From Long-Term Debt	-	-	298,900	298,900
Total Other Financing Sources (Uses)	-	-	298,900	298,900
Net Change in Fund Balances	-	-	18,360	18,360
Fund Balances - Beginning	-	-	-	-
Total Liabilities & Fund Balances	\$ -	\$ -	\$ 18,360	\$ 18,360

**ADDITIONAL REPORTING REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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Albert & Associates, LLP

Certified Public Accountants

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

To the Members of the City Council of the
City of McFarland, California:

We have audited the financial statements of the governmental activities, the business type activities and each major fund of the City of McFarland, California (City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 19, 2013. 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.

Internal Control Over Financial Reporting

Management of the City of McFarland, California, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of McFarland, California's internal control over financial reporting as a basis for designing our auditing procedures 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 of McFarland, California's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of McFarland, California's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting (2012-1 to 2012-3). 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.

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Compliance and Other Matters

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

The City of McFarland's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City of McFarland's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Albert & Associates, LLP

Wasco, California
February 19, 2013

City of McFarland
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012

2012-1 Segregation of Duties

Criteria and Condition: The City does not have adequate segregation of duties. Systems should be designed so employees do not oversee their own work.

Context: The City has a small staff and resources are limited.

Cause: The City's size and budget limit the number of office accounting employees.

Effect: There is an increased risk that accounting errors could go unnoticed.

Recommendation: The City should design and implement policies and procedures to help mitigate the lack of segregation of duties.

Management Response: We concur with recommendation. The City has implemented compensating controls where Supervisors and Directors of the various Divisions are approving and managing the processes to mitigate the lack of segregation of duties.

2012-2 Accounting for Capital Assets

Criteria and Condition: In order to facilitate the budget process, the City expenses enterprise fund capital expenditures throughout the year. This accounting treatment is inconsistent with both policy and accounting method.

Context: The City capitalizes all expenditures and at year end, does not make an analysis to determine the expenditures that should be capitalized and added to the depreciation schedule.

Cause: The monthly and year end accounting routines do not include analysis of accounting for capital assets.

Effect: Capital Asset addition information is not available to properly maintain the depreciation schedules and prepare the accounting entries necessary to record assets in the enterprise funds.

Recommendation: The monthly and annual accounting routines need to segregate capital expenditures above the capitalization policy threshold and at year end capitalize enterprise fund asset acquisitions.

Management Response: We concur with recommendation. Monthly and annual accounting routines will be revised to segregate capital expenditures and to capitalize enterprise fund asset acquisitions at year end.

City of McFarland
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012

2012-3 Design of Internal Control

Criteria and Condition: The City does not have adequate design of internal control over significant processes.

Context: The City does not perform the following components of Internal Control:

- a. The City sometimes miscodes expenditures and adjusting journal entries. This typically occurs in accounting for activities related to unique projects and unusual transactions.
- b. The City did not adjust Accrued income and expense amounts to the actual year end calculated balances for interest income and expense, water department franchise income, accrued vacation, and prepaid rent expense.
- c. The City did not record activity in the cash with fiscal agent account.

Cause: The City did not allocate sufficient resources to the accounting function to enable proper transaction review.

Effect: General ledger account balances are misstated.

Recommendation: The City should allocate adequate resources to the accounting department.

Management Response: We concur with recommendation. The City, in March 2012, allocated additional resources to the accounting department that now includes a Finance Director that manages the Finances of the City of McFarland.

SINGLE AUDIT REPORTS AND SCHEDULES

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and City Council of the
City of McFarland, California:

Compliance

We have audited the City of McFarland's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of McFarland's major federal programs for the year ended June 30, 2012. The City of McFarland's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of McFarland's management. Our responsibility is to express an opinion on the City of McFarland's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of McFarland's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of McFarland's compliance with those requirements.

In our opinion, the City of McFarland, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the City of McFarland is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of McFarland's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of McFarland's internal control over compliance.

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

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

This report is intended solely for the information and use of management, City Council, others within the City, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Albert & Associates, LLP

Wasco, California
February 19, 2013

City of McFarland
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2012

Federal Grantor/ Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Grant Number/ Pass-through Grantor's Number	Federal Expenditures
<u>U.S. Department of Transportation</u>			
Pass-through State of California Department of Transportation Highway Planning & Construction	20.205	(SRTSL 5343(003)	\$ 31,329
Total U.S. Department of Transportation			
<u>U.S. Department of Housing and Urban Development</u>			
Pass-through State of California Dept. of Housing & Community Development HOME Investment Partnerships Program	14.239	(08-HOME-4703)	182,665
Pass-through County of Kern: Community Development Block Grant	14.218	(CD#16.04.7)	<u>373,022</u>
Total U.S. Department of Housing and Urban Development			<u>555,687</u>
Subtotal Expenditures of Federal Awards			<u>\$ 587,016</u>
SCHEDULE OF EXPENDITURES OF AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)			
<u>U.S. Department of Energy</u>			
Pass-through State of California Energy Commission Pass-through San Joaquin Valley Unified Air Pollution Control District ARRA-Energy Efficiency and Conservation Block Grant Program	81.128	(CBG-09-136)	\$ 61,827
Subtotal Expenditures of ARRA Awards			<u>61,827</u>
Total Federal and ARRA Expenditures			<u>\$ 648,843</u>

See accountant's notes to schedule of expenditures of federal awards

City of McFarland
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2012

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of McFarland, California, under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of McFarland, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of McFarland.

