

**CITY OF TEHACHAPI
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2006**

**City of Tehachapi
Annual Financial Report
For the Fiscal Year Ended June 30, 2006**

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Mayer Hoffman McCann P.C.
An Independent CPA Firm

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, 2006, 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, 2006, 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 October 14, 2006, 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 considered in conjunction with this report in considering the results of our audit.

SOUTHERN CALIFORNIA LOCATIONS

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The management's discussion and analysis and budgetary comparison information on pages 3 through 11 and on pages 61 through 63 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 non-major 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 non-major 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.



Bakersfield, California
October 14, 2006

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, 2006. 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 \$16,525,725 as a result of this year's operations.
- Total City's revenues, including program and general revenues, were \$12,422,564, an increase of \$2,345,883 from the prior year.
- Net assets in governmental funds increased \$1,327,891, and net assets in business activities increased \$1,198,460.
- Governmental revenue was increased by \$1,976,919 to \$6,460,718.
- Governmental expense was increased by \$689,960 to \$5,132,827.
- Revenues from business-type activities increased by \$368,961 to \$5,961,846.
- Expenses from business-type activities increased by \$225,935 to \$4,766,464.
- General fund revenue was increased by \$534,492 to \$3,978,657.
- General fund balance as of June 30, 2006 is \$2,678,504 an increase from operations of \$74,388 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 by specific program revenue.

The business-type activities include Refuse, Water, Sewer, Transit, Community Development and Airport fund. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Government-wide Financial Statements (Continued)

The basic financial statements are comprised of the following:

- Statement of Net Assets

The Statement of Net 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 government-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 categories: 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 Governmental Accounting Standard Boards (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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governmental Funds (Continued)

The City of Tehachapi maintains 25 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditure and changes in fund balances for the General Fund, Redevelopment Agency Fund and Low and Moderate Housing Fund which are considered to be major funds. Data from the other 19 governmental funds are combined into a single, aggregated presentation.

Proprietary Funds

The only type of Proprietary funds for the City of Tehachapi maintains are enterprise funds. The Refuse, Water, Sewer, Transit, Community Development 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 Water and Sewer funds to be major funds and Refuse, Community Development, Transit and Airport funds are 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 exceeded liabilities by \$16,525,725 at June 30, 2006.

The largest portion (52%) of the City's net assets is restricted funds (\$8,537,824) mainly due to issuance 2005 RDA Tax Allocation Revenue Bonds in the amount of \$8,780,000. The restricted funds are subject to external restrictions on how they may be used.

The Investments in Capital Assets (e.g. land, buildings, machinery and equipment) Net of Related Debt was decreased to \$4,749,435 (29% of total net assets) from \$6,696,315 again due to issuance of bonds by RDA. 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 remaining balance of unrestricted net assets, \$3,238,466 (20%) may be used to meet the government's ongoing obligations to citizens, creditors and to meet City imposed designations (e.g. reserves, endowments, pending litigations, contingencies, capital projects).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Overview of the City's Financial Position and Operations (Continued)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and Other Assets	10,619,209	5,160,911	3,295,996	3,924,475	13,915,205	9,085,386
Capital Assets	9,579,120	8,688,620	13,339,743	12,369,020	22,918,863	21,057,640
Total Assets	<u>20,198,329</u>	<u>13,849,531</u>	<u>16,635,739</u>	<u>16,293,495</u>	<u>36,834,068</u>	<u>30,143,026</u>
Current Liabilities	986,565	467,380	1,035,483	1,320,891	2,022,048	1,788,271
Long-term Liabilities	9,891,170	5,389,448	8,395,125	8,965,933	18,286,295	14,355,381
Total Liabilities	<u>10,877,735</u>	<u>5,856,828</u>	<u>9,430,608</u>	<u>10,286,824</u>	<u>20,308,343</u>	<u>16,143,652</u>
Investments in Capital, net of related debt	(195,183)	3,293,228	4,944,618	3,403,087	4,749,435	6,696,315
Restricted	6,795,758	1,945,338	1,742,066	555,769	8,537,824	2,501,107
Unrestricted	2,720,019	2,754,137	518,447	2,047,815	3,238,466	4,801,952
Total Net Assets	<u>9,320,594</u>	<u>7,992,703</u>	<u>7,205,131</u>	<u>6,006,671</u>	<u>16,525,725</u>	<u>13,999,374</u>

The City started capturing its capital assets in governmental funds since 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 was fallen under the implementation phase III due to the size of its revenue in fiscal year 1999/2000.

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 \$1,327,891 there by accounting for 17% of the total growth in the City's net assets mainly due to 44% increase of the revenue. The major contribution was made by the increase of sales tax (14%), property tax (37%), license and permits (26%), interest income (77%) and other taxes (70%) such as business license tax (30%); transient occupancy tax (24%) franchise tax (11%) and motor vehicle tax (25%). The detailed information on statement of activities is as shown on the following:

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Activities

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program Revenues:						
Charges for Services			4,527,091	4,188,304	4,527,091	4,188,304
Operating contribution & Grants	919,595	691,969	526,794	245,712	1,446,389	937,681
Capital Grants & Contribution		117,264				117,264
General Revenues:						
Property taxes	1,414,474	1,033,106			1,414,474	1,033,106
Sales Taxes	1,407,956	1,240,112			1,407,956	1,240,112
Other Taxes	1,219,166	715,596			1,219,166	715,596
License and permits	688,669	548,400			688,669	548,400
Miscellaneous	640,903	335,676	835,760	801,516	1,476,663	1,137,192
Interest	155,955	88,168	86,201	70,858	242,156	159,026
Transfers	14,000	(286,495)	(14,000)	286,495	-	-
	<u>6,460,718</u>	<u>4,483,796</u>	<u>5,961,846</u>	<u>5,592,885</u>	<u>12,422,564</u>	<u>10,076,681</u>
Expenses						
Primary Government						
General Government	898,678	620,887			898,678	620,887
Administration	560,371	599,747			560,371	599,747
Public Works	1,280,751	1,529,286			1,280,751	1,529,286
Fire Department	1,064,122	550,021			1,064,122	550,021
Sheriff	861,257	789,806			861,257	789,806
Council	33,770	39,113			33,770	39,113
City Clerk	77,993	72,569			77,993	72,569
Treasurer	1,773	1,674			1,773	1,674
Interest	354,112	239,764			354,112	239,764
Business-type Activities						
Refuse			653,686	646,544	653,686	646,544
Water			1,464,563	1,353,438	1,464,563	1,353,438
Sewer			1,462,053	1,568,969	1,462,053	1,568,969
Transit			118,238	118,425	118,238	118,425
Airport			534,580	438,832	534,580	438,832
Community Development			533,344	414,321	533,344	414,321.00
Total Expense	<u>5,132,827</u>	<u>4,442,867</u>	<u>4,766,464</u>	<u>4,540,529</u>	<u>9,899,291</u>	<u>8,983,396</u>
Change in Net Assets	1,327,891	40,929	1,195,382	1,052,356	2,523,273	1,093,285
Net Assets at beginning of yr	7,992,703	7,954,283	6,006,671	4,965,592	13,999,374	12,919,875
Prior Period Adj		(2,509)	3,078	(11,277)	3,078	(13,786)
Net Assets at end of year	<u>9,320,594</u>	<u>7,992,703</u>	<u>7,205,131</u>	<u>6,006,671</u>	<u>16,525,725</u>	<u>13,999,374</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Business Type Activities

The City operates six business type activities. These are Refuse, Water, Sewer, Transit, Airport and Community Development funds. Of the total \$2,526,351 City wide net assets increase, \$1,198,460 (47% of total increase) was contributed by the business type activities.

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 reflected on a modified accrual basis.

Governmental Funds

As of June 30, 2006, the City's governmental funds reported combined ending fund balances of \$9,286,487. This number shows approximately 98% fund balance increase from the prior year caused by the proceeds received from 2005 RDA Tax Allocation Revenue Bonds. This fund balance is available for spending at the government's ongoing obligations to citizens and creditors although 51% 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 \$2,410,213. 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.

The *Redevelopment fund* has a total fund balance of \$5,415,452, most (78%) of which is reserved for capital projects within the designated project area and debt services as stated in the Bond indenture. The net increase in RDA fund balance during the current year was \$4,249,514 primarily due to issuance of 2005 RDA Tax Allocation Revenue Bonds.

20% of 2005 RDA Tax Allocation Revenue Bonds proceeds was allocated to *RDA Low and Moderate Housing Fund* and as a result, this fund was presented as one of the major governmental funds.

Proprietary Funds.

Unrestricted net assets of the Water and Sewer funds at the end of the year are \$177,763 and \$419,288 respectively. The Water and Sewer funds showed increase of net assets by \$527,960 and \$547,770. These increases were mostly caused by the new connections as a result of growth of the community.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

GENERAL FUND BUDGETARY HIGHLIGHTS

A detailed budgetary comparison schedule for the year ended June 30, 2006 is presented as required supplementary information following the notes to the financial statements. The final budget amounts are different from those presented in the 2005/06 – 2009/10 original five-year budget documents. It is due to changes that occurred between the original budget and mid year budget adjustments.

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues	3,540,420	3,557,036	3,978,657	421,621
Expenditures	3,596,934	4,035,126	3,900,900	134,226
Other Souces (Uses)	0	(8,874)	(3,369)	5,505
Net changes in fund balances	(56,514)	(486,964)	74,388	561,352
Fund Balance Beginning (Adjusted)	2,604,116	2,754,140	2,604,116	150,024
Fund Balance - Ending	2,547,602	2,267,176	2,678,504	711,376

Overall, the actual ending fund balance is \$561,352 more than what was budgeted in final budget. The major contributions to this positive variance are mainly from increase in revenue such as sales tax (\$168,880), property tax (\$77,333), transient lodging tax (\$68,127), parking citation (\$46,563), business license tax (\$26,084) and State mandated cost reimbursement back pay (\$12,517). 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 \$74,388.

CAPITAL & DEBT ADMINISTRATION

Capital Assets

	Governmental Activities	Business-type Activities	Totals
Non-Depreciable Assets:			
Land	614,419	2,029,690	2,644,109
Total non-depreciable assets	614,419	2,029,690	2,644,109
Depreciable Assets (net of accumulated depreciation)			
Buildings	545,576	5,010,698	5,556,274
Improvements other than building	4,069,187	3,030,756	7,099,943
Machinery and equipment	1,141,483	627,467	1,768,950
Construction in progress	3,238,455	2,641,132	5,879,587
Total depreciable assets-net	8,994,701	11,310,053	20,304,754
Total Capital Assets	9,609,120	13,339,743	22,948,863

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CAPITAL & DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

The City of Tehachapi's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounts to \$22,918,863 (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	8,632,772	7,779,771	16,412,543
Loans	-	110,526	110,526
Capital Leases	1,141,527	504,828	1,646,355
Compensated absences	116,871	-	116,871
Total Long-Term Liabilities	<u>9,891,170</u>	<u>8,395,125</u>	<u>18,286,295</u>

The City of Tehachapi's total debt was increased by \$3,930,913 during the current fiscal year. The major increase was contributed by the 2005 RDA Tax Allocation Revenue Bonds issuance.

