

**CITY OF McFARLAND, CALIFORNIA**

**FINANCIAL STATEMENTS**

**Fiscal Year Ended June 30, 2010**

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, 2010

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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, 2010, 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, 2010, 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 20, 2010, 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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Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 34 through 40 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's financial statements as a whole. 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 do not express an opinion or provide any assurance on it.

*Albert & Associates, LLP*

Wasco, California  
October 20, 2010

**City of McFarland**  
**STATEMENT OF NET ASSETS**  
June 30, 2010

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Current Assets:			
Cash and Investments	\$ 2,914,710	\$ 3,790,850	\$ 6,705,560
Restricted Cash:			
With Fiscal Agents	-	129,904	129,904
Receivables, net	161,564	455,591	617,155
Internal Balances	542,647	(542,647)	-
Supplies	-	10,115	10,115
	<u>3,618,921</u>	<u>3,843,813</u>	<u>7,462,734</u>
Total Current Assets			
Noncurrent Assets:			
Capital Assets:			
Land	493,248	1,166,042	1,659,290
Construction in Progress	390,129	-	390,129
Depreciable Buildings, Property, Equipment and Infrastructure, net of accumulated depreciation	7,501,257	7,608,494	15,109,751
Advances to Other Funds	100,000	-	100,000
Deferred Charges	-	7,440	7,440
	<u>8,484,634</u>	<u>8,781,976</u>	<u>17,266,610</u>
Total Noncurrent Assets			
Total Assets	<u>12,103,555</u>	<u>12,625,789</u>	<u>24,729,344</u>
<b>Liabilities:</b>			
Current Liabilities:			
Accounts Payable	209,429	167,811	377,240
Accrued Liabilities	17,070	17,668	34,738
Deposits Received	4,938	7,794	12,732
Unearned Revenue	-	26,851	26,851
Bonds and Notes Payable Due Within One Year	119,113	147,266	266,379
	<u>350,550</u>	<u>367,390</u>	<u>717,940</u>
Total Current Liabilities			
Noncurrent Liabilities:			
Bonds and Notes Payable Due in More Than One Year	1,917,458	698,344	2,615,802
Compensated Absences	23,586	15,774	39,360
Advance from Other Funds	100,000	-	100,000
	<u>2,041,044</u>	<u>714,118</u>	<u>2,755,162</u>
Total Noncurrent Liabilities			
Total Liabilities	<u>2,391,594</u>	<u>1,081,508</u>	<u>3,473,102</u>
<b>Net Assets:</b>			
Invested in Capital Assets, net of related debt	8,320,997	7,428,926	15,749,923
Restricted For:			
Streets and Roads	-	-	-
Community Development	42,125	-	42,125
Capital Projects	2,396,003	1,031,708	3,427,711
Debt Service	-	129,904	129,904
Unrestricted	(1,047,164)	2,953,743	1,906,579
	<u>\$ 9,711,961</u>	<u>\$ 11,544,281</u>	<u>\$ 21,256,242</u>
Net Assets			

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

**City of McFarland**  
**STATEMENT OF ACTIVITIES**  
Year ended June 30, 2010

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
<b>Governmental Activities:</b>							
General Government	\$ 532,836	\$ 286,101	\$ -	\$ -	\$ (246,735)	\$ -	\$ (246,735)
Public Safety	1,898,506	44,221	181,682	-	(1,672,603)	-	(1,672,603)
Public Works	726,755	487,433	-	205,242	(34,080)	-	(34,080)
Community Development	217,045	352,416	-	222,061	357,432	-	357,432
<b>Total Governmental Activities</b>	<b>3,375,142</b>	<b>1,170,171</b>	<b>181,682</b>	<b>427,303</b>	<b>(1,595,986)</b>	<b>-</b>	<b>(1,595,986)</b>
<b>Business-Type Activities:</b>							
Sewer	1,042,926	1,945,417	-	-	-	902,491	902,491
Refuse	903,541	1,061,104	-	-	-	157,563	157,563
Water	831,141	954,342	-	-	-	123,201	123,201
Public Transportation	98,026	7,756	29,981	-	-	(60,289)	(60,289)
<b>Total Business-Type Activities</b>	<b>2,875,634</b>	<b>3,968,619</b>	<b>29,981</b>	<b>-</b>	<b>-</b>	<b>1,122,966</b>	<b>1,122,966</b>
<b>Total</b>	<b>\$ 6,250,776</b>	<b>\$ 5,138,790</b>	<b>\$ 211,663</b>	<b>\$ 427,303</b>	<b>(1,595,986)</b>	<b>1,122,966</b>	<b>(473,020)</b>
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property Tax					359,943	-	359,943
Sales Tax					208,363	-	208,363
Franchise Tax					148,869	-	148,869
State Allocation of Gas Tax					330,859	-	330,859
Transient Occupancy Tax					842	-	842
Intergovernmental, Unrestricted:							
Motor Vehicle In-lieu Tax					937,027	-	937,027
<b>Total Taxes</b>					<b>1,985,903</b>	<b>-</b>	<b>1,985,903</b>
Unrestricted investment earnings					72,298	-	72,298
Transfers					-	-	-
<b>Total General Revenues and Transfers</b>					<b>2,058,201</b>	<b>-</b>	<b>2,058,201</b>
<b>Change in Net Assets</b>					<b>462,215</b>	<b>1,122,966</b>	<b>1,585,181</b>
<b>Net Assets - Beginning</b>					<b>9,249,746</b>	<b>10,421,315</b>	<b>19,671,061</b>
<b>Net Assets - Ending</b>					<b>\$ 9,711,961</b>	<b>\$ 11,544,281</b>	<b>\$ 21,256,242</b>

