

CITY OF KERMAN

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS**

JUNE 30, 2008

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kerman, California, (the City) as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kerman as of June 30, 2008, and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2008 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Required Supplemental Information on pages 2 through 11 and 42 through 45 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kerman's basic financial statements. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



October 3, 2008

Management's Discussion and Analysis

This discussion and analysis of the City of Kerman's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the accompanying basic financial statements and the notes to those financial statements.

Financial Highlights

The City's government-wide total assets exceeded liabilities (net assets) at the close of the fiscal year by \$30,196,577, which is 4% higher than fiscal year 2006/2007 (FY 07). Of this amount \$5,637,925 is unrestricted net assets, which is available to meet the City's ongoing commitments to citizens and creditors. This represents a decrease in unrestricted net assets of 37% compared to FY 07.

The City's governmental funds ended the year with a combined fund balance of \$7,639,757, which is an increase of \$3,177,871 from June 30, 2007. Of this balance, \$7,263,496 is unreserved and available for spending at the City's discretion.

The City's General Fund ended the year with a fund balance of \$1,882,456, a decrease of \$259,725 from the previous year. The entire balance of \$1,882,456 is unreserved.

Overview of the Financial Statements

This annual report consists of a series of financial statements. These statements include all activities of the City of Kerman and its component unit, the Kerman Redevelopment Agency, using the integrated approach as prescribed by GASB Statement No. 34. The Statement of Net Assets and Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services are financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the Government.

Reporting the City as a Whole

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances. These statements include all assets and liabilities of the City using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received.

The *statement of net assets* presents information on all the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as one indicator of whether the City's financial position is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed in the most recent fiscal year. All changes of net assets are reported as soon as the underlying event giving rise to the change occurs. Thus, revenues and expenses are reported on this statement for some items that will result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

The government-wide financial statements of the City are divided as follows:

Governmental Activities: Most of the City's basic services are included here such as public safety, public works, social services and general government. These services are primarily financed by property and sales taxes, federal and state grants and development fees. The Kerman Redevelopment Agency, although legally separate, functions for all practical purposes as a department of the City, and therefore has been included under government activities as an integral part of the City.

Business-type Activities: The City charges fees to customers to cover the costs of services provided. The City's water, sewer, disposal and storm drain services are included here.

The government-wide financial statements can be found on pages 12 - 13 of this report.

Fund financial statements. The 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 three categories: governmental funds, proprietary funds, and fiduciary 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 government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide 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, the Street Maintenance and Construction Fund, and the Redevelopment Agency Low & Moderate Income Housing Fund, which are considered to be major funds. Data from the other twelve 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 General Fund. A budgetary comparison statement has been provided for the General Fund and the Street Maintenance and Construction Fund to demonstrate compliance to this budget.

The basic governmental fund financial statements can be found on pages 14 – 17 of this report.

Proprietary funds. The City has two different types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to report the same functions represented as business-type activities in the government-wide financial statements. The City utilizes enterprise funds to account for those activities that are supported primarily by user charges to external users, and include disposal, sewer, water 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. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Disposal, Sewer, Water 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 on pages 18 – 20 of this report.

Fiduciary funds. 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 – 22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund statements.

The notes to the financial statements can be found on pages 23 – 41 of this report.

Other information: Budgetary comparison schedules can be found on pages 42 – 45. Combining and individual fund statements and schedules begin on page 46 of this report.

Government-wide Financial Analysis

Comparison data to the prior year is presented below.

The City's combined net assets for the fiscal years entered June 30, 2008 and 2007 were:

City of Kerman Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 8,454,786	\$ 5,326,818	\$ 4,303,863	\$ 4,296,872	\$ 12,758,649	\$ 9,623,690
Capital assets	14,734,131	12,881,060	12,143,015	12,090,756	26,877,146	24,971,816
Total assets	23,188,917	18,207,878	16,446,878	16,387,628	39,635,795	34,595,506
Long-term liabilities outstanding	4,602,982	731,469	4,150,144	4,163,572	8,753,126	4,595,041
Other liabilities	409,562	501,108	276,530	296,901	686,092	1,098,009
Total liabilities	5,012,544	1,232,577	4,426,674	4,460,473	9,439,218	5,693,050
Net assets:						
Invested in capital assets, net of related debt	14,240,426	9,941,983	8,077,430	8,599,785	22,317,856	18,541,768
Restricted	2,240,796	1,404,261			2,240,796	1,404,261
Unrestricted	1,695,151	5,629,057	3,942,774	3,327,370	5,637,925	8,956,427
Total net assets	18,176,373	16,975,301	12,020,204	11,927,155	30,196,577	28,902,456

As of June 30, 2007 the City’s government-wide total assets exceeded liabilities (net assets) by \$30,196,577. Both governmental activities and business-type activities finished the year with positive net asset balances (\$18,176,373 and \$12,020,204, respectively). Net assets as noted earlier may serve over time as a useful indicator of the City’s financial position.

Of the total net assets, \$22,317,856 or 74%, is the City’s investment in capital assets (e.g. land, buildings and improvements, machinery and equipment and the 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 assets amount to \$2,240,796, or 7% of the total. Restricted net assets are those resources that are subject to external restrictions imposed by the state on how they may be used.

Unrestricted net assets are those resources which may be used to meet the City’s ongoing commitments to citizens and creditors. Government-wide unrestricted net assets are \$5,637,925, or 19% of the total net assets. Governmental activities account for \$1,695,151, or 30% of the total unrestricted net assets. While the business-type activities account for \$3,942,774, or 70% 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 \$18,176,373 or 60% of the total Government-wide net assets. This is an increase of \$1,201,072 or 7% over June 30, 2007.

The following lists key components of this increase:

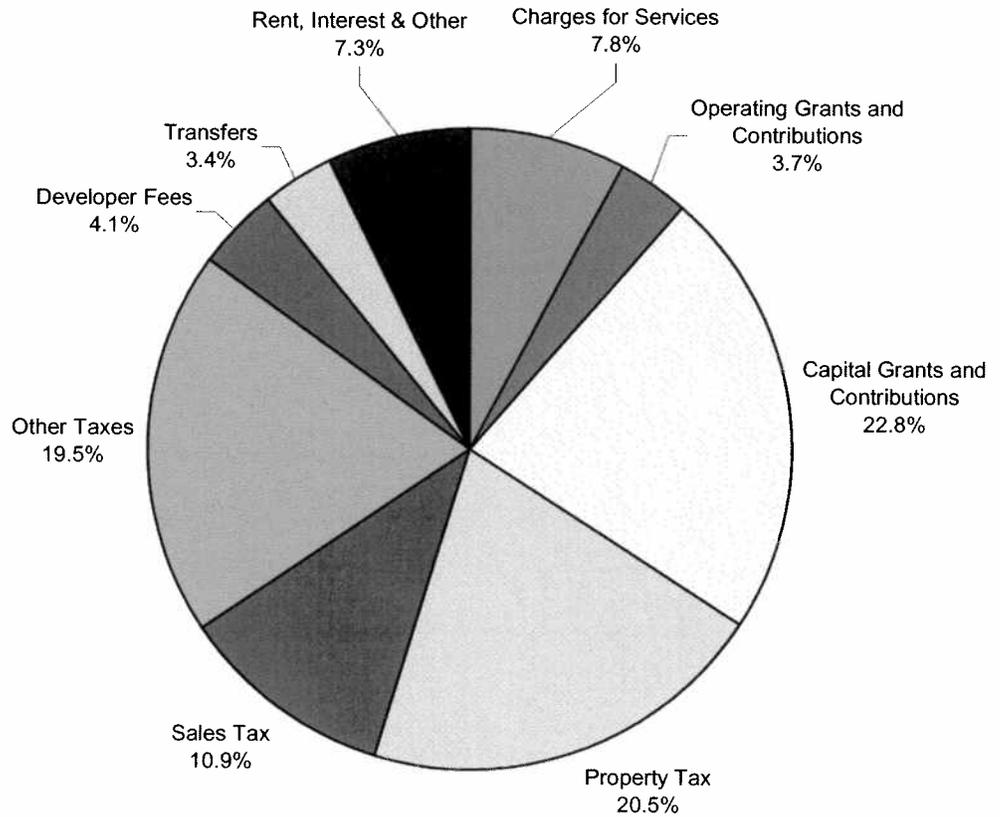
**City of Kerman's
Changes in Net Assets
2007-2008**

