CITY OF KERMAN

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Kerman, California

Report on the Financial Statements

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 Kerman, California, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kerman, California, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 - 10 and pages 42 and 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

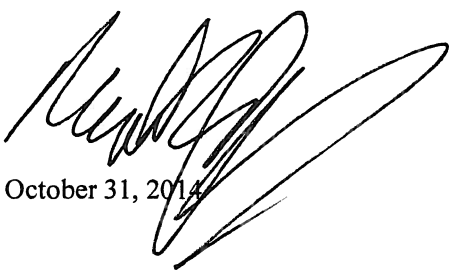
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kerman's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of the City of Kerman'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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Kerman's internal control over financial reporting and compliance.



October 31, 2014

The management of the City of Kerman is pleased to present the following discussion and analysis that provides an overview of the financial position and activities of the City of Kerman as of and for the year ended June 30, 2014. The discussion should be read in conjunction with the financial statements and accompanying notes which follow this section.

Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's financial statements which include all activities of the City of Kerman and include the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position. The statements are accompanied by footnotes to clarify unique accounting policies and other financial information and required supplementary information. The assets, liabilities, revenues and expenses of the City are reported on an accrual basis of accounting.

Fund Financial Statements provide more detailed information about the City's most significant funds, not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by State Law or by bond covenants. Management establishes other funds to control and manage money for particular purposes or to show the City is meeting legal responsibilities for using certain taxes, grants, and other money. All the funds of the City can be classified into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. Such information is useful in evaluating a governments near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-side financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation between governmental funds and governmental activities. This reconciliation explains the relationship (or differences) between the fund statements and the government-wide statements.

The City of Kerman maintains fifteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures and changes in fund balances for the General Fund and Gas Tax Funds, which are considered to be major funds. Data from the other thirteen funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for the City's funds. A budgetary comparison statement has been provided for the General Fund and the Gas Tax Funds to demonstrate compliance to this budget and can be found on page 43.

The basic governmental fund financial statements can be found on pages 14 and 16 of this report.

Proprietary funds. The City has six different types of proprietary funds, four enterprise funds and two internal service funds. Enterprise funds are used to report the same functions represented as business-type activities in the government-side financial statements. The City utilizes enterprise funds to account for those activities that are supported primarily by user charges to external users, and include water, sewer, disposal and storm drain. Internal service funds are used to account for activities that are supported by user charges primarily to the City's other programs and activities and include vehicle and equipment and technology services.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, Disposal and Storm Drain funds, all of which are major funds. All of the internal service funds are combined into a single, aggregated presentation in the fund financial statements.

The basic proprietary fund financial statements can be found can be found on pages 18 – 20 of this report.

Fiduciary funds are used to account for resources held for the benefits of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the City cannot use these funds to finance its operations.

The basic fiduciary fund financial statements can be found on pages 21 – 23 of this report.

The **Statement of Net Position** presents information on all of the City's assets and liabilities, with the difference between the two representing net position (equity). Assets and liabilities are classified as current or noncurrent. Changes from one year to the next in total net position, as presented on the Statement of Net Position, are based on the activity presented on the Statement of Revenues, Expenses and Changes in Net Position.

The **Statement of Revenues, Expenses and Changes in Net Position** is the City's income statement. Revenues earned and expenses incurred during the year are classified as either "operating" or "non-operating." All revenues and expenses are recognized as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in the disbursement or collection of cash during future fiscal years.

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes describe the nature of the City's operations and significant accounting policies and provide clarification regarding unique financial information. The notes to the financial statements can be found on pages 24 – 42 of this report.

Following the basic financial statements and footnotes is **required supplementary information**, which provides further detail.

Financial Highlights

Government-wide financial highlights for the fiscal year ended June 30, 2014:

I. Statement of Net Position

Condensed Statement of Net Position

	2014	2013	
Assets	$ 48,655,676	$ 48,001,123	Government-wide total assets at fiscal year ending June 30, 2014 increased by $654,553 which is 1.36% higher than fiscal year ending June 30, 2013.
Liabilities	$ 11,611,775	$ 12,183,304	Government-wide total liabilities at fiscal year ending June 30, 2014 decreased by $571,529 which is 4.69% less than fiscal year ending June 30, 2013.
Net Position	$ 37,043,901	$ 35,817,819	The Net Position (assets less liabilities) at fiscal year ending June 30, 2014 increased by $1,226,082 which is 3.42% higher than fiscal year ending June 30, 2013. Of this amount $5,979,806 is unrestricted which is available to meet the City's ongoing commitments to citizens and creditors.

Statement of Net Position (Detail)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets:						
Current and other assets	4,742,085	4,955,365	4,084,702	4,256,530	8,826,787	9,211,895
Capital assets	22,130,584	20,392,198	17,698,305	18,397,030	39,828,889	38,789,228
Total Assets	26,872,669	25,347,563	21,783,007	22,653,560	48,655,676	48,001,123
Liabilities:						
Current and other liabilities	218,258	3,881,879	305,678	7,723,807	523,936	11,605,686
Long-term liabilities	3,811,486	253,203	7,276,353	324,415	11,087,839	577,618
Total Liabilities	4,029,744	4,135,082	7,582,031	8,048,222	11,611,775	12,183,304
Net Assets:						
Invested in capital assets, net of related debt	18,584,478	16,753,336	10,516,922	10,776,576	29,101,400	27,529,912
Restricted	1,962,695	2,471,118	-	-	1,962,695	2,471,118
Unrestricted	2,295,752	1,988,027	3,684,054	3,828,762	5,979,806	5,816,789
Total Net Position	22,842,925	21,212,481	14,200,976	14,605,338	37,043,901	35,817,819

Of the total net position, $29,101,400 or 79% is the City's investment in capital assets (e.g. land, buildings and improvements, machinery and equipment and infrastructure) less any related debt used to acquire those assets that is still outstanding.

Almost all the City's long-term liabilities relate to the acquisition of capital assets. Some of those assets include the City's water and sewer facilities. These capital assets are utilized to provide services to citizens and are not available for future spending. The repayment of the debt on these assets must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position amounts to $1,962,695 or 5% of the total. Restricted net position are those resources that are subject to external restriction imposed by the State on how they may be used.

Unrestricted net position are those resources which may be used to meet the City's ongoing commitments to citizens and creditors. Government-wide unrestricted net position are $5,979,806 or 16% of the total net position. While the business-type activities account for $3,684,054 or 62% of the total, the City can only use this amount to finance the continuing operations of the water, sewer, disposal and storm drain operations.

Governmental Activities. Governmental activities account for $22,842,925 or 62% of the total Government-wide net position. This is an increase of $1,630,444 or 8% over the June 30, 2013 governmental net position ending balance.

II. Statement of Revenues, Expenses and Changes in Net Position

Statement of Revenues, Expenses and Change in Net Position (Condensed)

	2014	2013
Operating Revenues	$ 11,607,385	$ 10,844,276
Operating Expenses	10,381,303	9,618,097
Increase in Net Position	1,226,082	1,226,179
Net Position, Beginning of Year	35,817,819	34,475,961
Net Position, End of Year	37,043,901	35,817,819

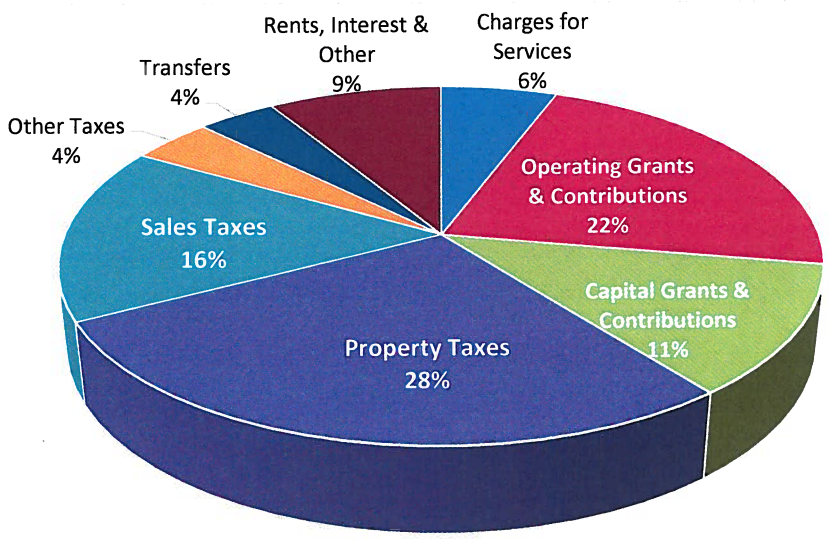
Statement of Revenues, Expenses and Change in Net Assets (Detail)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program Revenues:						
Charges for Services	440,443	228,663	4,178,152	3,972,695	4,618,595	4,201,358
Operating Grants & Contributions	1,656,391	1,504,591	5,000	5,000	1,661,391	1,509,591
Capital Grants & Contributions	878,496	1,073,457	115,514	112,973	994,010	1,186,430
General Revenues:					-	-
Property Taxes	2,111,286	1,841,927			2,111,286	1,841,927
Sales Taxes	1,195,132	1,105,446			1,195,132	1,105,446
Other Taxes	307,782	292,015			307,782	292,015
Transfers	293,092	(66,045)	(293,092)	66,045	-	-
Rents, Interest & Other	653,702	641,708	65,487	65,801	719,189	707,509
Total Revenues	7,536,324	6,621,762	4,071,061	4,222,514	11,607,385	10,844,276
Expenses:						
General Government	609,727	417,533			609,727	417,533
Public Safety	2,711,308	2,611,345			2,711,308	2,611,345
Social Services	828,772	847,028			828,772	847,028
Public Works	1,252,754	1,158,522			1,252,754	1,158,522
Community Development	345,088	211,906			345,088	211,906
Interest & Fiscal Charges	158,231	161,558			158,231	161,558
Water			1,489,259	1,469,418	1,489,259	1,469,418
Sewer			1,753,406	1,661,687	1,753,406	1,661,687
Disposal			1,007,728	1,005,543	1,007,728	1,005,543
Storm Drain			225,030	73,557	225,030	73,557
Total Expenses	5,905,880	5,407,892	4,475,423	4,210,205	10,381,303	9,618,097
Increase in Net Position	1,630,444	1,213,870	(404,362)	12,309	1,226,082	1,226,179
Net Position - Beginning	21,212,481	19,882,932	14,605,338	14,593,029	35,817,819	34,475,961
Prior Period Adjustment		115,679			-	115,679
Net Position - Ending	22,842,925	21,212,481	14,200,976	14,605,338	37,043,901	35,817,819

