

**CITY OF McFARLAND, CALIFORNIA**

**FINANCIAL STATEMENTS**

**Fiscal Year Ended June 30, 2013**

# CITY OF McFARLAND

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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:

### Report on the Financial Statements

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, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of McFarland, California, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 38 through 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2014, on our consideration of the City of McFarland, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of McFarland, California's internal control over financial reporting and compliance.

*Albert & Associates, LLP*

Wasco, California  
April 16, 2014

**City of McFarland**  
**STATEMENT OF NET POSITION**  
**June 30, 2013**

	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Current Assets:			
Cash and Investments	\$ 2,048,404	\$ 3,778,510	\$ 5,826,914
Restricted Cash:			
With Fiscal Agents	-	5,909,760	5,909,760
Receivables, net	1,389,315	437,667	1,826,982
Prepaid Expenses	229,918	-	229,918
Due From RDA Successor Private Purpose Trust Fund	80,736	-	80,736
Land Held for Resale	217,776	-	217,776
Supplies on Hand	-	8,121	8,121
	3,966,149	10,134,058	14,100,207
Total Current Assets			
Noncurrent Assets:			
Capital Assets:			
Land	493,248	1,200,374	1,693,622
Construction in Progress	1,700,496	312,151	2,012,647
Depreciable Buildings, Property, Equipment and Infrastructure, net of accumulated depreciation	10,364,016	9,044,288	19,408,304
Notes Receivable	1,029,173	-	1,029,173
Deferred Charges	-	330,564	330,564
	13,586,933	10,887,377	24,474,310
Total Noncurrent Assets			
Total Assets			
	17,553,082	21,021,435	38,574,517
<b>Liabilities:</b>			
Current Liabilities:			
Accounts Payable	478,401	219,146	697,547
Accrued Liabilities	48,917	79,867	128,784
Deposits Received	10,690	7,828	18,518
Unearned Revenue	603,704	77,035	680,739
Bonds and Notes Payable Due Within One Year	295,440	150,000	445,440
	1,437,152	533,876	1,971,028
Total Current Liabilities			
Noncurrent Liabilities:			
Bonds and Notes Payable Due in More Than One Year	1,496,889	7,050,000	8,546,889
Compensated Absences	48,325	15,463	63,788
	1,545,214	7,065,463	8,610,677
Total Noncurrent Liabilities			
Total Liabilities			
	2,982,366	7,599,339	10,581,705
<b>Net Position:</b>			
Invested in Capital Assets, net of related debt	12,186,310	9,266,573	21,452,883
Restricted For:			
Streets and Roads	64,232	-	64,232
Community Development	863,819	-	863,819
Capital Projects	2,436,880	1,972,364	4,409,244
Unrestricted	(980,525)	2,183,159	1,202,634
	14,570,716	13,422,096	27,992,812
Net Position	\$ 14,570,716	\$ 13,422,096	\$ 27,992,812

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

**City of McFarland**  
**STATEMENT OF ACTIVITIES**  
**Year ended June 30, 2013**

Functions / Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General Government	\$ 726,347	\$ 197,874	\$ 13,977	\$ 49,172	\$ (465,324)	\$ -	\$ (465,324)
Public Safety	2,095,189	158,017	277,771	25,295	(1,634,106)	-	(1,634,106)
Public Works	751,292	229,202	-	1,307,603	785,513	-	785,513
Community Development	1,810,594	151,443	7,185	1,958,862	306,896	-	306,896
<b>Total Governmental Activities</b>	<b>5,383,422</b>	<b>736,536</b>	<b>298,933</b>	<b>3,340,932</b>	<b>(1,007,021)</b>	<b>-</b>	<b>(1,007,021)</b>
<b>Business-Type Activities:</b>							
Sewer	1,310,396	1,692,636	-	12,058	-	394,298	394,298
Refuse	1,094,351	1,060,536	-	-	-	(33,815)	(33,815)
Water	1,108,287	1,024,535	-	99,007	-	15,255	15,255
Public Transportation	117,918	21,345	30,439	-	-	(66,134)	(66,134)
<b>Total Business-Type Activities</b>	<b>3,630,952</b>	<b>3,799,052</b>	<b>30,439</b>	<b>111,065</b>	<b>-</b>	<b>309,604</b>	<b>309,604</b>
<b>Total</b>	<b>\$ 9,014,374</b>	<b>\$ 4,535,588</b>	<b>\$ 329,372</b>	<b>\$ 3,451,997</b>	<b>(1,007,021)</b>	<b>309,604</b>	<b>(697,417)</b>
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property Tax					712,488	-	712,488
Sales Tax					339,735	-	339,735
Franchise Tax					192,949	-	192,949
State Allocation of Gas Tax					300,058	-	300,058
Intergovernmental, Unrestricted:							
Motor Vehicle In-lieu Tax					974,521	-	974,521
<b>Total Taxes</b>					<b>2,519,751</b>	<b>-</b>	<b>2,519,751</b>
Unrestricted investment earnings					27,021	-	27,021
Miscellaneous Revenue					84,973	-	84,973
Transfers					(71,627)	71,627	-
Gain/(Loss) on Sale of Capital Assets					271,260	(370,614)	(99,354)
<b>Total General Revenues and Transfers</b>					<b>2,831,378</b>	<b>(298,987)</b>	<b>2,532,391</b>
<b>Change in Net Position</b>					<b>1,824,357</b>	<b>10,617</b>	<b>1,834,974</b>
<b>Net Position - Beginning</b>					<b>12,746,359</b>	<b>13,411,479</b>	<b>26,157,838</b>
<b>Net Position - Ending</b>					<b>\$ 14,570,716</b>	<b>\$ 13,422,096</b>	<b>\$ 27,992,812</b>

