

**CITY OF DELANO,
CALIFORNIA**

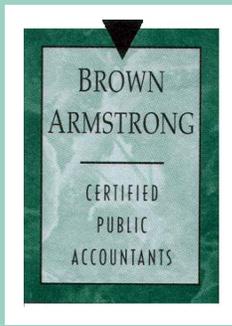
ANNUAL FINANCIAL REPORT

JUNE 30, 2008

**CITY OF DELANO, CALIFORNIA
ANNUAL FINANCIAL REPORT
JUNE 30, 2008**

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To the City Council
City of Delano, California

INDEPENDENT AUDITOR'S REPORT

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 Delano, California, as of and for the year ended June 30, 2008, 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 Delano'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 opinion.

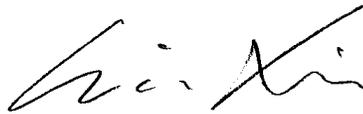
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Delano, California, as of June 30, 2008, 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.

As discussed in Note 1 to the financial statements, in 2008 the City adopted the provisions of GASB Statement No. 50, Pension Disclosures – an amendment of GASB Statement No. 25 and No. 27.

In accordance with Government Auditing Standards, we have also issued our report dated June 3, 2009, on our consideration of the City of Delano's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, budgetary comparison schedules, and Defined Benefit Pension Trust schedule of funding progress and employer contributions as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "B. A. Paulden", is written over the company name.

Bakersfield, California
June 3, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the City of Delano provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and the *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term and short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the City government, reporting the City's operation in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* uses services like public safety were financed in the *short-term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short-and long-term* financial information about the activities the government operates like businesses, such as the water and sewer system.
 - *Fiduciary fund* statements provide information about the fiduciary relationships-like the agency funds of the City-in which the City acts solely as *agent or trustee* for the benefit of others, to whom the resources in question belong.
 - *Budgetary comparison schedules* provide information about the extent to which revenue expectations were reached and the budgetary overruns and savings engendered by actual spending.
 - *Capital assets in the operation of governmental funds* provide information as to their source, function and activity and the changes in such functions and activity.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that provided additional financial and budgetary information.

Figure A-1 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure A-1
Major Features of the City’s Government and Fund Financial Statements

| | Government-Wide Statements | Fund Statements | | |
|--|--|--|--|---|
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire City Government (except Fiduciary Funds) and the City's component | The activities of the City that are not proprietary or fiduciary | Activities the City operates similar to private businesses | Instances in which the City is the trustee or agent for someone else's resources |
| Required Financial Statements | -Statement of net assets -Statement of Activities | -Balance Sheet -Statement of revenues, expenditures and changes in fund balances | -Statement of net assets -Statement of revenues, expenses and changes in net assets -Statement of cash flows | -Statement of fiduciary net assets -Statement of changes in fiduciary net assets |
| Accounting Basis and Measurement Focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of Asset Liability Information | All assets and liabilities, both financial and capital, and short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term debt included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities both short-term and long-term; the City's fiduciary funds do not currently contain capital assets, although they can |
| Type of Inflow/Outflow | All revenues and expenses during year, regardless of when cash is received | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during the year, regardless or when cash is received or paid | All revenues and expenses during year, regardless of when cash is received or paid |

Reporting the City as a Whole

The accompanying **government-wide financial statements** include two statements that present financial data for the City as a whole. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets – the difference between assets and liabilities-as one way to measure the City's financial health, or financial position. Over time, (*increases and decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into three kinds of activities:

- **Governmental activities** – Most of the City's basic services are reported here. Sales taxes, property taxes, state subventions, and other revenue finance most of these activities.
- **Business-type activities** – The City charges a fee to customers to help it cover all or most of the cost of services accounted for in these funds.
- **Component units** – The City includes two separate legal entities in its report – the City Redevelopment Agency and the City Financing Authority. Although legally separate, these "component units" are important because the City is financially accountable for them.

Reporting the City's Most Significant Funds

The **fund financial statements** provide detailed information about the City's most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for using certain taxes, grants, or other money (like grants received). The City's two kinds of funds – *governmental* and *proprietary* – use different accounting approaches.

- **Governmental funds** – Most of the City's basic services are reported in governmental funds, which focus on how money flows, into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting methods called *modified accrual* accounting, which measures cash and all other *current financial* assets that readily be converted to cash. The governmental fund statements provided a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship or differences between *governmental activities* (reported in the Statement of Net Assets and the Statement of Activities) and *governmental funds* in a reconciliation at the bottom of the fund financial statements.
- **Proprietary funds** – When the City charges customers for services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities.

Reporting the City's Fiduciary Responsibilities

The City is an agent for certain assets held for, and under the control of, other organizations and individuals. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Assets. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

A summary of the government-wide statement of net assets follows:

Table 1
Net Assets
(In Thousands)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|--|-------------------------|------------|--------------------------|-----------|--------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Current & other assets | \$ 52,974 | \$ 43,031 | \$ 7,987 | \$ 9,010 | \$ 60,961 | \$ 52,041 |
| Capital assets | 151,120 | 154,824 | 21,632 | 18,450 | 172,752 | 173,274 |
| Total assets | 204,094 | 197,855 | 29,619 | 27,460 | 233,713 | 225,315 |
| Long-term debt outstanding | 18,930 | 20,352 | 5,363 | 2,292 | 24,293 | 22,644 |
| Other liabilities | 8,652 | 4,640 | 2,236 | 1,099 | 10,888 | 5,739 |
| Total liabilities | 27,582 | 24,992 | 7,599 | 3,391 | 35,181 | 28,383 |
| Net assets: | | | | | | |
| Invested in capital assets net of debt | 148,421 | 154,273 | 16,269 | 16,157 | 164,690 | 170,430 |
| Restricted | 7,847 | 10,605 | - | - | 7,847 | 10,605 |
| Unrestricted | 20,244 | 7,985 | 5,751 | 7,912 | 25,995 | 15,897 |
| Total net assets | \$ 176,512 | \$ 172,863 | \$ 22,020 | \$ 24,069 | \$ 198,532 | \$ 196,932 |

Net assets of the City's governmental activities increased by \$4 million (from \$173 million in FY07 to \$177 million in FY08). This was due to increases in taxes compared to the prior year. New Measure I Sales Taxes (1%) were received for a portion of this fiscal year. In addition, there were increases in services and charges for both governmental and business type activities and an increase in Federal Grants in the business-type area. Expenditures decreased in Long Term Debt.

The net assets for the business-type activities for FY08 decreased from prior fiscal year. The summary of the government-wide statement of activities follows:

Table 2
Statement of Activities
(In Thousands)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|----------------------------|-------------------|-----------------------------|------------------|-----------------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 17,062 | \$ 14,641 | \$ 7,358 | \$ 7,174 | \$ 24,420 | \$ 21,815 |
| Capital grants and contributions | 723 | 620 | - | 1,383 | 723 | 2,003 |
| Operating grants and contributions | 2,162 | 1,855 | 1,941 | 12 | 4,103 | 1,867 |
| General revenues: | | | | | | |
| Property taxes | 9,972 | 9,220 | - | - | 9,972 | 9,220 |
| Other taxes | 6,149 | 5,304 | - | 1,258 | 6,149 | 6,562 |
| Other general revenues | 2,699 | 1,705 | 388 | 421 | 3,087 | 2,126 |
| Total revenues | 38,767 | 33,345 | 9,687 | 10,248 | 48,454 | 43,593 |
| Program expenses | | | | | | |
| General government | 4,337 | 3,417 | - | - | 4,337 | 3,417 |
| Public safety | 23,510 | 21,324 | - | - | 23,510 | 21,324 |
| Public works | 2,503 | 1,864 | - | - | 2,503 | 1,864 |
| Engineering services | 528 | 340 | - | - | 528 | 340 |
| Culture & recreation | 2,640 | 2,344 | - | - | 2,640 | 2,344 |
| Community development | 2,718 | 2,159 | - | - | 2,718 | 2,159 |
| Education | 582 | 491 | - | - | 582 | 491 |
| Long term debt interest/charges | 1,282 | 1,383 | - | - | 1,282 | 1,383 |
| Water/sewer | - | - | 5,678 | 4,796 | 5,678 | 4,796 |
| Refuse | - | - | 2,200 | 2,085 | 2,200 | 2,085 |
| Airport | - | - | 516 | 387 | 516 | 387 |
| Transit | - | - | 1,628 | 1,298 | 1,628 | 1,298 |
| Total expenses | 38,100 | 33,322 | 10,022 | 8,566 | 48,122 | 41,888 |
| Excess (deficiency) before transfers | 667 | 23 | (335) | 1,682 | 332 | 1,705 |
| Transfers | 678 | 198 | (678) | (198) | - | - |
| Increase (decrease) in assets | 1,345 | 221 | (1,013) | 1,484 | 332 | 1,705 |
| Net assets beginning of year, as previously reported | 172,863 | 26,912 | 24,069 | 22,585 | - | 49,497 |
| Prior period adjustment | 2,304 | 145,730 | (1,036) | - | 1,268 | 145,731 |
| Net assets end of year, as restated | \$ 176,512 | \$ 172,863 | \$ 22,020 | \$ 24,069 | \$ 1,600 | \$ 196,933 |

Increases in revenues exceeded the increases in the total of all programs and net assets continue to increase in Governmental Activities. There is a decrease in net assets in the Business-Type Activities due to expenditure increases in the Water/Sewer and Refuse areas. The City's proprietary funds are highly capital intensive, requiring a significant investment in capital equipment and facilities to conduct operations. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Expenses and revenues for the City's governmental activities both increased with a positive difference of \$667 more revenues than expenditures. The unreserved (unrestricted) fund balance in the general fund balance continues to increase by \$2.3 million compared to another \$1.4 million increase last fiscal year which reflects the fiscal discipline maintained by City staff. The reduction of the vehicle in lieu tax by two thirds and the one fourth reduction of the sales tax by the state has been mostly recovered through property tax swaps under the voter approved constitutional amendment called proposition 1A.

The cost of all *governmental activities* this year was \$38.1 million compared to \$33.3 million last year. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$18.8 million because some of the cost was paid by those who directly benefited from the programs (\$17.1 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$2.2 million). The City paid for the remaining "public benefit" portion of governmental activities with \$18.8 million in taxes (some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

Due to the current economic condition property taxes, sales taxes and other city taxes are expected to decline for the upcoming fiscal year.

Business-Type Activities

Revenues of the City's business-type activities (see Table 2) decreased from (\$10 million in 2007 to \$9.7 million in 2008) and expenses increased by 7% (\$8.6 million in 2007 compared to \$10 million in 2008).

The City is experiencing rapid growth, especially in the area of commercial development with a new market place that will include a Walmart Supercenter, as well as a Lowe's, a Starbucks, a Chili's Restaurant, and other smaller retail shops and restaurants. It is estimated that 800 new jobs will be created and \$1 million annual revenue to the City. Also, \$6.9 million in developer impact fees are expected to be received for this project. In addition, the sewer wastewater plant expansion is expected to be completed by 2010-2011.

MAJOR FUNDS

As noted earlier, the City uses fund accounting to provide proper financial management of the City's resources and to demonstrate compliance with finance-related legal requirements.

Major Governmental Funds, the **General Fund** is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$8.1 million as compared to last fiscal year's unreserved fund balance of \$5.8 million, while total fund balance reached \$9.8 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 57% of total general fund expenditures, while total fund balance represents 68% of that same amount.

During the current fiscal year, the City's general fund balance increased by \$ 1.7 million. This is attributed mostly to increases in revenue particularly in tax related revenues. Expenditures, however, increased by \$2.4 million, particularly in culture and recreation and general government. The rest of the increase was attributed to prior period adjustments related to interest owed to the General Fund that had not been recognized in previous years.

The Community Correctional Facility (CCF) unreserved fund balance increased by approximately \$307 thousand during the fiscal year, principally from excess of revenues over expenditures.

The Developer Impact Fees unreserved fund balance had an increase of approximately \$939 thousand.

The Redevelopment Agency Debt Service Fund has a deficit fund balance of \$1.7 million, which increased by approximately \$430 thousand over last fiscal year due to an increase in transfer outs in connection with a land agreement related to Sears.

The Redevelopment Agency Capital Projects fund had an increase of \$3.4 while the City Capital Projects had a decrease in fund balance due to expenditures of \$4 million for capital outlay.

Major Enterprise Funds. Unrestricted net assets of all the enterprise funds combined decreased by \$2.0 million. Below is a condensed statement of cash flows for the proprietary funds for June 30, 2008 with comparative amounts for 2007.

| | <u>2008</u> | <u>2007</u> |
|---|--------------|--------------|
| <u>Business-Type Activities</u> | | |
| Net Cash used by operating activities: | \$ (210,057) | \$ (129,290) |
| Net Cash provided by non-capital financing activities: | 3,761,890 | 3,542,218 |
| Net Cash used from capital and relating financing activities: | (3,204,843) | (1,434,752) |
| Net Cash provided by investing activities: | 334,829 | 555,794 |
| Net increase in cash and cash equivalents: | 681,819 | 2,533,970 |
| Cash and cash equivalents, beginning of year | 5,826,889 | 3,292,920 |
| Cash and cash equivalents, end of year | 6,508,708 | 5,826,890 |

CAPITAL ASSETS

Capital Assets
(net of depreciation)
(In Thousands)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|--------------------------|----------------------------|-------------------|-----------------------------|------------------|-----------------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Land | \$ 974 | \$ 1,215 | \$ 2,707 | \$ 2,707 | \$ 3,681 | \$ 3,922 |
| Buildings | 4,004 | 4,496 | 1,871 | 2,000 | 5,875 | 6,496 |
| Improvements | 5,933 | 2,471 | 6,946 | 3,663 | 12,879 | 6,134 |
| Infrastructure | 137,312 | 143,163 | - | - | 137,312 | 143,163 |
| Equipment & machinery | 2,057 | 1,981 | 3,599 | 3,587 | 5,656 | 5,568 |
| Construction in progress | 840 | 1,498 | 6,508 | 6,492 | 7,348 | 7,990 |
| Total | <u>\$ 151,120</u> | <u>\$ 154,824</u> | <u>\$ 21,631</u> | <u>\$ 18,449</u> | <u>\$ 172,751</u> | <u>\$ 173,273</u> |

There was an overall \$3.7 million decrease in capital assets in the governmental funds as a result of decreases in all categories with the exception of improvements which increased by 3.5 million. The decrease in the other categories was due to current year depreciation expense and the prior period adjustments to move assets out of construction in progress and additional depreciation. There was a significant increase in capital assets of \$3.1 million in the enterprise funds for the current fiscal year as a result of several projects including the wastewater expansion design, arsenic mitigation and installation of water valves. Additional information on the City's capital assets can be found in Note C to the financial statements.