Total governmental revenues for the year were $7,536,324 with charges for services comprising of 6% of the total revenue. Taxes, which include property, sales and other taxes, account for $3,614,200 or 48% of the City's governmental activities revenue.

Total governmental expenses for the year were $5,905,880. Public Safety accounts for $2,711,308 or 46% of the total governmental activities expenses, followed by Public Works, Social Services and Community Development with $1,252,754, $828,772, and $345,088 or 21%, 14%, and 6% respectively.

Revenues by Source-Governmental Activities

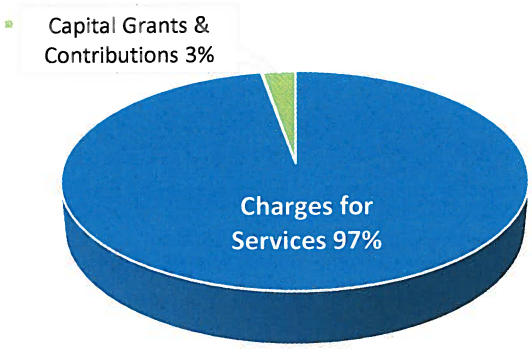


Program revenues which include charges for services, grant revenues and developer capital contributions account for $2,975,330 or approximately 39% of the total governmental activity revenue. The amounts necessary to fully fund the governmental activity programs are made up by "general" revenues such as taxes, interest and developer fees.

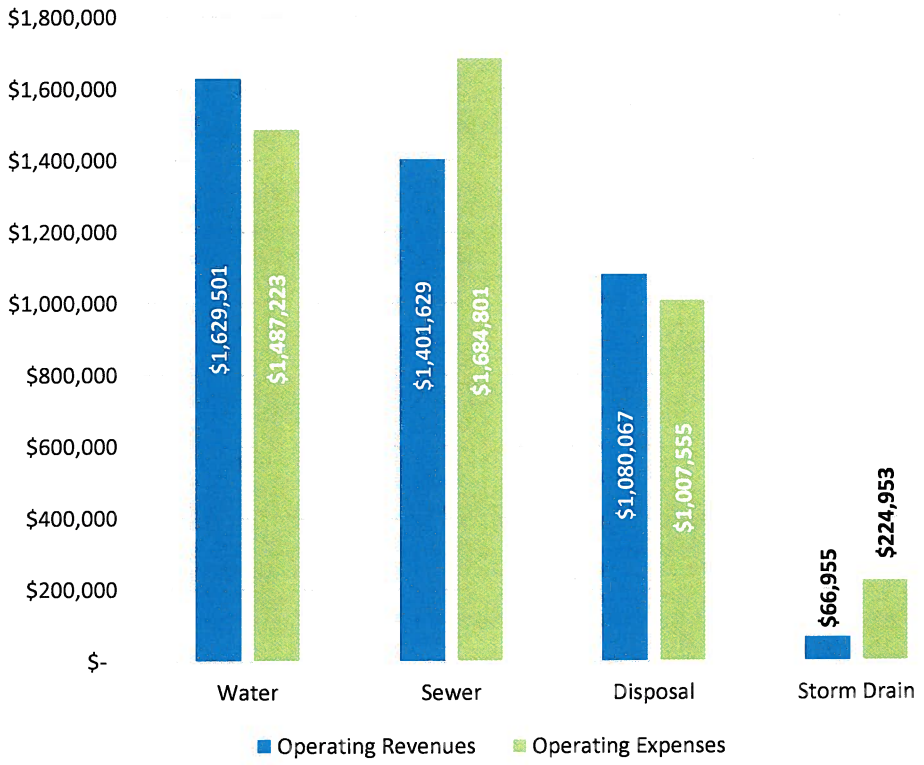
Business-Type Activities

Business-type activities account for $14,200,976 or 38% of the total Government-wide net assets. This is a decrease of $404,362 or 3% compared to June 30, 2013. Charges for current services account for $4,178,152 or 96% of the total business-type activity revenue (excluding transfers).

Revenues by Source-Business Type Activities



Operating Expenses and Operating Revenues-Business Type Activities



In a review of the chart illustrating Operating Expenses and Operating Revenues, it can be noted in Water and Disposal that the operating revenues exceeded operating expenses and were sufficient to cover on-going operational costs and set aside approximately $214,790 combined. On-going operating costs in Sewer along with Development Fee Credit reimbursements in Storm Drain exceeded operating revenues by approximately $441,170 for the fiscal year ending June 30, 2014.

Financial Analysis

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The ending fund balance for all governmental funds is $4,470,760 which is an increase of $16,426 or 0.4% when compared to the prior year balance. Of the total fund balance, $2,508,065 or 56% is unreserved, which is available for spending at the City's discretion, within the limitations of the fund's purpose. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for the following:

- Circulation Improvements $1,176,380
- Development Activities $ 731,792
- Lighting and Landscape Maint. $ 21,740
- Low-income Housing Activities $ 32,783

The general fund is the chief operating fund of the City. As of June 30, 2014 the total fund balance of the general fund was $2,616,040 with the unassigned fund balance of $2,616,040. The general fund total fund balance increased $531,615 or 26% from the previous fiscal year. The unassigned portion, as indicated, is available for spending at the City's discretion.

The increase in the General Fund Balance indicates that the General Fund had more revenues and transfers in than it had expenditures and transfers out. The original 2013/2014 budget allowed for a $422,037 net increase to the fund balance. However, the actual end result from current year activity was a $531,615 net increase to the General Fund, after capital outlay expenditures of $58,103 (page 43).

Proprietary Funds. As indicated in the description of proprietary funds, there are two types of funds, enterprise and internal service funds. All the City's enterprise funds ended the year with positive unrestricted net assets.

The internal service funds experienced a decrease in unrestricted net position of ($16,339) mostly due to higher than anticipated vehicle repairs in fiscal year ending June 30, 2014.

General Fund Budgetary Highlights

The Statement of Revenues, Expenditures and Changes in Fund Balance-Budget to Actual on page 43 outlines the differences between the budget and actual numbers. The City experienced $166,541 or 4% more total revenues and $16,948 or 0.4% decrease in total expenditures that the final budget allowed for. Revenues and transfers exceeded expenditures and transfer out and increased the General Fund Balance by $531,615.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2014 amounts to $39,828,889 (net of depreciation). This investment in capital assets includes land, building and improvements, machinery and equipment, and infrastructure.

Major capital asset additions this year include the following:

Building Improvements	$ 579,955
Infrastructure Improvements	2,054,771
Machinery and Equipment	240,012
Construction in Progress (CIP)	643,027

Additional information on the City's capital assets can be found in note 5 on page 36.

Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	2,244,496	2,244,496	3,241,139	3,241,139	5,485,635	5,485,635
Buildings and Improvements	5,794,790	5,948,083	14,000,351	14,332,498	19,795,141	20,280,581
Machinery and Equipment	542,357	462,721	145,217	144,272	687,574	606,993
Construction in Progress	869,201	793,922	311,598	679,121	1,180,799	1,473,043
Infrastructure	12,679,740	10,942,976			12,679,740	10,942,976
Total	22,130,584	20,392,198	17,698,305	18,397,030	39,828,889	38,789,228

Long-term Debt. The City's long term debt as of June 30, 2014 was $10,727,489 with governmental activities accounting for $3,546,106 or 33% and business-type activities accounting for $7,181,383 or 67%.

