

**CITY OF TEHACHAPI
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2004**

**City of Tehachapi
Annual Financial Report
For the Fiscal Year Ended June 30, 2004**

TABLE OF CONTENTS

INTRODUCTORY SECTION

FINANCIAL SECTION

Independent Auditor's Report.....	1
Management Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets.....	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Net Assets – Proprietary Funds.....	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds.....	21
Statement of Cash Flows – Proprietary Funds.....	23
Statement of Fiduciary Assets and Liabilities– Fiduciary funds.....	24
Notes to the Basic Financial Statements.....	25
Required Supplementary Information:	
Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual – General Fund.....	55
Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual – Gas Tax Fund.....	56
Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual – Valley Antelope Run Culvert.....	57
Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual – RDA Fund.....	58
Supplementary Information:	
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds.....	59
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	60
Combining Balance Sheet – Nonmajor Special Revenue Funds.....	61
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds.....	64
Combining Balance Sheet – Nonmajor Capital Project Funds.....	67
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Projects Funds.....	69
Combining Statement of Net Assets –Nonmajor Proprietary Funds.....	72
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Proprietary Funds.....	73
Combining Statement of Fiduciary Assets And Liabilities–Fiduciary Funds.....	74



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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Tehachapi, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tehachapi, California, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Tehachapi's management. Our responsibility is to express an opinion on these financial statements based on our audit.

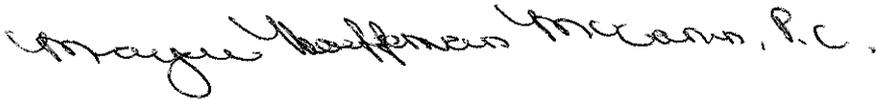
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tehachapi, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Governmental Auditing Standards, we have also issued our report dated September 2, 2004, on our consideration of The City of Tehachapi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and does not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information and other required supplementary information on pages 49 through 52 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Tehachapi basic financial statements. The combining nonmajor fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Wayne Hoffmann McLean, P.C." The signature is written in a cursive style.

Bakersfield, California
September 2, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Tehachapi ("City") provides a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements included with this report.

Financial Highlights

- The City's net assets increased 18% to \$12,919,875 as a result of this year's operations.
- Total City's revenues, including program and general revenues, were \$8,454,078, an increase of \$782,558 from the prior year.
- Net assets in governmental funds increased \$243,901, and net assets in business activities increased \$1,695,824.
- Governmental revenue decreased to \$3,686,671 .
- Governmental expense decreased to \$3,450,978.
- Revenues from business-type activities increased to \$4,767,407.
- General fund revenue decreased by \$14,009.
- General fund balance as of June 30, 2004 is \$1,972,853, an increase of \$275,895 from the prior year.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of:

1. The Basic Financial Statements, which include the government-wide financial statements
2. Fund Financial Statements
3. Notes to the financial statements
4. Required supplementary information
5. Supplementary information

The Government-wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the government as a whole. These financial statements are constructed around the concept of a primary government. The primary government is then broke down into two different activities, governmental activities and business-type activities.

The governmental activities include general government, public safety, public works, general administration and Redevelopment Agency (RDA). Although the RDA is a separate agency, because they function as part of the City and because the City Council also serves as the RDA governing board, RDA is included in governmental activities column. The services under governmental activities are supported by taxes and specific program revenue.

The business-type activities include refuse, water, sewer, transit and airport fund. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

The basic financial statements are comprised of the following:

- Statement of Net Assets

The Statement of New Assets is prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net assets is to attempt to report all of its assets held and liabilities owed by the City. The difference between the City's total assets and total liabilities is labeled a *net assets* and this difference is similar to the total owners' equity presented by a commercial enterprise. Although the purpose of the City is not to accumulate net assets, in general, increases or decreases of net assets may serve as an indicator of the financial position of the City.

- Statement of Activities

The purpose of the statement of activities is to present the revenues and expenses of the City. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned and expenses are recognized when incurred. The difference between revenue and expense is called *net income* in commercial enterprise where as it is called *change in net assets* in the City's financial report.

Fund Financial Statements

Unlike governmental-wide financial statements, the focus of fund financial statements is directed to specific activities of the City rather than the City as a whole. All of the City's funds are divided into two category: governmental funds and proprietary funds.

Fund financial statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major fund, and the determination of which are major funds, was established by GASB 34 and replaces the concept of combining like funds and presenting them in total. Instead, each major fund is presented individually, while all non-major funds are summarized and presented in a single column.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The City of Tehachapi maintains 22 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, gas tax fund, capital project fund and redevelopment agency fund, which are considered to be major funds. Data from the other 18 governmental funds are combined into a single, aggregated presentation.

Proprietary Funds

The only type of Proprietary funds the City of Tehachapi maintains are enterprise funds. The refuse, water, sewer, transit and airport funds are presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City considers refuse, water, sewer and airport funds to be major funds and transit fund is categorized as non-major proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The required supplementary information includes budgetary comparison schedules for the major governmental funds.

Overview of the City's Financial Position and Operations

The City's overall financial position and operations for the past two years are summarized as follows based on the information included in the government-wide financial statements. Net assets may serve over time as an indicator of government's financial position. For the City of Tehachapi, assets exceed liabilities by \$12,919,875 at June 30, 2004.

The largest portion of the City's net assets (53%) are unrestricted resources that are to be used to meet the government's ongoing obligations (although portions of these unrestricted net assets may by law or contract be only used for specified purposes and may not necessarily be used for any general government purpose) to residents and creditors.

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and Other Assets	6,307,590	6,225,688	3,111,964	3,294,004	9,419,554	9,519,692
Capital Assets	7,680,407	6,216,228	11,379,342	9,449,922	19,059,749	15,666,150
Total Assets	<u>13,987,997</u>	<u>12,441,916</u>	<u>14,491,306</u>	<u>12,743,926</u>	<u>28,479,303</u>	<u>25,185,842</u>
Current Liabilities	500,571	672,720	1,105,444	626,263	1,606,015	1,298,983
Long-term Liabilities	5,533,143	4,058,814	8,420,270	8,847,895	13,953,413	12,906,709
Total Liabilities	<u>6,033,714</u>	<u>4,731,534</u>	<u>9,525,714</u>	<u>9,474,158</u>	<u>15,559,428</u>	<u>14,205,692</u>
Investments in Capital, net of related debt	2,211,592	2,210,379	2,959,072	602,027	5,170,664	2,812,406
Restricted	1,560,944	1,419,222	759,482	757,696	2,320,426	2,176,918
Unrestricted	4,181,747	4,080,781	1,247,038	1,910,045	5,428,785	5,990,826
Total Net Assets	<u>7,954,283</u>	<u>7,710,382</u>	<u>4,965,592</u>	<u>3,269,768</u>	<u>12,919,875</u>	<u>10,980,150</u>

The additional portion (28%) of the City's net assets reflects its capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The City started capturing its capital assets in governmental funds in fiscal year 2002/2003. In accordance with GASB 34, the City was not required to retroactively capture the capital assets like other bigger cities because the City fell under implementation phase III due to the size of its revenue in fiscal year 1999/2000.

The remaining balance (\$1,560,944) of net assets is subject to external restrictions on how they may be used.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental Activities

Governmental activities increased the City's net assets by \$243,901, there by accounting for 13% of the total growth in the City's net assets. Although there was major decrease in governmental revenue due to decrease in capital grants and contribution, sales tax (9%) and property tax (11%) were increased. The detailed information on statement of activities are as shown on the following:

Statement of Activities

	Governmental Activities		Business Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue						
Program Revenues:						
Charges for Services			3,438,712	2,971,991	3,438,712	2,971,991
Operating contribution & Grants	606,012	549,422	33,633	215,393	639,645	764,815
Capital Grants & Contribution	59,471	793,988	1,132,046		1,191,517	793,988
General Revenues:						
Property taxes	747,747	673,099			747,747	673,099
Sales Taxes	1,063,399	971,147			1,063,399	971,147
Other Taxes	1,032,243	1,087,461			1,032,243	1,087,461
License and permits	9,725	21,338			9,725	21,338
Miscellaneous	153,426	162,833	56,223	61,615	209,649	224,448
Interest	69,649	114,318	51,792	48,915	121,441	163,233
Transfers	(55,001)	(36,667)	55,001	36,667	-	-
	<u>3,686,671</u>	<u>4,336,939</u>	<u>4,767,407</u>	<u>3,334,581</u>	<u>8,454,078</u>	<u>7,671,520</u>
Expenses						
Primary Government						
General Government	721,352	537,664			721,352	537,664
Administration	370,934	356,235			370,934	356,235
Public Works	769,549	926,718			769,549	926,718
Planning	136,251	251,829			136,251	251,829
Fire Department	326,806	248,891			326,806	248,891
Sheriff	813,276	841,444			813,276	841,444
Council	37,447	62,166			37,447	62,166
City Clerk	74,730	51,490			74,730	51,490
Treasurer	4,357	4,620			4,357	4,620
Interest	196,276	174,246			196,276	174,246
Business-type Activities						
Refuse			513,544	544,166	513,544	544,166
Water			1,008,439	833,849	1,008,439	833,849
Sewer			1,214,379	1,139,755	1,214,379	1,139,755
Transit			99,181	111,011	99,181	111,011
Airport			216,559	358,542	216,559	358,542
Total Expense	<u>3,450,978</u>	<u>3,455,303</u>	<u>3,052,102</u>	<u>2,987,323</u>	<u>6,503,080</u>	<u>6,442,626</u>
Change in Net Assets	235,693	881,636	1,715,305	347,258	1,950,998	1,228,894
Net Assets at beginning of yr	7,710,382	6,828,746	3,269,768	2,922,510	10,980,150	9,751,256
Prior Period Adj	8,208		(19,481)		(11,273)	
Net Assets at end of year	<u><u>7,954,283</u></u>	<u><u>7,710,382</u></u>	<u><u>4,965,592</u></u>	<u><u>3,269,768</u></u>	<u><u>12,919,875</u></u>	<u><u>10,980,150</u></u>

Business Type Activities

The City operates five business type activities. These are refuse, water, sewer, transit and airport funds. These business type activities increased the City's net assets by \$1,695,824 there by accounting for 87% of growth in the City's net assets.

FINANCIAL ANALYSIS OF INDIVIDUAL FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Please note that unlike the Government-Wide financial statements displayed previously, the fund statements are not reflected on a full accrual basis.

Governmental Funds

As of June 30, 2004, the City's governmental funds reported combined ending fund balances of \$5,777,362. This number shows approximately 4% fund balance increase from the prior year. This fund balance is available for spending at the government's ongoing obligations to citizens and creditors although 66% of the total governmental fund balance is dedicated for specific purposes such as street and road maintenance, Redevelopment Agency and various capital projects.

The *general fund* is the chief operating fund of the City. At the end of the current fiscal year unreserved fund balance of the general fund was \$1,816,082. As a discretionary fund, the general fund is mainly used to pay for City's safety service such as contracted Sheriff service and City fire as well as the City's cost of general operation.

Gas tax fund is solely dedicated for street and road maintenance. The main sources of the gas tax fund are from the allocated gasoline tax and TDA (Transportation Development Act) Article 8. At the end of the current fiscal year, the fund balance was \$197,805 and it decreased by \$164,497 from the prior year. The decrease was mainly caused by the cost of the capital projects that were carried over from the prior year.

The *Redevelopment fund* has a total fund balance of \$1,828,448, most of which is reserved for capital projects within the designated project area and debt services. The net increase in fund balance during the current year in the RDA was \$1,147,415 primarily due to issuance of 2004 Notes.

Proprietary Funds.

Total net assets of the refuse, water, sewer and airport funds at the end of the year are \$282,620, \$2,311,193, \$1,051,571 and 1,403,365 respectively. All four major funds showed increase of net assets. The net asset increases are \$53,542, \$482,273, \$57,830 and \$1,167,503 respectively. The main reason for net asset increase in refuse, water and sewer funds is the number of connection increases as a result of growth of the community whereas airport fund increases were due to receipt of FAA grant for the airport improvement.

