

CITY OF FIREBAUGH

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

JUNE 30, 2012

C O N T E N T S

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
GENERAL PURPOSE FINANCIAL STATEMENTS:	
Government-Wide Financial Statements	
Statement of Net Assets	2
Statement of Activities	3
Fund Financial Statements	
Balance Sheet - Governmental Funds	4
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities	5
Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds	6
Reconciliation of Statement of Revenue, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	7
Statement of Net Assets - Proprietary Funds	8
Statement of Revenue, Expense and Changes in Fund Net Assets - Proprietary Funds	9
Statement of Cash Flow - Proprietary Funds	10
Statement of Fiduciary Net Assets – Private Purpose Trust Fund	11
Statement of Changes in Fiduciary Net Assets – Private Purpose Trust Fund	12
Notes to General Purpose Financial Statements	13 - 35

C O N T E N T S (Continued)

	<u>Page</u>
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	36
Budgetary Comparison Schedule – Community Development Fund	37
Supplemental Only Information	
Combining Balance Sheet - Nonmajor Governmental Funds	38
Combining Statement of Revenue, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds	39
Schedule of Net Revenue Available for Debt Service	40
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	41 – 42
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	43 – 44
Schedule of Expenditures of Federal Awards	45 - 46
Schedule of Findings and Questioned Costs	47
Summary Schedule of Prior Audit Findings	48

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Firebaugh, California

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 Firebaugh, California, (the City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

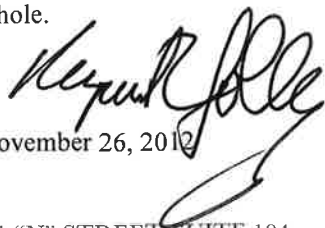
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2012, and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be part of, the financial statements. The Budgetary Comparison Information on pages 36 and 37 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Firebaugh's basic financial statements. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



November 26, 2012

CITY OF FIREBAUGH

STATEMENT OF NET ASSTS JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 122,967	\$ 5,037,800	\$ 5,160,767
Accounts receivable	347,322	274,858	622,180
Due from other governmental agencies	480,993	20,041	501,034
Due (to)/from other funds	(492,437)	492,437	-
Amortizable costs	-	142,163	142,163
Notes receivable	1,974,313	-	1,974,313
Capital assets (net of allowance for depreciation)	1,677,258	16,218,028	17,895,286
Total assets	<u>4,110,416</u>	<u>22,185,327</u>	<u>26,295,743</u>
LIABILITIES			
Accounts payable and accrued expense	988,026	86,096	1,074,122
Accrued interest	3,936	78,938	82,874
Deposits	-	64,240	64,240
Compensated absences	168,571	41,384	209,955
Long-term liabilities			
Due within one year	22,810	174,500	197,310
Due in more than one year	103,128	9,370,000	9,473,128
Post-retirement health benefits	1,316,193	-	1,316,193
Total liabilities	<u>2,602,664</u>	<u>9,815,158</u>	<u>12,417,822</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,551,320	6,673,528	8,224,848
Restricted for debt service	-	285,400	285,400
Restricted for specific projects and programs	161,008	-	161,008
Unrestricted	(204,576)	5,411,241	5,206,665
Total net assets/(deficit)	<u>\$ 1,507,752</u>	<u>\$ 12,370,169</u>	<u>\$ 13,877,921</u>

CITY OF FIREBAUGH

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2012

Functions/Programs	Net Revenue/(Expense) and Changes in Net Assets				
	Program Revenue		Primary Government		
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Primary Government					
Governmental activities					
General government	\$ 1,191,471	\$ 118,626	\$ -	\$ -	\$ (1,072,845)
Public safety	1,984,153	150,511	183,428	-	(1,650,214)
Public works	584,103	-	644,095	-	59,992
Community development	1,311,371	47,567	3,776	508,306	(751,722)
Parks and recreation	350,193	-	4,261	-	(345,932)
Airport	74,800	4,980	48,451	-	(21,369)
Tax pass-through	165,599	-	-	-	(165,599)
Debt Service					
Interest and fiscal charges	189,949	-	-	-	(189,949)
Total governmental activities	5,851,639	321,684	884,011	508,306	(4,137,638)
Business-type activities					
Water	1,703,495	1,563,839	-	295,872	156,216
Sewer	1,216,412	1,398,559	-	93,013	275,160
Total business-type activities	2,919,907	2,962,398	-	388,885	431,376
Total primary government	\$ 8,771,546	\$ 3,284,082	\$ 884,011	\$ 897,191	(3,706,262)
General Revenues					
Property taxes				1,460,527	1,460,527
Sales taxes				506,040	506,040
Utility users tax				413,551	413,551
Franchise taxes				130,955	130,955
Business licenses				33,763	33,763
Interest and rent				114,467	117,554
Other				130,626	130,626
Transfers				168,717	(168,717)
Total general revenue				2,958,646	2,793,016
Extraordinary gain					
Change in Net Assets					
				3,369,079	3,369,079
				2,190,087	2,455,833
Net Assets					
Beginning of year				(375,475)	11,728,948
Prior period adjustment				(306,860)	(306,860)
End of year				1,507,752	13,877,921

CITY OF FIREBAUGH

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2012

ASSETS

	General	Community Development	RDA Debt Service	Other Governmental Funds	Total Governmental Funds
Cash and investments	\$ -	\$ -	\$ -	\$ 122,967	\$ 122,967
Accounts receivable, net	347,322	-	-	-	347,322
Due from other governmental agencies	-	293,944	-	187,049	480,993
Notes receivable	-	-	-	1,974,313	1,974,313
Total assets	\$ 347,322	\$ 293,944	\$ -	\$ 2,284,329	\$ 2,925,595

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable and accrued expense	\$ 912,578	\$ 38,295	\$ -	\$ 37,153	\$ 988,026
Due to other funds	128,770	255,649	-	108,018	492,437
Deferred revenue	60,181	-	-	1,624,313	1,684,494
Compensated absences	80,488	-	-	17,305	97,793
Total liabilities	1,182,017	293,944	-	1,786,789	3,262,750

Fund Balance

Nonspendable					
Notes receivable	-	-	-	350,000	350,000
Restricted					
Circulation improvements	-	-	-	123	123
Capital improvement projects	-	-	-	27,169	27,169
Lighting, landscape & park maintenance	-	-	-	48,478	48,478
Public safety programs	-	-	-	85,238	85,238
Unassigned	(834,695)	-	-	(13,468)	(848,163)
Total fund balance	(834,695)	-	-	497,540	(337,155)
Total liabilities and fund balance	\$ 347,322	\$ 293,944	\$ -	\$ 2,284,329	\$ 2,925,595

See accompanying notes.

