

CITY OF MCFARLAND
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018



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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of the City Council
City of McFarland
McFarland, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of McFarland (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the entity'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.

Auditors' 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 auditors' 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 unmodified and qualified audit opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-type Activities	Unmodified
General Fund	Qualified
TDA - LTF	Qualified
CalHOME	Unmodified
ICE Administration	Unmodified
McFarland Improvement Authority	Unmodified
Sewer	Unmodified
Refuse	Unmodified
Water	Unmodified
Aggregate Remaining Fund Information	Qualified

Basis for Qualified Opinion on Governmental Activities, General Fund, TDA – LTF Fund and the Aggregate Remaining Fund Information

We were unable to obtain sufficient appropriate audit evidence on which to base an opinion on for receivables and related unavailable revenue and revenue account balances in the governmental activities, General Fund, TDA – LTF Fund and the aggregate remaining fund information of the City. Consequently, we were unable to determine whether any adjustments to the amounts included in the governmental activities, General Fund, TDA – LTF Fund and the aggregate remaining fund information are necessary. The amount by which this departure would affect the assets, fund balance, net position, and revenues of the governmental activities, General Fund, TDA – LTF Fund and the aggregate remaining fund information has not been determined.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the “Basis for Qualified Opinion on Governmental Activities, General Fund, TDA – LTF Fund and the Aggregate Remaining Fund Information” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, General Fund, TDA – LTF Fund and the aggregate remaining fund information of the City as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major governmental fund other than the General Fund and the TDA-LTF fund, and the major and nonmajor enterprise funds of the City of McFarland, as of June 30, 2018, 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.

Emphasis of Matter

As described in Note 12 to the basic financial statements, prior period adjustments were recorded for the correction of errors in the prior year financial statements. Our opinions are not modified with respect to this matter.

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 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 management's discussion and analysis, that accounting principles generally accepted in the United States of America require 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. Our opinion is not modified with respect to this omitted information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Honorable Mayor and Members of the City Council
City of McFarland

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2021 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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 the City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Roseville, California
March 5, 2021

BASIC FINANCIAL STATEMENTS

CITY OF MCFARLAND
GOVERNMENT-WIDE – STATEMENT OF NET POSITION
JUNE 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and Investments	\$ 1,130,763	\$ 196,875	\$ 1,327,638
Cash with Fiscal Agents	4,589,319	681,425	5,270,744
Receivables:			
Accounts	113,403	402,523	515,926
Intergovernmental	9,369,288	60,905	9,430,193
Interest	-	1,816	1,816
Prepaid Costs	683,819	16	683,835
Internal Balances	1,291,981	(1,291,981)	-
Inventory	-	5,098	5,098
Loans Receivable	3,912,335	289,457	4,201,792
Land Held For Resale	446,593	-	446,593
Capital Assets:			
Nondepreciable	9,260,812	10,935,854	20,196,666
Depreciable, Net	19,175,782	8,481,519	27,657,301
Total Assets	<u>49,974,095</u>	<u>19,763,507</u>	<u>69,737,602</u>
LIABILITIES			
Accounts Payable	7,020,587	257,027	7,277,614
Accrued Liabilities	87,690	49,660	137,350
Interest Payable	57,913	77,006	134,919
Deposits Payable	17,690	8,285	25,975
Unearned Revenue	61,439	30,000	91,439
Long-Term Liabilities:			
Due Within One Year	327,942	165,000	492,942
Due in More than One Year	5,391,103	6,281,305	11,672,408
Total Liabilities	<u>12,964,364</u>	<u>6,868,283</u>	<u>19,832,647</u>
NET POSITION			
Net Investment in Capital Assets	27,370,739	13,683,798	41,054,537
Restricted for:			
Streets and Roads	247,466	-	247,466
Community Development	1,241,515	-	1,241,515
Capital Projects	1,654,155	-	1,654,155
Unrestricted	6,495,856	(788,574)	5,707,282
Total Net Position	<u>\$ 37,009,731</u>	<u>\$ 12,895,224</u>	<u>\$ 49,904,955</u>

See accompanying Notes to Financial Statements.

**CITY OF MCFARLAND
GOVERNMENT-WIDE – STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business- Type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 1,368,873	\$ 304,647	\$ -	\$ -	\$ (1,064,226)	\$ -	\$ (1,064,226)
Public Safety	2,360,974	161,926	291,848	-	(1,907,200)	-	(1,907,200)
Public Works	1,460,797	5,217	792,792	1,605,921	943,133	-	943,133
Community Development	18,312,016	248,100	18,891,743	-	827,827	-	827,827
Interest on Long-Term Debt	295,533	-	-	-	(295,533)	-	(295,533)
Total Governmental Activities	<u>23,798,193</u>	<u>719,890</u>	<u>19,976,383</u>	<u>1,605,921</u>	<u>(1,495,999)</u>	<u>-</u>	<u>(1,495,999)</u>
Business-Type Activities:							
Sewer	1,633,346	1,673,851	-	-	-	40,505	40,505
Refuse	1,301,146	1,297,578	15,321	-	-	11,753	11,753
Water	1,340,564	1,216,735	-	-	-	(123,829)	(123,829)
Public Transportation	191,644	15,037	193,138	-	-	16,531	16,531
Total Business-Type Activities	<u>4,466,700</u>	<u>4,203,201</u>	<u>208,459</u>	<u>-</u>	<u>-</u>	<u>(55,040)</u>	<u>(55,040)</u>
Total Primary Government	<u>\$ 28,264,893</u>	<u>\$ 4,923,091</u>	<u>\$ 20,184,842</u>	<u>\$ 1,605,921</u>	<u>(1,495,999)</u>	<u>(55,040)</u>	<u>(1,551,039)</u>
General Revenues:							
Taxes:							
Property Taxes					722,463	-	722,463
Sales and Use Taxes					340,210	-	340,210
Franchise Taxes					288,698	-	288,698
Intergovernmental, Unrestricted:							
Motor Vehicle In-Lieu Tax					1,488,467	-	1,488,467
Interest and Investment Earnings					26,708	12,307	39,015
Miscellaneous					59,731	790,866	850,597
Transfers					31,246	(31,246)	-
Total General Revenues and Transfers					<u>2,957,523</u>	<u>771,927</u>	<u>3,729,450</u>
CHANGE IN NET POSITION					<u>1,461,524</u>	<u>716,887</u>	<u>2,178,411</u>
Net Position - Beginning of Year, Restated					<u>35,548,207</u>	<u>12,178,337</u>	<u>47,726,544</u>
Net Position - End of Year					<u>\$ 37,009,731</u>	<u>\$ 12,895,224</u>	<u>\$ 49,904,955</u>

See accompanying Notes to Financial Statements.

