

CITY OF TEHACHAPI
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2007

**City of Tehachapi
Annual Financial Report
For the Fiscal Year Ended June 30, 2007**

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Tehachapi, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tehachapi, California, as of and for the year ended June 30, 2007, 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, 2007, 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.

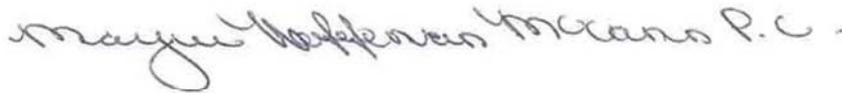
In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 28, 2008, on our consideration of The City of Tehachapi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 12 and on pages 63 through 65 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 inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of 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.

A handwritten signature in cursive script that reads "Margaret Hoffman Means P.C.".

Bakersfield, California
January 28, 2008

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, 2007. The City encourages readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements which are included with this report.

Financial Highlights

- The City's net assets increased 34.6% to \$22,238,897 as a result of this year's operations.
- Total City revenues, including program and general revenues, were \$17,684,046 which includes the increase of \$5,261,482 from the prior year.
- Net assets in governmental funds increased \$3,705,346, and net assets in business activities increased \$2,007,828.
- Governmental revenue was increased by \$3,982,557 to \$10,443,275.
- Governmental expense was increased by \$1,605,999 to \$6,737,926.
- Revenues from business-type activities increased by \$1,278,925 to \$7,240,771.
- Expenses from business-type activities increased by \$537,714 to \$5,304,178.
- General fund revenue was increased by \$1,146,663 to \$5,125,320.
- General fund balance as of June 30, 2007 is \$3,859,347 an increase of \$1,180,843 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 the 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 assets held and liabilities owed by the City. The difference between the City's total assets and total liabilities is labeled as *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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governmental Funds (Continued)

By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The City of Tehachapi maintains 23 individual governmental funds (active funds only). 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, Tea Grant Downtown Fund, and Redevelopment Agency which are considered to be major funds. Data from the other 20 governmental funds are combined into a single, aggregated presentation.

Proprietary Funds

The only type of Proprietary funds the City of Tehachapi maintains are enterprise funds. The Refuse, Water, Sewer, Transit, 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 \$22,238,897 at June 30, 2007.

The largest portion of the City's net assets is in Investments in Capital Assets. The Investments in Capital Assets (e.g. land, buildings, machinery and equipment) Net of Related Debt was increased to \$9,754,229 (44% of total net assets) from \$4,749,437. The major increase was contributed by the downtown improvements and three new water wells. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

The restricted fund balance was reduced from the prior year by \$1,389,949 mainly due to use of RDA Tax Allocation Revenue Bond proceeds for mostly downtown projects. The restricted funds are subject to external restrictions on how they may be used.

The remaining balance of unrestricted net assets, \$5,336,793 (24%) 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).

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and Other Assets	11,297,206	10,619,209	4,292,350	3,295,996	15,589,556	13,915,205
Capital Assets	12,980,530	9,579,120	14,187,449	13,339,743	27,167,979	22,918,863
Total Assets	24,277,736	20,198,329	18,479,799	16,635,739	42,757,535	36,834,068
Current Liabilities	1,599,887	986,565	1,358,130	1,035,483	2,958,017	2,022,048
Long-term Liabilities	9,651,911	9,891,170	7,908,710	8,395,125	17,560,621	18,286,295
Total Liabilities	11,251,798	10,877,735	9,266,840	9,430,608	20,518,638	20,308,343
Investments in Capital, Net of related debt	3,475,490	(195,183)	6,278,739	4,944,618	9,754,229	4,749,435
Restricted	5,492,613	6,795,758	1,655,262	1,742,066	7,147,875	8,537,824
Unrestricted	4,057,835	2,720,019	1,278,958	518,447	5,336,793	3,238,466
Total Net Assets	13,025,938	9,320,594	9,212,959	7,205,131	22,238,897	16,525,725

The City started capturing its capital assets in governmental funds beginning fiscal year 2002/2003. In accordance with GASB 34, the City was not required to retroactively capture the capital assets like other bigger cities because the City fell under 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 \$3,705,349 there by accounting for 65% of the total growth in the City's net assets mainly due to \$3,982,557 (62%) increase in revenues from the governmental activities. The major contributions were made by the following special revenues:

- \$1,577,824 from the receipts of various federal project grants
- \$1,610,625 from CFD 89-1 delinquent special tax payment from the proceeds of properties sold through the bankruptcy court
- \$500,000 from CFD 89-1 bankruptcy court settlement.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	Governmental Activities		Business Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program Revenues:						
Charges for Services			5,966,176	4,527,091	5,966,176	4,527,091
Operating contribution & Grant	2,115,477	919,595	141,500	526,794	2,256,977	1,446,389
Capital Grants & Contribution	0	0			0	0
					0	0
General Revenues:						
Property taxes	2,072,479	1,414,474			2,072,479	1,414,474
Sales Taxes	1,627,259	1,407,956			1,627,259	1,407,956
Other Taxes	958,609	1,219,166			958,609	1,219,166
License and permits	862,660	688,669			862,660	688,669
Miscellaneous	2,295,270	640,903	1,026,970	835,760	3,322,240	1,476,663
Interest	505,166	155,955	112,480	86,201	617,646	242,156
Transfers	6,355	14,000	(6,355)	(14,000)	0	0
	<u>10,443,275</u>	<u>6,460,718</u>	<u>7,240,771</u>	<u>5,961,846</u>	<u>17,684,046</u>	<u>12,422,564</u>
Expenses						
Primary Government						
General Government	991,108	898,678			991,108	898,678
Administration	535,152	560,371			535,152	560,371
Public Works & Planning	1,794,853	1,280,751			1,794,853	1,280,751
Police	738,583				738,583	0
Fire Department	602,241	1,064,122			602,241	1,064,122
Sheriff	1,553,493	861,257			1,553,493	861,257
Council	16,850	33,770			16,850	33,770
City Clerk	55,308	77,993			55,308	77,993
Treasurer	2,108	1,773			2,108	1,773
Interest	448,230	354,112			448,230	354,112
					0	0
Business-type Activities						
Refuse			714,070	653,686	714,070	653,686
Water			1,900,038	1,464,563	1,900,038	1,464,563
Sewer			1,522,811	1,462,053	1,522,811	1,462,053
Transit			115,291	118,238	115,291	118,238
Airport			577,631	534,580	577,631	534,580
Community Development			474,337	533,344	474,337	533,344
Total Expense	<u>6,737,926</u>	<u>5,132,827</u>	<u>5,304,178</u>	<u>4,766,464</u>	<u>12,042,104</u>	<u>9,899,291</u>
Change in Net Assets	3,705,349	1,327,891	1,936,593	1,195,382	5,641,942	2,523,273
Net Assets at beginning of yr	9,320,597	7,992,706	7,205,131	6,006,671	16,525,728	13,999,377
Prior Period Adj			71,235	3,078	71,235	3,078
Net Assets at end of year	<u>13,025,946</u>	<u>9,320,597</u>	<u>9,212,959</u>	<u>7,205,131</u>	<u>22,238,905</u>	<u>16,525,728</u>

MANGEMENT'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 \$5,713,177 City wide net assets increase, \$2,007,828 (35% of total increase) was contributed by the business type activities. The major increases in revenues for business type activities were generated by the new developments. The increase in new development fees was \$1,218,244. The new developments are then eventually added to the service accounts and as a result the service fee revenues increased.

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, 2007, the City's governmental funds reported combined ending fund balances of \$9,351,956. This number shows approximately 0.7% (\$65,469) fund balance increase from the prior year. This fund balance is available for spending on the government's ongoing obligations to citizens and creditors although 69% 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, the unreserved fund balance in General Fund was \$3,577,227 which includes \$2,186,232 of advancement made to other funds such as Airport, Community Development and other project funds. Although the amount was labeled as advancements, there is a possibility that the General Fund may end up changing it from advance status to operating fund transfers to Airport and Community Development funds. Airport Fund does not generate enough revenue to support its expenses whereas a portion of Community Development functions such as general planning services and code enforcement services are not revenue generating functions. These two functions were initially a part of the General Fund. The fund balance, after the deduction of any outstanding advancement made to other funds, is to pay for various City services such as police, contracted fire and City's general operations.

The *Redevelopment fund* has a total fund balance of \$1,755,658, most (91%) of which is reserved for capital projects within the designated project area and debt services as stated in the Bond indenture. The RDA fund balance was decreased during the fiscal year by \$1,936,567 primarily due to use of 2005 bond proceeds for various capital projects in the project area.

Twenty percent of 2005 RDA Tax Allocation Revenue Bonds proceeds was allocated to *RDA Low and Moderate Housing Fund*. To date, no major housing projects have occurred using the housing fund yet.

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL ANALYSIS OF INDIVIDUAL FUNDS (CONTINUED)

Proprietary Funds.

Unrestricted net assets of the Water and Sewer funds at the end of the year are \$445,928 and \$1,205,366 respectively. The Water and Sewer funds showed increases in unrestricted net assets by \$268,165 and \$786,078. These increases were mostly caused by new connections as a result of growth of the community.

GENERAL FUND BUDGETARY HIGHLIGHTS

A detailed budgetary comparison schedule for the year ended June 30, 2007 is presented as required supplementary information following the notes to the financial statements. The final budget amounts are different from those presented in the 2006/07 – 2010/11 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	2006/07 Actual	Variance Actual vs. Final Budget (Negative)
Revenues incl. Other Sources	5,169,560	5,772,982	6,125,320	352,338
Expenditures incl. Other Uses	4,955,785	5,459,326	4,944,477	514,849
Net changes in fund balances	213,775	313,656	1,180,843	867,187
Fund Balance Beginning (Adjusted)	2,678,504	2,678,504	2,678,504	0
Fund Balance - Ending	2,892,279	2,992,160	3,859,347	867,187

Overall, the actual ending fund balance is \$867,187 more than what was budgeted in final budget. The major contributions to this positive variance are from increases in revenues as well as decrease in expenditures. The increase in major General Fund revenue was contributed by property taxes (\$136,697), sales tax (\$56,550), transient lodging tax (\$46,985), franchise tax (\$13,780), project management service fee (\$36,910) and interest income (\$59,223).

The positive expenditure variances are mainly generated by the public safety departments. Although \$100,000 was set aside for Fire department study, the actual spending was \$23,774 which resulted to \$76,226 of positive variance. In addition, \$10,000 FEMA grant related expenditure was not used. Another substantial variance was contributed by Police department. The new Police department’s set up cost budget was \$1,087,375; however, the actual spending was \$738,580 yielding \$348,795 of positive variance.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CAPITAL & DEBT ADMINISTRATION

Capital Assets

	Governmental Activities	Business-type Activities	Totals
Non-Depreciable Assets:			
Land	661,796	2,076,724	2,738,520
Total non-depreciable assets	661,796	2,076,724	2,738,520
Depreciable Assets (net of accumulated depreciation)			
Buildings	469,149	5,166,617	5,635,766
Improvements other than building	4,506,179	4,901,739	9,407,918
Machinery and equipment	1,226,731	1,009,447	2,236,178
Construction in progress	6,116,675	1,032,922	7,149,597
Total depreciable assets-net	12,318,734	12,110,725	24,429,459
Total Capital Assets	12,980,530	14,187,449	27,167,979

The City of Tehachapi's investment in capital assets for its governmental and business type activities as of June 30, 2007, amounts to \$27,167,979 (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 D-4.