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Note Payable, CA Energy Comm.	71,106	78,862			71,106	78,862
Bonds Payable, Sewer			333,285	378,285	333,285	378,285
Note Payable, CA Dept Water Conserv.			2,309,999	2,474,999	2,309,999	2,474,999
Note Payable, CA Dept Water Conserv.			4,538,099	4,767,170	4,538,099	4,767,170
Kerman PFA Lease/Rev Bonds	3,475,000	3,560,000			3,475,000	3,560,000
Total	3,546,106	3,638,862	7,181,383	7,620,454	10,727,489	11,259,316

Economic Factors and Next Year's Budgets

Despite the current economic climate, the City is in relatively good financial shape, especially when compared to the fiscal challenges faced by many cities.

Nearly five years after the Great Recession, the U.S. economy continues on a slow path of recovery. The economy shrank a full one percent for the first three months of 2014. Home sales and prices have begun to decelerate. The one bright spot is that the job market continues to improve. These mixed signals reflect an ongoing uncertainty with the pace and strength of the economy's recovery.

Although the state economy is strengthening, the unprecedented three-year drought could have implications for the agricultural-based economy in the Central Valley as farms are left fallow due to lack of water. The ripple effect could prove dire for many Valley communities if the drought continues into a fourth year or beyond.

Other factors impacting local governments include changes to pension contribution rates and the impacts of the Affordable Care Act on the health insurance industry. These two employee benefits must be part of an elongated view in order to carefully evaluate their impacts in the years to come.

Total citywide revenue budgeted for fiscal year 2014-2015 is $12,176,326 with expenditures budgeted at $10,144,540. Citywide capital expenditures are budgeted for $4,703,656 which will be funded by a variety of funding sources.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City of Kerman's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Finance Director, City of Kerman, 850 S Madera Avenue, Kerman CA 93630.

CITY OF KERMAN

STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	$ 4,084,976	$ 3,935,784	$ 8,020,760
Accounts receivable, net	74,186	120,475	194,661
Taxes receivable	205,705	-	205,705
Due from other governments	371,440	-	371,440
Interest receivable	1,438	-	1,438
Internal balances	(28,443)	28,443	-
Land held for resale	32,783	-	32,783
Capital assets, net of allowance for depreciation	22,130,584	17,698,305	39,828,889
Total assets	26,872,669	21,783,007	48,655,676
LIABILITIES			
Accounts payable and accrued expense	170,921	167,648	338,569
Accrued interest payable	38,795	35,754	74,549
Deposits payable	8,542	102,276	110,818
Long-term liabilities			
Due within one year	92,991	446,362	539,353
Due in more than one year	3,453,115	6,735,021	10,188,136
Compensated absences	265,380	94,970	360,350
Total liabilities	4,029,744	7,582,031	11,611,775
NET POSITION			
Net investment in capital assets	18,584,478	10,516,922	29,101,400
Restricted for specific projects and programs	1,962,695	-	1,962,695
Restricted for capital improvements	-	1,149,470	1,149,470
Unrestricted	2,295,752	2,534,584	4,830,336
Total net position	$ 22,842,925	$ 14,200,976	$ 37,043,901

See accompanying notes.

CITY OF KERMAN

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

Functions/Programs	Expense	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net Revenue/(Expense) and Changes in Net Position: Governmental Activities	Net Revenue/(Expense) and Changes in Net Position: Business-Type Activities	Net Revenue/(Expense) and Changes in Net Position: Total
Primary Government							
Governmental activities							
General government	$ 609,727	$ 255,927	$ 12,270	$ -	$ (341,530)	$ -	$ (341,530)
Public works	1,252,754	10,071	1,254,153	-	11,470	-	11,470
Community development	345,088	46,349	82,865	723,187	507,313	-	507,313
Social services	828,772	48,175	107,157	155,309	(518,131)	-	(518,131)
Public safety	2,711,308	79,921	199,946	-	(2,431,441)	-	(2,431,441)
Debt Service							
Interest and fiscal charges	158,231	-	-	-	(158,231)	-	(158,231)
Total governmental activities	5,905,880	440,443	1,656,391	878,496	(2,930,550)	-	(2,930,550)
Business-type activities							
Water	1,489,259	1,629,501	-	32,954	-	173,196	173,196
Sewer	1,753,406	1,401,629	-	47,520	-	(304,257)	(304,257)
Disposal	1,007,728	1,080,067	5,000	-	-	77,339	77,339
Storm Drain	225,030	66,955	-	35,040	-	(123,035)	(123,035)
Total business-type activities	4,475,423	4,178,152	5,000	115,514	-	(176,757)	(176,757)
Total primary government	$ 10,381,303	$ 4,618,595	$ 1,661,391	$ 994,010	(2,930,550)	(176,757)	(3,107,307)
General Revenue							
Property taxes					2,111,286	-	2,111,286
Special assessments					206,982	-	206,982
Sales taxes					1,195,132	-	1,195,132
Franchise and other taxes					100,800	-	100,800
Business licenses					61,781	-	61,781
Rents					370,224	-	370,224
Interest income					31,652	65,487	97,139
Other					190,045	-	190,045
Transfers					293,092	(293,092)	-
Total general revenue and transfers					4,560,994	(227,605)	4,333,389
Change in Net Position					1,630,444	(404,362)	1,226,082
Net Position							
Beginning of year					21,212,481	14,605,338	35,817,819
End of year					$ 22,842,925	$ 14,200,976	$ 37,043,901

See accompanying notes.

CITY OF KERMAN

BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2014

	General	Gas Tax	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	$ 2,036,484	$ 425,932	$ 1,485,622	$ 3,948,038
Accounts receivable	74,186	-	-	74,186
Taxes receivable	205,705	-	-	205,705
Due from other governments	27,857	43,536	300,047	371,440
Interest receivable	1,438	-	-	1,438
Due from other funds	363,115	-	-	363,115
Land held for resale	-	-	32,783	32,783
Total assets	$ 2,708,785	$ 469,468	$ 1,818,452	$ 4,996,705
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expense	$ 84,203	$ 11,027	$ 59,058	$ 154,288
Due to other funds	-	-	363,115	363,115
Deposits and other liabilities	8,542	-	-	8,542
Total liabilities	92,745	11,027	422,173	525,945
Fund Balance				
Restricted				
Circulation improvements	-	458,441	717,939	1,176,380
Development activities	-	-	731,792	731,792
Lighting and landscape maintenance	-	-	21,740	21,740
Low-income housing activities	-	-	32,783	32,783
Unassigned	2,616,040	-	(107,975)	2,508,065
Total fund balance	2,616,040	458,441	1,396,279	4,470,760
Total liabilities and fund balance	$ 2,708,785	$ 469,468	$ 1,818,452	$ 4,996,705

See accompanying notes.

CITY OF KERMAN

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

Total governmental fund balance	$ 4,470,760
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	21,717,665
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(3,546,106)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(265,380)
Interest on long-term debt is reported as an expenditure of the Governmental Funds when paid because it requires the use of current financial resources. However, accrued interest must be recorded when incurred	(38,795)
Internal service funds are used by management to charge the costs of fleet maintenance and computer services to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Position.	504,781
Net position of governmental activities	$ 22,842,925

CITY OF KERMAN

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	General	Gas Tax	Other Governmental Funds	Total Governmental Funds
Revenue				
Taxes	$ 3,468,999	$ -	$ 206,982	$ 3,675,981
Licenses, permits and impact fees	104,453	-	94,929	199,382
Intergovernmental	224,032	445,034	1,666,439	2,335,505
Charges for services	396,296	-	8,567	404,863
Fines and forfeitures	35,580	-	-	35,580
Rents	127,059	-	243,165	370,224
Interest	14,121	3,229	14,302	31,652
Other	79,444	29,445	81,156	190,045
Total revenue	4,449,984	477,708	2,315,540	7,243,232
Expenditures				
Current				
General government	434,645	-	-	434,645
Public works	266,077	82,289	578,484	926,850
Community development	270,580	-	74,508	345,088
Social services	557,458	-	180,031	737,489
Public safety	2,688,411	-	-	2,688,411
Capital outlay	58,103	778,489	1,347,070	2,183,662
Debt Service				
Principal	-	7,756	85,000	92,756
Interest and fiscal charges	-	2,309	156,665	158,974
Total expenditures	4,275,274	870,843	2,421,758	7,567,875
Revenue over/(under) expenditures	174,710	(393,135)	(106,218)	(324,643)
Other Financing Sources/(Uses)				
Transfers in/(out) - net	356,905	(19,017)	3,181	341,069
	356,905	(19,017)	3,181	341,069
Change in Fund Balance	531,615	(412,152)	(103,037)	16,426
Fund Balance				
Beginning of year	2,084,425	870,593	1,499,316	4,454,334
End of year	$ 2,616,040	$ 458,441	$ 1,396,279	$ 4,470,760

See accompanying notes.

