

**CITY OF McFARLAND, CALIFORNIA**

**FINANCIAL STATEMENTS**

**Fiscal Year Ended June 30, 2014**

# CITY OF McFARLAND

## TABLE OF CONTENTS

June 30, 2014

<b>Independent Auditor's Report</b>	1
<b>Basic Financial Statements:</b>	
Statement of Net Position	3
Statement of Activities	4
Balance Sheet – Governmental Funds	5
Reconciliation of the Fund Balances of Governmental Funds to the Net Position of Governmental Activities in the Statement of Net Position	6
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits) – Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Position – Proprietary Funds	9
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	10
Statement of Cash Flows – Proprietary Funds	11
Statement of Fiduciary Net Position – Fiduciary Funds	12
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	13
Notes to the Basic Financial Statements	14
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – General Fund	39
Budgetary Comparison Schedule – TDA-LTF Fund	40
Budgetary Comparison Schedule – Gas Tax Fund	41
Budgetary Comparison Schedule – CDBG Fund	42
Budgetary Comparison Schedule – CalHome Fund	43
Budgetary Comparison Schedule – HOME Fund	44
Budgetary Comparison Schedule – Lighting & Landscape Fund	45
Budgetary Comparison Schedule – COPS Fund	46
Budgetary Comparison Schedule – Development Impact Fund	47
Budgetary Comparison Schedule – McFarland Improvement Authority	48
<b>Additional Reporting Required by Government Auditing Standards</b>	
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	51
Schedule of Findings and Responses	53
<b>Single Audit Reports and Schedules:</b>	
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required By OMB Circular A-133	57
Schedule of Expenditures of Federal Awards	59
Notes to Schedules of Expenditures of Federal Awards	60
Schedule of Findings and Questioned Costs	61
Summary Schedule of Prior Findings	62

## 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, 2014, 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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 39 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of McFarland, California's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.A. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The schedule of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2015, 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  
March 25, 2015

**City of McFarland**  
**STATEMENT OF NET POSITION**  
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Current Assets:			
Cash and Investments	\$ 2,771,685	\$ 5,998,376	\$ 8,770,061
Restricted Cash:			
With Fiscal Agents	-	3,288,521	3,288,521
Receivables, net	896,286	383,850	1,280,136
Prepaid Expenses	414,874	13,715	428,589
Due From RDA Successor Private Purpose Trust Fund	80,280	-	80,280
Land Held for Resale	217,776	-	217,776
Supplies on Hand	-	7,967	7,967
	4,380,901	9,692,429	14,073,330
Total Current Assets			
Noncurrent Assets:			
Capital Assets:			
Land	493,248	1,200,374	1,693,622
Construction in Progress	2,061,228	601,786	2,663,014
Depreciable Buildings, Property, Equipment and Infrastructure, net of accumulated depreciation	11,901,609	9,316,068	21,217,677
Notes Receivable	2,516,508	-	2,516,508
Deferred Charges	-	318,433	318,433
	16,972,593	11,436,661	28,409,254
Total Noncurrent Assets			
Total Assets			
	21,353,494	21,129,090	42,482,584
<b>Liabilities:</b>			
Current Liabilities:			
Accounts Payable	346,655	226,427	573,082
Accrued Liabilities	83,544	79,361	162,905
Deposits Received	-	7,828	7,828
Unearned Revenue	411,720	29,042	440,762
Bonds and Notes Payable Due Within One Year	368,153	155,000	523,153
	1,210,072	497,658	1,707,730
Total Current Liabilities			
Noncurrent Liabilities:			
Bonds and Notes Payable Due in More Than One Year	1,744,898	6,895,000	8,639,898
Compensated Absences	50,928	49,380	100,308
	1,795,826	6,944,380	8,740,206
Total Noncurrent Liabilities			
Total Liabilities			
	3,005,898	7,442,038	10,447,936
<b>Net Position:</b>			
Invested in Capital Assets, net of related debt	13,566,291	7,356,749	20,923,040
Restricted For:			
Streets and Roads	48,283	-	48,283
Community Development	1,947,153	-	1,947,153
Capital Projects	2,215,058	2,642,425	4,857,483
Unrestricted	570,811	3,687,878	4,258,689
	18,347,596	13,687,052	32,034,648
Net Position			
	\$ 18,347,596	\$ 13,687,052	\$ 32,034,648

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

**City of McFarland**  
**STATEMENT OF ACTIVITIES**  
Year ended June 30, 2014

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	\$ 575,425	\$ 311,137	\$ 20,625	\$ 161,392	\$ (82,271)	\$ -	\$ (82,271)
Public Safety	2,262,031	236,639	572,747	44,530	(1,408,115)	-	(1,408,115)
Public Works	778,423	898,137	291,759	416,152	827,625	-	827,625
Community Development	580,187	431,821	31,849	1,921,080	1,804,563	-	1,804,563
<b>Total Governmental Activities</b>	<b>4,196,066</b>	<b>1,877,734</b>	<b>916,980</b>	<b>2,543,154</b>	<b>1,141,802</b>	<b>-</b>	<b>1,141,802</b>
<b>Business-Type Activities:</b>							
Sewer	1,607,029	1,881,428	-	-	-	274,399	274,399
Refuse	1,164,756	1,084,321	-	-	-	(80,435)	(80,435)
Water	1,417,942	1,386,924	-	103,577	-	72,559	72,559
Public Transportation	156,552	19,791	101,078	-	-	(35,683)	(35,683)
<b>Total Business-Type Activities</b>	<b>4,346,279</b>	<b>4,372,464</b>	<b>101,078</b>	<b>103,577</b>	<b>-</b>	<b>230,840</b>	<b>230,840</b>
<b>Total</b>	<b>\$ 8,542,345</b>	<b>\$ 6,250,198</b>	<b>\$ 1,018,058</b>	<b>\$ 2,646,731</b>	<b>1,141,802</b>	<b>230,840</b>	<b>1,372,642</b>
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property Tax					595,537	-	595,537
Sales Tax					365,221	-	365,221
Franchise Tax					219,757	-	219,757
State Allocation of Gas Tax					418,268	-	418,268
<b>Intergovernmental, Unrestricted:</b>							
Motor Vehicle In-lieu Tax					1,003,555	-	1,003,555
<b>Total Taxes</b>					<b>2,602,338</b>	<b>-</b>	<b>2,602,338</b>
Unrestricted investment earnings					20,784	-	20,784
Miscellaneous Revenue					46,072	-	46,072
Transfers					(34,116)	34,116	-
Gain/(Loss) on Sale of Capital Assets					-	-	-
<b>Total General Revenues and Transfers</b>					<b>2,635,078</b>	<b>34,116</b>	<b>2,669,194</b>
<b>Change in Net Position</b>					<b>3,776,880</b>	<b>264,956</b>	<b>4,041,836</b>
<b>Net Position - Beginning</b>					<b>14,570,716</b>	<b>13,422,096</b>	<b>27,992,812</b>
<b>Net Position - Ending</b>					<b>\$ 18,347,596</b>	<b>\$ 13,687,052</b>	<b>\$ 32,034,648</b>