Long-Term Debt

	Governmental Activities	Business-type Activities	Totals
Bonds	8,512,819	7,354,904	15,867,723
Loans		103,507	103,507
Capital Leases	992,221	450,299	1,442,520
Compensated absences	146,874	0	146,874
Total Long-Term Liabilities	9,651,914	7,908,710	17,560,624

The City of Tehachapi's total debt was decreased by \$725,671 during the current fiscal year. This decrease was due to the debt service payment and there was no additional issuance of debt.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONITNUED)

CAPITAL & DEBT ADMINISTRATION (CONTINUED)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In June, 2007, the Council adopted the 2007/08 through 2011/12 five year budget, with total appropriations of \$18,878,940. The following factors were taken into consideration for the next fiscal year budget:

- Cost of living increase of 2.7% for miscellaneous and safety category employees.
- Seven additional staff were budgeted, two new police officers, two staff for a newly created landscape crew, another two for newly created construction crew, and a full time office assistant for the Airport.
- One hundred fifty 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.
- \$2,620,000 for new water storage tanks and transmission lines.
- \$6,500,000 for first year (out of three years) of new sewer plant construction.

Although a new twenty-four million dollar sewer plant was budgeted in this five year financial plan, the decision is still being contemplated. Key factors such as the sewer fund's financing capacity, real estate market growth, economic stability, and the City's position on growth will be considered on the final decision making.

Are we walking into a recession? Many economists are analyzing and predicting the economic outlooks but not much hopeful news is surfacing. David Rosenberg, Chief North American Economist at Merrill Lynch wrote that:

"The fed funds/ 10 year note yield inverted in July '06 and noted that the 18 month inversion has never happened in this length without a recession developing. Bottom line is that the yield curve is tried, tested and true, and the historical record shows that when it inverts for a half-year or more, recessions follow and they follow with an average lead-time of 15 months (data back to the '60's) with a range of 10 to 18 months. That 18-month lag is most appropriate because that represents that period of (i) real estate meltdown; (ii) credit crunch; (iii) geopolitical jitters; (iv) high oil prices and (v) overextended consumer balance sheets in the late 1980s/early 1990s, which resembles what is going on now more than any other transition phase in the post-WWII era. Well, if past is prescient, that 18-month lag if reapplied to the current backdrop would again (magically) support our view from the macro data that the recession just got started."

However, UCLA economist's prediction is contrary. The statement from UCLA Anderson Forecast states that:

"In his national report, UCLA Anderson Forecast Director Edward Leamer makes a simple but compelling case for the Forecast continuing recession stance, while acknowledging the considerable turmoil in the real estate sector, Leamer emphatically argues that without significant job loss and an accompanying rise in unemployment, the economy will not enter into a recession."

Now all we, the non economists, can do is hope for the best and prepare for the worst.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (CONTINUED)

What could be the worst for the City? One thing most definite is not to lose any more revenues to the State of California. Then again, the governor of the State of California declared \$14 billion deficit and we are hearing many program and funding cuts. Would the State again reach out to the local governments and say they will "Borrow" from the local governments again? Our big question will be how much Proposition 1A (proposed and passed on November, 2004 for the protection of local government revenues) will be able to guard the local government's revenues.

Along with everywhere else in the nation, the housing market in Tehachapi is no exception. There are many real estate inventories waiting to be sold but only a few houses are being sold.

From July to December, 2007, there were seventy five new house permits issued which is exactly 50% of what was budgeted. Now the questions lies, will new housing construction keep the same pace during the next six months? The City staff anticipates it will, but then again who can guarantee it?

The new developments that are in the process of getting approval from either the Planning Commission or Local Agency Formation Committee (LAFCO) are a truck stop, a shopping and retail mall, a mixed use commercial site, a medical plaza and a senior housing tract. Although the residential construction has slowed down, there is no sign of weakening commercial and retail development.

As we have always done, 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, 2007**

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 5,469,496	\$ 2,200,034	\$ 7,669,530
Short-term investments	3,663,603	403,317	4,066,920
Receivables (net of allowance)	347,479	1,501,059	1,848,538
Internal balances	1,131,802	(1,131,802)	-
Prepays	122,321	-	122,321
Deferred Charges	402,706	1,084,742	1,487,448
Capital assets (net of accumulated depreciation):			
Land	661,796	2,076,724	2,738,520
Buildings	469,149	5,166,617	5,635,766
Improvements other than building	4,506,179	4,901,739	9,407,918
Machinery and equipment	1,226,731	1,009,447	2,236,178
Construction in progress	6,116,675	1,032,922	7,149,597
Advance to trust and agency funds	159,799	-	159,799
Other assets	-	235,000	235,000
Total assets	24,277,736	18,479,799	42,757,535
LIABILITIES			
Accounts payable and accrued liabilities	1,342,190	927,702	2,269,892
Accrued interest payable	57,343	-	57,343
Other liabilities	-	91,518	91,518
Deferred revenue	200,354	338,910	539,264
Noncurrent liabilities:			
Due within one year	174,154	506,034	680,188
Due in more than one year	9,477,757	7,402,676	16,880,433
Total liabilities	11,251,798	9,266,840	20,518,638
NET ASSETS			
Invested in capital assets, net of related debt	3,475,490	6,278,739	9,754,229
Restricted for:			
Highways and streets	1,094,624	-	1,094,624
Public Safety	194,045	-	194,045
Debt Service	-	1,655,262	1,655,262
Other purposes	4,203,944	-	4,203,944
Unrestricted	4,057,835	1,278,958	5,336,793
Total net assets	\$ 13,025,938	\$ 9,212,959	\$ 22,238,897

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, 2007**

Functions/Programs	Expenses	Program Revenues			Primary Government		
		Charges for Services	Operating Contributions and Grants	Capital Grants and Contributions	Governmental Activities	Business-type Activity	Total
Primary Government							
Governmental activities:							
General government	\$ 991,108	\$ -	\$ -	\$ -	\$ (991,108)	\$ -	\$ (991,108)
Administration	535,152	-	-	-	(535,152)	-	(535,152)
Public works and Planning	1,794,853	-	1,588,754	-	(206,099)	-	(206,099)
Police	738,583	-	135,680	-	(602,903)	-	(602,903)
Fire department	602,241	-	391,043	-	(211,198)	-	(211,198)
Sheriff	1,553,493	-	-	-	(1,553,493)	-	(1,553,493)
Council	16,850	-	-	-	(16,850)	-	(16,850)
City clerk	55,308	-	-	-	(55,308)	-	(55,308)
Treasurer	2,108	-	-	-	(2,108)	-	(2,108)
Interest	448,230	-	-	-	(448,230)	-	(448,230)
Total governmental activities	<u>6,737,926</u>	<u>-</u>	<u>2,115,477</u>	<u>-</u>	<u>(4,622,449)</u>	<u>-</u>	<u>(4,622,449)</u>
Business-type activities:							
Refuse	714,070	691,011	-	-	-	(23,059)	(23,059)
Water	1,900,038	1,710,394	-	-	-	(189,644)	(189,644)
Sewer	1,522,811	3,041,705	-	-	-	1,518,894	1,518,894
Transit	115,291	-	141,500	-	-	26,209	26,209
Airport	577,631	427,034	-	-	-	(150,597)	(150,597)
Community Development Department	474,337	96,032	-	-	-	(378,305)	(378,305)
Total business-type activities	<u>5,304,178</u>	<u>5,966,176</u>	<u>141,500</u>	<u>-</u>	<u>-</u>	<u>803,498</u>	<u>803,498</u>
Total primary government	<u>\$ 12,042,104</u>	<u>\$ 5,966,176</u>	<u>\$ 2,256,977</u>	<u>\$ -</u>	<u>\$ (4,622,449)</u>	<u>\$ 803,498</u>	<u>\$ (3,818,951)</u>
General revenues:							
Property taxes					2,072,479	-	2,072,479
Sales taxes					1,627,259	-	1,627,259
Other taxes					958,609	-	958,609
Licenses and permits					862,660	-	862,660
Miscellaneous					2,295,270	1,026,970	3,322,240
Interest					505,166	112,480	617,646
Transfers					6,355	(6,355)	-
Total general revenues and transfers					<u>8,327,798</u>	<u>1,133,095</u>	<u>9,460,893</u>
Change in net assets					<u>3,705,349</u>	<u>1,936,593</u>	<u>5,641,942</u>
Net assets beginning of year - unadjusted					<u>9,320,589</u>	<u>7,205,131</u>	<u>16,525,720</u>
Prior period and depreciation adjustments						<u>71,235</u>	<u>71,235</u>
Net assets beginning of year					<u>9,320,589</u>	<u>7,276,366</u>	<u>16,596,955</u>
Net assets at end of year					<u>\$ 13,025,938</u>	<u>\$ 9,212,959</u>	<u>\$ 22,238,897</u>

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

**CITY OF TEHACHAPI
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	General	Tea Grant Downtown	RDA Debt Service
ASSETS			
Cash and short-term investments	2,130,535	-	1,718,862
Receivables (net of allowance)	230,186	-	37,799
Due from other funds	2,026,433	-	-
Prepays	122,321	-	-
Advance to other funds	159,799	-	-
Total assets	<u>4,669,274</u>	<u>-</u>	<u>1,756,661</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	809,927	35,810	1,004
Due to other funds	-	38,679	-
Deferred revenues	-	-	-
Total liabilities	<u>809,927</u>	<u>74,489</u>	<u>1,004</u>
Fund balances:			
Reserved	282,120	-	1,755,657
Unreserved	3,577,227	(74,489)	-
Total fund balance	<u>3,859,347</u>	<u>(74,489)</u>	<u>1,755,657</u>
Total liabilities and fund balances	<u>4,669,274</u>	<u>-</u>	<u>1,756,661</u>

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

**CITY OF TEHACHAPI
BALANCE SHEET
GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2007**

	Other Governmental Funds	Totals 2007
ASSETS		
Cash and short-term investments	5,283,702	9,133,099
Receivables (net of allowance)	79,494	347,479
Due from other funds	516,508	2,542,941
Prepays	-	122,321
Advance to other funds	-	159,799
Total assets	5,879,704	12,305,639
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	495,449	1,342,190
Due to other funds	1,372,460	1,411,139
Deferred revenues	200,354	200,354
Total liabilities	2,068,263	2,953,683
 Fund balances:		
Reserved	1,822,903	3,860,680
Unreserved	1,988,538	5,491,276
Total fund balance	3,811,441	9,351,956
 Total liabilities and fund balances	5,879,704	12,305,639