LONG-TERM DEBT

At the end of the current fiscal year, the City had bonded debt outstanding of \$17.9 million, and debt secured by pledged assets amounts to \$1 million. The bonded debt is secured by pledged tax increment revenues and lease payments from the California Department of Corrections.

Outstanding Debt
(In Thousands)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|-------------------------------|----------------------------|------------------|-----------------------------|-----------------|-----------------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Tax allocation bonds | \$ 15,570 | \$ 15,780 | \$ - | \$ - | \$ 15,570 | \$ 15,780 |
| Certificates of participation | 2,325 | 3,405 | - | - | 2,325 | 3,405 |
| Notes payable | 375 | 552 | - | - | 375 | 552 |
| Compensated absences | 660 | 615 | - | - | 660 | 615 |
| Refuse loans payable | - | - | 364 | 515 | 364 | 515 |
| Water loans payable | - | - | 4,262 | 874 | 4,262 | 874 |
| Sewer loans payable | - | - | 736 | 903 | 736 | 903 |
| Total | \$ 18,930 | \$ 20,352 | \$ 5,362 | \$ 2,292 | \$ 24,292 | \$ 22,644 |

During the current fiscal year, the City paid off \$1.4 million in general government long-term debt. There was an additional amount of \$3.5 million added in the Business-type debt for the addition of energy efficient water meters and other energy solutions in the water fund provided by Chevron Energy Solutions. Additional information on the City's long-term debt can be found in Note E to the accompanying financial statements.

GENERAL FUND BUDGET

Differences between the original budget and the final amended budget of the General Fund was \$700 thousand. Most of the increase is on the budget for general government.

There were no variances between the final budget of the General Fund and its actual operating results.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director's Office, at the city of Delano, 1015 – 11th Ave, Delano, CA 93215.

**CITY OF DELANO, CALIFORNIA
STATEMENT OF NET ASSETS
JUNE 30, 2008**

| | Primary Government | | Total |
|--|------------------------------------|-------------------------------------|-----------------------|
| | Governmental Activities | Business-type Activities | |
| ASSETS | | | |
| Cash & cash equivalents | \$ 30,455,648 | \$ 6,503,323 | \$ 36,958,971 |
| Cash with fiscal agents | 4,048,372 | 5,385 | 4,053,757 |
| Receivables (net) | 5,836,386 | 2,280,810 | 8,117,196 |
| Internal balances | 868,225 | (868,225) | - |
| Land held for resale | 5,445,071 | - | 5,445,071 |
| Inventories | 129,915 | 65,766 | 195,681 |
| Prepays | 42,573 | - | 42,573 |
| Deferred charges | 2,759,312 | - | 2,759,312 |
| Restricted assets: | | | |
| Temporarily restricted | | | |
| Deposits with insurance company | 223,803 | - | 223,803 |
| Intergovernmental receivable | 3,165,091 | - | 3,165,091 |
| Capital assets (net of accumulated depreciation) | | | |
| Land | 974,959 | 2,707,453 | 3,682,412 |
| Buildings | 4,003,798 | 1,871,099 | 5,874,897 |
| Equipment & machinery | 2,056,765 | 3,599,147 | 5,655,912 |
| Improvements | 5,932,780 | 6,945,947 | 12,878,727 |
| Infrastructure | 137,311,999 | - | 137,311,999 |
| Construction in progress | 840,117 | 6,508,281 | 7,348,398 |
| | <u>204,094,814</u> | <u>29,618,986</u> | <u>233,713,800</u> |
| | | | |
| LIABILITIES | | | |
| Accounts payable and other current liabilities | 7,092,680 | 2,236,769 | 9,329,449 |
| Matured bonds, notes & interest payable | 126,229 | - | 126,229 |
| Unearned revenue | 1,433,858 | - | 1,433,858 |
| Long-term liabilities: | | | |
| Due within one year | 1,529,123 | 528,594 | 2,057,717 |
| Due in more than one year | 17,400,558 | 4,833,913 | 22,234,471 |
| | <u>27,582,448</u> | <u>7,599,276</u> | <u>35,181,724</u> |
| | | | |
| NET ASSETS: | | | |
| Invested in capital assets, net of related debt | 148,421,018 | 16,269,419 | 164,690,437 |
| Restricted for: | | | |
| Highways and streets | 625,593 | - | 625,593 |
| Culture and recreation | 440,734 | - | 440,734 |
| Community & economic development | 4,015,394 | - | 4,015,394 |
| Debt service | 2,765,465 | - | 2,765,465 |
| Unrestricted | 20,244,162 | 5,750,291 | 25,994,453 |
| | <u>\$ 176,512,366</u> | <u>\$ 22,019,710</u> | <u>\$ 198,532,076</u> |

The accompanying notes are an integral part of these statements.

**CITY OF DELANO, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

| Functions/Programs | Program Revenues | | | | Net (Expense) / Revenue and Changes in Net Assets | | |
|--|----------------------|-------------------------|-----------------------------|-----------------------------|--|-----------------------------|-----------------------|
| | Expenses | Charges for Services | Operating | Capital | Primary Government | | Total |
| | | | Grants and Contributions | Grants and Contributions | Governmental Activities | Business-type Activities | |
| Primary Government | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 4,337,179 | \$ 1,602,927 | \$ - | \$ - | \$ (2,734,252) | \$ - | \$ (2,734,252) |
| Public safety | 23,510,152 | 10,970,395 | 1,622,399 | 542,487 | (10,374,871) | - | (10,374,871) |
| Public works | 2,502,891 | 3,756,818 | 475,942 | 159,142 | 1,889,011 | - | 1,889,011 |
| Engineering services | 527,928 | 222,665 | 28,209 | 9,432 | (267,622) | - | (267,622) |
| Culture, recreation and social services | 2,639,634 | 276,655 | 35,049 | 11,719 | (2,316,211) | - | (2,316,211) |
| Community & economic development | 2,718,202 | - | - | - | (2,718,202) | - | (2,718,202) |
| Education (payment to school district) | 582,293 | - | - | - | (582,293) | - | (582,293) |
| Interest on long-term debt and fiscal charges | 1,281,831 | 232,991 | - | - | (1,048,840) | - | (1,048,840) |
| Total government activities | 38,100,110 | 17,062,451 | 2,161,599 | 722,780 | (18,153,280) | - | (18,153,280) |
| Business-type activities: | | | | | | | |
| Water & sewer | 5,677,953 | 4,706,399 | - | - | - | (971,554) | (971,554) |
| Refuse | 2,199,900 | 2,239,025 | 13,118 | - | - | 52,243 | 52,243 |
| Transit | 1,628,014 | 68,026 | 1,927,555 | - | - | 367,567 | 367,567 |
| Airport | 515,833 | 344,080 | - | - | - | (171,753) | (171,753) |
| Total business-type activities | 10,021,700 | 7,357,530 | 1,940,673 | - | - | (723,497) | (723,497) |
| Total primary government | <u>\$ 48,121,810</u> | <u>\$ 24,419,981</u> | <u>\$ 4,102,272</u> | <u>\$ 722,780</u> | <u>(18,153,280)</u> | <u>(723,497)</u> | <u>(18,876,777)</u> |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes | | | | | 9,972,155 | - | 9,972,155 |
| Sales taxes | | | | | 3,272,875 | - | 3,272,875 |
| Motor fuel taxes | | | | | 1,114,909 | - | 1,114,909 |
| Franchise taxes | | | | | 590,661 | - | 590,661 |
| Public service taxes | | | | | 1,170,297 | - | 1,170,297 |
| Unrestricted investment earnings | | | | | 1,142,344 | 334,828 | 1,477,172 |
| Miscellaneous revenue | | | | | 1,557,092 | 52,918 | 1,610,010 |
| Transfers | | | | | 677,889 | (677,889) | - |
| Total general revenues and transfers | | | | | <u>19,498,222</u> | <u>(290,143)</u> | <u>19,208,079</u> |
| Change in net assets | | | | | 1,344,942 | (1,013,640) | 331,302 |
| Net assets - beginning, as previously reported | | | | | 172,863,425 | 24,068,981 | 196,932,406 |
| Prior period adjustments | | | | | 2,303,999 | (1,035,631) | 1,268,368 |
| Net assets - beginning, as restated | | | | | <u>175,167,424</u> | <u>23,033,350</u> | <u>198,200,774</u> |
| Net assets - ending | | | | | <u>\$ 176,512,366</u> | <u>\$ 22,019,710</u> | <u>\$ 198,532,076</u> |

The accompanying notes are an integral part of these statements.

**CITY OF DELANO, CALIFORNIA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

| | General Fund | CCF Fund | Developer Impact Fees | CRA Debt Service Fund | CRA Capital Projects | City Capital Projects | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-------------------|--------------------------|-----------------------------|-------------------------|--------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | | | | | |
| Property taxes | \$ 6,998,388 | \$ - | \$ - | \$ 2,500,792 | \$ - | \$ - | \$ 472,975 | \$ 9,972,155 |
| Sales taxes | 3,272,875 | - | - | - | - | - | - | 3,272,875 |
| Franchise taxes | 590,661 | - | - | - | - | - | - | 590,661 |
| Motor fuel tax | - | - | - | - | - | - | 875,892 | 875,892 |
| Motor vehicle in lieu tax | 239,018 | - | - | - | - | - | - | 239,018 |
| Other taxes | 414,906 | - | - | - | - | - | 214,027 | 628,933 |
| Fees and fines | 207,478 | - | - | - | - | - | - | 207,478 |
| Licenses and permits | 317,088 | - | - | - | - | - | - | 317,088 |
| Intergovernmental | 1,404,592 | 8,023,240 | - | - | - | 2,248,265 | 3,339,862 | 15,015,959 |
| Program income | - | - | - | - | - | - | 23,134 | 23,134 |
| Charges for services | 1,123,965 | - | 1,010,971 | - | - | - | 570,291 | 2,705,227 |
| Asset seizure revenue | - | - | - | - | - | - | 16,798 | 16,798 |
| Investment earnings | 154,599 | - | 448,600 | 122,681 | 45,425 | - | 258,528 | 1,029,833 |
| Amortization of premium | - | - | - | - | - | - | 58,332 | 58,332 |
| Miscellaneous | 269,573 | 3,133 | - | - | 1,229,898 | - | 36,812 | 1,539,416 |
| Total revenues | 14,993,143 | 8,026,373 | 1,459,571 | 2,623,473 | 1,275,323 | 2,248,265 | 5,866,651 | 36,492,799 |
| EXPENDITURES | | | | | | | | |
| Current: | | | | | | | | |
| General government | 2,952,243 | - | - | - | - | - | 163,237 | 3,115,480 |
| Public safety | 9,126,415 | 7,222,625 | - | - | - | - | 549,755 | 16,898,795 |
| Public works | - | - | - | - | - | - | 1,774,319 | 1,774,319 |
| Engineering services | 381,513 | - | - | - | - | - | - | 381,513 |
| Culture and recreation | 1,296,506 | - | - | - | - | - | 603,669 | 1,900,175 |
| Community & economic development | - | - | - | - | 432,196 | - | 1,504,991 | 1,937,187 |
| Pass thru payments | - | - | - | 582,293 | - | - | - | 582,293 |
| Debt service: | | | | | | | | |
| Principal | - | - | - | 486,097 | - | - | 1,080,000 | 1,566,097 |
| Interest and other charges | - | - | - | 1,111,508 | 154,599 | - | 204,286 | 1,470,393 |
| Capital outlay | 554,151 | - | 422 | - | - | 4,092,408 | 479 | 4,647,460 |
| Total expenditures | 14,310,828 | 7,222,625 | 422 | 2,179,898 | 586,795 | 4,092,408 | 5,880,736 | 34,273,712 |
| Excess (deficiency) of revenues over expenditures | 682,315 | 803,748 | 1,459,149 | 443,575 | 688,528 | (1,844,143) | (14,085) | 2,219,087 |
| OTHER FINANCING SOURCES (USES) | | | | | | | | |
| Sale of property | - | - | - | 14,825 | 2,850 | - | - | 17,675 |
| (Increase)/decrease in advances from other funds | - | - | - | 276,097 | - | - | - | 276,097 |
| Transfers in | 221,039 | 2,830 | - | 73,780 | 1,238,465 | 1,582,331 | 1,046,881 | 4,165,326 |
| Transfers out | (225,187) | (500,000) | (519,782) | (1,238,465) | (73,780) | - | (685,469) | (3,242,683) |
| Total other financing sources and uses | (4,148) | (497,170) | (519,782) | (873,763) | 1,167,535 | 1,582,331 | 361,412 | 1,216,415 |
| Net change in fund balances | 678,167 | 306,578 | 939,367 | (430,188) | 1,856,063 | (261,812) | 347,327 | 3,435,502 |
| Fund balances - beginning | 8,099,920 | 670,448 | 9,724,599 | (1,306,100) | 5,940,046 | 15,625 | 9,864,312 | 33,008,850 |
| Prior period adjustments | 1,001,300 | - | - | - | 1,568,267 | - | - | 2,569,567 |
| Fund balances - ending | \$ 9,779,387 | \$ 977,026 | \$ 10,663,966 | \$ (1,736,288) | \$ 9,364,376 | \$ (246,187) | \$ 10,211,639 | \$ 39,013,919 |

The accompanying notes are an integral part of these statements.