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

**City of McFarland**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**June 30, 2014**

	General	TDA - LTF	Gas Tax	CDBG	CalHome	HOME	Lighting & Landscape	COPS	Development Impact	McFarland Improvement Authority	Total Governmental Funds
<b>Assets:</b>											
Cash and Investments	\$ 83,126	\$ -	\$ 25,273	\$ -	\$ 294,523	\$ -	\$ 18,589	\$ -	\$ 2,134,778	\$ 215,396	\$ 2,771,685
Receivables, net	685,211	69,539	40,981	67,827	-	1,573	-	31,155	-	-	896,286
Prepaid Costs	414,874	-	-	-	-	-	-	-	-	-	414,874
Due from Other Funds	307,894	-	-	-	-	-	-	-	80,280	-	388,174
Notes Receivable	-	-	-	-	1,804,692	711,816	-	-	-	-	2,516,508
Land Held for Resale	217,776	-	-	-	-	-	-	-	-	-	217,776
<b>Total Assets</b>	<b>\$ 1,708,881</b>	<b>\$ 69,539</b>	<b>\$ 66,254</b>	<b>\$ 67,827</b>	<b>\$ 2,099,215</b>	<b>\$ 713,389</b>	<b>\$ 18,589</b>	<b>\$ 31,155</b>	<b>\$ 2,215,058</b>	<b>\$ 215,396</b>	<b>\$ 7,205,303</b>
<b>Liabilities:</b>											
Accounts Payable	\$ 344,715	\$ -	\$ -	\$ -	\$ 1,350	\$ -	\$ 590	\$ -	\$ -	\$ -	\$ 346,655
Accrued Liabilities	71,933	-	-	-	-	-	-	-	-	-	71,933
Deposits Received	-	-	-	-	-	-	-	-	-	-	-
Due to Other Funds	-	105,509	-	82,290	-	88,940	-	31,155	-	-	307,894
Unearned Revenue	53,432	-	-	-	318,069	40,219	-	-	-	-	411,720
<b>Total Liabilities</b>	<b>470,080</b>	<b>105,509</b>	<b>-</b>	<b>82,290</b>	<b>319,419</b>	<b>129,159</b>	<b>590</b>	<b>31,155</b>	<b>-</b>	<b>-</b>	<b>1,138,202</b>
<b>Deferred Inflows of Resources:</b>											
Unavailable Revenue	-	-	-	-	1,804,692	711,816	-	-	-	-	2,516,508
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,804,692</b>	<b>711,816</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,516,508</b>
<b>Fund Balances:</b>											
<b>Nonspendable:</b>											
Land Held for Resale	217,776	-	-	-	-	-	-	-	-	-	217,776
Prepaid Costs	414,874	-	-	-	-	-	-	-	-	-	414,874
<b>Restricted:</b>											
Streets and Transportation	-	-	66,254	-	-	-	17,999	-	-	-	84,253
Impact Fees	-	-	-	-	-	-	-	-	2,215,058	-	2,215,058
Community Development	-	-	-	-	-	-	-	-	-	215,396	215,396
Unassigned	606,151	(35,970)	-	(14,463)	(24,896)	(127,586)	-	-	-	-	403,236
<b>Total Fund Balances (Deficit)</b>	<b>1,238,801</b>	<b>(35,970)</b>	<b>66,254</b>	<b>(14,463)</b>	<b>(24,896)</b>	<b>(127,586)</b>	<b>17,999</b>	<b>-</b>	<b>2,215,058</b>	<b>215,396</b>	<b>3,550,593</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 1,708,881</b>	<b>\$ 69,539</b>	<b>\$ 66,254</b>	<b>\$ 67,827</b>	<b>\$ 2,099,215</b>	<b>\$ 713,389</b>	<b>\$ 18,589</b>	<b>\$ 31,155</b>	<b>\$ 2,215,058</b>	<b>\$ 215,396</b>	<b>\$ 7,205,303</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, 2014

Fund balances of governmental funds	\$	3,550,593
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the Governmental Funds Balance Sheet. However, the Statement of Net Position includes those capital assets among the assets of the City as a whole.</p>		
Beginning Balance, net of depreciation	\$ 12,557,760	
Current Year Additions	2,452,074	
Current Year Depreciation	<u>(553,749)</u>	
Ending Balance, net of depreciation		14,456,085
<p>Long-term assets that are not available to pay for current-period expenditures are considered deferred revenue for the Government Funds Balance Sheet. However, these assets are included in the Statement of Net Position.</p>		
		2,516,508
<p>Accrued interest payable for the period between the final interest payment date and the end of the fiscal year is not reported as a liability in the governmental funds balance sheet.</p>		
		(11,611)
<p>Long-term liabilities are not due and payable in the current period, and therefore, are not reported as liabilities in the Governmental Funds Balance Sheet. All liabilities, both current and long-term, are reported in the Statement of Net Position.</p>		
Compensated Absences	(50,928)	
Long-Term Debt	<u>(2,113,051)</u>	
Total Long-Term Liabilities		<u>(2,163,979)</u>
Net position of governmental activities	\$	<u><u>18,347,596</u></u>

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

**City of McFarland**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES (DEFICITS) – GOVERNMENTAL FUNDS**  
**Year ended June 30, 2014**