**CITY OF MCFARLAND
GOVERNMENTAL FUNDS – BALANCE SHEET
JUNE 30, 2018**

	General Fund	TDA - LTF	CalHOME	ICE Administration
ASSETS				
Cash and Investments	\$ -	\$ -	\$ -	\$ 1,159
Cash with Fiscal Agent	-	-	-	-
Receivables:				
Accounts	110,020	-	-	-
Intergovernmental	1,286,177	1,347,782	-	6,565,026
Interest	-	-	-	-
Prepaid Costs	283,298	-	-	-
Deposits with Others	400,521	-	-	-
Due from Other Funds	2,561,528	-	-	-
Advances to Other Funds	-	-	-	-
Loans Receivable	-	-	3,202,429	-
Land Held for Resale	446,593	-	-	-
	<u>5,088,137</u>	<u>1,347,782</u>	<u>3,202,429</u>	<u>6,566,185</u>
Total Assets	<u>\$ 5,088,137</u>	<u>\$ 1,347,782</u>	<u>\$ 3,202,429</u>	<u>\$ 6,566,185</u>
LIABILITIES				
Accounts Payable	\$ 346,343	\$ -	\$ -	\$ 6,668,679
Accrued Liabilities	87,690	-	-	-
Deposits Payable	17,690	-	-	-
Due to Other Funds	-	1,377,414	13,952	-
Unearned Revenue	38,420	-	10,945	-
Total Liabilities	<u>490,143</u>	<u>1,377,414</u>	<u>24,897</u>	<u>6,668,679</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	-	-	3,202,429	-
FUND BALANCES				
Nonspendable	729,891	-	-	-
Restricted	1,633,837	-	-	-
Assigned	-	-	-	-
Unassigned	2,234,266	(29,632)	(24,897)	(102,494)
Total Fund Balances	<u>4,597,994</u>	<u>(29,632)</u>	<u>(24,897)</u>	<u>(102,494)</u>
	<u>\$ 5,088,137</u>	<u>\$ 1,347,782</u>	<u>\$ 3,202,429</u>	<u>\$ 6,566,185</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 5,088,137</u>	<u>\$ 1,347,782</u>	<u>\$ 3,202,429</u>	<u>\$ 6,566,185</u>

See accompanying Notes to Financial Statements.

**CITY OF MCFARLAND
GOVERNMENTAL FUNDS – BALANCE SHEET (CONTINUED)
JUNE 30, 2018**

McFarland Improvement Authority	Other Governmental Funds	Total
\$ 20,318	\$ 1,109,286	\$ 1,130,763
4,589,319	-	4,589,319
-	3,383	113,403
-	170,303	9,369,288
-	-	-
-	-	283,298
-	-	400,521
-	315,144	2,876,672
-	-	-
-	709,906	3,912,335
-	-	446,593
<u>\$ 4,609,637</u>	<u>\$ 2,308,022</u>	<u>\$ 23,122,192</u>
\$ -	\$ 5,565	\$ 7,020,587
-	-	87,690
-	-	17,690
-	193,325	1,584,691
-	12,074	61,439
-	210,964	8,772,097
-	709,906	3,912,335
-	-	729,891
4,609,637	1,488,981	7,732,455
-	-	-
-	(101,829)	1,975,414
<u>4,609,637</u>	<u>1,387,152</u>	<u>10,437,760</u>
<u>\$ 4,609,637</u>	<u>\$ 2,308,022</u>	<u>\$ 23,122,192</u>

See accompanying Notes to Financial Statements.

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**CITY OF MCFARLAND
RECONCILIATION OF GOVERNMENTAL FUNDS – BALANCE SHEET TO
GOVERNMENT-WIDE STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES
JUNE 30, 2018**

Fund Balance - Total Governmental Funds	\$	10,437,760
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds balance sheet.		28,436,594
Some of the City's revenue is not available to pay for current period expenditures, and therefore, are not reported in the governmental funds balance sheets.		3,912,335
Interest on long-term debt is recognized as it accrues, regardless of when it is due.		(57,913)
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.		
Bonds Payable (net of unamortized premium)		(5,083,380)
Loans Payable		(472,978)
Capital Leases		(98,816)
Compensated Absences		(63,871)
		(63,871)
Net Position of Governmental Activities	\$	37,009,731
		37,009,731

See accompanying Notes to Financial Statements.

CITY OF MCFARLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	General Fund	TDA - LTF	CalHOME	ICE Administration
REVENUES				
Taxes	\$ 2,712,400	\$ -	\$ -	\$ -
Licenses and Permits	112,384	-	-	-
Fines and Forfeitures	71,051	-	-	-
Use of Money and Property	23,010	-	-	-
Intergovernmental Revenues	1,831,502	420,288	-	17,814,244
Charges for Services	301,385	-	-	-
Other Revenues	59,731	-	-	-
Total Revenues	<u>5,111,463</u>	<u>420,288</u>	<u>-</u>	<u>17,814,244</u>
EXPENDITURES				
Current:				
General Government	1,073,847	-	-	-
Public Safety	2,261,684	-	-	-
Public Works	637,321	-	-	-
Community Development	345,296	-	-	17,908,277
Debt Service:				
Principal	321,959	-	-	-
Interest and Fiscal Charges	9,131	-	-	-
Bond issuance costs	-	-	-	-
Capital Outlay	3,507,435	-	-	-
Total Expenditures	<u>8,156,673</u>	<u>-</u>	<u>-</u>	<u>17,908,277</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,045,210)	420,288	-	(94,033)
OTHER FINANCING SOURCES (USES)				
Revenue bonds issued	-	-	-	-
Premium on revenue bonds issued	-	-	-	-
Transfers In	2,089,712	-	-	-
Transfers Out	-	(413,950)	-	-
Total Other Financing Sources (Uses)	<u>2,089,712</u>	<u>(413,950)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(955,498)	6,338	-	(94,033)
Fund Balance - Beginning of Year, Restated	<u>5,553,492</u>	<u>(35,970)</u>	<u>(24,897)</u>	<u>(8,461)</u>
FUND BALANCES - END OF YEAR	<u>\$ 4,597,994</u>	<u>\$ (29,632)</u>	<u>\$ (24,897)</u>	<u>\$ (102,494)</u>

See accompanying Notes to Financial Statements.

CITY OF MCFARLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2018

McFarland Improvement Authority	Other Governmental Funds	Total
\$ -	\$ 127,438	\$ 2,839,838
-	168,028	280,412
-	-	71,051
69,754	986	93,750
-	1,518,180	21,584,214
-	-	301,385
-	-	59,731
<u>69,754</u>	<u>1,814,632</u>	<u>25,230,381</u>
-	-	1,073,847
-	-	2,261,684
-	67,759	705,080
-	-	18,253,573
42,515	-	364,474
37,549	-	46,680
194,294	-	194,294
-	-	3,507,435
<u>274,358</u>	<u>67,759</u>	<u>26,407,067</u>
(204,604)	1,746,873	(1,176,686)
4,450,000	-	4,450,000
343,923	-	343,923
-	-	2,089,712
-	(1,644,516)	(2,058,466)
<u>4,793,923</u>	<u>(1,644,516)</u>	<u>4,825,169</u>
4,589,319	102,357	3,648,483
<u>20,318</u>	<u>1,284,795</u>	<u>6,789,277</u>
<u>\$ 4,609,637</u>	<u>\$ 1,387,152</u>	<u>\$ 10,437,760</u>

See accompanying Notes to Financial Statements.

**CITY OF MCFARLAND
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Net Change to Fund Balance - Total Governmental Funds \$ 3,648,483

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for Capital Outlay	3,484,786
Less: Current Year Depreciation	(1,068,661)
Various Adjustments Affecting Capital Assets	(116,192)

Some revenues reported in the statement of activities will not be collected for several months after the County's year end and do not provide current financial resources and therefore, are not reported as revenues in the governmental funds.	(1,910)
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal Payments	364,474
Issuance of Debt	(4,793,923)

Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.

