

CITY OF FIREBAUGH

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS JUNE 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Firebaugh, California, (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 35 and 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

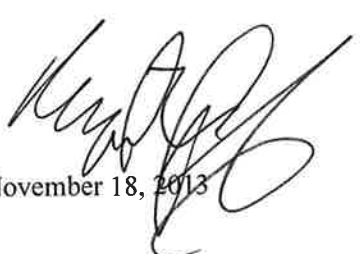
Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Firebaugh's 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2013, on our consideration of the City of Firebaugh's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Firebaugh's internal control over financial reporting and compliance.



November 18, 2013

CITY OF FIREBAUGH**STATEMENT OF NET POSITION
JUNE 30, 2013**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 461,453	\$ 4,275,916	\$ 4,737,369
Accounts receivable	309,784	131,354	441,138
Due from other governmental agencies	402,369	624,019	1,026,388
Due (to)/from other funds	(815,007)	815,007	-
Amortizable costs	-	132,544	132,544
Notes receivable	2,079,313	-	2,079,313
Capital assets (net of allowance for depreciation)	1,555,792	16,937,743	18,493,535
Total assets	<u>3,993,704</u>	<u>22,916,583</u>	<u>26,910,287</u>
LIABILITIES			
Accounts payable and accrued expense	262,737	193,690	456,427
Accrued interest	3,222	77,427	80,649
Deposits	-	67,365	67,365
Compensated absences	177,061	47,402	224,463
Long-term liabilities			
Due within one year	23,941	185,500	209,441
Due in more than one year	79,187	9,184,500	9,263,687
Post-retirement health benefits	1,690,925	-	1,690,925
Total liabilities	<u>2,237,073</u>	<u>9,755,884</u>	<u>11,992,957</u>
NET POSITION			
Net investment in capital assets	1,452,664	7,567,743	9,020,407
Restricted for debt service	-	285,400	285,400
Restricted for specific projects and programs	467,035	-	467,035
Unrestricted	(163,068)	5,307,556	5,144,488
Total net position/(deficit)	<u>\$ 1,756,631</u>	<u>\$ 13,160,699</u>	<u>\$ 14,917,330</u>

CITY OF FIREBAUGH

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2013

Functions/Programs	Net Revenue/(Expense) and Changes in Net Position					
	Program Revenue			Primary Government		
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Primary Government						
Governmental activities						
General government	\$ 718,064	\$ 155,116	\$ 13,678	\$ -	\$ (549,270)	\$ -
Public safety	2,016,180	285,819	187,428	-	(1,542,933)	-
Public works	577,788	-	659,687	-	81,899	-
Community development	499,257	45,461	147,173	340,832	34,209	-
Parks and recreation	226,384	-	4,572	-	(221,812)	-
Airport	201,937	12,475	171,011	-	(18,451)	-
Debt Service	5,364	-	-	-	(5,364)	-
Interest and fiscal charges						
Total governmental activities	4,244,974	498,871	1,183,549	340,832	(2,221,722)	(5,364)
Business-type activities						
Water	1,661,033	1,652,970	-	-	-	(8,063)
Sewer	1,344,493	1,538,335	-	598,468	792,310	792,310
Total business-type activities	3,005,526	3,191,305	-	598,468	784,247	784,247
Total primary government	7,250,500	3,690,176	1,183,549	939,300	(2,221,722)	(1,437,475)
General Revenues						
Property taxes					1,123,235	1,123,235
Sales taxes					647,026	647,026
Utility users tax					379,874	379,874
Franchise taxes					106,796	106,796
Business licenses					53,400	53,400
Interest and rent					84,225	90,508
Other					50,045	50,045
Transfers					-	-
Total general revenue					2,444,601	2,450,884
Change in Net Position						
Beginning of year					12,370,169	13,903,921
End of year					13,160,699	14,917,330

CITY OF FIREBAUGH

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2013

	General	Community Development	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 68,463	\$ -	\$ 392,990	\$ 461,453
Accounts receivable, net	309,784	-	-	309,784
Due from other governmental agencies	-	272,918	129,451	402,369
Due from other funds	169,632	-	-	169,632
Notes receivable	-	-	2,079,313	2,079,313
Total assets	\$ 547,879	\$ 272,918	\$ 2,601,754	\$ 3,422,551
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expense	\$ 119,060	\$ 126,371	\$ 17,306	\$ 262,737
Due to other funds	815,007	146,547	23,085	984,639
Deferred revenue	-	-	1,729,313	1,729,313
Compensated absences	91,817	-	21,815	113,632
Total liabilities	1,025,884	272,918	1,791,519	3,090,321
Fund Balance				
Nonspendable	-	-	350,000	350,000
Notes receivable	-	-	-	-
Restricted	-	-	287,264	287,264
Circulation improvements	-	-	38,661	38,661
Capital improvement projects	-	-	61,378	61,378
Lighting, landscape & park maintenance	-	-	57,886	57,886
Public safety programs	-	-	21,846	21,846
Low-income housing activities	-	-	(6,800)	(484,806)
Unassigned	(478,006)	-	-	332,229
Total fund balance	(478,006)	-	810,235	332,229
Total liabilities and fund balance	\$ 547,879	\$ 272,918	\$ 2,601,754	\$ 3,422,551