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

**City of McFarland**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**June 30, 2013**

	General	TDA - LTF	Gas Tax	CDBG	CalHome	HOME	Lighting & Landscape	COPS	Development Impact	RDA Low & Moderate Income Housing	McFarland Improvement Authority	Total Governmental Funds
<b>Assets:</b>												
Cash and Investments	\$ 277,335	\$ -	\$ 72,841	\$ -	\$ 375,174	\$ -	\$ 51,233	\$ -	\$ 1,260,471	\$ -	\$ 11,350	\$ 2,048,404
Receivables, net	524,574	645,291	27,360	35,431	-	133,206	-	23,453	-	-	-	1,389,315
Prepaid Costs	229,918	-	-	-	-	-	-	-	-	-	-	229,918
Due from Other Funds	-	-	-	-	-	-	-	-	1,046,689	-	-	1,046,689
Notes Receivable	-	-	-	-	317,357	711,816	-	-	-	-	-	1,029,173
Land Held for Resale	217,776	-	-	-	-	-	-	-	-	-	-	217,776
<b>Total Assets</b>	<b>\$ 1,249,603</b>	<b>\$ 645,291</b>	<b>\$ 100,201</b>	<b>\$ 35,431</b>	<b>\$ 692,531</b>	<b>\$ 845,022</b>	<b>\$ 51,233</b>	<b>\$ 23,453</b>	<b>\$ 2,307,160</b>	<b>\$ -</b>	<b>\$ 11,350</b>	<b>\$ 5,961,275</b>
<b>Liabilities:</b>												
Accounts Payable	\$ 387,901	\$ -	\$ -	\$ 7,706	\$ -	\$ 40,219	\$ 42,575	\$ -	\$ -	\$ -	\$ -	\$ 478,401
Accrued Liabilities	43,046	-	-	-	-	-	-	-	-	-	-	43,046
Deposits Received	10,690	-	-	-	-	-	-	-	-	-	-	10,690
Due to Other Funds	-	681,260	-	42,188	-	219,052	-	23,453	-	-	-	965,953
Deferred Revenue	203,704	-	-	-	717,357	711,816	-	-	-	-	-	1,632,877
<b>Total Liabilities</b>	<b>645,341</b>	<b>681,260</b>	<b>-</b>	<b>49,894</b>	<b>717,357</b>	<b>971,087</b>	<b>42,575</b>	<b>23,453</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,130,967</b>
<b>Fund Balances:</b>												
<b>Nonspendable:</b>												
Land Held for Resale	217,776	-	-	-	-	-	-	-	-	-	-	217,776
Prepaid Costs	229,918	-	-	-	-	-	-	-	-	-	-	229,918
<b>Restricted:</b>												
Streets and Transportation	-	-	100,201	-	-	-	8,658	-	-	-	-	108,859
Impact Fees	-	-	-	-	-	-	-	-	2,307,160	-	-	2,307,160
Community Development	-	-	-	-	-	-	-	-	-	-	11,350	11,350
Unassigned	156,568	(35,969)	-	(14,463)	(24,826)	(126,065)	-	-	-	-	-	(44,755)
<b>Total Fund Balances (Deficit)</b>	<b>604,262</b>	<b>(35,969)</b>	<b>100,201</b>	<b>(14,463)</b>	<b>(24,826)</b>	<b>(126,065)</b>	<b>8,658</b>	<b>-</b>	<b>2,307,160</b>	<b>-</b>	<b>11,350</b>	<b>2,830,308</b>
<b>Total Liabilities &amp; Fund Balances</b>	<b>\$ 1,249,603</b>	<b>\$ 645,291</b>	<b>\$ 100,201</b>	<b>\$ 35,431</b>	<b>\$ 692,531</b>	<b>\$ 845,022</b>	<b>\$ 51,233</b>	<b>\$ 23,453</b>	<b>\$ 2,307,160</b>	<b>\$ -</b>	<b>\$ 11,350</b>	<b>\$ 5,961,275</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 POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION June 30, 2013

Fund balances of governmental funds	\$	2,830,308
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Amounts reported for governmental activities in the statement of net position 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 Position includes those capital assets among the assets of the City as a whole.

Beginning Balance, net of depreciation	\$ 10,919,195	
Current Year Additions	2,103,342	
Current Year Depreciation	<u>(464,777)</u>	
Ending Balance, net of depreciation		12,557,760

Long-term assets that are not available to pay for current-period expenditures are considered deferred revenue for the Government Funds Balance Sheet. However, these assets are included in the Statement of Net Position.		1,029,173
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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.		(5,871)
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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 Position.

Compensated Absences	(48,325)	
Long-Term Debt	<u>(1,792,329)</u>	
Total Long-Term Liabilities		<u>(1,840,654)</u>

Net position of governmental activities	\$	<u><u>14,570,716</u></u>
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**City of McFarland**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES (DEFICITS) – GOVERNMENTAL FUNDS**  
**Year ended June 30, 2013**

	General	TDA - LTF	Gas Tax	CDBG	CalHome	HOME	Lighting & Landscape	COPS	Development Impact	RDA Low & Moderate Income Housing	McFarland Improvement Authority	Total Governmental Funds
<b>Revenues:</b>												
Taxes	\$ 2,141,078	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 91,503	\$ -	\$ -	\$ -	\$ -	\$ 2,232,581
Licenses & Permits	4,499	-	-	-	-	-	-	-	402,948	-	-	407,447
Fines, Forfeitures & Assessments	84,229	-	-	-	-	-	-	-	-	-	-	84,229
Use of Money or Property	22,035	-	-	-	-	-	-	-	4,986	-	-	27,021
Intergovernmental	829,513	690,935	300,059	125,928	1,453,500	-	-	56,042	-	-	62,077	3,518,054
Charges for Services	205,241	140	-	-	26,590	-	-	-	-	-	-	231,971
Contributions and Donations	104,513	-	-	-	-	-	-	-	-	-	-	104,513
Other Income	84,973	-	-	-	-	-	-	-	-	-	-	84,973
<b>Total Revenues</b>	<b>3,476,081</b>	<b>691,075</b>	<b>300,059</b>	<b>125,928</b>	<b>1,480,090</b>	<b>-</b>	<b>91,503</b>	<b>56,042</b>	<b>407,934</b>	<b>-</b>	<b>62,077</b>	<b>6,690,789</b>
<b>Expenditures:</b>												
<b>Current:</b>												
General Government	363,599	-	-	-	-	-	-	-	-	-	-	363,599
Public Safety	2,003,548	-	-	-	-	-	-	-	-	-	-	2,003,548
Public Works	337,159	-	-	-	-	-	46,745	-	-	-	-	383,904
Community Development	229,875	-	-	4,668	1,453,659	46,367	-	-	-	11,118	7,010	1,752,697
Non Departmental	337,215	-	-	-	-	-	-	-	-	-	-	337,215
<b>Capital Outlay:</b>												
General Capital Outlay	356,049	-	-	83,793	-	-	36,100	-	-	-	-	475,942
Street Improvements	1,638,045	41,482	-	-	-	-	-	-	-	-	-	1,679,527
<b>Debt Service:</b>												
Principal Retirement	229,839	-	-	-	-	-	-	-	-	-	58,144	287,983
Interest and Finance Charges	6,549	-	-	-	-	-	-	-	-	-	3,933	10,482
<b>Total Expenditures</b>	<b>5,501,878</b>	<b>41,482</b>	<b>-</b>	<b>88,461</b>	<b>1,453,659</b>	<b>46,367</b>	<b>82,845</b>	<b>-</b>	<b>-</b>	<b>11,118</b>	<b>69,087</b>	<b>7,294,897</b>
Excess of Revenues Over (Under) Expenditures	(2,025,797)	649,593	300,059	37,467	26,431	(46,367)	8,658	56,042	407,934	(11,118)	(7,010)	(604,108)
<b>Other Financing Sources (Uses):</b>												
Transfers In	1,840,098	-	-	-	-	-	-	-	-	-	-	1,840,098
Transfers Out	-	(634,860)	(269,925)	(51,930)	(26,590)	-	-	(56,042)	(872,378)	-	-	(1,911,725)
Proceeds From Long-Term Debt	37,516	-	-	-	-	-	-	-	-	-	-	37,516
Sale of Capital Assets	271,260	-	-	-	-	-	-	-	-	-	-	271,260
<b>Total Other Financing Sources (Uses)</b>	<b>2,148,874</b>	<b>(634,860)</b>	<b>(269,925)</b>	<b>(51,930)</b>	<b>(26,590)</b>	<b>-</b>	<b>-</b>	<b>(56,042)</b>	<b>(872,378)</b>	<b>-</b>	<b>-</b>	<b>237,149</b>
<b>Net Change in Fund Balances</b>	<b>123,077</b>	<b>14,733</b>	<b>30,134</b>	<b>(14,463)</b>	<b>(159)</b>	<b>(46,367)</b>	<b>8,658</b>	<b>-</b>	<b>(464,444)</b>	<b>(11,118)</b>	<b>(7,010)</b>	<b>(366,959)</b>
Fund Balances - Beginning	481,185	(50,702)	70,067	-	(24,667)	(79,698)	-	-	2,771,604	11,118	18,360	3,197,267
Fund Balances - Ending	\$ 604,262	\$ (35,969)	\$ 100,201	\$ (14,463)	\$ (24,826)	\$ (126,065)	\$ 8,658	\$ -	\$ 2,307,160	\$ -	\$ 11,350	\$ 2,830,308

