

CITY OF McFARLAND
BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2009

**City of McFarland
401 West Kern Avenue
McFarland, CA 93250
(661) 792-3091**

**Kenneth Rosson, Mayor
Donnie Campbell, Mayor Pro-Tem
Dennis Martin, Council Member
Steve Garza, Council Member
Stephen McFarland, Council Member**

Bob Wilburn, City Administrator

CITY OF McFARLAND

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June 30, 2009

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Albert & Associates, LLP

Certified Public Accountants

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 the City of McFarland, California (City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note 14 to the financial statements, the City has suffered recurring decreases in net assets and has an impaired unrestricted net asset balance. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

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The budgetary comparison information on pages 32 through 37 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America have 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's basic financial statements. The statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Albert & Associates, LLP

Wasco, California
October 12, 2009

City of McFarland
STATEMENT OF NET ASSETS
June 30, 2009

	Governmental Activities	Business-Type Activities	Total
Assets:			
Current Assets:			
Cash and Investments	\$ 2,552,712	\$ 2,808,741	\$ 5,361,453
Restricted Cash:			
With Fiscal Agents	-	126,694	126,694
Receivables, net	189,976	566,967	756,943
Internal Balances	105,571	(105,571)	-
Supplies	-	10,115	10,115
Total Current Assets	2,848,259	3,406,946	6,255,205
Noncurrent Assets:			
Capital Assets:			
Land	493,248	1,166,042	1,659,290
Depreciable Buildings, Property, Equipment and Infrastructure, net of accumulated depreciation	7,074,142	8,045,027	15,119,169
Advances to Other Funds	940,800	-	940,800
Deferred Charges	-	8,627	8,627
Total Noncurrent Assets	8,508,190	9,219,696	17,727,886
Total Assets	11,356,449	12,626,642	23,983,091
Liabilities:			
Current Liabilities:			
Accounts Payable	1,786,515	267,219	2,053,734
Accrued Interest Payable	-	20,207	20,207
Deposits Received	-	82,482	82,482
Unearned Revenue	78,582	40,534	119,116
Bonds and Notes Payable Due Within One Year	29,952	159,887	189,839
Total Current Liabilities	1,895,049	570,329	2,465,378
Noncurrent Liabilities:			
Bonds and Notes Payable Due in More Than One Year	63,637	824,041	887,678
Compensated Absences	7,217	10,957	18,174
Advance from Other Funds	140,800	800,000	940,800
Total Noncurrent Liabilities	211,654	1,634,998	1,846,652
Total Liabilities	2,106,703	2,205,327	4,312,030
Net Assets:			
Invested in Capital Assets, net of related debt	7,473,801	7,427,141	14,900,942
Restricted For:			
Capital Projects	1,696,447	872,880	2,569,327
Debt Service	-	126,694	126,694
Unrestricted	79,498	1,994,600	2,074,098
Net Assets	\$ 9,249,746	\$ 10,421,315	\$ 19,671,061

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

City of McFarland
STATEMENT OF ACTIVITIES
Year ended June 30, 2009

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	\$ 459,997	\$ 235,212	\$ -	\$ -	\$ (224,785)	\$ -	\$ (224,785)
Public Safety	1,720,637	57,311	100,000	-	(1,563,326)	-	(1,563,326)
Public Works	726,405	273,194	-	1,617,287	1,164,076	-	1,164,076
Community Development	368,417	61,140	-	61,833	(245,444)	-	(245,444)
Total Governmental Activities	3,275,456	626,857	100,000	1,679,120	(869,479)	-	(869,479)
Business-Type Activities:							
Sewer	1,121,602	1,393,344	-	19,614	-	291,356	291,356
Refuse	859,307	997,928	-	-	-	138,621	138,621
Water	951,241	994,461	-	129,135	-	172,355	172,355
Public Transportation	128,010	152,513	-	-	-	24,503	24,503
Total Business-Type Activities	3,060,160	3,538,246	-	148,749	-	626,835	626,835
Total	\$ 6,335,616	\$ 4,165,103	\$ 100,000	\$ 1,827,869	(869,479)	626,835	(242,644)
General Revenues:							
Taxes:							
Property Tax					462,082	-	462,082
Sales Tax					275,235	-	275,235
Franchise Tax					159,059	-	159,059
State Allocation of Gas Tax					317,174	-	317,174
Transient Occupancy Tax					1,007	-	1,007
Intergovernmental, Unrestricted:							
Motor Vehicle In-lieu Tax					948,290	-	948,290
Total Taxes					2,162,847	-	2,162,847
Unrestricted investment earnings					82,801	-	82,801
Miscellaneous					-	-	-
Transfers					(133,859)	133,859	-
Total General Revenues and Transfers					2,111,789	133,859	2,245,648
Change in Net Assets					1,242,310	760,694	2,003,004
Net Assets - Beginning					8,007,436	9,660,621	17,668,057
Net Assets - Ending					\$ 9,249,746	\$ 10,421,315	\$ 19,671,061

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

City of McFarland
BALANCE SHEET – GOVERNMENTAL FUNDS
 June 30, 2009

	General	TDA - LTF	Gas Tax	CDBG	Development Impact	Redevelopment Agency	Total Governmental Funds
Assets:							
Cash and Investments	\$ 744,985	\$ 1,657	\$ 86,312	\$ 5,227	\$ 1,685,385	\$ 29,146	\$ 2,552,712
Receivables, net	122,559	-	27,324	26,833	12,671	589	189,976
Interfund Receivables	105,571	-	-	-	-	-	105,571
Advance to Other Funds	940,800	-	-	-	-	-	940,800
Total Assets	\$ 1,913,915	\$ 1,657	\$ 113,636	\$ 32,060	\$ 1,698,056	\$ 29,735	\$ 3,789,059
Liabilities:							
Accounts Payable	\$ 1,748,618	\$ 1,657	\$ -	\$ 26,000	\$ 10,240	\$ -	\$ 1,786,515
Deposits Received	-	-	-	-	-	-	-
Deferred Revenue	78,582	-	-	-	-	-	78,582
Advances from Other Funds	-	-	-	-	-	140,800	140,800
Total Liabilities	1,827,200	1,657	-	26,000	10,240	140,800	2,005,897
Fund Balances:							
Reserved For:							
Advance to Other Funds	940,800	-	-	-	-	-	940,800
Unreserved:							
Undesignated, Reported in:							
General Fund	(854,085)	-	-	-	-	-	(854,085)
Special Revenue Fund	-	-	113,636	6,060	1,687,816	(111,065)	1,696,447
Total Fund Balances	86,715	-	113,636	6,060	1,687,816	(111,065)	1,783,162
Total Liabilities & Fund Balances	\$ 1,913,915	\$ 1,657	\$ 113,636	\$ 32,060	\$ 1,698,056	\$ 29,735	\$ 3,789,059

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, 2009

Fund balances of governmental funds \$ 1,783,162

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

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.