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 564,617	\$1,102,587	\$ 3,302,082	\$ 3,013,196	\$ 3,866,699	\$ 4,115,783
Operating grants and contributions	269,830	519,468	5,000		274,830	519,468
Capital grants and contributions	1,650,855	1,024,198			4,141,529	1,024,198
General revenues:						
Property taxes	1,482,564	632,582			1,482,564	632,582
Sales taxes	789,472	884,204			789,472	884,204
Other taxes	1,410,015	2,241,148			1,410,015	2,241,148
Developer fees	300,003	442,180		495,874	300,003	938,054
Sale of property		35,000				35,000
Transfers	249,140	17,400	(249,140)	(17,400)		
Rents, interest and other	532,380	225,826	155,910	202,508	688,290	428,364
Total revenues	7,248,876	7,124,623	3,213,852	3,694,178	10,462,728	10,818,801
Expenses:						
General government	497,535	626,845			497,535	626,845
Public safety	2,322,261	2,086,145			2,322,261	2,086,145
Social services	919,745	974,422			919,745	974,422
Public works	1,888,838	1,030,560			1,888,838	1,030,560
Tax pass-through	282,184				282,184	
Debt forgiveness		150,000				150,000
Interest and fiscal charges	137,241	20,463			137,241	20,463
Water			1,222,552	1,276,524	1,222,552	1,276,524
Sewer			947,548	933,839	947,548	933,839
Disposal			896,697	835,397	896,697	835,397
Storm Drain			54,006	39,886	54,006	39,866
Total expenses	6,047,804	4,888,435	3,120,803	3,085,646	9,168,607	7,974,081
Increase in net assets	1,201,072	2,236,188	93,049	608,532	1,294,121	2,844,720
Net assets – beginning - restated	16,975,301	14,739,113	11,927,155	11,318,623	28,902,456	26,057,736
Net assets - ending	\$18,176,373	\$16,975,301	\$12,020,204	\$11,927,155	\$ 30,196,577	\$ 28,902,456

Total governmental revenues for the year were \$7,248,876, with charges for services comprising 8% of the total revenue. Taxes, which include property, sales, and other taxes, account for \$3,682,051, or 51% of the City's governmental activities revenue.

Total governmental expenses for the year were \$6,047,804. Public Safety accounts for \$2,322,261 or 38% of the total governmental activities expenses, followed by the Public Works function in the amount of \$1,888,838 or 31%.

Revenues by Source-Governmental Activities

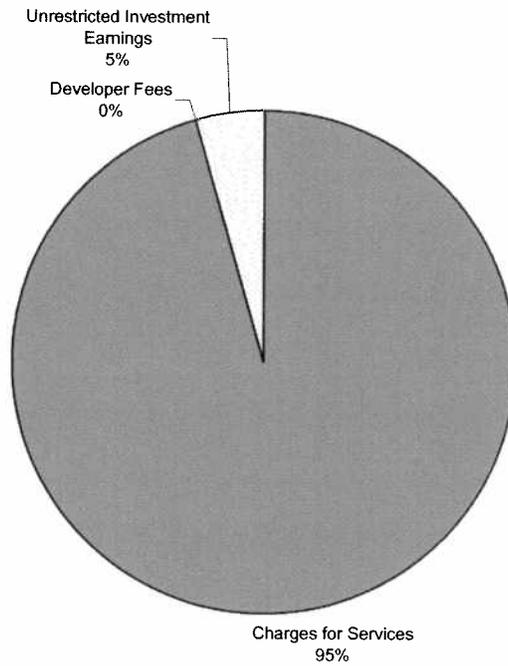


Program revenues which include charges for services, grant revenues and developer capital contributions account for \$2,485,302 of the total governmental activity revenue. The amounts necessary to fully fund the governmental activity programs are made up by “general” revenues such as taxes, interest, and developer fees.

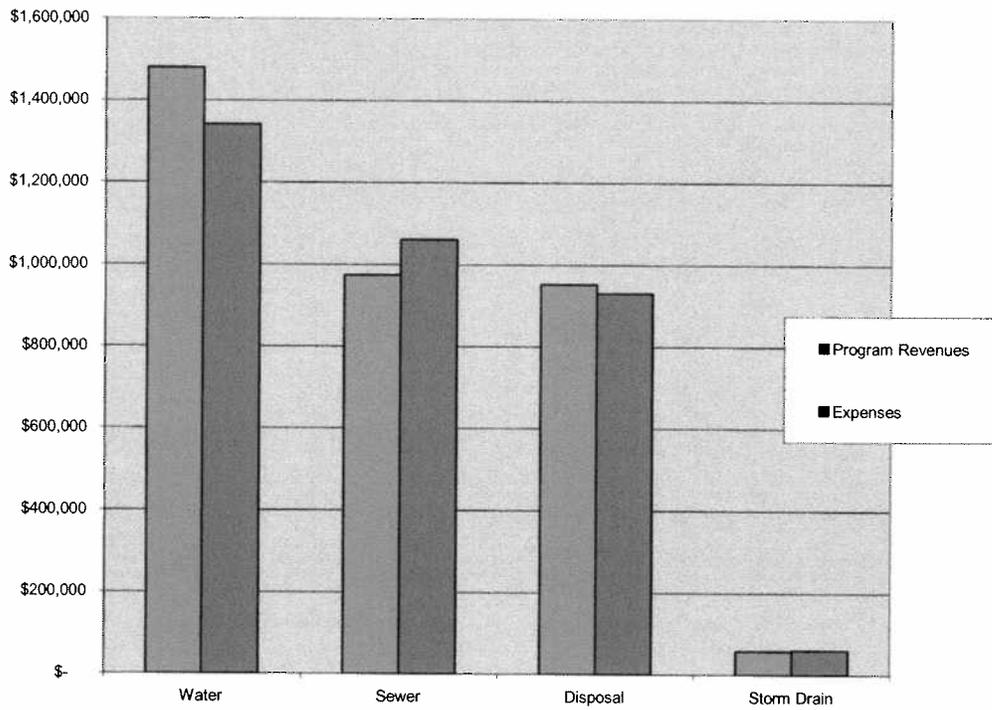
Business-Type Activities

Business-type activities account for \$12,020,204 or 40% of the total Government-wide net assets. This is an increase of \$93,049 or less than 1% compared to June 30, 2007. Charges for current services account for \$3,302,082 or 103% of the total business-type activity revenue, which reflects a net decrease after interest income, operating grants and transfers to governmental funds. Developer fees were more than offset by developer reimbursements within the business-type activities during fiscal year 2007/2008.

Revenues by Source-Business-Type Activities



Expenses and Program Revenues-Business-Type Activities



In a review of the chart Expenses and Program Revenues, it can be noted in water that the program revenues

exceeded expenses. This is largely due to developer fees, which also affected Sewer and Storm Drain performance, as they paid out more impact fees in the way of reimbursements than they took in. The revenues generated by developer impact fees are normally accumulated until there are sufficient reserves to construct or acquire capital assets. With the downturn in the building industry, 2007/2008 provided less impact fee revenues than anticipated.

Financial Analysis of the City's Funds

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

Governmental Funds. All of the City's governmental funds, with the exception of the Park Development Fund, the Public building Facility Fund and the Transit Fund, ended the year with positive fund balances. The ending fund balance for all funds is \$7,639,757, which is an increase of \$3,177,871 or 71% compared to the prior year and is the result of the issuance of the 2007 Lease Revenue Bonds. Of the total fund balance, \$7,263,496 or 95% 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:

Debt service	\$ 12,632
Long-term receivables	\$ 10,106
Advances	\$ 9,843
Housing	\$ 270,084
Assets held for resale	\$ 83,439

The general fund is the chief operating fund of the City. As of June 30, 2008, the total fund balance of the general fund was \$1,882,456, all of which was unreserved. The general fund total fund balance decreased \$259,725, or 12% from the previous fiscal year. This decrease in the General Fund Balance indicates that the General Fund had more expenditures and transfers out than it had revenues and transfers in. The unreserved portion, as indicated above, is available for spending at the City's discretion.

