

CITY OF KERMAN

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

JUNE 30, 2010

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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, 2010, 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, 2010, 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 September 17, 2010 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 page 42 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's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. 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.



September 17, 2010

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, 2010. 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 \$33,472,068 which is 6.25% higher than fiscal year 2008/2009 (FY 09). Of this amount \$5,971,855 is unrestricted net assets, which is available to meet the City's ongoing commitments to citizens and creditors. This represents an increase in unrestricted net assets of 10.88% compared to FY 09.

The City's governmental funds ended the year with a combined fund balance of \$4,051,340, which is a decrease of \$709,795 from June 30, 2009. Of this balance, \$3,560,804 is unreserved and available for spending at the City's discretion.

The City's General Fund ended the year with a fund balance of \$1,731,919, a decrease of \$69,866 from the previous year. The entire balance of \$1,731,919 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 governments 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 eighteen 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 Kerman Public Financing Authority Fund, the Park Development 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 City's Funds. A budgetary comparison statement has been provided for the General Fund, the Park Development Fund and the Redevelopment Agency Low and Moderate Income Housing Fund to demonstrate compliance to this budget.

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

Proprietary funds. The City has five different types of proprietary funds, four enterprise funds and one internal service fund. 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: Combining and individual fund statements and schedules begin on page 43 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, 2010 and 2009 were:

City of Kerman Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 4,798,500	\$ 5,979,852	\$ 5,147,966	\$ 3,686,303	\$ 9,946,466	\$ 9,666,155
Capital assets	19,117,866	18,423,535	14,007,019	12,645,477	33,124,885	31,069,012
Total assets	23,916,366	24,403,387	19,154,985	16,331,780	43,341,351	40,735,167
Long-term liabilities outstanding	4,125,286	4,500,239	4,163,937	3,921,615	8,293,223	8,421,854
Other liabilities	407,403	623,486	902,657	186,424	1,310,060	809,910
Total liabilities	4,532,689	5,123,725	5,066,594	4,108,039	9,599,283	9,231,764
Net assets:						
Invested in capital assets, net of related debt	15,231,553	14,114,492	9,949,239	8,818,012	25,180,792	22,932,504
Restricted	2,319,421	3,185,108			2,319,421	3,185,108
Unrestricted	1,832,703	1,980,062	4,139,152	3,405,729	5,971,855	5,385,791
Total net assets	19,383,677	19,279,662	14,088,391	12,223,741	33,472,068	31,503,403

As of June 30, 2010 the City's government-wide total assets exceeded liabilities (net assets) by \$33,472,068. Both governmental activities and business-type activities finished the year with positive net asset balances (\$19,383,677 and \$14,088,391, 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, \$25,180,792 or 75% 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 \$2,319,421, 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 \$5,971,855, or 18% of the total net assets. Governmental activities account for \$1,832,703, or 31% of the total unrestricted net assets. While the business-type activities account for \$4,139,152, or 69% 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 \$19,383,677 or 58% of the total Government-wide net assets. This is an increase of \$104,015 or 0.5% over the June 30, 2009 governmental net assets ending balance.

The following lists key components of this increase:

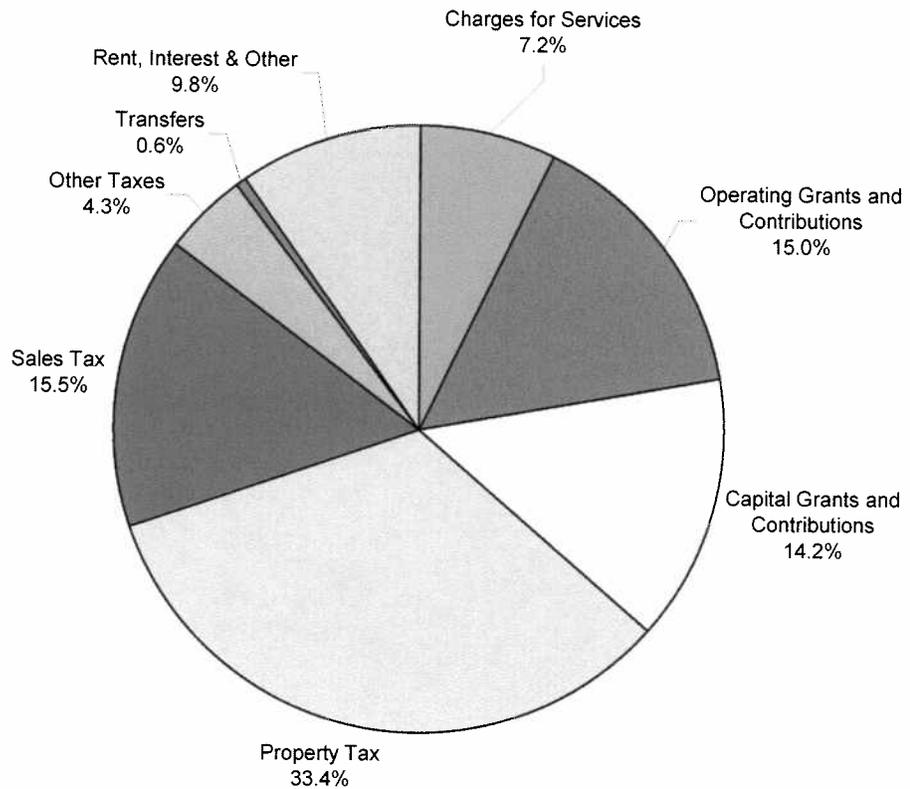
**City of Kerman's
Changes in Net Assets
2009-2010**

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 448,061	\$ 415,764	\$ 3,508,557	\$ 3,527,711	\$ 3,956,618	\$ 3,943,475
Operating grants and contributions	935,872	1,041,811	5,000	5,000	940,872	1,046,811
Capital grants and contributions	886,775	1,172,550	1,819,621		2,706,396	1,172,550
General revenues:						
Property taxes	2,076,686	2,446,903			2,076,686	2,446,903
Sales taxes	966,099	958,822			966,099	958,822
Other taxes	268,217	294,683			268,217	294,683
Developer fees						
Transfers	34,418	250,548	(34,418)	(250,548)		
Rents, interest and other	608,339	777,604	99,187	116,226	707,526	893,830
Total revenues	6,224,467	7,358,685	5,397,947	3,398,389	11,622,414	10,757,074
Expenses:						
General government	454,714	422,696			454,714	422,696
Public safety	2,243,829	2,202,164			2,243,829	2,202,164
Social services	858,027	850,433			858,027	850,433
Public works	1,060,122	1,050,455			1,060,122	1,050,455
Community Development	886,641	1,012,813			886,641	1,012,813
Tax pass-through	441,100	312,839			441,100	312,839
Interest and fiscal charges	176,019	183,996			176,019	183,996
Water			1,422,521	1,243,754	1,422,521	1,243,754
Sewer			1,061,695	918,907	1,061,695	918,907
Disposal			988,035	923,804	988,035	923,804
Storm Drain			61,046	108,387	61,046	108,387
Total expenses	6,120,452	6,035,396	3,533,297	3,194,852	9,653,749	9,230,248
Increase in net assets	104,015	1,323,289	1,864,650	203,537	1,968,665	1,526,826
Net assets – beginning	19,279,662	17,956,373	12,223,741	12,020,204	31,503,403	29,976,577
Net assets - ending	\$19,383,677	\$19,279,662	\$14,088,391	\$12,223,741	\$ 33,472,068	\$ 31,503,403

Total governmental revenues for the year were \$6,224,467, with charges for services comprising 7% of the total revenue. Taxes, which include property, sales, and other taxes, account for \$3,311,002, or 53% of the City's governmental activities revenue.

Total governmental expenses for the year were \$6,120,452. Public Safety accounts for \$2,243,829 or 37% of the total governmental activities expenses, followed by Public Works, Community Development and Social Services with \$1,060,122, \$886,641 and \$858,027 or 17%, 14% and 14%, respectively.