	General	TDA - LTF	Gas Tax	CDBG	CalHome	HOME	Lighting & Landscape	COPS	Development Impact	McFarland Improvement Authority	Total Governmental Funds
<b>Revenues:</b>											
Taxes	\$ 2,104,999	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 94,981	\$ -	\$ -	\$ -	\$ 2,199,980
Licenses & Permits	9,610	-	-	-	-	-	-	-	1,322,504	-	1,332,114
Fines, Forfeitures & Assessments	85,585	-	-	-	-	-	-	-	-	-	85,585
Use of Money or Property	13,908	-	-	-	-	-	-	-	6,876	-	20,784
Intergovernmental	976,213	291,758	418,268	391,813	41,931	-	-	111,738	-	62,077	2,293,798
Charges for Services	249,381	-	-	-	132,669	-	-	-	-	-	382,050
Contributions and Donations	159,344	-	-	-	-	-	-	-	-	-	159,344
Other Income	46,072	-	-	-	-	-	-	-	-	-	46,072
<b>Total Revenues</b>	<b>3,645,112</b>	<b>291,758</b>	<b>418,268</b>	<b>391,813</b>	<b>174,600</b>	<b>-</b>	<b>94,981</b>	<b>111,738</b>	<b>1,329,380</b>	<b>62,077</b>	<b>6,519,727</b>
<b>Expenditures:</b>											
Current:											
General Government	238,946	-	-	-	-	-	-	-	-	-	238,946
Public Safety	2,126,207	-	-	-	-	-	-	-	-	-	2,126,207
Public Works	431,251	-	-	-	-	-	33,542	-	-	-	464,793
Community Development	228,037	-	-	-	42,001	1,521	-	-	-	231,953	503,512
Non Departmental	278,086	-	-	-	-	-	-	-	-	-	278,086
Capital Outlay:											
General Capital Outlay	430,947	-	-	-	-	-	52,098	-	-	-	483,045
Street Improvements	1,981,469	-	-	-	-	-	-	-	-	-	1,981,469
Debt Service:											
Principal Retirement	286,710	-	-	-	-	-	-	-	-	58,951	345,661
Interest and Finance Charges	6,862	-	-	-	-	-	-	-	-	3,127	9,989
<b>Total Expenditures</b>	<b>6,008,515</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>42,001</b>	<b>1,521</b>	<b>85,640</b>	<b>-</b>	<b>-</b>	<b>294,031</b>	<b>6,431,708</b>
Excess of Revenues Over (Under) Expenditures	(2,363,403)	291,758	418,268	391,813	132,599	(1,521)	9,341	111,738	1,329,380	(231,954)	88,019
<b>Other Financing Sources (Uses):</b>											
Transfers In	2,767,560	-	-	-	-	-	-	-	-	-	2,767,560
Transfers Out	-	(291,759)	(452,215)	(391,813)	(132,669)	-	-	(111,738)	(1,421,482)	-	(2,801,676)
Proceeds From Long-Term Debt	230,382	-	-	-	-	-	-	-	-	436,000	666,382
Sale of Capital Assets	-	-	-	-	-	-	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>2,997,942</b>	<b>(291,759)</b>	<b>(452,215)</b>	<b>(391,813)</b>	<b>(132,669)</b>	<b>-</b>	<b>-</b>	<b>(111,738)</b>	<b>(1,421,482)</b>	<b>436,000</b>	<b>632,266</b>
Net Change in Fund Balances	634,539	(1)	(33,947)	-	(70)	(1,521)	9,341	-	(92,102)	204,046	720,285
Fund Balances - Beginning	604,262	(35,969)	100,201	(14,463)	(24,826)	(126,065)	8,658	-	2,307,160	11,350	2,830,308
Fund Balances - Ending	\$ 1,238,801	\$ (35,970)	\$ 66,254	\$ (14,463)	\$ (24,896)	\$ (127,586)	\$ 17,999	\$ -	\$ 2,215,058	\$ 215,396	\$ 3,550,593

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, 2014

Net change in fund balance - total governmental funds	\$	720,285
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 (\$2,452,074) exceeded depreciation (\$553,749) in the current period.		1,898,325
The issuance of long-term debt provides current financial resources to governmental funds, but the issuance has no affect on net position.		(666,382)
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.		345,661
Accrued interest payable for the period between the final interest payment date and the end of the fiscal year is not reported as an expense in the governmental fund statements. This difference between the prior year's accrued interest expense and the current year's accrued interest expense is reported in the Statement of Activities.		(5,741)
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.		(2,603)
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 (\$1,029,173) is exceeded by unavailable deferred revenue at the end of the year (\$2,516,508)		1,487,335
Change in net position of governmental activities	\$	3,776,880

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

**City of McFarland**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2014**

	Sewer	Refuse	Water	Public Transit	Total Proprietary
<b>Assets:</b>					
Current Assets:					
Cash and Investments	\$ 2,939,569	\$ 370,068	\$ 2,618,655	\$ 70,084	\$ 5,998,376
Investments With Fiscal Agents - Restricted	3,064,578	-	223,943	-	3,288,521
Receivables, net	158,599	122,299	102,952	-	383,850
Prepaid Expenses	4,994	1,802	4,396	2,523	13,715
Supplies	-	-	7,967	-	7,967
<b>Total Current Assets</b>	<b>6,167,740</b>	<b>494,169</b>	<b>2,957,913</b>	<b>72,607</b>	<b>9,692,429</b>
Noncurrent Assets:					
Deferred Charges	241,455	-	76,978	-	318,433
Capital Assets:					
Land	1,120,000	-	80,374	-	1,200,374
Construction in Progress	601,786	-	-	-	601,786
Depreciable Buildings, Property, Equipment and Infrastructure, net of accumulated depreciation	3,936,850	38,918	5,240,721	99,579	9,316,068
<b>Total Noncurrent Assets</b>	<b>5,900,091</b>	<b>38,918</b>	<b>5,398,073</b>	<b>99,579</b>	<b>11,436,661</b>
<b>Total Assets</b>	<b>\$ 12,067,831</b>	<b>\$ 533,087</b>	<b>\$ 8,355,986</b>	<b>\$ 172,186</b>	<b>\$ 21,129,090</b>
<b>Liabilities:</b>					
Current Liabilities:					
Accounts Payable	\$ 97,654	\$ 83,650	\$ 41,092	\$ 4,031	\$ 226,427
Accrued Interest Payable	52,907	-	26,454	-	79,361
Customer Deposits	-	-	7,828	-	7,828
Due to Other Funds	-	-	-	-	-
Unearned Revenue	-	-	8,698	20,344	29,042
Current Portion of Long-Term Debt	103,333	-	51,667	-	155,000
<b>Total Current Liabilities</b>	<b>253,894</b>	<b>83,650</b>	<b>135,739</b>	<b>24,375</b>	<b>497,658</b>
Noncurrent Liabilities:					
Accrued Compensated Absences	19,663	11,158	16,574	1,985	49,380
Bonds Payable	4,596,667	-	2,298,333	-	6,895,000
<b>Total Noncurrent Liabilities</b>	<b>4,616,330</b>	<b>11,158</b>	<b>2,314,907</b>	<b>1,985</b>	<b>6,944,380</b>
<b>Total Liabilities</b>	<b>4,870,224</b>	<b>94,808</b>	<b>2,450,646</b>	<b>26,360</b>	<b>7,442,038</b>
<b>Net Position:</b>					
Invested in Capital Assets, net of related debt	4,023,214	38,918	3,195,038	99,579	7,356,749
Restricted For:					
Capital Projects (expendable)	1,172,791	-	1,469,634	-	2,642,425
Unrestricted	2,001,602	399,361	1,240,668	46,247	3,687,878
<b>Net Position</b>	<b>\$ 7,197,607</b>	<b>\$ 438,279</b>	<b>\$ 5,905,340</b>	<b>\$ 145,826</b>	<b>\$ 13,687,052</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, 2014**