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

**City of McFarland**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**June 30, 2010**

	General	TDA - LTF	Gas Tax	CDBG	Development Impact	RDA Debt Service	RDA Low & Moderate Income Housing	Total Governmental Funds
<b>Assets:</b>								
Cash and Investments	\$ 246,787	\$ -	\$ 184,915	\$ -	\$ 2,429,918	\$ 10,965	\$ 42,125	\$ 2,914,710
Receivables, net	98,780	223	-	60,944	-	1,617	-	161,564
Due from Other Funds	784,507	-	-	-	-	-	-	784,507
Advance to Other Funds	100,000	-	-	-	-	-	-	100,000
<b>Total Assets</b>	<b>\$ 1,230,074</b>	<b>\$ 223</b>	<b>\$ 184,915</b>	<b>\$ 60,944</b>	<b>\$ 2,429,918</b>	<b>\$ 12,582</b>	<b>\$ 42,125</b>	<b>\$ 3,960,781</b>
<b>Liabilities:</b>								
Accounts Payable	\$ 108,999	\$ 62,586	\$ -	\$ 3,929	\$ 33,915	\$ -	\$ -	\$ 209,429
Accrued Liabilities	16,008	-	-	1,062	-	-	-	17,070
Deposits Received	-	4,938	-	-	-	-	-	4,938
Due to Other Funds	-	146,277	-	95,583	-	-	-	241,860
Deferred Revenue	-	-	-	-	-	-	-	-
Advances from Other Funds	-	-	-	-	-	100,000	-	100,000
<b>Total Liabilities</b>	<b>125,007</b>	<b>213,801</b>	<b>-</b>	<b>100,574</b>	<b>33,915</b>	<b>100,000</b>	<b>-</b>	<b>573,297</b>
<b>Fund Balances:</b>								
<b>Reserved For:</b>								
Advance to Other Funds	100,000	-	-	-	-	-	-	100,000
<b>Unreserved:</b>								
<b>Undesignated, Reported in:</b>								
General Fund	1,005,067	-	-	-	-	-	-	1,005,067
Special Revenue Fund	-	(213,578)	184,915	(39,630)	2,396,003	(87,418)	42,125	2,282,417
<b>Total Fund Balances</b>	<b>1,105,067</b>	<b>(213,578)</b>	<b>184,915</b>	<b>(39,630)</b>	<b>2,396,003</b>	<b>(87,418)</b>	<b>42,125</b>	<b>3,387,484</b>
<b>Total Liabilities &amp; Fund Balances</b>	<b>\$ 1,230,074</b>	<b>\$ 223</b>	<b>\$ 184,915</b>	<b>\$ 60,944</b>	<b>\$ 2,429,918</b>	<b>\$ 12,582</b>	<b>\$ 42,125</b>	<b>\$ 3,960,781</b>

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, 2010

Fund balances of governmental funds \$ 3,387,484

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	\$ 7,567,390	
Current Year Additions	1,097,431	
Current Year Depreciation	<u>(280,187)</u>	
Ending Balance, net of depreciation		8,384,634

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.

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	(23,586)	
Long-Term Debt	<u>(2,036,571)</u>	
Total Long-Term Liabilities		<u>(2,060,157)</u>

Net assets of governmental activities \$ 9,711,961

**City of McFarland**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES (DEFICITS) – GOVERNMENTAL FUNDS**  
**Year ended June 30, 2010**

	General	TDA - LTF	Gas Tax	CDBG	Development Impact	RDA Debt Service	RDA Low & Moderate Income Housing	Total Governmental Funds
<b>Revenues:</b>								
Taxes	\$ 1,573,163	\$ -	\$ -	\$ -	\$ -	\$ 79,587	\$ -	\$ 1,652,750
Licenses & Permits	214,805	-	-	-	868,705	-	-	1,083,510
Fines, Forfeitures & Assessments	52,319	-	-	-	-	-	-	52,319
Use of Money or Property	60,422	-	-	-	-	-	-	60,422
Intergovernmental	181,682	124,152	330,859	222,061	11,876	-	-	72,298
Charges for Services	23,309	-	-	-	-	-	-	858,754
Contributions and Donations	81,090	-	-	-	-	-	-	23,309
Other Income	5,010	-	-	-	-	8,317	-	81,090
<b>Total Revenues</b>	<b>2,191,800</b>	<b>124,152</b>	<b>330,859</b>	<b>222,061</b>	<b>880,581</b>	<b>87,904</b>	<b>-</b>	<b>3,837,357</b>
<b>Expenditures:</b>								
<b>Current:</b>								
General Government	518,619	-	-	-	-	-	-	518,619
Public Safety	1,846,559	-	-	-	-	-	-	1,846,559
Public Works	362,504	-	100,779	-	1,009	-	-	464,292
Community Development	194,913	-	-	-	-	-	-	194,913
Capital Outlay	304,987	337,730	7,187	267,751	171,385	-	-	1,089,040
<b>Debt Service:</b>								
Principal Retirement	116,321	-	-	-	-	-	-	116,321
Tax Increment Pass-Through Payments	-	-	-	-	-	15,917	-	15,917
Interest and Finance Charges	40,462	-	-	-	-	5,111	-	45,573
County Administrative Fee	-	-	-	-	-	1,104	-	1,104
<b>Total Expenditures</b>	<b>3,384,365</b>	<b>337,730</b>	<b>107,966</b>	<b>267,751</b>	<b>172,394</b>	<b>22,132</b>	<b>-</b>	<b>4,292,338</b>
Excess of Revenues Over (Under) Expenditures	(1,192,565)	(213,578)	222,893	(45,690)	708,187	65,772	-	(454,981)
<b>Other Financing Sources (Uses):</b>								
Transfers In	151,614	-	-	-	-	-	15,919	167,533
Transfers Out	-	-	(151,614)	-	-	(15,919)	-	(167,533)
Loan Proceeds	2,059,303	-	-	-	-	-	-	2,059,303
<b>Total Other Financing Sources (Uses)</b>	<b>2,210,917</b>	<b>-</b>	<b>(151,614)</b>	<b>-</b>	<b>-</b>	<b>(15,919)</b>	<b>15,919</b>	<b>2,059,303</b>
Net Change in Fund Balances	1,018,352	(213,578)	71,279	(45,690)	708,187	49,853	15,919	1,604,322
Fund Balances - Beginning	86,715	-	113,636	6,060	1,687,816	(137,271)	26,206	1,783,162
<b>Fund Balances - Ending</b>	<b>\$ 1,105,067</b>	<b>\$ (213,578)</b>	<b>\$ 184,915</b>	<b>\$ (39,630)</b>	<b>\$ 2,396,003</b>	<b>\$ (87,418)</b>	<b>\$ 42,125</b>	<b>\$ 3,387,484</b>