CITY OF FIREBAUGH

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES JUNE 30, 2012

Total governmental fund balance	\$ (337,155)
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Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Notes receivable are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds	1,624,313
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Certain revenues are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds	60,181
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	1,677,258
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Long-term portion of compensated absences are not due and payable in the current period and, therefore, are not reported in the funds	(70,778)
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Accrued interest on long-term liabilities is not due and payable in the current period and, therefore, is not reported in the funds	(3,936)
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(125,938)
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Post-retirement health benefits are not due and payable in the current period and, therefore, are not reported in the funds	<u>(1,316,193)</u>
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Net assets of governmental activities	<u>\$ 1,507,752</u>
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CITY OF FIREBAUGH

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2012

	General	Community Development	RDA Debt Service	Other Governmental Funds	Total Governmental Funds
Revenue					
Taxes	\$ 1,525,543	\$ -	\$ 640,792	\$ 71,641	\$ 2,237,976
Intergovernmental	22,080	508,243	-	861,931	1,392,254
Charges for services	196,907	-	-	4,980	201,887
Licenses, permits and impact fees	30,163	-	-	63	30,226
Fines and forfeitures	89,634	-	-	-	89,634
Interest and rent	111,639	-	-	2,828	114,467
Other	130,626	-	-	-	130,626
Total revenue	2,106,592	508,243	640,792	941,443	4,197,070
Expenditures					
Current					
General government	326,919	-	-	-	326,919
Public safety	1,658,003	-	-	195,934	1,853,937
Public works	139,583	-	-	425,739	565,322
Community development	155,930	976,990	-	178,451	1,311,371
Parks and recreation	350,193	-	-	-	350,193
Airport	-	-	-	74,800	74,800
Tax pass-through	-	-	165,599	-	165,599
Capital outlay	-	-	-	-	-
Debt Service	-	-	110,000	21,732	131,732
Principal	-	-	219,328	7,324	226,652
Interest and fiscal charges	-	-	494,927	903,980	5,006,525
Total expenditures	2,630,628	976,990	494,927	903,980	5,006,525
Revenue over/(under) expenditures	(524,036)	(468,747)	145,865	37,463	(809,455)
Other Financing Sources/(Uses)					
Operating transfers in	12,744	481,569	2,234,239	1,265,552	3,994,104
Operating transfers (out)	(2,813,476)	(12,822)	-	(999,089)	(3,825,387)
Total other financing sources (uses)	(2,800,732)	468,747	2,234,239	266,463	168,717
Extraordinary Loss	-	-	(2,424,014)	(921,907)	(3,345,921)
Change in Fund Balance	(3,324,768)	-	(43,910)	(617,981)	(3,986,659)
Fund Balance					
Beginning of year	2,490,073	-	43,910	1,115,521	3,649,504
End of year	\$ (834,695)	\$ -	\$ -	\$ 497,540	\$ (337,155)

See accompanying notes.

CITY OF FIREBAUGH

RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2012

Net change in fund balance - total governmental funds	\$(3,705,799)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Difference between reported extraordinary loss on the governmental financial statements and the extraordinary gain reported on the government-wide financial statements	6,715,000
Depreciation expense on capital assets is reported in the Statement of Activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not required as expenditures in Governmental Funds	(227,578)
Amortization of deferred debt costs in the statement of net assets do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds	(330,111)
In the statement of activities, interest is accrued on long-term debt, whereas in governmental funds interest expenditure is reported when due	36,703
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets	131,732
Post-retirement benefit costs in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in the Governmental Funds	<u>(455,860)</u>
Change in net assets of governmental activities	<u>\$ 2,164,087</u>

CITY OF FIREBAUGH

STATEMENT OF NET ASSETS – PROPRIETARY FUNDS

JUNE 30, 2012

	Business-Type Activities - Enterprise Funds		
			Total Business-Type Funds
	Water	Sewer	
ASSETS			
Current assets			
Cash and investments	\$ 2,462,400	\$ 2,575,400	\$ 5,037,800
Accounts receivable	198,593	76,265	274,858
Due from other governmental agencies	-	20,041	20,041
Due from other funds	492,437	-	492,437
Total current assets	<u>3,153,430</u>	<u>2,671,706</u>	<u>5,825,136</u>
Non-current assets			
Unamortized bond discount	142,163	-	142,163
Property, plant and equipment (net of allowance for depreciation)	10,309,029	5,908,999	16,218,028
Total noncurrent assets	<u>10,451,192</u>	<u>5,908,999</u>	<u>16,360,191</u>
Total assets	<u>13,604,622</u>	<u>8,580,705</u>	<u>22,185,327</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expense	62,004	24,092	86,096
Accrued interest	20,750	58,188	78,938
Deposits	64,240	-	64,240
Compensated absences	23,441	17,943	41,384
Current portion of long-term debt	105,000	69,500	174,500
Total current liabilities	<u>275,435</u>	<u>169,723</u>	<u>445,158</u>
Noncurrent Liabilities			
Revenue bonds payable	5,700,000	3,670,000	9,370,000
Total liabilities	<u>5,975,435</u>	<u>3,839,723</u>	<u>9,815,158</u>
NET ASSETS			
Invested in capital assets, net of related debt	4,504,029	2,169,499	6,673,528
Restricted for debt service	256,000	29,400	285,400
Unrestricted/(deficit)	2,869,158	2,542,083	5,411,241
Total net assets	<u>\$ 7,629,187</u>	<u>\$ 4,740,982</u>	<u>\$ 12,370,169</u>

CITY OF FIREBAUGH

STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total Business-Type Funds
Operating Revenue			
Charges for services	\$ 1,517,459	\$ 1,396,142	\$ 2,913,601
Connection fees and other fees	46,380	2,417	48,797
Total operating revenue	<u>1,563,839</u>	<u>1,398,559</u>	<u>2,962,398</u>
Operating Expense			
Contractual services and utilities	383,734	308,983	692,717
Personnel	364,116	324,549	688,665
Supplies, repairs and other	326,957	194,186	521,143
Depreciation and amortization	377,450	232,590	610,040
Total operating expense	<u>1,452,257</u>	<u>1,060,308</u>	<u>2,512,565</u>
Operating income/(loss)	<u>111,582</u>	<u>338,251</u>	<u>449,833</u>
Nonoperating Revenue/(Expense)			
Intergovernmental revenue	295,872	93,013	388,885
Interest income	1,819	1,268	3,087
Interest expense	(251,238)	(156,104)	(407,342)
Total nonoperating revenue/(expense)	<u>46,453</u>	<u>(61,823)</u>	<u>(15,370)</u>
Net income/(loss) before transfers	158,035	276,428	434,463
Operating Transfers In/(Out)	<u>(86,326)</u>	<u>(82,391)</u>	<u>(168,717)</u>
Change in Net Assets	<u>71,709</u>	<u>194,037</u>	<u>265,746</u>
Net Assets			
Beginning of year	7,557,478	4,546,945	12,104,423
End of year	<u>\$ 7,629,187</u>	<u>\$ 4,740,982</u>	<u>\$ 12,370,169</u>