CITY OF FIREBAUGH

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2013

Total governmental fund balance	\$ 332,229
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Notes receivable are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds	1,729,313
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	1,555,792
Long-term portion of compensated absences are not due and payable in the current period and, therefore, are not reported in the funds	(63,428)
Accrued interest on long-term liabilities is not due and payable in the current period and, therefore, is not reported in the funds	(3,222)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(103,128)
Post-retirement health benefits are not due and payable in the current period and, therefore, are not reported in the funds	<u>(1,690,925)</u>
Net position of governmental activities	<u>\$ 1,756,631</u>

CITY OF FIREBAUGH

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2013

	General	Community Development	Other Governmental Funds	Total Governmental Funds
Revenue				
Taxes	\$ 2,245,205	\$ -	\$ 65,126	\$ 2,310,331
Intergovernmental	23,250	329,893	1,160,299	1,513,442
Charges for services	305,144	-	12,475	317,619
Licenses, permits and impact fees	47,800	-	10,939	58,739
Fines and forfeitures	133,452	-	-	133,452
Interest and rent	57,349	-	26,876	84,225
Other	50,045	-	-	50,045
Total revenue	2,862,245	329,893	1,275,715	4,467,853
Expenditures				
Current				
General government	281,453	-	-	281,453
Public safety	1,741,290	-	220,645	1,961,935
Public works	163,503	-	401,043	564,546
Community development	99,051	267,242	132,964	499,257
Parks and recreation	226,384	-	-	226,384
Airport	-	-	201,937	201,937
Capital outlay	-	-	7,900	7,900
Debt Service				
Principal	22,810	-	-	22,810
Interest and fiscal charges	6,247	-	-	6,247
Total expenditures	2,540,738	267,242	964,489	3,772,469
Revenue over/(under) expenditures	321,507	62,651	311,226	695,384
Other Financing Sources/(Uses)				
Operating transfers in	80,713	4,659	42,955	128,327
Operating transfers (out)	(19,531)	(67,310)	(41,486)	(128,327)
Total other financing sources (uses)	61,182	(62,651)	1,469	-
Change in Fund Balance	382,689	-	312,695	695,384
Fund Balance				
Beginning of year	(860,695)	-	497,540	(363,155)
End of year	(478,006)	-	810,235	332,229
	\$	\$	\$	\$

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, 2013

Net change in fund balance - total governmental funds	\$ 695,384
Amounts reported for governmental activities in the Statement of Activities are different because:	
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	(129,366)
In the statement of activities, interest is accrued on long-term debt, whereas in governmental funds interest expenditure is reported when due	883
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position	22,810
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	(374,732)
Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities and Changes in Net Position the cost of those assets are capitalized as an asset and depreciated over the period of service	<u>7,900</u>
Change in net position of governmental activities	<u>\$ 222,879</u>

CITY OF FIREBAUGH

STATEMENT OF NET POSITION – PROPRIETARY FUNDS JUNE 30, 2013

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total Business-Type Funds
ASSETS			
Current assets			
Cash and investments	\$ 2,564,432	\$ 1,711,484	\$ 4,275,916
Accounts receivable	52,152	79,202	131,354
Due from other governmental agencies	-	624,019	624,019
Due from other funds	80,000	735,007	815,007
Total current assets	<u>2,696,584</u>	<u>3,149,712</u>	<u>5,846,296</u>
Non-current assets			
Unamortized bond discount	132,544	-	132,544
Property, plant and equipment (net of allowance for depreciation)	<u>10,662,341</u>	<u>6,275,402</u>	<u>16,937,743</u>
Total noncurrent assets	<u>10,794,885</u>	<u>6,275,402</u>	<u>17,070,287</u>
Total assets	<u>13,491,469</u>	<u>9,425,114</u>	<u>22,916,583</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expense	52,208	141,482	193,690
Accrued interest	20,394	57,033	77,427
Deposits	67,365	-	67,365
Compensated absences	26,676	20,726	47,402
Current portion of long-term debt	110,000	75,500	185,500
Total current liabilities	<u>276,643</u>	<u>294,741</u>	<u>571,384</u>
Noncurrent Liabilities			
Revenue bonds payable	<u>5,590,000</u>	<u>3,594,500</u>	<u>9,184,500</u>
Total liabilities	<u>5,866,643</u>	<u>3,889,241</u>	<u>9,755,884</u>
NET POSITION			
Net investment in capital assets	4,962,341	2,605,402	7,567,743
Restricted for debt service	256,000	29,400	285,400
Unrestricted/(deficit)	<u>2,406,485</u>	<u>2,901,071</u>	<u>5,307,556</u>
Total net position	<u>\$ 7,624,826</u>	<u>\$ 5,535,873</u>	<u>\$ 13,160,699</u>