**CITY OF DELANO, CALIFORNIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

| | |
|--|----------------------------|
| Net change in fund balances - total governmental funds | \$ 3,435,502 |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p> | |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded or Less than depreciation in the current period, modified by deletions and corrections and acquisitions through long-term payment arrangements, and funds provided by fiduciary agency funds. Funds provided by fiduciary funds are reported as program income in the statement of activities.</p> | (3,533,511) |
| <p>The issuance of long term debt (bonds, notes) provide current financial resources to governmental funds, while the payment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long term debt and related items.</p> | 1,350,006 |
| <p>Internal service funds are used by management to charge the costs of certain activities, such as insurance and information systems to individual funds. The net revenue of certain internal service funds is reported with governmental activities.</p> | <u>92,945</u> |
| Change in net assets of governmental activities | <u><u>\$ 1,344,942</u></u> |

The accompanying notes are an integral part of these statements.

CITY OF DELANO, CALIFORNIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

| | Business-type Activities-Enterprise Funds | | | | | Governmental Activities Internal Service Funds |
|--|--|----------------------|---------------------|---------------------|----------------------|---|
| | Refuse | Water & Sewer | Airport | Transit | Total | |
| Assets | | | | | | |
| Current Assets | | | | | | |
| Cash and investments | \$ 856,307 | \$ 5,233,330 | \$ - | \$ 413,686 | \$ 6,503,323 | \$ 3,134,125 |
| Cash with fiscal agent | 5,385 | - | - | - | 5,385 | - |
| Receivables: | | | | | | |
| Accounts | 543,477 | 610,345 | 141,186 | 880,726 | 2,175,734 | - |
| Other | 33,092 | 71,834 | - | 150 | 105,076 | 30,189 |
| Advances to other funds | 45,921 | - | - | - | 45,921 | - |
| Deposits with CSJVRMA | - | - | - | - | - | 223,803 |
| Inventories | - | 63,223 | 2,543 | - | 65,766 | 53,265 |
| Unallocated premium | - | - | - | - | - | 26,153 |
| Prepaid items | - | - | - | - | - | 42,058 |
| Total Current Assets | 1,484,182 | 5,978,732 | 143,729 | 1,294,562 | 8,901,205 | 3,509,593 |
| Non-current assets: | | | | | | |
| Land | - | 1,566,237 | 1,047,971 | 93,245 | 2,707,453 | - |
| Buildings | - | 4,293,169 | 252,676 | 1,563,206 | 6,109,051 | 315,334 |
| Equipment and Machinery | 3,699,195 | 9,667,470 | 145,830 | 1,519,053 | 15,031,548 | 536,372 |
| Improvements | - | 14,007,252 | 3,042,891 | 4,735 | 17,054,878 | 1,188,999 |
| Construction in progress | - | 6,508,281 | - | - | 6,508,281 | - |
| Accumulated depreciation | (2,418,307) | (19,488,943) | (2,212,754) | (1,659,280) | (25,779,284) | (1,231,723) |
| Total Fixed Assets Net of Accum. Depreciation | 1,280,888 | 16,553,466 | 2,276,614 | 1,520,959 | 21,631,927 | 808,982 |
| Advances to other funds | 283,374 | 1,206,390 | - | - | 1,489,764 | - |
| Total Assets | 3,048,444 | 23,738,588 | 2,420,343 | 2,815,521 | 32,022,896 | 4,318,575 |
| Liabilities and Fund Equity | | | | | | |
| Liabilities | | | | | | |
| Current Liabilities | | | | | | |
| Accounts payable | 117,157 | 1,307,250 | 15,503 | 17,452 | 1,457,362 | 122,801 |
| Accrued taxes payable | 1,174 | 1,764 | 19 | 677 | 3,634 | 755 |
| Accrued wages payable | 15,823 | 23,838 | 254 | 9,009 | 48,924 | 10,309 |
| Cash overdraft | - | - | 355,427 | - | 355,427 | 89,125 |
| Due to other funds | - | 2,488,152 | 10,954 | - | 2,499,106 | 99,264 |
| Notes payable-current portion | 156,545 | 372,049 | - | - | 528,594 | - |
| Customer deposits | 91,536 | 40,916 | 12 | - | 132,464 | - |
| Insurance claims payable | - | - | - | - | - | 2,568 |
| Customer refunds payable | - | 5,290 | - | - | 5,290 | - |
| Compensated absences payable | 83,241 | 137,779 | 3,160 | 9,488 | 233,668 | 26,475 |
| Total current liabilities | 465,476 | 4,377,038 | 385,329 | 36,626 | 5,264,469 | 351,297 |
| Non-current liabilities: | | | | | | |
| Loans payable-long-term portion | 207,787 | 4,626,126 | - | - | 4,833,913 | - |
| Total Liabilities | 673,263 | 9,003,164 | 385,329 | 36,626 | 10,098,382 | 351,297 |
| Net Assets | | | | | | |
| Invested in capital assets, net of related debt | 916,556 | 11,555,291 | 2,276,614 | 1,520,958 | 16,269,419 | 808,982 |
| Unrestricted | 1,458,625 | 3,180,133 | (241,600) | 1,257,937 | 5,655,095 | 3,158,296 |
| Total Net Assets | \$ 2,375,181 | \$ 14,735,424 | \$ 2,035,014 | \$ 2,778,895 | 21,924,514 | 3,967,278 |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | | | 95,196 | (95,196) |
| Included in governmental activities | | | | | | |
| Net assets of business type activities | | | | | \$ 22,019,710 | \$ 3,872,082 |

The accompanying notes are an integral part of these statements.

**CITY OF DELANO, CALIFORNIA
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

| | Business-type Activities-Enterprise Funds | | | | | Governmental Activities Internal Service Funds |
|--|--|----------------------|---------------------|---------------------|----------------------|---|
| | Refuse | Water & Sewer | Airport | Transit | Total | |
| Operating Revenues | | | | | | |
| Charges for current services | \$ 2,239,025 | \$ 4,706,399 | \$ 344,080 | \$ 68,026 | \$ 7,357,530 | \$ 2,144,178 |
| Miscellaneous revenue | 1,534 | 48,588 | 672 | 2,124 | 52,918 | - |
| Total Revenues | 2,240,559 | 4,754,987 | 344,752 | 70,150 | 7,410,448 | 2,144,178 |
| Operating Expenses | | | | | | |
| Personnel | 1,065,326 | 1,533,086 | 40,174 | 560,484 | 3,199,070 | 530,420 |
| Maintenance and operations | 665,222 | 2,373,883 | 319,286 | 906,254 | 4,264,645 | 1,270,984 |
| Depreciation | 216,955 | 1,365,620 | 115,526 | 168,103 | 1,866,204 | 115,140 |
| Miscellaneous | 232,861 | 239,858 | 34,843 | (6,827) | 500,735 | - |
| Total Operating Expenses | 2,180,364 | 5,512,447 | 509,829 | 1,628,014 | 9,830,654 | 1,916,544 |
| Operating Income (loss) | 60,195 | (757,460) | (165,077) | (1,557,864) | (2,420,206) | 227,634 |
| Non Operating Revenues (Expenses) | | | | | | |
| Interest revenue | 55,807 | 272,330 | (14,280) | 20,971 | 334,828 | 112,511 |
| Intergovernmental revenues | 13,118 | - | - | 1,927,555 | 1,940,673 | - |
| Interest expense | (19,536) | (165,506) | (6,004) | - | (191,046) | (2,446) |
| Total Non-Operating Revenues (Expenses) | 49,389 | 106,824 | (20,284) | 1,948,526 | 2,084,455 | 110,065 |
| Income (loss) before operating transfers | 109,584 | (650,636) | (185,361) | 390,662 | (335,751) | 337,699 |
| Transfers in | 62,213 | 21,127 | 21,346 | 131,744 | 236,430 | 14,673 |
| Transfers out | - | (874,459) | - | (39,860) | (914,319) | (259,427) |
| Change in net assets | 171,797 | (1,503,968) | (164,015) | 482,546 | (1,013,640) | 92,945 |
| Total net assets beginning | 2,203,384 | 17,212,383 | 2,261,669 | 2,296,349 | 23,973,785 | 3,873,360 |
| Prior period adjustments | - | (972,991) | (62,640) | - | (1,035,631) | 973 |
| Total net assets ending | \$ 2,375,181 | \$ 14,735,424 | \$ 2,035,014 | \$ 2,778,895 | \$ 21,924,514 | \$ 3,967,278 |

The accompanying notes are an integral part of these statements.

**CITY OF DELANO, CALIFORNIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

| | Business-type Activities - Enterprise Funds | | | | | Governmental Activities |
|---|--|----------------------------|--------------------|--------------------------|----------------------------|----------------------------|
| | Refuse | Water & Sewer | Airport | Transit | Total | Int. Svc. Funds |
| Cash Flows from Operations | | | | | | |
| Received from customers | \$ 2,172,046 | \$ 4,639,487 | \$ 295,653 | \$ (809,454) | \$ 6,297,732 | \$ 2,141,857 |
| Received from users | 45,922 | 208,076 | - | - | 253,998 | - |
| Miscellaneous receipts (payments) | (232,861) | (239,858) | (34,843) | 6,827 | (500,735) | - |
| Payments to employees for services | (1,048,725) | (1,523,429) | (45,098) | (581,804) | (3,199,056) | (522,965) |
| Payments to suppliers for goods and services | (668,253) | (1,266,767) | (216,777) | (910,199) | (3,061,996) | (1,153,347) |
| Net cash provided (used) by operating activities | <u>268,129</u> | <u>1,817,509</u> | <u>(1,065)</u> | <u>(2,294,630)</u> | <u>(210,057)</u> | <u>465,545</u> |
| Cash Flows From Non-Capital Financing Activities | | | | | | |
| Intergovernmental grants | 13,118 | - | - | 1,927,555 | 1,940,673 | - |
| Interfund receipts (payments) | - | 2,488,152 | 10,954 | - | 2,499,106 | 99,264 |
| Transfers in | 62,213 | 21,127 | 21,346 | 131,744 | 236,430 | 14,673 |
| Transfers out | - | (874,459) | - | (39,860) | (914,319) | (259,427) |
| Net cash provided (used) by non-capital financing activities | <u>75,331</u> | <u>1,634,820</u> | <u>32,300</u> | <u>2,019,439</u> | <u>3,761,890</u> | <u>(145,490)</u> |
| Cash Flows From Capital and Related Financing Activities | | | | | | |
| Proceeds of loan | - | 3,516,059 | - | - | 3,516,059 | - |
| Principal paid on debt | (150,853) | (294,886) | - | - | (445,739) | - |
| Interest paid | (19,536) | (165,506) | (6,004) | - | (191,046) | (2,446) |
| Loss on disposal of capital asset | 87,024 | - | - | - | 87,024 | - |
| Acquisition of capital assets | (556,810) | (5,580,922) | (10,951) | (22,458) | (6,171,141) | (196,645) |
| Net Cash Used From Capital and Related Financing Activities | <u>(640,175)</u> | <u>(2,525,255)</u> | <u>(16,955)</u> | <u>(22,458)</u> | <u>(3,204,843)</u> | <u>(199,091)</u> |
| Cash Flows From Investing Activities | | | | | | |
| Interest earned on investments | <u>55,807</u> | <u>272,330</u> | <u>(14,280)</u> | <u>20,972</u> | <u>334,829</u> | <u>112,511</u> |
| Net cash provided (used) by investing activities | <u>55,807</u> | <u>272,330</u> | <u>(14,280)</u> | <u>20,972</u> | <u>334,829</u> | <u>112,511</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (240,908) | 1,199,404 | - | (276,677) | 681,819 | 233,475 |
| Cash and Cash Equivalents, beginning of year | <u>1,102,600</u> | <u>4,033,926</u> | <u>-</u> | <u>690,363</u> | <u>5,826,889</u> | <u>2,900,650</u> |
| Cash and Cash Equivalents, end of year | <u>\$ 861,692</u> | <u>\$ 5,233,330</u> | <u>\$ -</u> | <u>\$ 413,686</u> | <u>\$ 6,508,708</u> | <u>\$ 3,134,125</u> |

The accompanying notes are an integral part of these statements.

**CITY OF DELANO, CALIFORNIA
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

| | | | | | | |
|--|--------------------------|----------------------------|--------------------------|------------------------------|----------------------------|--------------------------|
| Operating Income (loss) | \$ 60,195 | \$ (757,460) | \$ (165,077) | \$ (1,557,864) | \$ (2,420,206) | \$ 227,634 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | | | |
| Depreciation | 216,955 | 1,365,620 | 115,526 | 168,103 | 1,866,204 | 115,140 |
| Changes in assets and liabilities: | | | | | | |
| (Increase) decrease in accounts receivable | (68,513) | (115,500) | (49,100) | (879,604) | (1,112,717) | (2,321) |
| (Increase) decrease in inventories | - | 11,314 | - | - | 11,314 | 4,372 |
| (Increase) decrease in deposit at CSJVRMA | - | - | - | - | - | (17,374) |
| (Increase) decrease in prepaid items | - | 53,131 | - | - | 53,131 | (16,442) |
| Increase (decrease) in accounts payable | (47,181) | 1,134,042 | 102,535 | (4,138) | 1,185,258 | 153,598 |
| Increase (decrease) in accrued taxes payable | 307 | 349 | (17) | 193 | 832 | 319 |
| Increase (decrease) in accrued wages payable | 4,086 | 4,648 | (4,932) | 2,411 | 6,213 | 4,324 |
| Increase (decrease) in customer deposits | 44,150 | (91,720) | - | - | (47,570) | (6,836) |
| Increase (decrease) in customer refunds payable | 45,615 | 208,076 | - | - | 253,691 | - |
| Increase (decrease) in compensated absences payable | 12,515 | 5,009 | - | (23,731) | (6,207) | 3,131 |
| | <u>207,934</u> | <u>2,574,969</u> | <u>164,012</u> | <u>(736,766)</u> | <u>2,210,149</u> | <u>237,911</u> |
| Net cash provided (used) by operating activities | <u>\$ 268,129</u> | <u>\$ 1,817,509</u> | <u>\$ (1,065)</u> | <u>\$ (2,294,630)</u> | <u>\$ (210,057)</u> | <u>\$ 465,545</u> |

The accompanying notes are an integral part of these statements.