CITY OF FIREBAUGH

STATEMENT OF CASH FLOW - PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total Business-Type Funds
Operating Activities			
Receipts from customers and users	\$ 1,928,187	\$ 1,416,995	\$ 3,345,182
Payments for contractual services and utilities	(386,431)	(320,258)	(706,689)
Payments to employees	(360,165)	(324,300)	(684,465)
Payments to suppliers	(326,957)	(194,186)	(521,143)
Net cash provided by (used in) operating activities	<u>854,634</u>	<u>578,251</u>	<u>1,432,885</u>
Non-capital Financial Activities			
Payments from other governments	558,406	72,972	631,378
Payments received from (paid to) other funds	(498,763)	(82,391)	(581,154)
Net cash provided by (used in) noncapital financing activities	<u>59,643</u>	<u>(9,419)</u>	<u>50,224</u>
Capital and Related Financing Activities			
Purchase of property, plant and equipment	-	-	-
Principal paid on long-term debt	(100,000)	(67,500)	(167,500)
Interest paid on long-term debt	(251,984)	(157,223)	(409,207)
Net cash (used in) capital and related financing activities	<u>(351,984)</u>	<u>(224,723)</u>	<u>(576,707)</u>
Investing Activities			
Interest received	<u>1,819</u>	<u>1,268</u>	<u>3,087</u>
Net cash provided by investing activities	<u>1,819</u>	<u>1,268</u>	<u>3,087</u>
Net Increase (Decrease) in Cash	<u>564,112</u>	<u>345,377</u>	<u>909,489</u>
Cash			
Beginning of year	<u>1,898,288</u>	<u>2,230,023</u>	<u>4,128,311</u>
End of year	<u>\$ 2,462,400</u>	<u>\$ 2,575,400</u>	<u>\$ 5,037,800</u>
Cash Flows from Operating Activities			
Operating income (loss)	\$ 111,582	\$ 338,251	\$ 449,833
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	377,450	232,590	610,040
(Increase) Decrease in Accounts Receivable	357,268	18,436	375,704
Increase (Decrease) in Accounts Payable and Accrued Liabilities	<u>8,334</u>	<u>(11,026)</u>	<u>(2,692)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 854,634</u>	<u>\$ 578,251</u>	<u>\$ 1,432,885</u>

See accompanying notes.

CITY OF FIREBAUGH

STATEMENT OF FIDUCIARY NET ASSETS PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2012

Assets

Cash and investments	
Held with trustees	\$ 1,338,483
Real estate	<u>1,833,649</u>
Total assets	<u>3,172,132</u>

Liabilities

Cash overdraft	71,776
Accounts payable and accrued liabilities	9,409
Interest payable	35,083
Long-term debt	
Due within one year	120,000
Due in more than one year	<u>6,595,000</u>
Total liabilities	<u>6,831,268</u>

Net Assets

Held in trust for other governments	<u>\$ (3,659,136)</u>
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CITY OF FIREBAUGH

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2012

Additions

Property taxes	\$ 55,524
Investment earnings and other	5,584
Total additions	<u>61,108</u>

Deductions

Administrative costs	99,933
Interest and fiscal agency expenses of former redevelopment agency	<u>251,232</u>
Total deductions	<u>351,165</u>

Extraordinary loss	<u>(3,369,079)</u>
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Change In Net Assets	(3,659,136)
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Net Assets

Beginning of year	<u>-</u>
End of year	<u>\$ (3,659,136)</u>

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies

The financial statements of the City of Firebaugh (the City) have been prepared in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

These financial statements present the government and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and data from these units is combined with data of the primary government. Each blended component unit has a June 30 fiscal year end. There are no discretely presented component units included in these financial statements. The following sections further describe the significant accounting policies of the City.

Reporting Entity

The City of Firebaugh, State of California (the "City"), was incorporated in 1914. The City operates under a Council-Manager form of government. The City's major operations include public safety; highways and streets; water and sewer; parks and recreation; building inspection; public improvements; planning and zoning, and general administrative services.

Included in this report is the Redevelopment Agency of the City of Firebaugh (the Agency). The Agency was established in 1985 to administer the City's redevelopment activities and projects. Members of the City Council automatically sit as the Agency Board, the City Manager is appointed as Executive Director with the City staff providing all support services. All redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Basis of Presentation – Fund Accounting

Government-Wide Financial Statements - The Government-Wide Financial Statements (the Statement of Net Assets and the Statement of Activities and Changes in Net Assets) report information of all of the nonfiduciary activities of the primary government and its component units. For the most part, eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City and between the City and its component unit. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely significantly on fees charged to external parties.

The Statement of Activities and Changes in Net Assets presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental Fund Financial Statements - The Governmental Fund Financial Statements provide information about the City's funds, including fiduciary funds and the blended component unit. Separate statements for each fund category - governmental, proprietary and fiduciary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are separately aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. It is used for all financial resources except those required legally, or by sound financial management to be accounted for in another fund. Generally, the General Fund is used to account for those traditional governmental services of the City, such as police and fire protection, planning and general administrative services.

Community Development Fund – The Community Development Fund was established to account for the monies received from various sources which are to be used for the design and construction of various projects.

RDA Debt Service Fund – The RDA Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the Redevelopment Agency's funds.

The City reports the following additional fund types:

Private-Purpose Trust Fund - The Private-Purpose Trust Fund accounts for assets held by the City as trustee for the Successor Agency.

Basis of Accounting

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 taxes, grants, entitlements and donations. On an 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 eligible requirements have been satisfied.

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

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 accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

For its government-wide activities and Enterprise Funds, the City has elected under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

Proprietary Funds distinguish operating revenues and expenses from non-operating 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. Revenues and expenses not meeting this definition are reported as non-operating.

Financial Statement Amounts

Cash and Investments - Cash and investments represent the City's cash bank accounts including but not limited to certificates of deposit, money market funds and cash management pools for reporting purposes in the Statement of Cash Flows. Additionally, investments with maturities of three months or less when purchased are included as cash equivalents in the Statement of Cash Flows.

The City maintains a cash and investment pool that is available for use by all funds. Interest earnings as a result of this pooling are distributed to the appropriate funds based on month end cash balances in each fund.

Investments of the pool include only those investments authorized by the California Government Code such as, United States Treasury securities, agencies guaranteed by the United States Government, registered state warrants, and other investments. Investments primarily consist of deposits in the State of California Local Agency Investment Fund. Investments are stated at cost or amortized cost.

Accounts Receivable - Billed but unpaid services provided to individuals or non-governmental entities are recorded as accounts receivable. The Proprietary Funds include a year end accrual for services through June 30, 2012, which have not yet been billed.

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

Fresno County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year. Secured property taxes is due in two installments, on November 1 and March 1, and becomes a lien on those dates. They become delinquent on December 10 and April 10, respectively. Collection of delinquent accounts is the responsibility of the County, which retains all penalties collected. Property taxes are accounted for in the General Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities. The City considers property taxes as available if they are collected within 60 days after year end. Property tax on the unsecured roll are due on July 1 and become delinquent if unpaid on August 31. However, unsecured property taxes are not susceptible to year end accrual.

The City is permitted by Article XIII A of the State of California Constitution (known as Proposition 13) to levy a maximum tax of \$1.00 per \$100 of full cash value.

Interfund Receivables/Payables - Items classified as interfund receivable/payable represent short-term lending/borrowing transactions between funds. This classification also includes the current portion of an advance to or from another fund.

Advances To/From Other Funds - This classification represents non-current portions of any long-term lending/borrowing transactions between funds. This amount will be equally offset by a reserve of fund balance which indicates that it does not represent available financial resources and therefore, is not available for appropriation. The current portion of any interfund long-term loan (advance) is included as an interfund receivable/payable.