Change in Compensated Absences	(974)
Change in Accrued Interest Payable	<u>(54,559)</u>

Change in Net Position of Governmental Activities \$ 1,461,524

**CITY OF MCFARLAND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018**

	Enterprise Funds				Total
	Sewer	Refuse	Water	Nonmajor Public Transportation	
ASSETS					
Current Assets:					
Cash and Investments	\$ -	\$ 41,771	\$ 155,104	\$ -	\$ 196,875
Cash with Fiscal Agent - Restricted	455,932	-	225,493	-	681,425
Receivables:					
Accounts	137,397	136,954	128,172	-	402,523
Intergovernmental	-	15,321	-	45,584	60,905
Interest	-	-	1,816	-	1,816
Prepaid Costs	-	-	-	16	16
Inventory	-	-	5,098	-	5,098
Notes Receivable	289,457	-	-	-	289,457
Total Current Assets	882,786	194,046	515,683	45,600	1,638,115
Noncurrent Assets:					
Capital Assets:					
Nondepreciable					
Land	1,120,000	-	160,063	-	1,280,063
Construction in Progress	6,245,082	-	3,410,709	-	9,655,791
Depreciable:					
Buildings, Equipment and Infrastructure	8,561,811	309,677	8,625,183	650,876	18,147,547
Accumulated Depreciation	(4,287,965)	(266,492)	(4,802,818)	(308,753)	(9,666,028)
Total Noncurrent Assets	11,638,928	43,185	7,393,137	342,123	19,417,373
Total Assets	12,521,714	237,231	7,908,820	387,723	21,055,488
LIABILITIES					
Current Liabilities:					
Accounts Payable	76,703	98,648	76,460	5,216	257,027
Accrued Liabilities	19,702	6,506	20,088	3,364	49,660
Interest Payable	51,594	-	25,412	-	77,006
Due to Other Funds	1,238,471	-	-	53,510	1,291,981
Deposits from Others	-	-	8,285	-	8,285
Unearned Revenue	-	10,000	20,000	-	30,000
Bonds Payable	110,550	-	54,450	-	165,000
Total Current Liabilities	1,497,020	115,154	204,695	62,090	1,878,959
Noncurrent Liabilities:					
Compensated Absences	16,323	5,243	8,770	969	31,305
Bonds Payable	4,164,517	-	2,085,483	-	6,250,000
Total Noncurrent Liabilities	4,180,840	5,243	2,094,253	969	6,281,305
Total Liabilities	5,677,860	120,397	2,298,948	63,059	8,160,264
NET POSITION					
Net Investment in Capital Assets	7,819,793	43,185	5,478,697	342,123	13,683,798
Unrestricted	(975,939)	73,649	131,175	(17,459)	(788,574)
Total Net Position	\$ 6,843,854	\$ 116,834	\$ 5,609,872	\$ 324,664	\$ 12,895,224

See accompanying Notes to Financial Statements.

CITY OF MCFARLAND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

	Enterprise Funds				Total
	Sewer	Refuse	Water	Nonmajor Public Transportation	
OPERATING REVENUES					
Charges for Services	\$ 1,605,028	\$ 1,297,578	\$ 1,216,735	\$ 15,037	\$ 4,134,378
Other Revenue	68,823	-	-	-	68,823
Total Operating Revenues	<u>1,673,851</u>	<u>1,297,578</u>	<u>1,216,735</u>	<u>15,037</u>	<u>4,203,201</u>
OPERATING EXPENSES					
Salaries and Employee Benefits	557,366	199,949	499,126	114,371	1,370,812
Services and Supplies	270,387	1,081,153	53,859	25,929	1,431,328
Utilities	164,592	-	291,749	-	456,341
Franchise Fees	177,868	-	115,230	-	293,098
Depreciation	258,193	20,044	279,660	51,344	609,241
Total Operating Expenses	<u>1,428,406</u>	<u>1,301,146</u>	<u>1,239,624</u>	<u>191,644</u>	<u>4,160,820</u>
OPERATING INCOME (LOSS)	<u>245,445</u>	<u>(3,568)</u>	<u>(22,889)</u>	<u>(176,607)</u>	<u>42,381</u>
NONOPERATING REVENUES (EXPENSES)					
Grants	-	15,321	-	193,138	208,459
Gain on Disposal of Assets	-	-	790,866	-	790,866
Interest Income	9,122	355	2,830	-	12,307
Interest Expense	(204,940)	-	(100,940)	-	(305,880)
Total Nonoperating Revenues (Expenses)	<u>(195,818)</u>	<u>15,676</u>	<u>692,756</u>	<u>193,138</u>	<u>705,752</u>
INCOME (LOSS) BEFORE TRANSFERS	49,627	12,108	669,867	16,531	748,133
Transfers In	-	-	-	50,254	50,254
Transfers Out	(24,033)	(21,659)	(26,625)	(9,183)	(81,500)
CHANGE NET POSITION	25,594	(9,551)	643,242	57,602	716,887
Net Position - Beginning of Year	<u>6,818,260</u>	<u>126,385</u>	<u>4,966,630</u>	<u>267,062</u>	<u>12,178,337</u>
NET POSITION - END OF YEAR	<u>\$ 6,843,854</u>	<u>\$ 116,834</u>	<u>\$ 5,609,872</u>	<u>\$ 324,664</u>	<u>\$ 12,895,224</u>

See accompanying Notes to Financial Statements.

**CITY OF MCFARLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018**

	Enterprise Funds				Total
	Sewer	Refuse	Water	Nonmajor Public Transportation	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	\$ 1,709,551	\$ 1,289,095	\$ 1,173,786	\$ (134,700)	\$ 4,037,732
Payments to Suppliers	(697,708)	(1,109,346)	(496,906)	(115,333)	(2,419,293)
Payments to Employees	(556,334)	(198,010)	(535,049)	(27,587)	(1,316,980)
Net Cash Provided (Used) by Operating Activities	<u>455,509</u>	<u>(18,261)</u>	<u>141,831</u>	<u>(277,620)</u>	<u>301,459</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Grant Proceeds	-	15,321	-	193,138	208,459
Loans from Other Funds	224,836	-	-	53,510	278,346
Loan Payments to Other Funds	-	-	(1,362,939)	-	(1,362,939)
Transfers from Other Funds	-	-	-	50,254	50,254
Transfers to Other Funds	(24,033)	(21,659)	(26,625)	(9,183)	(81,500)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>200,803</u>	<u>(6,338)</u>	<u>(1,389,564)</u>	<u>287,719</u>	<u>(907,380)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Payments related to the Acquisition of Capital Assets	(59,388)	-	(289,175)	(177,715)	(526,278)
Insurance Proceeds from Asset Disposal	-	-	1,845,114	-	1,845,114
Principal Repayments Related to Capital Purposes	(110,550)	-	(54,450)	-	(165,000)
Interest Repayments Related to Capital Purposes	(204,940)	-	(100,940)	-	(305,880)
Net Cash Provided (Used) by Capital Related Financing Activities	<u>(374,878)</u>	<u>-</u>	<u>1,400,549</u>	<u>(177,715)</u>	<u>847,956</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of Notes Receivable	(289,457)	-	-	-	(289,457)
Interest Earnings	77,945	355	2,830	-	81,130
Net Cash Provided (Used) by Investing Activities	<u>(211,512)</u>	<u>355</u>	<u>2,830</u>	<u>-</u>	<u>(208,327)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	69,922	(24,244)	155,646	(167,616)	33,708
Cash and Cash Equivalents - Beginning of Year	454,833	66,015	224,951	167,616	913,415
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 524,755</u>	<u>\$ 41,771</u>	<u>\$ 380,597</u>	<u>\$ -</u>	<u>\$ 947,123</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating Income (Loss)	\$ 245,445	\$ (3,568)	\$ (22,889)	\$ (176,607)	\$ 42,381
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:					
Depreciation	258,193	20,044	279,660	51,344	609,241
Decrease (Increase) in:					
Accounts Receivable	34,358	1,771	(71,973)	-	(35,844)
Due from Other Governments	1,342	(15,254)	739	(2,183)	(15,356)
Prepaid Costs	-	-	3,463	-	3,463
Deposits	-	-	8,285	-	8,285
Unearned Revenues	-	5,000	20,000	(147,554)	(122,554)
Increase (Decrease) in:					
Accounts Payable and Other Liabilities	(84,861)	(28,193)	(77,674)	(1,658)	(192,386)
Accrued Salaries	1,459	1,939	4,016	132	7,546
Compensated Absences	(427)	-	(1,796)	(1,094)	(3,317)
Net Cash Provided (Used) by Operating Activities	<u>\$ 455,509</u>	<u>\$ (18,261)</u>	<u>\$ 141,831</u>	<u>\$ (277,620)</u>	<u>\$ 301,459</u>