**CITY OF DELANO, CALIFORNIA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008**

| | Pension Trust | Agency Funds |
|---|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| Assets | | |
| General cash | \$ 65,554 | \$ 792,523 |
| Demand deposits | 355,423 | - |
| | <u> </u> | <u> </u> |
| Total cash and demand deposits | 420,977 | 792,523 |
| Investments, at fair value: | | |
| Guaranteed fixed income | 4,044,913 | - |
| U.S. treasury bill | 99,861 | - |
| Stocks | 9,550,382 | - |
| Mutual Funds | 3,730,468 | - |
| Money market funds | 527,034 | - |
| | <u> </u> | <u> </u> |
| Total investments | 17,952,658 | - |
| Receivables - Other | 54,278 | 654,995 |
| | <u> </u> | <u> </u> |
| Total Assets | \$ 18,427,913 | \$ 1,447,518 |
| | <u> </u> | <u> </u> |
| Liabilities | | |
| Accounts payable | \$ - | \$ 600,128 |
| Accrued taxes payable | 13 | - |
| Accrued wages payable | 182 | - |
| Compensated absences payable | 460 | - |
| Due to other governments | - | 2,730 |
| Customer deposits | - | 136,575 |
| Deposits payable | - | 56,826 |
| CRA Pass through liability | - | 629,695 |
| Other Payable | 1,216 | 21,564 |
| | <u> </u> | <u> </u> |
| Total Liabilities | 1,871 | \$ 1,447,518 |
| | <u> </u> | <u> </u> |
| Net Assets | | |
| Held in trust for pension benefits & other purposes | \$ 18,426,042 | |
| | <u> </u> | |

The accompanying notes are an integral part of these statements.

**CITY OF DELANO, CALIFORNIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

| | Pension Trust |
|---|--------------------------|
| Additions: | |
| Employer contributions | \$ 1,273,624 |
| Employee contributions | 119,338 |
| Income from use of money & property | 164,464 |
| Net appreciation (depreciation) in fair value of investments | (1,459,501) |
| Miscellaneous revenue | 1,616 |
| Total additions | 99,541 |
| Deductions: | |
| Benefits | 767,747 |
| Refunds of contributions | 308,819 |
| Administrative expenses | 51,881 |
| Total deductions | 1,128,447 |
| Change in net assets | (1,028,906) |
| Net assets - beginning of year | 19,454,948 |
| Net assets - end of year (Refer to Schedule of Funding Progress, page 50) | \$ 18,426,042 |

The accompanying notes are an integral part of these statements.

**CITY OF DELANO, CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

A. Reporting Entity

The City of Delano is a municipal corporation operating under a Council/Manager form of government with an elected five member council, the mayor being elected by the members among themselves for a two year term. The accompanying 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.

Blended Component Units. The following component units are included in the accompanying financial statements using the blended method since the governing bodies are substantially the same as the governing body of the City. These component units provide services entirely to the City.

Delano Redevelopment Agency – The Delano Redevelopment Agency was established pursuant to the State of California Non-Profit Benefit Public Law. The agency is responsible for rehabilitation and economic revitalization of certain areas within the City.

Delano Financing Authority – The Delano Financing Authority Agency was established pursuant to the State of California Non-Profit Benefit Public Law. The corporation's purpose is to issue certificates of participation to provide funding for the construction of a community correctional facility and tax allocation bonds for the redevelopment agency.

Detailed financial statements are available for the above component units from the City's Finance Department.

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 of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity have 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. Likewise, the primary government is reported separately from certain legally component units for which the government is financially accountable.

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 consumers or applicants who purchase, use, or directly benefit from goods, services, 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.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

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 cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as soon as eligibility requirements imposed by the provider have been met.

Governmental 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 government considers revenues to be available if they are collected within 60 days of the end of the current 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 year. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the government'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 Community Correctional Facility Fund (CCF) Special Revenue Fund – accounts for the operations of the Delano Community Correctional Facility. The principal source of funding is from the State of California Department of Corrections.

The Developer Impact Fees Special Revenue Fund – accounts for fees collected from individuals and developers building in the City, as required by AB 1600. Fees collected include streets, fire, police, traffic control, and street lights impact fees.

The CRA Debt Service Fund – accounts for the resources accumulated and payments made for principal and interest on long-term tax allocation bonds of the Delano Redevelopment Agency.

The CRA Capital Projects Fund – accounts for administrative costs for the start-up of the agency and costs of redevelopment. The principal source of revenue is proceeds from issuance of long-term debt and excess tax increment.

The City Capital Projects Fund – accounts for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

The City of Delano reports the following major proprietary funds:

The Refuse Fund accounts for the collection and disposal of green-waste, recyclable waste and garbage within the City including street sweeping.

The Water and Sewer/Wastewater treatment fund accounts for the operation of the sewage treatment plant, sewage pumping stations and collection systems, and the water pumping and distribution systems.

The Airport Fund account for the operation and maintenance of the Delano Municipal Airport.

The Transit Fund accounts for the public transportation operations which includes a dial-a-ride system, and a fixed route system for the general transportation of all citizens.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Additionally, the City reports the following fund types:

Internal service funds account for the City's information system, liability insurance and workers compensation, and fleet management services (garage) provided to other departments and agencies of the City, on a cost reimbursement basis.

The pension trust fund accounts for the activities of the City of Delano Employees' Retirement Plan, which accumulates resources for pension benefit payments to qualified City employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary fund financial statements to the extent those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

Amounts reported as program revenues include 1) charges to customers or applicants for services, or privileges provided, 2) operating grants and contributions, and 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 and of the internal service funds are charges to customers for sales and services. The water and sewer enterprise funds also recognize as operating revenue the portion of the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service 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.

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 Fund Balance

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. Under the provisions of the City's investment policy and in accordance with Section 53601 of the California Government Code, the City may invest in the following types of investments:

- Certificates of deposits
- Local Agency Investment fund (state pool)
- Bankers' acceptances
- U.S. Treasury bills and notes
- Federally sponsored agency securities
- Repurchase agreements not to exceed 90 days
- Medium term corporate notes and mutual funds

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

D. Assets, Liabilities, and Net Assets or Fund Balance (Continued)

1. Deposits and Investments (Continued)

The City, as well as its component units, applies Governmental Accounting Standards Board Statement Number 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement generally requires that investments be reported at their fair value and that all changes in fair value be reflected in income of the period in which they occur. The reported value of the state pool is the same as the fair value of the pool shares.

2. Receivables 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” (that is, the current portion of the inter-fund loans), or “advances to and from other funds” (that is, the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between 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 expandable available financial resources.

All trade receivables are shown as net of allowance for uncollectibles. Property tax receivables are equivalent to the total levy as the County of Kern in which the City is located makes the City whole for any tax delinquency. The delinquency rate for utility accounts receivable such as water, sewer and refuse is minimal. Property taxes are levied as of January 1 of each year. The tax levy is billed twice by the county on November 1, and February 1, of each year and delinquent on December 10 at 5 pm and April 10 at 5 pm.

3. Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government wide financial statement 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 available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expense. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentations.

4. Inventories and Prepaid Items

All inventories are valued at cost using the average cost method. Inventories of governmental funds are first charged to expenditures then the value of the inventory is offset against the expenditure at the end of the fiscal year.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

D. Assets, Liabilities, and Net Assets or Fund Balance (Continued)

5. Restricted Assets

Certain proceeds of the Redevelopment Agency tax allocation bonds and the Delano Financing Authority certificates of participation are classified as restricted assets in the balance sheet because they are maintained in separate reserve bank accounts as required by the bond covenants. The tax allocation bonds debt service requirements for the redevelopment agency are financed by pledged tax increment revenues, while the debt service requirements for the financing authority are financed by pledged lease payments from the California Department of Corrections.

6. Land Held for Resale

Land held for resale is stated at the lower of historical cost or net realizable value, if estimable. During the year ended June 30, 2008, the City estimated the value of its land held for resale at \$5,445,071.

7. Capital Assets

Capital assets, which include property, plant, equipment, and improvements, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets include assets with an initial, individual cost of more than \$1,000, and an estimated life in excess of 3 years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

The cost of normal maintenance and repairs that do not add value to the asset or materially extend lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

| | |
|-------------------------|-------------|
| Buildings | 25-29 years |
| Improvements | 5-20 years |
| Infrastructure | 25-29 years |
| Machinery and equipment | 5-30 years |

8. Compensated Absences

Employees earn 12 days of sick leave per year and can carry forward a maximum of 150 days of earned but unused days in total. Upon separation of employment, employees can be reimbursed for at least 50% of normal pay rate for days greater than 90 days balance. Employees earn 10 to 22 vacations days per year and can carry forward a maximum of 192 to 384 hours. Upon separation of employment, the City is obligated to compensate all employees for all earned but unused vacation time.

9. 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 government activities, business-type activities, or proprietary fund type of statement of net assets. Bond premium 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

D. Assets, Liabilities, and Net Assets or Fund Balance (Continued)

9. Long Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued and is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds are reported as debt service expenditures.

10. Net Assets/Fund Balance

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

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

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose.

Designations of fund balance represent tentative management plans that are subject to change. The reserve for inventories, debt service, advances, program income, and long-term notes and deferred loans receivable reflect the portions of fund balance represented by inventory, debt service, advances to other funds, program income, and receivables, respectively. Other reservations are for prison mitigation, building security, and reserve for land held for resale. These amounts are not available for appropriation and expenditure at the balance sheet date.

11. Cash Flow Statements

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, deposits, short-term investments and cash and investments with fiscal agents. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition.

12. Deficit Fund Balances

The following funds have deficit fund balances:

| | |
|---|--------------|
| Major Fund - CRA Debt Service | \$ 1,736,288 |
| Major Fund - City Capital Projects | 246,187 |
| Non-Major Fund - Golf Course Special Revenue Fund | 190,375 |

The CRA debt service and City Capital Projects are expected to be dealt with future tax increments. The deficit in golf course is expected to be dealt with transfers from the General Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

D. Assets, Liabilities, and Net Assets or Fund Balance (Continued)

13. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount or revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

E. New Accounting Pronouncement

During the year ended June 30, 2008, the City implemented the provisions of Governmental Standards (GASB) Statement No. 50 Pension Disclosures – the objective of which is to amend note disclosure and required supplementary information (RSI) standards of GASB Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and No. 27, Accounting for Pensions by State and Local Governmental Employers, to conform with applicable changes adopted in Statements No. 43, Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans, and No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions. GASB Statement No. 50 is intended to improve the transparency and decision usefulness of reported information about pensions by state and local governmental plans and employers.

For defined benefit pension plans, GASB Statement No. 50 requires disclosure of the funded status of the plan as of the most recent actuarial valuation date in the Notes to Financial Statements section and a reference linking the funding status disclosure in the notes to financial statements to the required schedule of funding progress in the Required Supplemental Schedules. It also requires defined benefit pension plans to disclose in the notes to financial statements the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices.

GASB Statement No. 50 also amends Statement No. 27 to require note disclosure of the required contribution rates of the employer(s) in dollars and the percentage of that amount contributed for the current year and each of the two preceding years, how the contractually required contribution rate is determined (for example, by statute or by contract, or on an actuarially determined basis) or if that cost-sharing plan is financed on a pay-as-you-go basis.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year end.

On or before June 1st of each year, the City Manager shall submit to the City Council an annual budget for the ensuing fiscal year. The City council holds public hearings and a final budget must be adopted as originally proposed or as amended, prior to July 1st.

The appropriated budget is prepared by fund, function and department. The department heads may make transfers of appropriations by line item on the division level. Transfers relating to capital outlays involving \$5,000 or more require the approval City council. Likewise, any new appropriations from the fund balance have to be approved by the City council. The legal level of budgetary control (that is, the level at which expenditures may not legally exceed appropriations) is by line item. The City council made several supplementary appropriations throughout the year which were not material.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent fiscal year. Departments are encouraged to liquidate their outstanding purchase orders at year end, so encumbrances are minimal, if any.

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The government fund balance sheet includes a reconciliation between fund balance- total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Explanation of certain differences

| | |
|--|----------------------|
| Tax allocation bonds payable | \$ 15,570,000 |
| Certificates of participation | 2,325,000 |
| Notes payable - La Salle | 216,115 |
| Notes payable - B of A | 158,285 |
| Add: Accrued interest payable | 343,000 |
| Compensated absences payable | <u>660,281</u> |
| Net adjustment to reduce fund balance-total governmental funds to arrive at net assets - governmental activities | <u>\$ 19,272,681</u> |

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, expenditures, 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 statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this \$3,533,511 difference are as follows:

Explanation of certain differences

| | |
|--|-----------------------|
| Capital outlay capitalized in governmental funds | \$ 4,209,652 |
| Total depreciation expense | <u>(7,742,963)</u> |
| Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities | <u>\$ (3,533,311)</u> |

The governmental funds capital assets reflect a net decrease of \$3,451,030. Consider the net increase of \$82,481 (subtracted) relating to the internal service funds fixed assets to agree with the \$3,533,511, above.