Revenues by Source-Governmental Activities

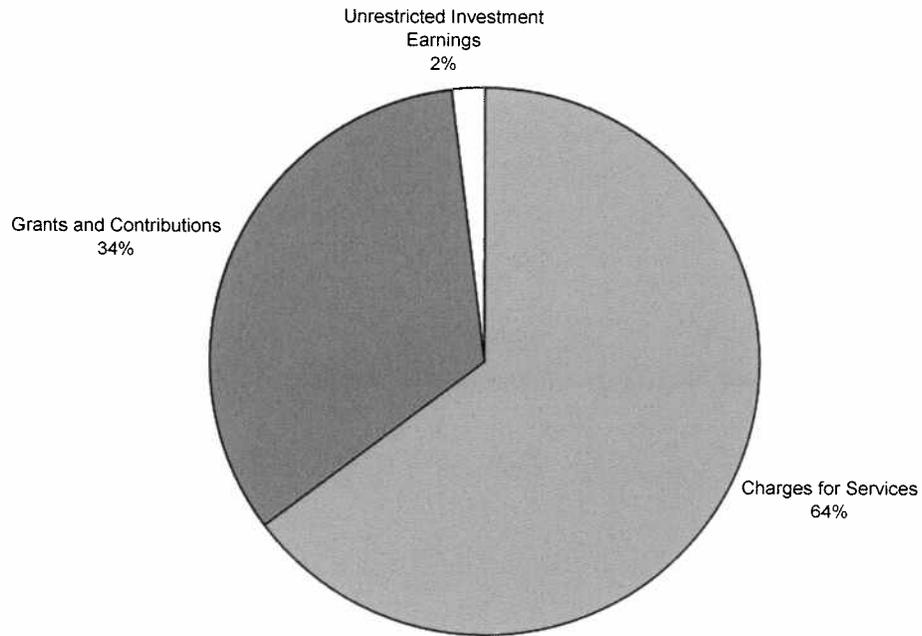


Program revenues which include charges for services, grant revenues and developer capital contributions account for \$2,270,708 of the total governmental activity revenue. The amounts necessary to fully fund the governmental activity programs are made up by “general” revenues such as taxes, interest, and developer fees.

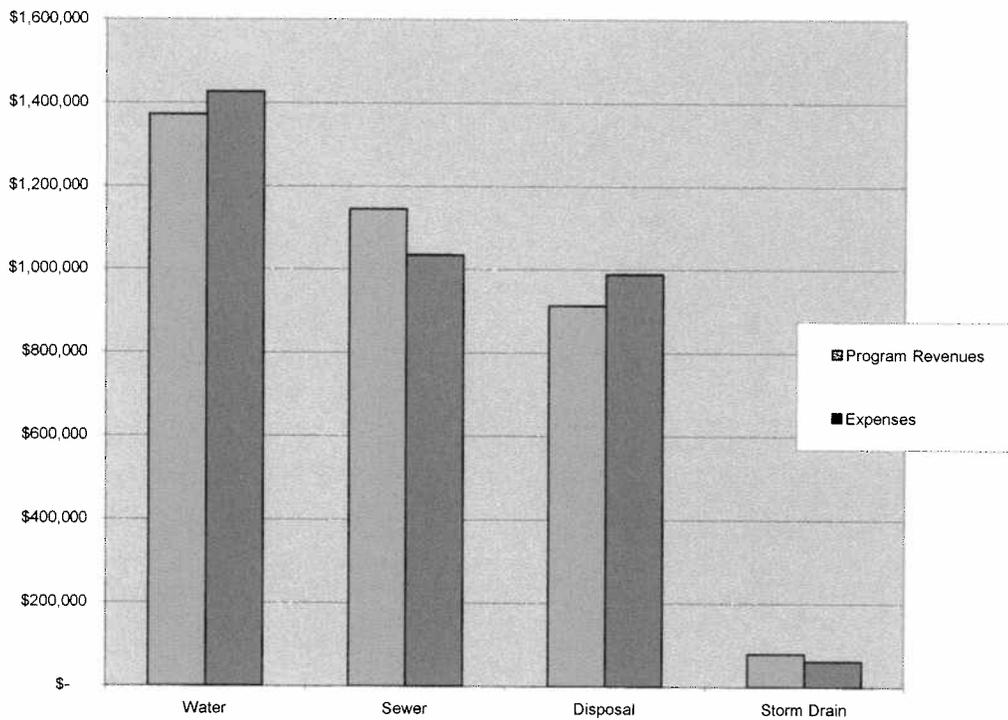
Business-Type Activities

Business-type activities account for \$14,088,391 or 42% of the total Government-wide net assets. This is an increase of \$1,864,650 or 15% compared to June 30, 2009. Charges for current services account for \$3,508,557 or 65% of the total business-type activity revenue.