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, 2010**

Net change in fund balance - total governmental funds \$ 1,604,322

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 (\$1,097,431) exceeded depreciation (\$280,187) in the current period. 817,244

The issuance of long-term debt provides current financial resources to governmental funds, but the issuance has no affect on net assets. (2,059,303)

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. 116,321

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. -

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. (16,369)

Change in net assets of governmental activities \$ 462,215

**City of McFarland**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2010**

Assets:	Sewer	Refuse	Water	Public Transit	Total Proprietary
<b>Current Assets:</b>					
Cash and Investments	\$ 1,131,279	\$ 132,151	\$ 2,527,420	\$ -	\$ 3,790,850
Investments With Fiscal Agents - Restricted	129,904	-	-	-	129,904
Receivables	167,091	182,828	105,672	-	455,591
Supplies	-	-	10,115	-	10,115
<b>Total Current Assets</b>	<b>1,428,274</b>	<b>314,979</b>	<b>2,643,207</b>	<b>-</b>	<b>4,386,460</b>
<b>Noncurrent Assets:</b>					
Deferred Charges	7,440	-	-	-	7,440
Capital Assets (net of accumulated depreciation)	5,385,828	28,058	3,208,469	152,181	8,774,536
<b>Total Noncurrent Assets</b>	<b>5,393,268</b>	<b>28,058</b>	<b>3,208,469</b>	<b>152,181</b>	<b>8,781,976</b>
<b>Total Assets</b>	<b>\$ 6,821,542</b>	<b>\$ 343,037</b>	<b>\$ 5,851,676</b>	<b>\$ 152,181</b>	<b>\$ 13,168,436</b>
<b>Liabilities:</b>					
<b>Current Liabilities:</b>					
Accounts Payable	\$ 124,271	\$ 2,243	\$ 39,008	\$ 2,289	\$ 167,811
Accrued Interest Payable	17,668	-	-	-	17,668
Customer Deposits	-	-	7,794	-	7,794
Due to Other Funds	500,000	-	-	42,647	542,647
Deferred Revenue	-	-	26,851	-	26,851
Current Portion of Long-Term Debt	147,266	-	-	-	147,266
<b>Total Current Liabilities</b>	<b>789,205</b>	<b>2,243</b>	<b>73,653</b>	<b>44,936</b>	<b>910,037</b>
<b>Noncurrent Liabilities:</b>					
Compensated Absences Payable	4,913	3,457	5,517	1,887	15,774
COP Payable	643,935	-	-	-	643,935
Notes Payable	54,409	-	-	-	54,409
<b>Total Noncurrent Liabilities</b>	<b>703,257</b>	<b>3,457</b>	<b>5,517</b>	<b>1,887</b>	<b>714,118</b>
<b>Total Liabilities</b>	<b>1,492,462</b>	<b>5,700</b>	<b>79,170</b>	<b>46,823</b>	<b>1,624,155</b>
<b>Net Assets:</b>					
Invested in Capital Assets, net of related debt	4,040,218	28,058	3,208,469	152,181	7,428,926
Restricted For:					
Capital Projects (expendable)	150,606	-	881,102	-	1,031,708
Debt Service (expendable)	129,904	-	-	-	129,904
Unrestricted	1,008,352	309,279	1,682,935	(46,823)	2,953,743
<b>Net Assets</b>	<b>\$ 5,329,080</b>	<b>\$ 337,337</b>	<b>\$ 5,772,506</b>	<b>\$ 105,358</b>	<b>\$ 11,544,281</b>