CITY OF KERMAN

RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITES
YEAR ENDED JUNE 30, 2014

Net change in fund balance - total governmental funds		$ 16,426
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated lives and reported as depreciation expense		
Capital outlay expenditures are therefore added back to fund balances	2,183,662	
Depreciation expense not reported in governmental funds	(536,147)	
		1,647,515
Amortization of deferred debt costs in the Statement of Activities does not require the use of current financial resources and is not reported as an expenditure in Governmental Funds		(92,599)
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Proceeds of long-term debt produces the opposite effect		92,756
Internal service funds are used by management to charge the costs of fleet maintenance and computer services to individual funds. The net revenue (loss) of certain activities of internal service funds is reported with governmental activities		(12,034)
In the Statement of Activities interest is accrued on long-term debt, whereas, in governmental funds interest expenditure is reported when due		743
Compensated absence costs in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in Governmental Funds		(22,363)
Change in net position of governmental activities		$ 1,630,444

CITY OF KERMAN

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2014

	Business-Type Activities - Enterprise Funds					Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain	Total Proprietary Funds	
ASSETS						
Current assets						
Cash and investments	$ 2,586,317	$ 953,215	$ 345,392	$ 50,860	$ 3,935,784	$ 136,938
Accounts receivable, net	84,321	23,454	11,659	1,041	120,475	-
Total current assets	2,670,638	976,669	357,051	51,901	4,056,259	136,938
Non-current assets						
Property, plant and equipment, net of allowance for depreciation	4,550,557	12,121,070	119	1,026,559	17,698,305	412,919
Total assets	$ 7,221,195	$ 13,097,739	$ 357,170	$ 1,078,460	$ 21,754,564	$ 549,857
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	$ 48,780	$ 13,015	$ 71,412	$ 34,441	$ 167,648	$ 16,633
Accrued interest payable	-	35,754	-	-	35,754	-
Deposits	102,276	-	-	-	102,276	-
Current portion of long-term debt	165,000	281,362	-	-	446,362	-
Total current liabilities	316,056	330,131	71,412	34,441	752,040	16,633
Non-current liabilities						
Long-term debt	2,144,999	4,590,022	-	-	6,735,021	-
Compensated absences	46,711	40,329	7,930	-	94,970	-
Total noncurrent liabilities	2,191,710	4,630,351	7,930	-	6,829,991	-
Total liabilities	2,507,766	4,960,482	79,342	34,441	7,582,031	16,633
NET POSITION						
Net investment in capital assets	2,240,558	7,249,686	119	1,026,559	10,516,922	412,919
Restricted for capital improvements	989,875	133,778	-	25,817	1,149,470	-
Unrestricted/(deficit)	1,482,996	753,793	277,709	(8,357)	2,506,141	120,305
Total net position	$ 4,713,429	$ 8,137,257	$ 277,828	$ 1,044,019	$ 14,172,533	$ 533,224
Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds					28,443	
Net position of business-type activities					$ 14,200,976	

See accompanying notes.

CITY OF KERMAN

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Business-Type Activities - Enterprise Funds					Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain	Total Proprietary Funds	
Operating Revenue						
Charges for services	$ 1,619,476	$ 1,377,572	$ 1,080,067	$ 66,690	$ 4,143,805	$ 441,694
Other revenues	10,025	24,057	-	265	34,347	1,852
Total operating income	1,629,501	1,401,629	1,080,067	66,955	4,178,152	443,546
Operating Expense						
Contractual services and utilities	480,551	356,640	847,659	17,972	1,702,822	73,473
Personnel	577,195	486,792	138,218	36,701	1,238,906	87,713
Supplies and materials	82,253	306,821	3,165	3,832	396,071	243,238
Depreciation	347,224	534,548	18,513	17,393	917,678	89,006
Total operating expense	1,487,223	1,684,801	1,007,555	75,898	4,255,477	493,430
Operating income/(loss)	142,278	(283,172)	72,512	(8,943)	(77,325)	(49,884)
Nonoperating Revenue/(Expense)						
Intergovernmental	-	-	5,000	-	5,000	80,000
Development impact fees	32,954	47,520	-	35,040	115,514	-
Development impact fees reimbursements	-	-	-	(149,055)	(149,055)	-
Interest income	26,387	34,970	3,343	787	65,487	1,522
Interest expense	-	(66,586)	-	-	(66,586)	-
Total nonoperating revenue/(expense)	59,341	15,904	8,343	(113,228)	(29,640)	81,522
Net income/(loss) before transfers	201,619	(267,268)	80,855	(122,171)	(106,965)	31,638
Operating Transfers In/(Out)	(113,298)	(116,862)	(55,480)	(7,452)	(293,092)	(47,977)
Change in Net Position	88,321	(384,130)	25,375	(129,623)	(400,057)	(16,339)
Net Position						
Beginning of year	4,625,108	8,521,387	252,453	1,173,642	14,572,590	549,563
End of year	$ 4,713,429	$ 8,137,257	$ 277,828	$ 1,044,019	$ 14,172,533	$ 533,224
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds					(4,305)	
Change in net position of business-type activities (Page 13)					$ (404,362)	

See accompanying notes.

CITY OF KERMAN

COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Business-Type Activities - Enterprise Funds					Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain	Total Business-Type Funds	
Operating Activities						
Receipts from customers and users	$ 1,624,265	$ 1,396,366	$ 1,081,840	$ 66,861	$ 4,169,332	$ 443,666
Payments for contractual services and utilities	(488,050)	(375,892)	(846,302)	(17,258)	(1,727,502)	(73,522)
Payments to employees	(577,761)	(494,542)	(135,027)	(36,701)	(1,244,031)	(87,713)
Payment to suppliers	(82,253)	(306,821)	(3,165)	(3,832)	(396,071)	(243,238)
Net cash provided (used) by operating activities	476,201	219,111	97,346	9,070	801,728	39,193
Non-capital Financial Activities						
Payments from other governments	-	-	5,000	-	5,000	80,000
Payments (to)/from developers	32,954	47,520	-	(114,015)	(33,541)	-
Transfers (to)/from other funds	(113,298)	(116,862)	(55,480)	(7,452)	(293,092)	(47,977)
Net cash provided by (used in) noncapital financing activities	(80,344)	(69,342)	(50,480)	(121,467)	(321,633)	32,023
Capital and Related Financing Activities						
Purchase of property, plant and equipment	(138,426)	(80,527)	-	-	(218,953)	(179,878)
Principal paid on long-term debt	(165,000)	(274,071)	-	-	(439,071)	-
Interest paid on long-term debt	-	(66,586)	-	-	(66,586)	-
Net cash used in capital and related financing activities	(303,426)	(421,184)	-	-	(724,610)	(179,878)
Investing Activities						
Interest received	26,387	34,970	3,343	787	65,487	1,522
Net cash provided by investing activities	26,387	34,970	3,343	787	65,487	1,522
Net Increase (Decrease) in Cash	118,818	(236,445)	50,209	(111,610)	(179,028)	(107,140)
Cash						
Beginning of year	2,467,499	1,189,660	295,183	162,470	4,114,812	244,078
End of year	$ 2,586,317	$ 953,215	$ 345,392	$ 50,860	$ 3,935,784	$ 136,938
Cash Flows from Operating Activities						
Operating income (loss)	$ 142,278	$ (283,172)	$ 72,512	$ (8,943)	$ (77,325)	$ (49,884)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	347,224	534,548	18,513	17,393	917,678	89,006
(Increase) Decrease in Accounts Receivable	(7,921)	(5,263)	1,773	(94)	(11,505)	120
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(5,380)	(27,002)	4,548	714	(27,120)	(49)
Net Cash Provided (Used) by Operating Activities	$ 476,201	$ 219,111	$ 97,346	$ 9,070	$ 801,728	$ 39,193

See accompanying notes.

CITY OF KERMAN

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS
JUNE 30, 2014

	Agency Funds
ASSETS	
Cash and investments	$ 65,570
Total assets	65,570
LIABILITIES	
Agency funds payable	65,570
Total liabilities	$ 65,570

See accompanying notes.

CITY OF KERMAN

STATEMENT OF FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUNDS
JUNE 30, 2014

	Kerman Unified School District	Redevelopment Successor Agency
Assets		
Cash and investments	$ 8,623	$ 190,220
Taxes receivable	-	-
Total assets	8,623	190,220
Liabilities		
Accounts payable and accrued liabilities	-	6,316
Long-term debt		
Due within one year	-	11,222
Due in more than one year	-	38,530
Total liabilities	-	56,068
Net Position		
Held in trust for other governments	$ 8,623	$ 134,152

See accompanying notes.