Revenues by Source-Business-Type Activities



Operating Expenses and Operating Revenues-Business-Type Activities



In a review of the chart Operating Expenses and Operating Revenues, it can be noted in Sewer and in Storm Drain that the operating revenues exceeded operating expenses and were sufficient to cover on-going operational costs and set aside approximately \$110,000 (or 9.6% of operating revenues) and approximately \$18,000 (or 22.8% of operating revenues), respectively, for capital outlay needs and future debt service requirements. Water and Disposal operating revenues were not quite sufficient to cover on-going operating costs in this fiscal year.

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, Public Building Facility Fund, Transit Fund and the Assessment District Fund, ended the year with positive fund balances. The ending fund balance for all funds is \$4,051,340, which is a decrease of \$709,795 or 15% when compared to the prior year balance. Of the total fund balance, \$3,560,804 or 88% 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	\$ 29,370
Long-term receivables	\$ 213
Housing	\$ 294,442
Assets held for resale	\$ 166,511

The general fund is the chief operating fund of the City. As of June 30, 2010, the total fund balance of the general fund was \$1,731,919, with the unreserved fund balance of \$1,731,919. The general fund total fund balance decreased \$69,866, or 4% from the previous fiscal year. The unreserved portion, as indicated, is available for spending at the City's discretion.

The increase in the General Fund Balance indicates that the General Fund had less revenues and transfers in than it had expenditures and transfers out. The original 2009/2010 budget allowed for a \$308,170 net decrease and the final budget allowed for a \$321,872 net decrease to the fund balance. However, the actual end result from current year activity was a \$69,866 net decrease to the General Fund, after capital outlay expenditures of \$12,392. (see page 42)

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 \$63,610. 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 \$212,813, or 7%, more total revenues and \$38,597, or approximately 1% less total expenditures than the final budget allowed for. Expenditures and transfers out exceeded Revenues and transfers in and decreased the General Fund Balance by \$69,866.

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, 2010, amounts to \$33,124,885 (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:

Building Improvements	\$3,163,286
Infrastructure improvements	772,963
Waste Water system improvements (C.I.P.)	1,641,886

Additional information on the City's capital assets can be found in note 6 on page 35.

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

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 2,252,552	\$2,252,552	\$ 3,241,139	\$ 3,241,139	\$ 5,493,691	\$ 5,493,691
Buildings and improvements	6,439,237	3,461,205	8,111,512	8,448,011	14,550,749	11,909,216
Machinery and equipment	579,444	627,788	280,620	352,487	860,064	980,275
Construction in progress	581,350	3,270,477	2,373,748	603,839	2,955,098	3,874,316
Infrastructure	9,265,283	8,811,513			9,265,283	8,811,513
Total	\$19,117,866	\$18,423,535	\$14,007,019	\$12,645,476	\$33,124,885	\$31,069,011

Long-term Debt. The City's long-term debt as of June 30, 2010, was \$7,561,806 with governmental activities accounting for \$3,956,313 or 52% and business-type activities accounting for \$3,605,493 or 48%.

CITY OF KERMAN'S Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
REDIP note payable	\$ 96,313	\$ 105,840			\$ 96,313	\$ 105,840
Section 108 loan guarantee program						
CHFA note payable		343,203				343,203
Note payable, State of California			\$ 127,209	\$ 144,181	127,209	144,181
Note payable, State of California			2,969,999	3,134,999	2,969,999	3,134,999
Bonds payable, sewer revenue bonds			508,285	548,285	508,285	548,285
Kerman PFA L/R Bonds	3,860,000	3,860,000			3,860,000	3,860,000
Total	\$3,956,313	\$4,309,043	\$3,605,493	\$3,827,465	\$7,561,806	\$8,136,505

Economic Factors and Next Year's Budgets and Rates

The City is no longer experiencing the substantial residential growth of the past several years. During the 2010/2011 budget process it was estimated 60 new single-family units would be constructed within the City, compared to 24 homes estimated during the 2009/2010 budget preparations. With the estimated 60 new units come estimated population increases of 180 people in 2010/2011, compared to 72 people in 2009/2010. These growth factors were utilized in developing the City's revenue estimates.