	Sewer	Refuse	Water	Public Transit	Total Proprietary
<b>Operating Revenues:</b>					
Charges for Services	\$ 1,453,955	\$ 1,084,321	\$ 1,043,158	\$ 19,786	\$ 3,601,220
Total Operating Revenues	1,453,955	1,084,321	1,043,158	19,786	3,601,220
<b>Operating Expenses:</b>					
Wages and Benefits	458,494	154,006	438,615	92,543	1,143,658
Administration	186,542	988,933	113,562	15,383	1,304,420
Materials and Supplies	37,222	5,527	58,381	22,800	123,930
Maintenance and Repair	72,563	63	19,221	12,319	104,166
Utilities	240,968	4,128	297,941	-	543,037
Franchise Fees	134,108	-	83,007	-	217,115
Depreciation	254,907	12,099	299,360	13,507	579,873
Total Operating Expenses	1,384,804	1,164,756	1,310,087	156,552	4,016,199
Operating Income (Loss)	69,151	(80,435)	(266,929)	(136,766)	(414,979)
<b>Nonoperating Revenues (Expenses):</b>					
Interest Income	18,924	-	9,576	5	28,505
Rent Income	43,443	-	-	-	43,443
Connection Fees	365,106	-	334,190	-	699,296
Local Transportation Funding	-	-	-	101,078	101,078
Grants	-	-	103,577	-	103,577
Interest Expense	(222,225)	-	(107,855)	-	(330,080)
Gain/(Loss) on Sale of Assets	-	-	-	-	-
Total Nonoperating Revenues (Expenses)	205,248	-	339,488	101,083	645,819
Income (Loss) Before Contributions and Transfers	274,399	(80,435)	72,559	(35,683)	230,840
<b>Transfers:</b>					
Transfers In	121,389	-	-	34,116	155,505
Transfers Out	-	-	(121,389)	-	(121,389)
Change in Net Position	395,788	(80,435)	(48,830)	(1,567)	264,956
Net Position - Beginning	6,801,819	518,714	5,954,170	147,393	13,422,096
Net Position - Ending	\$ 7,197,607	\$ 438,279	\$ 5,905,340	\$ 145,826	\$ 13,687,052

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

**City of McFarland**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**Year ended June 30, 2014**

	Sewer	Refuse	Water	Public Transportation	Total Proprietary
<b>Cash flows from operating activities:</b>					
Cash received from:					
Customers, including cash deposits	\$ 1,464,306	\$ 1,082,336	\$ 1,088,609	\$ 19,786	\$ 3,655,037
Cash paid to:					
Suppliers	(656,940)	(996,024)	(594,491)	(51,493)	(2,298,948)
Employees	(444,921)	(147,144)	(426,418)	(91,258)	(1,109,741)
Net cash provided (used) by operating activities	<u>362,445</u>	<u>(60,832)</u>	<u>67,700</u>	<u>(122,965)</u>	<u>246,348</u>
<b>Net cash provided from noncapital financing activities:</b>					
Cash transferred from other funds	121,389	-	-	34,116	155,505
Cash transferred to other funds	-	-	(121,389)	-	(121,389)
Connection fees	365,106	-	334,190	-	699,296
Intergovernmental revenue	-	-	99,039	57,623	156,662
Net cash provided (used) by noncapital financing activities	<u>486,495</u>	<u>-</u>	<u>311,840</u>	<u>91,739</u>	<u>890,074</u>
<b>Cash flows from capital and related financing activities:</b>					
Principal payments:					
Revenue Bonds	(100,000)	-	(50,000)	-	(150,000)
Interest paid	(213,364)	-	(105,091)	-	(318,455)
Purchase of capital assets	(901,964)	(21,171)	(218,153)	-	(1,141,288)
Net cash provided (used) by capital and related financing activities	<u>(1,215,328)</u>	<u>(21,171)</u>	<u>(373,244)</u>	<u>-</u>	<u>(1,609,743)</u>
<b>Cash flows from investing activities:</b>					
Interest received	18,924	-	9,576	5	28,505
Rents Received	43,443	-	-	-	43,443
Net cash provided by investing activities	<u>62,367</u>	<u>-</u>	<u>9,576</u>	<u>5</u>	<u>71,948</u>
Net increase (decrease) in cash	(304,021)	(82,003)	15,872	(31,221)	(401,373)
Cash and cash equivalents - Beginning of year	<u>6,308,168</u>	<u>452,071</u>	<u>2,826,726</u>	<u>101,305</u>	<u>9,688,270</u>
Cash and cash equivalents - End of year	<u>\$ 6,004,147</u>	<u>\$ 370,068</u>	<u>\$ 2,842,598</u>	<u>\$ 70,084</u>	<u>\$ 9,286,897</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>					
Operating income (loss)	\$ 69,151	\$ (80,435)	\$ (266,929)	\$ (136,766)	\$ (414,979)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	254,907	12,099	299,360	13,507	579,873
(Increase) decrease in accounts receivable	10,351	(1,985)	45,451	-	53,817
(Increase) decrease in prepaid expenses	(4,994)	(1,802)	(4,396)	(2,523)	(13,715)
(Increase) decrease in supplies	-	-	154	-	154
Increase (decrease) in accounts payable	19,457	4,429	(18,137)	1,532	7,281
Increase (decrease) in compensated absences	13,573	6,862	12,197	1,285	33,917
Net cash provided (used) by operating activities	<u>\$ 362,445</u>	<u>\$ (60,832)</u>	<u>\$ 67,700</u>	<u>\$ (122,965)</u>	<u>\$ 246,348</u>
<b>Cash and cash equivalents per Statement of Net Assets:</b>					
Cash and investments	\$ 2,939,569	\$ 370,068	\$ 2,618,655	\$ 70,084	\$ 5,998,376
Investments with fiscal agents - restricted	<u>3,064,578</u>	<u>-</u>	<u>223,943</u>	<u>-</u>	<u>3,288,521</u>
Total cash and cash equivalents at end of year	<u>\$ 6,004,147</u>	<u>\$ 370,068</u>	<u>\$ 2,842,598</u>	<u>\$ 70,084</u>	<u>\$ 9,286,897</u>

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, 2014**

		RDA Successor Agency Private Purpose Trust Fund
<b>Assets:</b>		
Cash and Investments	\$	7,689
Land Held for Resale		-
		<hr/>
Total Assets	\$	<u>7,689</u>
<b>Liabilities:</b>		
Accounts Payable		-
Due to City of McFarland		80,280
Unearned Revenue		8,145
		<hr/>
Total Liabilities		<u>88,425</u>
<b>Net Position:</b>		
Held in Trust for Retirement of Obligations of the Former McFarland Redevelopment Agency	\$	<u>(80,736)</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, 2014**