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, 2007**

Fund balances of governmental funds	\$ 9,351,956
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.	12,980,530
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	(8,512,819)
Capital leases payable	(992,221)
Compensated Absences	(146,871)
Accrued interest payable is not reported in the governmental funds.	(57,343)
Unamortized issuance costs on revenue bonds payable has not been reported in the governmental funds.	<u>402,706</u>
Net assets of governmental activities	<u><u>\$ 13,025,938</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, 2007**

	<u>General</u>	<u>Tea Grant Downtown</u>	<u>RDA Debt Service</u>
REVENUES			
Grants	-	1,185,965	-
Property taxes	863,240		789,890
Sales taxes	1,627,259	-	-
Other taxes	741,325	-	-
Licenses and permits	862,660	-	-
Other sources of funds	-	-	-
Interest	179,223		156,679
Miscellaneous	851,614	-	-
Total revenues	<u>5,125,321</u>	<u>1,185,965</u>	<u>946,569</u>
EXPENDITURES			
Current			
General government	635,212	-	-
Administration	112,092		297,060
Public works	922,955	-	-
Planning	-	2,317,138	-
Fire department	880,757	-	-
Sheriff	1,553,493	-	-
Police	738,583		
Council	16,850	-	-
City clerk	55,308	-	-
Treasurer	2,108	-	-
Debt Service			
Interest expense	8,790		330,043
Principal	-		100,000
Total expenditures	<u>4,926,148</u>	<u>2,317,138</u>	<u>727,103</u>
Excess (deficiency) of revenues over (under) expenditures	<u>199,173</u>	<u>(1,131,173)</u>	<u>219,466</u>
OTHER FINANCING SOURCES(USES)			
Transfers in	1,000,000	1,740,000	-
Transfers out	<u>(18,330)</u>	<u>-</u>	<u>(2,155,000)</u>
Total other financing sources (uses)	<u>981,670</u>	<u>1,740,000</u>	<u>(2,155,000)</u>
Net change in fund balances	1,180,843	608,827	(1,935,534)
Fund balances - beginning	<u>2,678,504</u>	<u>(683,316)</u>	<u>3,691,191</u>
Fund balances - ending	<u><u>3,859,347</u></u>	<u><u>(74,489)</u></u>	<u><u>1,755,657</u></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, 2007**

	Other Governmental Funds	Totals 2007
REVENUES		
Grants	929,512	2,115,477
Property taxes	419,350	2,072,480
Sales taxes	-	1,627,259
Other taxes	217,279	958,604
Licenses and permits	-	862,660
Other sources of funds	1,443,656	1,443,656
Interest	169,264	505,166
Miscellaneous	-	851,614
Total revenues	<u>3,179,061</u>	<u>10,436,916</u>
EXPENDITURES		
Current		
General government	-	635,212
Administration	126,000	535,152
Public works	1,048,577	1,971,532
Planning	1,125,324	3,442,462
Fire department	-	880,757
Sheriff	-	1,553,493
Police	-	738,583
Council	-	16,850
City clerk	-	55,308
Treasurer	-	2,108
Debt Service		
Interest expense	82,511	421,344
Principal	25,000	125,000
Total expenditures	<u>2,407,412</u>	<u>10,377,801</u>
Excess (deficiency) of revenues over (under) expenditures	<u>771,649</u>	<u>59,115</u>
OTHER FINANCING SOURCES(USES)		
Transfers in	1,793,763	4,533,763
Transfers out	<u>(2,354,078)</u>	<u>(4,527,408)</u>
Total other financing sources (uses)	<u>(560,315)</u>	<u>6,355</u>
Net change in fund balances	211,334	65,470
Fund balances - beginning	<u>3,600,107</u>	<u>9,286,486</u>
Fund balances - ending	<u><u>3,811,441</u></u>	<u><u>9,351,956</u></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, 2007**

Net changes in fund balances - total governmental funds	\$ 65,470
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.	3,401,415
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.	274,306
Accrued interest payable is not reported in the governmental funds.	13,559
The statement of net assets includes unamortized issuance costs on long term debt.	(19,401)
To record the net change in compensated absences in the statement of activities.	(30,000)
Change in net assets of governmental activities	\$ 3,705,349

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

**CITY OF TEHACHAPI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007**

	Water Fund	Sewer Fund
	<u> </u>	<u> </u>
ASSETS		
Current assets:		
Cash and short-term investments	\$ 828,657	\$ 1,731,187
Receivables (net of allowance)	386,969	332,188
Due from other funds	959,281	232,288
Total current assets	<u>2,174,907</u>	<u>2,295,663</u>
Noncurrent assets:		
Deferred charges	272,883	811,859
Other assets	-	-
Capital assets:		
Land	1,405,568	613,613
Construction in progress	201,191	831,731
Buildings	774,582	9,325,109
Machinery and equipment	557,545	638,362
Improvements other than building	4,452,473	608,169
Less accumulated depreciation	<u>(2,372,502)</u>	<u>(4,696,121)</u>
Total capital assets (net of accumulated depreciation)	<u>5,018,857</u>	<u>7,320,863</u>
Total noncurrent assets	<u>5,291,740</u>	<u>8,132,722</u>
Total assets	<u>\$ 7,466,647</u>	<u>\$ 10,428,385</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 242,856	\$ 414,860
Due to other funds	959,281	232,288
Customer deposits payable	67,183	-
Other current liabilities	-	-
Capital lease payable - current	23,916	36,484
Current portion of long-term debt	79,180	359,435
Total current liabilities	<u>1,372,416</u>	<u>1,043,067</u>
Deferred revenue	<u>46,520</u>	<u>285,768</u>
Noncurrent liabilities:		
Capital leases	52,934	336,963
Notes and bonds payable	<u>2,062,475</u>	<u>4,853,816</u>
Total noncurrent liabilities	<u>2,115,409</u>	<u>5,190,779</u>
Total liabilities	<u>3,534,345</u>	<u>6,519,614</u>
NET ASSETS		
Invested in capital assets, net of related debt	2,800,352	1,734,165
Restricted for debt service	686,022	969,240
Unrestricted	<u>445,928</u>	<u>1,205,366</u>
Total net assets	<u>\$ 3,932,302</u>	<u>\$ 3,908,771</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 7,466,647</u>	<u>\$ 10,428,385</u>

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

**CITY OF TEHACHAPI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007**

	Non-Major Proprietary Funds	Total Current Year
ASSETS		
Current assets:		
Cash and short-term investments	\$ 43,507	\$ 2,603,351
Receivables (net of allowance)	781,905	1,501,062
Due from other funds	-	1,191,569
Total current assets	825,412	5,295,982
Noncurrent assets:		
Deferred charges	-	1,084,742
Other assets	235,000	235,000
Capital assets:		
Land	57,543	2,076,724
Construction in progress	-	1,032,922
Buildings	1,025,504	11,125,195
Machinery and equipment	441,572	1,637,479
Improvements other than building	1,708,487	6,769,129
Less accumulated depreciation	(1,385,377)	(8,454,000)
Total capital assets (net of accumulated depreciation)	1,847,729	14,187,449
Total noncurrent assets	2,082,729	15,507,191
Total assets	\$ 2,908,141	\$ 20,803,173
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 269,989	\$ 927,705
Due to other funds	1,131,802	2,323,371
Customer deposits payable	8,740	75,923
Other current liabilities	15,595	15,595
Capital lease payable - current	-	60,400
Current portion of long-term debt	7,019	445,634
Total current liabilities	1,433,145	3,848,628
Deferred revenue	6,622	338,910
Noncurrent liabilities:		
Capital leases	-	389,897
Notes and bonds payable	96,488	7,012,779
Total noncurrent liabilities	96,488	7,402,676
Total liabilities	1,536,255	11,590,214
NET ASSETS		
Invested in capital assets, net of related debt	1,744,222	6,278,739
Restricted for debt service	-	1,655,262
Unrestricted	(372,336)	1,278,958
Total net assets	\$ 1,371,886	\$ 9,212,959
TOTAL LIABILITIES AND FUND EQUITY	\$ 2,908,141	\$ 20,803,173

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, 2007**

	Water Fund	Sewer Fund
	<u> </u>	<u> </u>
OPERATING REVENUES:		
Charges for services	\$ 1,710,394	\$ 3,041,705
Miscellaneous	707,783	24,755
	<u> </u>	<u> </u>
Total operating revenues	2,418,177	3,066,460
Operating expenses:		
Personnel services	543,889	447,857
Maintenance and operations	1,046,406	419,613
Depreciation	164,211	366,227
	<u> </u>	<u> </u>
Total operating expenses	1,754,506	1,233,697
	<u> </u>	<u> </u>
OPERATING INCOME	663,671	1,832,763
Nonoperating revenues (expenses):		
Intergovernmental	-	-
Interest income	41,497	70,681
Interest expense	(145,532)	(289,114)
	<u> </u>	<u> </u>
Total nonoperating revenues (expenses)	(104,035)	(218,433)
	<u> </u>	<u> </u>
Income before operating transfers	559,636	1,614,330
Transfers in	-	-
Transfers out	-	(15,000)
	<u> </u>	<u> </u>
Total transfers in (out)	-	(15,000)
	<u> </u>	<u> </u>
Change in net assets	559,636	1,599,330
Net assets - beginning	3,372,666	2,323,893
Prior period/ depreciation adjustment	-	(14,452)
	<u> </u>	<u> </u>
NET ASSETS - ENDING	<u>\$ 3,932,302</u>	<u>\$ 3,908,771</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, 2007**

	Non-Major Proprietary Funds	Totals
OPERATING REVENUES:		
Charges for services	\$ 1,214,077	\$ 5,966,176
Miscellaneous	294,432	1,026,970
	1,508,509	6,993,146
Total operating revenues		
Operating expenses:		
Personnel services	643,604	1,635,350
Maintenance and operations	1,195,591	2,661,610
Depreciation	36,887	567,325
	1,876,082	4,864,285
Total operating expenses		
OPERATING INCOME	(367,573)	2,128,861
Nonoperating revenues (expenses):		
Intergovernmental	141,500	141,500
Interest income	302	112,480
Interest expense	(5,247)	(439,893)
	136,555	(185,913)
Total nonoperating revenues (expenses)		
Income before operating transfers	(231,018)	1,942,948
Transfers in	8,645	8,645
Transfers out	-	(15,000)
	8,645	(6,355)
Total transfers in (out)		
Change in net assets	(222,373)	1,936,593
Net assets - beginning	1,508,572	7,205,131
Prior period/depreciation adjustment	85,687	71,235
	1,594,259	7,276,366
NET ASSETS - ENDING	\$ 1,371,886	\$ 9,212,959