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 an increase in unrestricted net assets of \$39,436. The internal service funds charge departments a level fee that is calculated to provide for purchases, maintenance and repairs that are higher than revenues in some years and lower than revenues in other years.

General Fund Budgetary Highlights

The Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget to Actual outlines the differences between the budget and actual numbers. The City experienced \$229,511, or 6.1%, more total revenues and \$218,664, or 5.1% more total expenditures than the final budget allowed for. With \$22,851 more transfers in than the final budget called for, expenditures and transfers out exceeded revenues and transfers in and decreased the General Fund Balance by \$259,725.

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, 2008, amounts to \$26,877,146 (net of depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

Major capital asset additions this year include the following:

- Infrastructure improvements
- Water system improvements

Additional information on the City's capital assets can be found in note 5 on page 35.

CITY OF KERMAN'S Capital Assets (net of depreciation)

	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
<u>Land</u>	\$ 996,353	\$ 751,341	\$ 3,098,084	\$ 3,098,084	\$ 4,094,437	\$ 3,849,425
<u>Buildings and improvements</u>	3,422,837	1,814,485	8,252,185	8,254,375	11,675,022	10,068,860
<u>Machinery and equipment</u>	749,048	644,890	288,901	346,350	1,037,949	991,240
<u>Construction in progress</u>	683,201	2,068,127	503,845	391,947	1,187,046	2,460,074
<u>Infrastructure</u>	8,882,692	7,602,217			8,882,692	7,602,217
<u>Total</u>	\$14,734,131	\$12,881,060	\$12,143,015	\$12,090,756	\$26,877,146	\$24,971,816

Long-term Debt. The City's long-term debt as of June 30, 2008, was \$8,196,083 with governmental activities accounting for \$4,090,498 or 50% and business-type activities accounting for \$4,065,585 or also 50%. The Kerman Public Finance Authority issuance of lease revenue bonds was the major change in FY 2008.

CITY OF KERMAN'S Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
<u>REDIP note payable</u>	\$ 110,498	\$ 119,609			\$ 110,498	\$ 119,609
<u>Section 108 loan guarantee program</u>	50,000	100,000			50,000	100,000
<u>Note payable, State of California</u>			\$ 177,301	\$ 209,326	177,301	209,326
<u>Note payable, State of California</u>			3,299,999	3,281,645	3,299,999	3,281,645
<u>Bonds payable, sewer revenue bonds</u>			588,285	623,285	588,285	623,285
<u>Kerman PFA L/R Bonds</u>	3,930,000				3,930,000	
<u>Total</u>	\$ 4,090,498	\$ 219,609	\$ 4,065,585	\$ 4,114,256	\$ 8,196,083	\$ 4,333,865

Economic Factors and Next Year's Budgets and Rates

Economic factors indicate that we are in a recession. With the slump in the housing market, the banking industry crisis, the gloomy outlook for the national and world economy and the State of California struggling to balance its budget, the City of Kerman is concerned that our conservative approach to budgeting may not have been conservative enough. With such a downturn in the economy, sales tax, property tax and motor vehicle license fees (which are the City's largest sources of revenue), are likely to be lower than anticipated. To offset these concerns, the City is holding certain positions vacant, as people leave the City's employ. Departments are also watching their expenditures and looking for opportunities to save money, wherever possible.

The City is no longer experiencing the substantial residential growth of the several years prior to fiscal year 2006/2007. During the 2008/2009 budget process it was estimated 85 new single-family units would be constructed within the City, compared to 150 homes estimated during the 2007/2008 budget preparations. With the estimated 85 new units come estimated population increases of two-hundred ninety-eight people in 2008/2009, compared to five-hundred twenty-five people in 2007/2008. These growth factors were utilized in developing the City's revenue estimates.

Total citywide expenditures excluding capital expenditures were projected to increase approximately 0.1% in 2008/2009 as compared to the 2007/2008 original budget. The slight increase of about 1% in personnel expenditures are almost entirely offset by decreases in overall maintenance and operations expenditures. Due to budget constraints, capital expenditures were reduced substantially (nearly 20%) in 2008/2009 compared to 2007/2008. Due to the budget concerns mentioned above, cost-cutting measures will be taken and some of the budgeted capital projects may be postponed, depending on their funding sources and availability of funds.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and 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 financial information, contact the Finance Director, City of Kerman, 850 S. Madera Avenue, Kerman, CA, 93630.

CITY OF KERMAN

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 7,053,306	\$ 3,520,119	\$ 10,573,425
Accounts receivable, net	1,222,354	757,437	1,979,791
Internal balances	(26,307)	26,307	-
Notes receivable	10,106	-	10,106
Land held for resale	83,439	-	83,439
Deferred charges - Bond issuance costs, net	111,888	-	111,888
Capital assets, net of allowance for depreciation	14,734,131	12,143,015	26,877,146
Total assets	<u>23,188,917</u>	<u>16,446,878</u>	<u>39,635,795</u>
LIABILITIES			
Accounts payable and accrued expense	359,965	214,105	574,070
Accrued interest payable	43,238	-	43,238
Deposits payable	6,359	62,425	68,784
Long-term liabilities			
Due within one year	129,386	238,104	367,490
Due in more than one year	4,294,319	3,827,481	8,121,800
Compensated absences	179,277	84,559	263,836
Total liabilities	<u>5,012,544</u>	<u>4,426,674</u>	<u>9,439,218</u>
NET ASSETS			
Invested in capital assets, net of related debt	14,240,426	8,077,430	22,317,856
Restricted for capital improvements	700,457	-	700,457
Restricted for debt service	12,632	-	12,632
Restricted for specific projects and programs	1,527,707	-	1,527,707
Unrestricted	1,695,151	3,942,774	5,637,925
Total net assets/(deficit)	<u>\$ 18,176,373</u>	<u>\$ 12,020,204</u>	<u>\$ 30,196,577</u>

CITY OF KERMAN

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2008**

Functions/Programs	Program Revenue			Net Revenue/(Expense) and Changes in Net Assets			
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 497,535	\$ 50,691	\$ 48,545	\$ -	\$ (398,299)	\$ -	\$ (398,299)
Public works and development	1,888,838	271,994	-	1,650,855	34,011	-	34,011
Social services	919,745	109,631	110,323	-	(699,791)	-	(699,791)
Public safety	2,322,261	132,301	110,962	-	(2,078,998)	-	(2,078,998)
Tax pass-through	282,184	-	-	-	(282,184)	-	(282,184)
Debt Service							
Interest and fiscal charges	137,241	-	-	-	(137,241)	-	(137,241)
Total governmental activities	6,047,804	564,617	269,830	1,650,855	(3,562,502)	-	(3,562,502)
Business-type activities							
Water	1,222,552	1,412,915	-	-	-	190,363	190,363
Sewer	947,548	914,174	-	-	-	(33,374)	(33,374)
Disposal	896,697	931,237	-	-	-	34,540	34,540
Storm Drain	54,006	43,756	5,000	-	-	(5,250)	(5,250)
Total business-type activities	3,120,803	3,302,082	5,000	-	-	186,279	186,279
Total primary government	\$ 9,168,607	\$ 3,866,699	\$ 274,830	\$ 1,650,855	(3,562,502)	186,279	(3,376,223)
General Revenue							
Property taxes					1,482,564	-	1,482,564
Special assessments					162,061	-	162,061
Sales taxes					789,472	-	789,472
Franchise and other taxes					152,200	-	152,200
Motor vehicle license-in-lieu					1,095,754	-	1,095,754
Developer impact fees					300,003	-	300,003
Rents					224,711	-	224,711
Interest income					223,717	155,910	379,627
Gain (loss) on sale of equipment, net					477	-	477
Other					83,475	-	83,475
Transfers					249,140	(249,140)	-
Total general revenue and transfers					4,763,574	(93,230)	4,670,344
Change in Net Assets					1,201,072	93,049	1,294,121
Net Assets							
Beginning of year					16,975,301	11,927,155	28,902,456
End of year					\$ 18,176,373	\$ 12,020,204	\$ 30,196,577

See accompanying notes.