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, 2010**

	Sewer	Refuse	Water	Public Transit	Total Proprietary
<b>Operating Revenues:</b>					
Charges for Services	\$ 1,600,408	\$ 1,046,138	\$ 932,676	\$ 7,756	\$ 3,586,978
Total Operating Revenues	1,600,408	1,046,138	932,676	7,756	3,586,978
<b>Operating Expenses:</b>					
Wages and Benefits	169,717	97,234	207,210	59,460	533,621
Administration	107,419	770,464	111,467	5,324	994,674
Materials and Supplies	39,222	19,320	67,329	13,307	139,178
Maintenance and Repair	208,479	598	13,246	2,079	224,402
Utilities	231,369	8,501	256,825	-	496,695
Depreciation	240,510	7,424	175,064	17,856	440,854
Total Operating Expenses	996,716	903,541	831,141	98,026	2,829,424
Operating Income (Loss)	603,692	142,597	101,535	(90,270)	757,554
<b>Nonoperating Revenues (Expenses):</b>					
Interest Income	6,404	5,821	8,906	-	21,131
Rent Income	45,125	-	-	-	45,125
Connection Fees	293,480	-	8,222	-	301,702
Intergovernmental	-	9,145	4,538	29,981	43,664
Interest Expense	(46,210)	-	-	-	(46,210)
Total Nonoperating Revenues (Expenses)	298,799	14,966	21,666	29,981	365,412
Income (Loss) Before Contributions and Transfers	902,491	157,563	123,201	(60,289)	1,122,966
Capital Contributions	-	-	-	-	-
Transfers In	-	-	-	-	-
Change in Net Assets	902,491	157,563	123,201	(60,289)	1,122,966
Net Assets - Beginning	4,426,589	179,774	5,649,305	165,647	10,421,315
Net Assets - Ending	\$ 5,329,080	\$ 337,337	\$ 5,772,506	\$ 105,358	\$ 11,544,281

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

**City of McFarland**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
Year ended June 30, 2010

	Sewer	Refuse	Water	Public Transportation	Total Proprietary
<b>Cash flows from operating activities:</b>					
Cash received from:					
Customers, including cash deposits	\$ 1,573,083	\$ 1,057,913	\$ 853,812	\$ 7,756	\$ 3,492,564
Cash paid to:					
Suppliers	(548,510)	(872,687)	(499,835)	(33,325)	(1,954,357)
Employees	(166,907)	(95,995)	(206,995)	(58,907)	(528,804)
Net cash provided (used) by operating activities	<u>857,666</u>	<u>89,231</u>	<u>146,982</u>	<u>(84,476)</u>	<u>1,009,403</u>
<b>Net cash provided from noncapital financing activities:</b>					
Cash transferred from other funds	-	-	-	42,647	42,647
Cash transferred to other funds	-	-	-	(105,571)	(105,571)
Connection fees	293,480	-	8,222	-	301,702
Intergovernmental revenue	-	9,145	4,538	147,400	161,083
Net cash provided (used) by noncapital financing activities	<u>293,480</u>	<u>9,145</u>	<u>12,760</u>	<u>84,476</u>	<u>399,861</u>
<b>Cash flows from capital and related financing activities:</b>					
Principal payments:					
COP	(90,000)	-	-	-	(90,000)
Notes	(50,207)	-	-	-	(50,207)
Advances from other funds	(300,000)	-	-	-	(300,000)
Interest paid	(45,673)	-	-	-	(45,673)
Purchase of capital assets	(1,907)	(507)	(1,907)	-	(4,321)
Net cash provided (used) by capital and related financing activities	<u>(487,787)</u>	<u>(507)</u>	<u>(1,907)</u>	<u>-</u>	<u>(490,201)</u>
<b>Cash flows from investing activities:</b>					
Interest received	6,404	5,821	8,906	-	21,131
Rents Received	45,125	-	-	-	45,125
Net cash provided by investing activities	<u>51,529</u>	<u>5,821</u>	<u>8,906</u>	<u>-</u>	<u>66,256</u>
Net increase (decrease) in cash	714,888	103,690	166,741	-	985,319
Cash and cash equivalents - Beginning of year	546,295	28,461	2,360,679	-	2,935,435
Cash and cash equivalents - End of year	<u>\$ 1,261,183</u>	<u>\$ 132,151</u>	<u>\$ 2,527,420</u>	<u>\$ -</u>	<u>\$ 3,920,754</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>					
Operating income (loss)	\$ 603,692	\$ 142,597	\$ 101,535	\$ (90,270)	\$ 757,554
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	240,510	7,424	175,064	17,856	440,854
(Increase) decrease in accounts receivable	(27,325)	20,920	362	-	(6,043)
(Increase) decrease in supplies on hand	-	-	-	-	-
Increase (decrease) in accounts payable	37,979	(73,804)	(50,968)	(12,615)	(99,408)
Increase (decrease) in customer deposits	-	-	(74,688)	-	(74,688)
Increase (decrease) in compensated absences	2,810	1,239	215	553	4,817
Increase (decrease) in deferred revenue	-	(9,145)	(4,538)	-	(13,683)
Net cash provided (used) by operating activities	<u>\$ 857,666</u>	<u>\$ 89,231</u>	<u>\$ 146,982</u>	<u>\$ (84,476)</u>	<u>\$ 1,009,403</u>

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

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2010

**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, 2010

**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, 2010

**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. 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 including the HOME program.

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, 2010

**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, 2010

**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, 2010

**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, 2010

**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, 2010

**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 \$3,599,740 of restricted net assets, of which \$172,029 is restricted externally by grantors, creditors, or laws or regulations of other governments and \$3,427,711 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 \$100,000 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, 2010

**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, 2010:

Pooled Cash and Investments - Government Funds	\$	2,914,710
Pooled Cash and Investments - Business-Type Funds		3,790,850
Restricted Deposits - Business-Type Funds		-
Restricted Investments - Business-Type Funds		129,904
Total	\$	6,835,464
Cash on Hand	\$	2,600
Demand Deposits		5,338,682
Investments		1,494,182
Total	\$	6,835,464

**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, 2010

**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, 2010, 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, 2010:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (years)</u>
State Treasurer's Investment Pool (LAIF)	\$ 1,364,278	0.38
Held by Trustees:		
Money Market Funds	<u>129,904</u>	0.00
Total Investments	<u>\$ 1,494,182</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, 2010, 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, 2010

**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, 2010, \$129,904 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.