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, 2007**

	Enterprise
CASH FLOWS FROM OPERATING ACTIVITIES	
Total operating revenues	\$ 6,422,003
Personnel services	(1,635,350)
Maintenance and operations	(1,659,402)
Net cash provided by operating activities	3,127,251
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	
Operating transfers out	(6,355)
Intergovernmental revenue	114,801
Net cash provided by noncapital and related financing activities	108,446
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of fixed assets	(1,302,644)
Escrow payment	(14,452)
Interest expense (net of discount amortization)	(340,055)
Payments on capital lease obligations	(54,529)
Payments on long-term debt	(445,634)
Net cash used in capital and related financing activities	(2,157,314)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	
Interest received	112,480
Net cash provided by investing activities	112,480
Net Increase in Cash	1,190,863
Cash, beginning of year	1,412,488
Cash, end of year	\$ 2,603,351
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 2,128,861
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation	567,325
(Increase) decrease in:	
Receivables	(568,263)
Due from other funds	86,574
Increase (decrease) in:	
Accounts payable	325,528
Due to other funds	590,106
Deposits payable	(6,255)
Other current liabilities	411
Deferred revenues	2,964
Net cash provided by operating activities	\$ 3,127,251
NON CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:	
Depreciation Adjustment to Net Assets	(11,277)
Capital Acquisition	123,664

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, 2007**

	<u>Total Trust and Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 1,587,145
Short-term investments	102,645
Receivables (net of allowance)	18,650
Due from other funds	7,412
Advances to other funds	159,799
Due from bond holders	118,599
Other assets	<u>243,762</u>
 Total assets	 <u><u>2,238,012</u></u>
LIABILITIES	
Accounts payable	\$ 1,404,216
Deposits	25,686
Due to other funds	74,962
Due to bond holders	413,550
Advances from other funds	<u>319,598</u>
 Total liabilities	 <u><u>\$ 2,238,012</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, 2007**

(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, 2007**

(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* is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes (not including major capital projects).

The *Tea Grant Downtown Fund* is used for the proceeds of the federal TEA grant. The grant is used for enhancement and beautification of downtown

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(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 *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, 2007**

(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, 2007, 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, 2007**

(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, 2007**

(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 \$892,893. 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, 2007**

(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 \$9,351,956 differs from “net assets” of governmental activities of \$13,025,938, reported in the statement of net assets. The details of this \$3,673,982 difference are as follows:

	Increases	Decreases	Balance
Fund balances for governmental activities			\$ 9,351,956

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:

Construction in progress	6,116,675	-	
Cost of capital assets	10,274,182	-	
Accumulated depreciation	-	(3,410,325)	
	16,390,857	(3,410,325)	

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(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, 2007 were:			
Compensated absences	-	(146,873)	
Bonds payable	-	(8,512,819)	
Capital leases payable	-	(992,221)	
	-	(9,651,913)	
<u>Accrued Interest</u>			
Interest is not accrued in the fund financial statements.	-	(57,343)	
<u>Issuance costs/discounts</u>			
Unamortized issuance costs and discounts are capitalized and amortized in the statement of net assets	402,706	-	
<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.	1,411,139	(1,411,139)	
Net change	18,204,702	(14,530,720)	3,673,982
Net assets of governmental activities			\$ 13,025,938

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(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 \$65,470 differs from the “changes in net assets” for the governmental activities of \$3,705,349 reported in the statement of activities. Details of this \$3,639,879 difference are as follows:

	Increases	Decreases	Balance
Net changes in fund balances for governmental activities			\$ 65,470
<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	3,897,661	-
	Depreciation expense	-	(496,246)
		3,897,661	(496,246)

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(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	274,306	-	
<u>Accrued interest</u>			
Interest is not accrued in the fund financial statements.	-	13,559	
<u>Issuance costs/discount</u>			
Issuance costs/discounts expensed in the governmental funds have been capitalized and amortized in the statement of activities	-	(19,401)	
<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	(30,000)	-	
<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.			
	4,542,407	(4,542,407)	
Net change	8,684,374	(5,044,495)	3,639,879
Net change in net assets for governmental activities			\$ 3,705,349

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(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:

(4)

Funds	Excess Expenditures
Special Revenue Funds:	
Community Development Grant	\$ 191,706
East Tehachapi Bike Trails.	68,391
Beverage Container Recycling	2,400
Lighting District	47,190

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(CONTINUED)

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

C. Deficit fund equity

The following funds had deficit balances at June 30, 2007:

Special Revenue Funds:		
TDA 3 Bike Safety	\$	(275,792)
Community Development Grant		(143,703)
Capital Projects Funds:		
Railroad Depot		(14,005)
Tehachapi Streetscape		(17,894)
Downtown Master Plan		(53,453)
TEA-05 Downtown Beautification		(74,489)
Misc. Capital Projects		(40,817)

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, 2007:

Business - Type Activities:		
Community Development Department	\$	(226,416)

(5) Detailed notes on all funds

A. Cash and Investments

The City's cash, cash equivalents, and investments consist of the following at June 30, 2007:

Deposits	\$	477,323	
LAIF		8,845,351	
Cash and cash equivalents		<u>9,322,674</u>	
Investments			
Investments with Fiscal Agents		4,103,566	
	Total	<u>\$ 13,426,240</u>	

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(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 Activities</u>	<u>Business Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 5,469,497	\$ 2,124,010	\$ 1,587,145	\$ 9,180,652
Short-Term Investments	3,663,603	403,317	102,645	4,169,565
Restricted Cash	-	76,023	-	76,023
	<u>\$ 9,133,100</u>	<u>\$ 2,603,350</u>	<u>\$ 1,689,790</u>	<u>\$ 13,426,240</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, 2007 none of the City's bank balance of \$546,471 was exposed to custodial credit risk.

Investments

As of June 30, 2007, 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	403,317	134,157	269,160	
US Agencies	3,068,952		3,068,952	
Local Agency Investment Funds	8,845,351	8,845,351		
Guaranteed Investment Contract	574,691		574,691	
Commercial Paper	57,644	17,343	40,301	
	<u>12,949,955</u>	<u>8,996,851</u>	<u>3,953,104</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, 2007**

(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	\$ 11,914,303
Fiscal Agents (Bond trustees for the City and its component units)	1,035,652
	\$ 12,949,955

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	
Trust indenture	Yes	N/A	None	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, 2007**

(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, 2007 Standard & Poor's and Moody's rated the City's investments, except for those investments held by its bond of trustees and the California LAIF, as AAA and Aaa, respectively. In addition, none of the investments categories listed above exceeded the maximum allowable percentage of its portfolio. The California LAIF is unrated as to credit risk.

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 \$1,035,652 held by the various bond trustees and fiscal agents, and \$67,183 and \$8,740 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, 2007**

(CONTINUED)

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

C. Receivables (Continued)

	General Fund	RDA Low Moderate Housing Fund	Nonmajor and Other Funds	Total
Taxes	\$ 182,354	\$ 28,399	\$ 37,799	\$ 248,552
Others	47,832	-	647	48,479
Accounts	-	-	1,559,105	1,559,105
Gross Receivables	230,186	28,399	1,597,551	1,856,136
Less: allowance for uncollectibles	-	-	(7,589)	(7,589)
Net total receivables	<u>\$ 230,186</u>	<u>\$ 28,399</u>	<u>\$ 1,589,962</u>	<u>\$ 1,848,547</u>

D. Capital assets

Capital asset activity for the year ended June 30, 2007 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 614,419	\$ 47,375	\$ -	\$ 661,794
Construction in progress	3,238,455	3,391,961	(513,741)	6,116,675
Total capital assets, not being depreciated	<u>3,852,874</u>	<u>3,439,336</u>	<u>(513,741)</u>	<u>6,778,469</u>
Capital assets, being depreciated:				
Buildings	1,342,296	-	-	1,342,296
Machinery and equipment	2,515,834	295,477	-	2,811,311
Improvements other than building	4,782,196	676,583	-	5,458,779
Total capital assets being depreciated	<u>8,640,326</u>	<u>972,060</u>	<u>-</u>	<u>9,612,386</u>
Less accumulated depreciation for:				
Buildings	(826,720)	(46,425)	-	(873,145)
Machinery and equipment	(1,374,351)	(210,229)	-	(1,584,580)
Improvements other than building	(713,008)	(239,592)	-	(952,600)
Total accumulated depreciation	<u>(2,914,079)</u>	<u>(496,246)</u>	<u>-</u>	<u>(3,410,325)</u>
Total capital assets, being depreciated, net	<u>5,726,247</u>	<u>475,814</u>	<u>-</u>	<u>6,202,061</u>
Governmental activities capital assets, net	<u>\$ 9,579,121</u>	<u>\$3,915,150</u>	<u>\$ (513,741)</u>	<u>\$ 12,980,530</u>

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(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	\$ 47,034	\$ -	\$ 2,076,724
Construction in progress	2,641,132	895,080	(2,503,290)	1,032,922
Total capital assets, not being depreciated	<u>4,670,822</u>	<u>942,114</u>	<u>(2,503,290)</u>	<u>3,109,646</u>
Capital assets, being depreciated:				
Buildings	10,648,463	476,732	-	11,125,195
Machinery and equipment	1,153,282	484,197	-	1,637,479
Improvements other than building	4,742,572	2,026,557	-	6,769,129
Total capital assets being depreciated	<u>16,544,317</u>	<u>2,987,486</u>	<u>-</u>	<u>19,531,803</u>
Less accumulated depreciation for:				
Buildings	(5,637,765)	(320,813)	-	(5,958,578)
Machinery and equipment	(525,815)	(102,217)	-	(628,032)
Improvements other than building	(1,711,816)	(155,574)	-	(1,867,390)
Total accumulated depreciation	<u>(7,875,396)</u>	<u>(578,604)</u>	<u>-</u>	<u>(8,454,000)</u>
Total capital assets, being depreciated, net	<u>8,668,921</u>	<u>2,408,882</u>	<u>-</u>	<u>11,077,803</u>
Business-type activities capital assets, net	<u>\$ 13,339,743</u>	<u>\$ 3,350,996</u>	<u>\$ (2,503,290)</u>	<u>\$ 14,187,449</u>

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

Governmental activities:	
General government	\$ 496,246
Total depreciation expense - governmental activities	<u>\$ 496,246</u>
Business-type activities	
Water	\$ 164,211
Sewer	366,227
Airport	31,961
Community Development	16,203
Total depreciation expense - business-type activities	<u>\$ 578,602</u>

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(CONTINUED)

(4) Detailed notes on all funds (Continued)

D. Capital assets (Continued)

Construction commitments

The City has active construction projects as of June 30, 2007. At year-end the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Curry Reconstruction-RSTP	267,479	710,410
TEA-Downtown Street Improvement	2,669,652	199,000
Tank Demolition	287,816	27,479
Minton & Wahlstrom Wells	912,678	113,893
Total	<u>\$ 4,137,625</u>	<u>\$ 1,050,782</u>

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(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, 2007 is as follows:

Due to/from other funds:

	Receivable Fund	Payable Fund
General Fund	\$ 2,026,433	\$ -
Special Revenue:		
Community Development Grant	-	\$ 130,597
TDA 3 Bike Safety	-	261,286
Lighting District	-	33,317
Tucker Rd/Valley Blvd Exchange	-	389,605
	-	814,805
Capital Projects:		
Railroad Depot	-	13,892
Tehachapi Streetscape	-	17,862
Tea Grant Downtown B	-	38,679
Public Safety Capital Project	516,508	516,508
Downtown Master	-	9,393
	516,508	596,334
Enterprise Funds:		
Refuse Fund	-	61,042
Airport Fund	-	531,288
Sewer Fund	232,288	232,288
Water Utility	959,281	959,281
Community Development Department	-	539,472
	1,191,569	2,323,371
Trust and Agency Funds:		
Curry Highline 90-1	-	7,412
Mountain Meadows 90-1	7,412	-
	7,412	7,412
	\$ 3,741,922	\$ 3,741,922

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(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, 2007.