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, 2013

Net change in fund balance - total governmental funds	\$	(366,959)
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 (\$2,103,342) exceeded depreciation (\$464,777) in the current period.		1,638,565
The issuance of long-term debt provides current financial resources to governmental funds, but the issuance has no affect on net position.		(37,516)
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 Position.		287,983
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.		(292)
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.		(14,781)
Earned long-term assets not available to pay for current-period expenditures are not recognized as revenue in the government funds. Revenue in the Statement of Activities is not limited by availability. This adjustment is the amount by which unavailable deferred revenue at the beginning of the year (\$711,816) is exceeded by unavailable deferred revenue at the end of the year (\$1,029,173)		<u>317,357</u>
Change in net position of governmental activities	\$	<u><u>1,824,357</u></u>

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

**City of McFarland**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2013**

	Sewer	Refuse	Water	Public Transit	Total Proprietary
<b>Assets:</b>					
Current Assets:					
Cash and Investments	\$ 2,227,078	\$ 452,071	\$ 998,056	\$ 101,305	\$ 3,778,510
Investments With Fiscal Agents - Restricted	4,081,090	-	1,828,670	-	5,909,760
Receivables	168,950	120,314	148,403	-	437,667
Supplies	-	-	8,121	-	8,121
<b>Total Current Assets</b>	<b>6,477,118</b>	<b>572,385</b>	<b>2,983,250</b>	<b>101,305</b>	<b>10,134,058</b>
Noncurrent Assets:					
Deferred Charges	250,654	-	79,910	-	330,564
Capital Assets:					
Land	1,120,000	-	80,374	-	1,200,374
Construction in Progress	312,151	-	-	-	312,151
Depreciable Buildings, Property, Equipment and Infrastructure, net of accumulated depreciation	3,579,428	29,846	5,321,928	113,086	9,044,288
<b>Total Noncurrent Assets</b>	<b>5,262,233</b>	<b>29,846</b>	<b>5,482,212</b>	<b>113,086</b>	<b>10,887,377</b>
<b>Total Assets</b>	<b>\$ 11,739,351</b>	<b>\$ 602,231</b>	<b>\$ 8,465,462</b>	<b>\$ 214,391</b>	<b>\$ 21,021,435</b>
<b>Liabilities:</b>					
Current Liabilities:					
Accounts Payable	\$ 78,197	\$ 79,221	\$ 59,229	\$ 2,499	\$ 219,146
Accrued Interest Payable	53,245	-	26,622	-	79,867
Customer Deposits	-	-	7,828	-	7,828
Due to Other Funds	-	-	-	-	-
Deferred Revenue	-	-	13,236	63,799	77,035
Current Portion of Long-Term Debt	100,000	-	50,000	-	150,000
<b>Total Current Liabilities</b>	<b>231,442</b>	<b>79,221</b>	<b>156,915</b>	<b>66,298</b>	<b>533,876</b>
Noncurrent Liabilities:					
Compensated Absences Payable	6,090	4,296	4,377	700	15,463
Bonds Payable	4,700,000	-	2,350,000	-	7,050,000
<b>Total Noncurrent Liabilities</b>	<b>4,706,090</b>	<b>4,296</b>	<b>2,354,377</b>	<b>700</b>	<b>7,065,463</b>
<b>Total Liabilities</b>	<b>4,937,532</b>	<b>83,517</b>	<b>2,511,292</b>	<b>66,998</b>	<b>7,599,339</b>
<b>Net Position:</b>					
Invested in Capital Assets, net of related debt	4,292,669	29,846	4,830,972	113,086	9,266,573
Restricted For:					
Capital Projects (expendable)	836,920	-	1,135,444	-	1,972,364
Unrestricted	1,672,230	488,868	(12,246)	34,307	2,183,159
<b>Net Position</b>	<b>\$ 6,801,819</b>	<b>\$ 518,714</b>	<b>\$ 5,954,170</b>	<b>\$ 147,393</b>	<b>\$ 13,422,096</b>

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

**City of McFarland**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**Year ended June 30, 2013**

	Sewer	Refuse	Water	Public Transit	Total Proprietary
<b>Operating Revenues:</b>					
Charges for Services	\$ 1,464,227	\$ 1,060,536	\$ 973,736	\$ 21,345	\$ 3,519,844
Total Operating Revenues	1,464,227	1,060,536	973,736	21,345	3,519,844
<b>Operating Expenses:</b>					
Wages and Benefits	261,569	153,542	186,817	74,979	676,907
Administration	141,923	923,644	157,875	5,428	1,228,870
Materials and Supplies	23,580	4,995	37,957	19,229	85,761
Maintenance and Repair	65,618	118	53,025	4,775	123,536
Utilities	225,067	3,104	259,683	-	487,854
Franchise Fees	117,374	-	72,250	-	189,624
Depreciation	251,448	8,948	232,036	13,507	505,939
Total Operating Expenses	1,086,579	1,094,351	999,643	117,918	3,298,491
Operating Income (Loss)	377,648	(33,815)	(25,907)	(96,573)	221,353
<b>Nonoperating Revenues (Expenses):</b>					
Interest Income	16,431	-	10,689	-	27,120
Rent Income	48,230	-	-	-	48,230
Connection Fees	163,748	-	40,110	-	203,858
Intergovernmental	12,058	-	99,007	30,439	141,504
Interest Expense	(223,817)	-	(108,644)	-	(332,461)
Gain/(Loss) on Sale of Assets	(370,614)	-	-	-	(370,614)
Total Nonoperating Revenues (Expenses)	(353,964)	-	41,162	30,439	(282,363)
Income (Loss) Before Contributions and Transfers	23,684	(33,815)	15,255	(66,134)	(61,010)
Capital Contributions	-	-	-	-	-
Transfers In	192	160	96	71,179	71,627
Change in Net Position	23,876	(33,655)	15,351	5,045	10,617
Net Position - Beginning	6,777,943	552,369	5,938,819	142,348	13,411,479
Net Position - Ending	\$ 6,801,819	\$ 518,714	\$ 5,954,170	\$ 147,393	\$ 13,422,096