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

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

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2014

**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, 2014

**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, 2014

**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, 2014

**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 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, 2014

**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, 2014

**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, 2014

**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.

**Property Taxes**

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

**Prepaid Items**

Certain payments to vendors applicable to future accounting periods are reported as prepaid items using the consumption method of accounting. Prepaid items do not reflect current appropriable resources and, thus, an equivalent portion of fund balance is 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, 2014

**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, 2014

**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 \$6,852,919 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, 2014

**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	\$	2,771,685
Pooled Cash and Investments - Business-Type Funds		5,998,376
Restricted Investments with Fiscal Agents - Business-Type Funds		3,288,521
Fiduciary Funds:		
Cash and Investments - RDA Successor Private Purpose Trust		7,689
Total	\$	12,066,271

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2014

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

Cash and investments at June 30, 2014 consist of the following:

Cash on Hand	\$	2,600
Demand Deposits		6,769,501
Investments		<u>5,294,170</u>
Total	\$	<u><u>12,066,271</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, 2014, 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, 2014:

Investment Type	Fair Value	Maturity Date
State Treasurer’s Investment Pool (LAIF)	\$ 1,384,717	N/A
Local Government Revenue Bonds	620,932	5 years
Held by Trustees:		
Cash and Short Term Investments	<u>3,288,521</u>	N/A
Total Investments	<u><u>\$ 5,294,170</u></u>	

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2014

**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, 2014, 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.

\$ 3,288,521

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2014

**Note 3 – Receivables**

Receivables at June 30, 2014 consist of the following:

	General Fund	TDA - LTF	Gas Tax	CDBG	HOME	COPS	Total
<b>Governmental Activities:</b>							
Accounts receivable, net	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due from Governments	685,211	69,539	40,981	67,827	1,573	31,155	896,286
Less Allowance for Doubtfull Accounts	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 685,211</b>	<b>\$ 69,539</b>	<b>\$ 40,981</b>	<b>\$ 67,827</b>	<b>\$ 1,573</b>	<b>\$ 31,155</b>	<b>\$ 896,286</b>

  

	Sewer	Refuse	Water	Public Transit	Total
<b>Business-Type Activities:</b>					
Accounts receivable, net	\$ 158,599	\$ 122,299	\$ 99,801	\$ -	\$ 380,699
Due from Governments	-	-	3,151	-	3,151
Less Allowance for Doubtfull Accounts	-	-	-	-	-
<b>Total</b>	<b>\$ 158,599</b>	<b>\$ 122,299</b>	<b>\$ 102,952</b>	<b>\$ -</b>	<b>\$ 383,850</b>

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

The composition of interfund balances as of June 30, 2014 is as follows:

Fund	Due From Other Funds	Due To Other Funds
<b>Government Funds:</b>		
General	\$ 307,894	\$ -
TDA-LTF	-	105,509
CDBG	-	82,290
HOME	-	88,940
COPS	-	31,155
Development Impact	80,280	-
<b>Total Governmental Funds</b>	<b>388,174</b>	<b>307,894</b>
<b>Proprietary Funds:</b>		
None	-	-
<b>Total Proprietary Funds</b>	<b>-</b>	<b>-</b>
<b>Fiduciary Funds:</b>		
RDA Successor Private Purpose Trust	-	80,280
<b>Total Fiduciary Funds</b>	<b>-</b>	<b>80,280</b>
<b>Total Due From/To</b>	<b>\$ 388,174</b>	<b>\$ 388,174</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, 2014

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

Interfund transfers at June 30, 2014 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General	\$ 2,767,560	\$ -
TDA-LTF	-	291,759
Gas Tax	-	452,215
CDBG	-	391,813
CalHome	-	132,669
COPS	-	111,738
Development Impact	-	1,421,482
Proprietary Funds:		
Sewer	121,389	-
Refuse	-	-
Water	-	121,389
Public Transit	<u>34,116</u>	<u>-</u>
Total Transfers	<u>\$ 2,923,065</u>	<u>\$ 2,923,065</u>

Composition and purpose of interfund transfers is as follows:

General fund transfers in of \$2,767,560 consist of \$257,643 from TDA-LTF and \$452,215 from Gas Tax fund to reimburse for street maintenance; \$391,813 from CDBG and \$132,669 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; \$111,738 from COPS which represents transfers of police type grant funds to the Police department of the General Fund; \$1,421,482 from Development Impact for various construction projects accounted for in the General Fund.

Sewer fund transfers in of \$121,389 are from the Water fund for transfers between bond reserve accounts.

Public Transit fund transfers in of \$34,116 are from the TDA-LTF fund to cover operating costs.

**Note 5 – Land Held for Resale**

At June 30, 2014, 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, 2014

**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, 2014, net of amortization, are as follows:

	Sewer	Water	Total
Revenue Bonds	\$ 241,455	\$ 76,978	\$ 318,433

**Note 7 – Capital Assets**

Capital asset activity for the year ended June 30, 2014 is as follows:

Governmental Activities	Balance June 30, 2013	Additions	Deletions	Transfers	Balance June 30, 2014
Capital Assets Not Being Depreciated:					
Land	\$ 493,248	\$ -	\$ -	\$ -	\$ 493,248
Construction in Progress	1,700,496	1,545,251	-	(1,184,519)	2,061,228
Total Capital Assets Not Being Depreciated	2,193,744	1,545,251	-	(1,184,519)	2,554,476
Capital Assets Being Depreciated:					
Infrastructure	11,667,702	452,757	-	1,184,519	13,304,978
Machinery and Equipment	802,832	98,520	-	-	901,352
Vehicles	-	355,546	-	-	355,546
Total Capital Assets Being Depreciated	12,470,534	906,823	-	1,184,519	14,561,876
Less Accumulated Depreciation For:					
Infrastructure	1,888,654	392,376	-	-	2,281,030
Machinery and Equipment	217,864	161,373	-	-	379,237
Vehicles	-	-	-	-	-
Total Accumulated Depreciation	2,106,518	553,749	-	-	2,660,267
Total Capital Assets Being Depreciated, net	10,364,016	353,074	-	1,184,519	11,901,609
Governmental Activities Capital Assets, net	\$ 12,557,760	\$ 1,898,325	\$ -	\$ -	\$ 14,456,085

Depreciation charged to governmental functions on the Statement of Activities during the year is as follows: \$55,790 to General Government, \$123,221 to Public Safety \$313,630 to Public Works and \$61,108 to Community Development.