	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	\$ 159,799	\$ -
Trust and Agency Funds:		
Summit 89-2		98,233
Curry Highline 90-1	-	61,566
Special Districts Revolving Fund	159,799	159,799
	\$ 319,598	\$ 319,598

Operating Transfers consist of the following at June 30, 2007

:

General Fund:		
Transfer to Misc. Special Revenue Project		\$ 3,088
Transfer to Goodrick Drive Assessment		1,597
Transfer to Broome Ranch Park		5,000
Transfer to Airport		8,645
		18,330
Gas Tax:		
Transfer to Tehachapi Streetscape		210,000
		210,000
Special Revenue Funds:		
Transfer to Gas Tax		744,078
		744,078
Capital Projects Funds:		
Public safety Capital Project		
Transfer to General Fund		1,000,000
Tucker Road/ Valley Exchange		
Transfer to Surface Transportation Program		400,000
		1,400,000
Enterprise Funds:		
Sewer Utility		
Transfer to Capital Equipment Replacement		15,000
		15,000
RDA Fund:		
Transfer to Railroad Depot		180,000
Transfer to Downtown Masterplan		200,000
Transfer to TEA Grant Downtown Beautification		1,740,000
Transfer to Misc. Capital Projects		35,000
		\$ 4,542,408

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(CONTINUED)

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

F. Other Assets

Other assets at June 30, 2007 consist of the following:

	Trust and Agency Fund	Total
Foreclosure receivables	\$ 243,762	\$ 243,762
	\$ 243,762	\$ 243,762

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 \$5,908 for the year ending June 30, 2007.

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, 2007**

(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	1,000,530	434,226
Less: Accumulated depreciation	<u>(841,269)</u>	<u>(175,384)</u>
Total	<u><u>1,114,832</u></u>	<u><u>454,561</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2007, were as follows:

Year Ending June 30,	Governmental Activities	Business Activities
<u>2008</u>	<u>98,388</u>	<u>60,400</u>
2009	98,376	46,645
2010	87,155	35,366
2011	87,142	35,364
2012	48,676	35,361
2013-2017	243,175	176,764
2018-2022	242,792	125,903
2023-2027	242,345	49,637
2028-2032	<u>241,822</u>	<u>34,962</u>
	1,389,871	600,402
Less amount representing interest	<u>(398,244)</u>	<u>(164,346)</u>
Present value of net minimum lease payments	<u><u>\$991,627</u></u>	<u><u>\$436,056</u></u>

H. Long term debt

Changes in General Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	July 1, 2006	Additions	Deletions	June 30, 2007	Due Within One Year
Governmental activities:					
Bonds payable	\$ 8,780,000	\$ -	\$ (125,000)	\$ 8,655,000	\$ 110,000
Less deferred amounts:					
For issuance discounts	(147,228)	-	5,047	(142,181)	-
Total bonds payable	8,632,772	-	(119,953)	8,512,819	110,000
Capital leases	1,141,527	-	(149,306)	992,221	64,154
Compensated absences	116,871	30,003	-	146,874	-
Governmental activity					
Long-term liabilities	<u>\$ 9,891,170</u>	<u>\$ 30,003</u>	<u>\$ (269,259)</u>	<u>\$ 9,651,914</u>	<u>\$ 174,154</u>

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(CONTINUED)

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

H. Long term debt (Continued)

Changes in General Long-Term Liabilities (Continued)

	6/30/2006	Additions	Deletions	6/30/2007	Due Within One Year
Business-type activities:					
2004 Forward Refunding Revenue Bond	\$ 3,655,000	\$ -	\$ 120,000	\$ 3,535,000	\$ 120,000
1993 State Revolving Loan	1,375,777	-	154,715	1,221,062	154,715
1998 Sewer and Water COP	264,400	-	3,900	260,500	3,900
2000 Sewer and Water COP	2,665,000	-	160,000	2,505,000	160,000
Less deferred amounts:	-	-	-	-	-
For issuance discounts	(180,406)	-	(13,748)	(166,658)	-
Total bonds payable	7,779,771	-	424,867	7,354,904	438,615
Department of Transportation Loan	110,526	-	7,019	103,507	7,019
Capital leases	504,828	-	54,529	450,299	60,400
Business-type activity Long-term liabilities	<u>\$ 8,395,125</u>	<u>\$ -</u>	<u>\$ 486,415</u>	<u>\$ 7,908,710</u>	<u>\$ 506,034</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, 2007**

(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
2008	\$ 110,000	\$ 408,653
2009	115,000	404,713
2010	170,000	399,385
2011	175,000	392,715
2012	185,000	385,626
2013 - 2017	1,020,000	1,808,331
2018 - 2022	1,265,000	1,560,749
2023 - 2027	1,590,000	1,230,033
2028 - 2032	2,010,000	784,116
2033 - 2035	2,015,000	212,891
	<u>8,655,000</u>	<u>7,587,212</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, 2007 are as follows:

Description	Interest Rates	Amounts
2004 Water and Sewer Revenue Forward Refunding	3.00% (average)	\$ 3,535,000
1993 State Revolving Loan	3.00%	1,221,062
1998 Sewer and Water COP	4.50%	260,500
2000 Sewer and Water COP	5.28% (average)	2,505,000
Department of Transportation Loan Fuel Tank	5.05%	103,507
		<u>7,625,069</u>
Less: Unamortized discount		(166,658)
		<u>\$ 7,458,411</u>

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(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
2008	295,000	266,680
2009	305,000	254,858
2010	325,000	242,048
2011	340,000	227,661
2012	355,000	212,094
2013-2017	2,195,000	763,693
2018-2021	2,225,000	234,563
	6,040,000	2,201,597

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
2008	159,356	36,632
2009	164,147	31,851
2010	169,061	26,927
2011	174,133	21,855
2012	179,357	16,631
2013-2017	375,009	16,959
Total	\$ 1,221,063	\$ 150,855

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, 2007**

(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
2008	4,000	11,722
2009	4,200	11,542
2010	4,400	11,354
2011	4,600	11,156
2012	4,800	10,949
2013-2017	27,400	51,303
2018-2022	34,000	44,572
2023-2027	42,800	36,176
2028-2032	53,000	25,659
2033-2037	66,200	12,591
2038-2042	15,100	680
Total	<u>\$ 260,500</u>	<u>\$ 227,704</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
2008	7,503	5,227
2009	7,987	4,848
2010	8,471	4,445
2011	8,956	4,017
2012	9,440	3,565
2013-2017	61,150	10,522
	<u>\$ 103,507</u>	<u>\$ 32,624</u>

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(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 \$3,155,000 at June 30, 2007.

Due to delinquent annual levies amounting to \$4,670,480, limited obligation bonds amounting to \$ 3,155,000 (principal only) are in default at June 30, 2007.

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(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, 2007 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	\$ 49,564
Total Liabilities	39,892
Total Net Assets	9,672
Total Liabilities and Net Assets	\$ 49,564
Total Operating Revenues for Year	20,093
Total Operating Expenses for Year	20,111
Operating Loss for Year	\$ (18)

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, 2007**

(CONTINUED)

(5) Other information (Continued)

B. City employee retirement plans

Miscellaneous 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, a cost sharing 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 2006-07 was 8.878%. 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 2006-07, the City's annual pension cost was \$157,413 and the City actually contributed \$157,413. The required contribution for fiscal year 2006-07 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 fifteen-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.

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(CONTINUED)

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

B. City employee retirement plans (Continued)

Miscellaneous Plan (Continued)

Annual Pension Cost (Continued)

Three-Year Trend Information for the Miscellaneous Plan

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2005	27,133	100.00%	-
6/30/2006	102,763	100.00%	-
6/30/2007	157,413	100.00%	-

Safety Fire Plan:

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), a cost sharing multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance 21252.01. CalPERS issues a separate comprehensive annual financial report.

Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members in the Safety Plan are required to contribute 7% of their annual covered salary. The City 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 2006-07 was 61.215% for retired firefighters.

The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(CONTINUED)

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

C. City employee retirement plans (Continued)

Safety Fire Plan (Continued)

Annual Pension Cost

For fiscal year 2006-07, the City's annual pension cost was \$101,160 and the City actually contributed \$101,160. The required contribution for fiscal year 2006-2007 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 fifteen 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.

Three-Year Trend Information for the Fire Safety Plan

<u>Fiscal Year Ending June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ 51,047	100.00%	\$ -
2006	\$ 187,942	100.00%	\$ -
2007	\$ 101,160	100.00%	\$ -

Plan Status:

Subsequent to year end, the Safety Fire Plan of the City became inactive. As such the City funded \$35,087 for the fiscal year June 30, 2007-08 and there will be no additional required contributions. The plan is now part of an inactive pool subject to future gains and losses. At any point in the future, the City may be required to make a contribution on the pool's gain and losses. Currently the pool has a surplus and no additional contribution is required.

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(CONTINUED)

(5) Other information (Continued)

B. City employee retirement plans (Continued)

Safety Police Plan:

The City of Tehachapi's (the City) defined benefit pension 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 as part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), a cost sharing multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance 21252.01. CalPERS issues a separate comprehensive annual financial report.

Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active Plan members in the Safety Plan are required to contribute 9% 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 2006-2007 was 53.368% for retired police officers. 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 2006-2007, the City's annual pension cost was \$106,680 and the City actually contributed \$106,680. The required contribution for fiscal year 2006-07 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 3.75% 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 fifteen 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.

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(CONTINUED)

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

B. City employee retirement plans (Continued)

Safety Police Plan (Continued)

Annual Pension Cost (Continued)

Three-Year Trend Information for the Police Safety Plan

Fiscal Year Ending June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ -	-	\$ -
2006	\$ -	-	\$ -
2007	\$ 106,680	100.00%	\$ -

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, 2007.