\$ 129,904

**Note 3 – Receivables**

Receivables at June 30, 2010 consist of the following:

	General Fund	State Gas Tax	CDBG	Development Impact	RDA Debt Service	Total
<b>Governmental Activities:</b>						
Accounts receivable, net	\$ 6,961	\$ -	\$ -	\$ -	\$ -	\$ 6,961
Due from Governments	91,819	223	60,944	-	1,617	154,603
Less Allowance for Doubtfull Accounts	-	-	-	-	-	-
<b>Total</b>	<u>\$ 98,780</u>	<u>\$ 223</u>	<u>\$ 60,944</u>	<u>\$ -</u>	<u>\$ 1,617</u>	<u>\$ 161,564</u>

	Sewer	Refuse	Water	Public Transit	Total
<b>Business-Type Activities:</b>					
Accounts receivable, net	\$ 164,160	\$ 173,199	\$ 105,672	\$ -	\$ 443,031
Due from Governments	2,931	9,629	-	-	12,560
Less Allowance for Doubtfull Accounts	-	-	-	-	-
<b>Total</b>	<u>\$ 167,091</u>	<u>\$ 182,828</u>	<u>\$ 105,672</u>	<u>\$ -</u>	<u>\$ 455,591</u>

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2010

**Note 4 – Interfund Receivables, Payables, Advances and Transfers**

The composition of interfund balances as of June 30, 2010 is as follows:

Fund	Due From Other Funds	Due To Other Funds
<b>Government Funds:</b>		
General Fund	\$ 784,507	\$ -
TDA-LTF	-	146,277
CDBG	-	95,583
Total Governmental Funds	784,507	241,860
<b>Proprietary Funds:</b>		
Sewer	-	500,000
Public Transit	-	42,647
Total Proprietary Funds	-	542,647
Total Due From/To	\$ 784,507	\$ 784,507

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

The \$500,000 owed by the Sewer Fund to the General Fund represents money advanced in prior years for the purchase of farm land used to dispose of treated sewer water. The remaining balances represent money advanced for cash shortages or expenditures to be reimbursed.

Advances between funds are as follows:

Included in the General fund is an advance to the Redevelopment Agency in the amount of \$100,000. 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, 2010 consisted of the following:

	Transfers In	Transfers Out
<b>Governmental Funds:</b>		
General Fund	\$ 151,614	\$ -
Gas Tax Fund	-	151,614
RDA Debt Service	-	15,919
RDA Low & Moderate Income Housing	15,919	-
<b>Proprietary Funds:</b>		
None	-	-
Total Transfers	\$ 167,533	\$ 167,533

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2010

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

Composition and purpose of interfund transfers is as follows:

General fund transfers in of \$151,614 consist of \$151,614 from Gas Tax fund to reimburse for street maintenance.

Redevelopment Agency transfers of \$15,919 within the Agency consist of \$15,919 for RDA Low & Moderate Income Housing as required by State law for the 20% set-aside of tax revenues.

**Note 5 – Deferred Charges**

Deferred charges represent the capitalized costs of issuing debt. Deferred charges at June 30, 2010, net of amortization, are as follows:

**Business-Type Activities:**

Sewer

Certificates of Participation \$ 7,440

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

**Note 6 – Capital Assets**

Capital asset activity for the year ended June 30, 2010 is as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 493,248	\$ -	\$ -	\$ 493,248
Construction in Progress	-	390,129	-	390,129
<b>Total Capital Assets Not Being Depreciated</b>	<b>493,248</b>	<b>390,129</b>	<b>-</b>	<b>883,377</b>
<b>Capital Assets Being Depreciated:</b>				
Infrastructure	7,649,421	443,196	-	8,092,617
Machinery and Equipment	66,779	264,106	-	330,885
<b>Total Capital Assets Being Depreciated</b>	<b>7,716,200</b>	<b>707,302</b>	<b>-</b>	<b>8,423,502</b>
<b>Less Accumulated Depreciation For:</b>				
Infrastructure	579,570	262,463	-	842,033
Machinery and Equipment	62,488	17,724	-	80,212
<b>Total Accumulated Depreciation</b>	<b>642,058</b>	<b>280,187</b>	<b>-</b>	<b>922,245</b>
<b>Total Capital Assets Being Depreciated, net</b>	<b>7,074,142</b>	<b>427,115</b>	<b>-</b>	<b>7,501,257</b>
<b>Governmental Activities Capital Assets, net</b>	<b>\$ 7,567,390</b>	<b>\$ 817,244</b>	<b>\$ -</b>	<b>\$ 8,384,634</b>

Depreciation charged to governmental functions on the Statement of Activities during the year is as follows: \$3,050 to General Government, \$14,674 to Public Safety and \$262,463 to Public Works.