Capital Assets - Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the Government-Wide Financial Statements to the extent the City's capitalization threshold is met.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the Government-Wide Financial Statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the assets constructed.

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

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

	Years
Buildings, structures and improvements	40
Infrastructure	40
Utility plant	40
Furniture and equipment	7
Automobiles and trucks	5

Compensated Absences - It is the City's policy to permit all employees to accumulate earned but unused vacation and compensatory time benefits. Those employees on shift work schedules may also accumulate hours for holiday time benefits.

Vested or accumulated vacation, holiday and any compensation time that is expected to be paid with expendable available financial resources is reported as an expenditure in the fund financial statements of the Governmental Fund that will pay for it. Amounts not expected to be liquidated with expendable available financial resources are reported in the Government-Wide Financial Statements.

Vested leave of Proprietary Funds are recorded as an expense and liability as the benefits accrue.

Sick leave can be accumulated, but vesting is limited and will not be paid upon termination. However, in past years unused sick leave could be used to pay post-employment health insurance. One retiree has unused benefits of \$70,778 at year end and this amount is reported as a compensated absence liability. For this reason, the City does not accrue any costs relating to sick leave.

Long-Term Obligations - In the Government-Wide Financial Statements, and Proprietary Fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type Statement of Net Assets. Debt principal payments of both government and business-type activities are reported as decreases in the balance of the liability on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, 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 reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, however, debt principal payments of Governmental Funds are recognized as expenditures when paid. Governmental Fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

Non-Current Governmental Assets/Liabilities - GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the Government-Wide Statement of Net Assets.

Pension Plan - All full-time City employees are members of the State of California Public Employees' Retirement System. The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of July 1 by the System's actuary. See note 9 for further discussion.

Bond Discount and Issuance Costs - For governmental funds, bond discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of the applicable discount. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures. For business-type funds, bond discounts, as well as issuance costs, are deferred and amortized over the life, of the bonds. Bonds payable are reported net of applicable bond discounts. Issuance costs are reported as deferred charges.

Net Assets/Fund Equity - The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- *Invested In Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* - This category presents external restrictions on net assets 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 Assets* - This category represents net assets of the City, not restricted for any project or other purpose.

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

Fund Equity – In the fund financial statements, governmental fund balance is made up of the following components:

- Nonspendable fund balance typically includes inventories, prepaid items, and other items that must be maintained intact pursuant to legal or contractual requirements, such as endowments.
- Restricted fund balance category includes amounts that can be spent only for specific purposes imposed by creditors, grantors, contributors, or laws or regulations of other governments or through enabling legislations.
- Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has the authority to establish, modify, or rescind a fund balance commitment.
- Assigned fund balance are amounts designated by the City Council for specific purposes and do not meet the criteria to be classified as restricted or committed.
- Unassigned fund balance is the residual classification that includes all spendable amounts in the General Fund not contained in other classifications.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to apply restricted first. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

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.

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 2 – Stewardship, Compliance and Accountability

California law authorizes the City to invest in obligations of the United States Treasury, agencies and instrumentalities, certificates of deposit or time deposits in banks and savings and loan associations which are insured by the Federal Deposit Insurance Corporation.

In accordance with applicable sections of the California Government Code and the Firebaugh Municipal Code, the City prepares and legally adopts an annual balanced budget on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, specific Special Revenue Funds, and specific Capital Projects Funds. Budget plans are adopted for Proprietary Funds. A proposed budget is presented to the City Council during June of each year for review. The Council holds public hearings and may add to, subtract from, or change appropriations within the revenues and reserves estimated as available. Expenditures may not legally exceed budgeted appropriations at the fund level. Supplementary appropriations which alter the total expenditures of any fund, or expenditures in excess of total budgeted fund appropriations, must be approved by the City Council.

All annual appropriations lapse at fiscal year end to the extent they have not been expended or encumbered.

Note 3 – 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. Interest income earned on pooled cash is allocated to the various funds on average cash balances. Interest income from cash investments held with fiscal agents is credited directly to the related funds.

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of Net Assets:

Cash and Investments	\$ 5,160,767
Fiduciary Funds:	
Cash and Investments with Fiscal Agent	1,338,483
Cash Overdraft	(71,776)
Total Cash and Investments	<u>\$ 6,427,474</u>

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 3 – Cash and Investments (Continued)

Cash and investments as of June 30, 2012 consist of the following:

Cash on hand	\$ 300
Deposits with Financial Institutions	2,566,227
Local Agency Investment Fund	2,376,903
Held by Fiscal Agent:	
Cash	<u>1,484,044</u>
Total Cash and Investments	<u>\$ 6,427,474</u>

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City 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 address interest rate risk, credit risk, and concentration of credit risk. The City's investment policy does not contain any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk. This table does not address 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	Maximum Investment In One Issuer
Local Agency Bonds	1 year	None	5%
U.S. Treasury Obligations	1 year	None	None
U.S. Agency Securities	1 year	None	None
Banker's Acceptances	180 days	40%	5%
Commercial Paper	270 days	25%	5%
Negotiable Certificates of Deposit	1 year	30%	None
Medium-Term Notes	1 year	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	1 year	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 3 – Cash and Investments (Continued)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	1 year	None	None
Commercial Paper	None	None	None
Money Market Mutual Funds	None	None	None
Investment Contracts	None	None	None
Certificates of Deposits	1 year	None	None
Repurchase Agreements	30 days	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Municipal Bonds	None	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2012 the City had the following investments.

Investment Type		Maturity Date
Local Agency Investment Fund	\$ 2,376,903	N/A
Held by Bond Trustee:		
Cash	<u>1,484,044</u>	N/A
Total	<u>\$ 3,860,947</u>	

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 3 – Cash and Investments (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Investment Type		Minimum Legal Rating	Rating as of Year End Not Rated
Local Agency Investment Fund	\$ 2,376,903	N/A	\$ 2,376,903
Held by Bond Trustee:			
Money Market Mutual Funds	<u>1,484,044</u>	N/A	<u>1,484,044</u>
Total	<u>\$ 3,860,947</u>		<u>\$ 3,860,947</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Approximately 21% of cash and investments is held by bond trustee.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: 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 City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 3 – Cash and Investments (Continued)

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. 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).

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Note 4 – Notes Receivable

Firebaugh San Joaquin Vista Associates - During fiscal year 2000, the Redevelopment Agency of the City of Firebaugh loaned Firebaugh San Joaquin Vista Associates \$200,000 as a subsidy in connection with a low income apartment. The note carries an interest rate of 3% and matures during 2055. The terms of the agreement specify that payments of the outstanding principal and accrued interest shall be paid annually in the amount equal to 30% of available project revenues. Payments made shall be credited first against accrued interest and then against outstanding principal. There have been no required payments to date on this note.

San Joaquin Development LLC – During fiscal year 2012, the Redevelopment Agency of the City of Firebaugh loaned San Joaquin Development LLC \$150,000 in connection with the construction of low-income condominiums. The note is non-interest bearing and is repayable upon sale of each unit at the rate of \$7,134 per unit. There have been no repayments to date on this note.