CITY OF KERMAN

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUND
JUNE 30, 2014

	Kerman Unified School District	Redevelopment Successor Agency
Additions		
Property taxes	$ -	$ 359,655
Investment earnings and other	-	137
Total additions	-	359,792
Deductions		
Administrative costs	-	248,819
Program expenses	-	106,012
Interest expense	-	1,737
Total deductions	-	356,568
Change In Net Position	-	3,224
Net Position		
Beginning of year	8,623	130,928
End of year	$ 8,623	$ 134,152

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

The financial statements of the City of Kerman (the City) have been prepared in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

These financial statements present the government and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and data from these units are combined with data of the primary government. Each blended component unit has a June 30 fiscal year end. There are no discretely presented component units included in these financial statements. The following sections further describe the significant accounting policies of the City.

Reporting Entity

The City was incorporated as a general law city in 1946. The City operates under a Council-Manager form of government. The City's major operations include public safety; highways and streets; water, sewer, and refuse collection; parks and recreation; building inspection; public improvements; planning and zoning, and general administrative services.

Also included in this report is the Kerman Public Financing Authority (KPFA). The KPFA was established in 2007 through a Joint Exercise of Powers Agreement between the City and the Agency. The formation of the joint powers authority was approved by the City Council who is also designated as the Board of Directors for the KPFA. The City Manager is appointed Secretary with the City staff providing all support services. The purpose of the KPFA is solely to provide funds from the sale of revenue bonds to finance or refinance the costs of various projects for the City. The City set up the KPFA to act as a financing/lending type institution only. The KPFA/City legislative meetings are held concurrently. No separate annual financial statements are prepared for the KPFA.

Basis of Presentation – Fund Accounting

Government-Wide Financial Statements - The Government-Wide Financial Statements (the Statement of Net Position and the Statement of Activities) report information of all of the nonfiduciary activities of the primary government and its component units. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely significantly on fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Note 1 – Summary of Significant Accounting Policies (Continued)

Net position is restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental Fund Financial Statements - The Governmental Fund Financial Statements provide information about the City's funds, including fiduciary funds and the blended component unit. Separate statements for each fund category - governmental, proprietary and fiduciary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are separately aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. It is used for all financial resources except those required legally, or by sound financial management to be accounted for in another fund. Generally, the General Fund is used to account for those traditional governmental services of the City, such as police and fire protection, planning and general administrative services.

Gas Tax Fund - This fund accounts for the expenditures of State Gas Tax monies received.

The City reports the following major enterprise funds:

Water Fund – The Water Fund accounts for the operation and maintenance of the City's water treatment and water transmission and distribution systems.

Sewer Fund – The Sewer Fund accounts for the operation and maintenance of the City's sewer system.

Disposal Fund – The Disposal Fund accounts for the operation and maintenance of the City's sanitation system.

Storm Drain Fund – The Storm Drain Fund accounts for the operation and maintenance of the City's storm drain system.

The City reports the following additional fund types:

Internal Service Fund – The Internal Service Fund accounts for fleet management and computer services provided to other departments or agencies of the government, on a cost reimbursement basis.

Agency Funds - The Agency Funds account for assets held by the City as an agent for various local governments or other entities. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-Purpose Trust Funds - The Private-Purpose Trust Fund accounts for assets held by the City as trustee for the Kerman Unified School District and the Successor Agency.

Note 1 – Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The Government-Wide and Proprietary Fund Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

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. Revenues and expenses not meeting this definition are reported as non-operating.

Note 1 – Summary of Significant Accounting Policies (Continued)

Financial Statement Amounts

Cash and Cash Equivalents - Cash and cash equivalents represent the City's cash bank accounts including, but not limited to, certificates of deposit, money market funds and cash management pools for reporting purposes in the Statement of Cash Flows. Additionally, investments with maturities of three months or less when purchased are included as cash equivalents in the Statement of Cash Flows.

The City maintains a cash and investment pool that is available for use by all funds. Interest earnings as a result of this pooling are distributed to the appropriate funds based on quarterly ending cash balances in each fund.

Investments of the pool include only those investments authorized by the California Government Code such as, United States Treasury securities, agencies guaranteed by the United States Government, registered state warrants, and other investments. Investments primarily consist of deposits in money market accounts and certificates of deposit. Investments are stated at fair value.

Accounts Receivable – Billed, but unpaid, services provided to individuals or non-governmental entities are recorded as accounts receivable. The Proprietary Funds include a year end accrual for services through the end of the fiscal year which have not yet been billed. Accounts receivable are reported net of an allowance for uncollectibles.

Fresno County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. Property taxes are levied in equal installments on November 1 and February 1. They become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes are accounted for in the General Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities. The City considers property taxes as available if they are collected within 60 days after year end. Property tax on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid on August 31. However, unsecured property taxes are not susceptible to year end accrual.

The City is permitted by Article XIIIA of the State of California Constitution (known as Proposition 13) to levy a maximum tax of $1.00 per $100 of full cash value.

Interfund Receivables/Payables - Items classified as interfund receivable/payable represent short-term lending/borrowing transactions between funds. This classification also includes the current portion of an advance to or from another fund.

Advances To/From Other Funds - This classification represents non-current portions of any long-term lending/borrowing transactions between funds. This amount will be equally offset by a reserve of fund balance which indicates that it does not represent available financial resources and therefore, is not available for appropriation. The current portion of any interfund long-term loan (advance) is included as an interfund receivable/payable.

Note 1 – Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the Government-Wide Financial Statements to the extent the City's capitalization threshold is met.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the Government-Wide Financial Statements. Capital assets are defined by the government as assets with an initial individual cost of more than $10,000 for roadways and $5,000 for all other assets, and an estimated useful life of at least three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the assets constructed.

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

	Years
Infrastructure	50
Buildings	20 - 40
Improvements	30 - 50
Equipment	5 - 10

Compensated Absences - It is the City's policy to permit all employees to accumulate earned but unused vacation, sick pay and compensatory time benefits within limits outlined in Memorandums of Understanding (MOU).

Vested or accumulated vacation and sick leave along with any compensation time that is expected to be paid with expendable available financial resources is reported as an expenditure in the fund financial statements of the Governmental Fund that will pay for it. Amounts not expected to be liquidated with expendable available financial resources are reported in the Government-Wide Financial Statements.

Vested leave of Proprietary Funds are recorded as an expense and liability as the benefits accrue.

Note 1 – Summary of Significant Accounting Policies (Continued)

Long-Term Obligations - In the Government-Wide Financial Statements and in the Proprietary Fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type Statement of Net Position. Debt principal payments of both government and business-type activities are reported as decreases in the balance of the liability on the Statement of Net Position. Bond premiums and discounts 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.

In the fund financial statements, however, debt principal payments of Governmental Funds are recognized as expenditures when paid. Governmental Fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Non-Current Governmental Assets/Liabilities - GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the Government-Wide Statement of Net Position.

Net Position - The government-wide and business-type activities financial statements utilize a net position presentation. Net position are categorized as net investment in capital assets, restricted and unrestricted.

- Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. 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 Position - This category presents external restrictions on net position imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- Unrestricted Net Position - This category represents net position of the City not restricted for any project or other purpose.

Fund Equity – In the fund financial statements, governmental fund balance is made up of the following components:

- Nonspendable fund balance typically includes inventories, prepaid items, and other items that must be maintained intact pursuant to legal or contractual requirements, such as endowments.

- Restricted fund balance category includes amounts that can be spent only for specific purposes imposed by creditors, grantors, contributors, or laws or regulations of other governments or through enabling legislations.

Note 1 – Summary of Significant Accounting Policies (Continued)

- Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has the authority to establish, modify, or rescind a fund balance commitment.

- Assigned fund balance are amounts designated by the City Council for specific purposes and do not meet the criteria to be classified as restricted or committed.

- Unassigned fund balance is the residual classification that includes all spendable amounts in the General Fund not contained in other classifications.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to apply restricted first. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

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 amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Implementation of New GASB Pronouncement – For the year ended June 30, 2014, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of GASB 65 is to reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). Upon implementation, there was no effect on the City's accounting or financial reporting.

New GASB Pronouncements Not Yet Adopted - In June 30, 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions–an Amendment of GASB Statement No. 27.* The provisions of GASB Statement No. 68 are effective for the fiscal year ended June 30, 2015.

In January 2014, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* The provisions of GASB Statement No. 69 are effective for the fiscal year ended June 30, 2015.

In April 2014, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* The provisions of GASB Statement No. 70 are effective for the fiscal year ended June 30, 2015.

Note 2 – Stewardship, Compliance and Accountability

California law authorizes the City to invest in obligations of the United States Treasury, agencies and instrumentalities, certificates of deposit or time deposits in banks and savings and loan associations which are insured by the Federal Deposit Insurance Corporation.

In accordance with applicable sections of the California Government Code and the Kerman Municipal Code, the City prepares and legally adopts an annual balanced budget on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, specific Special Revenue Funds, and specific Capital Projects Funds. Budget plans are adopted for Proprietary Funds. A proposed budget is presented to the City Council during June of each year for review. The Council holds public hearings and may add to, subtract from, or change appropriations within the revenues and reserves estimated as available. Expenditures may not legally exceed budgeted appropriations at the fund level. Supplementary appropriations which alter the total expenditures of any fund, or expenditures in excess of total budgeted fund appropriations, must be approved by the City Council.