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

Following factors were taken into consideration in the budget for the next fiscal year:

- Cost of living increase of 4.4% for miscellaneous and safety category employees.
- Twelve additional staff was budgeted. Eleven of the twelve are for the City's new Police Department and one for the Water Department.
- An additional three hundred new connections were considered to calculate various revenues such as water and sewer use fees, water and sewer connection fees and building permits in this budget.
- \$100,000 was set aside for a fire study.
- \$1,003,071 was budgeted for the City's new Police Department start up cost.

Although house sales have slowed down in the Greater Tehachapi area as a whole, the building of new homes within the City limit continued at the same pace as the last fiscal year. There are more than three hundred homes in the process of being built or ready to be built, three major shopping malls are currently under construction, and several smaller commercial buildings are also under construction this fiscal year. Furthermore, one upscale hotel is in the process of plan approval.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CAPITAL & DEBT ADMINISTRATION (CONTINUED)

The housing market throughout California is slowing and Tehachapi obviously will not be an exception. However, the City has not seen signs of a significant decrease in new construction this fiscal year.

UCLA Anderson Forecast predicts the California economy in 2007 as follows:

Economist Ryan Ratcliff reported earlier in 2006 that "slowing housing markets will create a significant slowdown in the California economy, but will not create a recession without a secondary source of weakness." The central message of the forecast remains unchanged. The construction sector will continue to weaken, with total residential permit activity and construction employment hitting bottom in late 2007. The report also looks closely at two potential sources for that additional weakness – a negative wealth effect and/or a state budget crisis – but concludes that neither will be serve enough, "to create a recession."

As of yet, it is unknown if the City of Tehachapi will follow the UCLA Anderson Forecast group's prediction, but it seems that Tehachapi's construction related economy is somewhat mild compared to what was predicted by above report.

As was done in previous years, the City used conservative measures to budget its revenue as well as expenditures. For the major General Fund revenue projection, trend analysis as well as growth projections were used.

BASIC FINANCIAL STATEMENTS

**CITY OF TEHACHAPI
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 837,559	\$ 1,009,818	\$ 1,847,377
Short-term investments	8,265,382	402,668	8,668,050
Receivables (net of allowance)	278,580	932,800	1,211,380
Due from trust and agency funds	97,215	-	97,215
Internal balances	455,122	(455,122)	-
Prepays	22,728	-	22,728
Deferred Charges	417,060	1,170,832	1,587,892
Capital assets (net of accumulated depreciation):			
Land	614,419	2,029,690	2,644,109
Buildings	515,576	5,010,698	5,526,274
Improvements other than building	4,069,187	3,030,756	7,099,943
Machinery and equipment	1,141,483	627,467	1,768,950
Construction in progress	3,238,455	2,641,132	5,879,587
Advance to trust and agency funds	245,563	-	245,563
Other assets	-	235,000	235,000
Total assets	20,198,329	16,635,739	36,834,068
LIABILITIES			
Accounts payable and accrued liabilities	915,663	602,175	1,517,838
Accrued interest payable	70,902	-	70,902
Other liabilities	-	97,362	97,362
Deferred revenue	-	335,946	335,946
Noncurrent liabilities:			
Due within one year	274,307	506,588	780,895
Due in more than one year	9,616,863	7,888,537	17,505,400
Total liabilities	10,877,735	9,430,608	20,308,343
NET ASSETS			
Invested in capital assets, net of related debt	(195,183)	4,944,618	4,749,435
Restricted for:			
Highways and streets	210,012	-	210,012
Public Safety	632,512	-	632,512
Debt Service	187,773	1,741,877	1,929,650
Transit	-	189	189
Other purposes	5,765,461	-	5,765,461
Unrestricted	2,720,019	518,447	3,238,466
Total net assets	\$ 9,320,594	\$ 7,205,131	\$ 16,525,725

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, 2006**

Functions/Programs	Program Revenues				Primary Government		Total
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Grants and Contributions	Governmental Activities	Business-type Activity	
Primary Government							
Governmental activities:							
General government	\$ 898,678	\$ -	\$ -	\$ -	\$ (898,678)	\$ -	\$ (898,678)
Administration	560,371	-	-	-	(560,371)	-	(560,371)
Public works and Planning	1,280,751	-	438,091	-	(842,660)	-	(842,660)
Fire department	1,064,122	-	-	-	(1,064,122)	-	(1,064,122)
Sheriff	861,257	-	481,504	-	(379,753)	-	(379,753)
Council	33,770	-	-	-	(33,770)	-	(33,770)
City clerk	77,993	-	-	-	(77,993)	-	(77,993)
Treasurer	1,773	-	-	-	(1,773)	-	(1,773)
Interest	354,112	-	-	-	(354,112)	-	(354,112)
Total governmental activities	5,132,927	-	919,595	-	(4,213,232)	-	(4,213,232)
Business-type activities:							
Refuse	653,686	643,320	-	-	-	(10,366)	(10,366)
Water	1,464,563	1,467,612	20,000	-	-	23,049	23,049
Sewer	1,462,053	1,950,558	-	-	-	488,505	488,505
Transit	118,238	-	106,984	-	-	(11,254)	(11,254)
Airport	534,580	262,431	399,810	-	-	127,661	127,661
Community Development Department	533,344	203,170	-	-	-	(330,174)	(330,174)
Total business-type activities	4,766,464	4,527,091	526,794	-	-	287,421	287,421
Total primary government	\$ 9,899,291	\$ 4,527,091	\$ 1,446,389	\$ -	\$ (4,213,232)	\$ 287,421	\$ (3,925,811)
General revenues:							
Property taxes					1,414,474	-	1,414,474
Sales taxes					1,407,956	-	1,407,956
Other taxes					1,219,166	-	1,219,166
Licenses and permits					688,669	-	688,669
Miscellaneous					640,903	835,760	1,476,663
Interest					155,955	86,201	242,156
Transfers					14,000	(14,000)	-
Total general revenues and transfers					5,541,123	907,961	6,449,084
Change in net assets					1,327,891	1,195,382	2,523,273
Net assets beginning of year - unadjusted					7,992,703	6,006,671	13,999,374
Prior period and depreciation adjustments					-	3,078	3,078
Net assets beginning of year - adjusted					7,992,703	6,009,749	14,002,452
Net assets at end of year					\$ 9,320,594	\$ 7,205,131	\$ 16,525,725

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

**CITY OF TEHACHAPI
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	General	RDA Debt Service	RDA Low Moderate Housing
ASSETS			
Cash and short-term investments	1,254,692	3,652,257	1,710,937
Receivables (net of allowance)	200,958	39,968	13,323
Due from other funds	1,286,247	-	-
Prepays	22,728	-	-
Advance to other funds	245,563	-	-
Total assets	<u>3,010,188</u>	<u>3,692,225</u>	<u>1,724,260</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	331,684	1,034	-
Due to other funds	-	-	-
Total liabilities	<u>331,684</u>	<u>1,034</u>	<u>-</u>
Fund balances:			
Reserved	268,291	3,377,127	844,282
Unreserved	2,410,213	314,064	879,978
Total fund balance	<u>2,678,504</u>	<u>3,691,191</u>	<u>1,724,260</u>
Total liabilities and fund balances	<u>3,010,188</u>	<u>3,692,225</u>	<u>1,724,260</u>

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

**CITY OF TEHACHAPI
BALANCE SHEET
GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2006**

	Other Governmental Funds	Totals 2006
ASSETS		
Cash and short-term investments	2,485,055	9,102,941
Receivables (net of allowance)	24,331	278,580
Due from other funds	-	1,286,247
Prepays	-	22,728
Advance to other funds	-	245,563
Total assets	2,509,386	10,936,059
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	582,945	915,663
Due to other funds	733,910	733,910
Total liabilities	1,316,855	1,649,573
 Fund balances:		
Reserved	-	4,489,700
Unreserved	1,192,531	4,796,786
Total fund balance	1,192,531	9,286,486
 Total liabilities and fund balances	2,509,386	10,936,059

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, 2006**

Fund balances of governmental funds	\$ 9,286,486
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.	9,579,120
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	(8,632,772)
Capital leases payable	(1,141,527)
Compensated Absences	(116,871)
Accrued interest payable is not reported in the governmental funds.	(70,902)
Unamortized issuance costs on revenue bonds payable has not been reported in the governmental funds.	<u>417,060</u>
Net assets of governmental activities	<u><u>\$ 9,320,594</u></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, 2006**

	<u>General</u>	<u>RDA Debt Service</u>	<u>RDA Low Moderate Housing</u>
REVENUES			
Grants	-	-	-
Property taxes	732,097	503,093	179,284
Sales taxes	1,407,956	-	-
Other taxes	852,645	-	-
Licenses and permits	688,669	-	-
Other sources of funds	-	-	-
Interest	88,090	39,056	12,601
Miscellaneous	209,200	-	-
Total revenues	<u>3,978,657</u>	<u>542,149</u>	<u>191,885</u>
EXPENDITURES			
Current			
General government	683,136	-	-
Administration	134,756	365,199	60,416
Public works	792,330	-	-
Planning	-	-	-
Fire department	1,087,525	-	-
Sheriff	1,079,044	-	-
Council	33,770	-	-
City clerk	77,993	-	-
Treasurer	1,773	-	-
Debt Service			
Interest expense	10,573	240,801	60,200
Principal	-	3,244,000	811,000
Bond issuance costs	-	102,522	25,630
Bond insurance premium	-	203,568	50,892
Total expenditures	<u>3,900,900</u>	<u>4,156,090</u>	<u>1,008,138</u>
Excess (deficiency) of revenues over (under) expenditures	<u>77,757</u>	<u>(3,613,941)</u>	<u>(816,253)</u>
OTHER FINANCING SOURCES(USES)			
Refunding bond proceeds	-	7,024,000	1,756,000
Discount on issuance	-	(141,212)	(35,303)
Premium on refunding bond	-	60,978	15,245
Transfers in	-	-	-
Transfers out	(3,369)	-	-
Total other financing sources (uses)	<u>(3,369)</u>	<u>6,943,766</u>	<u>1,735,942</u>
Net change in fund balances	74,388	3,329,825	919,689
Fund balances - beginning	2,754,140	361,366	804,571
Prior Period Adjustment	(150,024)	-	-
Total adjusted fund balance - beginning	<u>2,604,116</u>	<u>361,366</u>	<u>804,571</u>
Fund balances - ending	<u>2,678,504</u>	<u>3,691,191</u>	<u>1,724,260</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, 2006**