Beginning Balance, net of depreciation	\$ 6,308,964	
Current Year Additions	1,514,662	
Current Year Depreciation	<u>(256,236)</u>	
Ending Balance, net of depreciation		7,567,390

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.

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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.

Compensated Absences	(7,217)	
Long-Term Debt	<u>(93,589)</u>	
Total Long-Term Liabilities		<u>(100,806)</u>

Net assets of governmental activities \$ 9,249,746

City of McFarland
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS) – GOVERNMENTAL FUNDS
Year ended June 30, 2009

	General	TDA - LTF	Gas Tax	CDBG	Development Impact	Redevelopment Agency	Total Governmental Funds
Revenues:							
Taxes	\$ 1,713,592	\$ -	\$ -	\$ -	\$ -	\$ 131,030	\$ 1,844,622
Licenses & Permits	69,368	-	-	-	450,094	-	519,462
Fines, Forfeitures & Assessments	49,158	-	-	-	-	-	49,158
Use of Money or Property	71,288	-	-	-	11,513	-	82,801
Intergovernmental	189,743	735,823	317,174	61,833	-	-	1,304,573
Charges for Services	47,221	-	-	-	-	-	47,221
Contributions and Donations	791,721	-	-	-	-	-	791,721
Other Income	14,102	-	-	-	-	-	14,102
Total Revenues	2,946,193	735,823	317,174	61,833	461,607	131,030	4,653,660
Expenditures:							
Current:							
General Government	457,438	-	-	-	-	-	457,438
Public Safety	1,720,637	-	-	-	-	-	1,720,637
Public Works	309,563	27,237	5,674	-	134,078	-	476,552
Community Development	268,030	-	-	57,173	-	4,666	329,869
Capital Outlay:							
General Capital Outlay	-	-	-	-	-	-	-
Street Improvements	748,221	682,066	84,375	-	-	-	1,514,662
Debt Service:							
Principal Retirement	28,772	-	-	-	-	-	28,772
Tax Increment Pass-Through Payments	-	-	-	-	-	25,799	25,799
Interest and Finance Charges	2,744	-	-	-	-	14,784	17,528
Total Expenditures	3,535,405	709,303	90,049	57,173	134,078	45,249	4,571,257
Excess of Revenues Over (Under) Expenditures	(589,212)	26,520	227,125	4,660	327,529	85,781	82,403
Other Financing Sources (Uses):							
Transfers In	196,047	-	-	1,400	9,953	28,836	236,236
Transfers Out	(25,278)	(146,454)	(169,527)	-	-	(28,836)	(370,095)
Total Other Financing Sources (Uses)	170,769	(146,454)	(169,527)	1,400	9,953	-	(133,859)
Net Change in Fund Balances	(418,443)	(119,934)	57,598	6,060	337,482	85,781	(51,456)
Fund Balances - Beginning	505,158	119,934	56,038	-	1,350,334	(196,846)	1,834,618
Fund Balances - Ending	\$ 86,715	\$ -	\$ 113,636	\$ 6,060	\$ 1,687,816	\$ (111,065)	\$ 1,783,162

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, 2009

Net change in fund balance - total governmental funds	\$ (51,456)
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 (\$1,514,662) exceeded depreciation (\$256,236) in the current period.	1,258,426
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.	28,772
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.	1,683
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.	<u>4,885</u>
Change in net assets of governmental activities	<u>\$ 1,242,310</u>

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

City of McFarland
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2009

	Sewer	Refuse	Water	Public Transit	Total Proprietary
Assets:					
Current Assets:					
Cash and Investments	\$ 419,601	\$ 28,461	\$ 2,360,679	\$ -	\$ 2,808,741
Investments With Fiscal Agents - Restricted	126,694	-	-	-	126,694
Receivables	139,766	203,748	106,034	117,419	566,967
Supplies	-	-	10,115	-	10,115
Total Current Assets	686,061	232,209	2,476,828	117,419	3,512,517
Noncurrent Assets:					
Deferred Charges	8,627	-	-	-	8,627
Capital Assets (net of accumulated depreciation)	5,624,431	34,975	3,381,626	170,037	9,211,069
Total Noncurrent Assets	5,633,058	34,975	3,381,626	170,037	9,219,696
Total Assets	\$ 6,319,119	\$ 267,184	\$ 5,858,454	\$ 287,456	\$ 12,732,213
Liabilities:					
Current Liabilities:					
Accounts Payable	\$ 86,292	\$ 76,047	\$ 89,976	\$ 14,904	\$ 267,219
Accrued Interest Payable	20,207	-	-	-	20,207
Customer Deposits	-	-	82,482	-	82,482
Due to Other Funds	-	-	-	105,571	105,571
Current Portion of Long-Term Debt	159,887	-	-	-	159,887
Total Current Liabilities	266,386	76,047	172,458	120,475	635,366
Noncurrent Liabilities:					
Compensated Absences Payable	2,103	2,218	5,302	1,334	10,957
COP Payable	737,046	-	-	-	737,046
Notes Payable	86,995	-	-	-	86,995
Advance from Other Funds	800,000	-	-	-	800,000
Deferred Revenue	-	9,145	31,389	-	40,534
Total Noncurrent Liabilities	1,626,144	11,363	36,691	1,334	1,675,532
Total Liabilities	1,892,530	87,410	209,149	121,809	2,310,898
Net Assets:					
Invested in Capital Assets, net of related debt	3,840,503	34,975	3,381,626	170,037	7,427,141
Restricted For:					
Capital Projects (expendable)	-	-	872,880	-	872,880
Debt Service (expendable)	126,694	-	-	-	126,694
Unrestricted	459,392	144,799	1,394,799	(4,390)	1,994,600
Net Assets	\$ 4,426,589	\$ 179,774	\$ 5,649,305	\$ 165,647	\$ 10,421,315