D. Reserved fund balances

Fund balances that are not available for appropriation at June 30, 2007 are reserved for the following purposes:

	General Fund	RDA Funds	Total
Reserved			
Prepays	122,321	-	122,321
Advances to other funds	159,799	-	159,799
Debt Service	-	1,755,657	1,755,657
Low Mod Housing	-	1,822,903	1,822,903
	<u>\$ 282,120</u>	<u>\$ 3,578,560</u>	<u>\$ 3,860,680</u>

**CITY OF TEHACHAPI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

(CONTINUED)

(5) Other information (Continued)

E. Subsequent Event

On December 1, 2007, the Tehachapi Redevelopment Agency issued Tehachapi Redevelopment Project 2007 Tax Allocation Bonds in the amount of \$9,120,000. These bonds were issued for the purpose of financing additional redevelopment activities for the Redevelopment Project Area, including amounts that will be deposited into a special escrow fund for future release. Proceeds of the 2007 Bond will also be used to fund capitalized interest for the 2007 Bonds which fund the Special Escrow Fund, to provide money to meet the parity reserve fund requirement for the 2007 Bonds and the 2005 Bonds, and to pay the cost of issuance of the 2007 Bonds.

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, 2007**

	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES			
Grants	\$ -	\$ -	\$ -
Taxes	2,987,628	3,231,823	244,195
Licenses and permits	889,604	862,660	(26,944)
Interest	120,000	179,223	59,223
Miscellaneous	775,750	851,614	75,864
Total revenues	<u>4,772,982</u>	<u>5,125,320</u>	<u>352,338</u>
EXPENDITURES			
General government	685,005	635,212	49,793
Administration	131,595	112,092	19,503
Public works	919,768	922,955	(3,187)
Fire department	976,422	880,757	95,665
Sheriff	1,558,070	1,553,493	4,577
Police	1,087,375	738,583	348,792
Council	24,083	16,850	7,233
City clerk	50,110	55,308	(5,198)
Treasurer	2,919	2,108	811
Interest expense	8,790	8,789	1
Total expenditures	<u>5,444,137</u>	<u>4,926,147</u>	<u>517,990</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(671,155)</u>	<u>199,173</u>	<u>870,328</u>
OTHER FINANCING SOURCES(USES)			
Transfers in	1,000,000	1,000,000	-
Transfers out	(15,189)	(18,330)	(3,141)
Total other financing sources	<u>984,811</u>	<u>981,670</u>	<u>(3,141)</u>
Net change in fund balances	313,656	1,180,843	867,187
Fund balances - beginning	2,678,504	2,678,504	-
Prior period adjustment	-	-	-
Fund balances - ending	<u>\$ 2,992,160</u>	<u>\$ 3,859,347</u>	<u>\$ 867,187</u>

**CITY OF TEHACHPI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
TEA GRANT DOWNTOWN FUND
FOR THE YEAR ENDED JUNE 30, 2007**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Grants	1,400,000	1,185,965	(214,035)
Total revenues	<u>1,400,000</u>	<u>1,185,965</u>	<u>(214,035)</u>
EXPENDITURES			
Current:			
Planning	2,456,595	2,317,138	139,457
Debt service:			
Principal	-	-	-
Bond issuance cost	-	-	-
Bond insurance	-	-	-
Interest	-	-	-
Total expenditures	<u>2,456,595</u>	<u>2,317,138</u>	<u>139,457</u>
Deficiency of revenue over expenditures	<u>(1,056,595)</u>	<u>(1,131,173)</u>	<u>(74,578)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>1,740,000</u>	<u>1,740,000</u>	<u>-</u>
Total other financing sources (uses)	<u>1,740,000</u>	<u>1,740,000</u>	<u>-</u>
Change in fund balances	683,405	608,827	74,578
Fund balance - beginning	<u>(683,316)</u>	<u>(683,316)</u>	<u>-</u>
Fund balance - ending	<u>\$ 89</u>	<u>\$ (74,489)</u>	<u>\$ 74,578</u>

**CITY OF TEHACHPI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
RDA DEBT SERVICE
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Taxes	640,323	789,890	149,567
Interest	80,000	156,679	76,679
Total revenues	<u>720,323</u>	<u>946,569</u>	<u>226,246</u>
EXPENDITURES			
Current:			
Administration	306,369	297,060	9,309
Debt service:			
Principal	100,000	100,000	-
Interest	478,988	330,043	148,945
Total expenditures	<u>885,357</u>	<u>727,103</u>	<u>158,254</u>
Deficiency of revenue over expenditures	<u>(165,034)</u>	<u>219,466</u>	<u>384,500</u>
OTHER FINANCING SOURCES			
Transfers in	-	-	-
Transfers out	(2,155,000)	(2,155,000)	-
Total other financing sources (uses)	<u>(2,155,000)</u>	<u>(2,155,000)</u>	<u>-</u>
Change in fund balances	(2,320,034)	(1,935,534)	(384,500)
Fund balance - beginning	<u>3,691,191</u>	<u>3,691,191</u>	<u>-</u>
Fund balance - ending	<u>\$ 1,371,157</u>	<u>\$ 1,755,657</u>	<u>\$ (384,500)</u>

SUPPLEMENTARY INFORMATION

**CITY OF TEHACHAPI
COMBINING BALANCE SHEET
NONMAJOR
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	Special Revenue	Capital Projects	Total Nonmajor
ASSETS			
Cash and short-term investments	\$ 3,482,853	\$ 1,800,849	\$ 5,283,702
Receivables (net of allowance)	34,679	44,815	79,494
Due from other funds	-	516,508	516,508
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 3,517,532</u>	<u>\$ 2,362,172</u>	<u>\$ 5,879,704</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 404,214	\$ 91,235	\$ 495,449
Due to other funds	425,200	947,260	1,372,460
Deferred revenue	200,354	-	200,354
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>1,029,768</u>	<u>1,038,495</u>	<u>2,068,263</u>
Fund Balances:			
Reserved	1,822,903	-	1,822,903
Unreserved	664,861	1,323,677	1,988,538
	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>2,487,764</u>	<u>1,323,677</u>	<u>3,811,441</u>
Total liabilities and fund balance	<u>\$ 3,517,532</u>	<u>\$ 2,362,172</u>	<u>\$ 5,879,704</u>

**CITY OF TEHACHAPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor</u>
REVENUES			
Grants	\$ 224,170	\$ 705,342	\$ 929,512
Taxes	636,629	-	636,629
Other sources of funds	1,196,236	247,420	1,443,656
Interest	89,474	79,790	169,264
	<u>2,146,509</u>	<u>1,032,552</u>	<u>3,179,061</u>
EXPENDITURES			
Administration	126,000	-	126,000
Principal	25,000	-	25,000
Interest	82,511	-	82,511
Public works	1,048,577	-	1,048,577
Planning	424,002	701,322	1,125,324
Sheriff	-	-	-
	<u>1,706,090</u>	<u>701,322</u>	<u>2,407,412</u>
Deficiency of revenues under expenditures	<u>440,419</u>	<u>331,230</u>	<u>771,649</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,148,763	645,000	1,793,763
Transfers out	(954,078)	(1,400,000)	(2,354,078)
	<u>194,685</u>	<u>(755,000)</u>	<u>(560,315)</u>
Total other financing sources	<u>194,685</u>	<u>(755,000)</u>	<u>(560,315)</u>
Net change in fund balances	<u>635,104</u>	<u>(423,770)</u>	<u>211,334</u>
Fund balances - beginning	<u>1,852,660</u>	<u>1,747,447</u>	<u>3,600,107</u>
Fund balances - ending	<u>\$ 2,487,764</u>	<u>\$ 1,323,677</u>	<u>\$ 3,811,441</u>

**CITY OF TEHACHAPI
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2007**

	Streets and Roads	Traffic Signals	Supplemental Law Enforcement	Surface Transportation Program
ASSETS				
Cash and short-term investments	\$ 200,354	\$ 602,256	\$ 644	\$ 423,295
Receivables (net of allowance)	-	3,068	-	-
Total assets	<u>\$ 200,354</u>	<u>\$ 605,324</u>	<u>\$ 644</u>	<u>\$ 423,295</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued liabilities	\$ -	\$ 600	\$ -	\$ 277,046
Due to other funds	-	-	-	-
Deferred revenue	200,354	-	-	-
Total liabilities	<u>200,354</u>	<u>600</u>	<u>-</u>	<u>277,046</u>
Fund balance				
Reserved	-	-	-	-
Unreserved	-	604,724	644	146,249
Total fund balance	<u>-</u>	<u>604,724</u>	<u>644</u>	<u>146,249</u>
Total liabilities and Fund balance	<u>\$ 200,354</u>	<u>\$ 605,324</u>	<u>\$ 644</u>	<u>\$ 423,295</u>

**CITY OF TEHACHAPI
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
 JUNE 30, 2007**

	TDA 3 Bike Safety	Beverage Container Recycling	Goodrick Road Assessment
ASSETS			
Cash and short-term investments	\$ -	\$ 12,761	\$ -
Receivables (net of allowance)	1,617	-	-
Total assets	<u>\$ 1,617</u>	<u>\$ 12,761</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable and accrued liabilities	\$ 16,123	\$ -	\$ -
Due to other funds	261,286	-	-
Deferred revenue	-	-	-
Total liabilities	<u>277,409</u>	<u>-</u>	<u>-</u>
Fund balance			
Reserved	-	-	-
Unreserved	<u>(275,792)</u>	<u>12,761</u>	<u>-</u>
Total fund balance	<u>(275,792)</u>	<u>12,761</u>	<u>-</u>
Total liabilities and Fund balance	<u>\$ 1,617</u>	<u>\$ 12,761</u>	<u>\$ -</u>

**CITY OF TEHACHAPI
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
JUNE 30, 2007**

	Lighting District	Community Development Grant	Gas Tax
ASSETS			
Cash and short-term investments	\$ 267,426	\$ 4,428	\$ 175,641
Receivables (net of allowance)	648	947	-
Total assets	<u>\$ 268,074</u>	<u>\$ 5,375</u>	<u>\$ 175,641</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable and accrued liabilities	\$ 19,179	\$ 18,481	\$ 72,785
Due to other funds	33,317	130,597	-
Deferred revenue	-	-	-
Total liabilities	<u>52,496</u>	<u>149,078</u>	<u>72,785</u>
Fund balance			
Reserved	-	-	-
Unreserved	215,578	(143,703)	102,856
Total fund balance	<u>215,578</u>	<u>(143,703)</u>	<u>102,856</u>
Total liabilities and Fund balance	<u>\$ 268,074</u>	<u>\$ 5,375</u>	<u>\$ 175,641</u>