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

**City of McFarland**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**Year ended June 30, 2013**

	Sewer	Refuse	Water	Public Transportation	Total Proprietary
<b>Cash flows from operating activities:</b>					
Cash received from:					
Customers, including cash deposits	\$ 1,456,882	\$ 1,062,609	\$ 933,744	\$ 21,345	\$ 3,474,580
Cash paid to:					
Suppliers	(548,155)	(860,365)	(615,479)	(38,080)	(2,062,079)
Employees	(261,633)	(153,249)	(191,268)	(75,053)	(681,203)
Net cash provided (used) by operating activities	647,094	48,995	126,997	(91,788)	731,298
<b>Net cash provided from noncapital financing activities:</b>					
Cash transferred from other funds	192	160	96	71,179	71,627
Cash transferred to other funds	-	-	-	-	-
Connection fees	163,748	-	40,110	-	203,858
Intergovernmental revenue	12,058	-	94,468	40,434	146,960
Net cash provided (used) by noncapital financing activities	175,998	160	134,674	111,613	422,445
<b>Cash flows from capital and related financing activities:</b>					
Principal payments:					
Revenue Bonds	(100,000)	-	(50,000)	-	(150,000)
Interest paid	(214,621)	-	(105,709)	-	(320,330)
Purchase of capital assets	(334,769)	(24,858)	(1,664,506)	-	(2,024,133)
Net cash provided (used) by capital and related financing activities	(649,390)	(24,858)	(1,820,215)	-	(2,494,463)
<b>Cash flows from investing activities:</b>					
Interest received	16,431	-	10,689	-	27,120
Rents Received	48,230	-	-	-	48,230
Net cash provided by investing activities	64,661	-	10,689	-	75,350
Net increase (decrease) in cash	238,363	24,297	(1,547,855)	19,825	(1,265,370)
Cash and cash equivalents - Beginning of year	6,069,805	427,774	4,374,581	81,480	10,953,640
Cash and cash equivalents - End of year	\$ 6,308,168	\$ 452,071	\$ 2,826,726	\$ 101,305	\$ 9,688,270
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>					
Operating income (loss)	\$ 377,648	\$ (33,815)	\$ (25,907)	\$ (96,573)	\$ 221,353
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	251,448	8,948	232,036	13,507	505,939
(Increase) decrease in accounts receivable	(7,345)	2,073	(39,992)	-	(45,264)
(Increase) decrease in supplies	-	-	1,994	-	1,994
Increase (decrease) in accounts payable	25,407	71,496	(36,683)	(8,648)	51,572
Increase (decrease) in compensated absences	(64)	293	(4,451)	(74)	(4,296)
Net cash provided (used) by operating activities	\$ 647,094	\$ 48,995	\$ 126,997	\$ (91,788)	\$ 731,298
<b>Cash and cash equivalents per Statement of Net Assets:</b>					
Cash and investments	\$ 2,227,078	\$ 452,071	\$ 998,056	\$ 101,305	\$ 3,778,510
Investments with fiscal agents - restricted	4,081,090	-	1,828,670	-	5,909,760
Total cash and cash equivalents at end of year	\$ 6,308,168	\$ 452,071	\$ 2,826,726	\$ 101,305	\$ 9,688,270

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

**City of McFarland**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**Year ended June 30, 2013**

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

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

**City of McFarland**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**Year ended June 30, 2013**

	RDA Successor Agency Private Purpose Trust Fund
<b>Additions:</b>	
Property Taxes	\$ 13,141
Total Additions	<u>13,141</u>
<b>Deductions:</b>	
Enforceable Obligations Administration	-
Total Deductions	<u>13,141</u>
Change in Net Position	-
Net Position - Beginning	<u>(80,736)</u>
Net Position - Ending	<u><u>\$ (80,736)</u></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, 2013

**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 discretely presented component units.

**Blended Component Units**

The McFarland Parking Authority of the City of McFarland (the "Parking Authority") was formed by the City on April 12, 2012, by Resolution No. 2012-069, under Part 2 of Division 18 of the California Streets and Highways Code, Section 32650. The Parking Authority's legislative body is the City Council as Board of Directors of the Parking Authority. The fundamental aim of the Parking Authority is to purchase property and construct a public parking lot on that property. On April 12, 2012, under Resolution No., 2012-070, the Parking Authority and the City entered into a Joint Exercise of Powers Agreement to create the McFarland Improvement Authority (the "Improvement Authority"). The Improvement Authority's legislative body is the City Council as Commissioners of the Improvement Authority. The fundamental aim of the Improvement Authority is to provide for the financing of capital improvements and working capital. The Improvement Authority issued bonds for the purpose of funding the purchase of land for and construction of a public parking facility. The Improvement Authority then leased the property to the City. The rent proceeds will be used by the Improvement Authority to service bond debt and maintain the parking facility. Separate financial statements are not available for the Authority.

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

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

On July 31, 2001, the City and the Agency entered into a Joint Exercise of Powers Agreement establishing the McFarland Public Financing Corporation (the "Corporation") for the purpose of issuing its bonds to be used to provide financial assistance to the City, the Agency or any other public entity of the State of California. The funds of the component unit are reported in the Special Revenue Funds and the Agency Fund. Separate financial statements are not available for the Corporation. The City Council of McFarland is the governing body for the Corporation.

**B - Basis of Presentation**

**Government-Wide Financial Statements**

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

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

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

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

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

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

**Fund Financial Statements**

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

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

The major funds are as follows:

**Governmental Funds**

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

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

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

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

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

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

The Lighting & Landscape Fund is used to account for revenues received for maintenance and operation of the majority of the streetlights and parkways in the City. Revenues are derived from benefit assessments to properties within the City' maintenance districts. Expenditures include the direct cost of labor, supplies and equipment to maintain the districts.

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

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

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

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

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

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

**Proprietary Funds**

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

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

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

The Public Transit Fund is used to account for the operations of a Dial-A-Ride system for general transportation of all citizens and a Social Services System which transports seniors and handicapped. The City received funds under the Transportation Development Act.

**Fiduciary Funds**

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

**C - Measurement Focus and Basis of Accounting**

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

**Measurement Focus**

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

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

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

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

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

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

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

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

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

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

**Cash and Investments**

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

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

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

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, 2013

**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.

**Prepaid Items**

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

**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, 2013

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

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

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

**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 position. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Bonds payable are reported net of the unamortized portion of applicable premium, discount or deferred amount on refunding. Bond issuance costs, including underwriters’ discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs and deferred amounts on refunding are included in interest expense.

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

**Net Position**

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

**Net Invested In Capital Assets** – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

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

**Restricted Net Position** – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net position reports \$5,337,295 of restricted net position, all of which is restricted externally by grantors, creditors, or laws or regulations of other governments.