	Other Governmental Funds	Totals 2006
REVENUES		
Grants	919,596	919,596
Property taxes	-	1,414,474
Sales taxes	-	1,407,956
Other taxes	366,520	1,219,165
Licenses and permits	-	688,669
Other sources of funds	431,699	431,699
Interest	16,208	155,955
Miscellaneous	-	209,200
Total revenues	<u>1,734,023</u>	<u>6,446,714</u>
EXPENDITURES		
Current		
General government	-	683,136
Administration	-	560,371
Public works	545,881	1,338,211
Planning	942,404	942,404
Fire department	-	1,087,525
Sheriff	-	1,079,044
Council	-	33,770
City clerk	-	77,993
Treasurer	-	1,773
Debt Service		
Interest expense	-	311,574
Principal	-	4,055,000
Bond issuance costs	-	128,152
Bond insurance premium	-	254,460
Total expenditures	<u>1,488,285</u>	<u>10,553,413</u>
Excess (deficiency) of revenues over (under) expenditures	<u>245,738</u>	<u>(4,106,699)</u>
OTHER FINANCING SOURCES(USES)		
Refunding bond proceeds	-	8,780,000
Discount on issuance	-	(176,515)
Premium on refunding bond	-	76,223
Transfers in	55,546	55,546
Transfers out	(38,177)	(41,546)
Total other financing sources (uses)	<u>17,369</u>	<u>8,693,708</u>
Net change in fund balances	263,107	4,587,009
Fund balances - beginning	779,400	4,699,477
Prior Period Adjustment	150,024	-
Total adjusted fund balance - beginning	<u>929,424</u>	<u>4,699,477</u>
Fund balances - ending	<u>1,192,531</u>	<u>9,286,486</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 GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

Net changes in fund balances - total governmental funds	\$ 4,587,009
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.	890,501
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.	(8,780,000)
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.	4,226,260
Accrued interest payable is not reported in the governmental funds.	(5,177)
The statement of net assets includes unamortized issuance costs on long term debt.	440,275
To record the net change in compensated absences in the statement of activities.	(30,977)
Change in net assets of governmental activities	\$ 1,327,891

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

**CITY OF TEHACHAPI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006**

	Water Fund	Sewer Fund
ASSETS		
Current assets:		
Cash and short-term investments	\$ 620,860	\$ 763,709
Receivables (net of allowance)	209,266	245,918
Due from other funds	1,098,267	179,876
Total current assets	1,928,393	1,189,503
Noncurrent assets:		
Deferred charges	297,494	873,338
Other assets	-	-
Capital assets:		
Land	1,358,533	613,613
Construction in progress	1,882,035	566,306
Buildings	774,582	8,848,378
Machinery and equipment	432,103	477,985
Improvements other than building	2,618,711	608,169
Less accumulated depreciation	(2,208,292)	(4,329,893)
Total capital assets (net of accumulated depreciation)	4,857,672	6,784,558
Total noncurrent assets	5,155,166	7,657,896
Total assets	\$ 7,083,559	\$ 8,847,399
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 144,276	\$ 112,587
Due to other funds	1,098,267	179,876
Customer deposits payable	58,771	-
Other current liabilities	-	-
Capital lease payable - current	24,468	36,486
Current portion of long-term debt	79,180	359,435
Total current liabilities	1,404,962	688,384
Deferred revenue	49,843	306,180
Noncurrent liabilities:		
Capital leases	81,290	362,584
Notes and bonds payable	2,174,798	5,166,358
Total noncurrent liabilities	2,256,088	5,528,942
Total liabilities	3,710,893	6,523,506
NET ASSETS		
Invested in capital assets, net of related debt	2,497,936	859,695
Restricted for debt service	696,967	1,044,910
Unrestricted	177,763	419,288
Total net assets	\$ 3,372,666	\$ 2,323,893

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, 2006**

	Non-Major Proprietary Funds	Total Current Year
ASSETS		
Current assets:		
Cash and short-term investments	\$ 27,917	\$ 1,412,486
Receivables (net of allowance)	477,616	932,800
Due from other funds	-	1,278,143
Total current assets	505,533	3,623,429
Noncurrent assets:		
Deferred charges	-	1,170,832
Other assets	235,000	235,000
Capital assets:		
Land	57,543	2,029,689
Construction in progress	192,792	2,641,133
Buildings	1,025,504	10,648,464
Machinery and equipment	243,194	1,153,282
Improvements other than building	1,515,693	4,742,573
Less accumulated depreciation	(1,337,213)	(7,875,398)
Total capital assets (net of accumulated depreciation)	1,697,513	13,339,743
Total noncurrent assets	1,932,513	14,745,575
Total assets	\$ 2,438,046	\$ 18,369,004
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 345,312	\$ 602,175
Due to other funds	455,122	1,733,265
Customer deposits payable	23,407	82,178
Other current liabilities	15,184	15,184
Capital lease payable - current	-	60,954
Current portion of long-term debt	7,019	445,634
Total current liabilities	846,044	2,939,390
Deferred revenue	(20,077)	335,946
Noncurrent liabilities:		
Capital leases	-	443,874
Notes and bonds payable	103,507	7,444,663
Total noncurrent liabilities	103,507	7,888,537
Total liabilities	929,474	11,163,873
NET ASSETS		
Invested in capital assets, net of related debt	1,586,987	4,944,618
Restricted for debt service	189	1,742,066
Unrestricted	(78,604)	518,447
Total net assets	\$ 1,508,572	\$ 7,205,131

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, 2006**

	Water Fund	Sewer Fund
	<u> </u>	<u> </u>
OPERATING REVENUES:		
Charges for services	\$ 1,467,612	\$ 1,950,558
Grants	20,000	-
Miscellaneous	460,848	28,525
	<u>1,948,460</u>	<u>1,979,083</u>
Total operating revenues		
Operating expenses:		
Personnel services	488,489	399,745
Maintenance and operations	668,526	387,846
Depreciation	149,751	354,462
	<u>1,306,766</u>	<u>1,142,053</u>
Total operating expenses		
OPERATING INCOME	<u>641,694</u>	<u>837,030</u>
Nonoperating revenues (expenses):		
Intergovernmental	-	-
Interest income	40,941	44,740
Interest expense	(157,797)	(320,000)
	<u>(116,856)</u>	<u>(275,260)</u>
Total nonoperating revenues (expenses)		
Income before operating transfers	524,838	561,770
Transfers out	-	(14,000)
Change in net assets	<u>524,838</u>	<u>547,770</u>
Net assets - beginning	2,844,706	1,776,123
Prior period/ depreciation adjustment	3,122	-
	<u>2,847,828</u>	<u>1,776,123</u>
NET ASSETS - ENDING	<u><u>\$ 3,372,666</u></u>	<u><u>\$ 2,323,893</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 (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

	Non-Major Proprietary Funds	Totals
OPERATING REVENUES:		
Charges for services	\$ 1,108,921	\$ 4,527,091
Grants	399,810	419,810
Miscellaneous	346,387	835,760
Total operating revenues	<u>1,855,118</u>	<u>5,782,661</u>
Operating expenses:		
Personnel services	616,349	1,504,583
Maintenance and operations	1,191,174	2,247,546
Depreciation	26,414	530,627
Total operating expenses	<u>1,833,937</u>	<u>4,282,756</u>
OPERATING INCOME	<u>21,181</u>	<u>1,499,905</u>
Nonoperating revenues (expenses):		
Intergovernmental	106,984	106,984
Interest income	520	86,201
Interest expense	(5,911)	(483,708)
Total nonoperating revenues (expenses)	<u>101,593</u>	<u>(290,523)</u>
Income before operating transfers	122,774	1,209,382
Transfers out	-	(14,000)
Change in net assets	<u>122,774</u>	<u>1,195,382</u>
Net assets - beginning	1,385,842	6,006,671
Prior period/depreciation adjustment	(44)	3,078
	<u>1,385,798</u>	<u>6,009,749</u>
NET ASSETS - ENDING	<u>\$ 1,508,572</u>	<u>\$ 7,205,131</u>

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, 2006**

	Enterprise
CASH FLOWS FROM OPERATING ACTIVITIES	
Total operating revenues	\$ 5,292,676
Personnel services	(1,504,583)
Maintenance and operations	(2,220,670)
Net cash provided by operating activities	1,567,423
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	
Operating transfers out	(14,000)
Intergovernmental revenue	115,830
Net cash provided by noncapital and related financing activities	101,830
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of fixed assets	(1,512,626)
Interest expense (net of discount amortization)	(383,874)
Payments on capital lease obligations	(54,112)
Payments on long-term debt	(530,444)
Net cash used in capital and related financing activities	(2,481,056)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	
Interest received	86,201
Net cash provided by investing activities	86,201
Net Decrease in Cash	(725,602)
Cash, beginning of year	2,138,090
Cash, end of year	\$ 1,412,488
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 1,499,905
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation	530,627
(Increase) decrease in:	
Receivables	(466,819)
Due from other funds	(884,346)
Deferred charges other assets	7,114
Increase (decrease) in:	
Accounts payable	(240,770)
Due to other funds	1,151,992
Deposits payable	22,481
Other current liabilities	(20,182)
Deferred revenues	(32,579)
Net cash provided by operating activities	\$ 1,567,423
NON CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:	
Depreciation Adjustment to Net Assets	(11,277)

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, 2006**

	<u>Total Trust and Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 184,808
Short-term investments	155,904
Receivables (net of allowance)	21,093
Due from other funds	7,412
Advances to other funds	245,563
Due from bond holders	174,402
Other assets	<u>383,863</u>
 Total assets	 <u><u>1,173,045</u></u>
LIABILITIES	
Deposits	\$ 25,688
Due to other funds	104,627
Due to bond holders	551,604
Advances from other funds	<u>491,126</u>
 Total liabilities	 <u><u>\$ 1,173,045</u></u>

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

CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

(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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

(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 a 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 *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).

CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

(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, and water utility* 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 inter-fund 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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

(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.
- Guaranteed Investment Contract

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

For all investments at June 30, 2006, 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"

CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

(CONTINUED)

(1) **Summary of significant accounting policies (Continued)**

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

2. Receivable and payables (continued)

(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.”

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.

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 \$5,000 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.

CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

(CONTINUED)

(1) **Summary of significant accounting policies (Continued)**

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

4. Capital assets (continued)

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 \$847,696. Of this amount \$0 was included as part of the cost of capital assets under construction.