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, 2009

	Sewer	Refuse	Water	Public Transit	Total Proprietary
Operating Revenues:					
Charges for Services	\$ 1,316,550	\$ 989,447	\$ 950,423	\$ 7,115	\$ 3,263,535
Total Operating Revenues	1,316,550	989,447	950,423	7,115	3,263,535
Operating Expenses:					
Wages and Benefits	109,515	82,319	195,255	88,222	455,311
Administration	410,007	770,178	142,451	14,535	1,337,171
Materials and Supplies	28,818	13,205	73,991	11,708	127,722
Maintenance and Repair	56,102	1,230	95,474	2,439	155,245
Utilities	223,192	4,993	252,027	-	480,212
Depreciation	241,660	7,382	192,043	11,106	452,191
Total Operating Expenses	1,069,294	859,307	951,241	128,010	3,007,852
Operating Income (Loss)	247,256	130,140	(818)	(120,895)	255,683
Nonoperating Revenues (Expenses):					
Interest Income	6,434	7,981	29,222	-	43,637
Rent Income	26,400	-	-	-	26,400
Connection Fees	43,960	-	10,278	-	54,238
Intergovernmental	-	500	4,538	145,398	150,436
Interest Expense	(52,308)	-	-	-	(52,308)
Total Nonoperating Revenues (Expenses)	24,486	8,481	44,038	145,398	222,403
Income (Loss) Before Contributions and Transfers	271,742	138,621	43,220	24,503	478,086
Capital Contributions	19,614	-	129,135	-	148,749
Transfers in	-	-	-	133,859	133,859
Change in Net Assets	291,356	138,621	172,355	158,362	760,694
Net Assets - Beginning	4,135,233	41,153	5,476,950	7,285	9,660,621
Net Assets - Ending	\$ 4,426,589	\$ 179,774	\$ 5,649,305	\$ 165,647	\$ 10,421,315

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

City of McFarland
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2009

	Sewer	Refuse	Water	Public Transportation	Total Proprietary
Cash flows from operating activities:					
Cash received from:					
Customers, including cash deposits	\$ 1,216,585	\$ 907,635	\$ 578,644	\$ 7,115	\$ 2,709,979
Cash paid to:					
Suppliers	(709,051)	(792,145)	(568,719)	(32,664)	(2,102,579)
Employees	(111,066)	(60,101)	(195,887)	(89,435)	(456,489)
Net cash provided (used) by operating activities	396,468	55,389	(185,962)	(114,984)	150,911
Net cash provided from noncapital financing activities:					
Cash transferred from other funds	-	-	-	169,430	169,430
Cash transferred to other funds	-	(35,409)	-	-	(35,409)
Connection fees	43,960	-	10,278	-	54,238
Intergovernmental revenue	-	500	4,538	27,979	33,017
Net cash provided (used) by noncapital financing activities	43,960	(34,909)	14,816	197,409	221,276
Cash flows from capital and related financing activities:					
Principal payments:					
COP	(85,000)	-	-	-	(85,000)
Notes	(63,357)	-	-	-	(63,357)
Advances from other funds	(100,000)	-	-	-	(100,000)
Interest paid	(52,214)	-	-	-	(52,214)
Purchase of capital assets	(38,765)	-	(6,087)	(117,151)	(162,003)
Net cash provided (used) by capital and related financing activities	(339,336)	-	(6,087)	(117,151)	(462,574)
Cash flows from investing activities:					
Interest received	6,434	7,981	29,222	-	43,637
Rents Received	26,400	-	-	-	26,400
Net cash provided by investing activities	32,834	7,981	29,222	-	70,037
Net increase (decrease) in cash	133,926	28,461	(148,011)	(34,726)	(20,350)
Cash and cash equivalents - Beginning of year	412,369	-	2,508,690	34,726	2,955,785
Cash and cash equivalents - End of year	\$ 546,295	\$ 28,461	\$ 2,360,679	\$ -	\$ 2,935,435
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:					
Operating income (loss)	\$ 247,256	\$ 130,140	\$ (818)	\$ (120,895)	\$ 255,683
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	241,660	7,382	192,043	11,106	452,191
(Increase) decrease in accounts receivable	(99,965)	(76,812)	(9,970)	-	(186,747)
(Increase) decrease in supplies on hand	-	-	2,544	-	2,544
Increase (decrease) in accounts payable	9,068	(2,539)	(7,320)	(3,982)	(4,773)
Increase (decrease) in customer deposits	-	-	1,543	-	1,543
Increase (decrease) in compensated absences	(1,551)	2,218	(632)	(1,213)	(1,178)
Increase (decrease) in deferred revenue	-	(5,000)	(363,352)	-	(368,352)
Net cash provided (used) by operating activities	\$ 396,468	\$ 55,389	\$ (185,962)	\$ (114,984)	\$ 150,911

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

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2009

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. The Agency issues separate component unit financial statements. Upon completion, the Agency's financial statements can be obtained at City Hall.

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 Agency and Corporation.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2009

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

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. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the later 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

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2009

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

- 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.

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 received.

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

The Redevelopment Agency accounts for all revenues and expenditures of the McFarland Redevelopment Agency (a component unit of the City). The Agency issues separate component unit financial statements.

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.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2009

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

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.

C - Measurement Focus and Basis of Accounting

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

Measurement Focus

On the government-wide Statement of Net 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

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2009

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

received. Revenue from taxpayer assessed taxes, such as sales taxes, are recognized in the accounting period in which they became both measurable and available to finance expenditures of the fiscal period. Grant funds and reimbursements of expenses under contractual agreements are reported in governmental fund types and are recorded as a receivable when earned rather than when susceptible to accrual. Generally, this occurs when authorized expenditures are made under the grant program or contractual agreement. Expenditures are recognized when the fund liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

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

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

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.