**CITY OF TEHACHAPI
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
JUNE 30, 2007**

	Misc. Special Revenue Proj.	RDA Low Moderate Housing	Total Nonmajor
ASSETS			
Cash and short-term investments	\$ 1,544	\$ 1,794,504	\$ 3,482,853
Receivables (net of allowance)	-	28,399	34,679
Total assets	<u>\$ 1,544</u>	<u>\$ 1,822,903</u>	<u>\$ 3,517,532</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 404,214
Due to other funds	-	-	425,200
Deferred revenue	-	-	200,354
Total liabilities	<u>-</u>	<u>-</u>	<u>1,029,768</u>
Fund balance			
Reserved	-	1,822,903	1,822,903
Unreserved	1,544	-	664,861
Total fund balance	<u>1,544</u>	<u>-</u>	<u>2,487,764</u>
Total liabilities and Fund balance	<u>\$ 1,544</u>	<u>\$ -</u>	<u>\$ 3,517,532</u>

**CITY OF TEHACHAPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR YEAR ENDED JUNE 30, 2007**

	Streets and Roads	Traffic Signals	Supplemental Law Enforcement	Surface Transportation Program
REVENUES				
Grants	\$ -	\$ -	\$ -	\$ 3,920
Taxes	-	-	-	-
Other sources of funds	728,289	367,947	100,000	-
Interest	-	-	644	-
Total revenues	<u>728,289</u>	<u>367,947</u>	<u>100,644</u>	<u>3,920</u>
EXPENDITURES				
Administration	-	-	-	-
Principal	-	-	-	-
Interest	-	-	-	-
Public works	-	-	100,000	-
Planning	-	12,438	-	323,776
Sheriff	-	-	-	-
Total expenditures	<u>-</u>	<u>12,438</u>	<u>100,000</u>	<u>323,776</u>
Excess (deficiency) of revenues over (under) expenditures	<u>728,289</u>	<u>355,509</u>	<u>644</u>	<u>(319,856)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	400,000
Transfers out	<u>(744,078)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(744,078)</u>	<u>-</u>	<u>-</u>	<u>400,000</u>
Net change in fund balances	(15,789)	355,509	644	80,144
Fund balances beginning	<u>15,789</u>	<u>249,215</u>	<u>-</u>	<u>66,105</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 604,724</u>	<u>\$ 644</u>	<u>\$ 146,249</u>

**CITY OF TEHACHAPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
FOR YEAR ENDED JUNE 30, 2007**

	TDA 3 Bike Safety	Beverage Container Recycling	Goodrick Road Assessment
REVENUES			
Grants	\$ -	\$ -	\$ -
Taxes	-	-	-
Other sources of funds	-	-	-
Interest	-	638	-
Total revenues	-	638	-
EXPENDITURES			
Administration	-	-	-
Principal	-	-	-
Interest	-	-	-
Public works	-	2,400	-
Planning	86,191	-	1,597
Sheriff	-	-	-
Total expenditures	86,191	2,400	1,597
Excess (deficiency) of revenues over (under) expenditures	(86,191)	(1,762)	(1,597)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	1,597
Transfers out	-	-	-
Total other financing sources (uses)	-	-	1,597
Net change in fund balances	(86,191)	(1,762)	-
Fund balances beginning	(189,601)	14,523	-
Fund balances - ending	\$ (275,792)	\$ 12,761	\$ -

**CITY OF TEHACHAPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
FOR YEAR ENDED JUNE 30, 2007**

	Lighting District	Community Development Grant	Gas Tax
REVENUES			
Grants	\$ -	\$ 209,319	\$ -
Taxes	157,261	-	217,279
Other sources of funds	-	-	-
Interest	7,492	-	10,635
Total revenues	<u>164,753</u>	<u>209,319</u>	<u>227,914</u>
EXPENDITURES			
Administration	-	-	-
Principal	-	-	-
Interest	-	-	-
Public works	95,890	316,209	534,078
Planning	-	-	-
Sheriff	-	-	-
Total expenditures	<u>95,890</u>	<u>316,209</u>	<u>534,078</u>
Excess (deficiency) of revenues over (under) expenditures	<u>68,863</u>	<u>(106,890)</u>	<u>(306,164)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	744,078
Transfers out	-	-	(210,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>534,078</u>
Net change in fund balances	68,863	(106,890)	227,914
Fund balances beginning	<u>146,715</u>	<u>(36,813)</u>	<u>(125,058)</u>
Fund balances - ending	<u>\$ 215,578</u>	<u>\$ (143,703)</u>	<u>\$ 102,856</u>

**CITY OF TEHACHAPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
FOR YEAR ENDED JUNE 30, 2007**

	Misc. Special Revenue	RDA Low Moderate Housing	Total Nonmajor
REVENUES			
Grants	\$ 10,931	\$ -	\$ 224,170
Taxes	-	262,089	636,629
Other sources of funds	-	-	1,196,236
Interest	-	70,065	89,474
Total revenues	<u>10,931</u>	<u>332,154</u>	<u>2,146,509</u>
EXPENDITURES			
Administration	-	126,000	126,000
Principal	-	25,000	25,000
Interest	-	82,511	82,511
Public works	-	-	1,048,577
Planning	-	-	424,002
Sheriff	-	-	-
Total expenditures	<u>-</u>	<u>233,511</u>	<u>1,706,090</u>
Excess (deficiency) of revenues over (under) expenditures	<u>10,931</u>	<u>98,643</u>	<u>440,419</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	3,088	-	1,148,763
Transfers out	-	-	(954,078)
Total other financing sources (uses)	<u>3,088</u>	<u>-</u>	<u>194,685</u>
Net change in fund balances	14,019	98,643	635,104
Fund balances beginning	<u>(12,475)</u>	<u>1,724,260</u>	<u>1,852,660</u>
Fund balances - ending	<u>\$ 1,544</u>	<u>\$ 1,822,903</u>	<u>\$ 2,487,764</u>

**CITY OF TEHACHAPI
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
JUNE 30, 2007**

	Tucker Road/ Valley Blvd. Exchange	Broome Ranch Park (FD 315)	Railroad Depot	Misc. Capital Projects
ASSETS				
Cash and short-term investments	\$ 967,516	\$ -	\$ -	\$ 6,213
Receivables (net of allowance)	-	-	-	-
Due from other funds	-	-	-	-
Total assets	<u>\$ 967,516</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,213</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 113	\$ 47,030
Due to other funds	<u>389,605</u>	<u>-</u>	<u>13,892</u>	<u>-</u>
Total liabilities	<u>389,605</u>	<u>-</u>	<u>14,005</u>	<u>47,030</u>
Fund balance				
Unreserved fund balance	<u>577,911</u>	<u>-</u>	<u>(14,005)</u>	<u>(40,817)</u>
Total fund balance	<u>577,911</u>	<u>-</u>	<u>(14,005)</u>	<u>(40,817)</u>
Total liabilities and Fund balance	<u>\$ 967,516</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,213</u>

**CITY OF TEHACHPI
 COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS (CONTINUED)
 FOR YEAR ENDED JUNE 30, 2007**

	<u>Capital Equipment Replacement</u>	<u>Public Safety Capital Project Fee</u>	<u>Tehachapi Streetscape</u>	<u>BeeKay Theater</u>
ASSETS				
Cash and short-term investments	\$ 105,985	\$ 150,721	\$ -	\$ 322,713
Receivables (net of allowance)	-	42,678	-	-
Due from other funds	-	516,508	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 105,985</u>	<u>709,907</u>	<u>\$ -</u>	<u>\$ 322,713</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 32	\$ -
Due to other funds	-	516,508	17,862	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>-</u>	<u>516,508</u>	<u>17,894</u>	<u>-</u>
Fund balance				
Unreserved fund balance	<u>105,985</u>	<u>193,399</u>	<u>(17,894)</u>	<u>322,713</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balance	<u>105,985</u>	<u>193,399</u>	<u>(17,894)</u>	<u>322,713</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and Fund balance	<u>\$ 105,985</u>	<u>\$ 709,907</u>	<u>\$ -</u>	<u>\$ 322,713</u>

**CITY OF TEHACHPI
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS (CONTINUED)
FOR YEAR ENDED JUNE 30, 2007**

	Downtown Master Plan	Goodrick Drive Assessment	Parks & Rec. Capital Project	Total Nonmajor
ASSETS				
Cash and short-term investments	\$ -	\$ -	\$ 247,701	\$ 1,800,849
Receivables (net of allowance)	-	-	2,137	44,815
Due from other funds	-	-	-	516,508
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 249,838</u>	<u>\$ 2,362,172</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 44,060	\$ -	\$ -	\$ 91,235
Due to other funds	9,393	-	-	947,260
Total liabilities	<u>53,453</u>	<u>-</u>	<u>-</u>	<u>1,038,495</u>
Fund balance				
Unreserved fund balance	<u>(53,453)</u>	<u>-</u>	<u>249,838</u>	<u>1,323,677</u>
Total fund balance	<u>(53,453)</u>	<u>-</u>	<u>249,838</u>	<u>1,323,677</u>
Total liabilities and Fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 249,838</u>	<u>\$ 2,362,172</u>

**CITY OF TEHACHPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR YEAR ENDED JUNE 30, 2007**

	Tucker Road/ Valley Blvd. Exchange	Broome Ranch Park (FD 315)	Railroad Depot	Misc. Capital Projects
REVENUES				
Grants	\$ -	\$ -	\$ -	\$ -
Other source of revenue	-	-	-	-
Interest	42,331	-	-	-
Total revenues	42,331	-	-	-
EXPENDITURES				
Planning	-	-	73,289	75,817
Excess (deficiency) of revenues over (under) expenditures	42,331	-	(73,289)	(75,817)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	5,000	180,000	35,000
Transfers out	(400,000)	-	-	-
Total other financing sources (uses)	(400,000)	5,000	180,000	35,000
Net change in fund balance	(357,669)	5,000	106,711	(40,817)
Fund balances - beginning	935,580	(5,000)	(120,716)	-
Prior period adjustment	-	-	-	-
Total adjusted fund balance - beginning	935,580	(5,000)	(120,716)	-
Fund balances - ending	\$ 577,911	\$ -	\$ (14,005)	\$ (40,817)

**CITY OF TEHACHPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS (CONTINUED)
FOR YEAR ENDED JUNE 30, 2007**

	Capital Equipment Replacement	Public Safety Capital Project Fee	Tehachapi Streetscape	BeeKay Theater
REVENUES				
Grants	\$ -	\$ 526,723	\$ 178,619	\$ -
Other source of revenue	-	-	-	-
Interest	-	34,165	-	-
Total revenues	<u>-</u>	<u>560,888</u>	<u>178,619</u>	<u>-</u>
EXPENDITURES				
Planning	-	-	384,623	2,890
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>560,888</u>	<u>(206,004)</u>	<u>(2,890)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	15,000	-	210,000	-
Transfers out	-	(1,000,000)	-	-
Total other financing sources (uses)	<u>15,000</u>	<u>(1,000,000)</u>	<u>210,000</u>	<u>-</u>
Net change in fund balance	<u>15,000</u>	<u>(439,112)</u>	<u>3,996</u>	<u>(2,890)</u>
Fund balances - beginning	90,985	632,511	(21,890)	325,603
Prior period adjustment	-	-	-	-
Total adjusted fund balance - beginning	<u>90,985</u>	<u>632,511</u>	<u>(21,890)</u>	<u>325,603</u>
Fund balances - ending	<u>\$ 105,985</u>	<u>\$ 193,399</u>	<u>\$ (17,894)</u>	<u>\$ 322,713</u>