GENERAL FUND BUDGETARY HIGHLIGHTS

A detailed budgetary comparison schedule for the year ended June 30, 2004 is presented as required supplementary information following the notes to the financial statements. The final budget amounts are different from those presented in the 2003 – 2008 original five-year budget documents. It is due to changes that occurred between when the original budget was prepared and year-end final budget approvals.

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues	2,602,675	2,472,833	2,789,177	316,344
Expenditures	2,562,749	2,605,056	2,518,398	86,658
Other Sources (Uses)	(13,000)	5,131	5,131	0
Net changes in fund balances	26,926	(127,092)	275,910	403,002
Fund Balance Beginning (Adjusted)	1,696,943	1,696,958	1,696,943	(15)
Fund Balance - Ending	1,723,869	1,569,866	1,972,853	402,987

Overall, the actual ending fund balance is \$402,987 more than what was budgeted in the final budget. The major contributions to this positive variance are mainly from increase in revenue such as sales tax (\$156,713), transient lodging tax (\$70,423) and business license and franchise fees (\$68,862). The positive expenditure variances are from various departments and expenditures. As a result of current year's operation, the fund balance of general fund was increased by \$275,910.

CAPITAL & DEBT ADMINISTRATION

Capital Assets

	Governmental Activities	Business-type Activities	Totals
Non-Depreciable Assets:			
Land	614,419	1,959,692	2,574,111
Total non-depreciable assets	614,419	1,959,692	2,574,111
Depreciable Assets (net of accumulated depreciation)			
Buildings	608,307	4,549,060	5,157,367
Improvements other than building	4,418,632	2,899,740	7,318,372
Machinery and equipment	1,309,591	362,569	1,672,160
Construction in progress	729,458	1,608,281	2,337,739
Total depreciable assets-net	7,065,988	9,419,650	16,485,638
Total Capital Assets	7,680,407	11,379,342	19,059,749

The City of Tehachapi's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounts to \$19,059,749 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, sidewalks, airport runways, water and sewer systems.

Additional information on the City of Tehachapi's capital assets can be found in Note 4.

Long-Term Debt

	Governmental Activities	Business-type Activities	Totals
Bonds	3,964,566	7,970,611	11,935,177
Loans		123,112	123,112
Capital Leases	1,504,249	326,547	1,830,796
Compensated absences	64,328	-	64,328
Total Long-Term Liabilities	5,533,143	8,420,270	13,953,413

The City of Tehachapi's total debt was increased by \$1,046,704 during the current fiscal year. The increase was due to the issuance of 2004 Notes by Redevelopment Agency.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15 percent of its total assessed valuation.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Although solid growth is expected in California's economy, if the national economy falters due to rising consumer debt, a growing trade imbalance and bloated housing market, the state's positive growth could change.

Christopher Thornberg, senior economist and co-author of the quarterly UCLA Anderson Forecast, forecasts that the state will see a 5.2 percent growth (a slight dip from 5.6 percent in 2004) in personal income and a 4.8 percent rise in taxable sales in 2005. However, he still sees signs that the state's budget problems coupled with a high level debt being carried by U.S. consumers. The City will give up approximately \$180,000 of property tax to help the state budget deficit in the next two years. However, newly passed Proposition 1A will prohibit the state from taking the local government revenue in the future.

Although many economists have warned of a real estate bubble bursting in California, the real estate market in Tehachapi is still experiencing tremendous growth. Coupled with the housing market growth, many new commercial businesses are in the midst of being located within the City limit. Upon this growth, the City is expecting increase in various taxes such as sales, property, business and transient lodging taxes as well as various connection fees for enterprise funds. Starting fiscal year 2004/2005, the City will take over the issuance of building permits function from the County of Kern and it will create additional revenue for the City.

BASIC FINANCIAL STATEMENTS

**CITY OF TEHACHAPI
STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and short-term investments	\$ 5,490,930	\$ 1,901,826	\$ 7,392,756
Receivables (net of allowance)	144,732	510,960	655,692
Due from trust and agency funds	115,922	-	115,922
Internal balances	153,903	(153,903)	-
Prepays	24,347	-	24,347
Deferred Charges	83,341	618,081	701,422
Capital assets (net of accumulated depreciation):			
Land	614,419	1,959,692	2,574,111
Buildings	608,307	4,549,060	5,157,367
Improvements other than building	4,418,632	2,899,740	7,318,372
Machinery and equipment	1,309,591	362,569	1,672,160
Construction in progress	729,458	1,608,281	2,337,739
Advance to trust and agency funds	294,415	-	294,415
Other assets	-	235,000	235,000
Total assets	<u>13,987,997</u>	<u>14,491,306</u>	<u>28,479,303</u>
LIABILITIES			
Accounts payable and accrued liabilities	446,887	254,179	701,066
Accrued interest payable	53,684	-	53,684
Liabilities payable from restricted assets	-	67,497	67,497
Deferred revenue	-	783,768	783,768
Noncurrent liabilities:			
Due within one year	182,337	530,521	712,858
Due in more than one year	5,350,806	7,889,749	13,240,555
Total liabilities	<u>6,033,714</u>	<u>9,525,714</u>	<u>15,559,428</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,211,592	2,959,072	5,170,664
Restricted for:			
Highways and streets	235,842	-	235,842
Public Safety	79,524	-	79,524
Debt Service	137,923	759,482	897,405
Other purposes	1,107,655	-	1,107,655
Unrestricted	4,181,747	1,247,038	5,428,785
Total net assets	<u>\$ 7,954,283</u>	<u>\$ 4,965,592</u>	<u>\$ 12,919,875</u>

The notes to the financial statements are an integral part of this statement

**CITY OF TEHACHAPI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

	Program Revenues				Primary Government		Total
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Grants and Contributions	Governmental Activities	Business-type Activity	
Functions/Programs							
Primary Government							
Governmental activities:							
General government	\$ 721,352	\$ -	\$ -	\$ -	\$ (721,352)	\$ -	\$ (721,352)
Administration	370,934	-	-	-	(370,934)	-	(370,934)
Public works	769,549	-	506,012	19,016	(244,521)	-	(244,521)
Planning	136,251	-	-	40,455	(95,796)	-	(95,796)
Fire department	326,806	-	-	-	(326,806)	-	(326,806)
Sheriff	813,276	-	100,000	-	(713,276)	-	(713,276)
Council	37,447	-	-	-	(37,447)	-	(37,447)
City clerk	74,730	-	-	-	(74,730)	-	(74,730)
Treasurer	4,357	-	-	-	(4,357)	-	(4,357)
Interest	196,276	-	-	-	(196,276)	-	(196,276)
Total governmental activities	3,450,978	-	606,012	59,471	(2,785,495)	-	(2,785,495)
Business-type activities:							
Refuse	513,544	557,579	-	-	-	44,035	44,035
Water	1,008,439	1,401,911	-	-	-	393,472	393,472
Sewer	1,214,379	1,284,618	-	-	-	70,239	70,239
Transit	99,181	-	33,633	-	-	(65,548)	(65,548)
Airport	216,559	194,604	-	1,132,046	-	1,110,091	1,110,091
Total business-type activities	3,052,102	3,438,712	33,633	1,132,046	-	1,552,289	1,552,289
Total primary government	\$ 6,503,080	\$ 3,438,712	\$ 639,645	\$ 1,191,517	\$ (2,785,495)	\$ 1,552,289	\$ (1,233,206)
General revenues:							
Property taxes					747,747	-	747,747
Sales taxes					1,063,399	-	1,063,399
Other taxes					1,032,243	-	1,032,243
Licenses and permits					9,725	-	9,725
Miscellaneous					153,426	56,223	209,649
Interest					69,649	51,792	121,441
Transfers					(55,001)	55,001	-
Total general revenues and transfers					3,021,188	163,016	3,184,204
Change in net assets					235,693	1,715,305	1,950,998
Net assets beginning of year - unadjusted					7,710,382	3,269,768	10,980,150
Prior period adjustments					8,208	(19,481)	(11,273)
Net assets beginning of year - adjusted					7,718,590	3,250,287	10,968,877
Net assets at end of year					\$ 7,954,283	\$ 4,965,592	\$ 12,919,875

The notes to the financial statements are an integral part of this statement

**CITY OF TEHACHAPI
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	General	Gas Tax	Valley Antelope Run Culvert
ASSETS			
Cash and short-term investments	\$ 1,379,305	\$ 229,479	\$ -
Receivables (net of allowance)	121,514	-	-
Due from other funds	604,018	-	-
Prepays	24,347	-	-
Advance to other funds	132,423	-	-
Total assets	<u>\$ 2,261,607</u>	<u>\$ 229,479</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	288,754	31,674	-
Due to other funds	-	-	578
Total liabilities	<u>288,754</u>	<u>31,674</u>	<u>578</u>
Fund balances:			
Designated for future projects	-	-	-
Reserved	156,771	-	-
Unreserved	1,816,082	197,805	(578)
Total fund balance	<u>1,972,853</u>	<u>197,805</u>	<u>(578)</u>
Total liabilities and fund balances	<u>\$ 2,261,607</u>	<u>\$ 229,479</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement

**CITY OF TEHACHAPI
BALANCE SHEET
GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2004**

	RDA Fund	Other Governmental Funds	Totals 2004
ASSETS			
Cash and short-term investments	\$ 1,810,210	\$ 2,071,936	\$ 5,490,930
Receivables (net of allowance)	21,621	1,597	144,732
Due from other funds	-	-	604,018
Prepays	-	-	24,347
Advance to other funds	-	161,992	294,415
Total assets	<u>\$ 1,831,831</u>	<u>\$ 2,235,525</u>	<u>\$ 6,558,442</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	3,383	123,076	446,887
Due to other funds	-	333,615	334,193
Total liabilities	<u>3,383</u>	<u>456,691</u>	<u>781,080</u>
Fund balances:			
Designated for future projects	-	188,863	188,863
Reserved	30,000	161,992	348,763
Unreserved	1,798,448	1,427,979	5,239,736
Total fund balance	<u>1,828,448</u>	<u>1,778,834</u>	<u>5,777,362</u>
Total liabilities and fund balances	<u>\$ 1,831,831</u>	<u>\$ 2,235,525</u>	<u>\$ 6,558,442</u>

The notes to the financial statements are an integral part of this statement

**CITY OF TEHACHAPI
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004**

Fund balances of governmental funds	\$ 5,777,362
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of depreciation, have not been included as financial resources in governmental fund activity.	7,680,407
Long term debt and compensated absences from the General Long Term Debt Account Group that have not been included in the governmental fund activity:	
Tax obligation bonds payable	(3,964,566)
Capital leases payable	(1,504,249)
Compensated Absences	(64,328)
Accrued interest payable is not reported in the governmental funds.	(53,684)
Unamortized issuance costs/discounts on revenue bonds payable has not been reported in the governmental funds.	83,341
Net assets of governmental activities	<u>\$ 7,954,283</u>

The notes to the financial statements are an integral part of this statement

**CITY OF TEHACHAPI
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	General	Gas Tax	Valley Antelope Run Culvert
REVENUES			
Grants	\$ 10,000	\$ -	\$ -
Property taxes	549,303	-	-
Sales taxes	1,063,399	-	-
Other taxes	966,215	201,611	-
Licenses and permits	9,725	-	-
Other sources of funds	-	-	-
Interest	37,109	4,489	-
Miscellaneous	153,426	-	-
Total revenues	<u>2,789,177</u>	<u>206,100</u>	<u>-</u>
EXPENDITURES			
General government	494,114	-	-
Administration	137,789	-	-
Public works	502,992	525,644	-
Planning	124,056	-	621,363
Fire department	332,522	-	-
Sheriff	801,255	-	-
Council	37,447	-	-
City clerk	83,866	-	-
Treasurer	4,357	-	-
Total expenditures	<u>2,518,398</u>	<u>525,644</u>	<u>621,363</u>
Excess (deficiency) of revenues over (under) expenditures	<u>270,779</u>	<u>(319,544)</u>	<u>(621,363)</u>
OTHER FINANCING SOURCES(USES)			
Proceeds of debt	-	119,005	-
Transfers in	10,631	311,633	-
Transfers out	(5,500)	(283,813)	(237,317)
Interest expense	-	-	-
Total other financing sources (uses)	<u>5,131</u>	<u>146,825</u>	<u>(237,317)</u>
Net change in fund balances	275,910	(172,719)	(858,680)
Fund balances - beginning	1,696,958	362,302	858,102
Prior Period Adjustment	(15)	8,222	-
Total adjusted fund balance - beginning	<u>1,696,943</u>	<u>370,524</u>	<u>858,102</u>
Fund balances - ending	<u>\$ 1,972,853</u>	<u>\$ 197,805</u>	<u>\$ (578)</u>