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 5 – Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 137,047	\$ -	\$ -	\$ 137,047
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>137,047</u>	<u>-</u>	<u>-</u>	<u>137,047</u>
Capital assets, being depreciated				
Buildings and improvements	1,338,503	-	-	1,338,503
Infrastructure	514,825	-	-	514,825
Machinery and equipment	<u>1,680,327</u>	<u>-</u>	<u>-</u>	<u>1,680,327</u>
Total capital assets, being depreciated	<u>3,533,655</u>	<u>-</u>	<u>-</u>	<u>3,533,655</u>
Less accumulated depreciation for:				
Buildings and improvements	(502,501)	(42,385)	-	(544,886)
Infrastructure	(77,226)	(12,871)	-	(90,097)
Machinery and equipment	<u>(1,186,139)</u>	<u>(172,322)</u>	<u>-</u>	<u>(1,358,461)</u>
Total accumulated depreciation	<u>(1,765,866)</u>	<u>(227,578)</u>	<u>-</u>	<u>(1,993,444)</u>
Total capital assets, being depreciated, net	<u>1,767,789</u>	<u>(227,578)</u>	<u>-</u>	<u>1,540,211</u>
Governmental activities capital assets, net	<u>\$ 1,904,836</u>	<u>\$ (227,578)</u>	<u>\$ -</u>	<u>\$ 1,677,258</u>
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 203,705	\$ -	\$ -	\$ 203,705
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>203,705</u>	<u>-</u>	<u>-</u>	<u>203,705</u>
Capital assets, being depreciated				
Building	237,000	-	-	237,000
Improvements other than buildings	14,308,019	-	-	14,308,019
Machinery and equipment	<u>7,683,350</u>	<u>-</u>	<u>-</u>	<u>7,683,350</u>
Total capital assets, being depreciated	<u>22,228,369</u>	<u>-</u>	<u>-</u>	<u>22,228,369</u>
Less: accumulated depreciation	<u>(5,613,394)</u>	<u>(600,652)</u>	<u>-</u>	<u>(6,214,046)</u>
Total capital assets, being depreciated, net	<u>16,614,975</u>	<u>(600,652)</u>	<u>-</u>	<u>16,014,323</u>
Business-type activities capital assets, net	<u>\$ 16,818,680</u>	<u>\$ (600,652)</u>	<u>\$ -</u>	<u>\$ 16,218,028</u>

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 5 – Capital Assets (Continued)

Depreciation and amortization expense were charged to the following functions in the Statement of Activities:

Governmental Functions:

General Government	\$	78,581
Public Safety		130,216
Public Works and Development		18,781
	\$	<u>227,578</u>

Business-Type Functions:

Water	\$	368,062
Sewer		232,590
	\$	<u>600,652</u>

Note 6 – Long-term Liabilities

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. The City's debt transactions are summarized below and discussed in detail thereafter:

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012	Current Portion
<u>Governmental Activity Long Term Debt</u>					
Lease Payable					
Fire truck lease	147,670	-	(21,732)	125,938	22,810
Total Governmental Activity Debt	<u>\$ 147,670</u>	<u>\$ -</u>	<u>\$ (21,732)</u>	<u>\$ 125,938</u>	<u>\$ 22,810</u>
<u>Business-Type Activity Long Term Debt</u>					
Bonds Payable					
1976 Firebaugh Sewer Revenue Bond	\$ 127,000	\$ -	\$ (22,500)	\$ 104,500	\$ 24,500
2005 Water Revenue Bond	1,730,000	-	(50,000)	1,680,000	50,000
Certificate of Participation					
2007 USDA Water COP	4,175,000	-	(50,000)	4,125,000	55,000
Loan Payable					
2008 USDA Sewer Loan	3,680,000	-	(45,000)	3,635,000	45,000
Total Business-Type Activity Debt	<u>\$ 9,712,000</u>	<u>\$ -</u>	<u>\$ (167,500)</u>	<u>\$ 9,544,500</u>	<u>\$ 174,500</u>
<u>Compensated Absences</u>					
Government Activities	<u>\$ 180,830</u>	<u>\$ -</u>	<u>\$ (12,259)</u>	<u>\$ 168,571</u>	
Business-Type Activities	<u>\$ 37,184</u>	<u>\$ 4,200</u>	<u>\$ -</u>	<u>\$ 41,384</u>	

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 6 – Long-Term Liabilities (Continued)

Long-term debt payable at June 30, 2012 was comprised of the following individual issues:

Fire Truck Lease - In October 2006 the City entered into a capital lease for \$224,802 with Kansas State Bank of Manhattan for a new fire truck. The lease is payable in ten annual installments of \$29,056.30 consisting of principal and interest.

Revenue Bonds Payable - The 1976 Firebaugh Sewer Revenue Bonds in the amount of \$477,000 were issued in 1976. Interest in the amount of 5 percent is due semi-annually. Principal is paid annually.

2005 Water Revenue Bond - In 2005 the City issued \$1,970,000 of bonds. Interest on the bonds is payable semi-annually on December 1 and June 1 each year, with interest rates ranging between 3% and 5% per annum. Principal is paid annually.

2007 USDA Water Certificate of Participation - In 2007 the City issued \$4,365,000 of Certificates of Participation. The proceeds of the issue were used for the water system improvement project. Interest on the COP is payable semi-annually on December 1 and June 1 each year, with an interest rate of 4.125% per annum. Principal is paid annually on June 1.

2008 USDA Sewer Loan Payable - In 2008 the City borrowed \$3,800,000 from the USDA to finance sewer plant expansion. Interest on the loan is payable semi-annually on February 15 and August 15 each year, with an interest rate of 4.125% per annum. Principal is paid on August 15 of each year.

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2012 are as follows:

Years ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	22,810	6,247	174,500	402,237
2014	23,941	5,115	185,500	394,657
2015	25,129	3,928	191,500	386,767
2016	26,375	2,681	198,000	378,460
2017	27,683	1,373	180,000	369,824
2018-2022	-	-	1,025,000	1,726,452
2023-2027	-	-	1,255,000	1,482,367
2028-2032	-	-	1,570,000	1,176,166
2033-2037	-	-	1,255,000	869,710
2038-2042	-	-	1,490,000	591,835
2043-2047	-	-	1,830,000	254,202
2048	-	-	190,000	3,919
	<u>\$ 125,938</u>	<u>\$ 19,344</u>	<u>\$ 9,544,500</u>	<u>\$ 8,036,596</u>

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 7 – Interfund Transfers

In general, the City uses interfund transfers to (1) move revenues from the funds that collect them to the funds' that statute or budget requires to expend them, (2) use unrestricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments become due. In general, the effect of the interfund activity has been eliminated from the government-wide financial statements.

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ -	\$ (2,800,732)
Community Development Fund	468,747	-
RDA Debt Service Fund	2,234,239	-
Proprietary Funds:		
Water Fund	-	(86,326)
Sewer Fund	-	(82,391)
Nonmajor Governmental Funds:		
Gas Tax Fund	-	(121,949)
Local Transportation Fund		(133,773)
Measure C Fund		(182,944)
Airport Fund	7,415	-
Home Grant Fund	-	(912)
Low-Moderate Housing Asset Fund	350,000	-
RDA Low-Moderate Housing Fund		(350,000)
Development Impact Fees Fund	9,667	-
Community Redevelopment Fund	688,959	-
	<u>\$ 3,759,027</u>	<u>\$ (3,759,027)</u>

Note 8 – Deficit Net Assets Balance

Net Asset Deficits – The General Fund and Airport Fund have deficit net asset balances as of June 30, 2012 of \$834,695 and \$13,468, respectively. The deficits are expected to be relieved from future revenues and reduction of expenditures.