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2014

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

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

<u>Business-Type Activities</u>	Balance June 30, 2013	Additions	Deletions	Transfers	Balance June 30, 2014
Capital Assets Not Being Depreciated:					
Land	\$ 1,200,374	\$ -	\$ -	\$ -	\$ 1,200,374
Construction in Progress	312,151	289,635	-	-	601,786
Total Capital Assets Not Being Depreciated	1,512,525	289,635	-	-	1,802,160
Capital Assets Being Depreciated:					
Building and Improvements	5,352,338	188,086	-	-	5,540,424
Infrastructure	559,361	-	-	-	559,361
Machinery and Other	10,016,961	640,237	-	(47,058)	10,610,140
Vehicles	294,750	23,330	-	47,058	365,138
Vineyards	-	-	-	-	-
Total Capital Assets Being Depreciated	16,223,410	851,653	-	-	17,075,063
Less Accumulated Depreciation For:					
Building and Improvements	1,447,058	205,877	-	-	1,652,935
Infrastructure	125,856	13,984	-	-	139,840
Machinery and Other	5,350,496	325,380	-	(11,667)	5,664,209
Vehicles	255,712	34,632	-	11,667	302,011
Vineyards	-	-	-	-	-
Total Accumulated Depreciation	7,179,122	579,873	-	-	7,758,995
Total Capital Assets Being Depreciated, net	9,044,288	271,780	-	-	9,316,068
Business-Type Activities Capital Assets, net	\$ 10,556,813	\$ 561,415	\$ -	\$ -	\$ 11,118,228

Depreciation charged to business-type activities on the Statement of Activities during the year is as follows: \$254,907 to Sewer, \$299,360 to Water, \$12,099 to Refuse, and \$13,507 to Public Transit.

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2014

**Note 8 – Long-Term Liabilities**

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Due Within One Year
<b>Governmental Activities:</b>					
Revenue Bonds	\$ 240,756	\$ 436,000	\$ (58,950)	\$ 617,806	\$ 80,319
Note Payable	1,420,879	-	(197,622)	1,223,257	204,841
Capital Lease	130,694	230,382	(89,088)	271,988	82,993
Compensated Absences	48,325	2,603	-	50,928	-
<b>Total Governmental Activities</b>	<b>1,840,654</b>	<b>668,985</b>	<b>(345,660)</b>	<b>2,163,979</b>	<b>368,153</b>
<b>Business-Type Activities:</b>					
Revenue Bonds	7,200,000	-	(150,000)	7,050,000	155,000
Compensated Absences	15,463	33,917	-	49,380	-
<b>Total Business-Type Activities</b>	<b>7,215,463</b>	<b>33,917</b>	<b>(150,000)</b>	<b>7,099,380</b>	<b>155,000</b>
<b>Total Long-Term Liabilities</b>	<b>\$ 9,056,117</b>	<b>\$ 702,902</b>	<b>\$ (495,660)</b>	<b>\$ 9,263,359</b>	<b>\$ 523,153</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. \$ 181,806

Series 2014 Lease Revenue Bonds dated June 30, 2014 in the original amount of \$436,900 at 1.233% interest; principal and interest payable each March 2 and September 2 until September 2, 2024 maturity. Bonds issued by the McFarland Improvement Authority and purchased by the Sewer Enterprise fund of the City are secured and payable solely by lease revenues. 436,000

Total Revenue Bonds 617,806

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. 1,223,257

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2014

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

Capital Lease:

Lease/Purchase obligation payable to Kansas State Bank of Manhattan dated August 23, 2011, in the amount of \$169,640; annual principal payments due each August 23 through 2016 and accrued interest at 4.948% payable annually. Secured by five police cars. 69,373

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. 22,453

Lease/Purchase obligation payable to Kansas State Bank of Manhattan dated August 1, 2013, in the amount of \$230,382; annual principal payments due each August 1 through 2017 and accrued interest at 4.5% payable annually. Secured by four police vehicles. 180,162

Total Capital Leases 271,988

Compensated Absences Payable 50,928

Total Governmental Activities \$ 2,163,979

**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. \$ 7,050,000

Compensated Absences Payable 49,380

Total Business-Type Activities \$ 7,099,380

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2014

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

The annual requirements to amortize all indebtedness and other long-term liabilities outstanding at June 30, 2014, are as follows:

Year Ending June 30	<b>Governmental Activities</b>					
	Revenue Bonds		Note Payable		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 80,319	\$ 5,944	\$ 204,841	\$ 42,445	\$ 82,993	\$ 12,956
2016	102,080	6,474	212,323	34,962	87,006	8,944
2017	103,436	5,120	220,079	27,207	53,934	4,733
2018	42,515	3,963	228,118	19,168	48,055	2,163
2019	43,040	3,437	236,451	10,835		
2020-2024	223,320	9,066	121,445	2,198	-	-
2025-2029	23,096	426	-	-	-	-
Total	\$ 617,806	\$ 34,430	\$ 1,223,257	\$ 136,815	\$ 271,988	\$ 28,796

**Business-Type Activities**

Year Ending June 30	Revenue Bonds	
	Principal	Interest
2015	\$ 155,000	\$ 317,443
2016	155,000	314,885
2017	160,000	311,785
2018	165,000	308,025
2019	165,000	303,735
2020-2024	925,000	1,435,123
2025-2029	1,140,000	1,220,925
2030-2034	1,450,000	908,750
2035-2039	1,855,000	507,750
2040-2041	880,000	66,500
Total	\$ 7,050,000	\$ 5,694,921

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2014

**Note 9 – Unearned Revenue / Deferred Inflows of Resources**

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

	Governmental Activities	Business-Type Activities
General Grant	\$ 53,432	\$ -
CalHome Grant	318,069	-
HOME Grant	40,219	-
Water - State of California Grant	-	8,698
TDA - Dial A Ride	-	20,344
Total	\$ 411,720	\$ 29,042

Deferred inflows of resources represents an acquisition of net position or fund balance that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has one transaction type that qualifies for reporting under this category; unavailable revenue is only reported in the governmental funds balance sheet under the modified accrual basis of accounting. The detail of unavailable revenue is as follows:

**Governmental Activities**

	Unavailable
CalHOME Grant Loans	\$ 1,804,692
HOME Grant Loans	711,816
Total	\$ 2,516,508

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2014

**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, 2013 as follows:

Total Assets	\$ 82,190,005
Total Liabilities	<u>66,304,596</u>
Net Assets	<u>\$ 15,885,409</u>
Total Revenue	\$ 30,744,973
Total Expenses	<u>27,142,583</u>
Change in Net Assets	<u>\$ 3,602,390</u>

**City of McFarland**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2014

**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 \$178,767.

**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:	
Non-Major:	
TDA - LTF	\$ (35,970)
CDBG	(14,463)
CalHome	(24,896)
HOME	<u>(127,586)</u>
Total Governmental Funds	<u>\$ (202,915)</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 March 25, 2015, the date on which the financial statements were available to be issued.

**Excess of Expenditures over Appropriations**

For the year ended June 30, 2014, 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, 2014

**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, 2014, the latest date reported by the County, the contingent liability was \$97,293.