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 BASIC FINANCIAL STATEMENTS
 JUNE 30, 2006

(CONTINUED)

(1) **Summary of significant accounting policies (Continued)**

E. 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.

(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 \$9,286,486 differs from “net assets” of governmental activities of \$9,320,594, reported in the statement of net assets. The details of this \$34,108 difference are as follows:

	Increases	Decreases	Balance
Fund balances for governmental activities			\$ 9,286,486

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:

	3,238,455	-	
Construction in progress			
Cost of capital assets	9,254,745	-	
Accumulated depreciation	-	(2,914,080)	
	12,493,200	(2,914,080)	

CITY OF TEHACHAPI
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2006

(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, 2006 were:			
Compensated absences	-	(116,871)	
Bonds payable	-	(8,632,772)	
Capital leases payable	-	(1,141,527)	
	-	(9,891,170)	
 <u>Accrued Interest</u>			
Interest is not accrued in the fund financial statements.			
		(70,902.00)	
<u>Issuance costs/discouts</u>			
Unamortized issuance costs and discounts are capitalized and amortized in the statement of net assets			
	417,060		
<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.			
	733,910	(733,910)	
Net change	13,644,170	(13,610,062)	34,108
Net assets of governmental activities			\$ 9,320,594

CITY OF TEHACHAPI
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2006

(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 \$4,587,009 differs from the “changes in net assets” for the governmental activities of \$1,327,891 reported in the statement of activities. Details of this \$3,259,118 difference are as follows:

	Increases	Decreases	Balance
Net changes in fund balances for governmental activities			\$ 4,587,009
<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	1,438,574	-
	Depreciation expense	-	(548,073)
		1,438,574	(548,073)

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.

	-	(8,780,000)
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**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(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	4,226,260	-	
<u>Accrued interest</u>			
Interest is not accrued in the fund financial statements.	-	(5,177)	
<u>Issuance costs/discount</u>			
Issuance costs/discounts expensed in the governmental funds have been capitalized and amortized in the statement of activities	-	440,275	
<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	(30,977)	-	
<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.			
	55,546	(55,546)	
Net change	5,689,403	(8,948,521)	(3,259,118)
Net change in net assets for governmental activities			\$ 1,327,891

**CITY OF TEHACHAPI
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2006**

(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 budget 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 Funds:	
Surface Transportation Program	11,869
Oil Recycling Grant	200
TDA 3 Bike Safety	4,612
Lighting District	30,657
Landscaping and Light District	505
Capital Projects Funds:	
Park & Recreation Capital Project Fee Fund	876
Beekay Theatre	2,247
Downtown Master	67,635

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(CONTINUED)

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

C. Deficit fund equity

The following funds had deficit balances at June 30, 2006:

Special Revenue Funds:	
TDA 3 Bike Safety	\$ (189,601)
Community Development Grant	(36,813)
Gas Tax	(125,058)
Landscaping and Lighting District, LLD	(505)
Misc. Special Revenue	(12,475)
Capital Projects Funds:	
Railroad Depot	(120,716)
Broome Ranch Park	(5,000)
Park and Recreation Capital Project Fee Fund	(876)
Tehachapi Streetscape	(21,890)
Downtown Master Plan	(88,750)
TEA-05 Downtown Beautification	(683,316)

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

The following Business type activity fund had deficit balance at June 30, 2006:

Business - Type Activities:	
Community Development Department	\$ (114,266)

(4) Detailed notes on all funds

A. Cash and Investments

The City's cash, cash equivalents, and investments consist of the following at June 30, 2006:

Deposits	\$ 642,462
LAIF	1,375,223
Cash and cash equivalents	<u>2,017,685</u>
Investments	4,043,972
Investments with Fiscal Agents	4,794,485
Total	<u><u>\$ 10,856,142</u></u>

CITY OF TEHACHAPI
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2006

(CONTINUED)

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

A. Cash and investments (Continued)

The City's deposits and investments are reflected in the accompanying basic financial statements as follows:

	<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 837,559	\$ 927,947	\$ 184,808	\$ 1,950,314
Short-Term Investments	8,265,382	402,668	155,904	8,823,954
Restricted Cash	-	81,874	-	81,874
	<u>\$ 9,102,941</u>	<u>\$ 1,412,489</u>	<u>\$ 340,712</u>	<u>\$ 10,856,142</u>

Deposits

Custodial Credit Risks. Custodial credit risks is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's deposit policy requires deposits to be covered by the federal depository insurance and collateral having a market value of 110% of the uninsured deposit. As of June 30, 2006 none of the City's bank balance of \$642,462 (carrying amount of \$671,906) was exposed to custodial credit risk.

Investments

As of June 30, 2006, the City had the following investments:

<u>Investment Types</u>	<u>Book Value</u>	<u>Maturities in years</u>		
		<u>Less than 1</u>	<u>1 to 5</u>	<u>Over 5</u>
US Treasury Notes	402,668	133,941	268,727	
US Agencies	4,043,972		4,043,972	
Local Agency Investment Funds	1,375,223	1,375,223		
Guaranteed Investment Contract	4,189,418	4,189,418		
Commercial Paper	202,399	60,896	141,503	
	<u>10,213,680</u>	<u>5,759,478</u>	<u>4,454,202</u>	<u>-</u>

Authorized Investments

The investments listed above are managed by the City Treasurer and Fiscal agents (bond trustees acting in accordance with bond covenants). Investments managed by City Treasurer are invested in accordance with its respective investment policies. Investments managed by bond trustees are invested in accordance by provisions of the respective bond agreements, rather than the general provisions of the California Government Code or the City's Investment policy.

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(CONTINUED)

(4) Detailed notes on all funds (Continued)

A. Deposits and investments (Continued)

Authorized Investments (Continued)

The City's investments by the investments manager are as follows:

City Treasurer	\$ 5,419,195
Fiscal Agents (Bond trustees for the City and its component units)	4,794,485
	\$ 10,213,680

The City Treasurer has direct oversight over the City's pooled investment fund which covers cash and cash equivalents of the City's governmental funds, proprietary funds, and trust and agency funds which are invested in accordance with the City's investment policy. The investment policy generally complies with Californian Government Code Section 53601 and its primary detail is as follows:

	Authorized by Investment Policy	Maximum Maturity (years)	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Minumum Ratings
U.S. Treasury and Agencies	Yes	5	100%	100%	None
U.S. Treasury Bills, Notes, & Bonds	Yes	5	100%	100%	None
Local Agency Investment Funds	Yes	N/A	None	None	None
Guaranteed Investment Contract	Yes	N/A	None	None	AA
Certificate of Deposits (CDs)	Yes	5	30%	100%	A
Money Market Mutual Funds	Yes	N/A	15%	None	None
Commercial Paper	Yes	5	15%	None	

Investments with fiscal agents are investments held by the bond trustee. The City and its investment advisor selects the investment under the terms of the applicable trust agreement, directs the bond trustee to acquire the investment, and the bond trustee then holds the investment on the behalf of the City and /or its component units. Proceeds of bonds administered by bond trustees are also generally covered under the City Treasurer's investment policy; however, specific provisions of each issuance are usually used in managing such investments.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the City and its component units' investments to market rate fluctuations is provided in the table above that shows the distribution by maturity.

CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

(CONTINUED)

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

A. Deposits and investments (Continued)

Authorized Investments (Continued)

The City's investment policy generally complies with the State Government Code with respect to allowable investment instruments as a means of managing its fair value losses arising from changing interest rates. Guaranteed investment contracts are investments held by fiscal agents (bond trustees) and are restricted for construction projects and debt service.

Credit Risk and Concentration of Credit Risk

The City's investment policy complies with the State Government Code with respect to allowable investment instruments in managing its risks of loss related to credit risk and concentration of credit risk. At June 30, 2006 Standard & Poor's and Moody's rated the City's investments, except for those investments held by its bond of trustees, as AAA and Aaa, respectively. In addition, none of the investments categories listed above exceeded the maximum allowable percentage of its portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Custodial credit risk for LAIF is not determinable.

B. Restricted Cash

Included in cash and investments are restricted cash assets of \$4,794,485 held by the various bond trustees and fiscal agents, and \$58,771 and \$23,000 of customer deposits in the Water 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.

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(CONTINUED)

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

C. Receivables (Continued)

	General Fund	RDA Funds	Nonmajor and Other Funds	Total
Taxes	\$ 179,757	\$ 53,291	\$ -	\$ 233,048
Others	21,201	-	3,539	24,740
Accounts	-	-	961,181	961,181
Gross Receivables	200,958	53,291	964,720	1,218,969
Less: allowance for uncollectibles	-	-	(7,589)	(7,589)
Net total receivables	<u>\$ 200,958</u>	<u>\$ 53,291</u>	<u>\$ 957,131</u>	<u>\$ 1,211,380</u>

D. Capital assets

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 614,419	\$ -	\$ -	\$ 614,419
Construction in progress	2,079,148	1,199,755	(40,448)	3,238,455
Total capital assets, not being depreciated	<u>2,693,567</u>	<u>1,199,755</u>	<u>(40,448)</u>	<u>3,852,874</u>
Capital assets, being depreciated:				
Buildings	1,342,296	-	-	1,342,296
Machinery and equipment	2,334,405	209,872	(28,443)	2,515,834
Improvements other than building	4,710,431	71,765	-	4,782,196
Total capital assets being depreciated	<u>8,387,132</u>	<u>281,637</u>	<u>(28,443)</u>	<u>8,640,326</u>
Less accumulated depreciation for:				
Buildings	(780,204)	(46,516)	-	(826,720)
Machinery and equipment	(1,169,667)	(230,756)	26,072	(1,374,351)
Improvements other than building	(442,208)	(270,801)	-	(713,009)
Total accumulated depreciation	<u>(2,392,079)</u>	<u>(548,073)</u>	<u>26,072</u>	<u>(2,914,080)</u>
Total capital assets, being depreciated, net	<u>5,995,053</u>	<u>(266,436)</u>	<u>(2,371)</u>	<u>5,726,246</u>
Governmental activities capital assets, net	<u>\$ 8,688,620</u>	<u>\$ 933,319</u>	<u>\$ (42,819)</u>	<u>\$9,579,120</u>

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(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	\$ 2,029,690		\$ -	\$ 2,029,690
Construction in progress	1,467,119	1,431,318	(257,305)	2,641,132
Total capital assets, not being depreciated	<u>3,496,809</u>	<u>1,431,318</u>	<u>(257,305)</u>	<u>4,670,822</u>
Capital assets, being depreciated:				
Buildings	10,648,463		-	10,648,463
Machinery and equipment	835,615	341,990	(24,323)	1,153,282
Improvements other than building	4,742,572		-	4,742,572
Total capital assets being depreciated	<u>16,226,650</u>	<u>341,990</u>	<u>(24,323)</u>	<u>16,544,317</u>
Less accumulated depreciation for:				
Buildings	(5,320,031)	(317,734)	-	(5,637,765)
Machinery and equipment	(459,576)	(87,187)	20,948	(525,815)
Improvements other than building	(1,574,833)	(136,983)	-	(1,711,816)
Total accumulated depreciation	<u>(7,354,440)</u>	<u>(541,904)</u>	<u>20,948</u>	<u>(7,875,396)</u>
Total capital assets, being depreciated, net	<u>8,872,210</u>	<u>(199,914)</u>	<u>(3,375)</u>	<u>8,668,921</u>
Business-type activities capital assets, net	<u>\$ 12,369,019</u>	<u>\$ 1,231,404</u>	<u>\$ (260,680)</u>	<u>\$ 13,339,743</u>