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

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

Cash and Investments

Cash 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 and invested by the City. Income earned from pooled investments is allocated to each of the funds based on average pooled cash balances during the year. Deficit cash balances are classified as due to other funds and funded by the General Fund or related operating fund.

Statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper, bankers' acceptances, repurchase agreements, money market funds and the State Treasurer's investment pool.

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.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2009

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

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, 2009

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:

<u>Assets</u>	<u>Years</u>
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 Certificates of Participation (COP) premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the COP using the straight-line method. Certificates of Participation payable are reported net of the unamortized portion of applicable premium or discount. Certificates of Participation issuance costs, including underwriters' discount, are reported as deferred charges. Amortization of COP premiums or discounts and issuance costs 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.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2009

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

Net Assets/Fund Equity

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.

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 \$2,696,021 of restricted net assets, of which \$126,694 is restricted by creditors and \$2,569,327 is restricted by enabling legislation.

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

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The reservations and designations of the City are described as follows:

Reserve for Advance to Other Funds – Advances between funds are considered long-term loans to other funds. The advances are reserved to indicate that they are not available for appropriation and are not expendable available financial resources. The \$800,000 owed by the Sewer Fund to the General Fund represents funds advanced in prior years for the purchase of farm land used to dispose of treated sewer water. The \$140,800 owed by the Redevelopment Agency to the General Fund represents funds advanced in prior years for the formation of the Redevelopment Agency.

Appropriated Budget and Budgetary Control

The City Council is required to adopt an annual budget resolution by July 1 of each fiscal year for the General, Special Revenue, Debt Service and Capital Projects funds. The budgets are presented for reporting purposes on a budgetary basis consistent with accounting principles generally accepted in the United States of America.

The level of appropriated budgetary control is at the functional departmental level. The City Administrator may authorize transfers of appropriations within a departmental function. Expenditures may not legally exceed total departmental appropriations. Supplemental appropriations during the year must be approved by the City Council by a majority vote. Unexpended or unencumbered appropriations lapse at the end of the fiscal year. Encumbered appropriations are reappropriated in the ensuing year's budget.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2009

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

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 following is a summary of the City's cash, cash equivalents, and investments with fiscal agents at June 30, 2009:

Pooled Cash and Investments - Government Funds	\$	2,552,712
Pooled Cash and Investments - Business-Type Funds		2,808,741
Restricted Deposits - Business-Type Funds		-
Restricted Investments - Business-Type Funds		126,694
Total	\$	5,488,147
Cash on Hand	\$	450
Demand Deposits		4,008,822
Investments		1,478,875
Total	\$	5,488,147

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 California banks and savings and loan associations to secure a city's deposits by pledging government securities with a value of 110% of a city's deposits. California law also allows financial institutions to secure city deposits by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits. The City Treasurer may waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC. An authorized Agent of Depository recognized by the State of California Department of Banking holds the collateral for deposits in Federal and State chartered banks for safekeeping. The Federal Home Loan Bank in San Francisco, California generally holds the collateral for deposits with savings and loan associations in safekeeping as a third-party trustee. These securities are physically held in an undivided pool for all California public agency depositors.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2009

Note 2 – Cash and Investments, (continued)

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.

As of June 30, 2009, 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.

Investments:

The City had the following investments at June 30, 2009:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (years)</u>
State Treasurer's Investment Pool (LAIF)	\$ 1,352,181	0.38
Held by Trustees:		
Money Market Funds	<u>126,694</u>	0.00
Total Investments	<u>\$ 1,478,875</u>	
Portfolio Weighted Average Maturity (years)		<u>0.34</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.

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, 2009, the Credit ratings for the money market funds and investment in LAIF was unavailable. The City has no investment policy for credit risk.

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.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2009

Note 2 – Cash and Investments, (continued)

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. At June 30, 2009, \$126,694 was exposed to custodial credit risk because the related securities were uninsured, unregistered and held by the City's brokerage firm which is also the counterparty for these particular securities. The City has no investment policy for custodial credit risk.

Restricted Investments with Fiscal Agents

Business-Type Activities:

Sewer Certificates of Participation – The trustee is required to reserve \$123,500 for the payment of delinquent installment payments which may become due under the Certificates of Participation.

\$ 126,694

Note 3 – Receivables

Receivables at June 30, 2009 consist of the following:

	General Fund	State Gas Tax	CDBG	Development Impact	Redevelopment Agency	Total
Governmental Activities:						
Accounts receivable, net	\$ 200	\$ -	\$ -	\$ 12,671	\$ -	\$ 12,871
Due from Governments	122,359	27,324	26,833	-	589	177,105
Less Allowance for Doubtfull Accounts	-	-	-	-	-	-
Total	<u>\$ 122,559</u>	<u>\$ 27,324</u>	<u>\$ 26,833</u>	<u>\$ 12,671</u>	<u>\$ 589</u>	<u>\$ 189,976</u>

	Sewer	Refuse	Water	Public Transit	Total
Business-Type Activities:					
Accounts receivable, net	\$ 139,118	\$ 203,059	\$ 106,034	\$ -	\$ 448,211
Due from Governments	648	689	-	117,419	118,756
Less Allowance for Doubtfull Accounts	-	-	-	-	-
Total	<u>\$ 139,766</u>	<u>\$ 203,748</u>	<u>\$ 106,034</u>	<u>\$ 117,419</u>	<u>\$ 566,967</u>

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2009

Note 4 – Interfund Receivables, Payables, Advances and Transfers

The composition of interfund balances as of June 30, 2009 is as follows:

Fund	Due From Other Funds	Due To Other Funds
Government Funds:		
General Fund	\$ 105,571	\$ -
Total Governmental Funds	105,571	-
Proprietary Funds:		
Public Transit	-	105,571
Total Proprietary Funds	-	105,571
Total Due From/To	\$ 105,571	\$ 105,571

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

The \$105,571 owed by the Public Transit fund represent funds advanced from the General fund for operations.

Advances between funds are as follows:

Included in the General fund is an advance to the Sewer fund in the amount of \$800,000. This represents funds advanced in prior years for the purchase of farm land used to dispose of sewer treatment plant effluent and is not expected to be paid back within the next 12 months.

