

**CITY OF DELANO EMPLOYEES PENSION PLAN  
(A Pension Trust Fund of the City of Delano)**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL SCHEDULE**

**For the Fiscal Year Ended  
June 30, 2010**

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**Mayer Hoffman McCann P.C.**  
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## **INDEPENDENT AUDITORS' REPORT**

To the Pension Committee and Trustees  
City of Delano Employees Pension Plan  
Delano, California

We have audited the accompanying statement of plan net assets of the City of Delano Employees Pension Plan (the "Plan") as of June 30, 2010 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with audit standards generally accepted in the United States of America and 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Plan as of June 30, 2010 and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The schedule of funding status and progress, employer contributions, and notes to required supplementary information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This information has been subjected to the audit procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Plan has not presented a management discussion and analysis that accounting principles generally accepted in the United States of America has determined in necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2010, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The

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report is an integral part on an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Mayer Hoffman McCorn P.C.*

Bakersfield, California  
December 14, 2010

**CITY OF DELANO EMPLOYEES PENSION PLAN  
STATEMENT OF PLAN NET ASSETS  
June 30, 2010**

**ASSETS**

Cash and cash equivalents	\$ 2,295,062
Prepaid assets and others	90,416
Investments at fair value	<u>14,930,901</u>

TOTAL ASSETS 17,316,379

**LIABILITIES**

Due to employer	49,631
Other liabilities	<u>3,816</u>

TOTAL LIABILITIES 53,447

NET ASSETS HELD IN TRUST  
FOR PENSION BENEFITS \$ 17,262,932

See Notes to Financial Statements

**CITY OF DELANO EMPLOYEES PENSION PLAN  
STATEMENT OF CHANGES IN PLAN NET ASSETS  
For the Fiscal Year Ended June 30, 2010**

<b>ADDITIONS</b>	
Contributions	
Employer	\$ 1,823,123
Participants	<u>192,623</u>
Total contributions	<u>2,015,746</u>
Investment Income	
Net appreciation in fair value of investments	1,201,709
Interest	<u>137,021</u>
Sub-total	<u>1,338,730</u>
Less: Investment management expenses	<u>150,222</u>
Net investment income	<u>1,188,508</u>
<b>TOTAL ADDITIONS</b>	<u><b>3,204,254</b></u>
<b>DEDUCTIONS</b>	
Benefits paid to participants	995,255
Refund of contributions	161,716
Administrative expenses	<u>96,656</u>
<b>TOTAL DEDUCTIONS</b>	<u><b>1,253,627</b></u>
<b>NET INCREASE</b>	<b>1,950,627</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	
Beginning of year	<u>15,312,305</u>
End of year	<u><u>\$ 17,262,932</u></u>

See Notes to Financial Statements

**CITY OF DELANO EMPLOYEES PENSION PLAN  
 NOTES TO THE FINANCIAL STATEMENTS  
 For the Fiscal Year Ended June 30, 2010**

**(1) Description of Plan**

The following description of the City of Delano Employees Pension Plan (the "Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

**General**

The Plan was established on June 1, 1967, and is governed by City Ordinance 941 of the City of Delano's Municipal Code. The ordinance assigns authority to establish and amend the benefits provision of the Plan to the City Council. It is administered by the Pension Committee and the trustees. The Plan is a single employer public employee retirement defined benefit plan. All full-time management, safety, and general employees of the City under 60 are eligible to participate in the Plan.

The Plan membership as of June 30, 2010 was comprised as follows:

	<b>2010</b>
Active Members	
Vested	105
Non-vested	124
Total Active Members	229
Retirees and Beneficiaries of Deceased	15
Retirees Currently Receiving Benefits	37
Terminated Members Entitled to But Not Yet Receiving Benefits	71
Total	352

**Funding Policy**

The Plan's funding policy under the City Ordinance 941 provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due. For the year ended June 30, 2010, the annual required contribution to the Plan by the City was determined at 23.612% of covered payroll. Contributions aggregating \$2,015,746 were made in fiscal year 2010, which were over the recommended rate as adopted by the City Council, which is the recommended contribution rate set equal to the greater of the current funding policy of the minimum Annual Required Contribution (ARC) as determined under GASB Statements 25 and 27. Such amounts are determined using the modified entry age normal cost method. Any variance between contributions needed and contributions made is adjusted in the following fiscal year. These minimum contributions are recognized currently in the statement of changes in net assets available for benefits. Any additional contributions by employees are funded and recognized currently through payroll deductions in amounts specified by the employee. Costs of administering the Plan are charged against Plan assets.