The notes to the financial statements are an integral part of this statement

**CITY OF TEHACHAPI
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

	RDA Fund	Other Governmental Funds	Totals 2004
REVENUES			
Grants	\$ -	\$ 24,015	\$ 34,015
Property taxes	264,115	-	813,418
Sales taxes	-	-	1,063,399
Other taxes	-	-	1,167,826
Licenses and permits	-	-	9,725
Other sources of funds	-	430,212	430,212
Interest	16,921	11,132	69,651
Miscellaneous	-	-	153,426
Total revenues	<u>281,036</u>	<u>465,359</u>	<u>3,741,672</u>
EXPENDITURES			
General government	-	-	494,114
Administration	484,946	-	622,735
Public works	-	249,810	1,278,446
Planning	-	558,761	1,304,180
Fire department	-	-	332,522
Sheriff	-	53,074	854,329
Council	-	-	37,447
City clerk	-	-	83,866
Treasurer	-	-	4,357
Total expenditures	<u>484,946</u>	<u>861,645</u>	<u>5,011,996</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(203,910)</u>	<u>(396,286)</u>	<u>(1,270,324)</u>
OTHER FINANCING SOURCES(USES)			
Proceeds of debt	1,555,000	-	1,674,005
Transfers in	-	605,552	927,816
Transfers out	(67,731)	(388,456)	(982,817)
Interest expense	(135,944)	-	(135,944)
Total other financing sources (uses)	<u>1,351,325</u>	<u>217,096</u>	<u>1,483,060</u>
Net change in fund balances	1,147,415	(179,190)	212,736
Fund balances - beginning	681,033	1,958,024	5,556,419
Prior Period Adjustment	-	-	8,207
Total adjusted fund balance - beginning	<u>681,033</u>	<u>1,958,024</u>	<u>5,564,626</u>
Fund balances - ending	<u>\$ 1,828,448</u>	<u>\$ 1,778,834</u>	<u>\$ 5,777,362</u>

The notes to the financial statements are an integral part of this statement

**CITY OF TEHACHAPI
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

Net changes in fund balances - total governmental funds	\$ 212,736
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	1,464,179
Proceeds from the issuance of bonds and/or debt is reported as other financing sources in governmental funds. The issuance of bonds and/or debt increases liabilities in the statements of net assets, but does not result in an increase in the statement of activities.	(1,674,005)
Repayment of principal on debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	178,104
Accrued interest payable is not reported in the governmental funds.	(6,649)
The statement of net assets includes unamortized issuance costs on long term debt.	72,691
To record the net change in compensated absences in the statement of activities.	(11,363)
Change in net assets of governmental activities	\$ 235,693

The notes to the financial statements are an integral part of this statement

**CITY OF TEHACHAPI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004**

	Refuse Fund	Water Fund	Sewer Fund
ASSETS			
Current assets:			
Cash and short-term investments	\$ -	\$ 1,431,024	\$ 462,201
Receivables (net of allowance)	118,155	191,776	184,431
Due from other funds	-	145,768	-
Total current assets	<u>118,155</u>	<u>1,768,568</u>	<u>646,632</u>
Noncurrent assets:			
Deferred charges	-	245,224	372,857
Other assets	235,000	-	-
Capital assets:			
Land	-	1,288,535	613,614
Construction in progress	-	344,000	1,263,076
Buildings	-	774,582	7,751,136
Machinery and equipment	-	381,435	207,902
Improvements other than building	-	2,276,472	442,335
Less accumulated depreciation	-	(1,912,368)	(3,653,138)
Total capital assets (net of accumulated depreciation)	<u>-</u>	<u>3,152,656</u>	<u>6,624,925</u>
Total noncurrent assets	<u>235,000</u>	<u>3,397,880</u>	<u>6,997,782</u>
Total assets	<u><u>353,155</u></u>	<u><u>5,166,448</u></u>	<u><u>7,644,414</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable	32	59,852	174,703
Due to other funds	70,503	-	141,489
Customer deposits payable	-	49,526	9,471
Capital lease payable - current	-	28,837	11,199
Notes and bonds payable - current	-	173,945	310,489
Total current liabilities	<u>70,535</u>	<u>312,160</u>	<u>647,351</u>
Deferred revenue	<u>-</u>	<u>100,226</u>	<u>615,673</u>
Noncurrent liabilities:			
Capital leases	-	134,789	151,722
Notes and bonds payable	<u>-</u>	<u>2,308,080</u>	<u>5,178,097</u>
Total noncurrent liabilities	<u>-</u>	<u>2,442,869</u>	<u>5,329,819</u>
Total liabilities	<u>70,535</u>	<u>2,855,255</u>	<u>6,592,843</u>
NET ASSETS			
Invested in capital assets, net of related debt	-	507,005	973,418
Restricted for debt service	-	297,281	462,201
Unrestricted	<u>282,620</u>	<u>1,506,907</u>	<u>(384,048)</u>
Total net assets	<u><u>\$ 282,620</u></u>	<u><u>\$ 2,311,193</u></u>	<u><u>\$ 1,051,571</u></u>

The notes to the financial statements are an integral part of this statement

**CITY OF TEHACHAPI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS (CONTINUED)
JUNE 30, 2004**

	Airport Fund	Non-Major Proprietary Funds	Total Current Year
ASSETS			
Current assets:			
Cash and short-term investments	\$ 8,600	\$ -	\$ 1,901,825
Receivables (net of allowance)	3,650	12,948	510,960
Due from other funds	-	-	145,768
Total current assets	<u>12,250</u>	<u>12,948</u>	<u>2,558,553</u>
Noncurrent assets:			
Deferred charges	-	-	618,081
Other assets	-	-	235,000
Capital assets:			
Land	57,543	-	1,959,692
Construction in progress	1,206	-	1,608,282
Buildings	1,025,504	-	9,551,222
Machinery and equipment	168,169	-	757,506
Improvements other than building	1,515,692	-	4,234,499
Less accumulated depreciation	<u>(1,166,353)</u>	<u>-</u>	<u>(6,731,859)</u>
Total capital assets (net of accumulated depreciation)	<u>1,601,761</u>	<u>-</u>	<u>11,379,342</u>
Total noncurrent assets	<u>1,601,761</u>	<u>-</u>	<u>12,232,423</u>
Total assets	<u><u>1,614,011</u></u>	<u><u>12,948</u></u>	<u><u>14,790,976</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable	4,486	15,106	254,179
Due to other funds	74,548	13,130	299,670
Customer deposits payable	8,500	-	67,497
Capital lease payable - current	-	-	40,036
Notes and bonds payable - current	6,051	-	490,485
Total current liabilities	<u>93,585</u>	<u>28,236</u>	<u>1,151,867</u>
Deferred revenue	-	67,869	783,768
Noncurrent liabilities:			
Capital leases	-	-	286,511
Notes and bonds payable	<u>117,061</u>	<u>-</u>	<u>7,603,238</u>
Total noncurrent liabilities	<u>117,061</u>	<u>-</u>	<u>7,889,749</u>
Total liabilities	<u>210,646</u>	<u>96,105</u>	<u>9,825,384</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,478,649	-	2,959,072
Restricted for debt service	-	-	759,482
Unrestricted	<u>(75,284)</u>	<u>(83,157)</u>	<u>1,247,038</u>
Total net assets	<u><u>\$ 1,403,365</u></u>	<u><u>\$ (83,157)</u></u>	<u><u>\$ 4,965,592</u></u>

The notes to the financial statements are an integral part of this statement

**CITY OF TEHACHAPI
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	Refuse Fund	Water Fund	Sewer Fund
Operating revenues:			
Charges for services	\$ 557,579	\$ 1,401,911	\$ 1,284,618
Miscellaneous	9,507	23,904	21,854
Total operating revenues	<u>567,086</u>	<u>1,425,815</u>	<u>1,306,472</u>
Operating expenses:			
Personnel services	30,352	320,606	257,533
Maintenance and operations	483,192	388,632	254,283
Depreciation	-	124,353	358,526
Total operating expenses	<u>513,544</u>	<u>833,591</u>	<u>870,342</u>
Operating income (loss)	<u>53,542</u>	<u>592,224</u>	<u>436,130</u>
Nonoperating revenues (expenses):			
Intergovernmental	-	-	-
Interest income	-	24,372	27,196
Interest expense	-	(174,848)	(344,037)
Total nonoperating revenues (expenses)	<u>-</u>	<u>(150,476)</u>	<u>(316,841)</u>
Income (loss) before operating transfers	53,542	441,748	119,289
Transfers in	-	-	-
Transfers out	-	-	(12,730)
Change in net assets	<u>53,542</u>	<u>441,748</u>	<u>106,559</u>
Net assets - beginning	229,078	1,828,920	993,741
Prior period adjustment	-	40,525	(48,729)
Adjusted net assets - beginning	<u>229,078</u>	<u>1,869,445</u>	<u>945,012</u>
Net assets - ending	<u>\$ 282,620</u>	<u>\$ 2,311,193</u>	<u>\$ 1,051,571</u>

The notes to the financial statements are an integral part of this statement

**CITY OF TEHACHAPI
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

	Airport Fund	Non-Major Proprietary Funds	Totals
Operating revenues:			
Charges for services	\$ 194,604	\$ -	\$ 3,438,712
Miscellaneous	958	-	56,223
Total operating revenues	195,562	-	3,494,935
Operating expenses:			
Personnel services	83,749	9,525	701,765
Maintenance and operations	106,509	89,656	1,322,272
Depreciation	19,801	-	502,680
Total operating expenses	210,059	99,181	2,526,717
Operating income (loss)	(14,497)	(99,181)	968,218
Nonoperating revenues (expenses):			
Intergovernmental	1,132,046	33,633	1,165,679
Interest income	-	224	51,792
Interest expense	(6,500)	-	(525,385)
Total nonoperating revenues (expenses)	1,125,546	33,857	692,086
Income (loss) before operating transfers	1,111,049	(65,324)	1,660,304
Transfers in	67,731	-	67,731
Transfers out	-	-	(12,730)
Change in net assets	1,178,780	(65,324)	1,715,305
Net assets - beginning	235,862	(17,833)	3,269,768
Prior period adjustment	(11,277)	-	(19,481)
Adjusted net assets - beginning	224,585	(17,833)	3,250,287
Net assets - ending	\$ 1,403,365	\$ (83,157)	\$ 4,965,592

The notes to the financial statements are an integral part of this statement

**CITY OF TEHACHAPI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	Enterprise
CASH FLOWS FROM OPERATING ACTIVITIES	
Total operating revenues	\$ 3,913,144
Personnel services	(701,765)
Maintenance and operations	(1,290,423)
Net cash provided by operating activities	1,920,956
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	
Operating transfers in	55,001
Intergovernmental revenue	1,165,679
Net cash provided by noncapital and related financing activities	1,220,680
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of fixed assets	(2,317,053)
Interest expense (net of discount amortization)	(677,245)
Payments on capital lease obligations	(31,005)
Payments on long-term debt	(475,583)
Loss on sale of fixed assets	-
Net cash used in capital and related financing activities	(3,500,886)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	
Interest received	51,792
Net cash provided by investing activities	51,792
Net Decrease in Cash	(307,458)
Cash, beginning of year	2,209,283
Cash, end of year	\$ 1,901,825
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 968,218
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation	502,680
(Increase) decrease in:	
Receivables	(69,919)
Due from other funds	(141,489)
Increase (decrease) in:	
Accounts payable	(28,428)
Due to other funds	201,766
Deposits payable	9,236
Deferred revenues	478,892
Net cash provided by operating activities	\$ 1,920,956

The notes to the financial statements are an integral part of this statement

**CITY OF TEHACHAPI
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2004**

	<u>Total Trust and Agency Funds</u>
ASSETS	
Cash and short-term investments	\$ 1,499,583
Receivables (net of allowance)	2,219
Due from other funds	7,412
Advances to other funds	294,415
Due from bond holders	169,103
Other assets	<u>292,801</u>
 Total assets	 <u><u>2,265,533</u></u>
LIABILITIES	
Accounts payable	\$ 548,867
Deposits	25,687
Due to other funds	123,335
Due to bond holders	978,814
Advances from other funds	<u>588,830</u>
 Total liabilities	 <u><u>\$ 2,265,533</u></u>

The notes to the financial statements are an integral part of this statement

**CITY OF TEHACHAPI
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(1) Summary of significant accounting policies

A. Reporting entity

The City of Tehachapi was incorporated August 13, 1909 under the general laws of the State of California. The City operates under a Council/City Manager form of government and provides the following services: public safety (police and fire); community services; public works; general administrative services; and capital improvements.