**CITY OF TEHACHPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS (CONTINUED)
FOR YEAR ENDED JUNE 30, 2007**

	Downtown Master Plan	Parks & Rec. Capital Project	Total Nonmajor
REVENUES			
Grants	\$ -	-	\$ 705,342
Other source of revenue	-	247,420	247,420
Interest	-	3,294	79,790
Total revenues	<u>-</u>	<u>250,714</u>	<u>1,032,552</u>
EXPENDITURES			
Planning	<u>164,703</u>	<u>-</u>	<u>701,322</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(164,703)</u>	<u>250,714</u>	<u>331,230</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	200,000	-	645,000
Transfers out	<u>-</u>	<u>-</u>	<u>(1,400,000)</u>
Total other financing sources (uses)	<u>200,000</u>	<u>-</u>	<u>(755,000)</u>
Net change in fund balance	<u>35,297</u>	<u>250,714</u>	<u>(423,770)</u>
Fund balances - beginning	(88,750)	(876)	1,747,447
Prior period adjustment	-	-	-
Total adjusted fund balance - beginning	<u>(88,750)</u>	<u>(876)</u>	<u>1,747,447</u>
Fund balances - ending	<u>\$ (53,453)</u>	<u>249,838</u>	<u>\$ 1,323,677</u>

**CITY OF TEHACHPI
COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2007**

	Transit	Refuse	Airport
ASSETS			
Cash and short-term investments	\$ 29,717	\$ 4,950	\$ 8,840
Receivables (net of allowance)	236	119,887	248,847
Total current assets	<u>29,953</u>	<u>124,837</u>	<u>257,687</u>
Capital assets (net of accumulated depreciation)	-	-	1,805,865
Other assets	-	235,000	-
TOTAL ASSETS	<u>\$ 29,953</u>	<u>\$ 359,837</u>	<u>\$ 2,063,552</u>
LIABILITIES AND FUND EQUITY			
Current liabilities			
Accounts payable	\$ 23,331	\$ 66,911	\$ 38,599
Due to other funds	-	61,042	531,288
Customer deposits - current	-	-	8,740
Other current liability	-	-	15,000
Current portion of long-term debt	-	-	7,019
Total current liabilities	<u>23,331</u>	<u>127,953</u>	<u>600,646</u>
Deferred revenue	<u>6,622</u>	-	-
Long-term liabilities			
Notes and bonds payable	-	-	96,488
Total long-term liabilities	-	-	96,488
TOTAL LIABILITIES	<u>29,953</u>	<u>127,953</u>	<u>697,134</u>
NET ASSETS			
Invested in capital assets, net of related debt	-	-	1,702,358
Restricted	-	-	-
Unrestricted	-	231,884	(335,940)
TOTAL FUND EQUITY	-	231,884	1,366,418
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 29,953</u>	<u>\$ 359,837</u>	<u>\$ 2,063,552</u>

**CITY OF TEHACHPI
COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS (CONTINUED)
JUNE 30, 2007**

	Community Development Department	Total Non - Major
ASSETS		
Cash and short-term investments	\$ -	\$ 43,507
Receivables (net of allowance)	412,935	781,905
Total current assets	<u>412,935</u>	<u>825,412</u>
Capital assets (net of accumulated depreciation)	41,864	1,847,729
Other assets	-	235,000
TOTAL ASSETS	<u><u>\$ 454,799</u></u>	<u><u>\$ 2,908,141</u></u>
LIABILITIES AND FUND EQUITY		
Current liabilities		
Accounts payable	\$ 141,148	\$ 269,989
Due to other funds	539,472	1,131,802
Customer deposits - current	-	8,740
Other current liability	595	15,595
Current portion of long-term debt	-	7,019
Total current liabilities	<u>681,215</u>	<u>1,433,145</u>
Deferred revenue	-	6,622
Long-term liabilities		
Notes and bonds payable	-	96,488
Total long-term liabilities	<u>-</u>	<u>96,488</u>
TOTAL LIABILITIES	<u>681,215</u>	<u>1,536,255</u>
NET ASSETS		
Invested in capital assets, net of related debt	41,864	1,744,222
Restricted	-	-
Unrestricted	<u>(268,280)</u>	<u>(372,336)</u>
TOTAL FUND EQUITY	<u>(226,416)</u>	<u>1,371,886</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 454,799</u></u>	<u><u>\$ 2,908,141</u></u>

**CITY OF TEHACHPI
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	Transit	Refuse	Airport
OPERATING REVENUES			
Charges for services	\$ -	\$ 691,011	\$ 427,034
Grants	-	-	-
Miscellaneous	-	12,083	16,194
Total operating revenues	<u>-</u>	<u>703,094</u>	<u>443,228</u>
OPERATING EXPENSES			
Personnel services	15,171	49,689	199,431
Maintenance and operations	100,120	664,381	352,269
Depreciation	-	-	20,684
Total operating expenses	<u>115,291</u>	<u>714,070</u>	<u>572,384</u>
Operating income (loss)	<u>(115,291)</u>	<u>(10,976)</u>	<u>(129,156)</u>
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental	141,500	-	-
Interest	302	-	-
Interest expense	-	-	(5,247)
Total nonoperating revenues (expenses)	<u>141,802</u>	<u>-</u>	<u>(5,247)</u>
Income (loss) before operating transfers	26,511	(10,976)	(134,403)
OPERATING TRANSFERS			
Transfers in	-	-	8,645
Net operating transfers	<u>-</u>	<u>-</u>	<u>8,645</u>
Change in net assets	<u>26,511</u>	<u>(10,976)</u>	<u>(125,758)</u>
Net assets - beginning	189	242,860	1,379,789
Prior period/depreciation adjustment	(26,700)	-	112,387
Adjusted net assets - beginning	<u>(26,511)</u>	<u>242,860</u>	<u>1,492,176</u>
Net assets - ending	<u>\$ -</u>	<u>\$ 231,884</u>	<u>\$ 1,366,418</u>

**CITY OF TEHACHPI
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
NONMAJOR PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

	Community Development Department	Total Non - Major
OPERATING REVENUES		
Charges for services	\$ 96,032	\$ 1,214,077
Grants	-	-
Miscellaneous	266,155	294,432
Total operating revenues	<u>362,187</u>	<u>1,508,509</u>
OPERATING EXPENSES		
Personnel services	379,313	643,604
Maintenance and operations	78,821	1,195,591
Depreciation	16,203	36,887
Total operating expenses	<u>474,337</u>	<u>1,876,082</u>
Operating income (loss)	<u>(112,150)</u>	<u>(367,573)</u>
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	-	141,500
Interest	-	302
Interest expense	-	(5,247)
Total nonoperating revenues (expenses)	<u>-</u>	<u>136,555</u>
Income (loss) before operating transfers	(112,150)	(231,018)
OPERATING TRANSFERS		
Transfers in	-	8,645
Net operating transfers	<u>-</u>	<u>8,645</u>
Change in net assets	<u>(112,150)</u>	<u>(222,373)</u>
Net assets - beginning	(114,266)	1,508,572
Prior period/depreciation adjustment	-	85,687
Adjusted net assets - beginning	<u>(114,266)</u>	<u>1,594,259</u>
Net assets - ending	<u>\$ (226,416)</u>	<u>\$ 1,371,886</u>

**CITY OF TEHACHPI
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2007**

	Capital Hills 89-1	Tucker Road 87-1	East Tehachapi Blvd. Project 89-3	Summit 89-2
ASSETS				
Cash and cash equivalents	\$ 1,356,325	\$ 84,990	\$ 45,286	\$ 42,627
Short-term investments	7,144	-	25,143	-
Receivables (net of allowance)	-	-	18,650	-
Due from other funds	-	-	-	-
Advances to other funds	-	-	-	-
Due from bond holders	-	-	-	-
Other assets	-	-	25,044	123,156
Total assets	<u>\$ 1,363,469</u>	<u>\$ 84,990</u>	<u>\$ 114,123</u>	<u>\$ 165,783</u>
LIABILITIES				
Accounts payable	\$ 1,404,216	\$ -	\$ -	\$ -
Deposits	529	-	-	-
Due to other funds	-	-	-	67,550
Due to bond holders	(41,276)	84,990	114,123	-
Advances from other funds	-	-	-	98,233
Total liabilities	<u>\$ 1,363,469</u>	<u>\$ 84,990</u>	<u>\$ 114,123</u>	<u>\$ 165,783</u>

**CITY OF TEHACHPI
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS (CONTINUED)
JUNE 30, 2007**

	Curry Highline 90-1	Tehachapi Meadows 90-1	Special Districts Revolving Fund	Total Trust and Agency Funds
ASSETS				
Cash and cash equivalents	\$ (65,026)	\$ 189,291	\$ -	\$ 1,653,493
Short-term investments	-	4,010	-	36,297
Receivables (net of allowance)	-	-	-	18,650
Due from other funds	-	7,412	-	7,412
Advances to other funds	-	-	159,799	159,799
Due from bond holders	118,599	-	-	118,599
Other assets	15,405	80,157	-	243,762
Total assets	<u>\$ 68,978</u>	<u>\$ 280,870</u>	<u>\$ 159,799</u>	<u>\$ 2,238,012</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ 1,404,216
Deposits	-	25,157	-	25,686
Due to other funds	7,412	-	-	74,962
Due to bond holders	-	255,713	-	413,550
Advances from other funds	61,566	-	159,799	319,598
Total liabilities	<u>\$ 68,978</u>	<u>\$ 280,870</u>	<u>\$ 159,799</u>	<u>\$ 2,238,012</u>



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**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, business type activities, each major fund, and the aggregate remaining fund information of the City of Tehachapi, as of and for the year ended June 30, 2007, and have issued our report thereon dated January 28, 2008. 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's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Southern California Locations

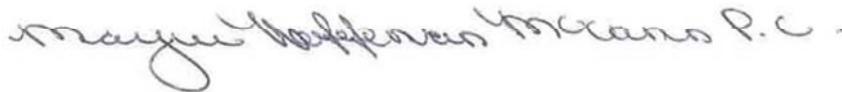
11601 Wilshire Blvd. Suite 2300 • Los Angeles, CA 90025 • PH 310.268.2000 • FX 310.268.2001
5060 California Ave. Suite 800 • Bakersfield, CA 93309 • PH 661.325.7500 • FX 661.325.7004
300 Esplanade Dr. Suite 250 • Oxnard, CA 93036 • PH 805.988.3222 • FX 805.988.3220
2 Venture Suite 455 • Irvine, CA 92618 • PH 949.450.4400 • FX 949.450.0694

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the City Council and management of the City of Tehachapi and the State Controller's Office, Division of Accounting and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mayra Holferman McCano P.C.".

Bakersfield, California
January 28, 2008