Also included in the General fund is an advance to the Redevelopment Agency in the amount of \$140,800. This represents funds expended in prior years for the formation of the Redevelopment Agency and is not expected to be paid back within the next 12 months.

Interfund transfers at June 30, 2009 consisted of the following:

	Transfers In	Transfers Out
Governmental Funds:		
General Fund	\$ 196,047	\$ 25,278
TDA - LTF	-	146,454
Gas Tax Fund	-	169,527
CDBG	1,400	-
Development Impact	9,953	-
Redevelopment Agency	28,836	28,836
Proprietary Funds:		
Public Transit	133,859	-
Total Transfers	\$ 370,095	\$ 370,095

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2009

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

Composition and purpose of interfund transfers is as follows:

General fund transfers in of \$196,047 consist of \$26,520 from TDA-LTF and \$169,527 from Gas Tax fund to reimburse for street maintenance.

CDBG fund transfers in of \$1,400 from the General fund for the City's grant match.

Development Impact fund transfers in of \$9,953 from the General fund for development fees realized in prior years in the wrong fund.

Redevelopment Agency transfers of \$28,836 within the Agency consist of \$26,206 for RDA Low & Moderate Income Housing as required by State law for the 20% set-aside of tax revenues and \$2,630 to the RDA Capital Projects fund to cover community development costs.

Transit fund transfers in of \$133,859 consists of \$119,934 from the TDA-LTF fund to cover the acquisition of two busses and \$13,925 from the General fund for three years fair box revenue shortfall.

Note 5 – Deferred Charges

Deferred charges represent the capitalized costs of issuing debt. Deferred charges at June 30, 2009, net of amortization, are as follows:

Business-Type Activities:

	<u>Sewer</u>
Certificates of Participation	<u>\$ 8,627</u>

The deferred charges are being amortized over the term of the debt on the straight line basis.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2009

Note 6 – Capital Assets

Capital asset activity for the year ended June 30, 2009 is as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>
Capital Assets Not Being Depreciated:				
Land	\$ 493,248	\$ -	\$ -	\$ 493,248
Construction in Progress	-	-	-	-
Total Capital Assets Not Being Depreciated	493,248	-	-	493,248
Capital Assets Being Depreciated:				
Infrastructure	6,134,759	1,514,662	-	7,649,421
Machinery and Equipment	66,779	-	-	66,779
Total Capital Assets Being Depreciated	6,201,538	1,514,662	-	7,716,200
Less Accumulated Depreciation For:				
Infrastructure	330,778	248,792	-	579,570
Machinery and Equipment	55,044	7,444	-	62,488
Total Accumulated Depreciation	385,822	256,236	-	642,058
Total Capital Assets Being Depreciated, net	5,815,716	1,258,426	-	7,074,142
Governmental Activities Capital Assets, net	\$ 6,308,964	\$ 1,258,426	\$ -	\$ 7,567,390

Depreciation charged to governmental functions on the Statement of Activities during the year is as follows: \$7,444 to General Government and \$248,792 to Public Works.

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

<u>Business-Type Activities</u>	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,166,042	\$ -	\$ -	\$ 1,166,042
Construction in Progress	-	-	-	-
Total Capital Assets Not Being Depreciated	1,166,042	-	-	1,166,042
Capital Assets Being Depreciated:				
Building and Improvements	2,647,511	-	-	2,647,511
Infrastructure	559,361	-	-	559,361
Machinery and Other	9,313,616	310,752	-	9,624,368
Vehicles	249,198	-	-	249,198
Vineyards	611,398	-	-	611,398
Total Capital Assets Being Depreciated	13,381,084	310,752	-	13,691,836
Less Accumulated Depreciation For:				
Building and Improvements	881,915	104,497	-	986,412
Infrastructure	55,936	13,984	-	69,920
Machinery and Other	3,924,217	292,218	-	4,216,435
Vehicles	179,700	10,922	-	190,622
Vineyards	152,850	30,570	-	183,420
Total Accumulated Depreciation	5,194,618	452,191	-	5,646,809
Total Capital Assets Being Depreciated, net	8,186,466	(141,439)	-	8,045,027
Business-Type Activities Capital Assets, net	\$ 9,352,508	\$ (141,439)	\$ -	\$ 9,211,069

Depreciation charged to business-type activities on the Statement of Activities during the year is as follows: \$241,660 to Sewer, \$192,043 to Water, \$7,382 to Refuse, and \$11,106 to Public Transit.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2009

Note 7 – Accrued Liabilities

Accrued Liabilities at June 30, 2009 consisted of \$20,207 of accrued interest expense for the Sewer Fund.

Note 8 – Long-Term Liabilities

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009	Due Within One Year
Governmental Activities:					
Capital Lease	\$ 122,361	\$ -	\$ (28,772)	\$ 93,589	\$ 29,952
Compensated Absences	12,102	-	(4,885)	7,217	-
Total Governmental Activities	134,463	-	(33,657)	100,806	29,952
Business-Type Activities:					
Certificates of Participation	925,000	-	(85,000)	840,000	90,000
Capital Lease	220,239	-	(63,357)	156,882	69,887
Compensated Absences	12,135	-	(1,178)	10,957	-
Less Unamortized Discount	(14,842)	-	1,888	(12,954)	-
Total Business-Type Activities	1,142,532	-	(147,647)	994,885	159,887
Total Long-Term Liabilities	\$ 1,276,995	\$ -	\$ (181,304)	\$ 1,095,691	\$ 189,839

Governmental Activities:

Capital Lease:

Lease/Purchase obligation payable to Zions First National Bank dated August 8, 2006, in the amount of \$150,000; principal payments due each August 8 through 2011 and accrued interest at 4.1% payable semi-annually. Secured by a street sweeper.

\$ 93,589

Compensated Absences Payable

7,217

Total Business-Type Activities

\$ 100,806

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2009

Note 8 – Long-Term Liabilities, (continued)

Business-Type Activities:

Certificates of Participation:

The City entered into Certificates of Participation (COP) to finance the purchase of land for sewer expansion. The installment sale agreement was purchased August 1, 2001 for \$1,370,000. The notes have principal payments each July 15 through 2016 and accrue interest at 3.25-5.4%, which is paid semi-annually. The notes are payable solely from fee revenues from customers on the sewer system.