As required by accounting principles generally accepted in the United States of America, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government.

The following is a brief review of the component units included in the accompanying general-purpose financial statements of the City.

Tehachapi Redevelopment Agency – The Tehachapi Redevelopment Agency was established pursuant to the State of California Health and Safety Code, Section 33000. The Agency is responsible for rehabilitation and economic revitalization of certain areas within the City.

Tehachapi City Financing Corporation (TCFC) – The Tehachapi City Financing Corporation was formed on September 26, 1990, as a Nonprofit Public Benefit Corporation to render financial assistance to the City by issuing debt instruments.

Detailed financial statements are available for the Tehachapi Redevelopment Agency from the City's Finance Department. The TCFC does not issue separate financial statements.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(1) Summary of significant accounting policies (Continued)

B. Government-wide and fund financial statements (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental and fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are 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.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *gas tax fund* and *RDA Fund* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes (not including major capital projects).

The *Valley Antelope Run Culvert Fund* is used to account for revenues, expenditures, and transfers to be used for the acquisition of major capital facilities.

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(1) Summary of significant accounting policies (Continued)

**C. Measurement focus, basis of accounting, and financial statement presentation
(Continued)**

The City reports the following major proprietary funds:

The *refuse, sewer utility, water utility, and airport funds* are used to account for those operations that are financed and operated in a manner similar to a private business enterprise where the intent of the City Council is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Additionally, the City reports the following fund types:

The *agency funds* are used to account for funds that are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City accounts for transactions of its special assessment districts and community facilities districts as agency funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(1) Summary of significant accounting policies (Continued)

**C. Measurement focus, basis of accounting, and financial statement presentation
(Continued)**

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

In accordance with Sections 16249.1, 53601 and 53635 of the California Government Code, and as further restricted by the City's adopted investment policy, the City may invest in the following types of investments:

- US Treasury Bills, Notes and Bonds.
- Local Agency Investment Fund administered by the California State Treasurer
- Obligations issued by agencies or instrumentality of the US Government.
- Negotiable Certificates of Deposit issued by federally or state chartered banks or associations.
- Money Market Mutual Funds investing in the securities and obligations authorized by CGC Section 53601.

Investments held by bond trustees and/or fiscal agents are invested in accordance with separate trust agreements.

For all investments at June 30, 2004, amortized cost approximates fair market value.

The City follows the practice of pooling cash and investments of all funds except for funds held in separate bank accounts under the provision of bond indentures.

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on the average of the beginning and ending cash balances. Interest income from cash and investments of funds excluded from pooled cash is credited directly to the related fund.

2. Receivable and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of the interfund loans) or "advances to/from other funds" (i.e., the non-current portion of the interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(1) Summary of significant accounting policies (Continued)

D. Assets, liabilities, and net assets or equity (Continued)

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property taxes receivables are shown net of allowance for uncollectibles.

Property Taxes attach as an enforceable lien on property as of March 1. Taxes are levied on July 1 and are payable in two installments on December 10 and April 10. The County bills and collects the property taxes and remits them to the City in installments during the year. City property tax revenues are recognized when levied to the extent that they result in current receivables in accordance with Interpretation 3 of the National Council on Governmental Accounting, Revenue Recognition – Property Taxes.

The County is permitted by State Law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax rate no more than 2% per year. The City receives a share of this basic levy.

3. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital assets

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 City as assets with an initial, individual cost of more than \$1,000 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 materiality extend assets lives are not capitalized.

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 is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the City during the current fiscal year was \$525,385. Of this amount, \$0 was included as part of the cost of capital assets under construction.

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(1) Summary of significant accounting policies (Continued)

D. Assets, liabilities, and net assets or equity (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	30
Machinery and equipment	5 - 30
Structure and other improvements	10 - 40

Capital lease obligations of the Proprietary Funds are accounted for in the year of inception as a liability of the fund. The related asset is recorded as an asset of the fund.

5. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. 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, 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 TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(1) Summary of significant accounting policies (Continued)

D. Assets, liabilities, and net assets or equity (Continued)

7. Fund equity

In the fund financial statements, governmental funds reported reservations of fund balance for amounts that are not available for appropriation or are legally restricted for outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Reservations of retained earnings are limited to outside third-party restrictions. The proprietary fund's contributed capital represents equity acquired through capital grants and capital contributions from developers, customers or other funds.

(2) Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. "Total fund balances" of the governmental funds of \$5,777,362 differs from "net assets" of governmental activities of \$7,954,283, reported in the statement of net assets. The details of this \$2,176,921 difference are as follows:

	Increases	Decreases	Balance
Fund balances for governmental activities			\$ 5,777,362

Capital related items

When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole:

	729,458	-	
Construction in progress			-
Cost of capital assets	8,844,753	-	-
Accumulated depreciation	-	(1,893,804)	-
	9,574,211	(1,893,804)	

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(2) Reconciliation of government-wide and fund financial statements (Continued)

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets (Continued)

	Increases	Decreases	Balance
<u>Long-term liabilities</u>			
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long term are reported in the statement of net assets. Balances at June 30, 2004 were:			
Compensated absences	-	(64,328)	
Bonds payable	-	(3,964,566)	
Capital leases payable	-	(1,504,249)	
	-	(5,533,143)	
 <u>Accrued Interest</u>			
Interest is not accrued in the fund financial statements.			
		\$ (53,684)	
<u>Issuance costs/discounts</u>			
Unamortized issuance costs and discounts are capitalized and amortized in the statement of net assets			
	83,341		
<u>Reclassifications and eliminations</u>			
Interfund balances must generally be eliminated in the governmental statements, except for residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once in the function in which they are allocated.			
	334,193	(334,193)	
Net change	9,991,745	(7,814,824)	2,176,921
Net assets of governmental activities			\$ 7,954,283

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(2) Reconciliation of government-wide and fund financial statements (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenses, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds and changes in net assets of governmental activities* as reported in the government-wide financial statement of activities. The “net changes in fund balances” for governmental funds of \$212,736 differs from the “changes in net assets” for the governmental activities of \$235,693 reported in the statement of activities. Details of this \$22,957 difference are as follows:

	Increases	Decreases	Balance
Net changes in fund balances for governmental activities			\$ 212,736
<u>Capital related items</u>			

When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance increases by the amount of financial resources expended, whereas net assets decrease by the amounts of depreciation expense charged for the year.

	Capital outlay	1,891,441	-
	Depreciation expense	-	(427,262)
		1,891,441	(427,262)

Long-term liabilities

Proceeds from the issuance of debt is reported as other financing sources in governmental funds. The issuance of bonds increases liabilities in the statement of net assets and does not result in an increase in net assets in the statement of activities.

	-	(1,674,005)
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**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(2) Reconciliation of government-wide and fund financial statements (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities. (Continued)

	Increases	Decreases	Balance
<p>Repayment of bond principal and other long term liabilities is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities.</p>			
Principal payments made	178,104	-	
<u>Accrued interest</u>			
Interest is not accrued in the fund financial statements.	-	(6,649)	
<u>Issuance costs/discount</u>			
Issuance costs/discounts expensed in the governmental funds have been capitalized and amortized in the statement of activities	-	72,691	
<u>Compensated absences</u>			
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			
Net change in compensated absences	(11,363)	-	
<u>Reclassifications and eliminations</u>			
Interfund balances must generally be eliminated in the governmental statements, except for residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once - in the function in which they are allocated.			
	927,816	(927,816)	
Net change	2,985,998	(2,963,041)	22,957
Net change in net assets for governmental activities			\$ 235,693

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(3) Stewardship, compliance, and accountability

A. Budgetary information

Each year the City Council adopts a budget that provides for the general operations of the City. Budgets are prepared on the modified accrual basis of accounting.

The City Manager may transfer budgeted amounts up to \$10,000 within funds and budgets amounts relating to personnel between funds up to \$10,000. The City Council must authorize all other revisions to the budget.

Each year the City Manager submits a proposed budget to the City Council during early June. The City Council held weekly budget hearings starting in May.

Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Capital Projects, and certain Debt Service Funds.

Budgets for the General, Special Revenue, Capital Projects, and certain Debt Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for capital leases. Purchases of equipment under capital leases are not budgeted in the year of acquisition as capital outlays, but are budgeted as lease expenditures as the payments are made. Budgeted amounts are as originally adopted or amended.

B. Excess of expenditures over appropriations

Excess of expenditures over appropriations in individual funds are as follows:

<u>Funds</u>	<u>Excess Expenditures</u>
Special Revenue Fund:	
Traffic Signals	\$ 3,000
Community Development Grant	233
Tree Grant	285
Lighting District	5,241
Supplemental Law Enforcement	81,256
Capital Projects Funds:	
Valley-Antelope Run Culvert	363
Valley Blvd. Extension	1,641

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(3) Stewardship, compliance, and accountability (Continued)

C. Deficit fund equity

The following funds had deficit balances at June 30, 2004:

Special Revenue Funds:	
Community Development Grant	\$ (233)
East Tehachapi Bike Trails	(36,047)
Tree Grant	(285)
Lighting District	(5,241)
Capital Projects Funds:	
Railroad Depot	(178,478)
Valley-Antelope Run Culvert	(578)
Valley Blvd. Extension	(1,641)
Tehachapi Streetscape	(4,495)

The City expects to abate these deficits by operating transfers from the general fund and future revenue.

(4) Detailed notes on all funds

A. Deposits and investments

At year-end, the carrying amount of the City's deposits was \$ 524,793 and the bank balance was \$ 548,102 . Of the bank balance, all was covered by federal depository insurance or by collateral held by the financial institution.

All cash and certificates of deposit are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure a City's deposit by pledging government securities as collateral, with the collateral held by a single institution collateral pool in which the City has a perfected security interest in accordance with California Government Code Section 53655. The fair value of pledged securities must equal at least 110% of a city's deposits. California law also allows financial institutions to secure city deposits by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits.

The City may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC) or Federal Savings and Loan Insurance Corporation (FSLIC).

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered or for which the securities are held by the City or its agent in the City's name.
- (2) Uninsured and unregistered investments for which the securities are held by the dealer bank's trust department or agent in the City's name.
- (3) Uninsured and unregistered investments for which the securities are held by the broker-dealer, or by the dealer bank.

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(4) Detailed notes on all funds (Continued)

A. Deposits and investments (Continued)

At year-end, the investment balances were as follows:

	Category			Reported Amount Fair Value
	1	2	3	
U.S. Government	\$ -	\$ -	\$ 399,821	\$ 399,821
Commercial paper	-	-	1,089,885	1,089,885
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,489,706</u>	1,489,706
Local Agency Investment				<u>6,877,835</u>
Total investments				<u><u>\$8,367,541</u></u>

B. Restricted Cash

Included in cash and investments are restricted cash assets of \$ 1,489,706 held by the various bond trustees and fiscal agents, and \$ 46,377 , \$9,471, and \$ 8,500 of customer deposits in the Water Utility, Sewer Utility, and Airport Funds, respectively.