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

(Continued)

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

Another element of that reconciliation states that “the issuance of long term debt (bonds, notes) provide current financial resources to governmental funds, while the payment of the principal of long term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this \$1,350,006 difference are as follows:

| Explanation of certain differences | |
|--|---------------------|
| Bond principal | \$ 1,467,269 |
| Change in compensated absences | (44,750) |
| Amortization of deferred costs | <u>(72,513)</u> |
| Net adjustments to decrease net changes in fund balances | |
| - total governmental funds to arrive at changes in net assets of governmental activities | <u>\$ 1,350,006</u> |

Another element of that reconciliation states that “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.” These consists of newly incurred debt and accrued interest of bonds and notes that span from the date of the last interest date to the end of the fiscal year. The detail of the \$0 difference is as follows:

| Explanation of certain differences | |
|--|------------------|
| Accrued interest beginning | \$ 343,000 |
| Accrued interest ending | <u>(343,000)</u> |
| Net adjustments to decrease net changes in fund balances | |
| - total governmental funds to arrive at changes in net assets of governmental activities | <u>\$ -</u> |

Another element of that reconciliation state that “internal service funds are used by management to charge the costs of certain activities, such as insurance and City information systems to individual funds and that since they are to operate at break even, the gains realized over cost should be returned to the individual funds. The details of such gains are as follows:

| Explanation of certain differences | |
|--|------------------|
| Gains realized by the liability insurance fund | \$ 55,388 |
| Gains realized by the garage fund | (108,014) |
| Gains realized by the workers' compensation fund | 218,467 |
| Gain realized by the city information systems fund | <u>(72,896)</u> |
| Total net internal service funds gain | 92,945 |
| Decrease in allocation of proprietary funds | <u>-</u> |
| Net adjustments to increase net changes in fund balances | |
| - total governmental funds to arrive at changes in net assets of governmental activities | <u>\$ 92,945</u> |

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The City's cash and cash equivalents and investments consist of the following at June 30, 2008:

| | |
|---|----------------------|
| Deposits | \$ 5,096,783 |
| Cash on hand | 9,778 |
| Cash Equivalents and Investments | <u>51,023,953</u> |
| Cash and investments | 56,130,514 |
| Cash and investments with fiscal agents | <u>4,048,372</u> |
| Total | <u>\$ 60,178,886</u> |

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

| | <u>Cash Equivalents and Investments</u> | <u>Cash With Fiscal Agents</u> | <u>Investments</u> | <u>Total</u> |
|--------------------------|---|------------------------------------|----------------------|----------------------|
| Governmental activities | \$ 30,455,648 | \$ 4,048,372 | \$ - | \$ 34,504,020 |
| Business-type activities | 6,503,323 | 5,385 | - | 6,508,708 |
| Fiduciary funds | <u>1,213,500</u> | <u>-</u> | <u>17,952,658</u> | <u>19,166,158</u> |
| Total | <u>\$ 38,172,471</u> | <u>\$ 4,053,757</u> | <u>\$ 17,952,658</u> | <u>\$ 60,178,886</u> |

Authorized investments

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

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

| | |
|--|----------------------|
| City treasurer | \$ 27,397,875 |
| Fiscal agents(bond trustees for the City and its components) | 1,829,445 |
| Pension Fund Investment Committee | <u>17,952,658</u> |
| Total | <u>\$ 47,179,978</u> |

The City is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in the pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio.

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 California Government Code Section 53601 and its primary detail is as follows:

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

Authorized investments (Continued)

| Investment Types Authorized By Section 53601 | Investment Policy | Maximum Maturity In Years | Maximum Percentage of Portfolio | Maximum Investment In One Issuer | Maximum Ratings |
|--|-------------------|---------------------------|---------------------------------|----------------------------------|-----------------|
| U.S. Treasury and Agencies | Yes | 5 | None | None | None |
| Commercial paper | Yes | 5 | None | None | PI/AI |
| Certificates of deposits (CD's) | Yes | 5 | None | 100K | A |
| Medium term notes | Yes | 5 | None | None | A |
| Local Agency Investment Fund (LAIF) | Yes | N/A | None | None | None |

The Pension Fund's investment practices and related disclosures regarding its investments at June 30, 2008 are more fully disclosed in its separate financial statements. Financial statements for the Pension Fund may be obtained from the City's Finance Department.

Investments with fiscal agents are investments held by the bond trustee on behalf of the City or its component units. The City and its investment advisor selects the investment under the terms of the applicable trust agreement, direct the bond trustee to acquire the investment, and the bond trustee that holds the investment on 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. Such differences relates to investment of required reserves to be maintained in guaranteed investment contracts that extend over five years.

Interest rate risk

Interest rate risk is that 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 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 below that shows the distribution by maturity.

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 debt service.

The City's investments by maturity are as follows:

| Investment types | Book Value | Maturities in Years | | |
|-------------------------------------|----------------------|----------------------|---------------------|-------------|
| | | Less than 1 | 1 to 5 | Over 5 |
| US Treasury notes | \$ 152,953 | \$ 152,953 | \$ - | \$ - |
| US Agencies | 101,438 | 101,438 | - | - |
| Certificates of deposits (CD's) | 3,753,953 | 2,574,975 | 1,178,978 | - |
| Local Agency Investment Fund (LAIF) | 23,542,484 | 23,542,484 | - | - |
| Money market funds | 473,942 | 473,942 | - | - |
| Guaranteed investment contracts | 1,829,445 | - | 1,829,445 | - |
| Stocks | 9,550,382 | 9,550,382 | - | - |
| Mutual funds | 3,730,468 | 3,730,468 | - | - |
| Guaranteed funds | 4,044,913 | 4,044,913 | - | - |
| | <u>\$ 47,179,978</u> | <u>\$ 44,171,555</u> | <u>\$ 3,008,423</u> | <u>\$ -</u> |

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

Credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The City's investment policy generally complies with the State Government Code with respect to allowable investment instruments as a means of managing its risk of loss related to credit risk and concentration of credit risk. At June 30, 2008, Standard & Poor's and Moody's rated the City's investments, except for those investments held by its bond trustees, as AAA and Aaa, respectively. In addition none of the investment categories listed above exceeded the maximum allowable percentage of its portfolio.

Custodial credit risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The City's deposit policy requires deposits to be covered by federal deposit insurance and collateral having a market value of 110% of the uninsured deposit. As of June 30, 2008, the City's bank balance of \$5,624,502 (carrying amount of \$6,649,814) was exposed to custodial credit risk. The custodial credit risk for *investments* 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. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision of deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes have a value of 150% of the secured public deposits. Of the City's cash equivalents and investments, certain money market funds and guaranteed investments contracts in the amount of \$2,303,387 held by fiscal agents are subject to custodial risk as they are uninsured or unregistered investments, acquired by the broker or dealer or by its trust department or agent and are held in the City's name. To minimize custodial credit risk with respect to investments with fiscal agents, the City and its component units require that they meet certain credit ratings from either Standard & Poor's or Moody's Investor Service. Custodial credit risk for LAIF is not determinable. Additionally, the guaranteed investment contract and funds are backed by the general assets of the insurance company, which is regulated by the state insurance department. The mutual funds and stocks are protected under the Securities Investor Protection Act.

Investments with fair values highly sensitive to interest rate fluctuations

Investments in stocks and mutual funds in the Pension fund in the amount of \$13,280,850 are subject to the risk that market values of stocks and mutual funds may decrease as a result of the volatility of the stock market.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables

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

| | Governmental Funds | | | | | | | Total Governmental Funds |
|------------------------------|--------------------|---------------------|--------------------------|----------------------|--------------------------|--------------------------|-----------------------|--------------------------------|
| | General | CCF Fund | Developer Impact Fees | CRA | CRA | City | Other Non Major | |
| | | | | Debt Service Fund | Capital Projects Fund | Capital Projects Fund | Governmental Funds | |
| Receivables: | | | | | | | | |
| Taxes | \$ 608,272 | \$ - | \$ - | \$ 163,436 | \$ - | \$ - | \$ - | \$ 771,708 |
| Accounts | - | - | 69,946 | - | - | - | 357,715 | 427,661 |
| Other | 259,189 | - | - | - | - | - | - | 259,189 |
| Loans receivables | - | - | - | - | 520,583 | - | - | 520,583 |
| Loans receivables-deferred | - | - | - | - | - | - | 3,827,058 | 3,827,058 |
| Intergovernmental-restricted | - | 1,458,118 | - | - | - | 1,192,499 | 514,474 | 3,165,091 |
| Total | \$ 867,461 | \$ 1,458,118 | \$ 69,946 | \$ 163,436 | \$ 520,583 | \$ 1,192,499 | \$ 4,699,247 | \$ 8,971,290 |

| | Governmental | | | Total |
|------------------------------|--------------------------------------|---------------------|--------------------|----------------------|
| | Activities Internal Service Funds | Enterprise Funds | Fiduciary Funds | |
| Receivables: | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ 771,708 |
| Accounts | - | 2,175,734 | - | 2,603,395 |
| Other | 30,189 | 105,076 | 709,273 | 1,103,727 |
| Loans receivables | - | - | - | 520,583 |
| Loans receivables-deferred | - | - | - | 3,827,058 |
| Intergovernmental-restricted | - | - | - | 3,165,091 |
| Total | \$ 30,189 | \$ 2,280,810 | \$ 709,273 | \$ 11,991,562 |

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

| Primary Government | Beginning Balance | Adjustments/ Restatements | Adjusted Beginning Balance | Increases | Decreases | Ending Balance |
|---|--------------------------|----------------------------------|-----------------------------------|-----------------------|---------------------|-----------------------|
| Governmental Activities | | | | | | |
| Capital Assets, no depreciation | | | | | | |
| Land | \$ 1,215,027 | \$ - | \$ 1,215,027 | \$ - | \$ 240,068 | \$ 974,959 |
| Construction in Progress | 1,497,592 | (1,414,541) | 83,051 | 794,821 | 37,755 | 840,117 |
| Total Capital Assets not depreciated | 2,712,619 | (1,414,541) | 1,298,078 | 794,821 | 277,823 | 1,815,076 |
| Capital Assets, being depreciated | | | | | | |
| Buildings | 13,810,866 | 135,945 | 13,946,811 | 37,755 | - | 13,984,566 |
| Improvements | 7,948,714 | 1,136,460 | 9,085,174 | 3,437,461 | 1,320 | 12,521,315 |
| Equipment & Machinery | 6,757,232 | 189,374 | 6,946,606 | 421,546 | 770,095 | 6,598,057 |
| Infrastructure | 149,264,000 | - | 149,264,000 | - | - | 149,264,000 |
| Total Capital Assets being depreciated | 177,780,812 | 1,461,779 | 179,242,591 | 3,896,762 | 771,415 | 182,367,938 |
| Less accumulated depreciation for | | | | | | |
| Buildings | (9,315,356) | (75,245) | (9,390,601) | (590,167) | - | (9,980,768) |
| Improvements | (5,476,902) | (315,108) | (5,792,010) | (797,845) | (1,320) | (6,588,535) |
| Equipment & Machinery | (4,776,374) | (39,677) | (4,816,051) | (488,649) | (763,408) | (4,541,292) |
| Infrastructure | (6,100,549) | 129,990 | (5,970,559) | (5,981,442) | - | (11,952,001) |
| Total accumulated depreciation | (25,669,181) | (300,040) | (25,969,221) | (7,858,103) | (764,728) | (33,062,596) |
| Total capital assets being depreciated, net | 152,111,631 | 1,161,739 | 153,273,370 | (3,961,341) | 6,687 | 149,305,342 |
| Governmental activities capital assets, net | \$ 154,824,250 | \$ (252,802) | \$ 154,571,448 | \$ (3,166,520) | \$ 284,510 | \$ 151,120,418 |
| | | | | | | |
| Primary Government | Beginning Balance | Adjustments/ Restatements | Adjusted Beginning Balance | Increases | Decreases | Ending Balance |
| Business-type activities: | | | | | | |
| Capital Assets, no depreciation | | | | | | |
| Land | \$ 2,707,453 | \$ - | \$ 2,707,453 | \$ - | \$ - | \$ 2,707,453 |
| Construction in Progress | 6,491,678 | (4,068,275) | 2,423,403 | 5,451,905 | 1,367,027 | 6,508,281 |
| Total Capital Assets not depreciated | 9,199,131 | (4,068,275) | 5,130,856 | 5,451,905 | 1,367,027 | 9,215,734 |
| Capital Assets, being depreciated | | | | | | |
| Buildings | 6,123,376 | - | 6,123,376 | - | 14,325 | 6,109,051 |
| Improvements | 11,822,433 | 3,877,298 | 15,699,731 | 1,377,981 | 22,834 | 17,054,878 |
| Equipment & Machinery | 14,711,681 | 190,977 | 14,902,658 | 707,099 | 578,209 | 15,031,548 |
| Total Capital Assets being depreciated | 32,657,490 | 4,068,275 | 36,725,765 | 2,085,080 | 615,368 | 34,127,202 |
| Less accumulated depreciation for | | | | | | |
| Buildings | (4,122,522) | - | (4,122,522) | (129,755) | (14,325) | (4,237,952) |
| Improvements | (8,158,774) | (1,015,240) | (9,174,014) | (957,751) | (22,834) | (10,108,931) |
| Equipment & Machinery | (11,125,680) | (20,392) | (11,146,072) | (778,698) | (492,369) | (11,432,401) |
| Total accumulated depreciation | (23,406,976) | (1,035,632) | (24,442,608) | (1,866,204) | (529,528) | (25,779,284) |
| Total capital assets being depreciated, net | 9,250,514 | 3,032,643 | 12,283,157 | 218,876 | 85,840 | 12,416,193 |
| Business-type activities capital assets, net | \$ 18,449,645 | \$ (1,035,632) | \$ 17,414,013 | \$ 5,670,781 | \$ 1,452,867 | \$ 21,631,927 |

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets (Continued)

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

| | | |
|---------------------------------------|--|---------------------|
| Governmental activities: | | |
| General government | | \$ 940,252 |
| Public safety | | 5,070,616 |
| Public works | | 567,106 |
| Engineering services | | 114,331 |
| Culture, recreation & social services | | 566,967 |
| Community & economic development | | 598,831 |
| | | <u>598,831</u> |
| Total | | <u>\$ 7,858,103</u> |
| Business-type activities: | | |
| Refuse | | \$ 216,955 |
| Water and Sewer | | 1,365,620 |
| Airport | | 115,526 |
| Transit | | 168,103 |
| | | <u>168,103</u> |
| Total | | <u>\$ 1,866,204</u> |

D. Inter-fund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund due from/to other funds at June 30, 2008 were as follows:

| <u>Due From</u> | <u>Due To</u> | <u>Amount</u> |
|---|----------------------------|---------------------|
| Governmental Major Funds: | | |
| CRA Capital Projects | General Fund | \$ 1,405,899 |
| CRA Debt Service Fund | CRA Capital Projects Fund | 279,417 |
| CRA Debt Service Fund | CRA Capital Projects Fund | 1,047,340 |
| CRA Debt Service Fund | CRA Capital Projects Fund | 959,048 |
| CRA Debt Service Fund | CRA Capital Projects Fund | 149,258 |
| | | <u>149,258</u> |
| Total Governmental Funds | | <u>3,840,962</u> |
| Business-Type Major Funds: | | |
| Water & Sewer Fund | City Capital Projects Fund | 1,983,249 |
| Water & Sewer Fund | City Capital Projects Fund | 504,903 |
| Airport | City Capital Projects Fund | 10,954 |
| | | <u>10,954</u> |
| Total Business-Type Funds | | <u>2,499,106</u> |
| Governmental Activities Internal Service Funds | | |
| Garage Fund | City Capital Projects Fund | 99,264 |
| | | <u>99,264</u> |
| Grand Total | | <u>\$ 6,439,332</u> |