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

Governmental activities:	
General government	\$ 548,073
Total depreciation expense - governmental activities	<u>\$ 548,073</u>
Business-type activities	
Water	\$ 149,752
Sewer	354,462
Airport	25,352
Community Development	12,338
Total depreciation expense - business-type activities	<u>\$ 541,904</u>

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(CONTINUED)

(4) Detailed notes on all funds (Continued)

D. Capital assets (Continued)

Construction commitments

The City has active construction projects as of June 30, 2006. At year-end the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
TEA-Downtown Street improvement	478,797	2,361,834
Airport Security	48,556	23,051
Total	<u>\$ 527,353</u>	<u>\$ 2,384,885</u>

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(CONTINUED)

(4) Detailed notes on all funds (Continued)

E. Inter-fund receivables, payables, and transfers

The composition of inter-fund balances as of June 30, 2006 is as follows:

Due to/from other funds:

	Receivable Fund	Payable Fund
General Fund	\$ 1,286,247	\$ -
Special Revenue:		
Community Development Grant	-	\$ 36,813
Misc Special Revenue Project	-	12,475
TDA 3 Bike Safety	-	189,601
Goodrick Road Assessment	-	1,597
Lighting District	-	505
Gas Tax	-	74,727
	-	315,718
Capital Projects:		
Railroad Depot	-	118,007
Tehachapi Streetscape	-	21,890
Underground Utility District # 5	-	5,000
Tea Grant Downtown B	-	193,864
Downtown Master	-	79,431
	-	418,192
Enterprise Funds:		
Refuse Fund	-	86,808
Airport Fund	-	214,450
Transit Fund	-	3,021
Sewer Fund	179,876	179,876
Water Utility	1,098,267	1,098,267
Community Development Department	-	150,843
	1,278,143	1,733,265
Trust and Agency Funds:		
Summit 89-2	-	77,153
Curry Highline 90-1	-	7,412
Mountain Meadows 90-1	7,412	-
Capital Hills 89-1	-	20,062
	7,412	104,627
	\$ 2,571,802	\$ 2,571,802

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(CONTINUED)

(4) Detailed notes on all funds (Continued)

E. Inter-fund receivables, payables, and transfers (Continued)

Advances to/from consist of the following at June 30, 2006.

	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	\$ 245,563	\$ -
Trust and Agency Funds:		
Capital Hills 89-1	-	85,764
Summit 89-2	-	98,233
Curry Highline 90-1	-	61,566
Special Districts Revolving Fund	245,563	245,563
	\$ 491,126	\$ 491,126

Operating Transfers consist of the following at June 30, 2006

General Fund:	
Transfer to Oil Recycling Grant Fund	\$ 2,463
Transfer Emission Reduction Project.	906
	3,369
Special Revenue Funds:	
Streets and Roads	
Transfer to Gas Tax	38,177
	38,177
Enterprise Funds:	
Sewer Utility	
Transfer to Capital Equipment Replacement	14,000
	\$ 55,546

:

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(CONTINUED)

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

F. Other Assets

Other assets at June 30, 2006 consist of the following:

	Trust and Agency Fund	Total
Foreclosure receivables	\$ 383,863	\$ 383,863
	\$ 383,863	\$ 383,863

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. The City received a profit sharing payment of \$0 for the year ending June 30, 2006.

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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(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	434,226
Less: Accumulated depreciation	<u>(739,578)</u>	<u>(130,121)</u>
Total	<u><u>1,244,966</u></u>	<u><u>499,824</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

Year Ending June 30,	Governmental Activities	Business Activities
2007	190,215	60,954
2008	98,388	60,400
2009	98,376	46,645
2010	87,155	35,366
2011	87,142	35,364
2012-2016	243,244	176,778
2017-2021	242,874	151,311
2022-2026	242,440	49,656
2027-2031	241,934	49,553
2032-2036	<u>48,315</u>	<u>12,212</u>
	1,580,083	678,239
Less amount representing interest	<u>(438,056)</u>	<u>(173,411)</u>
Present value of net minimum lease payments	<u><u>\$1,142,027</u></u>	<u><u>\$504,828</u></u>

H. Long term debt

Changes in General Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	July 1, 2005	Additions	Deletions	June 30, 2006	Due Within One Year
Governmental activities:					
Bonds payable	\$ 4,055,000	\$ 8,780,000	\$(4,055,000)	\$ 8,780,000	125,000
Less deferred amounts:					
For issuance discounts	<u>(64,232)</u>	<u>(100,292)</u>	17,296	<u>(147,228)</u>	-
Total bonds payable	3,990,768	8,679,708	(4,037,704)	8,632,772	125,000
Capital leases	1,312,786	-	(171,256)	1,141,527	149,307
Compensated absences	85,894	30,977	-	116,871	-
Governmental activity					
Long-term liabilities	<u><u>\$ 5,389,448</u></u>	<u><u>\$ 8,710,685</u></u>	<u><u>\$(4,208,960)</u></u>	<u><u>\$ 9,891,170</u></u>	<u><u>\$ 274,307</u></u>

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(CONTINUED)

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

H. Long term debt (Continued)

Changes in General Long-Term Liabilities (Continued)

	<u>6/30/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2006</u>	<u>Due Within One Year</u>
Business-type activities:					
2004 Forward Refunding Revenue B	\$ 3,770,000	\$ -	\$ 115,000	\$ 3,655,000	\$ 120,000
1993 State Revolving Loan	1,525,986	-	150,209	1,375,777	154,715
1998 Sewer and Water COP	268,100	-	3,700	264,400	3,900
2000 Sewer and Water COP	2,920,000	-	255,000	2,665,000	160,000
Less deferred amounts:	-	-	-	-	-
For issuance discounts	(194,154)	-	(13,748)	(180,406)	-
Total bonds payable	<u>8,289,932</u>	<u>-</u>	<u>510,161</u>	<u>7,779,771</u>	<u>438,615</u>
Department of Transportation					
Loan	117,061	-	6,535	110,526	7,019
Capital leases	<u>558,940</u>	<u>-</u>	<u>54,112</u>	<u>504,828</u>	<u>60,954</u>
Business-type activity					
Long-term liabilities	<u>\$ 8,965,933</u>	<u>\$ -</u>	<u>\$ 570,808</u>	<u>\$ 8,395,125</u>	<u>\$ 506,588</u>

Governmental Activities

In December 2005, the Tehachapi Redevelopment Agency issued Tehachapi Redevelopment Project Revenue bonds in the amount of \$8,780,000. These bonds were issued for the purpose of refunding the Agency's \$1,555,000 2004 Subordinate Tax Allocation Notes and the Agency's \$2,500,000 2002 Tax Allocation Notes. A portion of the net proceeds of the Bonds will also be used to fund certain redevelopment activities of benefit to the Tehachapi Redevelopment Agency (the "Project Area"), including amounts which will be deposited into a special escrow fund for future release. Proceeds of the Bonds will also be used to establish a Reserve Fund, provide capitalized interest through December 1, 2008 on the Special Escrow Bonds, and to pay costs of issuance for the Bonds. The Bonds are secured by a pledge of tax revenues. The Bonds will mature on December 1, 2035 and the interest rate ranges between 3.25% to 5.25% over the life of the bonds. Interest is payable semiannually on June 1st and December 1st of each year commencing June 1, 2006. The notes are subject to redemption at the option of the agency on or after June 1, 2006.

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(CONTINUED)

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

H. Long term debt (Continued)

The annual debt service requirements to maturity of the 2005 Tehachapi Redevelopment Project Bonds are as follows:

Year Ending June 30,	Principal	Interest
2007	\$ 125,000	412,554
2008	110,000	408,653
2009	115,000	404,713
2010	120,000	399,385
2011	125,000	392,715
2012 and thereafter	8,185,000	6,166,006
	<u>8,780,000</u>	<u>8,184,026</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, 2006 are as follows:

Description	Interest Rates	Amounts
2004 Water and Sewer Revenue Forward Refunding	6.69% (average)	\$ 3,655,000
1993 State Revolving Loan	3.00%	1,375,778
1998 Sewer and Water COP	4.50%	264,400
2000 Sewer and Water COP	5.51% (average)	2,665,000
Department of Transportation Loan Fuel Tank	5.05%	110,526
		<u>8,070,704</u>
Less: Unamortized discount		(180,404)
		<u>\$ 7,890,300</u>

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(CONTINUED)

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

H. Long term debt (Continued)

The annual debt service requirements to maturity for the 2004 Water and Sewer Forward Refunding Revenue Bond and 2000 Sewer and Water COP are as follows:

Year Ending June 30,	Principal	Interest
2007	280,000	277,543
2008	295,000	266,680
2009	305,000	254,857
2010	325,000	242,048
2011	340,000	227,661
2012-2016	2,045,000	869,112
2017-2021	2,730,000	341,238
	<u>6,320,000</u>	<u>2,479,139</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
2007	154,715	41,273
2008	159,356	36,632
2009	164,147	31,851
2010	169,061	26,927
2011	174,133	21,855
2012-2016	554,366	33,950
Total	<u>\$ 1,375,778</u>	<u>\$ 192,488</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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(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
2007	3,900	11,899
2008	4,000	11,722
2009	4,200	11,542
2010	4,400	11,354
2011	4,600	11,156
2012-2016	26,200	52,484
2017-2021	32,600	46,037
2022-2026	40,900	38,016
2027-2031	50,700	27,941
2032-2036	63,400	15,444
2037-2040	29,500	2,007
Total	<u>\$ 264,400</u>	<u>\$ 239,602</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
2007	7,019	5,581
2008	7,503	5,227
2009	7,987	4,848
2010	8,471	4,445
2011	8,956	4,017
2012-2016	52,040	12,812
2017-2021	18,550	1,275
	<u>\$ 110,526</u>	<u>\$ 38,205</u>

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(CONTINUED)

(4) Detailed notes on all funds (Continued)

H. Long term debt (Continued)

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 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.

On November 1, 2004, the City issued 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 Bond with an aggregated principal amount of \$2,970,000 and to pay the cost of issuance of the Bonds. The acquisition price exceeded the net carrying value of the old debt by \$261,937 which is being amortized over the life of the new debt, which is equal to the remaining life of the refunded debt. 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.

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 \$4,905,000 at June 30, 2006.

Due to delinquent annual levies amounting to \$4,670,480, limited obligation bonds amounting to \$ 4,905,000 (principal only) are in default at June 30, 2006.