Total citywide expenditures excluding capital expenditures were projected to decrease approximately 0.1%. This decrease reflects an increase in budgeted personnel costs of about 1.8% and a decrease in maintenance and operations costs of approximately 1.9%, overall. Citywide capital expenditure budgets for 2010/2011 increased approximately 19% over the 2009/2010 budgets, with more than \$4.5 million budgeted for Sewer Construction related to the Waste Water Treatment Plant Expansion Project, almost \$1.8 million for Street Construction and \$725,000 budgeted for Water Construction projects.

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, 2010

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 4,173,802	\$ 4,337,040	\$ 8,510,842
Accounts receivable, net	51,719	88,215	139,934
Taxes receivable	160,856	-	160,856
Due from other governments	212,246	649,753	861,999
Interest receivable	1,939	-	1,939
Internal balances	(72,958)	72,958	-
Notes receivable	213	-	213
Land held for resale	166,511	-	166,511
Deferred charges - Bond issuance costs, net	104,172	-	104,172
Capital assets, net of allowance for depreciation	<u>19,117,866</u>	<u>14,007,019</u>	<u>33,124,885</u>
Total assets	<u>23,916,366</u>	<u>19,154,985</u>	<u>43,071,351</u>
LIABILITIES			
Accounts payable and accrued expense	317,396	824,557	1,141,953
Accrued interest payable	43,287	-	43,287
Deposits payable	6,120	78,100	84,220
Deferred revenue	40,600	-	40,600
Long-term liabilities			
Due within one year	84,814	257,685	342,499
Due in more than one year	3,801,499	3,800,095	7,601,594
Compensated absences	<u>238,973</u>	<u>106,157</u>	<u>345,130</u>
Total liabilities	<u>4,532,689</u>	<u>5,066,594</u>	<u>9,599,283</u>
NET ASSETS			
Invested in capital assets, net of related debt	15,231,553	9,949,239	25,180,792
Restricted for capital improvements	793,153	-	793,153
Restricted for debt service	29,370	-	29,370
Restricted for specific projects and programs	1,496,898	-	1,496,898
Unrestricted	<u>1,832,703</u>	<u>4,139,152</u>	<u>5,971,855</u>
Total net assets/(deficit)	<u>\$ 19,383,677</u>	<u>\$ 14,088,391</u>	<u>\$ 33,472,068</u>

See accompanying notes.

CITY OF KERMAN

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2010**

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	\$ 454,714	\$ 65,594	\$ 5,230	\$ -	\$ (383,890)	\$ -	\$ (383,890)
Public works	1,060,122	-	715,781	-	(344,341)	-	(344,341)
Community development	886,641	253,022	-	886,775	253,156	-	253,156
Social services	858,027	55,679	99,685	-	(702,663)	-	(702,663)
Public safety	2,243,829	73,766	115,176	-	(2,054,887)	-	(2,054,887)
Tax pass-through	441,100	-	-	-	(441,100)	-	(441,100)
Debt Service							
Interest and fiscal charges	176,019	-	-	-	(176,019)	-	(176,019)
Total governmental activities	<u>6,120,452</u>	<u>448,061</u>	<u>935,872</u>	<u>886,775</u>	<u>(3,849,744)</u>	<u>-</u>	<u>(3,849,744)</u>
Business-type activities							
Water	1,422,521	1,371,641	-	84,127	-	33,247	33,247
Sewer	1,061,695	1,144,471	-	1,716,256	-	1,799,032	1,799,032
Disposal	988,035	913,038	5,000	-	-	(69,997)	(69,997)
Storm Drain	61,046	79,407	-	19,238	-	37,599	37,599
Total business-type activities	<u>3,533,297</u>	<u>3,508,557</u>	<u>5,000</u>	<u>1,819,621</u>	<u>-</u>	<u>1,799,881</u>	<u>1,799,881</u>
Total primary government	\$ 9,653,749	\$ 3,956,618	\$ 940,872	\$ 2,706,396	(3,849,744)	1,799,881	(2,049,863)
General Revenue							
Property taxes					2,076,686	-	2,076,686
Special assessments					183,518	-	183,518
Sales taxes					966,099	-	966,099
Franchise and other taxes					84,699	-	84,699
Business licenses					65,115	-	65,115
Rents					303,632	-	303,632
Interest income					104,812	99,187	203,999
Other					134,780	-	134,780
Transfers					34,418	(34,418)	-
Total general revenue and transfers					<u>3,953,759</u>	<u>64,769</u>	<u>4,018,528</u>
Change in Net Assets					104,015	1,864,650	1,968,665
Net Assets							
Beginning of year					19,279,662	12,223,741	31,503,403
End of year					<u>\$ 19,383,677</u>	<u>\$ 14,088,391</u>	<u>\$ 33,472,068</u>

See accompanying notes.