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

D. Inter-fund Transactions (Continued)

Transfers out consist of the following at June 30, 2008

| <u>Fund Making Transfer</u> | <u>Fund Receiving Transfer</u> | <u>Purpose</u> | <u>Amount Transferred</u> |
|---|--------------------------------|--|---------------------------|
| Governmental Major Funds: | | | |
| General Fund | Golf Course | For operations | \$ 24,433 |
| General Fund | Gas Tax Fund | For operations | 120,807 |
| General Fund | Capital Projects | For various capital projects | 34,165 |
| General Fund | Airport Fund | For operations | 20,000 |
| General Fund | CIS Internal Service Fund | Miscellaneous | 14,673 |
| General Fund | SC Nutrition | For operations | 11,109 |
| CCF | CCF Equipment Replacement | For purchase of equipment | 500,000 |
| Developer Impact Fees | Capital Projects | For various capital projects | 35,547 |
| Developer Impact Fees | Capital Projects | miscellaneous | 42,682 |
| Developer Impact Fees | General Fund | miscellaneous | 50,340 |
| Developer Impact Fees | Capital Projects | For various capital projects | 391,213 |
| CRA Capital Projects | CRA Debt Service | To correct payment related to a loan | 73,780 |
| CRA Debt Service | CRA Capital Projects | To transfer funds from a loan receivable | 279,417 |
| CRA Debt Service | CRA Capital Projects | To transfer funds in connection with a land agreement related to Sears | 959,048 |
| Non-Major Funds: | | | |
| SLEF | General Fund | For supplemental law enforcement | 100,000 |
| Park in Lieu-Fees | Capital Projects | For the park development project | 110,000 |
| Gas Tax Fund | Capital Projects | For streets and road repairs | 54,405 |
| CDBG | Transit Fund | For operations | 61,064 |
| TDA Streets | Gas Tax | For streets and roads | 345,000 |
| HODAG | Housing Program | To transfer to for the housing program | 15,000 |
| Total Non-Major Funds | | | <u>685,469</u> |
| Total Governmental Funds | | | <u>3,242,683</u> |
| Business-Type Major Funds: | | | |
| Water & Sewer | Capital Projects | For various capital projects | 250,430 |
| Water & Sewer | Capital Projects | For various capital projects | 624,029 |
| Transit | Capital Projects | For various capital projects | 39,860 |
| Total Business-type Major Funds | | | <u>914,319</u> |
| Governmental Activities Internal Service Funds | | | |
| Garage Fund | General Fund | To distribute negative balances | 70,699 |
| Garage Fund | CCF Fund | To distribute negative balances | 2,830 |
| Garage Fund | Transit Fund | To distribute negative balances | 70,680 |
| Garage Fund | Airport Fund | To distribute negative balances | 1,346 |
| Garage Fund | Water & Sewer Fund | To distribute negative balances | 21,127 |
| Garage Fund | Refuse Fund | To distribute negative balances | 62,213 |
| Garage Fund | Gas Tax | To distribute negative balances | 18,633 |
| Garage Fund | Maintenance District | To distribute negative balances | 3,647 |
| Garage Fund | SC Nutrition | To distribute negative balances | 3,861 |
| Garage Fund | Golf Course | To distribute negative balances | 4,391 |
| Total Internal Service Funds | | | <u>259,427</u> |
| Grand Total | | | <u>\$ 4,416,429</u> |

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

E. Long Term Debt

A recap of the long-term debt and their outstanding balances by activity as of June 30, 2008 follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|---------------------|---------------------|----------------------|------------------------|
| Governmental activities: | | | | | |
| Tax allocation bonds payable-Series A | \$ 12,485,000 | \$ - | \$ - | \$ 12,485,000 | \$ - |
| Tax allocation bonds payable-Series B | 3,295,000 | - | 210,000 | 3,085,000 | 215,000 |
| Certificates of participation | 3,405,000 | - | 1,080,000 | 2,325,000 | 1,130,000 |
| Notes payable-B of A-Police-GF | 76,373 | - | 17,994 | 58,379 | 18,708 |
| Notes payable-B of A-Parks-GF | 77,709 | - | 18,309 | 59,400 | 19,035 |
| Notes payable-B of A-Gas tax | 52,991 | - | 12,485 | 40,506 | 12,980 |
| Notes payable-La Salle Bank | 104,022 | - | 50,787 | 53,235 | 53,235 |
| Loans payable-La Salle-Gas Tax | 103,814 | - | 33,527 | 70,287 | 34,593 |
| Loans payable-La Salle-IT | 136,760 | - | 44,167 | 92,593 | 45,572 |
| Compensated absences payable | 615,531 | 44,750 | - | 660,281 | - |
| Total external debt | 20,352,200 | 44,750 | 1,467,269 | 18,929,681 | 1,529,123 |
| Business-type activities: | | | | | |
| Notes payable-La Salle Bank-Water | 829,719 | - | 114,959 | 714,760 | 119,317 |
| Notes payable-La Salle Bank-Water | 44,885 | - | 14,496 | 30,389 | 14,957 |
| Notes payable-La Salle Bank-Refuse | 237,848 | - | 76,239 | 161,609 | 79,243 |
| Notes payable-La Salle Bank-Refuse | 106,134 | - | 34,276 | 71,858 | 35,366 |
| Notes payable-B of A-Refuse | 171,202 | - | 40,337 | 130,865 | 41,936 |
| Notes payable-La Salle Bank-Sewer | 32,196 | - | 10,398 | 21,798 | 10,728 |
| Notes payable-M. Mettler-Sewer | 120,107 | - | 20,808 | 99,299 | 22,303 |
| Notes payable-Mettler Trust-Sewer | 698,794 | - | 121,064 | 577,730 | 129,764 |
| Notes Payable-Chevron Energy Solutions | - | 3,516,059 | - | 3,516,059 | 60,226 |
| Notes payable-G. Holland-Sewer | 51,302 | - | 13,162 | 38,140 | 14,754 |
| Total notes payable | 2,292,187 | 3,516,059 | 445,739 | 5,362,507 | 528,594 |
| Grand total | \$ 22,644,387 | \$ 3,560,809 | \$ 1,913,008 | \$ 24,292,188 | \$ 2,057,717 |

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

E. Long Term Debt

1. Tax allocation refunding bonds

Tax Allocation Refunding Bond series A (Issue 2003) – On June 1, 2003, the Agency issued \$12,485,000 in tax allocation refunding bonds. All bonds are term bonds. The principal and interest are payable from tax increment revenue received by the Agency and by amounts in certain funds and accounts established under indenture. Interest is 5.5% for \$2,065,000 and 5.00% for \$10,420,000 and payable semi-annually on March 1 and September 1 each year, commencing September 1, 2003. Principal payment is due on September 1 each year. \$2,065,000 of the bonds matures on September 1, 2023 and \$10,420,000 of the bonds matures on September 1, 2038. The outstanding balance as of June 30, 2008 was \$12,485,000. Debt service requirements to maturity are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------|----------------------|----------------------|
| 2009 | \$ - | \$ 634,575 |
| 2010 | - | 634,575 |
| 2011 | - | 634,575 |
| 2012 | - | 634,575 |
| 2013 | - | 634,575 |
| 2014-2018 | - | 3,172,875 |
| 2019-2023 | 1,605,000 | 3,046,375 |
| 2024-2028 | 2,545,000 | 2,480,300 |
| 2029-2033 | 3,240,000 | 1,776,000 |
| 2034-2038 | 4,140,000 | 880,000 |
| 2039 | 955,000 | 47,750 |
| | <u>\$ 12,485,000</u> | <u>\$ 14,576,175</u> |

Tax Allocation Refunding Bonds Series B (Issue 2003) – On June 1, 2003, the City's Redevelopment Agency issued \$3,880,000 in tax allocation refunding bonds. All the bonds are term bonds. The principal and interest are payable from tax increment revenue received by the Agency and by amounts in certain funds and accounts established under the indenture. Interest is 5.14% for \$1,250,000 and 5.66% for \$1,620,000 and payable semi-annually on March 1 and September 1 each year, commencing September 1, 2003. Principal payment is due on September 1, each year. \$1,250,000 of the bonds mature on September 1, 2013 and \$1,620,000 of the bonds mature on September 1, 2018. The outstanding balance as of June 30, 2008 was \$3,085,000. Debt service payments to maturity are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------|---------------------|---------------------|
| 2009 | \$ 215,000 | \$ 164,542 |
| 2010 | 225,000 | 155,942 |
| 2011 | 240,000 | 144,377 |
| 2012 | 250,000 | 132,041 |
| 2013 | 260,000 | 119,191 |
| 2014-2018 | 1,535,000 | 370,432 |
| 2019 | 360,000 | 20,376 |
| | <u>\$ 3,085,000</u> | <u>\$ 1,106,901</u> |

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)**E. Long Term Debt** (Continued)**2. Certifications of participation**

The City, under its blended component unit, the Delano Financing Authority, has outstanding Certificates of Participation obligations in the amount of \$5,410,000 due to mature in April 1, 2010, issued January 30, 2002 originally in the amount of \$8,075,000. The debt service is paid out from a portion of base rental payments receivable from the State of California under an RTC (Return to Custody) contract entered into between the City and the State of California Department of Corrections. The outstanding balance as of June 30, 2008 was \$2,325,000. Debt service payments to maturity are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------|---------------------|-------------------|
| 2009 | \$ 1,130,000 | \$ 133,687 |
| 2010 | 1,195,000 | 68,713 |
| | <u>\$ 2,325,000</u> | <u>\$ 202,400</u> |

3. Notes payable

The Sewer Utility fund has purchased land for the expansion of its wastewater treatment plant issuing promissory notes in the amount of \$1,505,182 due to mature in April 13, 2012. The debt is paid out of operating revenue and the outstanding obligation as of June 30, 2008 is \$715,169. Debt service amounts to maturity are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------|-------------------|-------------------|
| 2009 | \$ 166,821 | \$ 45,704 |
| 2010 | 178,808 | 33,716 |
| 2011 | 181,677 | 20,990 |
| 2012 | 187,863 | 8,264 |
| | <u>\$ 715,169</u> | <u>\$ 108,674</u> |

The Water Utility fund also owes the La Salle Bank, NA for a note due to mature on July 25, 2013 at 3.756% per annum for the purchase and installation of a booster pump on Water Plant No. 5. The debt is paid out of operating revenue and the outstanding obligation as of June 30, 2008 was \$714,760. Debt service amounts to maturity are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------|-------------------|------------------|
| 2009 | \$ 119,317 | \$ 25,736 |
| 2010 | 123,841 | 21,213 |
| 2011 | 128,536 | 16,518 |
| 2012 | 133,409 | 11,645 |
| 2013 | 138,467 | 6,587 |
| 2014 | 71,190 | 1,337 |
| | <u>\$ 714,760</u> | <u>\$ 83,036</u> |

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

E. Long Term Debt (Continued)

3. Notes payable (Continued)

The City also obtained a 5-year loan from Bank of America to finance the purchase of various equipment for the police, parks and roads department due to mature in November 30, 2010. The outstanding balance of the loan as of June 30, 2008 was \$289,150. The loan is payable out of general fund and gas tax revenues with a yearly debt service in the amount \$104,128. Debt service amounts to maturity are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------|-------------------|------------------|
| 2009 | \$ 92,659 | \$ 11,468 |
| 2010 | 96,336 | 7,793 |
| 2011 | 100,155 | 3,972 |
| | <u>\$ 289,150</u> | <u>\$ 23,233</u> |

4. Notes/loans payable – LaSalle

The City also obtained a 7-year loan from La Salle Bank in Chicago, to finance the repair of its HVAC system at City Hall in the amount of \$325,000 due to mature in September 24, 2008. The outstanding balance of the loan as of June 30, 2008 was \$53,235. The loan is payable out of general fund revenues with a yearly debt service in the amount of \$55,800.

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------|------------------|-----------------|
| 2009 | \$ 53,235 | \$ 2,565 |
| | <u>\$ 53,235</u> | <u>\$ 2,565</u> |

The City borrowed funds from LaSalle Bank, NA to purchase various heavy duty equipment and computers. In connection with this purchase, the City signed various notes/loans that are due to mature thru 2010 at 3.18% per annum. The debt is being paid out with operating revenues. As of June 30, 2008 the outstanding obligation was \$448,534. Debt service amounts to maturity are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------|-------------------|------------------|
| 2009 | \$ 220,459 | \$ 16,456 |
| 2010 | 228,075 | 8,369 |
| | <u>\$ 448,534</u> | <u>\$ 24,825</u> |

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

E. Long Term Debt (Continued)

5. Note payable – Chevron Energy Solutions

On December 17, 2007, the City signed a lease-purchase agreement with Chevron Energy Solutions to install energy saving facilities within the City. In connection with this project the City signed a 20-year lease/purchase agreement with the City Capital Municipal Finance. The term of the lease is 20 years and the interest rate is 4.25%. Principal payments start in May 2009. Future payments are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------|---------------------|-------------------|
| 2009 | \$ 60,226 | \$ 136,630 |
| 2010 | 250,306 | 142,965 |
| 2011 | 273,130 | 134,969 |
| 2012 | 297,302 | 119,979 |
| 2013 | 322,889 | 106,942 |
| 2014-2019 | <u>2,312,206</u> | <u>301,080</u> |
| | <u>\$ 3,516,059</u> | <u>\$ 942,565</u> |

6. Compensated absences

The provision for liability for compensated absences is accrued in each individual fund. Provision for liability in governmental funds is reported in the statement of net assets. Liquidation of each liability is charged directly to salaries.