Note B – Summary of Significant Accounting Policies

- 1) Expenditures reported on the Schedule are reported generally using the modified-accrual basis of accounting for program expenditures accounted for in the governmental funds and the accrual basis of accounting for program expenditures accounted for in the proprietary funds, as described in Note 1 of the notes to the City of McFarland's basic financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- 2) Pass-through entity identifying numbers are presented where available.

City of McFarland
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2012

A. Summary of Auditor’s Results:

1. The auditor’s report expresses an unqualified opinion on the financial statements of the City of McFarland.
2. Four significant deficiencies disclosed during the audit of the financial statements are reported in the 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. None of the deficiencies are reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of the City of McFarland, which would be required to be reported in accordance with Government Auditing Standards were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs disclosed during the audit are reported in the Independent Auditor’s Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133. No material weaknesses are reported.
5. The auditor’s report on compliance for the major federal award programs for the City of McFarland expresses an unqualified opinion on all major federal programs.
6. No audit findings were required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as major programs includes:

CFDA Numbers	Program Title
14.218	Community Development Block Grant

8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The City of McFarland was determined not to be a low-risk auditee.

B. Findings – Financial Statement Audit

No Findings

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City of McFarland
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2012

Financial Statement Audit

Finding 2011-1 Segregation of Duties

Condition: This finding was a significant deficiency stating that the City does not have adequate segregation of duties.

Recommendation: The auditor recommended that the City should design and implement policies and procedures to help mitigate the lack of segregation of duties.

Current Status: No similar findings were noted in the 2012 audit that impacted major federal award programs. The finding is repeated at 2012-1 as part of the financial statement audit.

Finding 2011-2 Documentation and Monitoring of Internal Controls

Condition: This finding was a significant deficiency stating that internal controls should be documented and monitored to ensure systems are operating as intended. The City did not have adequate documentation or monitoring of internal controls.

Recommendation: The auditor recommended that the City should document their internal controls and implement a formal monitoring process.

Current Status: No similar findings were noted in the 2012 audit.

Finding 2011-3 Bank Reconciliation Process

Condition: This finding was a significant deficiency stating that the City was not reviewing outstanding checks during the bank reconciliation process.

Recommendation: The auditor recommended that the monthly bank reconciliation process include a review of all outstanding checks with any old items investigated and adjusted if necessary.

Current Status: No similar findings were noted in the 2012 audit.

Finding 2011-4 Accounting for Capital Assets

Condition: This finding was a significant deficiency stating that the City expensed enterprise fund capital expenditures.

Recommendation: The auditor recommended that the monthly and annual accounting routines need to segregate capital expenditures and at year end, capitalize enterprise fund asset acquisitions.

Current Status: No similar findings were noted in the 2012 audit that impacted major federal award programs. The finding is repeated at 2012-2 as part of the financial statement audit.

City of McFarland
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Year ended June 30, 2012

Finding 2011-5 Miscoding of Transactions

Condition: This finding was a material weakness stating that the City sometimes miscoded expenditures relating to the accounting for activities of unique projects.

Recommendation: The auditor recommended that at the beginning of each new project, the project administrator communicate any unusual reporting requirements to the accounts payable department.

Current Status: No similar findings were noted in the 2012 audit that impacted major federal award programs.

Finding 2011-6 City Council Approval of Contracts

Condition: This finding was a material weakness stating that the City entered into three road construction contracts that were not approved in advance by the City Council.

Recommendation: The auditor recommended that City management should obtain City Council approval of all substantial construction projects.

Current Status: No similar findings were noted in the 2012 audit.

Finding 2011-7 Bill Paying Documentation

Condition: This finding was a material weakness stating that the City paid different vendors' invoices that appeared strikingly similar in appearance to one another. The City also paid invoices that contained superficial information and were non-businesslike in appearance.

Recommendation: All vendor invoices should be critically inspected with unusual or suspicious documents investigated.

Current Status: No similar findings were noted in the 2012 audit.

Finding 2011-8 Design of Internal Control

Condition: This finding was a material weakness stating that the City did not perform the following components of Internal Control:

- a. The City did not adjust accrued income and expense amounts to the actual year end calculated balances for interest income and expense, water department franchise income, accrued vacation, and prepaid rent expense.

- b. The City did not consistently cancel original invoices upon payment to prohibit their reuse as support for duplicate payment. Furthermore, approval documentation on the invoice was often missing.

