

CITY OF McFARLAND, CALIFORNIA

FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2017

CITY OF McFARLAND

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June 30, 2017

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Albert & Associates, LLP

Certified Public Accountants

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of McFarland, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of McFarland, California'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, 2017, 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 as listed in the required supplementary information section of the accompanying table of contents 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is 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 June 4, 2018, 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
June 4, 2018

City of McFarland
STATEMENT OF NET POSITION
June 30, 2017

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Current Assets:			
Cash and Investments	\$ 3,377,687	\$ 233,631	\$ 3,611,318
Restricted Cash:			
With Fiscal Agents	-	679,784	679,784
Receivables, net	2,879,940	414,044	3,293,984
Prepaid Expenses	535,946	3,479	539,425
Due From RDA Successor Private Purpose Trust Fund	80,280	-	80,280
Internal Balances	2,376,574	(2,376,574)	-
Land Held for Resale	446,593	-	446,593
Supplies on Hand	-	5,098	5,098
	<hr/>	<hr/>	<hr/>
Total Current Assets	9,697,020	(1,040,538)	8,656,482
Noncurrent Assets:			
Capital Assets:			
Land	493,248	1,280,063	1,773,311
Construction in Progress	6,592,716	9,442,151	16,034,867
Depreciable Buildings, Property, Equipment and Infrastructure, net of accumulated depreciation	19,050,697	9,832,370	28,883,067
Notes Receivable	3,914,245	-	3,914,245
	<hr/>	<hr/>	<hr/>
Total Noncurrent Assets	30,050,906	20,554,584	50,605,490
	<hr/>	<hr/>	<hr/>
Total Assets	39,747,926	19,514,046	59,261,972
Liabilities:			
Current Liabilities:			
Accounts Payable	2,562,602	492,237	3,054,839
Accrued Liabilities	106,479	77,006	183,485
Deposits Received	63,803	-	63,803
Unearned Revenue	2,908,878	152,554	3,061,432
Bonds and Notes Payable Due Within One Year	364,462	165,000	529,462
	<hr/>	<hr/>	<hr/>
Total Current Liabilities	6,006,224	886,797	6,893,021
Noncurrent Liabilities:			
Bonds and Notes Payable Due in More Than One Year	861,263	6,415,000	7,276,263
Compensated Absences	62,897	33,912	96,809
	<hr/>	<hr/>	<hr/>
Total Noncurrent Liabilities	924,160	6,448,912	7,373,072
	<hr/>	<hr/>	<hr/>
Total Liabilities	6,930,384	7,335,709	14,266,093
Net Position:			
Invested in Capital Assets, net of related debt	25,824,142	14,654,368	40,478,510
Restricted For:			
Streets and Roads	20,283	-	20,283
Community Development	3,419,052	-	3,419,052
Capital Projects	1,251,898	2,535,400	3,787,298
Unrestricted	2,302,167	(5,011,431)	(2,709,264)
	<hr/>	<hr/>	<hr/>
Net Position	\$ 32,817,542	\$ 12,178,337	\$ 44,995,879
	<hr/>	<hr/>	<hr/>

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

City of McFarland
STATEMENT OF ACTIVITIES
Year ended June 30, 2017

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
Governmental Activities:							
General Government	\$ 794,831	\$ 293,633	\$ -	\$ -	\$ (501,198)	\$ -	\$ (501,198)
Public Safety	2,472,130	159,470	256,260	-	(2,056,400)	-	(2,056,400)
Public Works	734,787	115,783	74,167	2,793,821	2,248,984	-	2,248,984
Community Development	19,517,733	62,350	19,504,246	297,679	346,542	-	346,542
Total Governmental Activities	23,519,481	631,236	19,834,673	3,091,500	37,928	-	37,928
Business-Type Activities:							
Sewer	1,639,943	1,566,399	-	-	-	(73,544)	(73,544)
Refuse	1,435,423	1,275,042	-	-	-	(160,381)	(160,381)
Water	1,566,843	1,100,916	-	4,160	-	(461,767)	(461,767)
Public Transportation	179,484	15,831	57,535	-	-	(106,118)	(106,118)
Total Business-Type Activities	4,821,693	3,958,188	57,535	4,160	-	(801,810)	(801,810)
Total	\$ 28,341,174	\$ 4,589,424	\$ 19,892,208	\$ 3,095,660	37,928	(801,810)	(763,882)
General Revenues:							
Taxes:							
Property Tax					657,450	-	657,450
Sales Tax					430,304	-	430,304
Franchise Tax					278,989	-	278,989
State Allocation of Gas Tax					265,083	-	265,083
Intergovernmental, Unrestricted:							
Motor Vehicle In-lieu Tax					1,058,295	-	1,058,295
Total Taxes					2,690,121	-	2,690,121
Unrestricted investment earnings					69,471	-	69,471
Miscellaneous Revenue					418,206	-	418,206
Transfers					(73,426)	73,426	-
Gain/(Loss) on Sale of Capital Assets					-	-	-
Total General Revenues and Transfers					3,104,372	73,426	3,177,798
Change in Net Position					3,142,300	(728,384)	2,413,916
Net Position - Beginning					29,675,242	12,906,721	42,581,963
Net Position - Ending					\$ 32,817,542	\$ 12,178,337	\$ 44,995,879