F. Risk Management

The City participates with other public entities in 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 the CSJVRMA is not a component unit of the City for financial reporting purposes. The City carries a self-insured retention of \$50,000 for general liability claims and \$100,000 for workers' compensation claims. The City is covered for the first \$1,000,000 of each general liability claim and \$500,000 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 losses under \$50,000 and workers' compensation losses under \$100,000. The CSJVRMA participates in two excess pools, which provide general liability coverage from \$1,000,001 to \$15,000,000 and Workers' compensation coverage from \$500,001 to \$50,000,000. The CCF maintains a \$25,000 self-insured retention for general liability.

The CSJVRMA is a consortium of fifty-four (54) cities in San Joaquin Valley, California. It was established under the provisions of California government code Section 8500 et seq. A Board of Directors governs the CSJVRMA, which meets 3 times per year, consisting of one member appointed by each member City. A management group employed by the CSJVRMA handles day-to-day business. The financial position and results of operations for the Authority (unaudited) as of June 30, 2007 (most recent information available), are presented below:

| | |
|-------------------|-----------------------|
| Total Assets | \$ 50,198,598 |
| Total Liabilities | <u>41,675,008</u> |
| Net Assets | <u>\$ 8,523,590</u> |
| Total Revenues | \$ 24,274,050 |
| Total Expenses | <u>25,421,851</u> |
| Net Income | <u>\$ (1,147,801)</u> |

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

F. Risk Management (Continued)

The City's share of year-end assets, liabilities, or equities, has not been calculated by CSJVRMA. Detailed financial information maybe obtained from the CSJVRMA. 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. The following summarizes the changes in the funds held by the CSJVRMA for claims or liabilities for the City of Delano for the last three fiscal years:

| Fiscal year Ended June 30 | Contributed by the City | Assessed (Refunded) to the City | Current Year Provision for Claims | Claim Payments | City's Fund Balance |
|------------------------------|----------------------------|---------------------------------------|---|-------------------|------------------------|
| Workers compensation: | | | | | |
| 2005 | \$ 399,733 | \$ (132,822) | \$ (183,094) | \$ (330,343) | \$ 225,250 |
| 2006 | \$ 455,453 | \$ (254,779) | \$ (117,044) | \$ (230,858) | \$ 78,022 |
| 2007 | \$ 398,055 | \$ (236,534) | \$ (68,985) | \$ (386,043) | \$ 77,515 |
| Liability & property damage: | | | | | |
| 2005 | \$ 302,256 | \$ (108,089) | \$ (175,584) | \$ (75,891) | \$ 428,214 |
| 2006 | \$ 330,516 | \$ (159,655) | \$ (72,632) | \$ (211,278) | \$ 206,429 |
| 2007 | \$ 295,545 | \$ (127,777) | \$ (384,268) | \$ (37,560) | \$ 174,154 |

G. Employees Retirement System

Plan Description

The City has established a retirement program for eligible employees, effective June 1, 1967, under a single public employees' defined benefit pension plan, the "City of Delano Employees' Pension Plan". Prien, Associates, Inc., a firm of Consulting Actuaries based in Laguna Hills, California, administers the Plan. The Plan provides death benefits to plan members and their beneficiaries as well as annual COLA. All full-time employees of the City are eligible to participate in the Plan, which is funded by both City and employee contributions. Each employee is credited with one year-vested service for each fiscal year. After seven or more years of service, employees' accrued benefits shall be 100% vested. Ordinance 494 of the City of Delano assigns authority to establish and amend the benefits provision of the Plan to the City Council. The Pension Plan is reported as a pension trust fund in the City's financial statements. The stand-alone plan report can be obtained from the City's Finance Department.

At June 30, 2008, the Plan's membership consisted of the following City and Safety employees:

| | |
|---------------------------------------|-----|
| General Employees active participants | 150 |
| Correction Facility Employees | 70 |
| Total members | 220 |

At June 30, 2008 there were 44 retirees and beneficiaries receiving benefits, and 56 terminated members entitled to, but not yet receiving benefits.

Pension Benefits

Employees are entitled to monthly retirement benefits beginning at normal retirement age (age 50 for safety) employees including management of safety employees and age 60 for general employees. City employees who retire at the normal retirement age receive benefits that are partially integrated with social security and are computed by multiplying the average final monthly compensation by 2% plus the average monthly compensation times 2.4% for amounts in excess of 833 times the number of years of credited service. Effective July 1, 2007, the normal retirement age for general employees will be 60.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

G. Employees Retirement System (Continued)

The Plan permits early retirement with reduced retirement benefits beginning age 50 for safety employees and 57 for general employees. An early retiree would have less contributions to the Plan and would be drawing a monthly check for a longer period of time, so that the retiree would receive less benefits per month than an employee who retires at normal retirement age.

Contribution

Per ordinance 494, contribution requirements of the Plan members and participating employees are established and may be amended by the City Council. Additionally, the contribution rates are subject to change due to bargaining contracts and agreements with unions and annual actuarial review.

Contributions are mandatory as long as the employee is eligible to be a participant of the Plan. The participant's accumulated contribution cannot be withdrawn by the participant while employed by the City. The participant's contribution rates, which are a percentage of the participant's base monthly salary, are as follows:

| | <u>Participant's Contribution Rate</u> |
|--|--|
| Management (including police management) | 9.00% |
| General employees | 6.20% |

The City has been contributing the above percentages on behalf of the general employees, except for the following, which are deducted from the participant's monthly salary based on the years of service.

| <u>General Employees</u> | |
|-----------------------------|------------------------------|
| <u>Years of Service</u> | <u>Contribution Rate</u> |
| 0-5 | 6.20% |
| Over 5 | 0.00% |

In addition, the City contributes a percentage of employee base monthly salary for an actuarially sound pension program based on an actuarial valuation report. Administrative costs of the Plan are financed through investment earnings.

| <u>Schedule of Actuarially Required Employer Contributions</u> | | |
|--|---|-----------------------------------|
| <u>Fiscal Year</u> | <u>Annual Required Contribution</u> | <u>Percentage Contributed</u> |
| 1999 | \$ 992,578 | 100% |
| 2000 | \$ 945,688 | 100% |
| 2001 | \$ 855,046 | 92% |
| 2002 | \$ 1,163,464 | 108% |
| 2003 | \$ 1,251,572 | 100% |
| 2004 | \$ 1,496,202 | 95% |
| 2005 | \$ 1,599,988 | 101% |
| 2006 | \$ 1,181,059 | 98% |
| 2007 | \$ 1,153,496 | 105% |
| 2008 | \$ 1,337,025 | 105% |

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)**G. Employees Retirement System** (Continued)**Funding Status and Method**

The funding ratio as of June 30, 2008 was 67.82%. The actuarial value of assets as of June 30, 2008 was \$18,426,143.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, inflation and investment returns. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Schedule of Funding Status and Progress

| Fiscal Year | (1) | (2) | (3) | (4) | (5) | (6) |
|-------------|---------------------------|---|--------------------------|-----------------------------|------------------------|------------------|
| | Actuarial Value of Assets | Actuarial Liability (AAL) Projected Unit Credit | Funded Rates (%) (1)/(2) | Unfunded AAL (UAAL) (2)-(1) | Annual Covered Payroll | UAAL (%) (4)/(5) |
| 6/30/1998 | \$ 10,833,579 | \$ 13,569,843 | 79.84% | \$ 2,736,264 | \$ 6,228,933 | 43.93% |
| 6/30/1999 | \$ 12,335,703 | \$ 15,112,530 | 81.63% | \$ 2,776,827 | \$ 6,617,975 | 41.96% |
| 6/30/2000 | \$ 11,934,102 | \$ 14,499,489 | 82.31% | \$ 2,565,387 | \$ 6,835,377 | 37.53% |
| 6/30/2001 | \$ 11,547,511 | \$ 15,606,939 | 73.99% | \$ 4,059,428 | \$ 6,543,832 | 62.03% |
| 6/30/2002 | \$ 11,649,634 | \$ 17,970,464 | 64.83% | \$ 6,320,830 | \$ 7,337,881 | 86.14% |
| 6/30/2003 | \$ 12,156,501 | \$ 19,736,558 | 61.59% | \$ 7,580,057 | \$ 7,305,354 | 103.76% |
| 6/30/2004 | \$ 14,350,746 | \$ 21,702,704 | 66.12% | \$ 7,351,958 | \$ 7,483,544 | 98.24% |
| 6/30/2005 | \$ 15,048,284 | \$ 19,633,478 | 76.65% | \$ 4,585,194 | \$ 7,895,996 | 58.07% |
| 6/30/2006 | \$ 16,839,790 | \$ 21,484,859 | 78.38% | \$ 4,645,069 | \$ 6,353,463 | 73.11% |
| 6/30/2007 | \$ 19,454,948 | \$ 24,767,406 | 78.55% | \$ 5,312,458 | \$ 6,764,823 | 78.53% |
| 6/30/2008 | \$ 18,426,143 | \$ 27,169,641 | 67.82% | \$ 8,743,498 | \$ 7,296,505 | 119.83% |

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

G. Employees Retirement System (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan Members) and include the type of benefits provided at the time each valuation and historical pattern of sharing of benefit costs between the employer and plan Members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The actuarial methods and significant assumptions used in the valuation year of June 30, 2008 are summarized in this note to conform to the disclosure requirements for GASB No. 50.

| | |
|--------------------------------------|----------------------------------|
| Valuation date | June 30, 2007 |
| Actuarial cost method | Project unit credit |
| Amortization method | Level percent open |
| Remaining amortization period | 12 years |
| Asset valuation | Market value |
| Actuarial assumptions: | |
| Investment rate of return | 8% per annum compounded annually |
| Projected salary increases – General | 3% |
| Projected salary increases – Safety | 3% |
| Includes inflation at | 3% |
| Cost of living adjustments | 2% annual rate |

CALPers

Effective June 30, 2007 (most recent information available), all active qualified permanent and probationary Police Officers (safety employees) are eligible to participate in a pension plan offered by the California Public Employee Retirement System (CALPers), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPers provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits provisions under the plan are established by State statute and City resolution. Benefits are based on credited service, equal to one year of full time employment. Funding contributions are determined annually on an actuarial basis as of June 30, by CALPers; The Plans' provisions and benefits in effect at June 30, 2007 (date of the most recent information available), are summarized as follows:

| | |
|--|------------------|
| | Safety |
| Benefits vesting schedule | 5 years service |
| Benefit payments | monthly for life |
| Retirement age | 50 |
| Monthly benefits, as a % of annual salary | 2% |
| Required employee contribution rate, active as of June 25, 2005 | 4.00% |
| Required employee contribution rate, active as of June 25, 2005 provided by employer | 2.77% |
| Required employee contribution rate hired after June 25, 2005 | 7.00% |
| Required employer contribution rates | 22.56% |

CALPers determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the total normal benefit cost for each employee from date of hire to retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage method is used to amortize any unfunded actuarial benefits. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

G. Employees Retirement System (Continued)

CALPers (Continued)

The Plan's actuarial valuation is as follows:

| | |
|---|---|
| Actuarial Valuation | |
| Valuation Date | 6/30/2007 |
| Actuarial Cost Method | Entry Age Actuarial Cost Method |
| Amortization Method | Level Percent of Payroll |
| Average Remaining Period | 13 Years as of the Valuation Date |
| Asset Valuation Method | 15 Year Smoothed Market |
| Actuarial Assumptions | |
| Investment Rate of Return | 7.75% (net of administrative expenses) |
| Projected Salary Increases | 3.25% to 14.45% depending on Age, Service, and type of employment |
| Inflation | 3.00% |
| Payroll Growth | 3.25% |
| Individual Salary Growth | A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%. |
| Members included in the valuation | 48 |
| Annual covered payroll* | \$ 72,308,836 |
| Total assets at market value* | \$ 468,735,431 |
| Entry age normal accrued liability* | \$ 462,354,459 |
| Actuarial value of assets* | \$ 468,735,431 |
| Unfunded liability* | \$ 58,869,684 |
| Funded ratio* | 101.40% |
| Unfunded liability as % of covered payroll* | 81.40% |
| Required contributions: | |
| Risk pool's net employer normal cost | \$ 328,032 |
| Amortization of side fund | \$ 398,191 |
| Total employer contributions | \$ 726,223 |
| Member contributions | \$ 221,380 |

* Plans having less than 100 active members in at least one valuation since June 30, 2003 are required to participate in a risk pool. These amounts are derived from the actuary report for the risk pool, as information for the plan is not provided.

The current contributions reflected this fiscal year, are as follows:

| | | |
|---|----|-----------|
| Employer contributions | \$ | 725,494 |
| Employee contribution which included employer paid contributions | \$ | 221,680 |
| Total | \$ | 2,511,799 |
| Annual covered payroll | | |

Audited financial statements and trend information are available from CALPers at P.O. Box 942709, Sacramento, CA 94229-2709.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

H. Contingent Liabilities and Commitments

State and Federal Awards and Grants

The City participates in several federal and state grant programs. These programs are subject to further examination by grantors, and the amount, if any, of expenditures, which maybe disallowed by the granting agencies cannot be determined at this time. The City, expects such amounts, if any, to be immaterial.

Other Contingent Liabilities

The City is a defendant in a number of other lawsuits which have arisen in the normal course of business. While damages are alleged in some of these actions, their outcome cannot be predicted with certainty. In the opinion of the City Attorney, these actions when finally adjudicated will not have a material effect on the financial position of the City.

I. Conduit Debt Obligations

In 1998, the City of Delano issued \$43,440,000 of Certificates of Participation to provide financial assistance to the Central California Foundation for Health, a California non-profit public benefit corporation doing business as Delano Regional Medical Center. The proceeds of the sale of the Series 1998 Certificates, together with other funds, were used (i) to advance refund the City's Certificates of Participation (Central California Foundation for Health, Delano Regional Medical Center). Series 1992A, delivered in the original principal amount of \$27,820,000 was used (ii) to advance refund the City's Certificates of Participation (Central California Foundation for Health, Delano Regional Medical Center). Series 1992B, delivered in the original principal amount of \$7,000,000 was used (iii) to purchase the Facilities pursuant to the terms of the Lease, (iv) to fund a debt service reserve fund, and (v) to pay certain costs related to the delivery of the Series 1998 Certificates. The amounts currently outstanding for these various series of issues can be obtained from the Central California Foundation for Health, Delano Regional Medical Center at 1401 Garces Highway, Delano, California 93215.