**CITY OF DELANO EMPLOYEES PENSION PLAN  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

**(1) Description of Plan (Continued)**

**Funding Status and Progress**

As of June 30, 2010, the most recent actuarial valuation date, the Plan was 63.78% funded. The actuarial accrued liability for benefits was \$32,480,826 and the actuarial value of assets was \$20,715,515, resulting in an unfunded actuarial accrued liability (UAAL) of \$11,765,311. The covered payroll as of June 30, 2010 valuation was \$8,552,939. The ratio of UAAL to the covered payroll was 137.56%. 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 on page 13 follows the notes to financial statements, presented multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumption**

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 types 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, 2010 are summarized in this note to conform to the disclosure requirements for GASB No. 50.

Valuation date	June 30, 2010	
Actuarial cost method	Modified Entry Age Normal Cost	
Amortization period	Level percent of payroll	
Remaining amortization period	Actuarial gains/losses are amortized over 20 years, open.	
Asset valuation method	Market value	
Actuarial assumptions:		
Investment rate of return*	7.75%	
*Includes inflation at	3.00%	
Projected salary increases	3.00%	
Cost of living adjustments and post-retirement increases	2.00%	
Mortality Table	1994 Group Annuity Mortality Tables with Scale AA for mortality improvement from 1994 to 1999.	
Retirement Age	Assumed average retirement age is 62; normal retirement age is 60.	
Probability of Termination Within One Year	Completed Years of Service	
	0	10%
	1	8
	2	6
	3	5
	4	5
	5	4
	6	4
	7	3
	8	3

**CITY OF DELANO EMPLOYEES PENSION PLAN  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

**(1) Description of Plan (Continued)**

**Pension Benefits**

Employees are entitled to monthly retirement benefits beginning at normal retirement age (60). City employees who retire at the normal retirement age receive benefits that are partially integrated with social security and are computed by multiplying the first \$833.33 average monthly compensation by 2% plus the average monthly compensation times 2.4% for the amounts in excess of \$833.33 by the number of years of credit service.

The Plan permits early retirement with reduced retirement benefits at any time within five years preceding the participant's normal retirement date of age 55 for safety employees including management of safety employees and age 60 (age 62 before July 1, 2007) for general employees. An early retiree would have less contributions to the Plan and would be drawing a monthly check for a long period of time, so that the retiree would receive less benefits per month than an employee who retires at normal retirement age.

Due to disability or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's interest in his/her account after termination of active service. On termination due to death, benefits to the surviving spouse, lump-sum or otherwise, will depend upon whether the retiree has reached the early retirement age at the time of death which is 55 for general members.

For termination of service due to other reasons, a participant may receive the value of the vested interest in his/her account as a lump-sum distribution.

**(2) Summary of significant accounting policies**

**Reporting Entity**

The Plan, with its own governing board, is an independent public employee defined benefit plan. The Plan's annual financial statements are included in the City of Delano's Annual Financial Report as a pension trust fund.

**Basis of accounting**

The financial statements of the Plan have been prepared in conformity with accounting principles generally accepted in the United States of America, as outlined by the Governmental Accounting Standards Board (GASB).

The financial statements of the Plan are prepared under the accrual method of accounting. Investment income is recognized when it is earned and expenses are recognized when they are incurred. Contributions are recognized when due. Benefits and refunds are recognized when due and payable under the terms of the Plan.

**Use of estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the plan administrator to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**CITY OF DELANO EMPLOYEES PENSION PLAN  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

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

**Cash and cash equivalents**

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.

**Investment valuation and income recognition**

The Plan's investments are stated at fair value, except for its short-term investments which are reported at cost (approximates fair value). Quoted market prices are used to value investments. Shares of mutual funds are valued at quoted market prices which represent the net asset value of shares held by the Plan at year-end.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

**Concentration of Market and Credit Risk**

The Plan's exposure to credit loss in the event of nonperformance of its investments is limited to the carrying value of such investments. The Plan's concentration of credit risk and market risk are dictated by the Plan's investment guidelines. Investment securities are exposed to various risks, such as interest rate, market, and credit risks and the level of uncertainty related to changes in the value of investments. It is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the statement of plan net assets and the statement of changes in plan net assets.