CITY OF FIREBAUGH

STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2013

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total Business-Type Funds
Operating Revenue			
Charges for services	\$ 1,618,062	\$ 1,510,025	\$ 3,128,087
Connection fees and other fees	34,908	28,310	63,218
Total operating revenue	<u>1,652,970</u>	<u>1,538,335</u>	<u>3,191,305</u>
Operating Expense			
Contractual services and utilities	421,906	399,635	821,541
Personnel	398,409	376,774	775,183
Supplies, repairs and other	216,894	182,933	399,827
Depreciation and amortization	366,564	232,065	598,629
Total operating expense	<u>1,403,773</u>	<u>1,191,407</u>	<u>2,595,180</u>
Operating income/(loss)	<u>249,197</u>	<u>346,928</u>	<u>596,125</u>
Nonoperating Revenue/(Expense)			
Intergovernmental revenue	-	598,468	598,468
Interest income	3,702	2,581	6,283
Interest expense	(257,260)	(153,086)	(410,346)
Total nonoperating revenue/(expense)	<u>(253,558)</u>	<u>447,963</u>	<u>194,405</u>
Net income/(loss) before transfers	(4,361)	794,891	790,530
Change in Net Position	<u>(4,361)</u>	<u>794,891</u>	<u>790,530</u>
Net Position			
Beginning of year	7,629,187	4,740,982	12,370,169
End of year	<u>\$ 7,624,826</u>	<u>\$ 5,535,873</u>	<u>\$ 13,160,699</u>

CITY OF FIREBAUGH

STATEMENT OF CASH FLOW - PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2013

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total Business-Type Funds
Operating Activities			
Receipts from customers and users	\$ 1,722,536	\$ 1,535,398	\$ 3,257,934
Payments for contractual services and utilities	(431,702)	(282,245)	(713,947)
Payments to employees	(395,174)	(373,991)	(769,165)
Payments to suppliers	(216,894)	(182,933)	(399,827)
Net cash provided by (used in) operating activities	<u>678,766</u>	<u>696,229</u>	<u>1,374,995</u>
Non-capital Financial Activities			
Payments from other governments	-	(5,510)	(5,510)
Payments received from (paid to) other funds	<u>492,437</u>	<u>(735,007)</u>	<u>(242,570)</u>
Net cash provided by (used in) noncapital financing activities	<u>492,437</u>	<u>(740,517)</u>	<u>(248,080)</u>
Capital and Related Financing Activities			
Purchase of property, plant and equipment	(719,876)	(598,468)	(1,318,344)
Principal paid on long-term debt	(105,000)	(69,500)	(174,500)
Interest paid on long-term debt	<u>(247,997)</u>	<u>(154,241)</u>	<u>(402,238)</u>
Net cash (used in) capital and related financing activities	<u>(1,072,873)</u>	<u>(822,209)</u>	<u>(1,895,082)</u>
Investing Activities			
Interest received	<u>3,702</u>	<u>2,581</u>	<u>6,283</u>
Net cash provided by investing activities	<u>3,702</u>	<u>2,581</u>	<u>6,283</u>
Net Increase (Decrease) in Cash	102,032	(863,916)	(761,884)
Cash			
Beginning of year	<u>2,462,400</u>	<u>2,575,400</u>	<u>5,037,800</u>
End of year	<u>\$ 2,564,432</u>	<u>\$ 1,711,484</u>	<u>\$ 4,275,916</u>
Cash Flows from Operating Activities			
Operating income (loss)	\$ 249,197	\$ 346,928	\$ 596,125
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	366,564	232,065	598,629
(Increase) Decrease in Accounts Receivable	66,441	(2,937)	63,504
Increase (Decrease) in Accounts Payable and Accrued Liabilities	<u>(3,436)</u>	<u>120,173</u>	<u>116,737</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 678,766</u>	<u>\$ 696,229</u>	<u>\$ 1,374,995</u>

See accompanying notes.

CITY OF FIREBAUGH

STATEMENT OF FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2013

Assets

Cash and investments	\$ 9,605
Held with trustees	1,318,034
Accounts receivable	4,400
Real estate	<u>1,833,649</u>
Total assets	<u>3,165,688</u>

Liabilities

Accounts payable and accrued liabilities	4,947
Interest payable	34,683
Long-term debt	
Due within one year	130,000
Due in more than one year	<u>6,465,000</u>
Total liabilities	<u>6,634,630</u>

Net Position

Held in trust for other governments	<u>\$ (3,468,942)</u>
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CITY OF FIREBAUGH

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2013

Additions

Property taxes	\$ 999,958
Investment earnings and other	31,608
Total additions	<u>1,031,566</u>

Deductions

Administrative costs	250,000
Program expenses of former redevelopment agency	171,387
Interest and fiscal agency expenses of former redevelopment agency	<u>419,985</u>
Total deductions	<u>841,372</u>

Change In Net Position 190,194

Net Position

Beginning of year	<u>(3,659,136)</u>
End of year	<u>\$ (3,468,942)</u>

CITY OF FIREBAUGH

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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.