**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.

**REQUIRED SUPPLEMENTARY INFORMATION**

This Page Intentionally Left Blank

**City of McFarland**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**Year ended June 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Taxes	\$ 2,142,272	\$ 2,102,872	\$ 2,104,999	\$ 2,127
Licenses & Permits	283,600	284,550	9,610	(274,940)
Fines, Forfeitures & Assessment	55,000	55,000	85,585	30,585
Use of Money or Property	20,686	20,686	13,908	(6,778)
Intergovernmental	423,379	499,873	976,213	476,340
Charges for Services	171,364	182,264	249,381	67,117
Contributions and Donations	118,594	90,000	159,344	69,344
Other Income	62,732	49,732	46,072	(3,660)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	3,277,627	3,284,977	3,645,112	360,135
<b>Expenditures:</b>				
Current:				
General Government	\$ 396,625	\$ 412,651	\$ 238,946	\$ (173,705)
Public Safety	2,311,907	2,435,175	2,225,904	(209,271)
Public Works	529,586	628,481	431,251	(197,230)
Community Development	522,622	551,322	228,037	(323,285)
Non Departmental	554,251	559,251	278,086	(281,165)
Capital Outlay:				
General Capital Outlay	53,207	50,730	430,947	380,217
Street Improvements	-	-	1,981,469	1,981,469
Debt Service:				
Principal Retirement	-	-	187,013	187,013
Interest and Finance Charges	-	-	6,862	6,862
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	4,368,198	4,637,610	6,008,515	1,370,905
Excess of Revenues Over (Under) Expenditures	<hr/>	<hr/>	<hr/>	<hr/>
	(1,090,571)	(1,352,633)	(2,363,403)	(1,010,770)
<b>Other Financing Sources (Uses):</b>				
Transfers In	965,259	1,160,653	2,767,560	1,606,907
Transfers Out	-	-	-	-
Proceeds From Long-Term Debt	-	-	230,382	230,382
Sale of Capital Assets	170,000	170,000	-	(170,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	1,135,259	1,330,653	2,997,942	1,667,289
Net Change in Fund Balances	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 44,688	\$ (21,980)	634,539	\$ 656,519
Fund Balances - Beginning			<hr/>	<hr/>
			604,262	
Fund Balances - Ending			<hr/>	<hr/>
			\$ 1,238,801	

**City of McFarland**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**TDA - LTF**  
**Year ended June 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Intergovernmental	\$ 670,843	\$ 570,843	\$ 291,758	\$ (279,085)
Charges for Services	-	-	-	-
	<hr/>			
Total Revenues	670,843	570,843	291,758	(279,085)
<b>Expenditures:</b>				
Current:				
Public Works	\$ -	\$ -	\$ -	\$ -
Capital Outlay	-	-	-	-
	<hr/>			
Total Expenditures	-	-	-	-
	<hr/>			
Excess of Revenues Over (Under) Expenditures	670,843	570,843	291,758	(279,085)
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	(670,843)	(578,244)	(291,759)	286,485
	<hr/>			
Total Other Financing Sources (Uses)	(670,843)	(578,244)	(291,759)	286,485
	<hr/>			
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ (7,401)</u>	(1)	<u>\$ 7,400</u>
	<hr/>			
Fund Balances - Beginning			<u>(35,969)</u>	
	<hr/>			
Fund Balances - Ending			<u>\$ (35,970)</u>	

**City of McFarland**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GAS TAX FUND**  
**Year ended June 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Intergovernmental	\$ 410,411	\$ 397,845	\$ 418,268	\$ 20,423
Total Revenues	410,411	397,845	418,268	20,423
<b>Expenditures:</b>				
Current:				
Public Works	\$ -	\$ -	\$ -	\$ -
Capital Outlay	-	-	-	-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	410,411	397,845	418,268	20,423
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	(328,900)	(328,900)	(452,215)	(123,315)
Total Other Financing Sources (Uses)	(328,900)	(328,900)	(452,215)	(123,315)
Net Change in Fund Balances	<u>\$ 81,511</u>	<u>\$ 68,945</u>	(33,947)	<u>\$ (102,892)</u>
Fund Balances - Beginning			<u>100,201</u>	
Fund Balances - Ending			<u>\$ 66,254</u>	

**City of McFarland**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**CDBG FUND**  
**Year ended June 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Intergovernmental	\$ 2,359,208	\$ 2,359,208	\$ 391,813	\$ (1,967,395)
Total Revenues	2,359,208	2,359,208	391,813	(1,967,395)
<b>Expenditures:</b>				
Current:				
Community Development	\$ -	\$ -	\$ -	\$ -
Capital Outlay	-	-	-	-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	2,359,208	2,359,208	391,813	(1,967,395)
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	2,359,208	2,359,208	(391,813)	(2,751,021)
Total Other Financing Sources (Uses)	2,359,208	2,359,208	(391,813)	(2,751,021)
Net Change in Fund Balances	<u>\$ 4,718,416</u>	<u>\$ 4,718,416</u>	-	<u>\$ (4,718,416)</u>
Fund Balances - Beginning			<u>(14,463)</u>	
Fund Balances - Ending			<u>\$ (14,463)</u>	

**City of McFarland**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**CALHOME**  
**Year ended June 30, 2014**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Intergovernmental	\$ 48,000	\$ 48,000	\$ 41,931	\$ (6,069)
Charges for Services	95,605	95,605	132,669	
Total Revenues	143,605	143,605	174,600	(6,069)
<b>Expenditures:</b>				
Current:				
Community Development	\$ -	\$ -	\$ 42,001	\$ 42,001
Capital Outlay	-	-	-	-
Total Expenditures	-	-	42,001	42,001
Excess of Revenues Over (Under) Expenditures	143,605	143,605	132,599	(48,070)
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	(143,605)	(143,605)	(132,669)	10,936
Total Other Financing Sources (Uses)	(143,605)	(143,605)	(132,669)	10,936
Net Change in Fund Balances	\$ -	\$ -	(70)	\$ (37,134)
Fund Balances - Beginning			(24,826)	
Fund Balances - Ending			\$ (24,896)	

**City of McFarland**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**HOME FUND**  
**Year ended June 30, 2014**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
<b>Expenditures:</b>				
Current:				
Community Development	\$ -	\$ -	\$ 1,521	\$ 1,521
Capital Outlay	-	-	-	-
Total Expenditures	-	-	1,521	1,521
Excess of Revenues Over (Under) Expenditures	-	-	(1,521)	(1,521)
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	(1,521)	<u>\$ (1,521)</u>
Fund Balances - Beginning			<u>(126,065)</u>	
Fund Balances - Ending			<u>\$ (127,586)</u>	