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

City of McFarland
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2017

	General	TDA - LTF	Gas Tax	CDBG	CallHome	HOME	Lighting & Landscape	COPS	Development Impact	Miscellaneous Grants	ICE Administration	McFarland Improvement Authority	Total Governmental Funds
Assets:													
Cash and Investments	\$ 643,691	\$ -	\$ 42,014	\$ -	\$ -	\$ -	\$ 123,674	\$ -	\$ 1,171,618	\$ 10,201	\$ 1,366,171	\$ 20,318	\$ 3,377,687
Receivables, net	1,008,175	1,437,888	-	388,784	17,752	1,473	23	25,845	-	-	-	-	2,879,940
Prepaid Costs	535,946	-	-	-	-	-	-	-	-	-	-	-	535,946
Due from Other Funds	4,400,068	-	-	-	-	-	-	-	80,280	-	-	-	4,480,348
Notes Receivable	-	-	-	-	3,202,429	711,816	-	-	-	-	-	-	3,914,245
Land Held for Resale	446,593	-	-	-	-	-	-	-	-	-	-	-	446,593
Total Assets	\$ 7,034,473	\$ 1,437,888	\$ 42,014	\$ 388,784	\$ 3,220,181	\$ 713,289	\$ 123,697	\$ 25,845	\$ 1,251,898	\$ 10,201	\$ 1,366,171	\$ 20,318	\$ 15,634,759
Liabilities:													
Accounts Payable	\$ 1,156,949	\$ -	\$ 3,760	\$ -	\$ -	\$ -	\$ 27,224	\$ -	\$ -	\$ 37	\$ 1,374,632	\$ -	\$ 2,562,602
Accrued Liabilities	103,125	-	-	-	-	-	-	-	-	-	-	-	103,125
Deposits Received	63,803	-	-	-	-	-	-	-	-	-	-	-	63,803
Due to Other Funds	-	1,473,858	-	403,247	31,704	88,840	-	25,845	-	-	-	-	2,023,494
Unearned Revenue	2,420,511	-	-	388,784	10,945	-	78,474	-	-	10,164	-	-	2,908,878
Total Liabilities	3,744,388	1,473,858	3,760	792,031	42,649	88,840	105,698	25,845	-	10,201	1,374,632	-	7,661,902
Deferred Inflows of Resources:													
Unavailable Revenue	-	-	-	-	3,202,429	711,816	-	-	-	-	-	-	3,914,245
Total Deferred Inflows of Resources	-	-	-	-	3,202,429	711,816	-	-	-	-	-	-	3,914,245
Fund Balances:													
Nonspendable:													
Prepaid Costs	535,946	-	-	-	-	-	-	-	-	-	-	-	535,946
Restricted:													
Streets and Transportation	-	-	38,254	-	-	-	17,999	-	-	-	-	-	56,253
Impact Fees	-	-	-	-	-	-	-	-	1,251,898	-	-	-	1,251,898
Community Development	-	-	-	-	-	-	-	-	-	-	-	20,318	20,318
Unassigned	2,754,139	(35,970)	-	(403,247)	(24,897)	(87,367)	-	-	-	-	(8,461)	-	2,194,197
Total Fund Balances (Deficit)	3,290,085	(35,970)	38,254	(403,247)	(24,897)	(87,367)	17,999	-	1,251,898	-	(8,461)	20,318	4,058,612
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 7,034,473	\$ 1,437,888	\$ 42,014	\$ 388,784	\$ 3,220,181	\$ 713,289	\$ 123,697	\$ 25,845	\$ 1,251,898	\$ 10,201	\$ 1,366,171	\$ 20,318	\$ 15,634,759

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, 2017

Fund balances of governmental funds \$ 4,058,612

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

Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the Governmental Funds Balance Sheet. However, the Statement of Net Position includes those capital assets among the assets of the City as a whole.

Beginning Balance, net of depreciation	\$ 22,821,875	
Current Year Additions	4,225,310	
Current Year Depreciation	<u>(910,524)</u>	
Ending Balance, net of depreciation		26,136,661

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. 3,914,245

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. (3,354)

Long-term liabilities are not due and payable in the current period, and therefore, are not reported as liabilities in the Governmental Funds Balance Sheet. All liabilities, both current and long-term, are reported in the Statement of Net Position.

Compensated Absences	(62,897)	
Long-Term Debt	<u>(1,225,725)</u>	
Total Long-Term Liabilities		<u>(1,288,622)</u>

Net position of governmental activities \$ 32,817,542

City of McFarland
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICITS) – GOVERNMENTAL FUNDS
Year ended June 30, 2017

	General	TDA - LTF	Gas Tax	CDBG	CalHome	HOME	Lighting & Landscape	COPS	Development Impact	Miscellaneous Grants	ICE Administration	McFarland Improvement Authority	Total Governmental Funds
Revenues:													
Taxes	\$ 2,332,132	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 113,554	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,445,686
Licenses & Permits	3,371	-	-	-	-	-	-	-	125,608	-	-	-	128,979
Fines, Forfeitures & Assessments	50,343	-	-	-	-	-	-	-	-	-	-	-	50,343
Use of Money or Property	21,788	-	-	-	-	-	86	-	1,119	-	-	46,477	69,470
Intergovernmental	1,328,966	1,722,882	265,083	170,772	126,407	40,219	-	98,901	-	795	19,311,325	-	23,065,350
Charges for Services	379,613	-	-	-	16,129	-	-	-	-	-	-	-	395,742
Contributions and Donations	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Income	453,574	-	-	-	-	-	-	-	-	-	-	-	453,574
Total Revenues	4,569,787	1,722,882	265,083	170,772	142,536	40,219	113,640	98,901	126,727	795	19,311,325	46,477	26,609,144
Expenditures:													
Current:													
General Government	446,345	-	-	-	-	-	-	-	-	-	-	-	446,345
Public Safety	2,353,788	-	-	-	-	-	-	-	-	-	-	-	2,353,788
Public Works	655,420	-	-	-	-	-	63,140	-	-	-	-	-	718,560
Community Development	485,028	-	-	-	126,408	-	-	-	-	795	19,318,385	-	19,930,616
Non Departmental	353,009	-	-	-	-	-	-	-	-	-	-	-	353,009
Capital Outlay:													
General Capital Outlay	117,684	-	-	-	-	-	42,748	-	-	-	-	-	160,432
Street Improvements	2,837,612	-	-	-	-	-	-	-	-	-	-	-	2,837,612
Debt Service:													
Principal Retirement	317,242	-	-	-	-	-	-	-	-	-	-	41,995	359,237
Interest and Finance Charges	14,376	-	-	-	-	-	-	-	-	-	-	4,482	18,858
Total Expenditures	7,580,504	-	-	-	126,408	-	105,888	-	-	795	19,318,385	46,477	27,178,457
Excess of Revenues Over (Under) Expenditures	(3,010,717)	1,722,882	265,083	170,772	16,128	40,219	7,752	98,901	126,727	-	(7,060)	-	(569,313)
Other Financing Sources (Uses):													
Transfers In	3,072,989	-	-	-	-	-	-	-	-	-	-	-	3,072,989
Transfers Out	-	(1,722,882)	(265,083)	(559,556)	(16,129)	-	(7,752)	(98,901)	(476,112)	-	-	-	(3,146,415)
Proceeds From Long-Term Debt	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of Capital Assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	3,072,989	(1,722,882)	(265,083)	(559,556)	(16,129)	-	(7,752)	(98,901)	(476,112)	-	-	-	(73,426)
Net Change in Fund Balances	62,272	-	-	(388,784)	(1)	40,219	-	-	(349,385)	-	(7,060)	-	(642,739)
Fund Balances - Beginning	3,227,813	(35,970)	38,254	(14,463)	(24,896)	(127,586)	17,999	-	1,601,283	-	(1,401)	20,318	4,701,351
Fund Balances - Ending	\$ 3,290,085	\$ (35,970)	\$ 38,254	\$ (403,247)	\$ (24,897)	\$ (87,367)	\$ 17,999	\$ -	\$ 1,251,898	\$ -	\$ (8,461)	\$ 20,318	\$ 4,058,612

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, 2017

Net change in fund balance - total governmental funds	\$	(642,739)
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 (\$4,225,310) exceeded depreciation (\$910,524) in the current period.		3,314,786
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.		351,290
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.		2,063
Long-term compensated absence expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in government funds.		(9,507)
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 (\$3,787,838) is exceeded by unavailable deferred revenue at the end of the year (\$3,914,245)		126,407
Change in net position of governmental activities	\$	3,142,300