CITY OF KERMAN

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008**

	General	Kerman Public Financing Authority	Street Maintenance & Construction	Public Building Facility	Low-Moderate Housing	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and investments	\$ 1,852,110	\$ 3,022,878	\$ 337,462	\$ (70,932)	\$ 560,431	\$ 1,277,885	\$ 6,979,834
Accounts receivable, net	219,263	-	95,091	88,219	11,680	808,101	1,222,354
Advance to other fund	9,843	-	-	-	-	-	9,843
Notes receivable	-	-	-	-	-	10,106	10,106
Land held for resale	-	-	-	-	83,439	-	83,439
Total assets	\$ 2,081,216	\$ 3,022,878	\$ 432,553	\$ 17,287	\$ 655,550	\$ 2,096,092	\$ 8,305,576
LIABILITIES AND FUND BALANCE							
Liabilities							
Accounts payable and accrued expense	\$ 192,401	\$ -	\$ 32,069	\$ 21,844	\$ 2,027	\$ 101,276	\$ 349,617
Deposits and other liabilities	6,359	-	-	-	300,000	-	306,359
Advance from other fund	-	-	-	-	-	9,843	9,843
Total liabilities	198,760	-	32,069	21,844	302,027	111,119	665,819
Fund Balance							
Reserved for land held for resale	-	-	-	-	83,439	-	83,439
Reserved for notes receivable	-	-	-	-	-	10,106	10,106
Reserved for housing funds	-	-	-	-	270,084	-	270,084
Reserved for debt service	-	-	-	-	-	12,632	12,632
Unreserved and undesignated/(deficit)	1,882,456	3,022,878	400,484	(4,557)	-	1,962,235	7,263,496
Total fund balance	1,882,456	3,022,878	400,484	(4,557)	353,523	1,984,973	7,639,757
Total liabilities and fund balance	\$ 2,081,216	\$ 3,022,878	\$ 432,553	\$ 17,287	\$ 655,550	\$ 2,096,092	\$ 8,305,576

CITY OF KERMAN

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES JUNE 30, 2008

Total governmental fund balance	\$ 7,639,757
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	14,272,139
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(4,123,705)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(179,277)
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	(43,238)
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 Assets.	498,809
Governmental funds report debt costs such as issuance costs and original issue discounts as an expenditure when those costs are incurred because they require the use of current financial resources. However, debt issuance costs must be included as a deferred charge in the Government-Wide Financial Statements	<u>111,888</u>
Net assets of governmental activities	<u>\$ 18,176,373</u>

CITY OF KERMAN

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008**

	General	Kerman Public Financing Authority	Street Maintenance & Construction	Public Building Facility	Low-Moderate Housing	Other Governmental Funds	Total Governmental Funds
Revenue							
Taxes	\$ 1,756,872	\$ -	\$ -	\$ -	\$ 133,473	\$ 695,952	\$ 2,586,297
Licenses, permits and impact fees	1,320,709	-	-	93,191	-	116,124	1,530,024
Intergovernmental	159,507	-	487,090	-	-	1,274,088	1,920,685
Charges for services	318,365	-	-	-	-	3,714	322,079
Fines and forfeitures	108,271	-	-	-	-	-	108,271
Rents	159,067	65,644	-	-	-	-	224,711
Interest	77,478	62,520	7,825	-	11,085	64,809	223,717
Gain on sale of equipment	1,265	-	-	-	-	-	1,265
Other	83,475	-	-	-	-	-	83,475
Total revenue	3,985,009	128,164	494,915	93,191	144,558	2,154,687	7,000,524
Expenditures							
Current							
General government	464,420	-	-	-	-	-	464,420
Public works and development	875,495	-	413,277	26,281	53,029	254,375	1,622,457
Social services	712,773	-	-	-	-	131,950	844,723
Public safety	2,299,422	-	-	-	-	-	2,299,422
Tax pass-through	-	-	-	-	-	282,184	282,184
Capital outlay	163,960	844,114	515,010	187,996	-	461,973	2,173,053
Debt Service	-	-	-	-	-	-	-
Principal	-	-	-	-	-	59,111	59,111
Interest and fiscal charges	-	191,172	-	-	-	4,988	196,160
Total expenditures	4,516,070	1,035,286	928,287	214,277	53,029	1,194,581	7,941,530
Revenue over/(under) expenditures	(531,061)	(907,122)	(433,372)	(121,086)	91,529	960,106	(941,006)
Other Financing Sources/(Uses)							
Issuance of lease revenue bonds	-	3,930,000	-	-	-	-	3,930,000
Transfers in/(out) - net	271,336	-	98,887	78,538	-	(259,884)	188,877
	271,336	3,930,000	98,887	78,538	-	(259,884)	4,118,877
Change in Fund Balance	(259,725)	3,022,878	(334,485)	(42,548)	91,529	700,222	3,177,871
Fund Balance							
Beginning of year	2,142,181	-	734,969	37,991	261,994	1,284,751	4,461,886
End of year	\$ 1,882,456	\$ 3,022,878	\$ 400,484	\$ (4,557)	\$ 353,523	\$ 1,984,973	\$ 7,639,757

CITY OF KERMAN

RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2008

Net change in fund balance - total governmental funds		\$ 3,177,871
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	2,173,053	
Depreciation expense not reported in governmental funds	(364,579)	
Loss on disposal of capital assets	<u>(788)</u>	
		1,807,686
Governmental Funds report bond issuance costs as expenditures. However, in the Statement of Activities and Changes in Net Assets the cost of those assets are capitalized as an asset and amortized over the period of service		115,746
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 .		(3,858)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets		(3,930,000)
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		59,111
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		62,470
Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as governmental fund expenditures		
Net Change in Compensated Absences		(5,662)
Net Change in Accrued Interest Payable		(52,969)
Net Change in Deferred Revenue		<u>(29,323)</u>
Change in net assets of governmental activities		<u>\$ 1,201,072</u>

CITY OF KERMAN

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2008

	Business-Type Activities - Enterprise Funds				Total Proprietary Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain		
ASSETS						
Current assets						
Cash and investments	\$ 1,737,439	\$ 1,221,163	\$ 349,765	\$ 211,752	\$ 3,520,119	\$ 73,472
Accounts receivable, net	682,253	22,201	46,026	6,957	757,437	-
Total current assets	<u>2,419,692</u>	<u>1,243,364</u>	<u>395,791</u>	<u>218,709</u>	<u>4,277,556</u>	<u>73,472</u>
Non-current assets						
Property, plant and equipment, net of allowance for depreciation	5,744,485	5,855,090	153,049	390,391	12,143,015	461,992
Total assets	<u>\$ 8,164,177</u>	<u>\$ 7,098,454</u>	<u>\$ 548,840</u>	<u>\$ 609,100</u>	<u>\$ 16,420,571</u>	<u>\$ 535,464</u>
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	\$ 46,294	\$ 55,087	\$ 58,273	\$ 54,451	\$ 214,105	\$ 10,348
Deposits	62,425	-	-	-	62,425	-
Current portion of long-term debt	198,104	40,000	-	-	238,104	-
Total current liabilities	<u>306,823</u>	<u>95,087</u>	<u>58,273</u>	<u>54,451</u>	<u>514,634</u>	<u>10,348</u>
Non-current liabilities						
Long-term debt	3,279,196	548,285	-	-	3,827,481	-
Compensated absences	37,031	37,008	10,520	-	84,559	-
Total noncurrent liabilities	<u>3,316,227</u>	<u>585,293</u>	<u>10,520</u>	<u>-</u>	<u>3,912,040</u>	<u>-</u>
Total liabilities	<u>3,623,050</u>	<u>680,380</u>	<u>68,793</u>	<u>54,451</u>	<u>4,426,674</u>	<u>10,348</u>
NET ASSETS						
Invested in capital assets, net of related debt	2,267,185	5,266,805	153,049	390,391	8,077,430	461,992
Unrestricted/(deficit)	2,273,942	1,151,269	326,998	164,258	3,916,467	63,124
Total net assets/(deficit)	<u>\$ 4,541,127</u>	<u>\$ 6,418,074</u>	<u>\$ 480,047</u>	<u>\$ 554,649</u>	<u>\$ 11,993,897</u>	<u>\$ 525,116</u>
Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds						26,307
Net assets of business-type activities						<u>\$ 12,020,204</u>

Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds

Net assets of business-type activities

See accompanying notes.