All annual appropriations lapse at fiscal year end to the extent they have not been expended or encumbered.

Note 3 – Cash and Investments

The City pools all of its cash and investments except those funds required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash is allocated to the various funds on average cash balances. Interest income from cash investments held with fiscal agents is credited directly to the related funds.

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	$ 8,020,760
Fiduciary Funds:	
Cash and Investments	264,413
Total Cash and Investments	$ 8,285,173

Cash and investments as of June 30, 2014 consist of the following:

Cash on hand	$ 1,350
Deposits with Financial Institutions	3,468,039
Certificates of deposit	4,815,784
Total Cash and Investments	$ 8,285,173

Note 3 – Cash and Investments (Continued)

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. The City's investment policy does not contain any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

Note 3 – Cash and Investments (Continued)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Certificates of Deposits	1 year	None	None
Repurchase Agreements	30 days	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Municipal Bonds	None	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City of Kerman manages its exposure to interest rate risk is through the purchase of a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

		Remaining Maturity (in months)		
Investment Type	Fair Value	12 Months or Less	13 to 24 Months	25 to 60 Months
Certificates of deposit	$ 4,815,784	$ 941,177	$ 1,147,158	$ 2,727,449
Total	$ 4,815,784	$ 941,177	$ 1,147,158	$ 2,727,449

Note 3 – Cash and Investments (Continued)

Disclosures Relating to 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.

Investment Type		Minimum Legal Rating	Rating as of Year End Not Rated
Certificates of deposit	$ 4,815,784	N/A	$ 4,815,784
Total	$ 4,815,784		$ 4,815,784

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of total City-wide investments as of June 30, 2014.

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 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, other than the following provision for 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 having a value of 150% of the secured public deposits.

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another 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 investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Note 4 – Receivables

The following is a summary of receivables at June 30, 2014 for the City's individual major and non-major funds in the aggregate:

	General	Gas Tax	Other Governmental Funds
Governmental Funds			
Accounts	$ 74,186	$ -	$ -
Taxes	205,705	-	-
Intergovernmental	27,857	43,536	300,047
Interest	1,438	-	-
	$ 309,186	$ 43,536	$ 300,047

The following is a summary of receivables at June 30, 2014 for the City's individual enterprise funds, including the applicable allowances for uncollectible accounts are as follows:

	Water	Sewer	Disposal	Storm Drain
Enterprise Funds				
Accounts	$ 88,421	$ 24,454	$ 13,059	$ 1,141
Gross receivables	88,421	24,454	13,059	1,141
Less: Allowance for uncollectible accounts	(4,100)	(1,000)	(1,400)	(100)
	$ 84,321	$ 23,454	$ 11,659	$ 1,041

Note 5 – Capital Assets – Capital asset activities for the year ended June 30, 2014 were as follows:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
Governmental Activities				
Capital assets, not being depreciated				
Land	$ 2,244,496	$ -	$ -	$ 2,244,496
Construction in progress	793,922	528,078	(452,799)	869,201
Total capital assets, not being depreciated	3,038,418	528,078	(452,799)	3,113,697
Capital assets, being depreciated				
Buildings and improvements	7,406,428	42,157	-	7,448,585
Infrastructure	12,568,179	2,054,771	-	14,622,950
Machinery and equipment	1,981,778	191,333	-	2,173,111
Total capital assets, being depreciated	21,956,385	2,288,261	-	24,244,646
Less accumulated depreciation for				
Buildings and improvements	(1,458,345)	(195,450)	-	(1,653,795)
Infrastructure	(1,625,203)	(318,007)	-	(1,943,210)
Machinery and equipment	(1,519,057)	(111,697)	-	(1,630,754)
Total accumulated depreciation	(4,602,605)	(625,154)	-	(5,227,759)
Total capital assets, being depreciated, net	17,353,780	1,663,107	-	19,016,887
Governmental activities capital assets, net	$ 20,392,198	$ 2,191,185	$ (452,799)	$ 22,130,584
Business-Type Activities				
Capital assets, not being depreciated				
Land	$ 3,241,139	$ -	$ -	$ 3,241,139
Construction in progress	679,122	114,949	(482,473)	311,598
Total capital assets, not being depreciated	3,920,261	114,949	(482,473)	3,552,737
Capital assets, being depreciated				
Buildings and improvements	19,860,505	537,798	-	20,398,303
Machinery and equipment	1,093,769	48,679	-	1,142,448
Total capital assets, being depreciated	20,954,274	586,477	-	21,540,751
Less: accumulated depreciation	(6,477,505)	(917,678)	-	(7,395,183)
Total capital assets, being depreciated, net	14,476,769	(331,201)	-	14,145,568
Business-type activities capital assets, net	$ 18,397,030	$ (216,252)	$ (482,473)	$ 17,698,305

Note 5 – Capital Assets (Continued)

Depreciation expense was charged to the following functions in the Statement of Activities:

Governmental Functions:		
General Government	$	96,063
Public Works and Development		325,904
Social Services		91,283
Public Safety		22,897
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the asset		89,006
	$	625,153
Business-Type Functions:		
Water	$	347,224
Sewer		534,548
Disposal		18,513
Storm Drain		17,393
	$	917,678

Note 6 – Long-Term Debt

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

Long-term debt payable at June 30, 2014 was comprised of the following individual issues:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Current Portion
Governmental Activity Long Term Debt					
Notes Payable					
California Energy Commission	$ 78,862	$ -	$ 7,756	$ 71,106	$ 7,991
Kerman Public Finance Authority Bonds					
2007 Lease Revenue Bonds	3,560,000	-	85,000	3,475,000	85,000
Total Governmental Activity Debt	$ 3,638,862	$ -	$ 92,756	$ 3,546,106	$ 92,991
Business-Type Activity Long Term Debt					
Bonds Payable					
Sewer Revenue Bond	$ 378,285	$ -	$ 45,000	$ 333,285	$ 50,000
Notes Payable					
California Dept. of Water Resources	2,474,999	-	165,000	2,309,999	165,000
California Dept. of Water Resources	4,767,170	-	229,071	4,538,099	231,362
Total Business-Type Activity Debt	$ 7,620,454	$ -	$ 439,071	$ 7,181,383	$ 446,362
Compensated Absences					
Government Activities	$ 243,017	$ 22,363	$ -	$ 265,380	
Business-Type Activities	$ 103,353	$ -	$ 8,383	$ 94,970	

California Energy Commission Note Payable – In June of 2012, the City entered into a loan agreement for $86,321 with the State of California Energy Commission to retrofit existing street lights with LED technology. Terms of the note call for semi-annual payments of $5,032 including interest at 3.00%, which begins December 2012 and will mature in June 2022. The outstanding balance on the note at June 30, 2014 was $71,106.

Kerman Public Financing Authority Bonds - The KPFA was established in 2007 through a Joint Exercise of Powers Agreement between the City and the Agency. The formation of the joint powers authority was approved by the City Council who is also designated as the Board of Directors for the KPFA.

The purpose of the KPFA is solely to provide funds from the sale of revenue bonds to finance or refinance the costs of acquiring, constructing, or improving and equipping capital improvements (projects) for the City and the Agency. The City set up the KPFA to act as a financing/lending type institution only.

In October 2007, the KPFA issued the 2007 Lease Revenue Bonds in the amount of $3,930,000. The 2007 Lease Revenue principal payments are made each October 1 beginning in 2008 through 2037. Interest is to be paid semi-annually on April 1 and October 1 through 2037. The interest rates range from 3.5% to 4.75%.

Note 6 – Long-Term Debt (Continued)

Sewer Revenue Bond – In 1981, the City issued $1,200,000 of revenue bonds to construct additional sewer facilities. Interest at the rate of 5% annually is paid semi-annually each April and October. The outstanding balance at June 30, 2014 was $333,285.

California Department of Water Resources Construction Loan – The City entered into a contract with the State of California, Department of Water Resources in 2003. The contract provides for a 20 year loan at a zero percent interest rate. Terms of the note call for semi-annual principal payments of $82,500 beginning January 1, 2008 and will mature on January 1, 2028. The outstanding balance on the note at June 30, 2014 was $2,309,999.

California Department of Water Resources Wastewater Upgrade Loan – The City entered into a revolving loan agreement with the State of California, Department of Water Resources in September 2009. The agreement provides for a loan of up to $4,957,479 for sewer system upgrades. Contstruction period interest of of $38,241 was combined with the loan amount for a final total loan of $4,995,720. Terms of the loan call for annual payments of $276,743 including interest at 1.00%, which begins September 2012 and will mature in September 2031. The outstanding balance on the note at June 30, 2014 was $4,538,099.