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

City of McFarland
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2017

	Sewer	Refuse	Water	Public Transit	Total Proprietary
Assets:					
Current Assets:					
Cash and Investments	\$ -	\$ 66,015	\$ -	\$ 167,616	\$ 233,631
Investments With Fiscal Agents - Restricted	454,833	-	224,951	-	679,784
Receivables, net	173,097	138,792	58,754	43,401	414,044
Prepaid Expenses	-	-	3,463	16	3,479
Supplies	-	-	5,098	-	5,098
Total Current Assets	627,930	204,807	292,266	211,033	1,336,036
Noncurrent Assets:					
Capital Assets:					
Land	1,120,000	-	160,063	-	1,280,063
Construction in Progress	6,245,082	-	3,197,069	-	9,442,151
Depreciable Buildings, Property, Equipment and Infrastructure, net of accumulated depreciation	4,472,651	63,229	5,080,738	215,752	9,832,370
Total Noncurrent Assets	11,837,733	63,229	8,437,870	215,752	20,554,584
Total Assets	\$ 12,465,663	\$ 268,036	\$ 8,730,136	\$ 426,785	\$ 21,890,620
Liabilities:					
Current Liabilities:					
Accounts Payable	\$ 179,807	\$ 132,118	\$ 170,206	\$ 10,106	\$ 492,237
Accrued Interest Payable	51,594	-	25,412	-	77,006
Due to Other Funds	1,013,635	-	1,362,939	-	2,376,574
Unearned Revenue	-	5,000	-	147,554	152,554
Current Portion of Long-Term Debt	110,550	-	54,450	-	165,000
Total Current Liabilities	1,355,586	137,118	1,613,007	157,660	3,263,371
Noncurrent Liabilities:					
Accrued Compensated Absences	16,750	4,533	10,566	2,063	33,912
Bonds Payable	4,275,067	-	2,139,933	-	6,415,000
Total Noncurrent Liabilities	4,291,817	4,533	2,150,499	2,063	6,448,912
Total Liabilities	5,647,403	141,651	3,763,506	159,723	9,712,283
Net Position:					
Invested in Capital Assets, net of related debt	7,906,949	63,229	6,468,438	215,752	14,654,368
Restricted For:					
Capital Projects (expendable)	1,233,671	-	1,301,729	-	2,535,400
Unrestricted	(2,322,360)	63,156	(2,803,537)	51,310	(5,011,431)
Net Position	\$ 6,818,260	\$ 126,385	\$ 4,966,630	\$ 267,062	\$ 12,178,337

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, 2017

	Sewer	Refuse	Water	Public Transit	Total Proprietary
Operating Revenues:					
Charges for Services	\$ 1,384,031	\$ 1,274,524	\$ 1,042,818	\$ 15,831	\$ 3,717,204
Total Operating Revenues	1,384,031	1,274,524	1,042,818	15,831	3,717,204
Operating Expenses:					
Wages and Benefits	564,471	178,929	434,659	112,795	1,290,854
Administration	230,330	1,225,624	177,903	17,205	1,651,062
Materials and Supplies	34,453	7,392	39,942	12,267	94,054
Maintenance and Repair	40,302	5,124	37,843	8,460	91,729
Utilities	143,649	-	327,079	-	470,728
Franchise Fees	169,987	-	113,818	-	283,805
Depreciation	249,485	18,354	333,900	28,757	630,496
Total Operating Expenses	1,432,677	1,435,423	1,465,144	179,484	4,512,728
Operating Income (Loss)	(48,646)	(160,899)	(422,326)	(163,653)	(795,524)
Nonoperating Revenues (Expenses):					
Interest Income	12,036	518	6,528	-	19,082
Rent Income	59,927	-	-	-	59,927
Connection Fees	110,405	-	51,570	-	161,975
Local Transportation Funding	-	-	-	57,535	57,535
Grants	-	-	4,160	-	4,160
Interest Expense	(207,266)	-	(101,699)	-	(308,965)
Gain/(Loss) on Sale of Assets	-	-	-	-	-
Total Nonoperating Revenues (Expenses)	(24,898)	518	(39,441)	57,535	(6,286)
Income (Loss) Before Contributions and Transfers	(73,544)	(160,381)	(461,767)	(106,118)	(801,810)
Transfers:					
Transfers In	-	-	-	74,167	74,167
Transfers Out	-	-	(741)	-	(741)
Change in Net Position	(73,544)	(160,381)	(462,508)	(31,951)	(728,384)
Net Position - Beginning	6,891,804	286,766	5,429,138	299,013	12,906,721
Net Position - Ending	\$ 6,818,260	\$ 126,385	\$ 4,966,630	\$ 267,062	\$ 12,178,337

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

City of McFarland
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2017

	Sewer	Refuse	Water	Public Transportation	Total Proprietary
Cash flows from operating activities:					
Cash received from:					
Customers, including cash deposits	\$ 1,393,257	\$ 1,271,996	\$ 1,088,062	\$ 15,831	\$ 3,769,146
Cash paid to:					
Suppliers	(647,304)	(1,205,071)	(674,375)	(112,099)	(2,638,849)
Employees	(559,743)	(177,725)	(433,485)	(111,780)	(1,282,733)
Net cash provided (used) by operating activities	186,210	(110,800)	(19,798)	(208,048)	(152,436)
Net cash provided from noncapital financing activities:					
Cash transferred from other funds	231,365	-	1,362,939	74,167	1,668,471
Cash transferred to other funds	-	-	(741)	-	(741)
Connection fees	110,405	-	51,570	-	161,975
Intergovernmental revenue	-	5,000	-	10,801	15,801
Net cash provided (used) by noncapital financing activities	341,770	5,000	1,413,768	84,968	1,845,506
Cash flows from capital and related financing activities:					
Principal payments:					
Revenue Bonds	(107,200)	-	(52,800)	-	(160,000)
Interest paid	(207,636)	-	(102,269)	-	(309,905)
Purchase of capital assets	(258,189)	(41,331)	(2,823,108)	-	(3,122,628)
Net cash provided (used) by capital and related financing activities	(573,025)	(41,331)	(2,978,177)	-	(3,592,533)
Cash flows from investing activities:					
Interest received	12,036	518	6,528	-	19,082
Rents Received	59,927	-	-	-	59,927
Net cash provided by investing activities	71,963	518	6,528	-	79,009
Net increase (decrease) in cash	26,918	(146,613)	(1,577,679)	(123,080)	(1,820,454)
Cash and cash equivalents - Beginning of year	427,915	212,628	1,802,630	290,696	2,733,869
Cash and cash equivalents - End of year	\$ 454,833	\$ 66,015	\$ 224,951	\$ 167,616	\$ 913,415
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:					
Operating income (loss)	\$ (48,646)	\$ (160,899)	\$ (422,326)	\$ (163,653)	\$ (795,524)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	249,485	18,354	333,900	28,757	630,496
(Increase) decrease in accounts receivable	9,226	(2,528)	45,244	-	51,942
(Increase) decrease in prepaid expenses	24,862	-	9,553	-	34,415
(Increase) decrease in supplies	-	-	-	-	-
Increase (decrease) in accounts payable	(53,445)	33,069	12,657	(74,167)	(81,886)
Increase (decrease) in compensated absences	4,728	1,204	1,174	1,015	8,121
Net cash provided (used) by operating activities	\$ 186,210	\$ (110,800)	\$ (19,798)	\$ (208,048)	\$ (152,436)
Cash and cash equivalents per Statement of Net Assets:					
Cash and investments	\$ -	\$ 66,015	\$ -	\$ 167,616	\$ 233,631
Investments with fiscal agents - restricted	454,833	-	224,951	-	679,784
Total cash and cash equivalents at end of year	\$ 454,833	\$ 66,015	\$ 224,951	\$ 167,616	\$ 913,415