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

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

**Fund Balance – Government Funds**

Fund balances of the governmental funds are presented in the financial statements based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. Fund balances are classified as follows:

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

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

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

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

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

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

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

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

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

**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 McFarland Public Financing Corporation and the McFarland Parking Authority do not adopt budgets for their general funds.

The appropriated budget is prepared by fund, function, and department. The City Manager may make transfers of appropriations within a department and make transfers of appropriations between departments as long as there is no increase or decrease to the overall budget. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Unexpended or unencumbered appropriations lapse at the end of the fiscal year. Encumbered appropriations are reappropriated in the ensuing year’s budget.

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

**Use of Estimates**

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

**Note 2 – Cash and Investments**

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

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

Pooled Cash and Investments - Government Funds	\$	2,048,404
Pooled Cash and Investments - Business-Type Funds		3,778,510
Restricted Investments with Fiscal Agents - Business-Type Funds		5,909,760
Total	\$	11,736,674

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

**Note 2 – Cash and Investments, (continued)**

Cash and investments at June 30, 2013 consist of the following:

Cash on Hand	\$	2,600
Demand Deposits		4,202,252
Investments		<u>7,531,822</u>
Total	\$	<u><u>11,736,674</u></u>

**Deposits:**

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

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2013, all of the City’s deposits with financial institutions in excess of federal depository insurance limits were held in fully collateralized accounts, as permitted by the California Government Code.

Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an Agent of Depository has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository is considered to be held for, and in the name of, the local governmental agency.

**Investments:**

The City had the following investments at June 30, 2013:

Investment Type	Fair Value	Maturity Date
State Treasurer’s Investment Pool (LAIF)	\$ 1,381,306	N/A
Local Government Revenue Bonds	240,756	5 years
Held by Trustees:		
Cash and Short Term Investments	<u>5,909,760</u>	N/A
Total Investments	<u><u>\$ 7,531,822</u></u>	

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

**Note 2 – Cash and Investments, (continued)**

LAIF is a special fund of the California State Treasury through which local governments may pool investments. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. Included in LAIF's investment portfolio are certain derivative securities or similar products, such as structured notes and asset backed securities. LAIF's and the City's exposure to credit, market, or legal risk is not available. The fair value of the City's position in the pool is the same as the value of the pool shares. LAIF is regulated by the California Government Code.

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

**Credit rating risk** – The City is required to disclose the credit quality ratings of investments in debt securities as issued by nationally recognized statistical rating organizations (NRSROs). At June 30, 2013, the Credit ratings for the money market funds, government bonds, and investment in LAIF was unavailable. The City has no investment policy for credit risk.

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

**Custodial credit risk** – For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF). The City has no investment policy for custodial credit risk.

**Restricted Investments with Fiscal Agents**

**Business-Type Activities:**

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

\$ 5,909,760

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

**Note 3 – Receivables**

Receivables at June 30, 2013 consist of the following:

	General Fund	TDA - LTF	Gas Tax	CDBG	HOME	COPS	Total
<b>Governmental Activities:</b>							
Accounts receivable, net	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due from Governments	524,574	645,291	27,360	35,431	133,206	23,453	1,389,315
Less Allowance for Doubtfull Accounts	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 524,574</b>	<b>\$ 645,291</b>	<b>\$ 27,360</b>	<b>\$ 35,431</b>	<b>\$ 133,206</b>	<b>\$ 23,453</b>	<b>\$ 1,389,315</b>

  

	Sewer	Refuse	Water	Public Transit	Total
<b>Business-Type Activities:</b>					
Accounts receivable, net	\$ 156,891	\$ 120,314	\$ 118,392	\$ -	\$ 395,597
Due from Governments	12,059	-	30,011	-	42,070
Less Allowance for Doubtfull Accounts	-	-	-	-	-
<b>Total</b>	<b>\$ 168,950</b>	<b>\$ 120,314</b>	<b>\$ 148,403</b>	<b>\$ -</b>	<b>\$ 437,667</b>

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

The composition of interfund balances as of June 30, 2013 is as follows:

Fund	Due From Other Funds	Due To Other Funds
<b>Government Funds:</b>		
TDA-LTF	\$ -	\$ 681,260
CDBG	-	42,188
HOME	-	219,052
COPS	-	23,453
Development Impact	1,046,689	-
<b>Total Governmental Funds</b>	<b>1,046,689</b>	<b>965,953</b>
<b>Proprietary Funds:</b>		
None	-	-
<b>Total Proprietary Funds</b>	<b>-</b>	<b>-</b>
<b>Fiduciary Funds:</b>		
RDA Successor Private Purpose Trust	-	80,736
<b>Total Fiduciary Funds</b>	<b>-</b>	<b>80,736</b>
<b>Total Due From/To</b>	<b>\$ 1,046,689</b>	<b>\$ 1,046,689</b>

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

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

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

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

Interfund transfers at June 30, 2013 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General	\$ 1,840,098	\$ -
TDA-LTF	-	634,860
Gas Tax	-	269,925
CDBG	-	51,930
CalHome	-	26,590
COPS	-	56,042
Development Impact	-	872,378
Proprietary Funds:		
Sewer	192	-
Refuse	160	-
Water	96	-
Public Transit	<u>71,179</u>	<u>-</u>
Total Transfers	<u>\$ 1,911,725</u>	<u>\$ 1,911,725</u>

Composition and purpose of interfund transfers is as follows:

General fund transfers in of \$1,840,098 consist of \$563,681 from TDA-LTF and \$269,925 from Gas Tax fund to reimburse for street maintenance; \$51,482 from CDBG and \$26,590 from CalHome which represent transfers of community development type grant funds for low income housing loan administration and activity delivery to the Community Development department of the General Fund; \$56,042 from COPS which represents transfers of police type grant funds to the Police department of the General Fund; \$872,378 from Development Impact for various construction projects accounted for in the General Fund.

Transfers in to the Sewer, Refuse, and Water funds of \$192, \$160, and \$96, respectively, are from the CDBG fund for miscellaneous cost reimbursements.

Public Transit fund transfers in of \$71,179 are from the TDA-LTF fund to cover operating costs.

**Note 5 – Land Held for Resale**

At June 30, 2013, inventory consisted of two commercial lots valued at \$217,776. All values are stated at original cost.