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(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, 2006 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, 2006 (the most recent information available), are presented below:

	(In Thousands)
Total Assets	\$ 50,252
Total Liabilities	40,960
Total Net Assets	9,292
Total Liabilities and Net Assets	\$ 50,252
Total Operating Revenues for Year	18,830
Total Operating Expenses for Year	23,508
Operating Loss for Year	\$ (4,678)

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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(CONTINUED)

(5) Other information (Continued)

B. 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) risk pool, 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 2005-06 was 4.889%. 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 2005-06, the City's annual pension cost was \$102,763 and the City actually contributed \$102,763. The required contribution for fiscal year 2005-06 was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% 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 3.25% to 14.45% for miscellaneous members, and (c) 3.25% payroll growth. Both (a) and (b) include an inflation component of 3.0%. 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 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, 2003 was 14 years.

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(CONTINUED)

(5) **Other information (Continued)**

B. City employee retirement plan (Continued)

Annual Pension Cost (Continued)

Three-Year Trend Information for the Miscellaneous Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	-	0.00%	-
6/30/2005	27,133	100.00%	-
6/30/2006	102,763	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
06/30/02	\$ 2,507,357	\$ 2,918,579	\$ (411,222)	116.40%	\$ 977,916	(42.051%)
06/30/03	\$ 2,775,694	\$ 2,901,366	\$ (125,672)	104.5%	\$ 917,832	(13.692%)
06/30/04	\$ 3,074,097	\$ 3,154,676	\$ (80,579)	102.6%	\$ 818,584	(9.844%)

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.

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(CONTINUED)

(5) Other information (Continued)

B. City employee retirement plan (Continued)

Annual Pension Cost (Continued)

For fiscal year 2005-06, the City's annual pension cost was \$187,942 and the City actually contributed \$187,942. The required contribution for fiscal year 2005-2006 was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% 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 3.25% to 14.45% for safety members, and (c) 3.25% to payroll growth. Both (a) and (b) include an inflation component of 3.0%. 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 unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll over a closed 20-year period. In the current year the Safety Plan changed from 2.0% at 60 to 2.0% at 55. The remaining amortization period at June 30, 2003 was ten years.

Three-Year Trend Information for the Safety Plan

Fiscal Year Ending June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 38,383	100.00%	\$ -
2005	\$ 51,047	100.00%	\$ -
2006	\$ 187,942	100.00%	\$ -

The net pension obligation of \$187,942 was paid at the beginning of fiscal year 2006-2007.

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
6/30/2002	\$ 1,489,195	\$ 849,122	\$ 640,073	57.00%	\$ 48,216	1327.50%
6/30/2003	\$ 1,413,483	\$ 839,361	\$ 574,122	59.40%	\$ 50,820	1129.70%
6/30/2004	\$ 1,487,625	\$ 992,039	\$ 495,586	66.69%	\$ 55,440	893.91%

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(CONTINUED)

(5) **Other information (Continued)**

B. City employee retirement plan (Continued)

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 2005-06 was \$49,093 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.

C. 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, 2006.

D. Reserved fund balances

Fund balances that are not available for appropriation at June 30, 2006 are reserved for the following purposes:

	General Fund	RDA Funds	Total
Reserved			
Prepays	22,728	-	22,728
Advances to other funds	245,563	-	245,563
Debt Service	-	3,377,127	3,377,127
Low Mod Housing		844,282	844,282
	<u>\$ 268,291</u>	<u>\$ 4,221,409</u>	<u>\$ 4,489,700</u>

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

(CONTINUED)

(5) **Other information (Continued)**

E. Changes in beginning fund balances

Government Funds:

	<u>General Fund</u>
Fund Balance, June 30, 2005 as previously stated	\$ 2,754,140
Reclass Public Safety Capital Project Fund	<u>(150,024)</u>
Fund Balance, June 30, 2005 as restated	<u><u>\$ 2,604,116</u></u>

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, 2006**

	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES			
Grants	\$ -	\$ -	\$ -
Taxes	2,647,040	2,992,698	345,658
Licenses and permits	683,890	688,669	4,779
Interest	80,000	88,090	8,090
Miscellaneous	146,106	209,200	63,094
Total revenues	<u>3,557,036</u>	<u>3,978,657</u>	<u>421,621</u>
EXPENDITURES			
General government	693,384	683,136	10,248
Administration	169,469	134,756	34,713
Public works	827,583	792,330	35,253
Fire department	1,125,200	1,087,525	37,675
Sheriff	1,058,733	1,079,044	(20,311)
Council	52,580	33,770	18,810
City clerk	95,012	77,993	17,019
Treasurer	2,592	1,773	819
Interest expense	10,573	10,573	-
Total expenditures	<u>4,035,126</u>	<u>3,900,900</u>	<u>134,226</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(478,090)</u>	<u>77,757</u>	<u>555,847</u>
OTHER FINANCING SOURCES(USES)			
Transfers in	-	-	-
Transfers out	(8,874)	(3,369)	5,505
Total other financing sources	<u>(8,874)</u>	<u>(3,369)</u>	<u>5,505</u>
Net change in fund balances	(486,964)	74,388	561,352
Fund balances - beginning	2,754,140	2,754,140	-
Prior period adjustment	-	(150,024)	(150,024)
Fund balances - ending	<u>\$ 2,267,176</u>	<u>\$ 2,678,504</u>	<u>\$ 411,328</u>

**CITY OF TEHACHPI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
RDA DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	Budget	Actual	Variance with Final Budget- Positive (Negative)
REVENUES			
Taxes	\$ 440,000	\$ 503,093	\$ 63,093
Interest	40,000	39,056	(944)
Total revenues	<u>480,000</u>	<u>542,149</u>	<u>62,149</u>
 EXPENDITURES			
Current:			
Administration	430,031	365,199	64,832
Debt service:			
Principal	3,244,000	3,244,000	-
Bond issuance cost	94,522	102,522	(8,000)
Bond insurance	203,568	203,568	-
Interest	162,163	240,801	(78,638)
Total expenditures	<u>4,134,284</u>	<u>4,156,090</u>	<u>(21,806)</u>
Deficiency of revenue over expenditures	<u>(3,654,284)</u>	<u>(3,613,941)</u>	<u>40,343</u>
 OTHER FINANCING SOURCES (USES)			
Proceeds of debt	7,024,000	7,024,000	-
Discount on issuance	(141,212)	(141,212)	-
Premium on refunding bonds	60,978	60,978	-
Total other financing sources (uses)	<u>6,943,766</u>	<u>6,943,766</u>	<u>-</u>
Change in fund balances	3,289,482	3,329,825	40,343
Fund balance - beginning	<u>361,366</u>	<u>361,366</u>	<u>-</u>
Fund balance - ending	<u>\$ 3,650,848</u>	<u>\$ 3,691,191</u>	<u>\$ 40,343</u>

**CITY OF TEHACHPI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
RDA LOW/MODERATE HOUSING
FOR THE YEAR ENDED JUNE 30, 2006**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Grants	\$ -	\$ -	\$ -
Taxes	147,000	179,284	32,284
Interest	12,000	12,601	601
	<u>159,000</u>	<u>191,885</u>	<u>32,885</u>
EXPENDITURES			
Current:			
Administration	71,501	60,416	11,085
Debt service:			
Principal	811,000	811,000	-
Bond issuance cost	23,630	25,630	(2,000)
Bond insurance	50,892	50,892	-
Interest	40,541	60,200	(19,659)
	<u>997,564</u>	<u>1,008,138</u>	<u>(10,574)</u>
Deficiency of revenue over expenditures	<u>(838,564)</u>	<u>(816,253)</u>	<u>22,311</u>
OTHER FINANCING SOURCES			
Proceeds of debt	1,756,000	1,756,000	-
Discount on issuance	(35,303)	(35,303)	-
Premium on refunding bonds	15,245	15,245	-
	<u>1,735,942</u>	<u>1,735,942</u>	<u>-</u>
Total other financing sources (uses)	<u>1,735,942</u>	<u>1,735,942</u>	<u>-</u>
Change in fund balances	897,378	919,689	22,311
Fund balance - beginning	<u>804,571</u>	<u>804,571</u>	<u>-</u>
Fund balance - ending	<u>\$ 1,701,949</u>	<u>\$ 1,724,260</u>	<u>\$ 22,311</u>

SUPPLEMENTARY INFORMATION

**CITY OF TEHACHAPI
COMBINING BALANCE SHEET
NONMAJOR
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor</u>
ASSETS			
Cash and short-term investments	\$ 500,076	\$ 1,984,979	\$ 2,485,055
Receivables (net of allowance)	24,331	-	24,331
Total assets	<u>\$ 524,407</u>	<u>\$ 1,984,979</u>	<u>\$ 2,509,386</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 80,289	\$ 502,656	\$ 582,945
Due to other funds	315,718	418,192	733,910
Total liabilities	<u>396,007</u>	<u>920,848</u>	<u>1,316,855</u>
Fund Balances:			
Reserved fund balance	-	-	-
Unreserved fund balance	128,400	1,064,131	1,192,531
Total fund balance	<u>128,400</u>	<u>1,064,131</u>	<u>1,192,531</u>
Total liabilities and fund balance	<u>\$ 524,407</u>	<u>\$ 1,984,979</u>	<u>\$ 2,509,386</u>

**CITY OF TEHACHAPI
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2006**

	Special Revenue	Capital Projects	Total Nonmajor
REVENUES			
Grants	\$ 428,947	\$ 490,649	\$ 919,596
Taxes	366,520	-	366,520
Other sources of funds	430,699	1,000	431,699
Interest	2,036	14,172	16,208
Total revenues	<u>1,228,202</u>	<u>505,821</u>	<u>1,734,023</u>
EXPENDITURES			
Public works	545,881	-	545,881
Planning	71,749	870,655	942,404
Total expenditures	<u>617,630</u>	<u>870,655</u>	<u>1,488,285</u>
Deficiency of revenues under expenditures	<u>610,572</u>	<u>(364,834)</u>	<u>245,738</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	40,640	14,906	55,546
Transfers out	(38,177)	-	(38,177)
Total other financing sources	<u>2,463</u>	<u>14,906</u>	<u>17,369</u>
Net change in fund balances	<u>613,035</u>	<u>(349,928)</u>	<u>263,107</u>
Fund balances - beginning	(484,635)	1,264,035	779,400
Prior period adjustment	-	150,024	150,024
Total adjusted fund balance - beginning	<u>(484,635)</u>	<u>1,414,059</u>	<u>929,424</u>
Fund balances - ending	<u>\$ 128,400</u>	<u>\$ 1,064,131</u>	<u>\$ 1,192,531</u>

**CITY OF TEHACHAPI
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2006**

	<u>Streets and Roads</u>	<u>Traffic Signals</u>	<u>Supplemental Law Enforcement</u>	<u>Surface Transportation Program</u>
ASSETS				
Cash and short-term investments	\$ -	\$ 249,215	\$ -	\$ 69,380
Receivables (net of allowance)	15,789	-	-	-
Total assets	<u>\$ 15,789</u>	<u>\$ 249,215</u>	<u>\$ -</u>	<u>\$ 69,380</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 3,275
Due to other funds	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,275</u>
Fund balance				
Unreserved	<u>15,789</u>	<u>249,215</u>	<u>-</u>	<u>66,105</u>
Total fund balance	<u>15,789</u>	<u>249,215</u>	<u>-</u>	<u>66,105</u>
Total liabilities and Fund balance	<u>\$ 15,789</u>	<u>\$ 249,215</u>	<u>\$ -</u>	<u>\$ 69,380</u>