C. Receivables

Receivables as of year end for the City's individual major and non-major, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	RDA Fund	Nonmajor and Other Funds	Total
Taxes	\$ 101,116	\$ 15,297	\$ 2,219	\$ 118,632
Others	20,398	6,324	1,596	28,318
Accounts	-	-	518,550	518,550
Gross Receivables	121,514	21,621	522,365	665,500
Less: allowance for uncollectibles	-	-	(7,589)	(7,589)
Net total receivables	<u>\$ 121,514</u>	<u>\$ 21,621</u>	<u>\$ 514,776</u>	<u>\$ 657,911</u>

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(4) Detailed notes on all funds (Continued)

D. Capital assets

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 485,727	\$ 140,217	\$ (11,525)	\$ 614,419
Construction in progress	2,232,072	537,293	(2,039,907)	729,458
Total capital assets, not being depreciated	<u>2,717,799</u>	<u>677,510</u>	<u>(2,051,432)</u>	<u>1,343,877</u>
Capital assets, being depreciated:				
Buildings	1,347,920	48,304	(53,928)	1,342,296
Machinery and equipment	2,132,358	109,664	-	2,242,022
Improvements other than building	1,484,693	3,161,323	-	4,646,016
Total capital assets being depreciated	<u>4,964,971</u>	<u>3,319,291</u>	<u>(53,928)</u>	<u>8,230,334</u>
Less accumulated depreciation for:				
Buildings	(687,564)	(46,425)	-	(733,989)
Machinery and equipment	(715,426)	(217,005)	-	(932,431)
Improvements other than building	(63,552)	(163,832)	-	(227,384)
Total accumulated depreciation	<u>(1,466,542)</u>	<u>(427,262)</u>	<u>-</u>	<u>(1,893,804)</u>
Total capital assets, being depreciated, net	<u>3,498,429</u>	<u>2,892,029</u>	<u>(53,928)</u>	<u>6,336,530</u>
Governmental activities capital assets, net	<u>\$ 6,216,228</u>	<u>\$ 3,569,539</u>	<u>\$(2,105,360)</u>	<u>\$ 7,680,407</u>

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(4) Detailed notes on all funds (Continued)

D. Capital assets (Continued)

Business-type Activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,959,692	\$ -	\$ -	\$ 1,959,692
Construction in progress	493,313	1,119,094	(4,126)	1,608,281
Total capital assets, not being depreciated	<u>2,453,005</u>	<u>1,119,094</u>	<u>(4,126)</u>	<u>3,567,973</u>
Capital assets, being depreciated:				
Buildings	9,551,221	-	-	9,551,221
Machinery and equipment	644,258	113,248	-	757,506
Improvements other than building	3,019,338	1,215,160	-	4,234,498
Total capital assets being depreciated	<u>13,214,817</u>	<u>1,328,408</u>	<u>-</u>	<u>14,543,225</u>
Less accumulated depreciation for:				
Buildings	(4,658,550)	(343,611)	-	(5,002,161)
Machinery and equipment	(344,687)	(50,250)	-	(394,937)
Improvements other than building	(1,214,663)	(120,095)	-	(1,334,758)
Total accumulated depreciation	<u>(6,217,900)</u>	<u>(513,956)</u>	<u>-</u>	<u>(6,731,856)</u>
Total capital assets, being depreciated, net	<u>6,996,917</u>	<u>814,452</u>	<u>-</u>	<u>7,811,369</u>
Business-type activities capital assets, net	<u>\$ 9,449,922</u>	<u>\$ 1,933,546</u>	<u>\$ (4,126)</u>	<u>\$ 11,379,342</u>

Depreciation was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 427,262
Total depreciation expense - governmental activities	<u>\$ 427,262</u>
Business-type activities	
Water	\$ 124,353
Sewer	358,526
Airport	19,801
Total depreciation expense - business-type activities	<u>\$ 502,680</u>

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(4) Detailed notes on all funds (Continued)

D. Capital assets (Continued)

Construction commitments

The City has active construction projects as of June 30, 2004. At year-end the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Tehachapi Blvd Sidewalk II	\$ 24,131	\$ 35,919
Downtown Sidewalk	5,337	52,163
Dennison Reconstruction	20,632	539,368
Railroad Depot	283,273	47,227
Tehachapi Street Scape	1,794	248,206
Downtown Masterplan Implementation	297,164	622,836
Total	<u>\$ 632,330</u>	<u>\$ 1,545,720</u>

E. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2004 is as follows:

Due to/from other funds:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	\$ 604,018	\$ -
Special Revenue:		
Supplemental Law Enforcement	-	\$ 109,424
Community Development Grant	-	233
Tree Grant	-	145
East Tehachapi Bike Trails	-	33,168
Goodrick Road Assessment	-	1,597
Lighting District	-	5,241
	<u>-</u>	<u>149,808</u>
Capital Projects:		
Railroad Depot	-	177,671
Tehachapi Streetscape	-	4,495
Valley Blvd. Extension	-	1,641
Valley & Antelope Run Culvert	-	578
	<u>-</u>	<u>184,385</u>
Enterprise Funds:		
Refuse Fund	-	70,503
Airport Fund	-	74,548
Transit Fund	-	13,130
Water Utility	145,767	-
Sewer Utility	-	141,489
	<u>145,767</u>	<u>299,670</u>
Trust and Agency Funds:		
Capital Hills 89-1	-	45,954
Summit 89-2	-	69,969
Curry Highline 90-1	-	7,412
Mountain Meadows 90-1	7,412	-
	<u>7,412</u>	<u>123,335</u>
	<u>\$ 757,197</u>	<u>\$ 757,197</u>

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(4) Detailed notes on all funds (Continued)

E. Interfund receivables, payables, and transfers (Continued)

Advances to/from consist of the following at June 30, 2004.

	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	\$ 132,423	\$ -
Capital Projects:		
Tucker Road/Valley Blvd Exchange	<u>161,992</u>	<u>-</u>
Trust and Agency Funds:		
Capital Hills 89-1	-	85,764
Summit 89-2	-	98,233
Curry Highline 90-1	-	61,567
Mountain Meadows 90-1	-	48,851
Special Districts Revolving Fund	<u>294,415</u>	<u>294,415</u>
	<u>294,415</u>	<u>588,830</u>
	<u>\$ 588,830</u>	<u>\$ 588,830</u>

Operating Transfers consist of the following at June 30, 2004:

General Fund:		
Transfer to Capital Equipment Replacement		<u>\$ 5,500</u>
Special Revenue Funds:		
Gas Tax		
Transfer to Community Development Grant		173,813
Transfer to Surface Transportation Program		110,000
Streets and Roads		
Transfer to Gas Tax		299,757
Tree Grant		
Transfer to Gas Tax		<u>11,876</u>
		<u>595,446</u>
Capital Projects Funds:		
Valley Blvd. Extension		
Transfer to Tucker Road/Valley Blvd.		66,192
Valley Antelope Run Culvert		
Transfer to Tucker Road/Valley Blvd.		237,317
Emission Reduction Project		
Transfer to General Fund		<u>10,631</u>
		<u>314,140</u>
RDA Fund:		
Transfer to Airport		<u>67,731</u>
Enterprise Funds:		
Sewer Utility		
Transfer to Capital Equipment Replacement		<u>12,730</u>
		<u>\$ 995,547</u>

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(4) Detailed notes on all funds (Continued)

F. Other Assets

Other assets at June 30, 2004 consist of the following:

	Proprietary Fund	Trust and Agency Fund	Total
Foreclosure receivables	\$ -	\$ 292,801	\$ 292,801
Investment on recycling	235,000	-	235,000
	<u>\$ 235,000</u>	<u>\$ 292,801</u>	<u>\$ 527,801</u>

Foreclosure Receivables

The City has provided infrastructure improvements to various property owners in exchange for special taxes on those properties. Non-payment of these taxes has occurred on selected properties and the City has taken steps toward foreclosure. Funds have been expended during the foreclosure process that are expected to be received at completion of the foreclosure action. Due to the uncertainty as to the date upon which the City will receive reimbursement for the funds expended, those receivables have been reclassified as Other Assets within the Fiduciary Funds.

Joint venture in recycling project

During the year ended June 30, 1991, the City invested \$235,000 in a joint venture recycling plant with Benz Sanitation, a local sanitation company. The investment does not result in title to the plant. The City does, however, have a profit-sharing interest of 5% of the gross profits and is held free from responsibility for any debts and obligations of the recycling project.

Deferred revenue

On October 7, 2003, the City entered into a Forward Bond Purchase Contract in which it sold its 1994 Refunding Revenue Bonds to an underwriter based on current interest rates. Pursuant to the agreement, the debt service of the bonds would remain the same as before the purchase contract and the City would not have to incur any additional cash debt service requirements. As a result of this purchase agreement, the City earned \$282,000 net of discounts and issuance costs of \$215,673. The deferred revenue will be amortized over the remaining life of the bonds of 15 years.

G. Leases

The City, at various occasions, enters into lease agreements that qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(4) Detailed notes on all funds (Continued)

G. Leases (Continued)

The assets acquired through capital leases are as follows:

	Governmental Activities	Business Activities
Asset:		
Goodrick Drive	955,571	195,719
Machinery and equipment	1,028,973	176,921
Less: Accumulated depreciation	<u>(374,298)</u>	<u>(46,743)</u>
Total	<u><u>1,610,246</u></u>	<u><u>325,898</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2004, were as follows:

Year Ending June 30,	Governmental Activities	Business Activities
2005	\$249,955	\$51,987
2006	221,124	52,032
2007	192,283	49,573
2008	100,893	35,285
2009	100,814	21,753
2010-2014	331,395	52,124
2015-2019	252,116	51,637
2020-2024	249,341	51,072
2025-2029	246,087	50,404
2030-2034	145,864	29,876
	<u>2,089,872</u>	<u>445,743</u>
Less amount representing interest	<u>(585,623)</u>	<u>(119,196)</u>
Present value of net minimum lease payments	<u><u>\$1,504,249</u></u>	<u><u>\$326,547</u></u>

H. Long term debt

Changes in General Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	July 1, 2003	Additions	Deletions	June 30, 2004
Governmental activities:				
Bonds payable	\$ 2,500,000	\$ 1,555,000	\$ -	\$ 4,055,000
Less deferred amounts:				
For issuance discounts	<u>(57,500)</u>	<u>(59,136)</u>	<u>26,202</u>	<u>(90,434)</u>
Total bonds payable	2,442,500	1,495,864	26,202	3,964,566
Capital leases	1,563,349	119,006	178,106	1,504,249
Compensated absences	52,965	11,363	-	64,328
Governmental activity Long-term liabilities	<u><u>\$ 4,058,814</u></u>	<u><u>\$ 1,626,233</u></u>	<u><u>\$ 204,308</u></u>	<u><u>\$ 5,533,143</u></u>

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(4) **Detailed notes on all funds (Continued)**

H. Long term debt (Continued)

Changes in General Long-Term Liabilities (Continued)

	July 1, 2003	Additions	Deletions	June 30, 2004
Business-type activities:				
1994 Refunding Revenue Bond	\$ 3,115,000	\$ -	\$ 75,000	\$ 3,040,000
1993 State Revolving Loan	1,813,406	-	141,586	1,671,820
1998 Sewer and Water COP	275,100	-	3,400	271,700
2000 Sewer and Water COP	3,435,000	-	250,000	3,185,000
Less deferred amounts:				-
For issuance discounts	(150,548)	(59,400)	(12,039)	(197,909)
Total bonds payable	8,487,958	(59,400)	457,947	7,970,611
Department of Transportation				
Loan	128,708	-	5,596	123,112
Capital leases	231,229	126,323	31,005	326,547
Business-type activity				
Long-term liabilities	<u>\$ 8,847,895</u>	<u>\$ 66,923</u>	<u>\$ 494,548</u>	<u>\$ 8,420,270</u>

Governmental Activities

In June 2002, the Tehachapi Redevelopment Agency issued \$2,500,000 of Tax Allocation Notes. Proceeds of the notes will be used to fund redevelopment activities of benefit to the Agency's Tehachapi Redevelopment Project. The notes will mature on June 1, 2007 and the interest rate is 4.7%. Interest is payable semiannually on June 1 and December 1 of each year commencing December 1, 2002. The notes are subject to redemption at the option of the agency on or after June 1, 2005. The notes will be repaid exclusively from the tax revenues to be levied from the project.