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, 2017

		RDA Successor Agency Private Purpose Trust Fund
Assets:		
Cash and Investments	\$	6,665
Land Held for Resale		-
		<hr/>
Total Assets	\$	<u>6,665</u>
Liabilities:		
Accounts Payable		-
Due to City of McFarland		80,280
Unearned Revenue		7,121
		<hr/>
Total Liabilities		<u>87,401</u>
Net Position:		
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, 2017

	RDA Successor Agency Private Purpose Trust Fund
Additions:	
Property Taxes	\$ -
Total Additions	-
Deductions:	
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, 2017

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, 2017

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, 2017

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, 2017

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 ICE Administration Fund accounts for ICE funds received and it will received a fee for administering these funds.

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, 2017

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, 2017

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, 2017

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, 2017

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 in the proprietary fund financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when bonds are issued.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, 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, 2017

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 \$7,226,633 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, 2017

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	\$	3,377,687
Pooled Cash and Investments - Business-Type Funds		233,631
Restricted Investments with Fiscal Agents - Business-Type Funds		679,784
Fiduciary Funds:		
Cash and Investments - RDA Successor Private Purpose Trust		6,665
Total	\$	4,297,767

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2017

Note 2 – Cash and Investments, (continued)

Cash and investments at June 30, 2017 consist of the following:

Cash on Hand	\$	2,600
Demand Deposits		2,269,497
Investments		<u>2,025,670</u>
Total	\$	<u><u>4,297,767</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, 2017, 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, 2017:

Investment Type	Fair Value	Maturity Date
State Treasurer's Investment Pool (LAIF)	\$ 1,013,914	N/A
Local Government Revenue Bonds	331,972	3 years
Held by Trustees:		
Cash and Short Term Investments	<u>679,784</u>	N/A
Total Investments	<u><u>\$ 2,025,670</u></u>	

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2017

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, 2017, 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.

\$ 679,784

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2017

Note 3 – Receivables

Receivables at June 30, 2017 consist of the following:

	General Fund	TDA - LTF	CDBG	CalHome	HOME	Lighting & Landscape	COPS	Total
Governmental Activities:								
Accounts receivable, net	\$ 74,055	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 74,055
Due from Governments	934,120	1,437,888	388,784	17,752	1,473	23	25,845	2,805,885
Less Allowance for Doubtfull Accounts	-	-	-	-	-	-	-	-
Total	\$ 1,008,175	\$ 1,437,888	\$ 388,784	\$ 17,752	\$ 1,473	\$ 23	\$ 25,845	\$ 2,879,940

	Sewer	Refuse	Water	Public Transit	Total
Business-Type Activities:					
Accounts receivable, net	\$ 171,754	\$ 138,792	\$ 58,015	\$ -	\$ 368,561
Due from Governments	1,343	-	739	43,401	45,483
Less Allowance for Doubtfull Accounts	-	-	-	-	-
Total	\$ 173,097	\$ 138,792	\$ 58,754	\$ 43,401	\$ 414,044

Note 4 – Interfund Receivables, Payables, Advances and Transfers

The composition of interfund balances as of June 30, 2017 is as follows:

Fund	Due From Other Funds	Due To Other Funds
Government Funds:		
General	\$ 4,400,068	\$ -
TDA - LTF	-	1,473,858
CDBG	-	403,247
CalHome	-	31,704
HOME	-	88,840
COPS	-	25,845
Development Impact	80,280	-
Total Governmental Funds	4,480,348	2,023,494
Proprietary Funds:		
Sewer	-	1,013,635
Water	-	1,362,939
Total Proprietary Funds	-	2,376,574
Fiduciary Funds:		
RDA Successor Private Purpose Trust	-	80,280
Total Fiduciary Funds	-	80,280
Total Due From/To	\$ 4,480,348	\$ 4,480,348

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, 2017

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

Interfund transfers at June 30, 2017 consisted of the following:

	Transfers In	Transfers Out
Governmental Funds:		
General	\$ 3,072,989	\$ -
TDA-LTF	-	1,722,882
Gas Tax	-	265,083
CDBG	-	559,556
CalHome	-	16,129
Lighting & Landscape	-	7,752
COPS	-	98,901
Development Impact	-	476,112
Proprietary Funds:		
Water	-	741
Public Transit	74,167	-
	\$ 3,147,156	\$ 3,147,156

Composition and purpose of interfund transfers is as follows:

General fund transfers in of \$3,072,989 consist of \$1,648,715 from TDA-LTF and \$265,083 from Gas Tax fund to reimburse for street maintenance; \$559,556 from CDBG and \$16,129 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; \$7,752 from Lighting & Landscape for cost reimbursement; \$98,901 from COPS which represents transfers of police type grant funds to the Police department of the General Fund; \$476,112 from Development Impact for various construction projects accounted for in the General Fund; \$741 from the Water Fund.

Public Transit fund transfers in of \$74,167 are from the TDA-LTF fund to cover operating costs.