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

**Note 6 – Deferred Charges**

Deferred charges represent the capitalized costs of issuing debt. The deferred charges are being amortized over the term of the debt on the straight line basis. Deferred charges at June 30, 2013, net of amortization, are as follows:

	Sewer	Water	Total
Revenue Bonds	\$ 250,654	\$ 79,910	\$ 330,564

**Note 7 – Capital Assets**

Capital asset activity for the year ended June 30, 2013 is as follows:

<b>Governmental Activities</b>	Balance June 30, 2012	Additions	Deletions	Transfers	Balance June 30, 2013
Capital Assets Not Being Depreciated:					
Land	\$ 493,248	\$ -	\$ -	\$ -	\$ 493,248
Construction in Progress	1,390,726	1,690,515	-	(1,380,745)	1,700,496
Total Capital Assets Not Being Depreciated	1,883,974	1,690,515	-	(1,380,745)	2,193,744
Capital Assets Being Depreciated:					
Infrastructure	10,005,960	280,997	-	1,380,745	11,667,702
Machinery and Equipment	671,002	131,830	-	-	802,832
Total Capital Assets Being Depreciated	10,676,962	412,827	-	1,380,745	12,470,534
Less Accumulated Depreciation For:					
Infrastructure	1,423,982	464,672	-	-	1,888,654
Machinery and Equipment	217,759	105	-	-	217,864
Total Accumulated Depreciation	1,641,741	464,777	-	-	2,106,518
Total Capital Assets Being Depreciated, net	9,035,221	(51,950)	-	1,380,745	10,364,016
Governmental Activities Capital Assets, net	\$ 10,919,195	\$ 1,638,565	\$ -	\$ -	\$ 12,557,760

Depreciation charged to governmental functions on the Statement of Activities during the year is as follows: \$10,752 to General Government, \$80,867 to Public Safety \$315,261 to Public Works and \$57,897 to Community Development.

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

**Note 7 – Capital Assets, (continued)**

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

<u>Business-Type Activities</u>	Balance June 30, 2012	Additions	Deletions	Transfers	Balance June 30, 2013
Capital Assets Not Being Depreciated:					
Land	\$ 1,166,042	\$ -	\$ -	\$ 34,332	\$ 1,200,374
Construction in Progress	414,556	312,151	-	(414,556)	312,151
Total Capital Assets Not Being Depreciated	1,580,598	312,151	-	(380,224)	1,512,525
Capital Assets Being Depreciated:					
Building and Improvements	3,729,558	1,601,411	(9,802)	31,171	5,352,338
Infrastructure	559,361	-	-	-	559,361
Machinery and Other	9,656,210	87,698	(76,000)	349,053	10,016,961
Vehicles	271,878	22,872	-	-	294,750
Vineyards	611,398	-	(611,398)	-	-
Total Capital Assets Being Depreciated	14,828,405	1,711,981	(697,200)	380,224	16,223,410
Less Accumulated Depreciation For:					
Building and Improvements	1,307,091	149,769	(9,802)	-	1,447,058
Infrastructure	111,872	13,984	-	-	125,856
Machinery and Other	5,066,007	295,573	(11,084)	-	5,350,496
Vehicles	239,669	16,043	-	-	255,712
Vineyards	275,130	30,570	(305,700)	-	-
Total Accumulated Depreciation	6,999,769	505,939	(326,586)	-	7,179,122
Total Capital Assets Being Depreciated, net	7,828,636	1,206,042	(370,614)	380,224	9,044,288
Business-Type Activities Capital Assets, net	\$ 9,409,234	\$ 1,518,193	\$ (370,614)	\$ -	\$ 10,556,813

Depreciation charged to business-type activities on the Statement of Activities during the year is as follows: \$251,448 to Sewer, \$232,036 to Water, \$8,948 to Refuse, and \$13,507 to Public Transit.

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

**Note 8 – Long-Term Liabilities**

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
<b>Governmental Activities:</b>					
Revenue Bonds	\$ 298,900	\$ -	\$ (58,144)	\$ 240,756	\$ 58,951
Note Payable	1,611,537	-	(190,658)	1,420,879	197,622
Capital Lease	132,359	37,516	(39,181)	130,694	38,867
Compensated Absences	33,544	14,781	-	48,325	-
<b>Total Governmental Activities</b>	<b>2,076,340</b>	<b>52,297</b>	<b>(287,983)</b>	<b>1,840,654</b>	<b>295,440</b>
<b>Business-Type Activities:</b>					
Revenue Bonds	7,350,000	-	(150,000)	7,200,000	150,000
Compensated Absences	19,760	-	(4,297)	15,463	-
<b>Total Business-Type Activities</b>	<b>7,369,760</b>	<b>-</b>	<b>(154,297)</b>	<b>7,215,463</b>	<b>150,000</b>
<b>Total Long-Term Liabilities</b>	<b>\$ 9,446,100</b>	<b>\$ 52,297</b>	<b>\$ (442,280)</b>	<b>\$ 9,056,117</b>	<b>\$ 445,440</b>

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

**Governmental Activities:**

Revenue Bonds:

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

\$ 240,756

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.

1,420,879

Capital Lease:

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

101,626

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

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

Capital Lease (continued):

Lease/Purchase obligation payable to Kansas State Bank of Manhattan dated July 24, 2012, in the amount of \$37,516; annual principal payments due each August 27 through 2016 and accrued interest at 6.308% payable annually. Secured by one automobile.

29,068

Total Capital Leases

130,694

Compensated Absences Payable

48,325

Total Governmental Activities

\$ 1,840,654

**Business-Type Activities:**

Revenue Bonds:

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

\$ 7,200,000

Compensated Absences Payable

15,463

Total Business-Type Activities

\$ 7,215,463

The annual requirements to amortize all indebtedness and other long-term liabilities outstanding at June 30, 2013, are as follows:

Year Ending June 30	<b>Governmental Activities</b>					
	Revenue Bonds		Note Payable		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 58,951	\$ 3,127	\$ 197,622	\$ 49,663	\$ 38,867	\$ 6,862
2015	59,769	2,308	204,841	42,445	40,881	4,848
2016	60,598	1,479	212,323	34,962	42,999	2,731
2017	61,438	638	220,079	27,207	7,947	501
2018	-	-	228,118	19,168	-	-
2019-2020	-	-	357,896	13,033	-	-
<b>Total</b>	<b>\$ 240,756</b>	<b>\$ 7,552</b>	<b>\$ 1,420,879</b>	<b>\$ 186,478</b>	<b>\$ 130,694</b>	<b>\$ 14,942</b>

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

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

**Business-Type Activities**

Year Ending June 30	Revenue Bonds	
	Principal	Interest
2014	\$ 150,000	\$ 319,468
2015	155,000	317,443
2016	155,000	314,885
2017	160,000	311,785
2018	165,000	308,025
2019-2023	890,000	1,465,683
2024-2028	1,090,000	1,272,350
2029-2033	1,380,000	977,750
2034-2038	1,765,000	596,000
2039-2041	1,290,000	131,000
Total	<u>\$ 7,200,000</u>	<u>\$ 6,014,389</u>

**Note 9 – Deferred Revenue**

Deferred Revenue at June 30, 2013 is detailed as follows:

	Governmental Activities		Total
	Unearned	Unavailable	Deferred Revenue
AB 109 Prison Realignment	\$ 72,919	\$ -	\$ 72,919
Prepaid Permits, Licenses, Etc.	130,785	-	130,785
CalHome Grants	400,000	-	400,000
HOME Grants	-	1,029,173	1,029,173
Total	<u>\$ 603,704</u>	<u>\$ 1,029,173</u>	<u>\$ 1,632,877</u>

**Business-Type Activities**

	Unearned
TDA - Dial A Ride	\$ 63,799
Water - State of California Grant	13,236
Total	<u>\$ 77,035</u>

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

**Note 10 – Public Entity Risk Pools**

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

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

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

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

The latest audited financial information available from CSJVRMA is for the year ended June 30, 2012 as follows:

Total Assets	\$ 70,671,479
Total Liabilities	<u>58,388,460</u>
Net Assets	<u>\$ 12,283,019</u>
Total Revenue	\$ 31,208,718
Total Expenses	<u>32,424,677</u>
Change in Net Assets	<u>\$ (1,215,959)</u>

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

**Note 11 – Retirement Plan**

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

Funding Policy – The City contributes 10% of permanent employees’ salaries who have at least three years of service. Vesting is at 33% per year over three years. In the event an employee terminates service prior to retirement, the employee is entitled to a refund of the employee’s contributions plus interest plus the vested portion of the City’s contributions. During the current year, the City was required to make contributions to the plan in the amount of \$148,200.