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2014 were as follows:

	Governmental Activities		Business-Type Activities	
Years ending June 30,	Principal	Interest	Principal	Interest
2015	$ 92,991	$ 155,721	$ 446,362	$ 62,045
2016	98,227	152,323	448,675	57,231
2017	103,481	148,658	456,012	52,395
2018	103,737	144,767	458,372	47,285
2019	109,003	140,702	465,756	42,151
2020-2024	603,667	632,888	2,128,664	146,582
2025-2029	700,000	493,624	1,963,648	80,064
2030-2034	875,000	311,957	813,894	16,332
2035-2038	860,000	84,075	-	-
	$ 3,546,106	$ 2,264,715	$ 7,181,383	$ 504,085

Note 7 – Fund Balance

Fund Balance and Retained Earnings Deficits - The following is a summary of deficit fund balances and retained earnings as of June 30, 2014:

Capital Project Funds	
Public Building Facility	$ (104,827)
Special Revenue Funds	
Senior Center	(565)
Transit	(2,583)
	$ (107,975)

These deficits are are expected to be relieved from future revenues or transfers from other funds.

Note 8 – Interfund Receivables, Payables and Transfers

Interfund receivables and payables consist of short-term loans resulting from regular transactions. These loans are expected to be repaid as soon as the borrowing fund has cash, and carry an interest rate equal to the rate earned on pooled cash.

Individual fund interfund receivables and payables balances as of June 30, 2014 are as follows:

	Due From	Due To
General Fund	$ -	$ 363,115
Measure C Fund	6,857	-
Senior Center Fund	981	-
Transit Fund	7,140	-
Public Building Facility Fund	104,827	-
Park Development Fund	132,020	-
Street Maintenance & Construction Fund	111,290	-
	$ 363,115	$ 363,115

Interfund Transfers

In general, the City uses interfund transfers to (1) move revenues from the funds that collect them to the funds' that statute or budget requires to expend them, (2) use unrestricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments become due. In general, the effect of the interfund activity has been eliminated from the government-wide financial statements.

	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	$ 356,905	$ -
Gas Tax	-	(19,017)
Proprietary Funds:		
Water	-	(113,298)
Sewer	-	(116,862)
Disposal	-	(55,480)
Storm Drain	-	(7,452)
Internal Service	-	(47,977)
Nonmajor Governmental Funds:		
Measure C	-	(30,294)
Senior Center	12,032	-
Maintenance District	-	(8,851)
Transit	30,294	-
	$ 399,231	$ (399,231)

Note 9 – Risk Management

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes.

The CSJVRMA is a consortium of 55 cities in San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500, et. seq. The CSJVRMA is governed by a Board of Directors, which meets three to four times each year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by the CSJVRMA. The financial statements of CSJVRMA can be obtained at 1831 K Street, Sacramento, CA 95814.

Each member government pays a primary deposit to cover estimated losses for a fiscal year (claims year). Six months after the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Costs are spread to members as follows: the first $25,000 of each occurrence is charged directly to the member. Each member maintains a $1,000,000 self-insured retention (SIR) amount covered by the Authority pooled investments. The Authority purchases excess liability coverage through the California Affiliated Risk Management Authority for the amount in excess of $1,000,000.

The City maintains a self-insured retention level of $50,000 for workers' compensation insurance. Coverage between $50,000 and $500,000 is provided through the risk pool. CSJVRMA participates in an excess pool which provides workers' compensation coverage from $5,000,000 to $200,000,000. Each program year is retrospectively adjusted three years after the end of the program year and annually thereafter.

The City also purchases various property coverage programs. Deductibles and limits per property type can be obtained from the City Manager or directly from the Authority.

The latest audited financial information and the most current information available for CSJVRMA for fiscal year ended June 30, 2013 is as follows:

Total assets	$ 82,190,005
Total liabilities	66,304,596
Net position	$ 15,885,409
Total revenues	$ 31,386,818
Total expenses	27,784,428
Increase/(decrease) in net position	$ 3,602,390

Contingent Liabilities

The City participates in a number of Federal and State assisted grant programs which are subject to financial and compliance audits. Audits for these programs and the respective findings are to be determined at a future date, and the City expects the amount, if any, of the expenditures which may be disallowed by the granting agency to be immaterial.

The City is a defendant in various lawsuits and claims. The City attorney anticipates that actual or potential claims against the City, not covered by insurance, would not materially affect the financial position of the City.

Note 10 – Pension Plan

Plan Description - The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office - 400 P Street - Sacramento, CA 95814.

Funding Policy – Active plan members in the Plan are required to contribute 7% of their covered salary for both miscellaneous and public safety members. The City contributes 4% of the employee portion. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2014 was 8.049% for the miscellaneous plan and 15.312% for the safety plan. The contribution requirements of plan members is established by State statute and the employer contribution is established and may be amended by PERS.

Annual Pension Cost - For the year ended June 30, 2014, the City's annual pension cost of $540,149 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.0 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.75 percent. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis.

THREE YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	$ 503,827	100%	-
June 30, 2013	$ 443,052	100%	-
June 30, 2014	$ 540,149	100%	-

Note 11 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through October 31, 2014, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2014 that required recognition or disclosure in such financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KERMAN

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive/
	Original	Final	Amounts	(Negative)
Revenue				
Taxes	$ 3,394,000	$ 3,394,000	$ 3,468,999	$ 74,999
Licenses, permits and impact fees	86,080	86,080	104,453	18,373
Intergovernmental	184,887	184,887	224,032	39,145
Charges for services	389,100	389,100	396,296	7,196
Fines and forfeitures	33,000	33,000	35,580	2,580
Rents	126,376	126,376	127,059	683
Interest	15,000	15,000	14,121	(879)
Other	55,000	55,000	79,444	24,444
Total revenue	4,283,443	4,283,443	4,449,984	166,541
Expenditures				
Current				
General government	443,437	443,437	434,645	8,792
Public works	272,273	272,273	266,077	6,196
Community development	275,118	275,118	270,580	4,538
Social services	582,131	582,131	557,458	24,673
Public safety	2,659,775	2,659,775	2,688,411	(28,636)
Capital outlay	59,488	59,488	58,103	1,385
Total expenditures	4,292,222	4,292,222	4,275,274	16,948
Revenue over (under) expenditures	(8,779)	(8,779)	174,710	183,489
Other Financing Sources				
Transfers in (out) - net	347,476	347,476	356,905	9,429
Net Change in Fund Balance	$ 338,697	$ 338,697	531,615	$ 192,918
Fund Balance				
Beginning of year			2,084,425	
End of year			$ 2,616,040	

CITY OF KERMAN

BUDGETARY COMPARISON SCHEDULE
GAS TAX FUND
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive/
	Original	Final	Amounts	(Negative)
Revenue				
Intergovernmental	$ 423,088	$ 423,088	$ 445,034	$ 21,946
Interest	3,700	3,700	3,229	(471)
Other	-	-	29,445	29,445
Total revenue	426,788	426,788	477,708	50,920
Expenditures				
Public works	37,500	37,500	82,289	(44,789)
Capital outlay	1,185,700	1,185,700	778,489	407,211
Debt Service				
Principal	-	-	7,756	(7,756)
Interest and fiscal charges	-	-	2,309	(2,309)
Total expenditures	1,223,200	1,223,200	870,843	352,357
Revenue over expenditures	(796,412)	(796,412)	(393,135)	403,277
Other Financing Sources/(Uses)				
Transfers in/(out) - net	(22,746)	(22,746)	(19,017)	3,729
Change in Fund Balance	$ (819,158)	$ (819,158)	(412,152)	$ 407,006
Fund Balance				
Beginning of year			870,593	
End of year			$ 458,441	

SUPPLEMENTAL ONLY INFORMATION

CITY OF KERMAN

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	Special Revenue Funds						Debt Service Fund
	Measure C	Local Transportation	Senior Center	Maintenance District	Transit	Low-Moderate Housing Asset	Kerman Public Financing Authority
ASSETS							
Cash and investments	$ -	$ 719,768	$ -	$ 29,374	$ -	$ -	$ 11,875
Due from other governments	26,798	-	1,334	-	8,172	-	-
Land held for resale	-	-	-	-	-	32,783	-
Total assets	$ 26,798	$ 719,768	$ 1,334	$ 29,374	$ 8,172	$ 32,783	$ 11,875
LIABILITIES AND FUND BALANCE							
Liabilities							
Accounts payable and accrued expense	$ 6,772	$ 14,998	$ 918	$ 7,634	$ 3,615	$ -	$ 11,875
Due to other funds	6,857	-	981	-	7,140	-	-
Total liabilities	13,629	14,998	1,899	7,634	10,755	-	11,875
Fund Balance							
Restricted							
Circulation improvements	13,169	704,770	-	-	-	-	-
Development activities	-	-	-	-	-	-	-
Lighting and landscape maintenance	-	-	-	21,740	-	-	-
Low-income housing activities	-	-	-	-	-	32,783	-
Unassigned	-	-	(565)	-	(2,583)	-	-
Total fund balance	13,169	704,770	(565)	21,740	(2,583)	32,783	-
Total liabilities and fund balance	$ 26,798	$ 719,768	$ 1,334	$ 29,374	$ 8,172	$ 32,783	$ 11,875