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Year ended June 30, 2012

Recommendation: The auditor recommended that the City should allocate adequate resources to the accounting department to enable it to perform the proper accounting function.

Current Status: No similar findings were noted in the 2012 audit that impacted major federal award programs. The finding is repeated at 2012-3 as part of the financial statement audit.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Finding 2011-9 Community Development Block Grant – CFDA No. 14.218; Grant No., CD # 16.04.7

Condition: The finding was a material deficiency stating that certain expenditures were supported by suspicious documentation.

Recommendation: The auditor recommended that all vendor invoices should be critically inspected with any unusual or suspicious documents investigated.

Current Status: The recommendation was adopted March 2012. No similar findings were noted in the 2012 audit.

Finding 2011-10 Community Development Block Grant – CFDA No. 14.218; Grant No., CD # 16.04.7

Condition: The finding was a material deficiency stating that the City entered into contracts with ineligible contractors.

Recommendation: The auditor recommended that program management and oversight be exercised to insure compliance with program requirements.

Current Status: No similar findings were noted in the 2012 audit.

Finding 2011-11 Community Development Block Grant – CFDA No. 14.218; Grant No., CD # 16.04.7

Condition: The finding was material non-compliance stating that the required payment of prevailing wage rates was not always done.

Recommendation: The auditor recommended that appropriate management and oversight should be exercised to insure compliance with program requirements.

Current Status: The recommendation was adopted July 2012 and applicable City staff underwent prevailing wage training. No similar findings were noted in the 2012 audit.

City of McFarland
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2012

Finding 2011-12 Community Development Block Grant – CFDA No. 14.218; Grant No., CD # 16.04.7

Condition: The finding was material non-compliance stating that the City failed to bid out a number of contracts and failed to publish notices as required.

Recommendation: The auditor recommended that appropriate management and oversight should be exercised to insure compliance with program requirements.

Current Status: No similar findings were noted in the 2012 audit.

Finding 2011-13 Community Development Block Grant – CFDA No. 14.218; Grant No., CD # 16.04.7

Condition: This finding was material non-compliance stating that the City comingled program expenditures with other activities.

Recommendation: The auditor recommended that the City's accounts payable system should be modified to require proper project expenditure classifications as part of the normal bill paying approval process.

Current Status: The recommendation was adopted June 2012, when the program operator was required to use a worksheet to track all costs to individual projects. No similar findings were noted in the 2012 audit.

Finding 2011-14 HOME Investment Partnerships Program – CFDA No.14.239; Grant No. 08-HOME-4703

Condition: This finding was material non-compliance stating that the City submitted Project Drawdown Requests that included an amount for Activity Delivery Costs which exceeded actual Activity Delivery Costs incurred.

Recommendation: The auditor recommended that knowledgeable management and oversight should be exercised to insure compliance with program requirements.

Current Status: No similar findings were noted in the 2012 audit.

Finding 2011-15 HOME Investment Partnerships Program - CFDA No.14.239; Grant No. 08-HOME-4703

Condition: The finding was material non-compliance stating that the City paid off existing first deeds of trust which appeared to be unallowable expenditures.

Recommendation: The auditor recommended that knowledgeable management and oversight should be exercised to insure compliance with program requirements.

Current Status: No similar findings were noted in the 2012 audit.

City of McFarland
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Year ended June 30, 2012

Finding 2011-16 HOME Investment Partnerships Program - CFDA No.14.239; Grant No. 08-HOME-4703

Condition: The finding was material non-compliance stating that in one instance, the note receivable from the homeowner exceeded the expenditures made on behalf of the property and in four instances, the loan was less than the amount of home improvements.

Recommendation: The auditor recommended that appropriate management and recordkeeping be exercised to insure compliance with program requirements.

Current Status: No similar findings were noted in the 2012 audit.

Finding 2011-17 HOME Investment Partnerships Program - CFDA No.14.239; Grant No. 08-HOME-4703

Condition: The finding was material non-compliance stating that a review of the compliance documentation indicated numerous missing documents as well as missing signatures and dates.

Recommendation: The auditor recommended that appropriate management and oversight should be exercised to insure compliance with program requirements.

Current Status: No similar findings were noted in the 2012 audit.

Finding 2011-18 HOME Investment Partnerships Program - CFDA No.14.239; Grant No. 08-HOME-4703

Condition: The finding was material non-compliance stating that the combined amount of HOME reimbursement claims exceeded the actual combined amount of total City expenditures.

Recommendation: The auditor recommended that appropriate management and recordkeeping be exercised to insure compliance with program requirements

Current Status: No similar findings were noted in the 2012 audit.

Finding 2011-19 HOME Investment Partnerships Program - CFDA No.14.239; Grant No. 08-HOME-4703

Condition: The finding was material non-compliance stating that the City failed to document that contracts were bid out, as required by the contract.

Recommendation: The auditor recommended that appropriate management and recordkeeping should be exercised to insure compliance with program requirements.

Current Status: No similar findings were noted in the 2012 audit.

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