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2010

**Note 6 – Capital Assets, (continued)**

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

<u>Business-Type Activities</u>	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 1,166,042	\$ -	\$ -	\$ 1,166,042
Construction in Progress	-	-	-	-
<b>Total Capital Assets Not Being Depreciated</b>	<b>1,166,042</b>	<b>-</b>	<b>-</b>	<b>1,166,042</b>
<b>Capital Assets Being Depreciated:</b>				
Building and Improvements	2,647,511	-	-	2,647,511
Infrastructure	559,361	-	-	559,361
Machinery and Other	9,624,368	4,321	-	9,628,689
Vehicles	249,198	-	-	249,198
Vineyards	611,398	-	-	611,398
<b>Total Capital Assets Being Depreciated</b>	<b>13,691,836</b>	<b>4,321</b>	<b>-</b>	<b>13,696,157</b>
<b>Less Accumulated Depreciation For:</b>				
Building and Improvements	986,412	98,286	-	1,084,698
Infrastructure	69,920	13,984	-	83,904
Machinery and Other	4,216,435	287,092	-	4,503,527
Vehicles	190,622	10,922	-	201,544
Vineyards	183,420	30,570	-	213,990
<b>Total Accumulated Depreciation</b>	<b>5,646,809</b>	<b>440,854</b>	<b>-</b>	<b>6,087,663</b>
<b>Total Capital Assets Being Depreciated, net</b>	<b>8,045,027</b>	<b>(436,533)</b>	<b>-</b>	<b>7,608,494</b>
<b>Business-Type Activities Capital Assets, net</b>	<b>\$ 9,211,069</b>	<b>\$ (436,533)</b>	<b>\$ -</b>	<b>\$ 8,774,536</b>

Depreciation charged to business-type activities on the Statement of Activities during the year is as follows: \$240,510 to Sewer, \$175,064 to Water, \$7,424 to Refuse, and \$17,856 to Public Transit.

**Note 7 – Accrued Liabilities**

Accrued Liabilities at June 30, 2010 consisted of \$17,668 of accrued interest expense for the Sewer Fund.

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2010

**Note 8 – Long-Term Liabilities**

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010	Due Within One Year
<b>Governmental Activities:</b>					
Note Payable	\$ -	\$ 2,059,303	\$ (86,369)	\$ 1,972,934	\$ 87,933
Capital Lease	93,589	-	(29,952)	63,637	31,180
Compensated Absences	7,217	16,369	-	23,586	-
<b>Total Governmental Activities</b>	<b>100,806</b>	<b>2,075,672</b>	<b>(116,321)</b>	<b>2,060,157</b>	<b>119,113</b>
<b>Business-Type Activities:</b>					
Certificates of Participation	840,000	-	(90,000)	750,000	95,000
Capital Lease	156,882	-	(50,207)	106,675	52,266
Compensated Absences	10,957	4,817	-	15,774	-
Less Unamortized Discount	(12,954)	-	1,889	(11,065)	-
<b>Total Business-Type Activities</b>	<b>994,885</b>	<b>4,817</b>	<b>(138,318)</b>	<b>861,384</b>	<b>147,266</b>
<b>Total Long-Term Liabilities</b>	<b>\$ 1,095,691</b>	<b>\$ 2,080,489</b>	<b>\$ (254,639)</b>	<b>\$ 2,921,541</b>	<b>\$ 266,379</b>

**Governmental Activities:**

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.

\$ 1,972,934

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.

63,637

Compensated Absences Payable

23,586

Total Governmental Activities

\$ 2,060,157

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2010

**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	\$ 750,000
Unamortized discounts	<u>(11,065)</u>
	\$ 738,935

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.

\$ 106,675

Compensated Absences Payable

15,774

Total Business-Type Activities

\$ 861,384

The annual requirements to amortize all indebtedness and other long-term liabilities outstanding at June 30, 2010, are as follows:

Year Ending June 30	Governmental Activities			
	Note Payable County of Kern		Capital Lease Zions Bank	
	Principal	Interest	Principal	Interest
2011	\$ 87,933	\$ 35,710	\$ 31,180	\$ 1,970
2012	180,669	66,617	32,457	665
2013	187,269	60,017	-	-
2014	194,109	53,177	-	-
2015	201,199	46,086	-	-
2016-2020	1,121,755	114,674	-	-
<b>Total</b>	<u>\$ 1,972,934</u>	<u>\$ 376,281</u>	<u>\$ 63,637</u>	<u>\$ 2,635</u>

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2010

**Note 8 – Long-Term Liabilities, (continued)**

**Business-Type Activities**

Year Ending June 30	Certificates of Participation		Capital Lease Zions Bank	
	Principal	Interest	Principal	Interest
2011	\$ 95,000	\$ 36,025	\$ 52,266	\$ 3,302
2012	95,000	31,489	54,409	1,115
2013	100,000	26,685	-	-
2014	105,000	21,508	-	-
2015	110,000	15,970	-	-
2016-2017	245,000	13,305	-	-
<b>Total</b>	<b>\$ 750,000</b>	<b>\$ 144,982</b>	<b>\$ 106,675</b>	<b>\$ 4,417</b>

**Note 9 – Deferred Revenue**

Deferred Revenue at June 30, 2010 is detailed as follows:

	Government Funds	Business-Type Funds
State of California Grant	\$ -	\$ 26,851
<b>Total</b>	<b>\$ -</b>	<b>\$ 26,851</b>

**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, 2010**

**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. 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 \$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. 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.

**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 \$95,740.

**Note 12 – Other Disclosures**

**Contingencies**

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, 2009, the latest date reported by the County, the contingent liability was \$21,758.

**Excess of Expenditures over Appropriations**

For the year ended June 30, 2010, some expenditures exceeded appropriations. The over expenditures were funded from loan proceeds from the County of Kern as pertaining to the prior year Sheriff's contract.

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2010

**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:

- TDA-LTF has a deficit balance of \$213,578 resulting from expenditures prior to grant reimbursement.
- CDBG has a deficit balance of \$39,630 resulting from expenditures prior to grant reimbursement.
- RDA Debt Service Fund has a deficit balance of \$87,418. 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 \$46,823 resulting from expenditures prior to TDA grant reimbursement.