CITY OF KERMAN

BALANCE SHEET – GOVERNMENTAL FUNDS JUNE 30, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments	\$ 1,737,096	\$ 2,063,305	\$ 3,800,401
Accounts receivable	51,719	-	51,719
Taxes receivable	160,856	-	160,856
Due from other governments	8,956	203,290	212,246
Interest receivable	1,689	250	1,939
Notes receivable	-	213	213
Land held for resale	-	166,511	166,511
Total assets	<u>\$ 1,960,316</u>	<u>\$ 2,433,569</u>	<u>\$ 4,393,885</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable and accrued expense	\$ 222,277	\$ 73,548	\$ 295,825
Deposits and other liabilities	6,120	-	6,120
Deferred revenue	-	40,600	40,600
Total liabilities	<u>228,397</u>	<u>114,148</u>	<u>342,545</u>
Fund Balance			
Reserved for land held for resale	-	166,511	166,511
Reserved for notes receivable	-	213	213
Reserved for housing funds	-	294,442	294,442
Reserved for debt service	-	29,370	29,370
Unreserved and undesignated/(deficit)	1,731,919	1,828,885	3,560,804
Total fund balance	<u>1,731,919</u>	<u>2,319,421</u>	<u>4,051,340</u>
Total liabilities and fund balance	<u>\$ 1,960,316</u>	<u>\$ 2,433,569</u>	<u>\$ 4,393,885</u>

CITY OF KERMAN

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES JUNE 30, 2010

Total governmental fund balance	\$ 4,051,340
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	18,767,535
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(3,886,313)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(238,973)
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	(43,287)
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.	629,203
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>104,172</u>
Net assets of governmental activities	<u>\$ 19,383,677</u>

CITY OF KERMAN

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2010

	General	Other Governmental Funds	Total Governmental Funds
Revenue			
Taxes	\$ 2,555,130	\$ 820,987	\$ 3,376,117
Licenses, permits and impact fees	226,745	225,125	451,870
Intergovernmental	120,406	1,454,400	1,574,806
Charges for services	193,029	10,925	203,954
Fines and forfeitures	40,078	-	40,078
Rents	64,883	238,749	303,632
Interest	47,268	57,544	104,812
Other	129,827	4,953	134,780
Total revenue	<u>3,377,366</u>	<u>2,812,683</u>	<u>6,190,049</u>
Expenditures			
Current			
General government	372,655	-	372,655
Public works	221,079	850,323	1,071,402
Community development	284,774	364,265	649,039
Social services	582,022	192,271	774,293
Public safety	2,236,930	-	2,236,930
Tax pass-through	-	441,100	441,100
Capital outlay	12,392	1,081,950	1,094,342
Debt Service			
Principal	-	122,730	122,730
Interest and fiscal charges	-	175,270	175,270
Total expenditures	<u>3,709,852</u>	<u>3,227,909</u>	<u>6,937,761</u>
Revenue over/(under) expenditures	(332,486)	(415,226)	(747,712)
Other Financing Sources/(Uses)			
Transfers in/(out) - net	262,620	(224,703)	37,917
	<u>262,620</u>	<u>(224,703)</u>	<u>37,917</u>
Change in Fund Balance	(69,866)	(639,929)	(709,795)
Fund Balance			
Beginning of year	1,801,785	2,959,350	4,761,135
End of year	<u>\$ 1,731,919</u>	<u>\$ 2,319,421</u>	<u>\$ 4,051,340</u>

See accompanying notes.

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, 2010

Net change in fund balance - total governmental funds		\$ (709,795)
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	1,094,342	
Depreciation expense not reported in governmental funds	(387,534)	
Loss on disposal of asset is an expense in the Statement of Activities	<u>(3,812)</u>	
		702,996
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)
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		122,730
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		40,468
In the Statement of Activities interest is accrued on long-term debt, whereas, in governmental funds interest expenditure is reported when due		(749)
Compensated absence costs in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in Governmental Funds		<u>(47,777)</u>
Change in net assets of governmental activities		<u>\$ 104,015</u>

See accompanying notes.