Rate Covenant

The City is also required to collect charges for sewer services which shall produce net revenues sufficient to equal at least 1.25 times the installment payments coming due.

Principal balance	\$ 840,000
Unamortized discounts	<u>(12,954)</u>
	\$ 827,046

Capital Lease:

Lease/Purchase obligation payable to Zions First National Bank dated August 8, 2006, in the amount of \$350,000; principal payments due each August 8 through 2011 and accrued interest at 4.1% payable semi-annually. Secured by a fine bubble diffuser aeration system.

\$ 156,882

Compensated Absences Payable

10,957

Total Business-Type Activities

\$ 994,885

The annual requirements to amortize all indebtedness and other long-term liabilities outstanding at June 30, 2009, are as follows:

Governmental Activities

Year Ending June 30	Capital Lease Zions Bank	
	Principal	Interest
2010	\$ 29,952	\$ 3,224
2011	31,179	1,970
2012	<u>32,458</u>	<u>665</u>
Total	<u>\$ 93,589</u>	<u>\$ 5,859</u>

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2009

Note 8 – Long-Term Liabilities, (continued)

Year Ending June 30	Business-Type Activities			
	Certificates of Participation		Capital Lease Zions Bank	
	Principal	Interest	Principal	Interest
2010	\$ 90,000	\$ 42,398	\$ 69,887	\$ 7,521
2011	95,000	38,258	72,753	4,597
2012	95,000	33,793	14,242	1,553
2013	100,000	29,185	-	-
2014	105,000	24,185	-	-
2015-2016	355,000	38,690	-	-
Total	\$ 840,000	\$ 206,509	\$ 156,882	\$ 13,671

Note 9 – Deferred Revenue

Deferred Revenue at June 30, 2009 is detailed as follows:

	Government Funds	Business-Type Funds
CLEEP - California Law Enforcement Equipment Program	\$ 78,482	\$ -
Deferred Business License Revenue	100	
State of California Grant	-	31,389
Recycling Grant	-	9,145
Total	\$ 78,582	\$ 40,534

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.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2009

Note 10 – Public Entity Risk Pools, (continued)

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. Members share in claims between their SIR up to \$500,000 per loss occurrence. Specific coverage includes general and automobile liability, personal injury, errors and omissions, and certain other coverage. Claims from \$500,000 to \$1,000,000 are covered by a special pre-funded self-insurance pool maintained by the RMA. Claims from \$1,000,000 to \$29,000,000 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.

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. Each member shares in claims between their SIR up to \$350,000. Losses between \$350,000 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 (LAWCX) 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 (CSAC-EIA), another joint powers authority.

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 one year of service. The employee is required to contribute 3% under the same conditions. 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 \$50,673.

Note 12 – Other Disclosures

Pledged Revenues

The City's Certificate of Participation (COP) for the sewer line project is secured by sewer revenues collected through user fees.

Economic Dependency

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

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2009

Note 12 – Other Disclosures, (continued)

Deficit Balances

Deficit Fund Balances – Included in the City's Undesignated, Unreserved Fund Balance for Governmental Funds are the following funds with deficit balances:

- General Fund has a deficit balance of \$854,085 – see Note 14.
- RDA Debt Service Fund has a deficit balance of \$136,865. This is a result of money borrowed from the General Fund to form the RDA. The collection of future tax increment revenues will provide the RDA with the resources necessary to repay this obligation to the General Fund and thereby eliminate the deficit fund balance.

Deficit Net Asset Balances – Included in the City's Unrestricted Net Assets for Business-Type Activities is the Public Transit Funds with a deficit balance of \$4,390. The City is attempting to reduce this deficit by increasing rates and improving operational efficiency.

Note 13 – Subsequent Event

Sheriff Contract

The City is delinquent in paying the Kern County Sheriff in the amount of \$1,647,744 for contracted law enforcement services which were provided for in the June 30, 2009 financial statements. Payments are delinquent due to an inadequate balance in the General Fund. Despite this payment shortfall, the County will continue to provide law enforcement as called for in the agreement through December 31, 2009 at which point the City plans on establishing its own municipal police department. Subsequent to June 30, 2009, the County of Kern filed a claim against the City for approximately \$1,200,000 related to the City's contract for Sheriff's services.

Note 14 – Going Concern

As indicated in the accompanying governmental funds balance sheet, as of June 30, 2009, the City reported a \$854,085 deficit in the Unreserved Fund balance and reported a \$418,443 decrease in fund balance for the year then ended. On a government-wide basis, the governmental activities reported unrestricted net assets of \$88,129 and business-type unrestricted net assets of \$1,573,218 for a combined \$1,661,347 at June 30, 2009. This combined net asset balance constitutes only 20% of the total budgeted expenditures for June 30, 2010.

Those factors, as well as the uncertain conditions that the City faces regarding the delinquent contract with the County of Kern (as discussed in Note 13), create an uncertainty about the City's ability to continue as a going concern. Management of the City has developed a plan to reduce its liabilities through public safety department changes and the reduction of expenditures. The ability of the City to continue as a going concern is dependent on the success of these plans. The financial statements do not include any adjustments that might be necessary if the City is unable to continue as a going concern.