The annual debt service requirements to maturity of the 2002 Tax Allocation Notes are as follows:

Year Ending June 30,	Principal	Interest
2005	-	117,500
2006	-	117,500
2007	2,500,000	117,500
Total	<u>\$ 2,500,000</u>	<u>\$ 352,500</u>

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(4) Detailed notes on all funds (Continued)

H. Long term debt (Continued)

In January 2004, the Tehachapi Redevelopment Agency issued \$1,555,000 of Tax Allocation Notes. Proceeds of the notes will be used to fund redevelopment activities of benefit to the Agency's Tehachapi Redevelopment Project. The notes will mature on June 1, 2007 and the interest rate is 3.5%. Interest is payable semiannually on June 1 and December 1 of each year commencing June 1, 2004. The notes are subject to redemption at the option of the agency on or after June 1, 2005. The notes will be repaid exclusively from the tax revenues to be levied from the project.

The annual debt service requirements to maturity of the 2004 Tax Allocation Notes are as follows:

Year Ending June 30,	Principal	Interest
2005	-	54,425
2006	-	54,425
2007	1,555,000	54,425
Total	<u>\$ 1,555,000</u>	<u>\$ 163,275</u>

Business Activities

The City issued Certificates of Participation, Refunding Revenue Bonds, and obtained a revolving loan from the State of California to finance the construction of sewer and water improvements. These obligations are reported in the enterprise funds as they are expected to be repaid from enterprise revenues. Amounts outstanding at June 30, 2004 are as follows:

Description	Interest Rates	Amounts
1994 Refunding Revenue Bond	6.69% (average)	\$ 3,040,000
1993 State Revolving Loan	3.00%	1,671,820
1998 Sewer and Water COP	4.50%	271,700
2000 Sewer and Water COP	5.51% (average)	3,185,000
Department of Transportation Loan Fuel Tank	5.05%	123,112
		<u>8,291,632</u>
Less: Unamortized discount		(197,909)
		<u>\$ 8,093,723</u>

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(4) Detailed notes on all funds (Continued)

H. Long term debt (Continued)

The annual debt service requirements to maturity for the 1994 Refunding Revenue Bond and 2000 Sewer and Water COP are as follows:

Year Ending June 30,	Principal	Interest
2005	\$ 335,000	\$ 368,788
2006	325,000	351,840
2007	230,000	337,043
2008	245,000	323,855
2009	260,000	309,689
2010-2014	1,550,000	1,296,809
2015-2019	2,140,000	753,913
2020-2024	1,140,000	78,300
Total	<u>\$ 6,225,000</u>	<u>\$ 3,820,236</u>

State Revolving Loan

During fiscal year of 1994-1995, the City obtained financing from the State of California for the construction of sewer facilities. The State established a line of credit upon which the City received \$2,882,112 in eleven disbursements from January 1993 to January 1994. The interest rate is 3.0% and repayment is scheduled in annual installments over 20 years commencing November 1, 1994.

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest
2005	\$ 145,834	\$ 50,154
2006	150,209	45,779
2007	154,715	41,273
2008	159,356	36,632
2009	164,138	31,850
2010-2014	897,569	82,371
Total	<u>\$ 1,671,821</u>	<u>\$ 288,059</u>

In July 1998, the City obtained loans from the USDA Rural Development Department, totaling \$289,900. The Sewer Fund received \$103,000 and the Water Fund received \$186,900. The City used these funds to finance the sale of COP's totaling \$289,900; \$103,000 for the Sewer Fund and \$186,900 for the Water Fund, on July 15, 1998 with an interest rate of 4.5%. The revenue from the sale of the COP's was used to finance the building of a new sewer line to connect to the recently annexed Ashe tract.

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(4) Detailed notes on all funds (Continued)

H. Long term debt (Continued)

The annual debt service requirements to maturity for the 1998 Sewer and Water COP's are as follows:

Year Ending June 30,	Principal	Interest
2005	\$ 3,600	\$ 12,226
2006	3,700	12,065
2007	3,900	11,899
2008	4,000	11,722
2009	4,200	11,543
2010-2014	24,100	54,697
2015-2019	29,800	48,786
2020-2024	37,200	41,441
2025-2029	46,700	32,238
2030-2034	58,000	20,781
2035-2039	56,500	6,498
Total	<u>\$ 271,700</u>	<u>\$ 263,896</u>

In October 1998, the City obtained financing from the Department of Transportation Aeronautics Program for the purchase of a fuel tank for the airport. The cost of the fuel tank was \$139,900. The interest rate is 5.0% and repayment is scheduled in annual installments over 17 years commencing January 1, 2002.

The annual debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest
2005	\$ 6,051	\$ 6,217
2006	6,535	5,911
2007	7,019	5,581
2008	7,503	5,227
2009	7,987	4,848
2010-2014	47,199	17,702
2015-2019	40,818	4,847
	<u>\$ 123,112</u>	<u>\$ 50,333</u>

Deferred Charges

On December 21, 1994, the City issued \$3.675 million in Refunding Revenue Bonds at variable interest rates to partially current refund \$2.455 million of 1990 Sewer and Water COP's and to purchase sewer improvements from the General Fund. The General Fund used the sales proceeds to retire the 1992 Certificates of Participation (a general long-term debt obligation of the City). The current refunding was undertaken to implement the

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(4) Detailed notes on all funds (Continued)

H. Long term debt (Continued)

purchase of the sewer improvements from the General Fund. The reacquisition price exceeded the net carrying amount of the old debt by \$149,494. This amount is being amortized over the new debt life, which is shorter than the life of the refunded debt.

Also, on April 1, 2000, the City issued \$3.990 million in Installment Sale COP's at variable interest rates to current refund the outstanding balance of the 1990 Sewer and Water COP's and to pay off their water rights loan from Sierra National Bank. The reacquisition price exceeded the net carrying amount of the old debt by \$323,218. This amount is being amortized over the new debt life, which is shorter than the life of the refunded debt.

Special Assessment Districts and Community Facilities Districts

The City issued limited obligation bonds to finance the construction of infrastructure improvements within the City through the use of Special Assessment Districts and Community Facilities Districts. The repayment of the bonds are payable from special assessments and special taxes levied each year, or from foreclosure proceeds. The bonds do not constitute indebtedness of the City, and the City is in no way obligated for their repayment and is only acting on behalf of bondholders in collecting the assessments/taxes, forwarding the collections to the bondholders and initiating foreclosure proceedings, if necessary. Accordingly, these special assessment and special tax bonds payable have been excluded from the accompanying primary government financial statements.

Limited obligation assessment district and community facilities district bonds outstanding amounted to \$3,245,000 at June 30, 2004.

Due to delinquent annual levies amounting to \$4,230,722, limited obligation bonds amounting to \$ 5,455,000 (principal only) are in default at June 30, 2004.

The City is currently involved in litigation relating to these delinquent assessments (see Note 5) and is in the process of foreclosing on property on behalf of the bondholders. Some foreclosure proceedings have been delayed by court actions (bankruptcy appeals, etc.) and it is unknown when the properties will be liquidated to satisfy the bondholders. It is also not known if the proceeds from the property will be adequate to satisfy the delinquent assessments. In addition, the City has rendered legal fees on behalf of bondholders for such foreclosure actions. Such advances amounted to \$294,415 at June 30, 2004.

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(5) Other information

A. 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 \$350,000 of each workers' 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 and workers' compensation losses under \$10,000. The City's share of estimated claims payable at June 30, 2004 amounted to \$0. The CSJVRMA participates in an excess pool which provides general liability coverage from \$1,000,000 to \$15,000,000 and purchases excess reinsurance to \$10,000,000. The CSJVRMA participates in an excess pool which provides workers' compensation coverage from \$350,000 to \$1,000,000 and purchases excess reinsurance above the \$1,000,000 to the statutory limit.

The CSJVRMA is a consortium of fifty-five (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 3 times per 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 position and results of operations for the Authority, as of June 30, 2003 (the most recent information available), are presented below:

	(In Thousands)
Total Assets	\$ 53,349
Total Liabilities	41,030
Total Retained Earnings	12,319
Total Liabilities and Retained Earnings	\$ 53,349
Total Revenues for Year	17,997
Total Expenses for Year	19,903
Net Loss for Year	\$ (1,906)

At the termination of the joint powers agreement and after all claims have been settled, any excess or deficit will be divided among the cities in accordance with its governing documents.

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(5) Other information (Continued)

B. Contingent liabilities

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

C. City employee retirement plan

Plan Description

The City of Tehachapi's (the City) defined benefit pension plan (the Miscellaneous Plan) provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The Miscellaneous Plan of the City is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance 21252.01. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members in the Miscellaneous Plan are required to contribute 7% of their annual covered salary. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal 2003-04 was 0%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(5) Other information (Continued)

C. City employee retirement plan (Continued)

Annual Pension Cost

For fiscal year 2003-04, the City's annual pension cost was \$0 and the City actually contributed \$0. The required contribution for fiscal year 2003-04 was determined as part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by age, duration of service, and type of employment ranging from 3.75% to 14.20% for miscellaneous members, and (c) 3.75% payroll growth. Both (a) and (b) include an inflation component of 3.5%. The actuarial value of the Miscellaneous Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three-year period. The Miscellaneous Plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll over a closed 20-year period. The remaining amortization period at June 30, 2002 was thirty years.

Three-Year Trend Information for the Miscellaneous Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2002	-	100.00%	-
6/30/2003	-	100.00%	-
6/30/2004	-	100.00%	-

Required Supplementary Information – Funded Status of Miscellaneous Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
06/30/00	\$ 2,129,899	\$ 2,969,016	\$ (839,117)	139.40%	\$ 840,668	(99.815%)
06/30/01	\$ 2,313,373	\$ 3,041,704	\$ (728,331)	131.50%	\$ 816,576	(89.193%)
06/30/02	\$ 2,507,357	\$ 2,918,579	\$ (411,222)	116.40%	\$ 977,916	(42.051%)

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(5) Other information (Continued)

C. City employee retirement plan (Continued)

The City of Tehachapi's (the City) defined benefit pension plan (the Safety Plan) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Safety Plan of the City is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance 21252.01. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members in the Safety Plan are required to contribute 7% of their annual covered salary. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal 2003-04 was \$38,383 for retired firefighters and police. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2003-04, the City's annual pension cost was \$38,383 and the City actually contributed \$0. The required contribution for fiscal year 2003-2004 was determined as part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by age, duration of service and type of employment ranging from 4.27% to 11.59% for safety members, and (c) 3.75% to payroll growth. Both (a) and (b) include an inflation component of 3.5%. The actuarial value of the Safety Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three-year period. The Safety Plan's unfounded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll over a closed 20-year period. The remaining amortization period at June 30, 2002 was seven years.

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(5) Other information (Continued)

C. City employee retirement plan (Continued)

Three-Year Trend Information for the Safety Plan

Fiscal Year Ending June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	\$ 84,901	0.00%	\$ 84,901
2003	\$ 80,666	0.00%	\$ 80,666
2004	\$ 38,383	0.00%	\$ 38,383

The net pension obligation of \$38,383 was paid at the beginning of fiscal year 2004-2005.

Required Supplementary Information – Funded Status of Safety Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
6/30/2000	\$ 1,375,135	\$ 965,907	\$ 409,228	70.20%	\$ -	N/A
6/30/2001	\$ 1,394,971	\$ 913,463	\$ 481,508	65.50%	\$ 45,864	1049.90%
6/30/2002	\$ 1,489,195	\$ 849,122	\$ 640,073	57.00%	\$ 48,216	1327.50%

D. Deferred compensation plan

The City offers all its regular full-time employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan permits participating employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The plan was started in September 1998. On that date, assets of the plan were placed in trust for the exclusive benefit of participants and their beneficiaries. The requirements of that IRC Section prescribes that the City does not own the amounts deferred by employees, including the related income on those amounts. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on plan assets, are not reported on the City's financial statements for the year ended June 30, 2004.