CITY OF KERMAN

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2010

	Business-Type Activities - Enterprise Funds					Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain	Total Proprietary Funds	
ASSETS						
Current assets						
Cash and investments	\$ 2,188,703	\$ 1,866,068	\$ 245,061	\$ 37,208	\$ 4,337,040	\$ 373,401
Accounts receivable, net	54,092	8,880	24,362	881	88,215	-
Due from other governments	-	649,753	-	-	649,753	-
Total current assets	<u>2,242,795</u>	<u>2,524,701</u>	<u>269,423</u>	<u>38,089</u>	<u>5,075,008</u>	<u>373,401</u>
Non-current assets						
Property, plant and equipment, net of allowance for depreciation	5,644,720	7,489,089	128,595	744,615	14,007,019	350,331
Total assets	<u>\$ 7,887,515</u>	<u>\$ 10,013,790</u>	<u>\$ 398,018</u>	<u>\$ 782,704</u>	<u>\$ 19,082,027</u>	<u>\$ 723,732</u>
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	\$ 58,137	\$ 645,295	\$ 71,182	\$ 49,943	\$ 824,557	\$ 21,571
Deposits	78,100	-	-	-	78,100	-
Current portion of long-term debt	217,685	40,000	-	-	257,685	-
Total current liabilities	<u>353,922</u>	<u>685,295</u>	<u>71,182</u>	<u>49,943</u>	<u>1,160,342</u>	<u>21,571</u>
Non-current liabilities						
Long-term debt	2,879,523	920,572	-	-	3,800,095	-
Compensated absences	48,091	46,727	11,339	-	106,157	-
Total noncurrent liabilities	<u>2,927,614</u>	<u>967,299</u>	<u>11,339</u>	<u>-</u>	<u>3,906,252</u>	<u>-</u>
Total liabilities	<u>3,281,536</u>	<u>1,652,594</u>	<u>82,521</u>	<u>49,943</u>	<u>5,066,594</u>	<u>21,571</u>
NET ASSETS						
Invested in capital assets, net of related debt	2,547,512	6,528,517	128,595	744,615	9,949,239	350,331
Unrestricted/(deficit)	2,058,467	1,832,679	186,902	(11,854)	4,066,194	351,830
Total net assets/(deficit)	<u>\$ 4,605,979</u>	<u>\$ 8,361,196</u>	<u>\$ 315,497</u>	<u>\$ 732,761</u>	<u>\$ 14,015,433</u>	<u>\$ 702,161</u>
Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds					72,958	
Net assets of business-type activities						<u>\$ 14,088,391</u>

See accompanying notes.

CITY OF KERMAN

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010**

	Business-Type Activities - Enterprise Funds				Total Proprietary Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain		
Operating Revenue						
Charges for services	\$ 1,370,498	\$ 1,133,900	\$ 913,038	\$ 79,407	\$ 3,496,843	\$ 491,715
Other revenues	1,143	10,571	-	-	11,714	-
Total operating income	<u>1,371,641</u>	<u>1,144,471</u>	<u>913,038</u>	<u>79,407</u>	<u>3,508,557</u>	<u>491,715</u>
Operating Expense						
Contractual services and utilities	510,150	362,950	751,410	18,991	1,643,501	153,626
Personnel	527,408	483,007	137,340	32,242	1,179,997	69,132
Supplies and materials	33,383	43,969	4,564	3,794	85,710	109,365
Depreciation	355,960	144,793	95,303	6,277	602,333	110,286
Total operating expense	<u>1,426,901</u>	<u>1,034,719</u>	<u>988,617</u>	<u>61,304</u>	<u>3,511,541</u>	<u>442,409</u>
Operating income/(loss)	<u>(55,260)</u>	<u>109,752</u>	<u>(75,579)</u>	<u>18,103</u>	<u>(2,984)</u>	<u>49,306</u>
Nonoperating Revenue/(Expense)						
Intergovernmental	-	1,605,660	5,000	-	1,610,660	-
Development impact fees (reimbursements), net	84,127	110,596	-	19,238	213,961	-
Interest income	53,476	38,676	6,249	786	99,187	9,138
Interest expense	(2,466)	(33,767)	-	-	(36,233)	-
Total nonoperating revenue/(expense)	<u>135,137</u>	<u>1,721,165</u>	<u>11,249</u>	<u>20,024</u>	<u>1,887,575</u>	<u>9,138</u>
Net income/(loss) before transfers	79,877	1,830,917	(64,330)	38,127	1,884,591	58,444
Operating Transfers In/(Out)	<u>(103,772)</u>	<u>(98,856)</u>	<u>(32,505)</u>	<u>200,715</u>	<u>(34,418)</u>	<u>(3,499)</u>
Change in Net Assets	<u>(23,895)</u>	<u>1,732,061</u>	<u>(96,835)</u>	<u>238,842</u>	<u>1,850,173</u>	<u>54,945</u>
Net Assets						
Beginning of year	4,629,874	6,629,135	412,332	493,919	12,165,260	647,216
End of year	<u>\$ 4,605,979</u>	<u>\$ 8,361,196</u>	<u>\$ 315,497</u>	<u>\$ 732,761</u>	<u>\$ 14,015,433</u>	<u>\$ 702,161</u>
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds						
					14,477	
Change in net assets of business-type activities (Page 13)					<u>\$ 1,864,650</u>	