Basis of Presentation – Fund Accounting

Government-Wide Financial Statements - The Government-Wide Financial Statements (the Statement of Net Position and the Statement of Activities and Changes in Net Position) 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 Position 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 BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

Net position is 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 position. 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.

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 BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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.

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, 2013, which have not yet been billed.

CITY OF FIREBAUGH

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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 BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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 \$63,428 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 Position. 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 Position. 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 BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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 Position.

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

- Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Position - This category presents external restrictions on net position imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This category represents net position of the City, not restricted for any project or other purpose.

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.

CITY OF FIREBAUGH

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

- 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.

Implementation of New GASB Pronouncements - The District adopted new accounting standards in order to conform with the following Governmental Accounting Standards Board Statements (GASB):

- In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the authoritative pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.
- In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

CITY OF FIREBAUGH

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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, 2013 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$ 4,737,369
Fiduciary Funds:	
Cash and Investments	9,605
Cash and Investments with Fiscal Agent	1,318,034
Total Cash and Investments	<u>\$ 6,065,008</u>

CITY OF FIREBAUGH

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 3 – Cash and Investments (Continued)

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

Cash on hand	\$ 300
Deposits with Financial Institutions	2,216,384
Local Agency Investment Fund	2,384,729
Held by Fiscal Agent:	
Cash and cash equivalents	<u>1,463,595</u>
Total Cash and Investments	<u>\$ 6,065,008</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 BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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, 2013 the City had the following investments.

Investment Type		Maturity Date
Local Agency Investment Fund	\$ 2,384,729	N/A
Held by Bond Trustee:		
Cash and cash equivalents	<u>1,463,595</u>	N/A
Total	<u>\$ 3,848,324</u>	

CITY OF FIREBAUGH

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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	\$ 2,384,729	N/A	\$ 2,384,729
Held by Bond Trustee:			
Cash and cash equivalents	<u>1,463,595</u>	N/A	<u>1,463,595</u>
Total	<u>\$ 3,848,324</u>		<u>\$ 3,848,324</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. There are no investments in any one issuer that represent 5% or more of the total City investments.

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 BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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

Revolving Loan Program – Long-term loans receivable of \$1,729,313 represent monies loaned to homebuyers in connection with a downpayment assistance programs. The loans are secured by real property with repayment due upon the sale of real property or starting at the end of the 30 year deferral period. At the time of sale, the seller pays the loan balance in full plus interest, ranging from 0% to 4%. For the homebuyer loan program, starting at the end of the 30 year deferral period, the borrower is required to repay the loan over the following 15 years.

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 2009, 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 BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 5 – Capital Assets

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

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013
<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>7,900</u>	<u>-</u>	<u>1,688,227</u>
Total capital assets, being depreciated	<u>3,533,655</u>	<u>7,900</u>	<u>-</u>	<u>3,541,555</u>
Less accumulated depreciation for:				
Buildings and improvements	(544,886)	(42,385)	-	(587,271)
Infrastructure	(90,097)	(12,871)	-	(102,968)
Machinery and equipment	<u>(1,358,461)</u>	<u>(74,110)</u>	<u>-</u>	<u>(1,432,571)</u>
Total accumulated depreciation	<u>(1,993,444)</u>	<u>(129,366)</u>	<u>-</u>	<u>(2,122,810)</u>
Total capital assets, being depreciated, net	<u>1,540,211</u>	<u>(121,466)</u>	<u>-</u>	<u>1,418,745</u>
Governmental activities capital assets, net	<u>\$ 1,677,258</u>	<u>\$ (121,466)</u>	<u>\$ -</u>	<u>\$ 1,555,792</u>
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 203,705	\$ -	\$ -	\$ 203,705
Construction in progress	-	89,564	-	89,564
Total capital assets, not being depreciated	<u>203,705</u>	<u>89,564</u>	<u>-</u>	<u>293,269</u>
Capital assets, being depreciated				
Building	237,000	-	-	237,000
Improvements other than buildings	14,308,019	1,228,780	-	15,536,799
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>1,228,780</u>	<u>-</u>	<u>23,457,149</u>
Less: accumulated depreciation	<u>(6,214,046)</u>	<u>(598,629)</u>	<u>-</u>	<u>(6,812,675)</u>
Total capital assets, being depreciated, net	<u>16,014,323</u>	<u>630,151</u>	<u>-</u>	<u>16,644,474</u>
Business-type activities capital assets, net	<u>\$ 16,218,028</u>	<u>\$ 719,715</u>	<u>\$ -</u>	<u>\$ 16,937,743</u>

CITY OF FIREBAUGH

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 5 – Capital Assets (Continued)

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

Governmental Functions:

General Government	\$	61,879
Public Safety		54,245
Public Works and Development		13,242
	\$	<u>129,366</u>

Business-Type Functions:

Water	\$	366,564
Sewer		232,065
	\$	<u>598,629</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, 2012	Additions	Retirements	Balance June 30, 2013	Current Portion
<u>Governmental Activity Long Term Debt</u>					
Lease Payable					
Fire truck lease	125,938	-	(22,810)	103,128	23,941
Total Governmental Activity Debt	<u>\$ 125,938</u>	<u>\$ -</u>	<u>\$ (22,810)</u>	<u>\$ 103,128</u>	<u>\$ 23,941</u>
<u>Business-Type Activity Long Term Debt</u>					
Bonds Payable					
1976 Firebaugh Sewer Revenue Bond	\$ 104,500	\$ -	\$ (24,500)	\$ 80,000	\$ 25,500
2005 Water Revenue Bond	1,680,000	-	(50,000)	1,630,000	55,000
Certificate of Participation					
2007 USDA Water COP	4,125,000	-	(55,000)	4,070,000	55,000
Loan Payable					
2008 USDA Sewer Loan	3,635,000	-	(45,000)	3,590,000	50,000
Total Business-Type Activity Debt	<u>\$ 9,544,500</u>	<u>\$ -</u>	<u>\$ (174,500)</u>	<u>\$ 9,370,000</u>	<u>\$ 185,500</u>
<u>Compensated Absences</u>					
Government Activities	<u>\$ 168,571</u>	<u>\$ 8,490</u>	<u>\$ -</u>	<u>\$ 177,061</u>	
Business-Type Activities	<u>\$ 41,384</u>	<u>\$ 6,018</u>	<u>\$ -</u>	<u>\$ 47,402</u>	

CITY OF FIREBAUGH

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 6 – Long-Term Liabilities (Continued)

Long-term debt payable at June 30, 2013 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, 2013 are as follows:

Years ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
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	-	-	185,000	362,140
2019-2023	-	-	1,075,000	1,681,945
2024-2028	-	-	1,310,000	1,426,881
2029-2033	-	-	1,520,000	1,108,297
2034-2038	-	-	1,290,000	817,641
2039-2043	-	-	1,555,000	529,754
2044-2048	-	-	1,680,000	177,993
	<u>\$ 103,128</u>	<u>\$ 13,097</u>	<u>\$ 9,370,000</u>	<u>\$ 7,634,359</u>

CITY OF FIREBAUGH

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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	\$ 61,182	\$ -
Community Development Fund	-	(62,651)
Nonmajor Governmental Funds:		
Gas Tax Fund	-	(12,502)
Measure C Fund	12,502	-
Airport Fund	15,678	-
Home Grant Fund	-	(14,209)
	<u>\$ 89,362</u>	<u>\$ (89,362)</u>

Note 8 – Deficit Net Position Balance

Net Asset Deficits – The General Fund and Airport Fund have deficit net asset balances as of June 30, 2013 of \$478,006 and \$6,800, respectively. The deficits are expected to be relieved from future revenues and reduction of expenditures.

CITY OF FIREBAUGH

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 9 – 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 15.263 percent for non-safety employees and 30.819 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, 2013, the City's annual pension cost of \$569,680 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.0 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.75 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.

THREE YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	\$ 497,974	100%	-
June 30, 2012	\$ 495,472	100%	-
June 30, 2013	\$ 569,680	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.

CITY OF FIREBAUGH

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 10 – 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.

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.

For the fiscal year ending June 30, 2013, there were five retirees 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, 2013, the date of the latest actuarial valuation.

Retirees receiving benefits	5
Active plan members eligible	<u>32</u>
Total	<u>42</u>
Retired employees:	
Average Age	65.2
Average Retirement Age	60
Active members eligible:	
Average Age	39.7
Average Service Years	8.6

CITY OF FIREBAUGH

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 10 – Post-Employment Health Care Benefits (Continued)

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)	\$ 383,225
Interest on net OPEB obligation	59,229
Adjustment to annual required contribution	(59,307)
Annual OPEB cost (expense)	383,147
Contributions made	(8,415)
Increase (decrease) in net OPEB obligation	374,732
Net OPEB obligation, beginning of year	1,316,193
Net OPEB obligation, end of year	<u>\$ 1,690,925</u>

The City's OPEB obligation as of implementation of GASB Statement No. 45 is less than the actuarial accrued liability of \$2,896,304, 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:

Year Ended June 30	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 415,620	-	0.0%	\$ 860,333
2012	415,620	2,777	0.7%	1,316,193
2013	383,225	8,415	2.2%	1,690,925

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:

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
06/30/10	2,263,046	-	2,263,046	0.0%	1,598,143	141.6%
06/30/13	2,896,304	-	2,896,304	0.0%	1,564,331	185.1%

CITY OF FIREBAUGH

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 10 – Post-Employment Health Care Benefits (Continued)

Funding Status and Progress (Continued)

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, 2013 actuarial valuation. Additional information as of the last actuarial valuations follows:

Valuation Date	June 30, 2013	
Actuarial Cost Method	Entry Age Normal	
Asset Valuation Method	Market Value	
Amortization Method	Level Percentage of Payroll	
Remaining Amortization Period	27 years	
Actuarial Assumptions:		
Investment Rate of Return	7.0%	
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
	2013	Actual Premiums
	2014	Actual Premiums
	2015	8.5%
	2016	8.0%
	2017	7.5%
	Thereafter	5.5%

CITY OF FIREBAUGH

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 11 – 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.