Note 5 – Land Held for Resale

At June 30, 2017, inventory consisted of commercial land valued at \$446,593. All values are stated at original cost.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2017

Note 6 – Capital Assets

Capital asset activity for the year ended June 30, 2017 is as follows:

<u>Governmental Activities</u>	Balance June 30, 2016	Additions	Deletions	Transfers	Balance June 30, 2017
Capital Assets Not Being Depreciated:					
Land	\$ 493,248	\$ -	\$ -	\$ -	\$ 493,248
Construction in Progress	7,185,701	2,477,602	-	(3,070,587)	6,592,716
Total Capital Assets Not Being Depreciated	7,678,949	2,477,602	-	(3,070,587)	7,085,964
Capital Assets Being Depreciated:					
Infrastructure	17,337,643	1,590,011	-	2,820,283	21,747,937
Machinery and Equipment	1,204,953	121,487	-	250,304	1,576,744
Vehicles	713,000	36,210	-	-	749,210
Total Capital Assets Being Depreciated	19,255,596	1,747,708	-	3,070,587	24,073,891
Less Accumulated Depreciation For:					
Infrastructure	3,258,335	680,532	-	-	3,938,867
Machinery and Equipment	846,681	229,992	-	-	1,076,673
Vehicles	7,654	-	-	-	7,654
Total Accumulated Depreciation	4,112,670	910,524	-	-	5,023,194
Total Capital Assets Being Depreciated, net	15,142,926	837,184	-	3,070,587	19,050,697
Governmental Activities Capital Assets, net	<u>\$ 22,821,875</u>	<u>\$ 3,314,786</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,136,661</u>

Depreciation charged to governmental functions on the Statement of Activities during the year is as follows: \$187,982 to General Government, \$88,313 to Public Safety, \$573,121 to Public Works, and \$61,108 to Community Development.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2017

Note 6 – Capital Assets, (continued)

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

<u>Business-Type Activities</u>	Balance June 30, 2016	Additions	Deletions	Transfers	Balance June 30, 2017
Capital Assets Not Being Depreciated:					
Land	\$ 1,280,063	\$ -	\$ -	\$ -	\$ 1,280,063
Construction in Progress	7,069,500	2,486,440	-	(113,789)	9,442,151
Total Capital Assets Not Being Depreciated	8,349,563	2,486,440	-	(113,789)	10,722,214
Capital Assets Being Depreciated:					
Building and Improvements	5,646,661	476,707	-	27,863	6,151,231
Infrastructure	562,683	-	-	-	562,683
Machinery and Other	11,564,804	159,481	-	85,926	11,810,211
Vehicles	890,279	-	-	-	890,279
Total Capital Assets Being Depreciated	18,664,427	636,188	-	113,789	19,414,404
Less Accumulated Depreciation For:					
Building and Improvements	2,083,178	227,295	-	-	2,310,473
Infrastructure	168,306	14,316	-	-	182,622
Machinery and Other	6,324,849	351,361	-	-	6,676,210
Vehicles	375,205	37,524	-	-	412,729
Total Accumulated Depreciation	8,951,538	630,496	-	-	9,582,034
Total Capital Assets Being Depreciated, net	9,712,889	5,692	-	113,789	9,832,370
Business-Type Activities Capital Assets, net	<u>\$ 18,062,452</u>	<u>\$ 2,492,132</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,554,584</u>

Depreciation charged to business-type activities on the Statement of Activities during the year is as follows: \$249,485 to Sewer, \$333,900 to Water, \$18,354 to Refuse, and \$28,757 to Public Transit.

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2017

Note 7 – Long-Term Liabilities

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
Governmental Activities:					
Revenue Bonds	\$ 373,967	\$ -	\$ (41,995)	\$ 331,972	\$ 42,515
Note Payable	913,206	-	(216,166)	697,040	224,062
Capital Lease	289,842	-	(93,129)	196,713	97,885
Compensated Absences	53,390	9,507	-	62,897	-
Total Governmental Activities	1,630,405	9,507	(351,290)	1,288,622	364,462
Business-Type Activities:					
Revenue Bonds	6,740,000	-	(160,000)	6,580,000	165,000
Compensated Absences	25,791	8,121	-	33,912	-
Total Business-Type Activities	6,765,791	8,121	(160,000)	6,613,912	165,000
Total Long-Term Liabilities	\$ 8,396,196	\$ 17,628	\$ (511,290)	\$ 7,902,534	\$ 529,462

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 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.

\$ 331,972

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.

697,040

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2017

Note 7 – Long-Term Liabilities, (continued)

Capital Lease:

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. 48,057

Lease/Purchase obligation payable to Government Leasing LLC dated May 15, 2015, in the amount of \$249,257; monthly payments of \$4,733 including interest at 5.5% payable through 2020. Secured by street sweeper. 148,656

Total Capital Leases 196,713

Compensated Absences Payable 62,897

Total Governmental Activities \$ 1,288,622

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. \$ 6,580,000

Compensated Absences Payable 33,912

Total Business-Type Activities \$ 6,613,912

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2017

Note 7 – Long-Term Liabilities, (continued)

The annual requirements to amortize all indebtedness and other long-term liabilities outstanding at June 30, 2017, are as follows:

Year Ending June 30	Governmental Activities					
	Revenue Bonds		Note Payable		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 42,515	\$ 3,963	\$ 224,062	\$ 23,223	\$ 97,885	\$ 9,131
2019	43,040	3,437	232,247	15,039	52,654	4,142
2020	43,573	2,904	240,731	6,555	46,174	1,178
2021	44,112	2,366	-	-		
2022	44,657	1,820				
2023-2025	114,075	2,118	-	-	-	-
Total	\$ 331,972	\$ 16,608	\$ 697,040	\$ 44,817	\$ 196,713	\$ 14,451

Business-Type Activities

Year Ending June 30	Revenue Bonds	
	Principal	Interest
2018	\$ 165,000	\$ 308,025
2019	165,000	303,735
2020	170,000	299,033
2021	180,000	293,848
2022	185,000	287,818
2023-2027	1,040,000	1,319,850
2028-2032	1,315,000	1,043,500
2033-2037	1,680,000	680,000
2038-2041	1,680,000	215,000
Total	\$ 6,580,000	\$ 4,750,809

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2017

Note 8 – Unearned Revenue / Deferred Inflows of Resources

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
General Grant	\$ 32,876	\$ -
Discovery Park Grant	124,228	-
TDA Road Grant	1,437,889	
Misc. Capital Project Grants	825,518	
CDBG	388,784	
CalHome Grant	10,945	-
HOME Grant	-	-
LLMD Allocation	78,474	-
Miscellaneous Grants	10,164	
California Recycling Grant	-	5,000
TDA - Dial A Ride	-	147,554
	<hr/>	<hr/>
Total	<u>\$ 2,908,878</u>	<u>\$ 152,554</u>

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

	<u>Unavailable</u>
CalHOME Grant Loans	\$ 3,202,429
HOME Grant Loans	711,816
	<hr/>
Total	<u>\$ 3,914,245</u>

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2017

Note 9 – 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 \$4,000,000 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 \$4,000,000 to \$29,000,000 are covered by Excess Comprehensive General Liability Policies.

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, 2017 as follows:

Total Assets	\$ 100,984,219
Total Liabilities	83,009,648
Net Assets	\$ 17,974,571
Total Revenue	\$ 44,757,809
Total Expenses	42,218,070
Change in Net Assets	\$ 2,539,739

City of McFarland
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2017

Note 10 – 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 \$271,281.