**Note 12 – Other Disclosures**

**Pledged Revenues**

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

**Economic Dependency**

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

**Fund Deficits**

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

Governmental Funds:		
TDA - LTF	\$	(35,969)
CDBG		(14,463)
CalHome		(24,826)
HOME		<u>(126,065)</u>
Total Governmental Funds	\$	<u>(201,323)</u>

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

**Date of Management Evaluation**

Management has evaluated subsequent events through April 16, 2014, the date on which the financial statements were available to be issued.

**Excess of Expenditures over Appropriations**

For the year ended June 30, 2013, some expenditures exceeded appropriations. The over expenditures were funded from current tax revenue and charges for services. All City expenditures were approved by the City Council.

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

**Note 12 – Other Disclosures, (continued)**

**Contingencies**

**Property Tax Liability** – The City has a contingent property tax liability for its share of tax refund claims pending against the County of Kern attributable to taxes paid by property owners but disputed. Because both the amount of the contingency and the expected outcome cannot be determined, the liability has not been provided for in the financial statements. At June 30, 2013, the latest date reported by the County, the contingent liability was \$51,563.

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

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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, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Taxes	\$ 2,011,596	\$ 2,297,251	\$ 2,141,078	\$ (156,173)
Licenses & Permits	14,850	14,018	4,499	(9,519)
Fines, Forfeitures & Assessment	5,000	55,000	84,229	29,229
Use of Money or Property	-	20,086	22,035	1,949
Intergovernmental	475,315	300,990	829,513	528,523
Charges for Services	211,850	197,271	205,241	7,970
Contributions and Donations	-	75,859	104,513	28,654
Other Income	327,139	90,833	84,973	(5,860)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	3,045,750	3,051,308	3,476,081	424,773
<b>Expenditures:</b>				
Current:				
General Government	\$ 420,625	\$ 377,163	\$ 363,599	\$ (13,564)
Public Safety	1,873,195	2,012,587	2,003,548	(9,039)
Public Works	529,586	391,859	337,159	(54,700)
Community Development	499,517	515,457	229,875	(285,582)
Non Departmental	479,786	519,786	337,215	(182,571)
Capital Outlay:				
General Capital Outlay	90,827	124,505	356,049	231,544
Street Improvements	-	-	1,638,045	1,638,045
Debt Service:				
Principal Retirement	-	-	229,839	229,839
Interest and Finance Charges	-	-	6,549	6,549
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	3,893,536	3,941,357	5,501,878	1,560,521
Excess of Revenues Over (Under) Expenditures	<hr/>	<hr/>	<hr/>	<hr/>
	(847,786)	(890,049)	(2,025,797)	(1,135,748)
<b>Other Financing Sources (Uses):</b>				
Transfers In	1,010,076	781,963	1,840,098	1,058,135
Transfers Out	(32,045)	-	-	-
Proceeds From Long-Term Debt	-	-	37,516	37,516
Sale of Capital Assets	-	271,260	271,260	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	978,031	1,053,223	2,148,874	1,095,651
Net Change in Fund Balances	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 130,245	\$ 163,174	123,077	\$ (40,097)
Fund Balances - Beginning			<hr/>	<hr/>
			481,185	
Fund Balances - Ending			<hr/>	<hr/>
			\$ 604,262	

**City of McFarland**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL**  
**TDA - LTF**  
**Year ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Intergovernmental	\$ 1,239,520	\$ 1,055,125	\$ 690,935	\$ (364,190)
Charges for Services	-	-	140	140
	<hr/>			
Total Revenues	1,239,520	1,055,125	691,075	(364,050)
<b>Expenditures:</b>				
Current:				
Public Works	\$ -	\$ -	\$ -	\$ -
Capital Outlay	-	31,052	41,482	10,430
	<hr/>			
Total Expenditures	-	31,052	41,482	10,430
	<hr/>			
Excess of Revenues Over (Under) Expenditures	1,239,520	1,024,073	649,593	(374,480)
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	(1,239,520)	(984,573)	(634,860)	349,713
	<hr/>			
Total Other Financing Sources (Uses)	(1,239,520)	(984,573)	(634,860)	349,713
	<hr/>			
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ 39,500</u>	14,733	<u>\$ (24,767)</u>
Fund Balances - Beginning			<u>(50,702)</u>	
Fund Balances - Ending			<u>\$ (35,969)</u>	

**City of McFarland**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL**  
**GAS TAX FUND**  
**Year ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Intergovernmental	\$ 368,306	\$ 368,306	\$ 300,059	\$ (68,247)
Total Revenues	368,306	368,306	300,059	(68,247)
<b>Expenditures:</b>				
Current:				
Public Works	\$ -	\$ -	\$ -	\$ -
Capital Outlay	62,616	62,616	-	(62,616)
Total Expenditures	62,616	62,616	-	(62,616)
Excess of Revenues Over (Under) Expenditures	305,690	305,690	300,059	(5,631)
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	(305,690)	(305,690)	(269,925)	35,765
Total Other Financing Sources (Uses)	(305,690)	(305,690)	(269,925)	35,765
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	30,134	<u>\$ 30,134</u>
Fund Balances - Beginning			<u>70,067</u>	
Fund Balances - Ending			<u>\$ 100,201</u>	

**City of McFarland**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL**  
**CDBG FUND**  
**Year ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Intergovernmental	\$ 393,307	\$ 458,349	\$ 125,928	\$ (332,421)
Total Revenues	393,307	458,349	125,928	(332,421)
<b>Expenditures:</b>				
Current:				
Community Development	\$ -	\$ 1,311	\$ 4,668	\$ 3,357
Capital Outlay	-	76,707	83,793	7,086
Total Expenditures	-	78,018	88,461	10,443
Excess of Revenues Over (Under) Expenditures	393,307	380,331	37,467	(342,864)
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	70,000	-	(70,000)
Transfers Out	(393,307)	(393,307)	(51,930)	341,377
Total Other Financing Sources (Uses)	(393,307)	(323,307)	(51,930)	271,377
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ 57,024</u>	(14,463)	<u>\$ (71,487)</u>
Fund Balances - Beginning			<u>-</u>	
Fund Balances - Ending			<u>\$ (14,463)</u>	