**City of McFarland**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**LIGHTING & LANDSCAPE FUND**  
Year ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Taxes	\$ 178,887	\$ 121,003	\$ 94,981	\$ (26,022)
Total Revenues	178,887	121,003	94,981	(26,022)
<b>Expenditures:</b>				
Current:				
Public Works	\$ 178,887	\$ 121,003	\$ 33,542	\$ (87,461)
Capital Outlay	-	-	52,098	52,098
Total Expenditures	178,887	121,003	85,640	(35,363)
Excess of Revenues Over (Under) Expenditures	-	-	9,341	9,341
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	9,341	<u>\$ 9,341</u>
Fund Balances - Beginning			<u>8,658</u>	
Fund Balances - Ending			<u>\$ 17,999</u>	

**City of McFarland**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**COPS FUND**  
**Year ended June 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Intergovernmental	\$ -	\$ 100,000	\$ 111,738	\$ 11,738
Total Revenues	-	100,000	111,738	11,738
<b>Expenditures:</b>				
Current:				
Community Development	\$ -	\$ -	\$ -	\$ -
Capital Outlay	-	-	-	-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	-	100,000	111,738	11,738
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	-	(100,000)	(111,738)	(11,738)
Total Other Financing Sources (Uses)	-	(100,000)	(111,738)	(11,738)
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balances - Beginning			-	
Fund Balances - Ending			<u>\$ -</u>	

**City of McFarland**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**DEVELOPMENT IMPACT FUND**  
Year ended June 30, 2014

	<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	\$ 1,322,504	\$ 187,014
Use of Money or Property	4,000	4,000	6,876	2,876
	<hr/>			
Total Revenues	1,139,490	1,139,490	1,329,380	189,890
<b>Expenditures:</b>				
Current:				
Public Works	\$ -	\$ -	\$ -	\$ -
Capital Outlay	-	-	-	-
	<hr/>			
Total Expenditures	-	-	-	-
	<hr/>			
Excess of Revenues Over (Under) Expenditures	1,139,490	1,139,490	1,329,380	189,890
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	(1,124,319)	(1,145,570)	(1,421,482)	(275,912)
	<hr/>			
Total Other Financing Sources (Uses)	(1,124,319)	(1,145,570)	(1,421,482)	(275,912)
	<hr/>			
Net Change in Fund Balances	<u>\$ 15,171</u>	<u>\$ (6,080)</u>	(92,102)	<u>\$ (86,022)</u>
	<hr/>			
Fund Balances - Beginning			<u>2,307,160</u>	
	<hr/>			
Fund Balances - Ending			<u>\$ 2,215,058</u>	

**City of McFarland**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**McFARLAND IMPROVEMENT AUTHORITY**  
Year ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Intergovernmental	\$ -	\$ -	\$ 62,077	\$ 62,077
Total Revenues	-	-	62,077	62,077
<b>Expenditures:</b>				
Current:				
Community Development	\$ -	\$ -	\$ 231,953	\$ 231,953
Debt Service:				
Principal Retirement	-	-	58,951	58,951
Interest and Finance Charges	-	-	3,127	3,127
Total Expenditures	-	-	294,031	294,031
Excess of Revenues Over (Under) Expenditures	-	-	(231,954)	(231,954)
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Proceeds From Long-Term Debt	-	-	436,000	436,000
Total Other Financing Sources (Uses)	-	-	436,000	436,000
Net Change in Fund Balances	\$ -	\$ -	204,046	\$ 204,046
Fund Balances - Beginning			11,350	
Fund Balances - Ending			\$ 215,396	

**ADDITIONAL REPORTING REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

This Page Intentionally Left Blank

# 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, 2014, 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 March 25, 2015.

### 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 (2014-1 and 2014-2).

### 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*.

### **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  
March 25, 2015

**City of McFarland**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
June 30, 2014

**2014-1 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.

**2014-2 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.

*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 hired a staff accountant in February 2015, this position will provide the added internal control to correct and prevent miscoding of expenditures and adjusting entries.

This Page Intentionally Left Blank

**SINGLE AUDIT REPORTS AND SCHEDULES**

This Page Intentionally Left Blank

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

### **Report on Compliance for Each Major Federal Program**

We have audited City of McFarland, California's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of McFarland, California's major federal programs for the year ended June 30, 2014. City of McFarland, California's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of City of McFarland, California's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of McFarland, California's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of McFarland, California's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, City of McFarland, California, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### **Report on Internal Control Over Compliance**

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Albert & Associates, LLP*

Wasco, California  
March 25, 2015

**City of McFarland**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended June 30, 2014

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Grant Number / Pass-through Grantor's Number	Federal Expenditures
<b><u>U.S. Department of Transportation</u></b>			
Pass-through State of California Department of Transportation			
Highway Planning & Construction	20.205	SRTSL-5343(003)	\$ 94,516
Highway Planning & Construction	20.205	SRTSL-5343(0004)	67,702
Highway Planning & Construction	20.205	STPL-5343(005)	29,529
<b>Total U.S. Department of Transportation</b>			<u>191,747</u>
<b>U.S. Department of Justice</b>			
<b>Direct Program:</b>			
COPS Universal Hiring Grant	16.71	2012UMWX0024	111,738
<b>Total U.S. Department of Justice</b>			<u>111,738</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Pass-through State of California Dept. of Housing & Community Development			
Community Development Block Grants	14.239	CD16.11.1	368,561
Disaster Recovery Initiative Program	14.218	10-DRI-6787	91,300
<b>Total U.S. Department of Housing and Urban Development</b>			<u>459,861</u>
<b>Total Federal Expenditures</b>			<u>\$ 763,346</u>

See accompanying notes to schedule of expenditures of federal awards

**City of McFarland**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended June 30, 2014

**Note A – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of McFarland, California, under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of McFarland, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of McFarland.

**Note B – Summary of Significant Accounting Policies**

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

**Note C – Loans Outstanding**

The accompanying schedule of Federal Awards does not include \$709,906 of loans receivable at year end relating to the HOME Investment Partnership Program (CFDA #14.239).

**City of McFarland**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 Year ended June 30, 2014

**A. Summary of Auditor’s Results:**

1. The auditor’s report expresses an unmodified opinion on the financial statements of the City of McFarland.
2. No material deficiencies disclosed during the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. No significant weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the City of McFarland, which would be required to be reported in accordance with Government Auditing Standards were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs disclosed during the audit and none are reported in the Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133. No material weaknesses are reported.
5. The auditor’s report on compliance for the major federal award programs for the City of McFarland expresses an unmodified opinion on all major federal programs.
6. No audit findings were required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs were:

CFDA Numbers	Program Title
14.218	Pedestrian Bridge - Western Approach
16.710	COPS Universal Hiring Grant

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

**B. Findings – Financial Statements Audit**

No Findings.

**C. Findings and Questioned Costs – Major Federal Award Programs Audit**

No matters were reported.

**City of McFarland**  
**SUMMARY SCHEDULE OF PRIOR FINDINGS**  
Year ended June 30, 2014

No Prior Audit Findings