**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.

**Date of Management Evaluation**

Management has evaluated subsequent events through October 20, 2010, the date on which the financial statements were available to be issued.

**Note 13 – Subsequent Event**

On October 7, 2010, the City issued \$7,500,000 of Revenue Bonds for the purpose of refunding the \$750,000 Sewer Fund 2001 Certificates of Participation balance and for financing certain improvements in the City's municipal water enterprise and municipal wastewater enterprise. The bonds are composed of the following:

<u>Type</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Principal</u>
Serial Bonds	.65% - 3.55%	2011 to 2021	\$ 1,785,000
Term Bonds	4.25%	2024	600,000
Term Bonds	5.00%	2040	5,115,000
			<u>\$ 7,500,000</u>

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2010

**Note 14 – Going Concern**

As indicated in the accompanying Statement of Net Assets as of June 30, 2010, the City reported a \$1,047,164 deficit in unrestricted net assets. Furthermore, the 2010-2011 budget contains a \$293,576 excess of expenditures over revenues. These factors 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.

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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, 2010**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Taxes	\$ 1,576,000	\$ 1,576,000	\$ 1,573,163	\$ (2,837)
Licenses & Permits	15,000	15,000	214,805	199,805
Fines, Forfeitures & Assessment	33,500	33,500	52,319	18,819
Use of Money or Property	63,200	63,200	60,422	(2,778)
Intergovernmental	178,450	178,450	181,682	3,232
Charges for Services	74,550	74,550	23,309	(51,241)
Contributions and Donations	75,000	75,000	81,090	6,090
Other Income	4,000	4,000	5,010	1,010
<b>Total Revenues</b>	<b>2,019,700</b>	<b>2,019,700</b>	<b>2,191,800</b>	<b>172,100</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General Government	\$ 411,676	\$ 411,676	\$ 518,619	\$ 106,943
Public Safety	1,734,678	1,734,678	1,846,559	111,881
Public Works	369,342	369,342	362,504	(6,838)
Community Development	286,550	286,550	194,913	(91,637)
Capital Outlay:	-	-	304,987	304,987
Debt Service:				
Principal Retirement	-	-	116,321	116,321
Interest and Finance Charges	-	-	40,462	40,462
<b>Total Expenditures</b>	<b>2,802,246</b>	<b>2,802,246</b>	<b>3,384,365</b>	<b>582,119</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(782,546)</b>	<b>(782,546)</b>	<b>(1,192,565)</b>	<b>(410,019)</b>
<b>Other Financing Sources (Uses):</b>				
Transfers In	113,635	113,635	151,614	37,979
Transfers Out	(4,500)	(4,500)	-	4,500
Loan Proceeds	-	-	2,059,303	2,059,303
<b>Total Other Financing Sources (Uses)</b>	<b>109,135</b>	<b>109,135</b>	<b>2,210,917</b>	<b>2,101,782</b>
<b>Net Change in Fund Balances</b>	<b>(673,411)</b>	<b>(673,411)</b>	<b>1,018,352</b>	<b>1,691,763</b>
<b>Fund Balances - Beginning</b>	<b>(777,841)</b>	<b>(777,841)</b>	<b>86,715</b>	<b>864,556</b>
<b>Total Liabilities &amp; Fund Balances</b>	<b>\$ (1,451,252)</b>	<b>\$ (1,451,252)</b>	<b>\$ 1,105,067</b>	<b>\$ 2,556,319</b>

**City of McFarland**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL**  
**TDA - LTF**  
**Year ended June 30, 2010**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Intergovernmental	\$ 1,079,685	\$ 1,079,685	\$ 124,152	\$ (955,533)
Total Revenues	1,079,685	1,079,685	124,152	(955,533)
<b>Expenditures:</b>				
Current:				
Public Works	\$ 1,030,675	\$ 1,030,675	\$ -	\$ (1,030,675)
Capital Outlay:	-	-	337,730	337,730
Total Expenditures	1,030,675	1,030,675	337,730	(692,945)
Excess of Revenues Over (Under) Expenditures	49,010	49,010	(213,578)	(262,588)
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	(49,010)	(49,010)	-	49,010
Total Other Financing Sources (Uses)	(49,010)	(49,010)	-	49,010
Net Change in Fund Balances	-	-	(213,578)	(213,578)
Fund Balances - Beginning	-	-	-	-
Total Liabilities & Fund Balances	\$ -	\$ -	\$ (213,578)	\$ (213,578)

**City of McFarland**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL**  
**GAS TAX FUND**  
**Year ended June 30, 2010**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Intergovernmental	\$ -	\$ -	\$ 330,859	\$ 330,859
Total Revenues	-	-	330,859	330,859
<b>Expenditures:</b>				
Current:				
Public Works	\$ -	\$ -	\$ 100,779	\$ 100,779
Capital Outlay:				
General Capital Outlay	-	-	-	-
Street Improvements	-	-	7,187	7,187
Total Expenditures	-	-	107,966	107,966
Excess of Revenues Over (Under) Expenditures	-	-	222,893	222,893
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	(113,635)	(113,635)	(151,614)	(37,979)
Total Other Financing Sources (Uses)	(113,635)	(113,635)	(151,614)	(37,979)
Net Change in Fund Balances	(113,635)	(113,635)	71,279	184,914
Fund Balances - Beginning	113,635	113,635	113,636	1
Total Liabilities & Fund Balances	\$ -	\$ -	\$ 184,915	\$ 184,915