**Administrative expenses**

Certain expenses of the Plan are paid by the Plan and are financed through its investment earnings.

**(3) Cash and Investments**

The City of Delano Pension Plan's (the Plan) cash and investments consist of the following at June 30, 2010:

Deposits	\$ 2,295,062
Investments	<u>14,930,901</u>
Total	<u><u>\$ 17,225,963</u></u>

**CITY OF DELANO EMPLOYEES PENSION PLAN  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

**(3) Cash and Investments (Continued)**

**A. Deposits**

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The Plan's deposit policy requires deposits to be covered by federal depository insurance and collateral having a market value of 110% of the uninsured deposit. As of June 30, 2010, the Plan has a bank balance of \$2,295,062. Of the bank balance, \$612,658 was covered by federal depository insurance or collateral held by the Plan's agent in the Plan or agent's name. Included in deposits are money market funds totaling \$1,927,404 of which \$1,682,404 was exposed to custodial credit risk.

**B. Investments**

At June 30, 2010, the Plan had the following investments:

Domestic Stocks	\$ 7,620,138
Guaranteed Investment Contract	3,727,109
International Stocks	2,448,908
Annuities	632,228
Mutual Funds	182,688
Fixed Income	163,899
U.S. Treasury Bills	109,934
Corporate Bonds	45,997
	<hr/>
Total	<u><u>\$ 14,930,901</u></u>

**Authorized Investments**

The investments listed above are managed by the trustee under the direction of the City of Delano Pension Committee. The Plan has not adopted a formal investment policy.

The Plan's investments are held by various agents consisting of insurance companies, financial institutions, and nationally recognized brokerage firms. The investments may be held in direct form, pooled form, or both.

**Custodial Credit Risk**

For an investment held in the form of securities, custodial credit risk is the risk that, in the event of a failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Plan's investments, \$9,278,942 are securities and subject to custodial credit risk. These securities are held by the Plan's agents or brokers and they are not held in the Plan's name.

**CITY OF DELANO EMPLOYEES PENSION PLAN  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

**(3) Cash and Investments (Continued)**

**B. Investments (Continued)**

**Credit Risk and Interest Rate Risk**

At June 30, 2010, the Plan's investments subject to credit risk and interest rate risk consist of the following:

Investment Types	Amount	Less than 1	1 to 5
Mutual Funds	\$ 182,688	\$ 182,688	\$ -
Fixed Income	163,899	163,899	-
U.S. Treasury Bills	109,934	109,934	-
Corporate Bonds	45,997	-	45,997
Guaranteed Funds	3,727,109	3,727,109	-
	<u>\$ 4,229,627</u>	<u>\$ 4,183,630</u>	<u>\$ 45,997</u>

Investment Type	Amount	Ratings as of Year End			
		AAA	A	A-1+	Not Rated
Mutual Funds	\$ 182,688	\$ -	\$ -	\$ -	\$ 182,688
Fixed Income	163,899	-	-	163,899	-
U.S. Treasury Bills	109,934	-	-	-	109,934
Corporate Bonds	45,997	15,693	30,304	-	-
Guaranteed Funds	3,727,109	-	-	-	3,727,109
	<u>\$ 4,229,627</u>	<u>\$ 15,693</u>	<u>\$ 30,304</u>	<u>\$ 163,899</u>	<u>\$ 4,019,731</u>

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk can be measured by obtaining ratings issued by nationally recognized statistical rating organizations such as Standard & Poor's or, Moody's Investors service, to name a few. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater will be the sensitivity of its fair value to changes in market interest rates.

**Concentration of Credit Risk**

The Plan is required, under GASB 40, to provide information about the concentration of credit risk associated with their investments in any one issuer that represent 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

The Plan places no limit on the amount the Plan may invest in any one issuer. The following investment represents more than 5% of the Plan's total investments at June 30, 2010:

Issuer	Type of Investment	Amount
Great West Life and Annuity Insurance Company	Guaranteed Investment Contract	\$ 3,727,109

**CITY OF DELANO EMPLOYEES PENSION PLAN  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

**(4) Prepaid Assets**

The Plan prepaid the July 2010 benefits in June 2010. Therefore, the Plan recorded a prepaid in the balance sheet as of June 30, 2010.