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 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through November 18, 2013, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2013 that required recognition or disclosure in such financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FIREBAUGH

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive/ (Negative)
Revenue				
Taxes	\$ 1,963,580	\$ 1,963,580	\$ 2,245,205	\$ 281,625
Intergovernmental	17,900	17,900	23,250	5,350
Charges for services	196,330	196,330	305,144	108,814
Licenses, permits and impact fees	16,000	16,000	47,800	31,800
Fines and forfeitures	59,600	59,600	133,452	73,852
Interest and rent	81,500	81,500	57,349	(24,151)
Other	130,500	130,500	50,045	(80,455)
Total revenue	<u>2,465,410</u>	<u>2,465,410</u>	<u>2,862,245</u>	<u>396,835</u>
Expenditures				
Current				
General government	299,547	299,547	281,453	18,094
Public safety	1,692,910	1,692,910	1,741,290	(48,380)
Public works	142,329	142,329	163,503	(21,174)
Community development	99,665	99,665	99,051	614
Parks and recreation	262,713	262,713	226,384	36,329
Capital outlay	-	-	-	-
Debt Service				
Principal	-	-	22,810	(22,810)
Interest and fiscal charges	-	-	6,247	(6,247)
Total expenditures	<u>2,497,164</u>	<u>2,497,164</u>	<u>2,540,738</u>	<u>(43,574)</u>
Revenue over (under) expenditures	(31,754)	(31,754)	321,507	353,261
Other Financing Sources				
Transfers in (out) - net	-	-	61,182	61,182
Net Change in Fund Balance	<u>\$ (31,754)</u>	<u>\$ (31,754)</u>	382,689	<u>\$ 414,443</u>
Fund Balance				
Beginning of year			(860,695)	
End of year			<u>\$ (478,006)</u>	

CITY OF FIREBAUGH

BUDGETARY COMPARISON SCHEDULE COMMUNITY DEVELOPMENT FUND YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive/
				(Negative)
Revenue				
Intergovernmental	\$ -	\$ -	\$ 329,893	\$ 329,893
Other	-	-	-	-
Total revenue	-	-	329,893	329,893
Expenditures				
Current				
Community development	-	-	267,242	(267,242)
Capital outlay	-	-	-	-
Total expenditures	-	-	267,242	(267,242)
Revenue over (under)expenditures	-	-	62,651	62,651
Other Financing Sources/(Uses)				
Transfers in/(out) - net	-	-	(62,651)	62,651
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, 2013

	Special Revenue Funds						Capital		Total	
	Gas Tax	Local Transportation	Measure C	Landscape Maintenance	Public Safety	Airport	HOME Grant	Low-Moderate Housing Asset		Development Impact Fees
ASSETS										
Cash and investments	\$ 35,849	\$ 108,698	\$ 111,660	\$ 62,874	\$ 13,402	\$ -	\$ -	\$ 21,846	\$ 38,661	\$ 392,990
Due from other governmental agencies	16,392	21,594	13,232	-	60,184	13,840	4,209	-	-	129,451
Notes receivable	-	-	-	-	-	-	1,729,313	350,000	-	2,079,313
Total assets	\$ 52,241	\$ 130,292	\$ 124,892	\$ 62,874	\$ 73,586	\$ 13,840	\$ 1,733,522	\$ 371,846	\$ 38,661	\$ 2,601,754
LIABILITIES AND FUND BALANCE										
Liabilities										
Accounts payable and accrued expense	\$ 1,910	\$ 2,827	\$ 1,895	\$ 1,496	\$ 7,414	\$ 1,764	\$ -	\$ -	\$ -	\$ 17,306
Due to other funds	-	-	-	-	-	18,876	4,209	-	-	23,085
Deferred revenue	-	-	-	-	-	-	1,729,313	-	-	1,729,313
Compensated absences	621	4,722	8,186	-	8,286	-	-	-	-	21,815
Total liabilities	2,531	7,549	10,081	1,496	15,700	20,640	1,733,522	-	-	1,791,519
Fund Balance										
Nonspendable	-	-	-	-	-	-	-	350,000	-	350,000
Restricted										
Circulation improvements	49,710	122,743	114,811	-	-	-	-	-	-	287,264
Capital improvement projects	-	-	-	-	-	-	-	-	38,661	38,661
Lighting, landscape & park maintenance	-	-	-	61,378	-	-	-	-	-	61,378
Public safety programs	-	-	-	-	57,886	-	-	-	-	57,886
Low-income housing activities	-	-	-	-	-	-	-	21,846	-	21,846
Unassigned	-	-	-	-	-	(6,800)	-	-	-	(6,800)
Total fund balance	49,710	122,743	114,811	61,378	57,886	(6,800)	-	371,846	38,661	810,235
Total liabilities and fund balance	\$ 52,241	\$ 130,292	\$ 124,892	\$ 62,874	\$ 73,586	\$ 13,840	\$ 1,733,522	\$ 371,846	\$ 38,661	\$ 2,601,754