**City of McFarland**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL**  
**CALHOME**  
**Year ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Intergovernmental	\$ 2,117,624	\$ 2,136,482	\$ 1,453,500	\$ (682,982)
Charges for Services	-	70,605	26,590	
	<hr/>			
Total Revenues	2,117,624	2,207,087	1,480,090	(682,982)
<b>Expenditures:</b>				
Current:				
Community Development	\$ -	\$ 103,500	\$ 1,453,659	\$ 1,350,159
Capital Outlay	-	-	-	-
	<hr/>			
Total Expenditures	-	103,500	1,453,659	1,350,159
<hr/>				
Excess of Revenues Over (Under) Expenditures	2,117,624	2,103,587	26,431	(2,033,141)
<hr/>				
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	(2,117,624)	(2,117,624)	(26,590)	2,091,034
	<hr/>			
Total Other Financing Sources (Uses)	(2,117,624)	(2,117,624)	(26,590)	2,091,034
<hr/>				
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ (14,037)</u>	(159)	<u>\$ 57,893</u>
<hr/>				
Fund Balances - Beginning			(24,667)	
Fund Balances - Ending			<u>\$ (24,826)</u>	

**City of McFarland**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL**  
**HOME FUND**  
**Year ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Intergovernmental	\$ -	\$ 10,000	\$ -	\$ (10,000)
Total Revenues	-	10,000	-	(10,000)
<b>Expenditures:</b>				
Current:				
Community Development	\$ -	\$ 8,008	\$ 46,367	\$ 38,359
Capital Outlay	-	-	-	-
Total Expenditures	-	8,008	46,367	38,359
Excess of Revenues Over (Under) Expenditures	-	1,992	(46,367)	(48,359)
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ 1,992</u>	<u>(46,367)</u>	<u>\$ (48,359)</u>
Fund Balances - Beginning			<u>(79,698)</u>	
Fund Balances - Ending			<u>\$ (126,065)</u>	

**City of McFarland**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL**  
**LIGHTING & LANDSCAPE FUND**  
**Year ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Taxes	\$ 106,233	\$ 106,233	\$ 91,503	\$ (14,730)
Total Revenues	106,233	106,233	91,503	(14,730)
<b>Expenditures:</b>				
Current:				
Public Works	\$ 106,233	\$ 106,233	\$ 46,745	\$ (59,488)
Capital Outlay	-	-	36,100	36,100
Total Expenditures	106,233	106,233	82,845	(23,388)
Excess of Revenues Over (Under) Expenditures	-	-	8,658	8,658
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	8,658	<u>\$ 8,658</u>
Fund Balances - Beginning			-	
Fund Balances - Ending			<u>\$ 8,658</u>	

**City of McFarland**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL**  
**COPS FUND**  
**Year ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Intergovernmental	\$ -	\$ 65,200	\$ 56,042	\$ (9,158)
Total Revenues	-	65,200	56,042	(9,158)
<b>Expenditures:</b>				
Current:				
Community Development	\$ -	\$ -	\$ -	\$ -
Capital Outlay	-	-	-	-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	-	65,200	56,042	(9,158)
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	-	(65,200)	(56,042)	9,158
Total Other Financing Sources (Uses)	-	(65,200)	(56,042)	9,158
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balances - Beginning			-	
Fund Balances - Ending			<u>\$ -</u>	

**City of McFarland**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL**  
**DEVELOPMENT IMPACT FUND**  
Year ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Licenses & Permits	\$ 1,135,490	\$ 1,135,490	\$ 402,948	\$ (732,542)
Use of Money or Property	4,000	4,000	4,986	986
	<hr/>			
Total Revenues	1,139,490	1,139,490	407,934	(731,556)
<b>Expenditures:</b>				
Current:				
Public Works	\$ -	\$ -	\$ -	\$ -
Capital Outlay	-	-	-	-
	<hr/>			
Total Expenditures	-	-	-	-
	<hr/>			
Excess of Revenues Over (Under) Expenditures	1,139,490	1,139,490	407,934	(731,556)
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	(1,460,278)	(1,484,122)	(872,378)	611,744
	<hr/>			
Total Other Financing Sources (Uses)	(1,460,278)	(1,484,122)	(872,378)	611,744
	<hr/>			
Net Change in Fund Balances	<u>\$ (320,788)</u>	<u>\$ (344,632)</u>	(464,444)	<u>\$ (119,812)</u>
	<hr/>			
Fund Balances - Beginning			2,771,604	
	<hr/>			
Fund Balances - Ending			<u>\$ 2,307,160</u>	

**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, 2013**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Other Income	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
<b>Expenditures:</b>				
Current:				
Community Development	\$ -	\$ -	\$ 11,118	\$ 11,118
Total Expenditures	-	-	11,118	11,118
Excess of Revenues Over (Under) Expenditures	-	-	(11,118)	(11,118)
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	\$ -	\$ -	(11,118)	\$ (11,118)
Fund Balances - Beginning			11,118	
Fund Balances - Ending			\$ -	

**City of McFarland**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES (DEFICITS), BUDGET AND ACTUAL**  
**McFARLAND IMPROVEMENT AUTHORITY**  
**Year ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Intergovernmental	\$ -	\$ -	\$ 62,077	\$ 62,077
Total Revenues	-	-	62,077	62,077
<b>Expenditures:</b>				
Current:				
Community Development	\$ -	\$ -	\$ 7,010	\$ 7,010
Debt Service:				
Principal Retirement	-	-	58,144	58,144
Interest and Finance Charges	-	-	3,933	3,933
Total Expenditures	-	-	69,087	69,087
Excess of Revenues Over (Under) Expenditures	-	-	(7,010)	(7,010)
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Proceeds From Long-Term Debt	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	(7,010)	<u>\$ (7,010)</u>
Fund Balances - Beginning			<u>18,360</u>	
Fund Balances - Ending			<u>\$ 11,350</u>	

**ADDITIONAL REPORTING REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

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# Albert & Associates, LLP

Certified Public Accountants

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

To the City Council  
City of McFarland, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of City of McFarland, California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of McFarland, California's basic financial statements and have issued our report thereon dated April 16, 2014.

### Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. (2013-1 and 2013-2).

### Compliance and Other Matters

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

AGRI-BUSINESS CENTER

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### **City of McFarland, California's Response to Findings**

City of McFarland, California's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of McFarland, California's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Albert & Associates, LLP*

Wasco, California  
April 16, 2014

**City of McFarland**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**June 30, 2013**

**2013-1 Segregation of Duties**

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

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

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

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

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

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

**2013-2 Design of Internal Control**

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

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

- a. The City sometimes miscodes expenditures and adjusting journal entries. This typically occurs in accounting for activities related to unique projects and unusual transactions.
- b. The City did not fully adjust Accrued income and expense amounts to the actual year end calculated balances for interest expense and salaries.
- c. The City did not record certain entries such as removing the cost of an abandoned water well and recording loan proceeds relating to an auto loan.

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

*Effect:* General ledger account balances are misstated.

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

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

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