See accompanying Notes to Financial Statements.

**CITY OF MCFARLAND
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018**

	RDA Successor Agency
ASSETS	
Cash and Investments	\$ 6,665
Taxes Receivable	-
Total Assets	6,665
LIABILITIES	
Unearned Revenue	7,121
Due to Other Governments	80,280
Total Liabilities	87,401
NET POSITION	
Held In Trust for Retirement of Obligations of the Former McFarland Redevelopment Agency	(80,736)
Total Net Position	\$ (80,736)

See accompanying Notes to Financial Statements.

**CITY OF MCFARLAND
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2018**

	RDA Successor Agency <hr style="border: 0.5px solid black;"/>
ADDITIONS	
Property Taxes	\$ -
Interest Earnings	-
Total Additions	<hr style="border: 0.5px solid black;"/> -
 DEDUCTIONS	
Enforceable Obligations	-
Administration	-
Total Deductions	<hr style="border: 0.5px solid black;"/> - <hr style="border: 0.5px solid black;"/>
 CHANGE IN NET POSITION	 -
Net Position - Beginning of Year	 <hr style="border: 0.5px solid black;"/> (80,736)
 NET POSITION - END OF YEAR	 <hr style="border: 1px solid black;"/> <hr style="border: 1px solid black;"/> \$ (80,736)

See accompanying Notes to Financial Statements.

CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Administration form of government, providing the following services: general government; public safety; public works; and recreation and development. 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 the fund types of the City.

Generally accepted accounting principles require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government.

Reporting for component units on the City's financial statements can be blended or discretely presented. Blended component units are, although legally separate entities, in substance part of the City's operations and, therefore, data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, would be reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government.

Blended Component Units

Parking Authority – 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. Separate financial statements are not available for the Authority.

CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

Improvement Authority – 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.

McFarland Public Financing Corporation – On July 31, 2001, the City and the Successor Agency to the Former McFarland Redevelopment 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 City Council of McFarland is the governing body for the Corporation. The funds of the component unit are reported in the Special Revenues Funds and the Agency Fund. Separate financial statements are not available for the Corporation.

Discretely Presented Component Units

There are no component units of the City which meet the criteria for discrete presentation.

B. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and statement of activities display information on all of the nonfiduciary activities of the City and its blended component units. These statements include the financial activities of the overall government, except fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each different identifiable activity of the City’s business-type activities and each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Certain indirect costs, which cannot be identified and broken down are included in the program expense reported for individual functions and activities. Program revenues include 1) charges paid by the recipients of goods and services offered by the program, 2) operating grants and contributions and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are presented instead as general revenues.

CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

Fund Financial Statements

The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Funds are organized into three major categories: governmental, proprietary, and fiduciary. The emphasis is placed on major funds within the governmental and proprietary categories, each is displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

- The General Fund is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the City that are not accounted for through other funds. For the City, the General fund includes such activities as general government, public safety, public works, and recreation and development.
- The TDA-LTF Fund is used to account 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 CalHOME Fund is used to account for a CalHome Homeownership Project Development Program award.
- The ICE Administration Fund is used to account for ICE funds received.
- The McFarland Improvement Authority Fund is used to account for the activities of the McFarland Parking Authority and the McFarland Improvement Authority.

The City reports the following major 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 City reports the following additional fund types:

- The RDA Successor Agency Private Purpose Trust Fund is a fiduciary fund used to account 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).

CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

C. Basis of Accounting and Measurement Focus

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales tax, grants, entitlements, and donations. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants and charges for services are considered susceptible to accrual and are accrued when their receipt occurs within 365 days after the end of the fiscal year. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in the various functions of the governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

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

Fiduciary funds include investment trust funds and agency funds. All trust funds are reported using the economic resources measurement focus and the accrual basis of accounting.

D. Cash and Investments

The City pools cash resources from all funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB Statement No. 3)*, certain disclosure requirements for deposits and investment risks were made in the following areas: Interest Rate Risk, Credit Risk, Custodial Credit Risk, and Concentrations of Credit Risk.

CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end, and other disclosures.

The City has implemented GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are not readily available. Interest earned on investments is allocated using the Local Agency Fund (LAIF) factor to selected funds by the City.

The City participates in an investment pool LAIF, which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the state of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to changes in interest rates.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City and are presented as "Cash and Investments" in the accompanying basic financial statements.

E. Receivables

Receivables for governmental activities consist mainly of accounts, intergovernmental, and interest. Receivables for business-type activities consist mainly of user fees, intergovernmental, and interest earnings. Management believes its receivables are fully collectible and, accordingly, no allowance for doubtful accounts is required.

F. Other Assets

Prepaid Costs

Payments made for services that will benefit future accounting periods are recorded as prepaid costs in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased. Prepaid costs do not reflect current appropriable resources and thus, an equivalent portion of fund balance is reported as nonspendable.

Inventory

Inventory recorded by proprietary funds include supplies for the Water fund. Inventories are recorded as expenses at the time the inventory is consumed.

G. Loans Receivable

Loans receivable represent low interest notes and related accrued interest to finance multi-family and single family construction and rehabilitation projects, homebuyer assistance for low income families, as well as business start-up costs. Loan terms are 15 to 55 years with an interest rate at 0% to 5%. The primary source of funding for these loans comes from grants from the Community Development Block Grant (CDBG)

CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

program and Home Investment Partnerships (HOME) program. The CDBG and HOME grants contain monitoring requirements to ensure grant compliance. These requirements are reflected in the loan agreements.

H. Capital Assets

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 the estimated acquisition 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. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Capital assets used in operations are depreciated or amortized using the straight line method over the assets estimated useful life in the government-wide financial statements. The range of estimated useful lives by type of asset is as follows:

<u>Depreciable Asset</u>	<u>Estimated Lives</u>
Buildings	15 to 40 Years
Improvements Other Than Buildings	15 to 40 Years
Machinery and Equipment	5 to 20 Years
Infrastructure	20 to 50 Years

I. Property Tax

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.

CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

J. Interfund Transactions

Interfund transactions are reflected as either loans, services provided or used, reimbursements or transfers.

Loans reported as receivables and payables are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans) as appropriate and are subject to elimination upon consolidation. 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 nonspendable fund balance account in applicable governmental funds to indicate that they are not in spendable form.

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. These services provide information on the net cost of each government function and therefore are not eliminated in the process of preparing the government-wide statement of activities.

Reimbursements occur when the funds responsible for particular expenditures or expenses repay the funds that initially paid for them. Such reimbursements are reflected as expenditures or expenses in the reimbursing fund and reductions to expenditures or expenses in the reimbursed fund.

All other interfund transactions are treated as transfers. Transfers between funds are netted as part of the reconciliation to the government-wide presentation.

K. Unearned Revenue

Under the accrual and modified accrual basis of accounting, revenue may be recognized only when it is earned. When assets are recognized in connection with a transaction before the earnings process is complete, those assets are offset by a corresponding liability for unearned revenue.

L. 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. For governmental funds, compensated absences are recorded as current and noncurrent liabilities only on the government-wide financial statements. For proprietary funds, current and noncurrent liabilities for compensated absences are recorded in both the government wide financial statements and the fund financial statements. There is no liability for unpaid sick leave since the City does not pay such amounts when employees separate from service with the City.

CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

M. 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.

N. 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.
- **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.
- **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.

O. Fund Balance

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

CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

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 to be charged: Restricted, Committed, Assigned, and Unassigned.

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

P. Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 CASH AND INVESTMENTS

The City maintains a cash and investment pool for all funds. Certain restricted funds, which are held and invested by independent outside custodians through contractual agreements are not pooled.

Statement of Net Position:

Cash and Investments	\$ 1,327,638
Cash and Investments with Fiscal Agents	5,270,744

Statement of Fiduciary Net Position:

Cash and Investments	6,665
	<hr/>
Total	<u>\$ 6,605,047</u>

Cash and investments as of June 30, 2018 consist of the following:

Deposits with Financial Institutions	\$ 992,819
Cash on Hand	3,000
Investments	5,609,228
Total	<u>\$ 6,605,047</u>

Deposits

At year end, the carrying amount of the City's cash deposits (including amounts in checking accounts and money market accounts) was \$6,160,163 and the bank balance was \$7,008,684. The difference between the bank balance and the carrying amount represents outstanding warrants and wire transfers and deposits in transit. In addition, the County had cash on hand of \$3,000.

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

CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018:

Investment Type	Fair Value	Maturity Date
State Treasurer's Investment Pool (LAIF)	\$ 338,484	N/A
Local Government Revenue Bonds	-	3 Years
Held by Trustees:		
Cash and Short-term Investments	5,270,744	N/A
Total Investments	<u>\$ 5,609,228</u>	

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.

**CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

The table below identifies the investment types that are authorized for the City of McFarland by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that addresses investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Minimum Quality Requirements
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 Funds	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

Fair Value of Investments

The City measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices, and
- Level 3: Unobservable inputs

The City's position in external investment pools is, in its self, regarded as a type of investment and looking through to the underlying investments of the pool is not appropriate. Therefore, the City's investment in external investment pools is not recognized in the three-tiered fair value hierarchy described above.

**CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Investment in External Investment Pools

The City maintains an investment in the State of California Local Agency Investment Fund (LAIF), managed by the State Treasurer. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California State Code. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. At June 30, 2018, the County's investment in LAIF valued at amortized cost was \$338,484 and is the same as the value of the pool shares. There are no restrictions on withdrawal of funds. The total amount invested by all public agencies in LAIF on that day was \$88.82 billion. Of that amount, 97.33% is invested in non-derivative financial products and 2.67% in structured notes and asset-backed securities.

Restricted Investments with Fiscal Agents

Cash and investments at June 30, 2018 that are restricted by legal or contractual requirements are comprised of the following:

Governmental Activities:

McFarland Improvement Authority

Debt Service Reserves	\$ 4,589,319
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Business-type Activities:

Sewer Fund:

Debt Service Reserves	455,932
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Water Fund:

Debt Service Reserves	225,493
	681,425

Total Restricted Cash and Investments	\$ 5,270,744
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CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018 was as follows:

	Balance July 01, 2017	Additions	Retirements	Transfers/ Adjustments	Balance June 30, 2018
Governmental Activities					
Capital Assets, Not Being Depreciated:					
Land	\$ 493,248	\$ 499,928	\$ -	\$ -	\$ 993,176
Construction In Progress	6,592,716	2,242,057	-	(567,137)	8,267,636
Total Capital Assets, Not Being Depreciated	<u>7,085,964</u>	<u>2,741,985</u>	<u>-</u>	<u>(567,137)</u>	<u>9,260,812</u>
Capital Assets, Being Depreciated:					
Infrastructure	21,747,937	687,129	-	656,274	23,091,340
Machinery and Equipment	1,576,744	31,351	-	(231,917)	1,376,178
Vehicles	749,210	24,321	-	26,759	800,290
Total Capital Assets, Being Depreciated	<u>24,073,891</u>	<u>742,801</u>	<u>-</u>	<u>451,116</u>	<u>25,267,808</u>
Less Accumulated Depreciation for:					
Infrastructure	(3,938,867)	(773,577)	-	77,957	(4,634,487)
Machinery and Equipment	(1,076,673)	(145,262)	-	357,462	(864,473)
Vehicles	(7,654)	(149,822)	-	(435,590)	(593,066)
Total Accumulated Depreciation	<u>(5,023,194)</u>	<u>(1,068,661)</u>	<u>-</u>	<u>(171)</u>	<u>(6,092,026)</u>
Total Capital Assets, Being Depreciated, Net	<u>19,050,697</u>	<u>(325,860)</u>	<u>-</u>	<u>450,945</u>	<u>19,175,782</u>
Governmental Activities Capital Assets, Net	<u>\$ 26,136,661</u>	<u>\$ 2,416,125</u>	<u>\$ -</u>	<u>\$ (116,192)</u>	<u>\$ 28,436,594</u>
	Balance July 01, 2017	Additions	Retirements	Transfers/ Adjustments	Balance June 30, 2018
Business-Type Activities					
Capital Assets, Not Being Depreciated:					
Land	\$ 1,280,063	\$ -	\$ -	\$ -	\$ 1,280,063
Construction In Progress	9,442,151	213,640	-	-	9,655,791
Total Capital Assets, Not Being Depreciated	<u>10,722,214</u>	<u>213,640</u>	<u>-</u>	<u>-</u>	<u>10,935,854</u>
Capital Assets, Being Depreciated:					
Infrastructure	562,683	-	-	(3,322)	559,361
Buildings and Improvements	6,151,231	253,250	(1,579,495)	3,322	4,828,308
Machinery and Other	11,810,211	59,388	-	(95,317)	11,774,282
Vehicles	890,279	-	-	95,317	985,596
Total Capital Assets, Being Depreciated	<u>19,414,404</u>	<u>312,638</u>	<u>(1,579,495)</u>	<u>-</u>	<u>18,147,547</u>
Less Accumulated Depreciation for:					
Infrastructure	(182,622)	(13,984)	-	830	(195,776)
Buildings and Improvements	(2,310,473)	(190,687)	525,247	(830)	(1,976,743)
Machinery and Other	(6,676,210)	(338,925)	-	209,530	(6,805,605)
Vehicles	(412,729)	(65,645)	-	(209,530)	(687,904)
Total Accumulated Depreciation	<u>(9,582,034)</u>	<u>(609,241)</u>	<u>525,247</u>	<u>-</u>	<u>(9,666,028)</u>
Total Capital Assets, Being Depreciated, Net	<u>9,832,370</u>	<u>(296,603)</u>	<u>(1,054,248)</u>	<u>-</u>	<u>8,481,519</u>
Business-Type Activities Capital Assets, Net	<u>\$ 20,554,584</u>	<u>\$ (82,963)</u>	<u>\$ (1,054,248)</u>	<u>\$ -</u>	<u>\$ 19,417,373</u>

**CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Depreciation

Depreciation expense was charged to governmental functions as follows at June 30, 2018:

General Government	\$ 155,211
Public Safety	99,290
Public Works	755,717
Community Development	58,443
Total Depreciation Expense - Governmental Functions	<u>\$ 1,068,661</u>

Depreciation expense was charged to business-type functions as follows at June 30, 2018:

Solid Waste	\$ 258,193
Refuse	20,044
Water	279,660
Public Transit	51,344
Total Depreciation Expense - Business Type Functions	<u>\$ 609,241</u>

NOTE 4 INTERFUND TRANSACTIONS

Due To/From Other Funds

During the course of operations, transactions occur between funds to account for goods received or services rendered. These receivables and payables are classified as due from or due to other funds. In addition, when funds overdraw their share of pooled cash, the receivables and payables are also classified as due from or due to other funds. The following are due from and due to balances as of June 30, 2018:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 2,561,528	\$ -
TDA - LTF	-	1,377,414
CalHOME	-	13,952
Sewer	-	1,238,471
Nonmajor Governmental Funds	315,144	193,325
Nonmajor Enterprise Funds	-	53,510
Total	<u>\$ 2,876,672</u>	<u>\$ 2,876,672</u>

**CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Transfers

Transfers are indicative of funding for capital projects, lease payments or debt service and reallocations of special revenues. The following are the interfund transfer balances as of June 30, 2018:

	Transfer In	Transfer Out
General Fund	\$ 2,089,712	\$ -
TDA - LTF	-	413,950
Sewer	-	24,033
Refuse	-	21,659
Water	-	26,625
Nonmajor Governmental Funds	-	1,644,516
Nonmajor Enterprise Funds	50,254	9,183
Total	\$ 2,139,966	\$ 2,139,966

NOTE 5 UNEARNED/UNAVAILABLE REVENUE

Unearned revenue consists of moneys received where the City has not yet incurred the qualifying expenditures.

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. Unavailable revenue is only reported in the governmental funds balance sheet under the modified accrual basis of accounting.

At June 30, 2018, components of unearned and unavailable revenues were as follows:

	Unearned Revenue	Unavailable Revenue	Total
General Fund:			
Grant Revenue	\$ 38,420	\$ -	\$ 38,420
CalHOME:			
Grant Revenue and Loans	10,945	3,202,429	3,213,374
Nonmajor Governmental Funds:			
Grant Revenue and Loans	12,074	709,906	721,980
Total Unearned/Unavailable Revenue	\$ 61,439	\$ 3,912,335	\$ 3,973,774
Refuse:			
Grant Revenue	\$ 10,000		
Water:			
Grant Revenue	20,000		
	\$ 30,000		

CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2018:

Type of Indebtedness	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Amounts Due Within One Year
Governmental Activities					
Revenue Bonds	\$ 331,972	\$ 4,450,000	\$ (42,515)	\$ 4,739,457	\$ 43,041
Unamortized Premiums on Bonds	-	343,923	-	343,923	-
Notes Payable	697,040	-	(224,062)	472,978	232,247
Capital Leases	196,713	-	(97,897)	98,816	52,654
Compensated Absences	62,897	974	-	63,871	-
Total Governmental Activities	<u>\$ 1,288,622</u>	<u>\$ 4,794,897</u>	<u>\$ (364,474)</u>	<u>\$ 5,719,045</u>	<u>\$ 327,942</u>
Business-Type Activities					
Revenue Bonds	\$ 6,580,000	\$ -	\$ (165,000)	\$ 6,415,000	\$ 165,000
Compensated Absences	33,913	-	(2,608)	31,305	-
Total Business-Type Activities	<u>\$ 6,613,913</u>	<u>\$ -</u>	<u>\$ (167,608)</u>	<u>\$ 6,446,305</u>	<u>\$ 165,000</u>

The capital lease liability is liquidated by lease payments made by the departments leasing the equipment. Compensated absences for the governmental activities are generally liquidated by the fund where the accrued liability occurred.

CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

Individual issues of debt payable outstanding at June 30, 2018 are as follows:

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.	\$ 289,457
Series 2017 Lease Revenue Bonds dated December 1, 2017 in the original amount of \$4,450,000 at 3-4% interest; principal and interest payable each March 1 and September 1 until September 2, 2047 maturity. Bonds issued by the McFarland Improvement Authority.	<u>4,450,000</u>
Total Revenue Bonds	4,739,457

Notes 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.	472,978
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Capital Leases:

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.	<u>98,816</u>
Total Governmental Activities	<u>\$ 5,311,251</u>

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.	<u>\$ 6,415,000</u>
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CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

The following are schedules of debt service requirements as of June 30, 2019:

Year Ending June 30	Governmental Activities			
	Revenue Bonds		Note Payable	
	Principal	Interest	Principal	Interest
2019	\$ 43,041	173,737	\$ 232,247	\$ 15,039
2020	43,573	173,205	240,731	6,555
2021	144,112	172,666		
2022	149,657	169,121		
2023	150,209	165,419		
2024 - 2028	653,865	771,802		
2029 - 2033	700,000	657,000		
2034 - 2038	845,000	506,400		
2039 - 2043	1,030,000	322,600		
2044 - 2047	980,000	100,000		
Total	<u>\$ 4,739,457</u>	<u>\$ 3,211,950</u>	<u>\$ 472,978</u>	<u>\$ 21,594</u>

Year Ending June 30	Business-type Activities	
	Revenue Bonds	
	Principal	Interest
2019	\$ 165,000	\$ 301,384
2020	170,000	296,440
2021	180,000	290,833
2022	185,000	284,534
2023	190,000	277,213
2024 - 2028	1,090,000	1,246,638
2029 - 2033	1,380,000	943,250
2034 - 2038	1,765,000	551,875
2039 - 2043	1,290,000	98,750
Total	<u>\$ 6,415,000</u>	<u>\$ 4,290,915</u>

Pledged Revenues

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

NOTE 7 LEASES

Capital Leases

The City has entered into certain capital lease agreements under which the related equipment will become the property of the City when all terms of the lease agreements are met.

**CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

	Stated Interest Rate	Present Value of Remaining Payments at June 30, 2018
Governmental Activities	5.50%	\$ 98,816

Structures, improvements, equipment, and related accumulated depreciation under capital lease are as follows at June 30, 2018:

	Governmental Activities
Equipment	\$ 249,257
Less: Accumulated Depreciation	(149,554)
Net Value	\$ 99,703

As of June 30, 2018, capital lease annual amortization is as follows:

	Year Ending June 30	Governmental Activities
	2019	\$ 56,797
	2020	47,341
Total Requirements		104,138
Less: Interest		(5,322)
Present Value of Remaining Payments		\$ 98,816

NOTE 8 FUND BALANCES

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent.

The fund balances for all major and nonmajor governmental funds as of June 30, 2018 were distributed as follows:

	General	TDA - LTF	CalHOME	ICE Administration	McFarland Improvement Authority	Other Governmental Funds	Total
Nonspendable:							
Prepaid Costs	\$ 283,298	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 283,298
Land Held for Resale	446,593	-	-	-	-	-	446,593
Subtotal	729,891	-	-	-	-	-	729,891
Restricted for:							
Streets and Transportation	-	-	-	-	-	247,466	247,466
Impact Fees	-	-	-	-	-	1,241,515	1,241,515
Capital Projects	1,633,837	-	-	-	4,609,637	-	6,243,474
Subtotal	1,633,837	-	-	-	4,609,637	1,488,981	7,732,455
Assigned to:							
General	-	-	-	-	-	-	-
Unassigned	2,234,266	(29,632)	(24,897)	(102,494)	-	(101,829)	1,975,414
Total	\$ 4,597,994	\$ (29,632)	\$ (24,897)	\$ (102,494)	\$ 4,609,637	\$ 1,387,152	\$ 10,437,760

CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 9 RETIREMENT PLAN

A. General Information about the Pension 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 Insure Company.

Funding Policy

The City contributions 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 \$257,632

NOTE 10 RISK MANAGEMENT

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

The City is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets: errors and omissions; injuries to employees; and natural disasters. 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)

**CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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 audited financial information from CSJVRMA for the year ended June 30, 2018 is as follows:

Total Assets	\$	110,234,633
Total Liabilities		<u>92,209,231</u>
Net Assets	<u>\$</u>	<u>18,025,402</u>
Total Revenues	\$	46,669,852
Total Expenses		<u>46,619,021</u>
Change in Net Position	<u>\$</u>	<u>50,831</u>

Complete audited financial statements can be obtained from their office at 1750 Creekside Oaks Drive, Suite 200, Sacramento, California 95833.

NOTE 11 OTHER INFORMATION

Fund Deficits

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

Governmental Funds:

TDA-LTF	\$	29,632
CDBG		14,462
CalHOME		24,897
HOME		87,367
ICE Administration		102,494

Fiduciary Fund:

RDA Successor Agency		80,736
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Commitments

The City has signed agreements to construct various capital improvements subsequent to June 30, 2018. The balance owed on the commitments at June 30, 2018 was approximately \$ 1,982,163.

**CITY OF MCFARLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Contingencies

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.

The City is involved in several lawsuits. Due to the nature of the cases, The City’s counsel is unable to estimate at this time the probability of favorable or unfavorable outcomes. Therefore, no provision has been made in the financial statements for a loss contingency.

Subsequent Events

Management has evaluated subsequent events through {DATE}, the date on which the financial statements were available to be issued.

NOTE 12 PRIOR PERIOD ADJUSTMENTS

The impact of the restatements on the fund balances / net position as previously reported is presented below:

	Government-Wide Statements	Governmental Funds	
	Governmental Activities	General	Nonmajor Governmental
Fund balance / net position, June 30, 2017, as previously reported	\$ 32,817,542	\$ 3,290,085	\$ 817,537
<u>Restatement:</u> To recognize prior year revenues recorded as unearned revenue when the City had met all applicable eligibility requirements.	<u>2,730,665</u>	<u>2,263,407</u>	<u>467,258</u>
Fund balance / net position, June 30, 2017, as restated	<u>\$ 35,548,207</u>	<u>\$ 5,553,492</u>	<u>\$ 1,284,795</u>

NOTE 13 SUBSEQUENT EVENT

On February 12, 2019, the McFarland Improvement Authority issued Series 2018 USDA lease revenue bonds in the amount of \$844,700 for the construction of an animal shelter. The interest rate is 3.375 percent with the final maturity due in 2058.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

**CITY OF MCFARLAND
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 2,384,387	\$ 2,384,387	\$ 2,712,400	\$ 328,013
Licenses and Permits	128,500	128,500	112,384	(16,116)
Fines and Forfeitures	71,000	71,000	71,051	51
Use of Money and Property	21,115	21,115	23,010	1,895
Intergovernmental Revenues	3,994,287	4,013,582	1,831,502	(2,182,080)
Charges for Services	295,500	599,692	301,385	(298,307)
Other Revenues	1,203,536	1,323,764	59,731	(1,264,033)
Total Revenues	<u>8,098,325</u>	<u>8,542,040</u>	<u>5,111,463</u>	<u>(3,430,577)</u>
EXPENDITURES				
Current:				
General Government	754,734	758,934	1,073,847	(314,913)
Public Safety	2,351,961	2,370,669	2,261,684	108,985
Public Works	851,123	858,091	637,321	220,770
Community Development	592,577	592,377	345,296	247,081
Debt Service:				
Principal	421,159	412,028	321,959	90,069
Interest and Other Charges	-	-	9,131	(9,131)
Capital Outlay	6,399,204	6,974,439	3,507,435	3,467,004
Total Expenditures	<u>11,370,758</u>	<u>11,966,538</u>	<u>8,156,673</u>	<u>3,809,865</u>
Excess of Revenues Over (Under) Expenditures	(3,272,433)	(3,424,498)	(3,045,210)	379,288
OTHER FINANCING SOURCES (USES)				
Transfers In	4,104,598	4,259,613	2,089,712	(2,169,901)
Transfers Out	(563,354)	(567,554)	-	567,554
Total Other Financing Sources (Uses)	<u>3,541,244</u>	<u>3,692,059</u>	<u>2,089,712</u>	<u>(1,602,347)</u>
NET CHANGE IN FUND BALANCES	268,811	267,561	(955,498)	(1,223,059)
Fund Balances - Beginning of Year	<u>5,553,492</u>	<u>5,553,492</u>	<u>5,553,492</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 5,822,303</u>	<u>\$ 5,821,053</u>	<u>\$ 4,597,994</u>	<u>\$ (1,223,059)</u>

**CITY OF MCFARLAND
 BUDGETARY COMPARISON SCHEDULE
 TDA - LTF - MAJOR SPECIAL REVENUE FUND
 YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Use of Money and Property	\$ -	\$ -	\$ -	\$ -
Intergovernmental Revenues	595,933	595,933	420,288	(175,645)
Charges for Services	-	-	-	-
Other Revenues	-	-	-	-
Total Revenues	<u>595,933</u>	<u>595,933</u>	<u>420,288</u>	<u>(175,645)</u>
 Excess of Revenues Over (Under) Expenditures	 595,933	 595,933	 420,288	 (175,645)
OTHER FINANCING SOURCES (USES)				
Transfers Out	(595,933)	(595,933)	(413,950)	181,983
Total Other Financing Sources (Uses)	<u>(595,933)</u>	<u>(595,933)</u>	<u>(413,950)</u>	<u>181,983</u>
 NET CHANGE IN FUND BALANCES	 -	 -	 6,338	 6,338
 Fund Balances - Beginning of Year	 (35,970)	 (35,970)	 (35,970)	 -
 FUND BALANCES - END OF YEAR	 <u>\$ (35,970)</u>	 <u>\$ (35,970)</u>	 <u>\$ (29,632)</u>	 <u>\$ 6,338</u>