CITY OF KERMAN

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2008**

	Business-Type Activities - Enterprise Funds						Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain	Proprietary Funds	Total Proprietary Funds	
Operating Revenue							
Charges for services	\$ 1,344,721	\$ 895,226	\$ 912,289	\$ 34,967	\$ 3,187,203	\$ 525,650	
Other revenues	23,838	18,948	18,948	8,789	70,523	-	
Total operating income	<u>1,368,559</u>	<u>914,174</u>	<u>931,237</u>	<u>43,756</u>	<u>3,257,726</u>	<u>525,650</u>	
Operating Expense							
Contractual services and utilities	318,144	149,549	669,524	9,334	1,146,551	45,871	
Personnel	481,712	454,931	156,834	33,209	1,126,686	59,307	
Supplies and materials	102,452	93,758	6,395	2,358	204,963	260,705	
Depreciation	323,963	135,102	64,842	5,521	529,428	137,342	
Total operating expense	<u>1,226,271</u>	<u>833,340</u>	<u>897,595</u>	<u>50,422</u>	<u>3,007,628</u>	<u>503,225</u>	
Operating income/(loss)	<u>142,288</u>	<u>80,834</u>	<u>33,642</u>	<u>(6,666)</u>	<u>250,098</u>	<u>22,425</u>	
Nonoperating Revenue/(Expense)							
Intergovernmental	-	-	5,000	-	5,000	-	
Development impact fees (reimbursements), net	44,356	(93,528)	-	(3,983)	(53,155)	-	
Interest income	66,604	59,874	15,325	14,107	155,910	2,132	
Interest expense	(6,850)	(31,164)	-	-	(38,014)	-	
Total nonoperating revenue/(expense)	<u>104,110</u>	<u>(64,818)</u>	<u>20,325</u>	<u>10,124</u>	<u>69,741</u>	<u>2,132</u>	
Net income/(loss) before transfers	246,398	16,016	53,967	3,458	319,839	24,557	
Operating Transfers In/(Out)	<u>(107,894)</u>	<u>(102,455)</u>	<u>(32,663)</u>	<u>(6,128)</u>	<u>(249,140)</u>	<u>60,263</u>	
Change in Net Assets	<u>138,504</u>	<u>(86,439)</u>	<u>21,304</u>	<u>(2,670)</u>	<u>70,699</u>	<u>84,820</u>	
Net Assets							
Beginning of year	4,402,623	6,504,513	458,743	557,319	11,923,198	440,296	
End of year	<u>\$ 4,541,127</u>	<u>\$ 6,418,074</u>	<u>\$ 480,047</u>	<u>\$ 554,649</u>	<u>\$ 11,993,897</u>	<u>\$ 525,116</u>	
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds					22,350		
Change in net assets of business-type activities (Page 13)					<u>\$ 93,049</u>		

See accompanying notes.

CITY OF KERMAN

**COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2008**

	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	\$ 1,315,446	\$ 898,239	\$ 897,139	\$ 38,073	\$ 3,148,897	\$ 525,650
Payments for contractual services and utilities	(321,409)	(130,531)	(670,220)	(12,732)	(1,134,892)	(51,847)
Payments to employees	(478,939)	(450,413)	(151,904)	(32,669)	(1,113,925)	(59,034)
Payment to suppliers	(102,452)	(93,758)	(6,395)	(2,358)	(204,963)	(260,705)
Net cash provided by (used in) operating activities	412,646	223,537	68,620	(9,686)	695,117	154,064
Non-capital Financial Activities						
Payments from other governments	-	-	5,000	-	5,000	-
Payments (to)/from developers	44,356	(93,528)	-	(3,983)	(53,155)	-
Transfers (to)/from other funds	(107,894)	(102,455)	(32,663)	(6,128)	(249,140)	60,263
Net cash provided by noncapital financing activities	(63,538)	(195,983)	(27,663)	(10,111)	(297,295)	60,263
Capital and Related Financing Activities						
Purchase of property, plant and equipment	(44,098)	(471,108)	(25,364)	(41,117)	(581,687)	(182,726)
Principal received (paid) on long-term debt, net	(13,671)	(35,000)	-	-	(48,671)	-
Interest paid on long-term debt	(6,850)	(31,164)	-	-	(38,014)	-
Net cash used in capital and related financing activities	(64,619)	(537,272)	(25,364)	(41,117)	(668,372)	(182,726)
Investing Activities						
Interest received	66,604	59,874	15,325	14,107	155,910	2,132
Net cash provided by investing activities	66,604	59,874	15,325	14,107	155,910	2,132
Net Increase (Decrease) in Cash	351,093	(449,844)	30,918	(46,807)	(114,640)	33,733
Cash						
Beginning of year	1,386,346	1,671,007	318,847	258,559	3,634,759	39,739
End of year	\$ 1,737,439	\$ 1,221,163	\$ 349,765	\$ 211,752	\$ 3,520,119	\$ 73,472
Cash Flows from Operating Activities						
Operating income (loss)	\$ 142,288	\$ 80,834	\$ 33,642	\$ (6,666)	\$ 250,098	\$ 22,425
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	323,963	135,102	64,842	5,521	529,428	137,342
(Increase) Decrease in Accounts Receivable	(43,565)	(15,935)	(34,098)	(5,683)	(99,281)	-
(Increase) (Decrease) in Accounts Payable and Accrued Liabilities	(10,040)	23,536	4,234	(2,858)	14,872	(5,703)
Net Cash Provided by Operating Activities	\$ 412,646	\$ 223,537	\$ 68,620	\$ (9,686)	\$ 695,117	\$ 154,064

See accompanying notes.

CITY OF KERMAN

STATEMENT OF NET ASSETS – FIDUCIARY FUNDS

JUNE 30, 2008

	<u>Agency Funds</u>	<u>Kerman Unified School District Private-Purpose Trust Fund</u>
ASSETS		
Cash and investments	\$ 163,086	\$ 364,533
Total assets	<u>163,086</u>	<u>364,533</u>
LIABILITIES		
Due to City of Kerman	-	-
Agency funds payable	163,086	-
Total liabilities	<u>\$ 163,086</u>	<u>\$ -</u>
Net Assets		
Held in trust for Kerman Unified School District projects	-	364,533
Total net assets	<u>\$ -</u>	<u>\$ 364,533</u>

CITY OF KERMAN

**STATEMENT OF CHANGES IN NET ASSETS – FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2008**

	Kerman Unified School District Private-Purpose Trust Fund
Additions	
Property taxes	\$ 190,833
Interest	10,769
Total governmental activities	<u>201,602</u>
Deductions	
Administrative costs	852
Professional services	2,533
Community development	10,000
Debt service	
Principal	32,000
Interest	20,050
Total general revenue	<u>65,435</u>
CHANGE IN NET ASSETS	136,167
NET ASSETS	
Beginning of year	<u>228,366</u>
End of year	<u>\$ 364,533</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

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.

Included in this report is the Kerman Redevelopment Agency (the Agency). The Agency was established in 1988 to administer the City's redevelopment activities and projects. Members of the City Council automatically sit as the Agency's Board, the City Manager is appointed as Executive Director with the City staff providing all support services. Currently the Agency/City legislative meetings are held concurrently. The annual financial statements for the Agency for the fiscal year ended June 30, 2008 can be obtained through the City's Finance Department.

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 Assets and the Statement of Activities and Changes in Net Assets) 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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

Note 1 – Summary of Significant Accounting Policies (Continued)

The Statement of Activities and Changes in Net Assets 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.

Net assets are 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 assets. 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.

Kerman Public Financing Authority – The Kerman Public Financing Authority Fund is used to account for revenues and expenditures of the KPFA Revenue Bonds. Bond proceeds are to be used to finance or refinance the costs of various improvement projects for the City.

Street Maintenance & Construction – The Street Maintenance and Construction Fund accounts for all capital street and improvement projects.

Public Building Facility – The Public Building Facility Fund accounts for all capital building and improvement projects.