**CITY OF TEHACHAPI
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
 JUNE 30, 2006**

	Oil Recycling Grant	TDA 3 Bike Safety	Beverage Container Recycling
ASSETS			
Cash and short-term investments	\$ -	\$ -	\$ 9,523
Receivables (net of allowance)	-	-	5,000
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,523</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -
Due to other funds	-	189,601	-
Total liabilities	<u>-</u>	<u>189,601</u>	<u>-</u>
Fund balance			
Unreserved	<u>-</u>	<u>(189,601)</u>	<u>14,523</u>
Total fund balance	<u>-</u>	<u>(189,601)</u>	<u>14,523</u>
Total liabilities and Fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,523</u>

**CITY OF TEHACHAPI
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
JUNE 30, 2006**

	<u>Goodrick Road Assessment</u>	<u>Lighting District</u>	<u>Community Development Grant</u>
ASSETS			
Cash and short-term investments	\$ -	\$ 171,958	\$ -
Receivables (net of allowance)	1,597	1,945	-
Total assets	<u>\$ 1,597</u>	<u>\$ 173,903</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable and accrued liabilities	\$ -	\$ 26,683	\$ -
Due to other funds	1,597	-	36,813
Total liabilities	<u>1,597</u>	<u>26,683</u>	<u>36,813</u>
Fund balance			
Unreserved	-	147,220	(36,813)
Total fund balance	<u>-</u>	<u>147,220</u>	<u>(36,813)</u>
Total liabilities and Fund balance	<u>\$ 1,597</u>	<u>\$ 173,903</u>	<u>\$ -</u>

**CITY OF TEHACHAPI
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
 JUNE 30, 2006**

	<u>Gas Tax</u>	<u>Landscaping and Lighting District LLD</u>	<u>Misc. Special Revenue Proj.</u>	<u>Total Nonmajor</u>
ASSETS				
Cash and short-term investments	\$ -	\$ -	\$ -	\$ 500,076
Receivables (net of allowance)	-	-	-	24,331
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 524,407</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued liabilities	\$ 50,331	\$ -	\$ -	\$ 80,289
Due to other funds	74,727	505	12,475	315,718
Total liabilities	<u>125,058</u>	<u>505</u>	<u>12,475</u>	<u>396,007</u>
Fund balance				
Unreserved	<u>(125,058)</u>	<u>(505)</u>	<u>(12,475)</u>	<u>128,400</u>
Total fund balance	<u>(125,058)</u>	<u>(505)</u>	<u>(12,475)</u>	<u>128,400</u>
Total liabilities and Fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 524,407</u>

**CITY OF TEHACHAPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR YEAR ENDED JUNE 30, 2006**

	Streets and Roads	Traffic Signals	Supplemental Law Enforcement	Surface Transportation Program
REVENUES				
Grants	\$ -	\$ -	\$ -	\$ 429,370
Taxes	-	-	-	-
Other sources of funds	53,966	152,097	100,000	-
Interest	-	-	527	-
Total revenues	<u>53,966</u>	<u>152,097</u>	<u>100,527</u>	<u>429,370</u>
EXPENDITURES				
Public works	-	-	64,070	-
Planning	-	-	-	13,869
Sheriff	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>64,070</u>	<u>13,869</u>
Excess (deficiency) of revenues over (under) expenditures	<u>53,966</u>	<u>152,097</u>	<u>36,457</u>	<u>415,501</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	<u>(38,177)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(38,177)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	15,789	152,097	36,457	415,501
Fund balances beginning	<u>-</u>	<u>97,118</u>	<u>(36,457)</u>	<u>(349,396)</u>
Fund balances - ending	<u>\$ 15,789</u>	<u>\$ 249,215</u>	<u>\$ -</u>	<u>\$ 66,105</u>

**CITY OF TEHACHAPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
FOR YEAR ENDED JUNE 30, 2006**

	Oil Recycling Grant	TDA 3 Bike Safety	Beverage Container Recycling
REVENUES			
Grants	\$ (4,619)	\$ (804)	\$ 5,000
Taxes	-	-	-
Other sources of funds	-	118,854	-
Interest	(193)	-	134
Total revenues	<u>(4,812)</u>	<u>118,050</u>	<u>5,134</u>
EXPENDITURES			
Public works	200	-	-
Planning	-	30,269	-
Sheriff	-	-	-
Total expenditures	<u>200</u>	<u>30,269</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,012)</u>	<u>87,781</u>	<u>5,134</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	2,463	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>2,463</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(2,549)	87,781	5,134
Fund balances beginning	<u>2,549</u>	<u>(277,382)</u>	<u>9,389</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ (189,601)</u>	<u>\$ 14,523</u>

**CITY OF TEHACHAPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
FOR YEAR ENDED JUNE 30, 2006**

	Goodrick Road Assessment	Lighting District	Community Development Grant
REVENUES			
Grants	\$ -	\$ -	\$ -
Taxes	-	160,396	-
Other sources of funds	-	-	-
Interest	-	1,568	-
Total revenues	<u>-</u>	<u>161,964</u>	<u>-</u>
EXPENDITURES			
Public works	-	30,657	-
Planning	-	-	19,838
Sheriff	-	-	-
Total expenditures	<u>-</u>	<u>30,657</u>	<u>19,838</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>131,307</u>	<u>(19,838)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	131,307	(19,838)
Fund balances beginning	<u>-</u>	<u>15,913</u>	<u>(16,975)</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 147,220</u>	<u>\$ (36,813)</u>

**CITY OF TEHACHAPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
FOR YEAR ENDED JUNE 30, 2006**

	Gas Tax	Landscaping and Lighting District LLD	Misc. Special Revenue	Total Nonmajor
REVENUES				
Grants	\$ -	\$ -	\$ -	\$ 428,947
Taxes	206,124	-	-	366,520
Other sources of funds	5,782	-	-	430,699
Interest	-	-	-	2,036
Total revenues	<u>211,906</u>	<u>-</u>	<u>-</u>	<u>1,228,202</u>
EXPENDITURES				
Public works	450,954	-	-	545,881
Planning	-	505	7,268	71,749
Sheriff	-	-	-	-
Total expenditures	<u>450,954</u>	<u>505</u>	<u>7,268</u>	<u>617,630</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(239,048)</u>	<u>(505)</u>	<u>(7,268)</u>	<u>610,572</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	38,177	-	-	40,640
Transfers out	-	-	-	(38,177)
Total other financing sources (uses)	<u>38,177</u>	<u>-</u>	<u>-</u>	<u>2,463</u>
Net change in fund balances	<u>(200,871)</u>	<u>(505)</u>	<u>(7,268)</u>	<u>613,035</u>
Fund balances beginning	<u>75,813</u>	<u>-</u>	<u>(5,207)</u>	<u>(484,635)</u>
Fund balances - ending	<u>\$ (125,058)</u>	<u>\$ (505)</u>	<u>\$ (12,475)</u>	<u>\$ 128,400</u>

**CITY OF TEHACHAPI
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
JUNE 30, 2006**

	Tucker Road/ Valley Blvd. Exchange	Underground Utility District # 5	Railroad Depot	Park & Recreation Capital Project
ASSETS				
Cash and short-term investments	\$ 935,580	\$ -	\$ -	\$ -
Total assets	<u>\$ 935,580</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 2,709	\$ 876
Due to other funds	-	5,000	118,007	-
Total liabilities	<u>-</u>	<u>5,000</u>	<u>120,716</u>	<u>876</u>
Fund balance				
Reserved fund balance	-	-	-	-
Unreserved fund balance	935,580	(5,000)	(120,716)	(876)
Total fund balance	<u>935,580</u>	<u>(5,000)</u>	<u>(120,716)</u>	<u>(876)</u>
Total liabilities and Fund balance	<u>\$ 935,580</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF TEHACHPI
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS (CONTINUED)
FOR YEAR ENDED JUNE 30, 2006**

	Capital Equipment Replacement	Public Safety Capital Project Fee	Tehachapi Streetscape	BeeKay Theater
ASSETS				
Cash and short-term investments	\$ 90,985	\$ 632,511	\$ -	\$ 325,903
Total assets	<u>\$ 90,985</u>	<u>632,511</u>	<u>\$ -</u>	<u>\$ 325,903</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ 300
Due to other funds	-	-	21,890	-
Total liabilities	<u>-</u>	<u>-</u>	<u>21,890</u>	<u>300</u>
Fund balance				
Reserved fund balance	-	-	-	-
Unreserved fund balance	90,985	632,511	(21,890)	325,603
Total fund balance	<u>90,985</u>	<u>632,511</u>	<u>(21,890)</u>	<u>325,603</u>
Total liabilities and Fund balance	<u>\$ 90,985</u>	<u>\$ 632,511</u>	<u>\$ -</u>	<u>\$ 325,903</u>

**CITY OF TEHACHPI
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS (CONTINUED)
FOR YEAR ENDED JUNE 30, 2006**

	<u>Emission Reduction Project</u>	<u>Downtown Master Plan</u>	<u>TEA-05 Downtown Beautification</u>	<u>Total Nonmajor</u>
ASSETS				
Cash and short-term investments	\$ -	\$ -	\$ -	\$ 1,984,979
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,984,979</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ -	\$ 9,319	\$ 489,452	\$ 502,656
Due to other funds	-	79,431	193,864	418,192
Total liabilities	<u>-</u>	<u>88,750</u>	<u>683,316</u>	<u>920,848</u>
Fund balance				
Reserved fund balance	-	-	-	-
Unreserved fund balance	-	(88,750)	(683,316)	1,064,131
Total fund balance	<u>-</u>	<u>(88,750)</u>	<u>(683,316)</u>	<u>1,064,131</u>
Total liabilities and Fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,984,979</u>

**CITY OF TEHACHPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR YEAR ENDED JUNE 30, 2006**

	Tucker Road/ Valley Blvd. Exchange	Broome Ranch Park (FD 315)	Railroad Depot	Park & Recreation Capital Project Fees Fund
REVENUES				
Grants	\$ -	\$ -	\$ 9,145	\$ -
Other source of revenue	-	-	1,000	-
Interest	13,189	-	-	-
Total revenues	13,189	-	10,145	-
EXPENDITURES				
Planning	-	-	6,759	876
Excess (deficiency) of revenues over (under) expenditures	13,189	-	3,386	(876)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	13,189	-	3,386	(876)
Fund balances - beginning	922,391	(5,000)	(124,102)	-
Prior period adjustment	-	-	-	-
Total adjusted fund balance - beginning	922,391	(5,000)	(124,102)	-
Fund balances - ending	\$ 935,580	\$ (5,000)	\$ (120,716)	\$ (876)