**(5) Contributions**

**Vesting**

Pension benefit contributions are based upon a combination of age, years or service, monthly salary, and the option selected by the participant. Death and disability benefits are additionally based upon whether the death occurred before or after retirement. Members' contributions, including interest, are 100 percent vested at all times. Employer contributions are subject to the following vesting schedule:

<u>Years of Service</u>	<u>Vested %</u>
3	20%
4	40%
5	60%
6	80%
7 or more	100%

Vested amounts are not payable until the member attains the age of 55 for safety members and 62 for general members.

Contributions are made by the members and the employer at rates recommended by the Plan's independent actuary and adopted by the City Council. Participant contributions are mandatory as long as the employee is an eligible participant of the Plan. The City makes employer contributions after the 5<sup>th</sup> year of covered employment for all participants except management employees, the employer contributions are made immediately after being admitted to the Plan. The participant's accumulated contribution cannot be withdrawn by participant (except for active police officers, their respective account balances were transferred to CalPERS, effective June 30, 2005) while employed by the City. The participant's contribution rates, which are a percentage of the participant's base monthly salary (excluding overtime, educational, incentive and/or longevity), are as follows:

	<u>Contribution Rate</u>
Management (including police management)	9.0%
Safety/Police (prior to July 1, 2005)	7.4%
General	6.2%

The City Makes the above contribution on behalf of its employees based on years of service and job classification, except educational, incentive or longevity, which is not included from the participant's basic earnings. Participant accounts are credited interest earnings from the investment return of the trust fund.

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

**CITY OF DELANO EMPLOYEES PENSION PLAN  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

**(4) Tax status**

The Internal Revenue Service; has determined and informed the City of Delano by a letter dated October 13, 1992, that the Plan is designed in accordance with applicable sections of the Internal Revenue Code.

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Delano Employees Pension Plan**

**SCHEDULE OF FUNDING STATUS AND PROGRESS**

June 30, 2010

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Projected Unit Credit	(3) Funded Rates (%) (1)/(2)	(4) Unfunded AAL (UAAL) (2)-(1)	(5) Annual Covered Payroll	(6) UAAL(%) (4)/(5)
6/30/05	\$ 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%
6/30/09	\$ 18,323,795	\$ 29,881,644	61.32%	\$ 11,557,849	\$ 8,128,608	142.19%
6/30/10	\$ 20,715,515	\$ 32,480,826	63.78%	\$ 11,765,311	\$ 8,552,939	137.56%

**City of Delano Employees Pension Plan**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended June 30, 2010

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2005	\$ 1,599,988	101%
2006	\$ 1,181,059	98%
2007	\$ 1,153,496	105%
2008	\$ 1,392,962	100%
2009	\$ 1,828,852	100%
2010	\$ 2,015,746	100%

## City of Delano Employees Pension Plan

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2010

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, 2010
Actuarial cost method	Modified Entry Age Normal Cost
Amortization period	Level percent of payroll
Remaining amortization period	20 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	7.75% per annum compounded annually
*Includes inflation at	3.00%
Projected salary increases	3.00%
Cost of living adjustments and post-retirement increases	2.00%
Mortality Table	1994 Group Annuity Mortality Tables with Scale AA for mortality improvement from 1994 to 1999.
Retirement Age	Assumed average retirement age is 62; normal retirement age is 60.



**Mayer Hoffman McCann P.C.**  
An Independent CPA Firm

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

To the Pension Committee and Trustees  
City of Delano Employees Pension Plan  
City of Delano California

We have audited the accompanying statement of plan net assets of the City of Delano Employees Pension Plan (the "Plan") as of the year ended June 30, 2010, and the related statements of changes in plan assets for the year then ended, and have issued our report thereon dated December 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Plan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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This report is intended solely for the information and use of management, Pension Committee, Trustees and the City Council, and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer Hoffman McCann P.C.*

Bakersfield California  
December 14, 2010