Low-Moderate Housing – The Redevelopment Agency Low-Moderate Housing Fund was established to for property tax allocations set aside for the purpose of increasing or improving the City's supply of low and moderate housing.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

The City uses a private-purpose fund to account for the activities of the Kerman Unified School District. Under the terms of an agreement with the District, the Redevelopment Agency is required to maintain a fund to collect the District's allocation of tax increment monies received from the County of Fresno.

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, entitlements 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.

For its government-wide activities and Enterprise Funds, the City has elected under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

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 month end 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 the State of California Local Agency Investment Fund 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 XIII A 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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

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:

	<u>Years</u>
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. Those employees on shift work schedules may also accumulate hours for holiday time benefits.

Vested or accumulated vacation, holiday 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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

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 Assets. 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 Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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 Assets.

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

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

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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

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 May 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, 2008 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and Investments	\$ 10,573,425
Fiduciary Funds:	
Cash and Investments	<u>527,619</u>
Total Cash and Investments	<u>\$ 11,101,044</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

Note 3 – Cash and Investments (Continued)

Cash and investments as of June 30, 2008 consist of the following:

Cash on hand	\$	850
Deposits with Financial Institutions		6,517,772
Local Agency Investment Fund		337,118
Certificates of deposit		4,245,304
Total Cash and Investments	\$	<u>11,101,044</u>

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

CITY OF KERMAN

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

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. The City’s investment in the Local Agency Investment Fund (LAIF) is available for withdraw in one business day.

Investment Type	Fair Value	Remaining Maturity (in months)		
		12 Months or Less	13 to 24 Months	25 to 60 Months
Local Agency Investment Fund	\$ 337,118	\$ 337,118	\$ -	\$ -
Certificates of deposit	4,245,304	2,793,688	681,096	770,520
Total	<u>\$ 4,582,422</u>	<u>\$ 3,130,806</u>	<u>\$ 681,096</u>	<u>\$ 770,520</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

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. The City's investment in LAIF is not subject to rating.

Investment Type		Minimum Legal Rating	Rating as of Year End Not Rated
Local Agency Investment Fund	\$ 337,118	N/A	\$ 337,118
Certificates of deposit	4,245,304	N/A	4,245,304
Total	<u>\$ 4,582,422</u>		<u>\$ 4,582,422</u>

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. 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 are as follows at June 30, 2008:

Issuer	Investment Type	Amount
State Bank of India	Certificat of Deposit	\$ 2,500,000

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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

Note 3 – Cash and Investments (Continued)

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 (such as LAIF).

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Note 4 – Receivables

The following is a summary of receivables at June 30, 2008 for the City's individual major and non-major funds in the aggregate:

	General	Street Maintenance & Construction	Public Building Facility	Low-Moderate Housing	Other Governmental Funds
Governmental Funds					
Accounts	\$ 38,950	\$ 4,341	\$ 88,219	\$ -	\$ 516,202
Taxes	14,255	-	-	-	6,394
Grants	78,520	90,750	-	-	285,468
Interest	87,538	-	-	11,680	37
	<u>\$ 219,263</u>	<u>\$ 95,091</u>	<u>\$ 88,219</u>	<u>\$ 11,680</u>	<u>\$ 808,101</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

Note 4 – Receivables (Continued)

The following is a summary of receivables at June 30, 2008 for the City's individual enterprise funds, including the applicable allowances for uncollectible accounts are as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Disposal</u>	<u>Storm Drain</u>
Enterprise Funds				
Accounts	\$ 58,680	\$ 24,601	\$ 48,726	\$ 7,057
Grants	<u>626,873</u>	<u>-</u>	<u>-</u>	<u>-</u>
Gross receivables	685,553	24,601	48,726	7,057
Less: Allowance for uncollectible accounts	<u>(3,300)</u>	<u>(2,400)</u>	<u>(2,700)</u>	<u>(100)</u>
	<u>\$ 682,253</u>	<u>\$ 22,201</u>	<u>\$ 46,026</u>	<u>\$ 6,957</u>

Advance to/from other funds:

The General Fund advanced the Redevelopment Agency capital projects fund for the original purpose of RDA inception costs. The balance of \$9,843 is evidenced by an unsecured non-interest bearing note to the City of Kerman. Payments on the note are to be made in discretionary amounts as surplus funds become available.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

Note 5 – Capital Assets – Capital asset activities for the year ended June 30, 2008 were as follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 751,341	\$ 245,012	\$ -	\$ 996,353
Construction in progress	2,068,127	547,614	(1,932,540)	683,201
Total capital assets, not being depreciated	<u>2,819,468</u>	<u>792,626</u>	<u>(1,932,540)</u>	<u>1,679,554</u>
Capital assets, being depreciated				
Buildings and improvements	2,370,461	1,711,788	-	4,082,249
Infrastructure	7,912,728	1,493,142	-	9,405,870
Machinery and equipment	1,432,064	289,976	(50,490)	1,671,550
Total capital assets, being depreciated	<u>11,715,253</u>	<u>3,494,906</u>	<u>(50,490)</u>	<u>15,159,669</u>
Less accumulated depreciation for				
Buildings and improvements	(555,976)	(103,436)	-	(659,412)
Infrastructure	(310,511)	(212,667)	-	(523,178)
Machinery and equipment	(787,174)	(185,818)	50,490	(922,502)
Total accumulated depreciation	<u>(1,653,661)</u>	<u>(501,921)</u>	<u>50,490</u>	<u>(2,105,092)</u>
Total capital assets, being depreciated, net	<u>10,061,592</u>	<u>2,992,985</u>	<u>-</u>	<u>13,054,577</u>
Governmental activities capital assets, net	<u>\$ 12,881,060</u>	<u>\$ 3,785,611</u>	<u>\$ (1,932,540)</u>	<u>\$ 14,734,131</u>
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 3,098,084	\$ -	\$ -	\$ 3,098,084
Construction in progress	391,947	432,007	(320,109)	503,845
Total capital assets, not being depreciated	<u>3,490,031</u>	<u>432,007</u>	<u>(320,109)</u>	<u>3,601,929</u>
Capital assets, being depreciated				
Buildings and improvements	10,350,377	444,425	-	10,794,802
Machinery and equipment	771,483	25,364	-	796,847
Total capital assets, being depreciated	<u>11,121,860</u>	<u>469,789</u>	<u>-</u>	<u>11,591,649</u>
Less: accumulated depreciation	<u>(2,521,135)</u>	<u>(529,428)</u>	<u>-</u>	<u>(3,050,563)</u>
Total capital assets, being depreciated, net	<u>8,600,725</u>	<u>(59,639)</u>	<u>-</u>	<u>8,541,086</u>
Business-type activities capital assets, net	<u>\$ 12,090,756</u>	<u>\$ 372,368</u>	<u>\$ (320,109)</u>	<u>\$ 12,143,015</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

Note 5 – Capital Assets (Continued)

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

Governmental Functions:

General Government	\$	29,660
Public Works and Development		237,058
Social Services		75,022
Public Safety		22,839
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the asset		137,342
	\$	<u>501,921</u>

Business-Type Functions:

Water	\$	323,963
Sewer		135,102
Disposal		64,842
Storm Drain		5,521
	\$	<u>529,428</u>

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.