Note 11 – 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	(403,247)
CalHome	(24,897)
HOME	(87,367)
ICE Administration	<u>(8,461)</u>
Total Governmental Funds	<u>\$ (559,942)</u>

These deficits are a result of expenditures prior to grant reimbursement.

Date of Management Evaluation

Management has evaluated subsequent events through June 4, 2018, the date on which the financial statements were available to be issued.

Excess of Expenditures over Appropriations

For the year ended June 30, 2017, 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, 2017

Note 11 – 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, 2017, the latest date reported by the County, the contingent liability was \$6,555.

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

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City of McFarland
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year ended June 30, 2017

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	\$ 2,326,517	\$ 2,326,517	\$ 2,332,132	\$ 5,615
Licenses & Permits	6,255	6,255	3,371	(2,884)
Fines, Forfeitures & Assessment	35,000	35,000	50,343	15,343
Use of Money or Property	22,295	22,295	21,788	(507)
Intergovernmental	7,165,096	7,120,595	1,328,966	(5,791,629)
Charges for Services	492,424	492,424	379,613	(112,811)
Contributions and Donations	-	-	-	-
Other Income	322,885	322,885	453,574	130,689
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	10,370,472	10,325,971	4,569,787	(5,756,184)
Expenditures:				
Current:				
General Government	\$ 456,250	\$ 480,477	\$ 446,345	\$ (34,132)
Public Safety	2,617,915	2,567,503	2,353,788	(213,715)
Public Works	1,125,292	1,039,598	655,420	(384,178)
Community Development	606,568	638,463	485,028	(153,435)
Non Departmental	404,310	404,310	353,009	(51,301)
Capital Outlay:				
General Capital Outlay	309,488	324,100	117,684	(206,416)
Street Improvements	10,778,002	10,778,002	2,837,612	(7,940,390)
Debt Service:				
Principal Retirement	360,464	360,464	317,242	(43,222)
Interest and Finance Charges	3,000	3,000	14,376	11,376
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	16,661,289	16,595,917	7,580,504	(9,015,413)
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of Revenues Over (Under) Expenditures	(6,290,817)	(6,269,946)	(3,010,717)	3,259,229
Other Financing Sources (Uses):				
Transfers In	6,313,422	6,272,946	3,072,989	(3,199,957)
Transfers Out	-	-	-	-
Proceeds From Long-Term Debt	-	-	-	-
Sale of Capital Assets	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	6,313,422	6,272,946	3,072,989	(3,199,957)
	<hr/>	<hr/>	<hr/>	<hr/>
Net Change in Fund Balances	\$ 22,605	\$ 3,000	62,272	\$ 59,272
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balances - Beginning			3,227,813	
			<hr/>	
Fund Balances - Ending			\$ 3,290,085	
			<hr/>	

City of McFarland
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
TDA - LTF
Year ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Intergovernmental	\$ 1,634,892	\$ 1,612,231	\$ 1,722,882	\$ 110,651
Charges for Services	-	-	-	-
	<hr/>			
Total Revenues	1,634,892	1,612,231	1,722,882	110,651
Expenditures:				
Current:				
Public Works	\$ -	\$ -	\$ -	\$ -
Capital Outlay	-	-	-	-
	<hr/>			
Total Expenditures	-	-	-	-
	<hr/>			
Excess of Revenues Over (Under) Expenditures	1,634,892	1,612,231	1,722,882	110,651
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	(1,634,892)	(1,612,231)	(1,722,882)	(110,651)
	<hr/>			
Total Other Financing Sources (Uses)	(1,634,892)	(1,612,231)	(1,722,882)	(110,651)
	<hr/>			
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balances - Beginning			<u>(35,970)</u>	
Fund Balances - Ending			<u>\$ (35,970)</u>	

City of McFarland
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GAS TAX FUND
Year ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Intergovernmental	\$ 293,115	\$ 293,115	\$ 265,083	\$ (28,032)
Total Revenues	293,115	293,115	265,083	(28,032)
Expenditures:				
Current:				
Public Works	\$ -	\$ -	\$ -	\$ -
Capital Outlay	-	-	-	-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	293,115	293,115	265,083	(28,032)
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	(293,115)	(293,115)	(265,083)	28,032
Total Other Financing Sources (Uses)	(293,115)	(293,115)	(265,083)	28,032
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balances - Beginning			<u>38,254</u>	
Fund Balances - Ending			<u>\$ 38,254</u>	

City of McFarland
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CDBG FUND
Year ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Intergovernmental	\$ 2,198,094	\$ 2,198,094	\$ 170,772	\$ (2,027,322)
Total Revenues	2,198,094	2,198,094	170,772	(2,027,322)
Expenditures:				
Current:				
Community Development	\$ -	\$ -	\$ -	\$ -
Capital Outlay	-	-	-	-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	2,198,094	2,198,094	170,772	(2,027,322)
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	(2,198,094)	(2,198,094)	(559,556)	1,638,538
Total Other Financing Sources (Uses)	(2,198,094)	(2,198,094)	(559,556)	1,638,538
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	(388,784)	<u>\$ (388,784)</u>
Fund Balances - Beginning			<u>(14,463)</u>	
Fund Balances - Ending			<u>\$ (403,247)</u>	

City of McFarland
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CALHOME
Year ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Intergovernmental	\$ 544,078	\$ 249,505	\$ 126,407	\$ (123,098)
Charges for Services	50,000	30,000	16,129	
	<hr/>			
Total Revenues	594,078	279,505	142,536	(123,098)
Expenditures:				
Current:				
Community Development	\$ 544,078	\$ 249,505	\$ 126,408	\$ (123,097)
Capital Outlay	-	-	-	-
	<hr/>			
Total Expenditures	544,078	249,505	126,408	(123,097)
<hr/>				
Excess of Revenues Over (Under) Expenditures	50,000	30,000	16,128	(1)
<hr/>				
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	(50,000)	(30,000)	(16,129)	13,871
	<hr/>			
Total Other Financing Sources (Uses)	(50,000)	(30,000)	(16,129)	13,871
<hr/>				
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	(1)	<u>\$ 13,870</u>
<hr/>				
Fund Balances - Beginning			(24,896)	
Fund Balances - Ending			<u>\$ (24,897)</u>	

City of McFarland
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
HOME FUND
Year ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Intergovernmental	\$ -	\$ -	\$ 40,219	\$ 40,219
Total Revenues	-	-	40,219	40,219
Expenditures:				
Current:				
Community Development	\$ -	\$ -	\$ -	\$ -
Capital Outlay	-	-	-	-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	-	-	40,219	40,219
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	40,219	<u>\$ 40,219</u>
Fund Balances - Beginning			<u>(127,586)</u>	
Fund Balances - Ending			<u>\$ (87,367)</u>	