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 9 – Proposition 1A Borrowing by the State of California

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties, and special districts. The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City was \$60,181.

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues are not permitted to be recognized as revenue in the governmental fund financial statements until the tax revenues are received from the State of California (expected to be fiscal year 2012-13). In the government-wide financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10).

Note 10 – Pension Plan

Plan Description - The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office - 400 P Street - Sacramento, CA 95814.

Funding Policy - Participants are required to contribute seven percent (nine percent for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 14.429 percent for non-safety employees and 30.433 percent for safety employees of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost - For the year ended June 30, 2012, the City's annual pension cost of \$495,472 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.25 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0 percent. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period (smoothed market value). PERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis.

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 10 – Pension Plan (Continued)

THREE YEAR TREND INFORMATION FOR PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2010	\$ 439,388	100%	-
June 30, 2011	\$ 497,974	100%	-
June 30, 2012	\$ 495,472	100%	-

A new State law authorized the creation of risk pools by PERS and required mandatory participation of small employers to help reduce large fluctuations in their contribution rates. The City is now required to participate in the risk pool. Under this pooling method, assets and liabilities of the participant employers are aggregated. As such, individual employer's retirement data is no longer available.

Note 11 – Post-Employment Health Care Benefits

Post Retirement Benefits

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. Prior to adopting the requirements of GASB Statement No. 45, the City recognized the cost of postemployment healthcare in the year it was paid. With the implementation of GASB Statement No. 45 the City will report the accumulated liability from prior years in order to provide information useful in assessing potential demands on the City's future cash flows. Recognition and funding of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2009-2010 liability.

Plan Description

For all employees employed by the City who are not under a labor agreement who retire from the City's employment under the Public Employee's Retirement System currently in effect, the City will continue to pay the premiums for health care coverage in an amount equal to the amount paid if the employee was still employed by the City.

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 11 – Post-Employment Health Care Benefits (Continued)

For the fiscal year ending June 30, 2012, there was one retiree receiving such benefits. The City is financing any benefits on a pay as you go basis.

Funding Policy

The contribution requirements of plan members and the City are established and may be amended by the City. The City determines the required contributions using the Entry Age Normal Cost Method. The required contribution is based on projected pay-as-you-go financing requirements.

Membership in the plan consisted of the following at June 30, 2010, the date of the latest actuarial valuation.

Retirees receiving benefits	2
Active plan members eligible	<u>40</u>
Total	<u>42</u>
Retired employees:	
Average Age	64.2
Average Retirement Age	60
Active members eligible:	
Average Age	40.3
Average Service Years	6.4

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty (30) years. The following table shows the amount contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution (OPEB cost)	\$ 415,620
Interest on net OPEB obligation	43,017
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>458,637</u>
Contributions made	<u>(2,777)</u>
Increase (decrease) in net OPEB obligation	455,860
Net OPEB obligation, beginning of year	<u>860,333</u>
Net OPEB obligation, end of year	<u>\$ 1,316,193</u>

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 11 – Post-Employment Health Care Benefits (Continued)

The City's OPEB obligation as of implementation of GASB Statement No. 45 is less than the actuarial accrued liability of \$2,263,046, all of which is unfunded. However, the OPEB obligation will be increased prospectively to the actuarial accrued liability amount. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation was as follows:

<u>Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 415,620	-	0.0%	\$ 415,620
2011	415,620	-	0.0%	860,333
2012	415,620	2,777	0.7%	1,316,193

Funding Status and Progress

The funded status of the liability as of June 30, 2010, the plan's most recent actuarial valuation date, was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability (Excess Assets)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL As a % of Payroll</u>
06/30/10	2,263,046	-	2,263,046	0.0%	1,598,143	141.6%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding status and progress, as shown above, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The annual OPEB cost was determined as part of the June 30, 2010 actuarial valuation. Additional information as of the last actuarial valuations follows:

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 11 – Post-Employment Health Care Benefits (Continued)

Valuation Date	June 30, 2010	
Actuarial Cost Method	Entry Age Normal	
Asset Valuation Method	Market Value	
Amortization Method	Level Percentage of Payroll	
Remaining Amortization Period	30 years	
Actuarial Assumptions:		
Investment Rate of Return	4.5%	
Discount Rate	4.5%	
Payroll Increase	3.25%	
Health Cost Trend Rates:	Annual increases in premium for retired medical and prescription drug benefits are assumed to be as follows:	
	Year After Valuation Date	Medical Premiums
	2010	Actual Premiums
	2011	8.5%
	2012	8.0%
	2013	7.5%
	2014	7.0%
	Thereafter	5.5%

Note 12 – Risk Management

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes.

The City is covered for the first \$1,000,000 of each general liability claim and \$500,000 of each worker's compensation claim through the CSJVRMA. The City has the right to receive dividends or the obligation to pay assessments based on a formula which, among other expenses, charges the City's account for liability losses under \$10,000 and workers' compensation losses under \$10,000. The CSJVRMA purchases excess reinsurance from \$1,000,000 to \$15,000,000. The CSJVRMA participates in an excess pool which provides Workers' Compensation coverage from \$500,000 to \$1,500,000 and purchases excess reinsurance above \$1,500,000 to the statutory limit.

The CSJVRMA is a consortium of 55 cities in San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500, et. seq. The CSJVRMA is governed by a Board of Directors, which meets three to four times each year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by the CSJVRMA. The financial statements of CSJVRMA can be obtained at 1831 K Street, Sacramento, CA 95814.

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 12 – Risk Management (Continued)

The latest audited financial information and the most current information available for CSJVRMA for fiscal year ended June 30, 2012 is as follows:

Total assets	<u>\$ 103,246,944</u>
Total liabilities	<u>\$ 90,963,926</u>
Total equities	<u>\$ 12,283,018</u>
Total revenues	<u>\$ 29,186,116</u>
Total expenses	<u>\$ 30,402,073</u>
Revenues over (under) expenses	<u>\$ (1,215,957)</u>

Note 13 - Contingencies

Federal and State Government Programs - The City participates in several federal and state grant programs. These programs have been audited, as needed, in accordance with the provisions of the federal Single Audit Act of 1984 and applicable state requirements. No cost disallowances were proposed as a result of these audits. However, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

Note 14 – Successor Agency Trust For Assets of Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Firebaugh that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. The City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments.)

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

CITY OF FIREBAUGH

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 14 – Successor Agency Trust For Assets of Former Redevelopment Agency (Continued)

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary loss.

Because of the different measurement focus of the governmental funds (current financial resources measurement focus) and the measurement focus of the trust funds (economic resources measurement focus), the extraordinary loss (gain) recognized in the governmental funds was not the same amount as the extraordinary gain (loss) that was recognized in the fiduciary fund financial statements.