In governmental fund types, debt discounts and issuance costs are recognized in the current period. Debt discounts and issuance costs incurred in proprietary funds are deferred and amortized over the term of the debt using the bonds-outstanding method, which approximates the effective interest method. The City's debt transactions are summarized below and discussed in detail thereafter:

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

Note 6 – Long-Term Debt (Continued)

Long-term debt payable at June 30, 2008 was comprised of the following individual issues:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008	Current Portion
<u>Governmental Activity Long Term Debt</u>					
Notes Payable					
RDA Note Payable - REDIP	\$ 119,609	\$ -	\$ 9,111	\$ 110,498	\$ 9,386
Note Payable - Section 108 Program	100,000	-	50,000	50,000	50,000
CHFA Note Payable	323,476	9,731	-	333,207	-
Kerman Public Finance Authority Bonds					
2007 Lease Revenue Bonds	-	3,930,000	-	3,930,000	70,000
Total Governmental Activity Debt	<u>\$ 543,085</u>	<u>\$ 3,939,731</u>	<u>\$ 59,111</u>	<u>\$ 4,423,705</u>	<u>\$ 129,386</u>
<u>Business-Type Activity Long Term Debt</u>					
Bonds Payable					
Sewer Revenue Bond	\$ 623,285	\$ -	\$ 35,000	\$ 588,285	\$ 40,000
Notes Payable					
California Dept. of Water Resources	209,326	-	32,025	177,301	33,104
California Dept. of Water Resources	3,281,645	18,354	-	3,299,999	165,000
Total Business-Type Activity Debt	<u>\$ 4,114,256</u>	<u>\$ 18,354</u>	<u>\$ 67,025</u>	<u>\$ 4,065,585</u>	<u>\$ 238,104</u>
<u>Compensated Absences</u>					
Government Activities	<u>\$ 188,384</u>	<u>\$ -</u>	<u>\$ 9,107</u>	<u>\$ 179,277</u>	
Business-Type Activities	<u>\$ 79,527</u>	<u>\$ 5,032</u>	<u>\$ -</u>	<u>\$ 84,559</u>	

RDA Note Payable - REDIP - In March of 1990, the Agency entered into a loan agreement with the State of California Trade and Commerce Agency to participate in a Rural Economic Development Infrastructure Program (REDIP). The loan of \$186,498 was for the design and construction of improvements to the Kerman Industrial Park Infrastructure Project. The note is payable semi-annually beginning July 1, 1995 in the amount of \$6,315 which includes interest at 3.00%. The outstanding balance at June 30, 2008 was \$110,498.

Section 108 Loan Guarantee Program – In 1999, the City received \$500,000 from Section 108 Guaranteed loan program through the U.S. Department of Housing and Urban Development. The loan proceeds were borrowed by the County of Fresno on the City's behalf and were used to provide partial funding for the Community/Teen Center project. Repayment of the loan will be made from the City's future allocations of Community Development Block Grant funds. Principal payments of \$50,000 are made each August 1. Interest on the note is payable semi-annually on August 1 and February 1 each year at 4.95% to 5.83% per annum. The outstanding balance at June 30, 2008 was \$50,000.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

Note 6 – Long-Term Debt (Continued)

CHFA Note Payable – The Kerman RDA received a \$300,000 loan from California Housing Finance Agency to be used in the development of an 81 unit rental housing complex for seniors. The loan balance, including accumulated interest at 3%, is due on November 21, 2012. The outstanding balance of the loan at June 30, 2008, including accrued interest, was \$333,207.

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 CPFA 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%.

Sewer Revenue Bond – In 1981, the City issued \$1,200,000 of revenue bonds to construct additional sewer facilities. The City has pledged the revenue derived 1.0 % is paid semi-annually each April and October. The outstanding balance at June 30, 2008 was \$588,285.

California Department of Water Resources Safe Drinking Water Loan – The City entered into a contract with the State of California, Department of Water Resources in 1993. The loan was for a construction loan under the auspices of the California Safe Drinking Water Bond Law. Terms of the note call for semi-annual payments of \$19,435 including interest at 3.41%, which began October 1, 1994 and will mature in 2013. The outstanding balance on the note at June 30, 2008 was \$177,323.

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, 2009 and will mature on January 1, 2028. The outstanding balance on the note at June 30, 2008 was \$3,299,999.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

Note 6 – Long-Term Debt (Continued)

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2008 were as follows:

Years ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 129,386	\$ 176,256	\$ 238,104	\$ 35,180
2010	79,670	171,713	239,242	32,042
2011	84,962	168,522	240,420	28,864
2012	85,263	165,220	246,638	25,646
2013	423,780	161,811	247,897	22,136
2014-2018	507,858	756,609	1,080,000	70,320
2019-2023	552,786	654,554	948,285	9,410
2024-2028	675,000	524,137	824,999	-
2029-2033	835,000	352,569	-	-
2034-2038	1,050,000	129,438	-	-
	<u>\$ 4,423,705</u>	<u>\$ 3,260,829</u>	<u>\$ 4,065,585</u>	<u>\$ 223,598</u>

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, 2008:

Capital Projects Fund	
Public Building Facility	\$ (4,557)
Park Development	(92,193)
Special Revenue Fund	
Transit	(22,814)
	<u>\$ (119,564)</u>

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

Note 8 – 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 57 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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

Note 8 – Risk Management (Continued)

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.

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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

Note 9 – 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 paid 6% of the employee portion throughout the fiscal year. 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, 2008 was 6.621% for the miscellaneous plan and 12.282% 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, 2008, the City's annual pension cost of \$436,314 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.25 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0 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. The remaining amortization period at June 30, 2005, was 14 years for safety members and 7 years for miscellaneous members.

THREE YEAR TREND INFORMATION FOR PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2006	\$ 205,000	100%	-
June 30, 2007	\$ 260,528	100%	-
June 30, 2008	\$ 436,314	100%	-

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KERMAN

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Taxes	\$ 1,807,000	\$ 1,747,360	\$ 1,756,872	\$ 9,512
Licenses, permits and impact fees	1,390,300	1,296,850	1,320,709	23,859
Intergovernmental	143,000	127,000	159,507	32,507
Charges for services	397,065	212,530	318,365	105,835
Fines and forfeitures	61,000	73,200	108,271	35,071
Rents	60,000	155,000	159,067	4,067
Interest	60,000	60,000	77,478	17,478
Gain on sale of equipment	2,000	1,265	1,265	-
Other	73,524	82,293	83,475	1,182
Total revenue	<u>3,993,889</u>	<u>3,755,498</u>	<u>3,985,009</u>	<u>229,511</u>
Expenditures				
Current				
General government	605,025	480,233	464,420	15,813
Public works and development	682,820	813,559	875,495	(61,936)
Social services	779,866	750,479	712,773	37,706
Public safety	2,363,624	2,143,637	2,299,422	(155,785)
Capital outlay	<u>255,367</u>	<u>109,498</u>	<u>163,960</u>	<u>(54,462)</u>
Total expenditures	<u>4,686,702</u>	<u>4,297,406</u>	<u>4,516,070</u>	<u>(218,664)</u>
Revenue over (under)expenditures	(692,813)	(541,908)	(531,061)	10,847
Other Financing Sources				
Transfers in (out) - net	<u>246,804</u>	<u>248,485</u>	<u>271,336</u>	<u>22,851</u>
Net Change in Fund Balance	<u>\$ (446,009)</u>	<u>\$ (293,423)</u>	<u>(259,725)</u>	<u>\$ 33,698</u>
Fund Balance				
Beginning of year			<u>2,142,181</u>	
End of year			<u>\$ 1,882,456</u>	

CITY OF KERMAN

**BUDGETARY COMPARISON SCHEDULE
STREET MAINTENANCE AND CONSTRUCTION FUND
YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ -	\$ -	\$ 487,090	\$ 487,090
Interest	-	-	7,825	7,825
Total revenue	-	-	494,915	494,915
Expenditures				
Public works and development	487,148	424,065	413,277	10,788
Capital outlay	1,550,270	732,509	515,010	217,499
Total expenditures	2,037,418	1,156,574	928,287	228,287
Revenue over expenditures	(2,037,418)	(1,156,574)	(433,372)	723,202
Other Financing Sources/(Uses)				
Transfers in/(out) - net	-	-	98,887	98,887
Change in Fund Balance	<u>\$ (2,037,418)</u>	<u>\$ (1,156,574)</u>	(334,485)	<u>\$ 822,089</u>
Fund Balance				
Beginning of year			734,969	
End of year			<u>\$ 400,484</u>	

CITY OF KERMAN

**BUDGETARY COMPARISON SCHEDULE
PUBLIC BUILDING FACILITY FUND
YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Licenses, permits and impact fees	\$ 127,050	\$ 127,050	\$ 93,191	\$ (33,859)
Total revenue	<u>127,050</u>	<u>127,050</u>	<u>93,191</u>	<u>(33,859)</u>
Expenditures				
Current				
Public works and development	84,000	84,000	26,281	57,719
Capital outlay	<u>2,933,400</u>	<u>308,103</u>	<u>187,996</u>	<u>120,107</u>
Total expenditures	<u>3,017,400</u>	<u>392,103</u>	<u>214,277</u>	<u>177,826</u>
Revenue over (under) expenditures	(2,890,350)	(265,053)	(121,086)	143,967
Other Financing Sources/(Uses)				
Transfers in/(out) - net	-	-	78,538	78,538
Change in Fund Balance	<u>\$ (2,890,350)</u>	<u>\$ (265,053)</u>	(42,548)	<u>\$ 222,505</u>
Fund Balance				
Beginning of year			<u>37,991</u>	
End of year			<u>\$ (4,557)</u>	