CITY OF KERMAN

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2014

	Capital Projects Funds						Total Non-major Governmental Funds
	Jobs/Housing Mitigation	Public Building Facility	Fire Facility	Street Projects & Development	Park Development	Street Maintenance & Construction	
ASSETS							
Cash and investments	$ 54,862	$ -	$ 235,255	$ 434,488	$ -	$ -	$ 1,485,622
Due from other governments	-	-	-	-	152,168	111,575	300,047
Land held for resale	-	-	-	-	-	-	32,783
Total assets	$ 54,862	$ -	$ 235,255	$ 434,488	$ 152,168	$ 111,575	$ 1,818,452
LIABILITIES AND FUND BALANCE							
Liabilities							
Accounts payable and accrued expense	$ -	$ -	$ -	$ 4,264	$ 8,697	$ 285	$ 59,058
Due to other funds	-	104,827	-	-	132,020	111,290	363,115
Total liabilities	-	104,827	-	4,264	140,717	111,575	422,173
Fund Balance							
Restricted							
Circulation improvements	-	-	-	-	-	-	717,939
Development activities	54,862	-	235,255	430,224	11,451	-	731,792
Lighting and landscape maintenance	-	-	-	-	-	-	21,740
Low-income housing activities	-	-	-	-	-	-	32,783
Unassigned	-	(104,827)	-	-	-	-	(107,975)
Total fund balance	54,862	(104,827)	235,255	430,224	11,451	-	1,396,279
Total liabilities and fund balance	$ 54,862	$ -	$ 235,255	$ 434,488	$ 152,168	$ 111,575	$ 1,818,452

CITY OF KERMAN

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	Special Revenue Funds						Debt Service Fund
	Measure C	Local Transportation	Senior Center	Maintenance District	Transit	Low-Moderate Housing Asset	Kerman Public Financing Authority
Revenue							
Taxes	$ -	$ -	$ -	$ 206,982	$ -	$ -	$ -
Developer impact fees	-	-	-	-	-	-	-
Intergovernmental	354,898	431,534	9,526	-	97,631	-	-
Charges for services	-	-	4,566	-	4,001	-	-
Rents	-	-	-	-	-	-	243,165
Interest	475	6,449	-	54	-	-	-
Other	-	-	-	-	-	-	-
Total revenue	355,373	437,983	14,092	207,036	101,632	-	243,165
Expenditures							
Public works	307,662	98,107	-	172,715	-	-	-
Community development	-	-	-	-	-	-	1,500
Social services	-	-	26,689	-	107,817	-	-
Capital outlay	22,294	460,264	-	-	683	-	13,623
Debt service							
Principal	-	-	-	-	-	-	85,000
Interest and fiscal charges	-	-	-	-	-	-	156,665
Total expenditures	329,956	558,371	26,689	172,715	108,500	-	256,788
Revenue over (under) expenditures	25,417	(120,388)	(12,597)	34,321	(6,868)	-	(13,623)
Other financing sources/(uses)							
Operating transfers in/(out) - net	(30,294)	-	12,032	(8,851)	30,294	-	-
	(30,294)	-	12,032	(8,851)	30,294	-	-
Change in Fund Balance	(4,877)	(120,388)	(565)	25,470	23,426	-	(13,623)
Fund Balance							
Beginning of year	18,046	825,158	-	(3,730)	(26,009)	32,783	13,623
End of year	$ 13,169	$ 704,770	$ (565)	$ 21,740	$ (2,583)	$ 32,783	$ -

CITY OF KERMAN

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2014

	Capital Projects Funds						Total Non-major Governmental Funds
	Jobs/Housing Mitigation	Public Building Facility	Fire Facility	Street Projects & Development	Park Development	Street Maintenance & Construction	
Revenue							
Taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ 206,982
Developer impact fees	6,880	18,651	8,810	32,187	28,401	-	94,929
Intergovernmental	-	-	-	-	155,309	617,541	1,666,439
Charges for services	-	-	-	-	-	-	8,567
Rents	-	-	-	-	-	-	243,165
Interest	540	-	2,389	4,049	346	-	14,302
Other	-	-	-	-	81,156	-	81,156
Total revenue	7,420	18,651	11,199	36,236	265,212	617,541	2,315,540
Expenditures							
Public works	-	-	-	-	-	-	578,484
Community development	-	52,008	-	21,000	-	-	74,508
Social services	-	-	-	-	45,525	-	180,031
Capital outlay	-	-	-	555	232,110	617,541	1,347,070
Debt service							
Principal	-	-	-	-	-	-	85,000
Interest and fiscal charges	-	-	-	-	-	-	156,665
Total expenditures	-	52,008	-	21,555	277,635	617,541	2,421,758
Revenue over (under) expenditures	7,420	(33,357)	11,199	14,681	(12,423)	-	(106,218)
Other financing sources/(uses)							
Operating transfers in/(out) - net	-	-	-	-	-	-	3,181
	-	-	-	-	-	-	3,181
Change in Fund Balance	7,420	(33,357)	11,199	14,681	(12,423)	-	(103,037)
Fund Balance							
Beginning of year	47,442	(71,470)	224,056	415,543	23,874	-	1,499,316
End of year	$ 54,862	$ (104,827)	$ 235,255	$ 430,224	$ 11,451	$ -	$ 1,396,279

BRYANT L. JOLLEY
CERTIFIED PUBLIC ACCOUNTANTS

Bryant L. Jolley C.P.A.
Ryan P. Jolley C.P.A.
Darryl L. Smith C.P.A.
Travis B. Evenson

INDEPENDENT AUDITOR'S 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 Honorable Mayor and City Council
City of Kerman, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kerman, California, (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

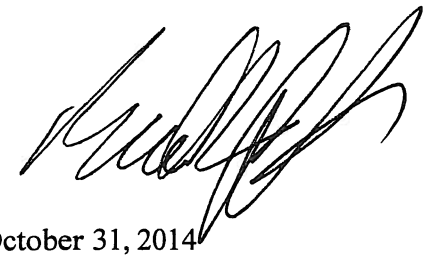
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



October 31, 2014

BRYANT L. JOLLEY
CERTIFIED PUBLIC ACCOUNTANTS

Bryant L. Jolley C.P.A.
Ryan P. Jolley C.P.A.
Darryl L. Smith C.P.A.
Travis B. Evenson

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Honorable Mayor and City Council
City of Kerman, California

Report on Compliance for Each Major Federal Program

We have audited City of Keman, California's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended June 30, 2014. City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Kerman, California, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

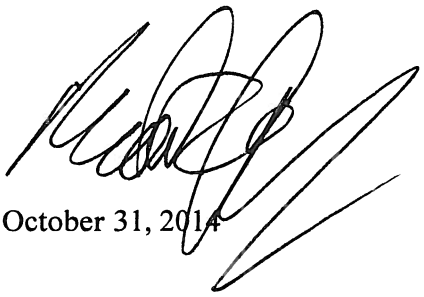
Report on Internal Control Over Compliance

Management of City of Kerman, California, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



October 31, 2014

CITY OF KERMAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Transportation			
Passed through California Department of Transportation			
CMAQ Congestion Mitigation and Air Quality	20.205	DEM06UBL-5291(018)	$ 82,172
CMAQ Congestion Mitigation and Air Quality	20.205	FRE130046	5,665
RSTP Regional Surface Transportation Program	20.205	ESPLSTP-5291	529,704
			617,541
U.S. Department of Health & Human Services			
Passed through California Department of Aging			
Special Program for Aging	93.045	14-0121	9,526
U.S. Department of Justice			
COPS Hiring Program	16.710	2012UMWX0021	44,017
Homeland Security Grant Program	97.067	019-00000	6,036
			50,053
Total Federal Expenditures			$ 677,120

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards reports expenditures on the modified accrual basis of accounting. Accordingly, expenditures represent amounts incurred during the fiscal year which meet federal grant eligibility requirements.

CITY OF KERMAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

• Material weaknesses identified?	☐	Yes	☒	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	☐	Yes	☒	None reported
• Non-compliance material to financial statements noted?	☐	Yes	☒	No

Federal Awards

Internal control over major programs:

• Material weaknesses identified?	☐	Yes	☒	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	☐	Yes	☒	None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	☐	Yes	☒	No

Identification of Major Programs

CFDA Number	Name of Federal Program or Cluster
20.205	RSTP Regional Surface Transportation Program/ CMAQ Congestion Mitigation and Air Quality

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee?	☐	Yes	☒	No

B. Findings – Financial Statements Audit

None noted.

C. Findings and Questioned Costs – Major Federal Award Programs Audit

None noted.

CITY OF KERMAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014

Summary Schedule of Prior Audit Findings

There were no prior year audit findings.