The difference between the extraordinary loss recognized in the fund financial statements and the extraordinary gain recognized in the fiduciary fund financial statements is reconciled as follows:

Total extraordinary loss reported in governmental funds - increase to net assets of the Successor Agency Trust Fund	\$ 3,345,921
Long-term debt reported in the government-wide financial statements - decrease to net assets of the Successor Agency Trust Fund	<u>(6,715,000)</u>
Net decrease to net assets of the Successor Agency Trust Fund as a result of initial transfers (equal to amount of extraordinary gain reported in the government-wide financial statements of the City)	<u>\$ (3,369,079)</u>

Note 15 – Prior Period Adjustment

The prior period adjustment for \$306,860 is to record a subtraction to net assets for expenses that were incurred in previous years but not recorded as a long-term payable. The amount is related to Utility User Taxes that can be claimed to be refunded up to three years. The prior estimate of refund claims was understated.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FIREBAUGH

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive/ (Negative)
Revenue				
Taxes	\$ 2,052,400	\$ 2,052,400	\$ 1,525,543	\$ (526,857)
Intergovernmental	39,172	39,172	22,080	(17,092)
Charges for services	178,900	178,900	196,907	18,007
Licenses, permits and impact fees	12,149	12,149	30,163	18,014
Fines and forfeitures	46,300	46,300	89,634	43,334
Interest and rent	132,940	132,940	111,639	(21,301)
Other	92,500	92,500	130,626	38,126
Total revenue	<u>2,554,361</u>	<u>2,554,361</u>	<u>2,106,592</u>	<u>(447,769)</u>
Expenditures				
Current				
General government	300,832	300,832	326,919	(26,087)
Public safety	1,587,306	1,587,306	1,658,003	(70,697)
Public works	169,975	169,975	139,583	30,392
Community development	130,346	130,346	155,930	(25,584)
Parks and recreation	325,734	325,734	350,193	(24,459)
Capital outlay	-	-	-	-
Debt Service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>2,514,193</u>	<u>2,514,193</u>	<u>2,630,628</u>	<u>(116,435)</u>
Revenue over (under) expenditures	40,168	40,168	(524,036)	(564,204)
Other Financing Sources				
Transfers in (out) - net	<u>12,000</u>	<u>12,000</u>	<u>(2,800,732)</u>	<u>(2,812,732)</u>
Net Change in Fund Balance	<u>\$ 52,168</u>	<u>\$ 52,168</u>	<u>(3,324,768)</u>	<u>\$ (3,376,936)</u>
Fund Balance				
Beginning of year			2,490,073	
End of year			<u>\$ (834,695)</u>	

CITY OF FIREBAUGH

BUDGETARY COMPARISON SCHEDULE COMMUNITY DEVELOPMENT FUND YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenue				
Intergovernmental	\$ 471,000	\$ 471,000	\$ 508,243	\$ 37,243
Other	-	-	-	-
Total revenue	471,000	471,000	508,243	37,243
Expenditures				
Current				
Community development	471,000	471,000	976,990	(505,990)
Capital outlay	-	-	-	-
Total expenditures	471,000	471,000	976,990	(505,990)
Revenue over (under)expenditures	-	-	(468,747)	(468,747)
Other Financing Sources/(Uses)				
Transfers in/(out) - net	-	-	468,747	(468,747)
Net Change in Fund Balance	\$ -	\$ -	-	\$ -
Fund Balance				
Beginning of year			-	
End of year			\$ -	

SUPPLEMENTAL ONLY INFORMATION

CITY OF FIREBAUGH
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	Special Revenue Funds					Capital Project Funds				Total
	Gas Tax	Local Transportation	Measure C	Landscape Maintenance	Public Safety	Airport	HOME Grant	Low-Moderate Housing Asset	RDA Low-Moderate Housing	
ASSETS										
Cash and investments	\$ -	\$ -	\$ 872	\$ 49,350	\$ 45,576	\$ -	\$ -	\$ -	\$ -	\$ 122,967
Due from other governmental agencies	22,929	61,173	14,742	-	63,509	22,787	1,909	-	-	187,049
Notes receivable	-	-	-	-	-	-	1,624,313	350,000	-	1,974,313
Total assets	\$ 22,929	\$ 61,173	\$ 15,614	\$ 49,350	\$ 109,085	\$ 22,787	\$ 1,626,222	\$ 350,000	\$ -	\$ 2,284,329
LIABILITIES AND FUND BALANCE										
Liabilities										
Accounts payable and accrued expense	\$ 7,287	\$ 2,056	\$ 7,112	\$ 504	\$ 19,035	\$ 1,159	\$ -	\$ -	\$ -	\$ 37,153
Due to other funds	15,617	55,396	-	-	-	35,096	1,909	-	-	108,018
Deferred revenue	-	-	-	-	-	-	1,624,313	-	-	1,624,313
Compensated absences	-	3,717	8,408	368	4,812	-	-	-	-	17,305
Total liabilities	22,904	61,169	15,520	872	23,847	36,255	1,626,222	-	-	1,786,789
Fund Balance										
Nonspendable	-	-	-	-	-	-	-	350,000	-	350,000
Notes receivable	-	-	-	-	-	-	-	-	-	-
Restricted										
Circulation improvements	25	4	94	-	-	-	-	-	-	123
Capital improvement projects	-	-	-	-	-	-	-	-	-	27,169
Lighting, landscape & park maintenance	-	-	-	48,478	-	-	-	-	-	48,478
Public safety programs	-	-	-	-	85,238	-	-	-	-	85,238
Unassigned	-	-	-	-	-	(13,468)	-	-	-	(13,468)
Total fund balance	25	4	94	48,478	85,238	(13,468)	-	350,000	-	497,540
Total liabilities and fund balance	\$ 22,929	\$ 61,173	\$ 15,614	\$ 49,350	\$ 109,085	\$ 22,787	\$ 1,626,222	\$ 350,000	\$ -	\$ 2,284,329

CITY OF FIREBAUGH

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE NON-MAJOR GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2012