**CITY OF TEHACHPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS (CONTINUED)
FOR YEAR ENDED JUNE 30, 2006**

	Capital Equipment Replacement	Public Safety Capital Project Fee	Tehachapi Streetscape	BeeKay Theater
REVENUES				
Grants	\$ -	\$ 481,504	\$ -	\$ -
Other source of revenue	-	-	-	-
Interest	-	983	-	-
Total revenues	<u>-</u>	<u>482,487</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Planning	-	-	5,672	6,846
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>482,487</u>	<u>(5,672)</u>	<u>(6,846)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	14,000	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>14,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>14,000</u>	<u>482,487</u>	<u>(5,672)</u>	<u>(6,846)</u>
Fund balances - beginning	76,985	-	(16,218)	332,449
Prior period adjustment	-	150,024	-	-
Total adjusted fund balance - beginning	<u>76,985</u>	<u>150,024</u>	<u>(16,218)</u>	<u>332,449</u>
Fund balances - ending	<u>\$ 90,985</u>	<u>\$ 632,511</u>	<u>\$ (21,890)</u>	<u>\$ 325,603</u>

**CITY OF TEHACHPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS (CONTINUED)
FOR YEAR ENDED JUNE 30, 2006**

	Emission Reduction Project	Downtown Master Plan	TEA-05 Downtown Beautification	Total Nonmajor
REVENUES				
Grants	\$ -	\$ -	\$ -	\$ 490,649
Other source of revenue	-	-	-	1,000
Interest	-	-	-	14,172
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>505,821</u>
EXPENDITURES				
Planning	<u>611</u>	<u>253,135</u>	<u>596,756</u>	<u>870,655</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(611)</u>	<u>(253,135)</u>	<u>(596,756)</u>	<u>(364,834)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	906	-	-	14,906
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>906</u>	<u>-</u>	<u>-</u>	<u>14,906</u>
Net change in fund balance	<u>295</u>	<u>(253,135)</u>	<u>(596,756)</u>	<u>(349,928)</u>
Fund balances - beginning	(295)	164,385	(86,560)	1,264,035
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>150,024</u>
Total adjusted fund balance - beginning	<u>(295)</u>	<u>164,385</u>	<u>(86,560)</u>	<u>1,414,059</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ (88,750)</u>	<u>\$ (683,316)</u>	<u>\$ 1,064,131</u>

**CITY OF TEHACHPI
COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2006**

	Transit	Refuse	Airport
ASSETS			
Cash and short-term investments	\$ -	\$ 4,817	\$ 23,100
Receivables (net of allowance)	1,026	152,649	268,448
Total current assets	<u>1,026</u>	<u>157,466</u>	<u>291,548</u>
Total capital assets (net of accumulated depreciation)	-	-	1,639,446
Other assets	-	235,000	-
TOTAL ASSETS	<u>\$ 1,026</u>	<u>\$ 392,466</u>	<u>\$ 1,930,994</u>
LIABILITIES AND FUND EQUITY			
Current liabilities			
Accounts payable	\$ 17,893	\$ 62,798	\$ 187,822
Due to other funds	3,021	86,808	214,450
Customer deposits - current	-	-	23,407
Other current liability	-	-	15,000
Current portion of long-term debt	-	-	7,019
Total current liabilities	<u>20,914</u>	<u>149,606</u>	<u>447,698</u>
Deferred revenue	<u>(20,077)</u>	<u>-</u>	<u>-</u>
Long-term liabilities			
Notes and bonds payable	<u>-</u>	<u>-</u>	<u>103,507</u>
Total long-term liabilities	<u>-</u>	<u>-</u>	<u>103,507</u>
TOTAL LIABILITIES	<u>837</u>	<u>149,606</u>	<u>551,205</u>
NET ASSETS			
Invested in capital assets, net of related debt	-	-	1,528,920
Restricted	189	-	-
Unrestricted	<u>-</u>	<u>242,860</u>	<u>(149,131)</u>
TOTAL FUND EQUITY	<u>189</u>	<u>242,860</u>	<u>1,379,789</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,026</u>	<u>\$ 392,466</u>	<u>\$ 1,930,994</u>

**CITY OF TEHACHPI
COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS (CONTINUED)
JUNE 30, 2006**

	Community Development Department	Total Non - Major
ASSETS		
Cash and short-term investments	\$ -	\$ 27,917
Receivables (net of allowance)	55,493	477,616
Total current assets	<u>55,493</u>	<u>505,533</u>
Total capital assets (net of accumulated depreciation)	58,067	1,697,513
Other assets	-	235,000
TOTAL ASSETS	<u>\$ 113,560</u>	<u>\$ 2,438,046</u>
LIABILITIES AND FUND EQUITY		
Current liabilities		
Accounts payable	\$ 76,799	\$ 345,312
Due to other funds	150,843	455,122
Customer deposits - current	-	23,407
Other current liability	184	15,184
Current portion of long-term debt	-	7,019
Total current liabilities	<u>227,826</u>	<u>846,044</u>
Deferred revenue	-	(20,077)
Long-term liabilities		
Notes and bonds payable	-	103,507
Total long-term liabilities	<u>-</u>	<u>103,507</u>
TOTAL LIABILITIES	<u>227,826</u>	<u>929,474</u>
NET ASSETS		
Invested in capital assets, net of related debt	58,067	1,586,987
Restricted	-	189
Unrestricted	<u>(172,333)</u>	<u>(78,604)</u>
TOTAL FUND EQUITY	<u>(114,266)</u>	<u>1,508,572</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 113,560</u>	<u>\$ 2,438,046</u>

**CITY OF TEHACHPI
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	Transit	Refuse	Airport
OPERATING REVENUES			
Charges for services	\$ -	\$ 643,320	\$ 262,431
Grants	-	-	399,810
Miscellaneous	-	11,273	3,043
Total operating revenues	<u>-</u>	<u>654,593</u>	<u>665,284</u>
OPERATING EXPENSES			
Personnel services	12,303	46,090	162,757
Maintenance and operations	105,935	607,596	351,836
Depreciation	-	-	14,076
Total operating expenses	<u>118,238</u>	<u>653,686</u>	<u>528,669</u>
Operating income (loss)	<u>(118,238)</u>	<u>907</u>	<u>136,615</u>
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental	106,984	-	-
Interest	210	-	-
Interest expense	-	-	(5,911)
Total nonoperating revenues (expenses)	<u>107,194</u>	<u>-</u>	<u>(5,911)</u>
Income (loss) before operating transfers	<u>(11,044)</u>	<u>907</u>	<u>130,704</u>
OPERATING TRANSFERS			
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>
Net operating transfers	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>(11,044)</u>	<u>907</u>	<u>130,704</u>
Net assets - beginning	-	241,953	1,260,362
Prior period/depreciation adjustment	11,233	-	(11,277)
Adjusted net assets - beginning	<u>11,233</u>	<u>241,953</u>	<u>1,249,085</u>
Net assets - ending	<u>\$ 189</u>	<u>\$ 242,860</u>	<u>1,379,789</u>

**CITY OF TEHACHPI
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
NONMAJOR PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

	Community Development Department	Total Non - Major
OPERATING REVENUES		
Charges for services	\$ 203,170	\$ 1,108,921
Grants	-	399,810
Miscellaneous	332,071	346,387
Total operating revenues	<u>535,241</u>	<u>1,855,118</u>
OPERATING EXPENSES		
Personnel services	395,199	616,349
Maintenance and operations	125,807	1,191,174
Depreciation	12,338	26,414
Total operating expenses	<u>533,344</u>	<u>1,833,937</u>
Operating income (loss)	<u>1,897</u>	<u>21,181</u>
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	-	106,984
Interest	310	520
Interest expense	-	(5,911)
Total nonoperating revenues (expenses)	<u>310</u>	<u>101,593</u>
Income (loss) before operating transfers	2,207	122,774
OPERATING TRANSFERS		
Transfers in	-	-
Net operating transfers	-	-
Change in net assets	<u>2,207</u>	<u>122,774</u>
Net assets - beginning	(116,473)	1,385,842
Prior period/depreciation adjustment	-	(44)
Adjusted net assets - beginning	<u>(116,473)</u>	<u>1,385,798</u>
Net assets - ending	<u>\$ (114,266)</u>	<u>\$ 1,508,572</u>

**CITY OF TEHACHPI
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2006**

	Capital Hills 89-1	Tucker Road 87-1	East Tehachapi Blvd. Project 89-3	Summit 89-2
ASSETS				
Cash and cash equivalents	\$ -	\$ 83,460	\$ 59,853	\$ -
Short-term investments	131,803	-	20,091	-
Receivables (net of allowance)	-	-	19,871	-
Due from other funds	-	-	-	-
Advances to other funds	-	-	-	-
Due from bond holders	-	-	-	55,803
Other assets	143,779	-	25,044	119,583
Total assets	\$ 275,582	\$ 83,460	\$ 124,859	\$ 175,386
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Deposits	530	-	-	-
Due to other funds	20,062	-	-	77,153
Due to bond holders	169,226	83,460	124,859	-
Advances from other funds	85,764	-	-	98,233
Total liabilities	\$ 275,582	\$ 83,460	\$ 124,859	\$ 175,386

CITY OF TEHACHPI
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2006

	Curry Highline 90-1	Tehachapi Meadows 90-1	Special Districts Revolving Fund	Total Trust and Agency Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ 41,495	\$ -	\$ 184,808
Short-term investments		4,010	-	155,904
Receivables (net of allowance)	-	1,222	-	21,093
Due from other funds	-	7,412	-	7,412
Advances to other funds	-	-	245,563	245,563
Due from bond holders	118,599	-	-	174,402
Other assets	15,405	80,052	-	383,863
Total assets	<u>\$ 134,004</u>	<u>\$ 134,191</u>	<u>\$ 245,563</u>	<u>\$ 1,173,045</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Deposits	-	25,158	-	25,688
Due to other funds	7,412	-	-	104,627
Due to bond holders	65,026	109,033	-	551,604
Advances from other funds	61,566	-	245,563	491,126
Total liabilities	<u>\$ 134,004</u>	<u>\$ 134,191</u>	<u>\$ 245,563</u>	<u>\$ 1,173,045</u>



Mayer Hoffman McCann P.C.
An Independent CPA Firm

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

To the City Council
City of Tehachapi, California

We have audited the 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, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Tehachapi, California's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

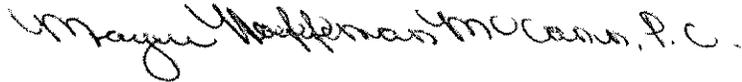
As part of obtaining reasonable assurance about whether City of Tehachapi, California's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance

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with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

Bakersfield, California
October 14, 2006