CITY OF FIREBAUGH

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE NON-MAJOR GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2013

	Special Revenue Funds							Capital Project Funds		Total Non-major Governmental Funds
	Gas Tax	Local Transportation	Measure C	Landscape Maintenance	Public Safety	Airport	HOME Grant	Low-Moderate Housing Asset	Development Impact Fees	
Revenue										
Taxes	\$ -	\$ -	\$ -	\$ 46,100	\$ 13,665	\$ 5,361	\$ -	\$ -	\$ -	\$ 65,126
Intergovernmental	177,311	240,198	237,178	-	187,428	171,011	147,173	-	-	1,160,299
Charges for services	-	-	-	-	-	12,475	-	-	-	12,475
Licenses, permits and impact fees	-	-	-	-	-	-	-	-	10,939	10,939
Interest and rent	51	13	190	43	100	4,080	-	21,846	553	26,876
Total revenue	<u>177,362</u>	<u>240,211</u>	<u>237,368</u>	<u>46,143</u>	<u>201,193</u>	<u>192,927</u>	<u>147,173</u>	<u>21,846</u>	<u>11,492</u>	<u>1,275,715</u>
Expenditures										
Public safety	-	-	-	-	220,645	-	-	-	-	220,645
Public works	115,175	117,472	135,153	33,243	-	-	-	-	-	401,043
Community development	-	-	-	-	-	-	132,964	-	-	132,964
Airport	-	-	-	-	-	201,937	-	-	-	201,937
Capital outlay	-	-	-	-	7,900	-	-	-	-	7,900
Debt Service	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-	-	-	-
Total expenditures	<u>115,175</u>	<u>117,472</u>	<u>135,153</u>	<u>33,243</u>	<u>228,545</u>	<u>201,937</u>	<u>132,964</u>	-	-	<u>964,489</u>
Revenue over (under) expenditures	62,187	122,739	102,215	12,900	(27,352)	(9,010)	14,209	21,846	11,492	311,226
Other financing sources/(uses)										
Operating transfers in	14,775	-	12,502	-	-	15,678	-	-	-	42,955
Operating transfers (out)	(27,277)	-	-	-	-	-	(14,209)	-	-	(41,486)
	<u>(12,502)</u>	<u>-</u>	<u>12,502</u>	<u>-</u>	<u>-</u>	<u>15,678</u>	<u>(14,209)</u>	<u>-</u>	<u>-</u>	<u>1,469</u>
Change in Fund Balance	49,685	122,739	114,717	12,900	(27,352)	6,668	-	21,846	11,492	312,695
Fund Balance										
Beginning of year	25	4	94	48,478	85,238	(13,468)	-	350,000	27,169	497,540
End of year	<u>\$ 49,710</u>	<u>\$ 122,743</u>	<u>\$ 114,811</u>	<u>\$ 61,378</u>	<u>\$ 57,886</u>	<u>\$ (6,800)</u>	<u>\$ -</u>	<u>\$ 371,846</u>	<u>\$ 38,661</u>	<u>\$ 810,235</u>

CITY OF FIREBAUGH

SCHEDULE OF NET REVENUE AVAILABLE FOR DEBT SERVICE JUNE 30, 2013

	<u>Water Fund</u>	<u>Sewer Fund</u>
Service Charges	\$ 1,576,814	\$ 1,510,025
Delinquent Fees	41,248	-
Interest Earnings	3,702	2,581
Other Revenues	34,908	626,778
Total Miscellaneous Revenue	<u>79,858</u>	<u>629,359</u>
Total Revenue	<u>1,656,672</u>	<u>2,139,384</u>
Personnel Costs	398,409	376,774
Supplies	216,894	182,933
Professional Services	191,596	269,123
Utilities	230,310	130,512
Total Operations and Maintenance	<u>1,037,209</u>	<u>959,342</u>
Net Revenue Available for Debt Service	<u>\$ 619,463</u>	<u>\$ 1,180,042</u>
1976 Firebaugh Sewer Revenue Bond Debt Service	\$ -	\$ 29,500
2005 Water Revenue Bond Debt Service	130,713	-
2007 USDA Water Certificate of Participation	222,888	-
2008 USDA Sewer Loan	-	197,056
Total Debt Service	<u>353,601</u>	<u>226,556</u>
Net Revenue after Debt Service	<u>\$ 265,862</u>	<u>\$ 953,486</u>
Debt Service Coverage	1.75	5.21

**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, 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, 2013, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated November 18, 2013.