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, 2009

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	\$ 1,694,060	\$ 1,694,060	\$ 1,713,592	\$ 19,532
Licenses & Permits	86,050	86,050	69,368	(16,682)
Fines, Forfeitures & Assessment	49,240	49,240	49,158	(82)
Use of Money or Property	74,280	74,280	71,288	(2,992)
Intergovernmental	189,745	189,745	189,743	(2)
Charges for Services	5,050	5,050	47,221	42,171
Contributions and Donations	75,000	75,000	791,721	716,721
Other Income	5,890	5,890	14,102	8,212
Total Revenues	2,179,315	2,179,315	2,946,193	766,878
Expenditures:				
Current:				
General Government	\$ 482,675	\$ 482,675	\$ 457,438	\$ (25,237)
Public Safety	1,655,050	1,655,050	1,720,637	65,587
Public Works	440,906	440,906	309,563	(131,343)
Community Development	278,815	278,815	268,030	(10,785)
Capital Outlay:				
General Capital Outlay	15,495	15,495	-	(15,495)
Street Improvements	-	-	748,221	748,221
Debt Service:				
Principal Retirement	-	-	28,772	28,772
Interest and Finance Charges	-	-	2,744	2,744
Total Expenditures	2,872,941	2,872,941	3,535,405	662,464
Excess of Revenues Over (Under) Expenditures	(693,626)	(693,626)	(589,212)	104,414
Other Financing Sources (Uses):				
Transfers In	197,952	197,952	196,047	(1,905)
Transfers Out	(15,325)	(15,325)	(25,278)	(9,953)
Total Other Financing Sources (Uses)	182,627	182,627	170,769	(11,858)
Net Change in Fund Balances	(510,999)	(510,999)	(418,443)	92,556
Fund Balances - Beginning	505,158	505,158	505,158	-
Total Liabilities & Fund Balances	\$ (5,841)	\$ (5,841)	\$ 86,715	\$ 92,556

City of McFarland
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL
TDA - LTF
Year ended June 30, 2009

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Intergovernmental	\$ 735,823	\$ 735,823	\$ 735,823	\$ -
Total Revenues	735,823	735,823	735,823	-
Expenditures:				
Current:				
Public Works	\$ 27,237	\$ 27,237	\$ 27,237	\$ -
Capital Outlay:				
General Capital Outlay	-	-	-	-
Street Improvements	682,066	682,066	682,066	-
Total Expenditures	709,303	709,303	709,303	-
Excess of Revenues Over (Under) Expenditures	26,520	26,520	26,520	-
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	(146,454)	(146,454)	(146,454)	-
Total Other Financing Sources (Uses)	(146,454)	(146,454)	(146,454)	-
Net Change in Fund Balances	(119,934)	(119,934)	(119,934)	-
Fund Balances - Beginning	119,934	119,934	119,934	-
Total Liabilities & Fund Balances	\$ -	\$ -	\$ -	\$ -

City of McFarland
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL
GAS TAX FUND
Year ended June 30, 2009

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Intergovernmental	\$ 317,172	\$ 317,172	\$ 317,174	\$ 2
Total Revenues	317,172	317,172	317,174	2
Expenditures:				
Current:				
Public Works	\$ -	\$ -	\$ 5,674	\$ 5,674
Capital Outlay:				
General Capital Outlay	-	-	-	-
Street Improvements	90,048	90,048	84,375	(5,673)
Total Expenditures	90,048	90,048	90,049	1
Excess of Revenues Over (Under) Expenditures	227,124	227,124	227,125	1
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	(169,527)	(169,527)	(169,527)	-
Total Other Financing Sources (Uses)	(169,527)	(169,527)	(169,527)	-
Net Change in Fund Balances	57,597	57,597	57,598	1
Fund Balances - Beginning	56,038	56,038	56,038	-
Total Liabilities & Fund Balances	\$ 113,635	\$ 113,635	\$ 113,636	\$ 1

City of McFarland
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL
CDBG FUND
Year ended June 30, 2009

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Intergovernmental	\$ 61,833	\$ 61,833	\$ 61,833	\$ -
Total Revenues	61,833	61,833	61,833	-
Expenditures:				
Current:				
Community Development	\$ 57,174	\$ 57,174	\$ 57,173	\$ (1)
Capital Outlay:				
General Capital Outlay	-	-	-	-
Total Expenditures	57,174	57,174	57,173	(1)
Excess of Revenues Over (Under) Expenditures	4,659	4,659	4,660	1
Other Financing Sources (Uses):				
Transfers In	1,400	1,400	1,400	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	1,400	1,400	1,400	-
Net Change in Fund Balances	6,059	6,059	6,060	1
Fund Balances - Beginning	-	-	-	-
Total Liabilities & Fund Balances	\$ 6,059	\$ 6,059	\$ 6,060	\$ 1

City of McFarland
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL
DEVELOPMENT IMPACT FUND
Year ended June 30, 2009

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Licenses & Permits	\$ 176,250	\$ 176,250	\$ 450,094	\$ 273,844
Use of Money or Property	11,510	11,510	11,513	3
Total Revenues	187,760	187,760	461,607	273,847
Expenditures:				
Current:				
Public Works	\$ 182,040	\$ 182,040	\$ 134,078	\$ (47,962)
Capital Outlay:				
General Capital Outlay	-	-	-	-
Total Expenditures	182,040	182,040	134,078	(47,962)
Excess of Revenues Over (Under) Expenditures	5,720	5,720	327,529	321,809
Other Financing Sources (Uses):				
Transfers In	-	-	9,953	9,953
Transfers Out	(1,905)	(1,905)	-	1,905
Total Other Financing Sources (Uses)	(1,905)	(1,905)	9,953	11,858
Net Change in Fund Balances	3,815	3,815	337,482	333,667
Fund Balances - Beginning	1,350,334	1,350,334	1,350,334	-
Total Liabilities & Fund Balances	\$ 1,354,149	\$ 1,354,149	\$ 1,687,816	\$ 333,667

City of McFarland
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL
REDEVELOPMENT AGENCY
Year ended June 30, 2009

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	\$ 110,165	\$ 110,165	\$ 131,030	\$ 20,865
Total Revenues	<u>110,165</u>	<u>110,165</u>	<u>131,030</u>	<u>20,865</u>
Expenditures:				
Current:				
Community Development	\$ 19,784	\$ 19,784	\$ 4,666	\$ (15,118)
Debt Service:				
Tax Increment Pass-Through Payments	-	-	25,799	25,799
Interest and Finance Charges	-	-	14,784	14,784
Total Expenditures	<u>19,784</u>	<u>19,784</u>	<u>45,249</u>	<u>25,465</u>
Excess of Revenues Over (Under) Expenditures	<u>90,381</u>	<u>90,381</u>	<u>85,781</u>	<u>(4,600)</u>
Other Financing Sources (Uses):				
Transfers In	47,324	47,324	28,836	(18,488)
Transfers Out	(47,324)	(47,324)	(28,836)	18,488
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>90,381</u>	<u>90,381</u>	<u>85,781</u>	<u>(4,600)</u>
Fund Balances - Beginning	(196,846)	(196,846)	(196,846)	-
Total Liabilities & Fund Balances	<u>\$ (106,465)</u>	<u>\$ (106,465)</u>	<u>\$ (111,065)</u>	<u>\$ (4,600)</u>