**City of McFarland**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL**  
**CDBG FUND**  
**Year ended June 30, 2010**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Intergovernmental	\$ 1,338,273	\$ 538,273	\$ 222,061	\$ (316,212)
Total Revenues	1,338,273	538,273	222,061	(316,212)
<b>Expenditures:</b>				
Current:				
Community Development	\$ 1,344,332	\$ 544,332	\$ -	\$ (544,332)
Capital Outlay:	-	-	267,751	267,751
Total Expenditures	1,344,332	544,332	267,751	(276,581)
Excess of Revenues Over (Under) Expenditures	(6,059)	(6,059)	(45,690)	(39,631)
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	(6,059)	(6,059)	(45,690)	(39,631)
Fund Balances - Beginning	6,059	6,059	6,060	1
Total Liabilities & Fund Balances	\$ -	\$ -	\$ (39,630)	\$ (39,630)

**City of McFarland**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL**  
**DEVELOPMENT IMPACT FUND**  
**Year ended June 30, 2010**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Licenses & Permits	\$ 278,560	\$ 278,560	\$ 868,705	\$ 590,145
Use of Money or Property	11,440	11,440	11,876	436
<b>Total Revenues</b>	<b>290,000</b>	<b>290,000</b>	<b>880,581</b>	<b>590,581</b>
<b>Expenditures:</b>				
Current:				
Public Works	\$ -	\$ -	\$ 1,009	\$ 1,009
Capital Outlay:	-	-	171,385	171,385
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>172,394</b>	<b>172,394</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>290,000</b>	<b>290,000</b>	<b>708,187</b>	<b>418,187</b>
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>290,000</b>	<b>290,000</b>	<b>708,187</b>	<b>418,187</b>
<b>Fund Balances - Beginning</b>	<b>1,354,150</b>	<b>1,354,150</b>	<b>1,687,816</b>	<b>333,666</b>
<b>Total Liabilities &amp; Fund Balances</b>	<b>\$ 1,644,150</b>	<b>\$ 1,644,150</b>	<b>\$ 2,396,003</b>	<b>\$ 751,853</b>

**City of McFarland**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL**  
**RDA DEBT SERVICE**  
**Year ended June 30, 2010**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Taxes	\$ 123,935	\$ 123,935	\$ 79,587	\$ (44,348)
Other Income	-	-	8,317	8,317
<b>Total Revenues</b>	<b>123,935</b>	<b>123,935</b>	<b>87,904</b>	<b>(36,031)</b>
<b>Expenditures:</b>				
Current:				
Community Development	\$ -	\$ -	\$ -	\$ -
Debt Service:				
Tax Increment Pass-Through Payments	24,785	24,785	15,917	(8,868)
Interest and Finance Charges	5,111	5,111	5,111	-
County Administrative Fee	2,000	2,000	1,104	(896)
<b>Total Expenditures</b>	<b>31,896</b>	<b>31,896</b>	<b>22,132</b>	<b>(9,764)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>92,039</b>	<b>92,039</b>	<b>65,772</b>	<b>(26,267)</b>
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	(27,785)	(27,785)	(15,919)	11,866
<b>Total Other Financing Sources (Uses)</b>	<b>(27,785)</b>	<b>(27,785)</b>	<b>(15,919)</b>	<b>11,866</b>
<b>Net Change in Fund Balances</b>	<b>64,254</b>	<b>64,254</b>	<b>49,853</b>	<b>(14,401)</b>
<b>Fund Balances - Beginning</b>	<b>(62,005)</b>	<b>(62,005)</b>	<b>(137,271)</b>	<b>(75,266)</b>
<b>Total Liabilities &amp; Fund Balances</b>	<b>\$ 2,249</b>	<b>\$ 2,249</b>	<b>\$ (87,418)</b>	<b>\$ (89,667)</b>

**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, 2010**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Other Income	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
<b>Expenditures:</b>				
Current:				
Community Development	\$ -	\$ -	\$ -	\$ -
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	-	-	-	-
<b>Other Financing Sources (Uses):</b>				
Transfers In	24,785	24,785	15,919	(8,866)
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	24,785	24,785	15,919	(8,866)
Net Change in Fund Balances	24,785	24,785	15,919	(8,866)
Fund Balances - Beginning	27,540	27,540	26,206	(1,334)
Total Liabilities & Fund Balances	\$ 52,325	\$ 52,325	\$ 42,125	\$ (10,200)

**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
2010	13,942	12,694

\* 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
2009 - 10	258,658,162	7,039,698	265,697,860	4,085,874	269,783,734

\* 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
2009 - 10	7,544,463	(26,880)	7,517,583	66,699	7,584,282

\*\* 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%)**  
**LAST 10 FISCAL YEARS**

<u>Fiscal Year</u>	<u>Base* Allocation</u>	<u>In Lieu of Sales Tax</u>	<u>In Lieu of VLF</u>	<u>Shift to Schools</u>	<u>Prop (1A)</u>	<u>Total After Shift</u>
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
2009 - 10	289,791	49,804	896,975		(103,611)	1,132,959

\* Includes Secured, Unsecured and Homeowners.

Source: Kern County Auditor-Controller-County Clerk

**ADDITIONAL REPORTING REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

# 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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 20, 2010. 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.

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 and questioned costs (items 2010-1 through 2010-4a) that we consider to be significant deficiencies in internal control over financial reporting. 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.

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 20, 2010

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**City of McFarland**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
June 30, 2010

**2010-1 Preparation of Financial Statement**

*Condition:* As is typical with most small government entities, management does not produce its own financial statements in conformity with U.S. generally accepted accounting principles.

*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.

**2010-2 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.

**2010-3 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**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**June 30, 2010**

**2010-4 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 adjust Accrued Benefits Payable to the actual calculated balance.

*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.