Internal Control Over Financial Reporting

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

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

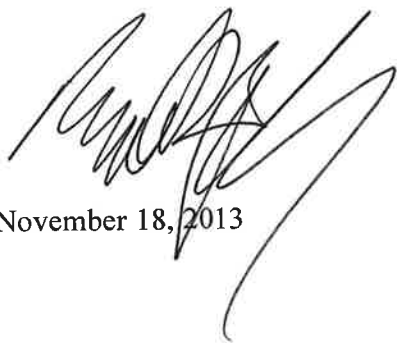
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the bottom.

November 18, 2013

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

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

Report on Compliance for Each Major Federal Program

We have audited City of Firebaugh, California's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended June 30, 2013. 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.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, City of Firebaugh, California, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

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

A handwritten signature in black ink, appearing to be "Kyle B. Smith", written over the date.

November 18, 2013

CITY OF FIREBAUGH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2013

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	\$ 87,260
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	11-HOME-6993	25,000
HOME Investment Partnership Program	14.239	11-HOME-7688	114,125
			<u>139,125</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	9,000
Community Development Block Grant	14.228	10-STBG-6714	621,469
			<u>630,469</u>
U.S. Department of Transportation			
Passed through from the California Department of Transportation			
Highway Planning and Construction	20.205	CML-5224(015)	6,040
Highway Planning and Construction	20.205	CML-5224(017)	3,403
Highway Planning and Construction	20.205	CML-5224(019)	5,834
Federal Safe Routes to School	20.205	SRTSL-5224(016)	37,966
Federal Safe Routes to School	20.205	SRTSL-5224(018)	171,120
			<u>224,363</u>
U.S. Department of Transportation			
Passed through California Department of Transportation			
Street Reconstruction	20.600	STPL-5224(020)	1,118
U.S. Department of Transportation			
Update Airport Master Plan	20.106	3-06-0346-04	12,598
Update Airport Master Plan	20.106	3-06-0346-05	1,917
Update Airport Master Plan	20.106	3-06-0346-06	156,496
			<u>171,011</u>

CITY OF FIREBAUGH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED) YEAR ENDED JUNE 30, 2013

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>\$ 1,257,918</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, 2013

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

14.228

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, 2013

Summary Schedule of Prior Audit Findings

There were no prior year audit findings.

CITY OF FIREBAUGH
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2013

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

In planning and performing our audit of the basic financial statements of the City of Firebaugh (City) for the year ended June 30, 2013, in accordance with generally accepted auditing standards in the United States, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal controls.

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.

In addition, we noted other matters involving internal control and its operation that we have reported to management in a separate letter dated November 18, 2013.

This report is intended for the use of management, the City Council, and others within the organization, and it's not intended to be and should not be used by anyone other than these specified parties. We thank the City's staff for its cooperation during our audit.



November 18, 2013

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

We have audited the financial statements of the City of Firebaugh, California (City) for the year ended June 30, 2013, and have issued our report thereon dated November 18, 2013. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles of the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal controls of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide assurance concerning such internal control.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in the notes to the financial statements.

We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance and consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates affecting the financial statements.

Corrected and Uncorrected Misstatements

For purposes of this letter, professional standards define significant audit adjustments as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). The following material misstatements detected as a result of audit procedures were:

- Adjustments for the current year to properly reflect grant receivables and related activity, capital assets and depreciation, and to propose year end closing journal entries across all funds.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. Our professional standards require a consulting accountant to check with us if a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements. This is to ensure that the consultant has all of the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Other Audit Findings and Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This report is intended for the use of management, the City Council, and others within the organization, and it's 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 'M. J. [unclear]', is written over the date.

November 18, 2013

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

In planning and performing our audit of the financial statements of the City of Firebaugh, California (City) for the year ended June 30, 2013, we considered the City's internal control to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated November 18, 2013 on the financial statements of the City. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Accounting and Grant Discipline – In the process of performing our audit, we encountered instances where grant schedules and support provided by management did not reconcile with what was recorded in the general ledger or was not readily available. While grants are a valuable source of revenue within the community, they impose very specific and stringent reporting requirements that consume considerable staff time and related overhead expense to administer them. Each grant should be tracked in its own fund in the general ledger and have its own organized comprehensive file with all supporting documentation from start to finish. If an outside consultant is responsible for administering the grant, the Finance department should ensure that copies of all grant correspondence is received by the City. This will allow for proper tracking and accurate accounting be performed to ensure the goals and purposes of the grant have been achieved and accounted for properly.

We believe that the implementation of these recommendations will provide the City with a stronger system of internal accounting control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

This report is intended solely for the information and use of the City Council and management. However, this report is a matter of public record and its distribution is not limited.



November 18, 2013