**CITY OF TEHACHAPI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

(CONTINUED)

(5) Other information (Continued)

E. Reserved fund balances

Fund balances that are not available for appropriation at June 30, 2004 are reserved for the following purposes:

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Reserved				
Prepays	24,348	-	-	24,348
Advances to other funds	132,423	-	161,992	294,415
Designated for future projects	-	30,000	188,863	218,863
	<u>\$ 156,771</u>	<u>\$ 30,000</u>	<u>\$ 350,855</u>	<u>\$ 537,626</u>

F. Changes in beginning fund balances

Government Funds:

	General Fund	Gas Tax
Fund Balance, June 30, 2003 as previously stated	\$ 1,696,958	\$ 362,302
Reclass expenses to proper account	(15)	8,222
Fund Balance, June 30, 2003 as restated	<u>\$ 1,696,943</u>	<u>\$ 370,524</u>

Proprietary Funds:

	Water Fund	Sewer Fund	Airport Fund
Fund Balance, June 30, 2003 as previously stated	\$ 1,828,920	\$ 993,741	\$ 235,862
Reclass expenses to proper account	40,525	(48,729)	(11,277)
Fund Balance, June 30, 2003 as restated	<u>\$ 1,869,445</u>	<u>\$ 945,012</u>	<u>\$ 224,585</u>

Subsequent event:

On November 1, 2004, the City issued 2004 Water and Sewer Revenue Refunding Bonds in the amount of \$3,770,000. These 2004 bonds were issued for the purpose of prepaying and defeasing the outstanding 1994 Water and Sewer Revenue Refunding Bonds with an aggregate principal amounts of \$2,980,000 and to pay the costs of issuance of the Bonds. The bonds were issued with an interest rate ranging from 2% to 4.125% over the life of the bonds, with a debt service requirement of \$5,436,606 to be paid over the next 15 years.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF TEHACHPI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES			
Grants	\$ -	\$ 10,000	\$ 10,000
Taxes	2,286,734	2,578,917	292,183
Licenses and permits	11,655	9,725	(1,930)
Interest	40,000	37,109	(2,891)
Miscellaneous	134,444	153,426	18,982
Total revenues	<u>2,472,833</u>	<u>2,789,177</u>	<u>316,344</u>
EXPENDITURES			
General government	542,271	494,114	48,157
Administration	149,306	137,789	11,517
Public works	518,392	502,992	15,400
Planning	144,190	124,056	20,134
Fire department	287,895	332,522	(44,627)
Sheriff	816,512	801,255	15,257
Council	38,627	37,447	1,180
City clerk	101,458	83,866	17,592
Treasurer	6,405	4,357	2,048
Total expenditures	<u>2,605,056</u>	<u>2,518,398</u>	<u>86,658</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(132,223)</u>	<u>270,779</u>	<u>403,002</u>
OTHER FINANCING SOURCES(USES)			
Transfers in	10,631	10,631	-
Transfers out	(5,500)	(5,500)	-
Total other financing sources	<u>5,131</u>	<u>5,131</u>	<u>-</u>
Net change in fund balances	(127,092)	275,910	403,002
Fund balances - beginning	1,696,958	1,696,958	-
Prior period adjustment	-	(15)	(15)
Fund balances - ending	<u><u>1,569,866</u></u>	<u><u>\$ 1,972,853</u></u>	<u><u>\$ 402,987</u></u>

**CITY OF TEHACHPI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GAS TAX FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$ 199,000	\$ 201,611	\$ 2,611
Interest	4,000	4,489	489
Total revenues	<u>203,000</u>	<u>206,100</u>	<u>3,100</u>
EXPENDITURES			
Public works	<u>625,154</u>	<u>525,644</u>	<u>99,510</u>
Total expenditures	<u>625,154</u>	<u>525,644</u>	<u>99,510</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(422,154)</u>	<u>(319,544)</u>	<u>102,610</u>
OTHER FINANCING SOURCES (USES)			
Proceeds of debt	62,193	119,005	56,812
Transfers in	311,633	311,633	-
Transfers out	<u>(283,813)</u>	<u>(283,813)</u>	<u>-</u>
Total other financing sources (uses)	<u>90,013</u>	<u>146,825</u>	<u>56,812</u>
Change in fund balances	(332,141)	(172,719)	159,422
Fund balance - beginning	362,302	362,302	-
Prior Period Adjustment		<u>8,222</u>	
Fund balance - ending	<u>\$ 30,161</u>	<u>\$ 197,805</u>	<u>\$ 167,644</u>

**CITY OF TEHACHPI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
VALLEY ANTELOPE RUN CULVERT
FOR THE YEAR ENDED JUNE 30, 2004**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Grants	\$ -	\$ -	\$ -
Total revenues	-	-	-
EXPENDITURES			
Public works	-	-	-
Planning	621,000	621,363	(363)
Total expenditures	621,000	621,363	(363)
Excess (deficiency) of revenues over (under)expenditures	(621,000)	(621,363)	(363)
OTHER FINANCING SOURCES (USES)			
Transfers out	(237,317)	(237,317)	-
Total other financing sources (uses)	(237,317)	(237,317)	-
Change in fund balances	(858,317)	(858,680)	(363)
Fund balance - beginning	858,102	858,102	-
Fund balance - ending	\$ (215)	\$ (578)	\$ (363)

**CITY OF TEHACHPI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
RDA FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$ 210,299	\$ 264,115	\$ 53,816
Interest	8,700	16,921	8,221
Total revenues	<u>218,999</u>	<u>281,036</u>	<u>62,037</u>
EXPENDITURES			
Administration	<u>520,859</u>	<u>484,946</u>	<u>35,913</u>
Total expenditures	<u>520,859</u>	<u>484,946</u>	<u>35,913</u>
Excess (deficiency) of revenues over (under)expenditures	<u>(301,860)</u>	<u>(203,910)</u>	<u>26,124</u>
OTHER FINANCING SOURCES (USES)			
Proceeds of debt	1,555,000	1,555,000	-
Interest Expense	(117,500)	(135,944)	(18,444)
Transfers out	<u>(67,731)</u>	<u>(67,731)</u>	<u>-</u>
Total other financing sources (uses)	<u>1,369,769</u>	<u>1,351,325</u>	<u>(18,444)</u>
Excess (deficiency) of revenues over expenditures and other Change in fund balances	\$ 1,067,909	1,147,415	\$ 79,506
Fund balance - beginning	<u>681,033</u>	<u>681,033</u>	<u>-</u>
Fund balance - ending	<u>\$ 1,748,942</u>	<u>\$ 1,828,448</u>	<u>\$ 79,506</u>

SUPPLEMENTARY INFORMATION

**CITY OF TEHACHAPI
COMBINING BALANCE SHEET
NONMAJOR
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor</u>
ASSETS			
Cash and short-term investments	\$ 331,138	\$ 1,740,798	\$ 2,071,936
Receivables (net of allowance)	1,597	-	1,597
Advance to other funds	-	161,992	161,992
	<u>332,735</u>	<u>1,902,790</u>	<u>2,235,525</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	16,407	106,669	123,076
Due to other funds	149,808	183,807	333,615
	<u>166,215</u>	<u>290,476</u>	<u>456,691</u>
Fund Balances:			
Reserved fund balance	-	-	-
Unreserved fund balance	166,520	1,612,314	1,778,834
	<u>166,520</u>	<u>1,612,314</u>	<u>1,778,834</u>
Total fund balance	<u>166,520</u>	<u>1,612,314</u>	<u>1,778,834</u>
Total liabilities and fund balance	<u>\$ 332,735</u>	<u>\$ 1,902,790</u>	<u>\$ 2,235,525</u>

**CITY OF TEHACHAPI
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor</u>
REVENUES			
Grants	\$ 5,000	\$ 19,015	\$ 24,015
Other sources of funds	430,212	-	430,212
Interest	3,718	7,414	11,132
	<u>438,930</u>	<u>26,429</u>	<u>465,359</u>
EXPENDITURES			
Public works	249,810	-	249,810
Planning	47,782	510,979	558,761
Sheriff	53,074	-	53,074
	<u>350,666</u>	<u>510,979</u>	<u>861,645</u>
Excess (deficiency) of revenues over (under) expenditures	<u>88,264</u>	<u>(484,550)</u>	<u>(396,286)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	283,813	321,739	605,552
Transfers out	<u>(311,633)</u>	<u>(76,823)</u>	<u>(388,456)</u>
Total other financing sources (uses)	<u>(27,820)</u>	<u>244,916</u>	<u>217,096</u>
Net change in fund balances	<u>60,444</u>	<u>(239,634)</u>	<u>(179,190)</u>
Fund balances - beginning	<u>106,076</u>	<u>1,851,948</u>	<u>1,958,024</u>
Fund balances - ending	<u>\$ 166,520</u>	<u>\$ 1,612,314</u>	<u>\$ 1,778,834</u>

**CITY OF TEHACHAPI
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2004**

	Traffic Signals	Supplemental Law Enforcement	Surface Transportation Program	Cleep, Law Enforcement Equipment
ASSETS				
Cash and short-term investments	\$ 36,440	\$ 191,255	\$ 83,656	\$ 7,399
Receivables (net of allowance)	-	-	-	-
Total assets	<u>\$ 36,440</u>	<u>\$ 191,255</u>	<u>\$ 83,656</u>	<u>\$ 7,399</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued liabilities	\$ -	\$ 9,706	\$ 3,682	\$ -
Due to other funds	-	109,424	-	-
Total liabilities	<u>-</u>	<u>119,130</u>	<u>3,682</u>	<u>-</u>
Fund balance				
Unreserved	<u>36,440</u>	<u>72,125</u>	<u>79,974</u>	<u>7,399</u>
Total fund balance	<u>36,440</u>	<u>72,125</u>	<u>79,974</u>	<u>7,399</u>
Total liabilities and Fund balance	<u>\$ 36,440</u>	<u>\$ 191,255</u>	<u>\$ 83,656</u>	<u>\$ 7,399</u>

**CITY OF TEHACHAPI
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
JUNE 30, 2004**

	Oil Recycling Grant	TDA 3 Bike Safety	Beverage Container Recycling	Tree Grant
ASSETS				
Cash and short-term investments	\$ 8,173	\$ -	\$ 4,215	\$ -
Receivables (net of allowance)	-	-	-	-
Total assets	<u>\$ 8,173</u>	<u>\$ -</u>	<u>\$ 4,215</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued liabilities	\$ -	\$ 2,879	\$ -	\$ 140
Due to other funds	-	33,168	-	145
Total liabilities	<u>-</u>	<u>36,047</u>	<u>-</u>	<u>285</u>
Fund balance				
Unreserved	<u>8,173</u>	<u>(36,047)</u>	<u>4,215</u>	<u>(285)</u>
Total fund balance	<u>8,173</u>	<u>(36,047)</u>	<u>4,215</u>	<u>(285)</u>
Total liabilities and Fund balance	<u>\$ 8,173</u>	<u>\$ -</u>	<u>\$ 4,215</u>	<u>\$ -</u>

**CITY OF TEHACHAPI
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
JUNE 30, 2004**

	Goodrick Road Assessment	Lighting District	Community Development Grant	Total Nonmajor
ASSETS				
Cash and short-term investments	\$ -	\$ -	\$ -	\$ 331,138
Receivables (net of allowance)	1,597	-	-	1,597
Total assets	<u>\$ 1,597</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 332,735</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 16,407
Due to other funds	1,597	5,241	233	149,808
Total liabilities	<u>1,597</u>	<u>5,241</u>	<u>233</u>	<u>166,215</u>
Fund balance				
Unreserved	<u>-</u>	<u>(5,241)</u>	<u>(233)</u>	<u>166,520</u>
Total fund balance	<u>-</u>	<u>(5,241)</u>	<u>(233)</u>	<u>166,520</u>
Total liabilities and Fund balance	<u>\$ 1,597</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 332,735</u>