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STATISTICAL SECTION

City of McFarland

POPULATION ESTIMATES

<u>January 1st</u>	<u>Total Population</u>	<u>Population Minus Exclusions*</u>
1970	4,177	
1980	5,151	
1990	6,975	
2000	9,438	8,603
2001	9,922	8,433
2002	9,801	8,740
2003	10,538	9,449
2004	11,147	10,212
2005	12,179	11,176
2006	12,538	11,258
2007	12,686	11,709
2008	13,390	12,052
2009	13,559	12,171

* Exclusions included residents on federal military installation and group quarters' residents in state mental institutions, and state and federal correctional institutions.

Sources:

U.S. Census Bureau 1970, 1980, and 1990. California Department of Finance for 2000 and thereafter.

City of McFarland
ASSESSED VALUES LAST 10 FISCAL YEARS

<u>Fiscal Year*</u>	<u>Net Secured</u>	<u>Homeowner Exemptions**</u>	<u>Gross Secured</u>	<u>Net Unsecured</u>	<u>Total Assessed Value</u>
1998 - 99	123,361,878	6,466,115	129,827,993	1,958,298	131,786,291
1999 - 00	134,214,838	6,390,082	140,604,920	2,465,909	143,070,829
2000 - 01	140,351,640	6,285,996	146,637,636	2,188,937	148,826,573
2001 - 02	145,335,909	6,146,777	151,482,686	2,185,896	153,668,582
2002 - 03	148,539,700	6,217,355	154,757,055	2,491,592	157,248,647
2003 - 04	161,051,214	6,462,938	167,514,152	2,114,776	169,628,928
2004 - 05	175,165,460	6,610,491	181,775,951	2,319,483	184,095,434
2005 - 06	193,680,104	6,730,095	200,410,199	2,344,211	202,754,410
2006 - 07	210,220,883	6,744,578	216,965,461	2,704,390	219,669,851
2007 - 08	240,190,139	6,667,483	246,857,622	3,434,704	250,292,326
2008 - 09	267,540,942	6,850,106	274,391,048	3,240,978	277,632,026

* Commencing in 2008-09 the above assessed values include amounts dedicated for RDA Increments as follows:

2008 - 09	13,840,471	(69,472)	13,770,999	-	13,770,999
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** State of California Reimburses Agencies for the Taxes on Exemptions Granted

Source: Kern County Auditor-Controller-County Clerk

City of McFarland
PROPERTY TAX
ESTIMATED GENERAL LEVY (1%)
2000/01 – 2008/09

Fiscal Year	Base* Allocation	In Lieu of Sales Tax	In Lieu of VLF	Shift to Schools	Total After Shift
2000 - 01	176,173				176,173
2001 - 02	181,179				181,179
2002 - 03	185,135				185,135
2003 - 04	198,660				198,660
2004 - 05	211,827				211,827
2005 - 06	229,166	59,099	731,664	(45,742)	974,187
2006 - 07	245,568	60,165	751,938		1,057,671
2007 - 08	278,512	75,779	855,763		1,210,054
2008 - 09	289,760	73,938	902,660		1,266,358

* Includes Secured, Unsecured and Homeowners.

Source: Kern County Auditor-Controller-County Clerk

**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, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 12, 2009. 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

In planning and performing our audit, we considered the City'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses (items 1 through 4d) to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

AGRI-BUSINESS CENTER

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TRUXTUN PLAZA

3434 Truxtun Ave., Suite 180 • Bakersfield, CA 93301
Phone 661/399-2236

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses, as defined above.

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.

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

Albert & Associates, LLP

Wasco, California
October 12, 2009

City of McFarland
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2009

1. Preparation of Financial Statements

Condition: The City is not able to produce its own financial statements.

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

Cause: The City's size and budget precludes the hiring of staff qualified to prepare financial statements.

Criteria: Staff levels should be maintained to enable preparation of financial statements.

Recommendation: We recommend the City consider cost effective ways to prepare their financial statements.

2. Segregation of Duties

Condition: The City does not have adequate segregation of duties.

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

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

Criteria: Systems should be designed so employees do not oversee their own work.

Recommendation: We recommend the City design and implement policies and procedures to help mitigate the lack of segregation of duties. Utilize others within the City to be part of the process since hiring new employees is not cost effective.

3. Documentation and Monitoring of Internal Controls

Condition: The City does not have adequate documentation or monitoring of internal controls.

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

Cause: The City has not allocated sufficient resources to properly document and monitor internal controls.

Criteria: Controls should be documented and monitored to ensure systems are operating and intended.

Recommendation: We recommend the City document their internal controls and implement monitoring procedures. The City should allocate sufficient resources to document and monitor internal controls.

City of McFarland
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4. Design of Internal Control

Condition: The City does not have adequate design of internal control over the following significant processes:

- a. The City did not consistently cancel original invoices upon payment to prohibit their reuse as support for duplicate payment. Furthermore, account distribution and approval documentation on the invoice was often missing.
- b. The City did not adjust the Water Department parts inventory account to actual balance on hand.
- c. The City holds grant funds received under a recycling grant and other grants that require the City to comply with certain provisions prior to being considered as earned by the City. Until the compliance requirements are satisfied, the funds must remain Deferred Revenue on the books. The City made inadequate efforts during the year to track these balances and to record the proper earned portion.
- d. City Council members were treated as independent contractors rather than as employees. Council members were however covered under the employee group health insurance plan without clear policy or authority for their inclusion.

Effect: Certain account balances are misstated at year end.

Cause: The City's size and budget does not justify the cost to hire an employee trained in government accounting and reporting.

Criteria: Controls should be designed to ensure proper accounting.

Recommendation: We recommend the City consider cost effective ways to train employees in accounting and reporting.