City of McFarland
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
LIGHTING & LANDSCAPE FUND
Year ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Taxes	\$ 122,327	\$ 122,327	\$ 113,640	\$ (8,687)
Total Revenues	122,327	122,327	113,640	(8,687)
Expenditures:				
Current:				
Public Works	\$ 108,575	\$ 108,575	\$ 63,140	\$ (45,435)
Capital Outlay	6,000	6,000	42,748	36,748
Total Expenditures	114,575	114,575	105,888	(8,687)
Excess of Revenues Over (Under) Expenditures	7,752	7,752	7,752	-
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	(7,752)	(7,752)	(7,752)	-
Total Other Financing Sources (Uses)	(7,752)	(7,752)	(7,752)	-
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balances - Beginning			<u>17,999</u>	
Fund Balances - Ending			<u>\$ 17,999</u>	

City of McFarland
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
COPS FUND
Year ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Intergovernmental	\$ 78,213	\$ 78,213	\$ 98,901	\$ 20,688
Total Revenues	78,213	78,213	98,901	20,688
Expenditures:				
Current:				
Community Development	\$ -	\$ -	\$ -	\$ -
Capital Outlay	-	-	-	-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	78,213	78,213	98,901	20,688
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	(78,213)	(78,213)	(98,901)	(20,688)
Total Other Financing Sources (Uses)	(78,213)	(78,213)	(98,901)	(20,688)
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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Licenses & Permits	\$ 495,198	\$ 495,198	\$ 125,608	\$ (369,590)
Use of Money or Property	1,000	1,000	1,119	119
	<hr/>			
Total Revenues	496,198	496,198	126,727	(369,471)
Expenditures:				
Current:				
Public Works	\$ -	\$ -	\$ -	\$ -
Capital Outlay	-	-	-	-
	<hr/>			
Total Expenditures	-	-	-	-
	<hr/>			
Excess of Revenues Over (Under) Expenditures	496,198	496,198	126,727	(369,471)
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	(1,026,881)	(1,026,881)	(476,112)	550,769
	<hr/>			
Total Other Financing Sources (Uses)	(1,026,881)	(1,026,881)	(476,112)	550,769
	<hr/>			
Net Change in Fund Balances	<u>\$ (530,683)</u>	<u>\$ (530,683)</u>	(349,385)	<u>\$ 181,298</u>
	<hr/>			
Fund Balances - Beginning			<u>1,601,283</u>	
	<hr/>			
Fund Balances - Ending			<u>\$ 1,251,898</u>	

City of McFarland
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MISCELLANEOUS GRANTS FUND
Year ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Intergovernmental	\$ 10,000	\$ 10,800	\$ 795	\$ (10,005)
Use of Money or Property	-	-	-	-
	<hr/>			<hr/>
Total Revenues	10,000	10,800	795	(10,005)
Expenditures:				
Current:				
Community Development	\$ 10,000	\$ 10,800	\$ 795	\$ (10,005)
Capital Outlay	-	-	-	-
	<hr/>			<hr/>
Total Expenditures	10,000	10,800	795	(10,005)
Excess of Revenues Over (Under) Expenditures	-	-	-	-
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
	<hr/>			<hr/>
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balances - Beginning			<hr/>	-
Fund Balances - Ending			<u>\$ -</u>	

City of McFarland
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
ICE ADMINISTRATION FUND
Year ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Intergovernmental	\$ 12,000,000	\$ 12,000,000	\$ 19,311,325	\$ 7,311,325
Use of Money or Property	-	-	-	-
	<hr/>			<hr/>
Total Revenues	12,000,000	12,000,000	19,311,325	7,311,325
Expenditures:				
Current:				
Community Development	\$ 12,000,000	\$ 12,000,000	\$ 19,318,385	\$ 7,318,385
Capital Outlay	-	-	-	-
	<hr/>			<hr/>
Total Expenditures	12,000,000	12,000,000	19,318,385	7,318,385
	<hr/>			<hr/>
Excess of Revenues Over (Under) Expenditures	-	-	(7,060)	(7,060)
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
	<hr/>			<hr/>
Total Other Financing Sources (Uses)	-	-	-	-
	<hr/>			<hr/>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	(7,060)	<u>\$ (7,060)</u>
	<hr/>			<hr/>
Fund Balances - Beginning			(1,401)	
	<hr/>			<hr/>
Fund Balances - Ending			<u>\$ (8,461)</u>	

City of McFarland
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
McFARLAND IMPROVEMENT AUTHORITY
Year ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Intergovernmental	\$ -	\$ -	\$ 46,477	\$ 46,477
Total Revenues	-	-	46,477	46,477
Expenditures:				
Current:				
Community Development	\$ -	\$ -	\$ -	\$ -
Debt Service:				
Principal Retirement	-	-	41,995	41,995
Interest and Finance Charges	-	-	4,482	4,482
Total Expenditures	-	-	46,477	46,477
Excess of Revenues Over (Under) Expenditures	-	-	-	-
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Proceeds From Long-Term Debt	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balances - Beginning			<u>20,318</u>	
Fund Balances - Ending			<u>\$ 20,318</u>	

**ADDITIONAL REPORTING REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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Albert & Associates, LLP

Certified Public Accountants

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

To the City Council
City of McFarland, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of City of McFarland, California, as of and for the year ended June 30, 2017, 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 June 4, 2018.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (2017-1).

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. We consider the deficiency described in the accompany schedule of findings and responses to be a significant deficiency (2017-2).

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's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of McFarland'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
June 4, 2018

City of McFarland
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2017

2017-1 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 maintains certain cash balances with a fiscal agent pursuant to related bond debt requirements. Both during the year and at year end, the City failed to monitor the cash accounts by maintaining a subsidiary analysis in support of the general ledger balances.
- b. The City's utility billing system is capable of generating both a "Monthly Billing Report" and an "Aging Report". These reports are central to accounting controls for utility revenues (Water, Sewer and Garbage) and their related receivables. The City's billing department did not have a full understanding of these reports and did not use them to prepare monthly utility billing subsidiary reconciliations to the related book balances. It did not appear that the "Aging Report" was even being generated, or if generated, not run on the month end date necessary to make it usable.
- c. The City maintains no subsidiaries supporting the balance in the account "Due From Governments". At any point in time, the City does not know the make-up of the receivable balance and at year end, the general ledger balance still contained uncollected /unanalyzed receivable amounts going back to the June 30, 2016 year or prior.
- d. Throughout the year, the City does not prepare or maintain subsidiaries to support Long Term Debt balances owed.
- e. The City does not reconcile (either monthly or at year-end) the "My Open Payable Report" to the book balances of accounts payable. In fact, an attempt at year-end to reconcile these two indicated a difference that was not explained.

Cause: The City did not allocate sufficient resources to the accounting function.

Effect: Certain account balances are misstated at year end.