**CITY OF TEHACHAPI
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR YEAR ENDED JUNE 30, 2004**

	Streets and Roads	Traffic Signals	Supplemental Law Enforcement	Surface Transportation Program
REVENUES				
Grants	\$ -	\$ -	\$ -	\$ -
Other sources of funds	299,757	30,455	100,000	-
Interest	-	-	3,147	-
Total revenues	<u>299,757</u>	<u>30,455</u>	<u>103,147</u>	<u>-</u>
EXPENDITURES				
Administration	-	-	-	-
Public works	-	-	156,257	-
Planning	-	3,000	-	20,632
Sheriff	-	-	-	-
Total expenditures	<u>-</u>	<u>3,000</u>	<u>156,257</u>	<u>20,632</u>
Excess (deficiency) of revenues over (under) expenditures	<u>299,757</u>	<u>27,455</u>	<u>(53,110)</u>	<u>(20,632)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	110,000
Transfers out	<u>(299,757)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(299,757)</u>	<u>-</u>	<u>-</u>	<u>110,000</u>
Net change in fund balances	<u>-</u>	<u>27,455</u>	<u>(53,110)</u>	<u>89,368</u>
Fund balances beginning	<u>-</u>	<u>8,985</u>	<u>125,235</u>	<u>(9,394)</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 36,440</u>	<u>\$ 72,125</u>	<u>\$ 79,974</u>

**CITY OF TEHACHAPI
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
 FOR YEAR ENDED JUNE 30, 2004**

	Cleop, Law Enforcement Equipment	Oil Recycling Grant	TDA 3 Bike Safety	Beverage Container Recycling
REVENUES				
Grants	\$ -	\$ -	\$ -	\$ 5,000
Other sources of funds	-	-	-	-
Interest	358	122	-	91
Total revenues	<u>358</u>	<u>122</u>	<u>-</u>	<u>5,091</u>
EXPENDITURES				
Administration	-	-	-	-
Public works	-	-	-	8,463
Planning	-	-	16,748	-
Sheriff	53,074	-	-	-
Total expenditures	<u>53,074</u>	<u>-</u>	<u>16,748</u>	<u>8,463</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(52,716)</u>	<u>122</u>	<u>(16,748)</u>	<u>(3,372)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(52,716)</u>	<u>122</u>	<u>(16,748)</u>	<u>(3,372)</u>
Fund balances beginning	<u>60,115</u>	<u>8,051</u>	<u>(19,299)</u>	<u>7,587</u>
Fund balances - ending	<u>\$ 7,399</u>	<u>\$ 8,173</u>	<u>\$ (36,047)</u>	<u>\$ 4,215</u>

**CITY OF TEHACHAPI
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
 FOR YEAR ENDED JUNE 30, 2004**

	Tree Grant	Lighting District	Community Development Grant	Total Nonmajor
REVENUES				
Grants	\$ -	\$ -	\$ -	\$ 5,000
Other sources of funds	-	-	-	430,212
Interest	-	-	-	3,718
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>438,930</u>
EXPENDITURES				
Administration	-	-	-	-
Public works	-	-	85,090	249,810
Planning	285	5,241	1,876	47,782
Sheriff	-	-	-	53,074
Total expenditures	<u>285</u>	<u>5,241</u>	<u>86,966</u>	<u>350,666</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(285)</u>	<u>(5,241)</u>	<u>(86,966)</u>	<u>88,264</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	173,813	283,813
Transfers out	<u>(11,876)</u>	<u>-</u>	<u>-</u>	<u>(311,633)</u>
Total other financing sources (uses)	<u>(11,876)</u>	<u>-</u>	<u>173,813</u>	<u>(27,820)</u>
Net change in fund balances	<u>(12,161)</u>	<u>(5,241)</u>	<u>86,847</u>	<u>60,444</u>
Fund balances beginning	<u>11,876</u>	<u>-</u>	<u>(87,080)</u>	<u>106,076</u>
Fund balances - ending	<u>\$ (285)</u>	<u>\$ (5,241)</u>	<u>\$ (233)</u>	<u>\$ 166,520</u>

**CITY OF TEHACHAPI
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
JUNE 30, 2004**

	<u>Tucker Road/ Valley Blvd. Exchange</u>	<u>Railroad Depot</u>	<u>Capital Equipment Replacement</u>	<u>Valley Blvd. Extension</u>
ASSETS				
Cash and short-term investments	\$ 745,355	\$ -	\$ 64,230	\$ -
Advance to other funds	<u>161,992</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 907,347</u>	<u>\$ -</u>	<u>\$ 64,230</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ -	\$ 806	\$ -	\$ -
Due to other funds	<u>-</u>	<u>177,671</u>	<u>-</u>	<u>1,641</u>
Total liabilities	<u>-</u>	<u>178,477</u>	<u>-</u>	<u>1,641</u>
Fund balance				
Reserved fund balance	-	-	-	-
Unreserved fund balance	<u>907,347</u>	<u>(178,477)</u>	<u>64,230</u>	<u>(1,641)</u>
Total fund balance	<u>907,347</u>	<u>(178,477)</u>	<u>64,230</u>	<u>(1,641)</u>
Total liabilities and Fund balance	<u>\$ 907,347</u>	<u>\$ -</u>	<u>\$ 64,230</u>	<u>\$ -</u>

**CITY OF TEHACHAPI
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS (CONTINUED)
JUNE 30, 2004**

	<u>Tehachapi Streetscape</u>	<u>BeeKay Theater</u>	<u>Downtown Master Plan</u>	<u>Total Nonmajor</u>
ASSETS				
Cash and short-term investments	\$ -	\$ 239,524	\$ 691,689	\$ 1,740,798
Advance to other funds	-	-	-	161,992
Total assets	<u>\$ -</u>	<u>\$ 239,524</u>	<u>\$ 691,689</u>	<u>\$ 1,902,790</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 105,863	\$ 106,669
Due to other funds	4,495	-	-	183,807
Total liabilities	<u>4,495</u>	<u>-</u>	<u>105,863</u>	<u>290,476</u>
Fund balance				
Reserved fund balance	-	-	-	-
Unreserved fund balance	(4,495)	239,524	585,826	1,612,314
Total fund balance	<u>(4,495)</u>	<u>239,524</u>	<u>585,826</u>	<u>1,612,314</u>
Total liabilities and Fund balance	<u>\$ -</u>	<u>\$ 239,524</u>	<u>\$ 691,689</u>	<u>\$ 1,902,790</u>

**CITY OF TEHACHPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	Tucker Road/ Valley Blvd. Exchange	Railroad Depot	Capital Equipment Replacement
REVENUES			
Grants	\$ -	\$ -	\$ -
Interest	7,414	-	-
Total revenues	7,414	-	-
EXPENDITURES			
Planning	-	196,101	-
Excess (deficiency) of revenues over (under) expenditures	7,414	(196,101)	-
OTHER FINANCING SOURCES (USES)			
Transfers in	303,509	-	18,230
Transfers out	-	-	-
Total other financing sources (uses)	303,509	-	18,230
Net change in fund balance	310,923	(196,101)	18,230
Fund balances - beginning	596,424	17,624	46,000
Prior period adjustment	-	-	-
Total adjusted fund balance - beginning	596,424	17,624	46,000
Fund balances - ending	\$ 907,347	\$ (178,477)	\$ 64,230

**CITY OF TEHACHPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS (CONTINUED)
FOR YEAR ENDED JUNE 30, 2004**

	Valley Blvd. Extension	Tehachapi Streetscape	BeeKay Theater
REVENUES			
Grants	\$ 19,015	\$ -	\$ -
Interest	-	-	-
Total revenues	<u>19,015</u>	<u>-</u>	<u>-</u>
EXPENDITURES			
Planning	<u>3,696</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>15,319</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	<u>(66,192)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(66,192)</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>(50,873)</u>	<u>-</u>	<u>-</u>
Fund balances - beginning	49,232	(4,495)	239,524
Prior period adjustment	-	-	-
Total adjusted fund balance - beginning	<u>49,232</u>	<u>(4,495)</u>	<u>239,524</u>
Fund balances - ending	<u>\$ (1,641)</u>	<u>\$ (4,495)</u>	<u>\$ 239,524</u>

**CITY OF TEHACHPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS (CONTINUED)
FOR YEAR ENDED JUNE 30, 2004**

	Emission Reduction Project	Downtown Master Plan	Total Nonmajor
REVENUES			
Grants	\$ -	\$ -	\$ 19,015
Interest	-	-	7,414
Total revenues	-	-	26,429
EXPENDITURES			
Planning	-	311,182	510,979
Excess (deficiency) of revenues over (under) expenditures	-	(311,182)	(484,550)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	321,739
Transfers out	(10,631)	-	(76,823)
Total other financing sources (uses)	(10,631)	-	244,916
Net change in fund balance	(10,631)	(311,182)	(239,634)
Fund balances - beginning	10,631	897,008	1,851,948
Prior period adjustment	-	-	-
Total adjusted fund balance - beginning	10,631	897,008	1,851,948
Fund balances - ending	\$ -	\$ 585,826	\$ 1,612,314

**CITY OF TEHACHPI
 COMBINING STATEMENT OF NET ASSETS
 NONMAJOR PROPRIETARY FUNDS
 JUNE 30, 2004**

	Transit
ASSETS	
Current assets	
Receivables (net of allowance)	\$ 12,948
Total current assets	12,948
Total assets	12,948
LIABILITIES	
Current liabilities	
Accounts payable	15,106
Due to other funds	13,130
Total current liabilities	28,236
Deferred revenue	67,869
Total liabilities	96,105
NET ASSETS	
Restricted	-
Unrestricted	(83,157)
Total net assets	\$ (83,157)

**CITY OF TEHACHPI
 COMBINING STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET ASSETS
 NONMAJOR PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2004**

	Transit
OPERATING REVENUES	
Charges for services	\$ -
Miscellaneous	-
Total operating revenues	-
OPERATING EXPENSES	
Personnel services	9,525
Maintenance and operations	89,656
Total operating expenses	99,181
Operating income (loss)	(99,181)
NONOPERATING REVENUES (EXPENSES)	
Intergovernmental	33,633
Interest	224
Total nonoperating revenues (expenses)	33,857
Income (loss) before operating transfers	(65,324)
Change in net assets	(65,324)
Net assets - beginning	(17,833)
Net assets - ending	\$ (83,157)

**CITY OF TEHACHPI
 COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 FIDUCIARY FUNDS
 JUNE 30, 2004**

	Capital Hills 89-1	Tucker Road 87-1	East Tehachapi Blvd. Project 89-3	Summit 89-2
ASSETS				
Cash and short-term investments	\$ 1,072,772	\$ 153,774	\$ 64,543	\$ -
Receivables (net of allowance)	1,433	-	-	-
Due from other funds	-	-	-	-
Advances to other funds	-	-	-	-
Due from bond holders	-	-	-	50,504
Other assets	55,058	-	25,436	118,035
Total assets	\$ 1,129,263	\$ 153,774	\$ 89,979	\$ 168,539
LIABILITIES				
Accounts payable	\$ 548,518	\$ -	\$ -	\$ 337
Deposits	529	-	-	-
Due to other funds	45,954	-	-	69,969
Due to bond holders	448,498	153,774	89,979	-
Advances from other funds	85,764	-	-	98,233
Total liabilities	\$ 1,129,263	\$ 153,774	\$ 89,979	\$ 168,539

CITY OF TEHACHPI
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS (Continued)
JUNE 30, 2004

	Curry Highline 90-1	Mountain Meadows 90-1	Special Districts Revolving Fund	Total Trust and Agency Funds
ASSETS				
Cash and short-term investments	\$ (65,026)	\$ 273,520	\$ -	\$ 1,499,583
Receivables (net of allowance)	-	786	-	2,219
Due from other funds	-	7,413	-	7,413
Advances to other funds	-	-	294,415	294,415
Due from bond holders	118,599	-	-	169,103
Other assets	15,405	78,867	-	292,801
Total assets	<u>\$ 68,978</u>	<u>\$ 360,586</u>	<u>\$ 294,415</u>	<u>\$ 2,265,534</u>
LIABILITIES				
Accounts payable	\$ -	\$ 14	\$ -	\$ 548,869
Deposits	-	25,158	-	25,687
Due to other funds	7,412	-	-	123,335
Due to bond holders	-	286,563	-	978,814
Advances from other funds	61,566	48,851	294,415	588,829
Total liabilities	<u>\$ 68,978</u>	<u>\$ 360,586</u>	<u>\$ 294,415</u>	<u>\$ 2,265,534</u>