	Special Revenue Funds										Capital Project Funds			Total
	Gas Tax	Local Transportation	Measure C	Landscape Maintenance	Public Safety	Airport	HOME Grant	Low-Moderate Housing Asset	RDA Low-Moderate Housing	Development Impact Fees	Community Redevelopment	Non-major Governmental Funds		
Revenue														
Taxes	\$ -	\$ -	\$ -	\$ 60,241	\$ 11,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 71,641		
Intergovernmental	214,139	187,620	227,593	-	180,352	48,451	3,776	-	-	-	-	861,931		
Charges for services	-	-	-	-	-	4,980	-	-	-	-	-	4,980		
Licenses, permits and impact fees	-	-	-	-	-	-	-	-	-	63	-	63		
Interest and rent	25	7	94	21	49	2,360	-	-	-	272	-	2,828		
Total revenue	214,164	187,627	227,687	60,262	191,801	55,791	3,776	-	-	335	-	941,443		
Expenditures														
Public safety	-	-	-	-	195,934	-	-	-	-	-	-	195,934		
Public works	159,106	89,307	122,478	54,848	-	-	-	-	-	-	-	425,739		
Community development	-	-	-	-	-	-	2,864	-	22,049	65,767	87,771	178,451		
Airport	-	-	-	-	-	74,800	-	-	-	-	-	74,800		
Capital outlay	-	-	-	-	-	-	-	-	-	-	-	-		
Debt Service	-	-	-	-	-	-	-	-	-	-	-	-		
Principal	-	-	-	-	-	-	-	-	-	-	-	-		
Interest and fiscal charges	-	-	-	-	-	-	-	-	-	21,732	-	21,732		
Total expenditures	159,106	89,307	122,478	54,848	195,934	74,800	2,864	-	22,049	94,823	87,771	903,980		
Revenue over (under) expenditures	55,058	98,320	105,209	5,414	(4,133)	(19,009)	912	-	(22,049)	(94,488)	(87,771)	37,463		
Other financing sources/(uses)														
Operating transfers in	-	-	39,444	-	-	7,415	-	350,000	-	10,779	857,914	1,265,552		
Operating transfers (out)	(121,949)	(133,773)	(222,388)	-	-	-	(912)	-	(350,000)	(1,112)	(168,955)	(999,089)		
	(121,949)	(133,773)	(182,944)	-	-	7,415	(912)	350,000	(350,000)	9,667	688,959	266,463		
Extraordinary Loss	-	-	-	-	-	-	-	-	(177,638)	-	(744,269)	(921,907)		
Change in Fund Balance	(66,891)	(35,453)	(77,735)	5,414	(4,133)	(11,594)	-	350,000	(549,687)	(84,821)	(143,081)	(617,981)		
Fund Balance														
Beginning of year	66,916	35,457	77,829	43,064	89,371	(1,874)	-	-	549,687	111,990	143,081	1,115,521		
End of year	\$ 25	\$ 4	\$ 94	\$ 48,478	\$ 85,238	\$ (13,468)	\$ -	\$ 350,000	\$ -	\$ 27,169	\$ -	\$ 497,540		

CITY OF FIREBAUGH

SCHEDULE OF NET REVENUE AVAILABLE FOR DEBT SERVICE JUNE 30, 2012

	<u>Water Fund</u>	<u>Sewer Fund</u>
Service Charges	\$ 1,515,716	\$ 1,396,142
Delinquent Fees	1,743	-
Interest Earnings	1,819	1,268
Other Revenues	342,252	95,430
Total Miscellaneous Revenue	<u>345,814</u>	<u>96,698</u>
Total Revenue	<u>1,861,530</u>	<u>1,492,840</u>
Personnel Costs	364,116	324,549
Supplies	326,957	194,186
Professional Services	125,156	205,690
Utilities	258,578	103,293
Total Operations and Maintenance	<u>1,074,807</u>	<u>827,718</u>
Net Revenue Available for Debt Service	<u>\$ 786,723</u>	<u>\$ 665,122</u>
1976 Firebaugh Sewer Revenue Bond Debt Service	\$ -	\$ 29,225
2005 Water Revenue Bond Debt Service	127,840	-
2007 USDA Water Certificate of Participation	225,156	-
2008 USDA Sewer Loan	-	194,016
Total Debt Service	<u>352,996</u>	<u>223,241</u>
Net Revenue after Debt Service	<u>\$ 433,727</u>	<u>\$ 441,881</u>
Debt Service Coverage	2.23	2.98

**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 Honorable Mayor and City Council
City of Firebaugh, California

We have audited the financial statements of the City of Firebaugh, as of, and for the year ended June 30, 2012, and have issued our report thereon dated November 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Firebaugh's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

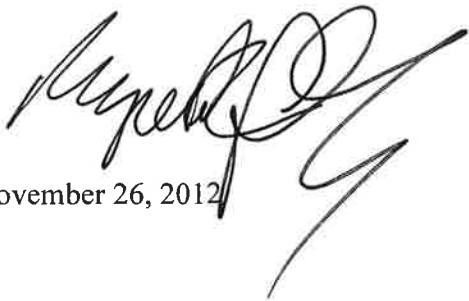
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Firebaugh in a separate letter dated November 26, 2012.

This report is intended solely for the information and use of the City Council, management, federal and state awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to be "Randy D. [unclear]", written in a cursive style.

November 26, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and City Council
City of Firebaugh, California

We have audited the compliance of the City of Firebaugh (the "City") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City'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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2012.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City'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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the City as of June 30, 2012, and for the year then ended, and have issued our report thereon dated November 26, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to be "K. J. [unclear]", written in a cursive style.

November 26, 2012

CITY OF FIREBAUGH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Justice			
ARRA - Public Safety Partnership and Community Policing Grant	16.710	2010-UM-WX-0029	\$ 80,352
U.S. Department of Housing and Urban Development			
Passed through from the State Department of Housing and Community Development			
HOME Investment Partnership Program	14.239	08-HOME-4715	1,867
HOME Investment Partnership Program	14.239	11-HOME-7668	1,909
			<u>3,776</u>
U.S. Department of Housing and Urban Development			
Passed through from the State Department of Housing and Community Development			
Community Development Block Grant	14.228	09-PTAG-6502	41,145
Community Development Block Grant	14.228	11-PTEC-7623	70,000
Community Development Block Grant	14.228	10-STBG-6714	93,012
			<u>204,157</u>
U.S. Department of Transportation			
Passed through from the California Department of Transportation			
Highway Planning and Construction	20.205	CML-5224(015)	27,231
Highway Planning and Construction	20.205	SRTSL-5224(012)	8,282
			<u>35,513</u>
U.S. Department of Housing and Urban Development			
Passed through from the State Department of Housing and Community Development			
ARRA - Community Development Block Grant	14.255	09-STAR-6389	273,188
Environmental Protection Agency			
Environmental Assessment Grant	66.110	2B-00T18001-0	25,465
U.S. Department of Agriculture and Rural Development			
Rural Business Opportunity Grant	10.773	04-010	2,785
U.S. Department of Transportation			
Update Airport Master Plan	20.106	3-06-0346-04	23,364
Update Airport Master Plan	20.106	3-06-0346-05	9,607
			<u>32,971</u>

CITY OF FIREBAUGH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED) YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Health and Human Services Passed through from California Department of Aging Special Program for Aging	93.045	12-0241	<u>4,572</u>
<i>Total Federal Expenditures</i>			<u>\$ 662,779</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards reports expenditures on the modified accrual basis of accounting. Accordingly, expenditures represent amounts incurred during the fiscal year which meet federal grant eligibility requirements.

CITY OF FIREBAUGH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2012

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- | | | | | |
|--|--------------------------|-----|-------------------------------------|---------------|
| • Material weaknesses identified? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |
| • Significant deficiencies identified that are not considered to be material weaknesses? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | None reported |
| • Non-compliance material to financial statements noted? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |

Federal Awards

Internal control over major programs:

- | | | | | |
|--|--------------------------|-----|-------------------------------------|---------------|
| • Material weaknesses identified? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |
| • Significant deficiencies identified that are not considered to be material weaknesses? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | None reported |

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No
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Identification of Major Programs

CFDA Number

Name of Federal Program or Cluster

14.255

ARRA – Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	No
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B. Findings – Financial Statements Audit

None noted.

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

None noted.

CITY OF FIREBAUGH

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED JUNE 30, 2012

Summary Schedule of Prior Audit Findings

There were no prior year audit findings.