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

Management Response: The City concurs and will make the following changes:

- a. The City will monitor the cash accounts relating to bond debt requirements and maintain a subsidiary analysis in support of the general ledger balances.
- b. The City will prepare monthly utility billing subsidiary reconciliations to related book balances and run Aging Reports at month end.

City of McFarland
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2017

- c. The City will prepare monthly subsidiaries supporting the balance in the account Due From Governments and have supporting documentation of receivables as well as make necessary adjustments for uncollected/unanalyzed receivable amounts; if necessary for any receivables older than the existing year that is being audited. Also some of the uncollected receivables are for projects that are to be funded by a grant and/or loan once the process is complete.
- d. The City will prepare and maintain subsidiaries to support Long Term Debt balances owed.
- e. The City will reconcile the Open Payable Report to the book balances of accounts payable.

2017-2 Project Reimbursement Claims

Criteria and Condition: The City has not timely prepared and submitted cost reimbursement claims.

Context: The City has a large amount of unbilled project claims, some with expenditures dated in the year June 30, 2015.

Cause: The City did not allocate sufficient resources to the accounting function.

Effect: Strain on cash flow and the risk that old supporting documents could be lost or misplaced.

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

Management Response: There are some grant and/or loan related projects that are applied for and prior year(s) expenses relating to the project will be reimbursed once the grant and/or loan activity is funded. City applied for USDA loan to construct Animal Shelter building once the project is funded the City will receive reimbursement for prior year(s) expenses incurred by the City. City applied for SRF, State Water Resources Board Loan once the Loan is approved the City will receive reimbursement for prior year(s) expenses incurred by the City.

SINGLE AUDIT REPORT AND SCHEDULES

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Albert & Associates, LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

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 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

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 the Uniform Guidance, 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 determined.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Albert & Associates, LLP

Wasco, California

June 4, 2018

City of McFarland
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2017

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Grant Number / Pass-through Grantor's Number	Federal Expenditures
<u>U.S. Department of Transportation</u>			
Pass-through State of California Department of Transportation			
Highway Planning & Construction	20.205	CML-5343(006)	\$ 13,864
Highway Planning & Construction	20.205	STPL-5343(008)	169,184
Highway Planning & Construction	20.205	ATPL-5343(009)	16,744
Total U.S. Department of Transportation			<u>199,792</u>
<u>U.S. Department of Justice</u>			
Direct Program:			
COPS Universal Hiring Grant	16.710	2014UMWX0157	70,416
Total U.S. Department of Justice			<u>70,416</u>
<u>U.S. Department of Housing and Urban Development</u>			
Pass-through State of California Dept. of Housing & Community Development			
Community Development Block Grants	14.218	15-CDBG-10571	335,523
Housing Related Parks Program	14.218	10-DRI-6787	224,033
Total U.S. Department of Housing and Urban Development			<u>559,556</u>
			<u>\$ 829,764</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, 2017

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, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). 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 Uniform Guidance and /or OMB Circular A0122, *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).

Note D – Indirect Cost Rate

The City of McFarland, California has elected not to use the 10% de minimis indirect cost rate allowed under Uniform Guidance.

City of McFarland
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2017

A. Summary of Auditor's Results:

1. The auditor's report expresses an unmodified opinion on the financial statements of the City of McFarland were prepared in accordance with GAAP.
2. One material deficiency relating to the audit of the financial statements is reported in the 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. One significant deficiency is reported.
3. No instances of noncompliance material to the financial statements of the City of McFarland, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Uniform Guidance. 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 2 CFR Section 200.516(a) are reported in this Schedule.
7. The programs tested as major programs were:

14.218	CDBG 2015 2nd Street Improvement
14.218	Disaster Recovery Initiative Program

8. The threshold used for distinguishing between Type A and B programs was \$750,000
9. The City of McFarland did not qualify as a low-risk auditee.

B. Findings – Financial Statements Audit

MATERIAL DEFICIENCY

2017-1 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 maintains certain cash balances with a fiscal agent pursuant to related bond debt requirements. Both during the year and at year end, the City failed to monitor the cash accounts by maintaining a subsidiary analysis in support of the general ledger balances.

City of McFarland
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2017

- b. The City's utility billing system is capable of generating both a "Monthly Billing Report" and an "Aging Report". These reports are central to accounting controls for utility revenues (Water, Sewer and Garbage) and their related receivables. The City's billing department did not have a full understanding of these reports and did not use them to prepare monthly utility billing subsidiary reconciliations to the related book balances. It did not appear that the "Aging Report" was even being generated, or if generated, not run on the month end date necessary to make it usable.
- c. The City maintains no subsidiaries supporting the balance in the account "Due From Governments". At any point in time, the City does not know the make-up of the receivable balance and at year end, the general ledger balance still contained uncollected /unanalyzed receivable amounts going back to the June 30, 2016 year or prior.
- d. Throughout the year, the City does not prepare or maintain subsidiaries to support Long Term Debt balances owed.
- e. The City does not reconcile (either monthly or at year-end) the "My Open Payable Report" to the book balances of accounts payable. In fact, an attempt at year-end to reconcile these two indicated a difference that was not explained.

Cause: The City did not allocate sufficient resources to the accounting function.

Effect: Certain account balances are misstated at year end.

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

Management Response: The City concurs and will make the following changes:

- a. The City will monitor the cash accounts relating to bond debt requirements and maintain a subsidiary analysis in support of the general ledger balances.
- b. The City will prepare monthly utility billing subsidiary reconciliations to related book balances and run Aging Reports at month end.
- c. The City will prepare monthly subsidiaries supporting the balance in the account Due From Governments and have supporting documentation of receivables as well as make necessary adjustments for uncollected/unanalyzed receivable amounts; if necessary for any receivables older than the existing year that is being audited. Also some of the uncollected receivables are for projects that are to be funded by a grant and/or loan once the process is complete.
- d. The City will prepare and maintain subsidiaries to support Long Term Debt balances owed.
- e. The City will reconcile the Open Payable Report to the book balances of accounts payable.

City of McFarland
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2017

SIGNIFICANT DEFICIENCY

2017-2 Project Reimbursement Claims

Criteria and Condition: The City has not timely prepared and submitted cost reimbursement claims.

Context: The City has a large amount of unbilled project claims, some with expenditures dated in the year June 30, 2015.

Cause: The City did not allocate sufficient resources to the accounting function.

Effect: Strain on cash flow and the risk that old supporting documents could be lost or misplaced.

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

Management Response: There are some grant and/or loan related projects that are applied for and prior year(s) expenses relating to the project will be reimbursed once the grant and/or loan activity is funded. City applied for USDA loan to construct Animal Shelter building once the project is funded the City will receive reimbursement for prior year(s) expenses incurred by the City. City applied for SRF, State Water Resources Board Loan once the Loan is approved the City will receive reimbursement for prior year(s) expenses incurred by the City.

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, 2017

No Prior Audit Findings