CITY OF KERMAN

**BUDGETARY COMPARISON SCHEDULE
 LOW-MODERATE HOUSING FUND
 YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Property tax	\$ 133,400	\$ 133,400	\$ 133,473	\$ 73
Interest	6,000	6,000	11,085	5,085
Total revenue	<u>139,400</u>	<u>139,400</u>	<u>144,558</u>	<u>5,158</u>
Expenditures				
Current				
Housing assistance	<u>290,679</u>	<u>38,086</u>	<u>53,029</u>	<u>(14,943)</u>
Total expenditures	<u>290,679</u>	<u>38,086</u>	<u>53,029</u>	<u>(14,943)</u>
Revenue over/(under) expenditures	(151,279)	101,314	91,529	(9,785)
Other Financing Sources				
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balance	<u>\$ (151,279)</u>	<u>\$ 101,314</u>	91,529	<u>\$ (9,785)</u>
Fund Balance				
Beginning of year			<u>261,994</u>	
End of year			<u>\$ 353,523</u>	

SUPPLEMENTAL ONLY INFORMATION

CITY OF KERMAN
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	Special Revenue Funds						Debt Service Fund
	Gax Tax	Measure C	Local Transportation	Senior Center	Maintenance District	Transit	RDA Debt Service
ASSETS							
Cash and investments	\$ 153,623	\$ 421,934	\$ 95,129	\$ 1,957	\$ 11,447	\$ (25,400)	\$ 12,632
Accounts receivable, net	80,663	22,359	413,001	2,104	-	6,394	-
Notes receivable	-	-	-	-	-	-	-
Total assets	<u>\$ 234,286</u>	<u>\$ 444,293</u>	<u>\$ 508,130</u>	<u>\$ 4,061</u>	<u>\$ 11,447</u>	<u>\$ (19,006)</u>	<u>\$ 12,632</u>
LIABILITIES AND FUND BALANCE							
Liabilities							
Accounts payable and accrued expense	\$ -	\$ -	\$ -	\$ 1,460	\$ 3,759	\$ 3,808	\$ -
Advances from other funds	-	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,460</u>	<u>3,759</u>	<u>3,808</u>	<u>-</u>
Fund Balance							
Reserved for notes receivable	-	-	-	-	-	-	12,632
Reserved for debt service	-	-	-	-	-	-	-
Unreserved, undesignated/(deficit)	234,286	444,293	508,130	2,601	7,688	(22,814)	-
Total fund balance	<u>234,286</u>	<u>444,293</u>	<u>508,130</u>	<u>2,601</u>	<u>7,688</u>	<u>(22,814)</u>	<u>12,632</u>
Total liabilities and fund balance	<u>\$ 234,286</u>	<u>\$ 444,293</u>	<u>\$ 508,130</u>	<u>\$ 4,061</u>	<u>\$ 11,447</u>	<u>\$ (19,006)</u>	<u>\$ 12,632</u>

CITY OF KERMAN

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2008**

	Capital Projects Funds							Total Non-major Governmental Funds
	Kerkhoff Park Capital Project	Park Development	Fire Facility	Community Redevelopment	Street Projects & Development			
ASSETS								
Cash and investments	\$ 20,722	\$ (83,523)	\$ 85,162	\$ 408,189	\$ 456,447	\$	\$ 1,277,885	
Accounts receivable, net	2,930	-	-	37	179		808,101	
Notes receivable	-	-	-	10,106	-		10,106	
Total assets	\$ 23,652	\$ (83,523)	\$ 85,162	\$ 418,332	\$ 456,626	\$	\$ 2,096,092	
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts payable and accrued expense	\$ 1,377	\$ 108	\$ -	\$ 90,764	\$ -	\$	\$ 101,276	
Advances from other funds	-	-	-	9,843	-		9,843	
Total liabilities	\$ 1,377	\$ 108	\$ -	\$ 100,607	\$ -	\$	\$ 111,119	
Fund Balance								
Reserved for notes receivable	-	-	-	10,106	-		10,106	
Reserved for debt service	-	-	-	-	-		12,632	
Unreserved, undesignated/(deficit)	22,275	(83,631)	85,162	307,619	456,626		1,962,235	
Total fund balance	22,275	(83,631)	85,162	317,725	456,626		1,984,973	
Total liabilities and fund balance	\$ 23,652	\$ (83,523)	\$ 85,162	\$ 418,332	\$ 456,626	\$	\$ 2,096,092	

CITY OF KERMAN

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008**

	Special Revenue Funds						Debt Service Fund
	Gas Tax	Measure C	Local Transportation	Senior Center	Maintenance District	Transit	
Revenue							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 162,061	\$ -	\$ -
Developer impact fees	-	-	-	-	-	-	-
Intergovernmental	238,788	325,609	413,001	31,849	-	78,474	-
Charges for services	-	-	-	-	-	3,714	-
Interest	-	12,390	2,915	-	189	-	-
Total revenue	238,788	337,999	415,916	31,849	162,250	82,188	-
Expenditures							
Public works and development	-	-	-	-	117,922	-	-
Social services	-	-	-	43,662	-	88,288	-
Tax pass-through	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-
Total expenditures	-	-	-	43,662	117,922	88,288	-
Revenue over (under) expenditures	238,788	337,999	415,916	(11,813)	44,328	(6,100)	-
Other financing sources/(uses)							
Operating transfers in/(out) - net	(24,529)	-	20,821	13,917	(10,364)	-	-
	(24,529)	-	20,821	13,917	(10,364)	-	-
Change in Fund Balance	214,259	337,999	436,737	2,104	33,964	(6,100)	-
Fund Balance							
Beginning of year	20,027	106,294	71,393	497	(26,276)	(16,714)	12,632
End of year	\$ 234,286	\$ 444,293	\$ 508,130	\$ 2,601	\$ 7,688	\$ (22,814)	\$ 12,632

CITY OF KERMAN

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2008**

	Capital Projects Funds							Total Non-major Governmental Funds
	CDBG	Kerkhoff Park Capital Project	Park Development	Fire Facility	Community Redevelopment	Street Projects & Development		
Revenue								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 533,891	\$ -	\$ -	\$ 695,952
Developer impact fees	-	-	55,888	8,900	-	51,336	-	116,124
Intergovernmental	54,398	131,969	-	-	-	-	-	1,274,088
Charges for services	-	-	-	-	-	-	-	3,714
Interest	848	-	10,966	3,264	12,230	22,007	-	64,809
Total revenue	55,246	131,969	66,854	12,164	546,121	73,343	-	2,154,687
Expenditures								
Public works and development	-	-	-	-	52,453	84,000	-	254,375
Social services	-	-	-	-	-	-	-	131,950
Tax pass-through	-	-	-	-	282,184	-	-	282,184
Capital outlay	2,930	131,969	327,074	-	-	-	-	461,973
Debt service								
Principal	50,000	-	-	-	9,111	-	-	59,111
Interest and fiscal charges	1,468	-	-	-	3,520	-	-	4,988
Total expenditures	54,398	131,969	327,074	-	347,268	84,000	-	1,194,581
Revenue over (under) expenditures	848	-	(260,220)	12,164	198,853	(10,657)	-	960,106
Other financing sources/(uses)								
Operating transfers in/(out) - net	-	-	(19,849)	-	(170,365)	(69,515)	-	(259,884)
	-	-	(19,849)	-	(170,365)	(69,515)	-	(259,884)
Change in Fund Balance	848	-	(280,069)	12,164	28,488	(80,172)	-	700,222
Fund Balance								
Beginning of year	21,427	-	196,438	72,998	289,237	536,798	-	1,284,751
End of year	\$ 22,275	\$ -	\$ (83,631)	\$ 85,162	\$ 317,725	\$ 456,626	\$ -	\$ 1,984,973