**CITY OF MCFARLAND
 BUDGETARY COMPARISON SCHEDULE
 ICE ADMINISTRATION - MAJOR SPECIAL REVENUE FUND
 YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Use of Money and Property	\$ -	\$ -	\$ -	\$ -
Intergovernmental Revenues	12,000,000	12,000,000	17,814,244	5,814,244
Other Revenues	-	-	-	-
Total Revenues	<u>12,000,000</u>	<u>12,000,000</u>	<u>17,814,244</u>	<u>5,814,244</u>
EXPENDITURES				
Current:				
Community Development	12,000,000	12,000,000	17,908,277	(5,908,277)
Total Expenditures	<u>12,000,000</u>	<u>12,000,000</u>	<u>17,908,277</u>	<u>(5,908,277)</u>
NET CHANGE IN FUND BALANCES	-	-	(94,033)	(94,033)
Fund Balances - Beginning of Year	<u>(8,461)</u>	<u>(8,461)</u>	<u>(8,461)</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u><u>\$ (8,461)</u></u>	<u><u>\$ (8,461)</u></u>	<u><u>\$ (102,494)</u></u>	<u><u>\$ (94,033)</u></u>

**CITY OF MCFARLAND
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

NOTE 1 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.

The City did not present a budgetary schedule for the CDBG Fund since this fund did not report a budget this year.

Expenditures exceeded budgetary appropriations for the year ended June 30, 2018 as follows:

<u>Fund/Function</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Exceeded Budget</u>
General Fund			
General Government	\$ 758,934	\$ 1,073,847	\$ (314,913)

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COMBINING FUND STATEMENTS

**CITY OF MCFARLAND
COMBINING BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	Gas Tax	CDBG	HOME	Lighting & Landscape
ASSETS				
Cash and Investments	\$ 38,254	\$ -	\$ -	\$ 160,410
Receivables:				
Accounts	-	-	3,383	-
Intergovernmental	-	78,006	-	-
Due from Other Funds	-	-	-	-
Loans Receivable	-	-	709,906	-
	<u>38,254</u>	<u>78,006</u>	<u>713,289</u>	<u>160,410</u>
Total Assets	<u>\$ 38,254</u>	<u>\$ 78,006</u>	<u>\$ 713,289</u>	<u>\$ 160,410</u>
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ 5,565
Due to Other Funds	-	92,468	88,840	-
Unearned Revenue	-	-	1,910	-
Total Liabilities	<u>-</u>	<u>92,468</u>	<u>90,750</u>	<u>5,565</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	-	-	709,906	-
FUND BALANCES				
Restricted	38,254	-	-	154,845
Unassigned	-	(14,462)	(87,367)	-
Total Fund Balances	<u>38,254</u>	<u>(14,462)</u>	<u>(87,367)</u>	<u>154,845</u>
	<u>\$ 38,254</u>	<u>\$ 78,006</u>	<u>\$ 713,289</u>	<u>\$ 160,410</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 38,254</u>	<u>\$ 78,006</u>	<u>\$ 713,289</u>	<u>\$ 160,410</u>

**CITY OF MCFARLAND
 COMBINING BALANCE SHEET
 GOVERNMENTAL FUNDS (CONTINUED)
 JUNE 30, 2018**

COPS	Development Impact	Miscellaneous Grants	Road Maint & Rehab	Total
\$ -	\$ 846,091	\$ 10,164	\$ 54,367	\$ 1,109,286
-	-	-	-	3,383
12,017	80,280	-	-	170,303
-	315,144	-	-	315,144
-	-	-	-	709,906
<u>\$ 12,017</u>	<u>\$ 1,241,515</u>	<u>\$ 10,164</u>	<u>\$ 54,367</u>	<u>\$ 2,308,022</u>
\$ -	\$ -	\$ -	\$ -	\$ 5,565
12,017	-	-	-	193,325
-	-	10,164	-	12,074
<u>12,017</u>	<u>-</u>	<u>10,164</u>	<u>-</u>	<u>210,964</u>
-	-	-	-	709,906
-	1,241,515	-	54,367	1,488,981
-	-	-	-	(101,829)
<u>-</u>	<u>1,241,515</u>	<u>-</u>	<u>54,367</u>	<u>1,387,152</u>
<u>\$ 12,017</u>	<u>\$ 1,241,515</u>	<u>\$ 10,164</u>	<u>\$ 54,367</u>	<u>\$ 2,308,022</u>

**CITY OF MCFARLAND
COMBINING INCOME STATEMENT
GOVERNMENTAL FUNDS
YEAD ENDED JUNE 30, 2018**

	Gas Tax	CDBG	HOME	Lighting & Landscape
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ 126,007
Licenses and Permits	-	-	-	-
Use of Money and Property	-	-	-	124
Intergovernmental Revenues	301,972	1,079,409	-	-
Total Revenues	<u>301,972</u>	<u>1,079,409</u>	<u>-</u>	<u>126,131</u>
EXPENDITURES				
Current:				
Public Works	-	-	-	67,759
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>67,759</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>301,972</u>	<u>1,079,409</u>	<u>-</u>	<u>58,372</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	(301,972)	(1,079,408)	-	-
Total Other Financing Sources (Uses)	<u>(301,972)</u>	<u>(1,079,408)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	1	-	58,372
Fund Balance - Beginning, Restated	<u>38,254</u>	<u>(14,463)</u>	<u>(87,367)</u>	<u>96,473</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 38,254</u></u>	<u><u>\$ (14,462)</u></u>	<u><u>\$ (87,367)</u></u>	<u><u>\$ 154,845</u></u>

**CITY OF MCFARLAND
 COMBINING INCOME STATEMENT
 GOVERNMENTAL FUNDS (CONTINUED)
 YEAR ENDED JUNE 30, 2018**

COPS	Development Impact	Miscellaneous Grants	Road Maint & Rehab	Total
\$ -	\$ -	\$ -	\$ 1,431	\$ 127,438
-	168,028	-	-	168,028
-	862	-	-	986
<u>82,432</u>	<u>-</u>	<u>-</u>	<u>54,367</u>	<u>1,518,180</u>
<u>82,432</u>	<u>168,890</u>	<u>-</u>	<u>55,798</u>	<u>1,814,632</u>
-	-	-	-	67,759
-	-	-	-	67,759
<u>82,432</u>	<u>168,890</u>	<u>-</u>	<u>55,798</u>	<u>1,746,873</u>
<u>(82,432)</u>	<u>(179,273)</u>	<u>-</u>	<u>(1,431)</u>	<u>(1,644,516)</u>
<u>(82,432)</u>	<u>(179,273)</u>	<u>-</u>	<u>(1,431)</u>	<u>(1,644,516)</u>
-	(10,383)	-	54,367	102,357
-	1,251,898	-	-	1,284,795
<u>\$ -</u>	<u>\$ 1,241,515</u>	<u>\$ -</u>	<u>\$ 54,367</u>	<u>\$ 1,387,152</u>