In March 8, 2006, City of Delano issued \$15,375,000 of Certificates of Participation to provide financial assistance to the Central California Foundation for Health, a California non-profit public benefit corporation doing business as Delano Regional Medical Center. The proceeds of the sale of the Series 2006 certificates, together with other funds, were used (i) to Finance the acquisition, construction, improvement and equipping of certain health facilities owned and operated by the health facility. The Certificates is due to mature on January 1, 2020.

The amounts currently outstanding for these various series of issues can be obtained from the Central California Foundation for Health, Delano Regional Medical Center at 1401 Garces Highway, Delano, California 93215.

Neither the City, the State of California, nor any political subdivision thereof is obligated in any manner for installment payments of the Series 1998 and 2006 Certificates. Accordingly, the Certificates are not reported as liabilities in the accompanying financial statements.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

J. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2008, on a fund level, the following governmental funds exceeded their appropriations in the following categories:

These over expenditures were funded by greater than anticipated revenues and other budgeted line items that were under-expended.

| <u>Appropriations Category</u> | |
|--------------------------------|------------|
| <u>Major Funds</u> | |
| General Fund | |
| Engineering | \$ 115,420 |
| Capital Outlay | 554,151 |
| Developer Impact Fees | |
| Capital Outlay | 160 |

K. Prior Period Adjustments

The fund balances (net assets) of the following funds (activities) were adjusted as of June 30, 2008 as follows:

| | Statement of Activities | General Fund | <u>Governmental Funds</u> CRA Capital Project Fund | Internal Service Fund |
|---|----------------------------|-------------------------|--|-----------------------------|
| Net Assets (Fund Balance), as Previously Reported | \$ 172,863,425 | \$ 8,099,920 | \$ 5,940,046 | \$ 3,873,360 |
| Prior Period Adjustment | | | | |
| Adjust depreciation for CIP not moved to completed | (412,704) | - | - | (17,326) |
| Adjust accumulated depreciation for infrastructure due to overstatement in prior year | 129,990 | - | - | - |
| To record capital assets and depreciation not recorded in prior year years | 17,146 | - | - | 18,299 |
| To correct deferred revenue not established in prior years | (520,583) | - | (520,583) | - |
| To accrue interest owed to the General Fund not paid or accrued | - | 1,001,300 | (1,001,300) | - |
| To adjust land held for development not capitalized in prior years | 3,090,150 | - | 3,090,150 | - |
| Net Assets (Fund Balance) Beginning of Year, as Restated | <u>\$ 175,167,424</u> | <u>\$ 9,101,220</u> | <u>\$ 7,508,313</u> | <u>\$ 3,874,333</u> |
| | | | <u>Proprietary Funds</u> | |
| | Statement of Activities | Water and Sewer Fund | Airport Fund | |
| Net Assets (Fund Balance), as Previously Reported | \$ 24,068,981 | \$ 17,212,383 | \$ 2,261,669 | |
| Prior Period Adjustment | | | | |
| Adjust depreciation for CIP not moved to completed | (1,035,631) | (972,991) | (62,640) | |
| Net Assets (Fund Balance) Beginning of Year, as Restated | <u>\$ 23,033,350</u> | <u>\$ 16,239,392</u> | <u>\$ 2,199,029</u> | |

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

L. Subsequent Events

On January 27, 2009 the City of Delano executed a certificate of acceptance to purchase real property from Allied Farms, Inc. for \$3,600,000. This property will be used to construct the new police department facility. The cost to acquire the property was funded from the General Fund and police impact funds.

On April 20, 2009 the board approved a consolidated loan agreement, between the Community Redevelopment Agency of the City of Delano (the Agency) and Arredondo Ventures, Inc. (Arredondo) to provide new loan funds to assist Arredondo with the relocation of the car dealership located at 626 Cecil Avenue. Under the agreement, Arredondo will receive \$200,000 in new funds and the outstanding balances, from previous agreements with the Agency, will be consolidated in one amount of \$656,223. The new consolidated loan will bear interest of 5% per year and will be due in 120 equal monthly payments of \$5,469. The interest will be paid annually to help improve Arredondo's cash flow. The agreement also calls for 25% of sales taxes will be rebated back to Arredondo annually when sales taxes generated and received by the City exceed \$192,000. Additionally, if these sales taxes are exceeded annually, Arredondo will not have to pay interest on the new loan.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF DELANO, CALIFORNIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET VS. ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

| | Budget | | Actual | Variance With Final Budget |
|--|---------------------|---------------------|---------------------|----------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Property taxes | \$ 6,350,986 | \$ 6,350,986 | \$ 6,998,388 | \$ 647,402 |
| Sales taxes | 2,571,788 | 2,571,788 | 3,272,875 | 701,087 |
| Franchise Taxes | 462,500 | 462,500 | 590,661 | 128,161 |
| Motor vehicle in lieu tax | 380,000 | 380,000 | 239,018 | (140,982) |
| Other taxes | 478,993 | 478,993 | 414,906 | (64,087) |
| Fees and fines | 165,200 | 165,200 | 207,478 | 42,278 |
| Licenses and permits | 250,430 | 250,430 | 317,088 | 66,658 |
| Intergovernmental revenues | 1,589,359 | 1,890,337 | 1,404,592 | (485,745) |
| Charges for current services | 280,900 | 280,900 | 1,123,965 | 843,065 |
| Investment earnings | 188,179 | 188,179 | 154,599 | (33,580) |
| Miscellaneous revenue | 201,436 | 201,436 | 269,573 | 68,137 |
| Total Revenues | 12,919,771 | 13,220,749 | 14,993,143 | 1,772,394 |
| Expenditures | | | | |
| Current | | | | |
| General government | 3,335,043 | 3,646,540 | 2,952,243 | 694,297 |
| Public safety | 9,447,414 | 9,985,111 | 9,126,415 | 858,696 |
| Engineering services | 254,093 | 266,093 | 381,513 | (115,420) |
| Culture and recreation | 1,638,692 | 2,153,755 | 1,296,506 | 857,249 |
| Debt Service | 128,648 | - | - | - |
| Capital Outlay | 845,528 | - | 554,151 | (554,151) |
| Total Expenditures | 15,649,418 | 16,051,499 | 14,310,828 | 1,740,671 |
| Excess (deficiency) of revenues over (under) expenditures | (2,729,647) | (2,830,750) | 682,315 | (3,513,065) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 100,000 | 187,295 | 221,039 | (33,744) |
| Transfers out | (223,617) | (265,510) | (225,187) | (40,323) |
| Total Other Financing Sources and (Uses) | (123,617) | (78,215) | (4,148) | (74,067) |
| Net Change in Fund Balances | (2,853,264) | (2,908,965) | 678,167 | (3,587,132) |
| Fund Balance, Beginning of Year | 6,430,159 | 8,099,920 | 8,099,920 | - |
| Prior Period Adjustment | - | - | 1,001,300 | (1,001,300) |
| Fund Balance, End of Year | \$ 3,576,895 | \$ 5,190,955 | \$ 9,779,387 | \$ (4,588,432) |

**CITY OF DELANO, CALIFORNIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET VS. ACTUAL
COMMUNITY CORRECTIONAL FACILITY – SPECIAL REVENUE MAJOR FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

| | Budget | | Actual | Variance With Final Budget |
|---|------------------------|----------------------------|--------------------------|----------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental revenues | \$ 8,159,440 | \$ 8,159,440 | \$ 8,023,240 | \$ (136,200) |
| Miscellaneous revenue | 3,615 | 3,615 | 3,133 | (482) |
| Total Revenues | <u>8,163,055</u> | <u>8,163,055</u> | <u>8,026,373</u> | <u>(136,682)</u> |
| Expenditures | | | | |
| Current | | | | |
| Public safety | 8,584,926 | 8,846,206 | 7,222,625 | 1,623,581 |
| Total Expenditures | <u>8,584,926</u> | <u>8,846,206</u> | <u>7,222,625</u> | <u>1,623,581</u> |
| Excess (deficiency) of revenues over (under) expenditures | (421,871) | (683,151) | 803,748 | (1,486,899) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 61,280 | - | 2,830 | (2,830) |
| Transfers out | (300,000) | (500,000) | (500,000) | - |
| Total Other Financing Sources and (Uses) | <u>(238,720)</u> | <u>(500,000)</u> | <u>(497,170)</u> | <u>(2,830)</u> |
| Net Change in Fund Balances | (660,591) | (1,183,151) | 306,578 | 1,489,729 |
| Fund Balance, Beginning of Year | 670,448 | 670,448 | 670,448 | - |
| Fund Balance, End of Year | <u><u>\$ 9,857</u></u> | <u><u>\$ (512,703)</u></u> | <u><u>\$ 977,026</u></u> | <u><u>\$ 1,489,729</u></u> |

**CITY OF DELANO, CALIFORNIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET VS. ACTUAL
DEVELOPER IMPACT FEES – SPECIAL REVENUE MAJOR FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

| | <u>Budget</u> | | <u>Actual</u> | <u>Variance With Final Budget</u> |
|--|-----------------------------------|-----------------------------------|------------------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Charges for services | \$ 957,500 | \$ 957,500 | \$ 1,010,971 | \$ 53,471 |
| Investment earnings | 104,300 | 104,300 | 448,600 | 344,300 |
| Total Revenues | <u>1,061,800</u> | <u>1,061,800</u> | <u>1,459,571</u> | <u>397,771</u> |
| Expenditures | | | | |
| Current | | | | |
| Capital outlay | 262 | 262 | 422 | (160) |
| Total Expenditures | <u>262</u> | <u>262</u> | <u>422</u> | <u>(160)</u> |
| Excess (deficiency) of revenues over (under) expenditures | 1,061,538 | 1,061,538 | 1,459,149 | 397,611 |
| Other Financing Sources (Uses) | | | | |
| Transfers out | <u>(3,005,316)</u> | <u>(3,005,316)</u> | <u>(519,782)</u> | <u>2,485,534</u> |
| Net Change in Fund Balances | (1,943,778) | (1,943,778) | 939,367 | 2,883,145 |
| Fund Balance, Beginning of Year | <u>9,724,599</u> | <u>9,724,599</u> | <u>9,724,599</u> | <u>-</u> |
| Fund Balance, End of Year | <u><u>\$ 7,780,821</u></u> | <u><u>\$ 7,780,821</u></u> | <u><u>\$ 10,663,966</u></u> | <u><u>\$ 2,883,145</u></u> |

**CITY OF DELANO, CALIFORNIA
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION TRUST**

I. Schedule of Funding Status and Progress

| Fiscal Year | (1) Actuarial Value of Assets | (2) Actuarial Liability (AAL) Projected Unit Credit | (3) Funded Rates (%) (1)/(2) | (4) Unfunded AAL (UAAL) (2)-(1) | (5) Annual Covered Payroll | (6) UAAL(%) (4)/(5) |
|-------------|--|---|---------------------------------------|--|-------------------------------------|---------------------------|
| 6/30/98 | \$ 10,833,579 | \$ 13,569,843 | 79.84% | \$ 2,736,264 | \$ 6,228,933 | 43.93% |
| 6/30/99 | \$ 12,335,703 | \$ 15,112,530 | 81.63% | \$ 2,776,827 | \$ 6,617,975 | 41.96% |
| 6/30/00 | \$ 11,934,102 | \$ 14,499,489 | 82.31% | \$ 2,565,387 | \$ 6,835,377 | 37.53% |
| 6/30/01 | \$ 11,547,511 | \$ 15,606,939 | 73.99% | \$ 4,059,428 | \$ 6,543,832 | 62.03% |
| 6/30/02 | \$ 11,649,634 | \$ 17,970,464 | 64.83% | \$ 6,320,830 | \$ 7,337,881 | 86.14% |
| 6/30/03 | \$ 12,156,501 | \$ 19,736,558 | 61.59% | \$ 7,580,057 | \$ 7,305,354 | 103.76% |
| 6/30/04 | \$ 14,350,746 | \$ 21,702,704 | 66.12% | \$ 7,351,958 | \$ 7,483,544 | 98.24% |
| 6/30/05 | \$ 15,048,284 | \$ 19,633,478 | 76.65% | \$ 4,585,194 | \$ 7,895,996 | 58.07% |
| 6/30/06 | \$ 16,839,790 | \$ 21,484,859 | 78.38% | \$ 4,645,069 | \$ 6,353,463 | 73.11% |
| 6/30/07 | \$ 19,454,948 | \$ 24,767,406 | 78.55% | \$ 5,312,458 | \$ 6,764,823 | 78.53% |
| 6/30/08 | \$ 18,426,143 | \$ 27,169,641 | 67.82% | \$ 8,743,498 | \$ 7,296,505 | 119.83% |

II. Schedule of Employer Contributions

| Fiscal Year | Annual Required Contribution | Percentage Contributed |
|----------------|------------------------------------|---------------------------|
| 1999 | \$ 992,578 | 100% |
| 2000 | \$ 945,688 | 100% |
| 2001 | \$ 855,046 | 92% |
| 2002 | \$ 1,163,464 | 108% |
| 2003 | \$ 1,251,572 | 100% |
| 2004 | \$ 1,496,202 | 95% |
| 2005 | \$ 1,599,988 | 101% |
| 2006 | \$ 1,181,059 | 98% |
| 2007 | \$ 1,153,496 | 105% |
| 2008 | \$ 1,337,025 | 105% |

III. Notes to Required Supplementary Information

The information presented was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

| | |
|--|----------------------------------|
| Valuation date | June 30, 2007 |
| Actuarial cost method | Project unit credit |
| Amortization period | Level percent open |
| Remaining amortization period | 12 years |
| Asset valuation method | Market value |
| Actuarial assumptions: | |
| Investment rate of return* | 8% per annum compounded annually |
| Projected salary increases | 3.00% |
| *Includes inflation at | 3.00% |
| Cost of living adjustments and post-retirement increases | 2% annual rate |