See accompanying notes.

CITY OF KERMAN

**COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010**

	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	\$ 1,360,147	\$ 1,163,691	\$ 934,649	\$ 79,939	\$ 3,538,426	\$ 491,715
Payments for contractual services and utilities	(443,068)	(351,162)	(735,926)	(18,364)	(1,548,520)	(140,561)
Payment to employees	(520,875)	(477,511)	(137,362)	(32,242)	(1,167,990)	(69,132)
Payment to suppliers	(33,383)	(43,969)	(4,564)	(3,794)	(85,710)	(109,365)
Net cash provided by (used in) operating activities	362,821	291,049	56,797	25,539	736,206	172,657
Non-capital Financial Activities						
Payments from other governments	-	955,907	5,000	-	960,907	-
Payments (to)/from developers	84,127	110,596	-	19,238	213,961	-
Transfers (to)/from other funds	(103,772)	(98,856)	(32,505)	200,715	(34,418)	(3,499)
Net cash provided by (used in) noncapital financing activities	(19,645)	967,647	(27,505)	219,953	1,140,450	(3,499)
Capital and Related Financing Activities						
Purchase of property, plant and equipment	(71,528)	(1,069,978)	-	(207,470)	(1,348,976)	(101,621)
Principal received (paid) on long-term debt, net	(181,972)	412,287	-	-	230,315	-
Interest paid on long-term debt	(2,466)	(27,414)	-	-	(29,880)	-
Net cash used in capital and related financing activities	(255,966)	(685,105)	-	(207,470)	(1,148,541)	(101,621)
Investing Activities						
Interest received	53,476	38,676	6,249	786	99,187	9,138
Net cash provided by investing activities	53,476	38,676	6,249	786	99,187	9,138
Net Increase (Decrease) in Cash	140,686	612,267	35,541	38,808	827,302	76,675
Cash						
Beginning of year	2,048,017	1,253,801	209,520	(1,600)	3,509,738	296,726
End of year	\$ 2,188,703	\$ 1,866,068	\$ 245,061	\$ 37,208	\$ 4,337,040	\$ 373,401
Cash Flows from Operating Activities						
Operating income (loss)	\$ (55,260)	\$ 109,752	\$ (75,579)	\$ 18,103	\$ (2,984)	\$ 49,306
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	355,960	144,793	95,303	6,277	602,333	110,286
(Increase) Decrease in Accounts Receivable	(11,494)	19,220	21,611	532	29,869	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	73,615	17,284	15,462	627	106,988	13,065
Net Cash Provided by Operating Activities	\$ 362,821	\$ 291,049	\$ 56,797	\$ 25,539	\$ 736,206	\$ 172,657

See accompanying notes.

CITY OF KERMAN

**STATEMENT OF NET ASSETS – FIDUCIARY FUNDS
JUNE 30, 2010**

	<u>Agency Funds</u>	<u>Kerman Unified School District Private-Purpose Trust Fund</u>
ASSETS		
Cash and investments	\$ 315,524	\$ 836,091
Total assets	<u>315,524</u>	<u>836,091</u>
LIABILITIES		
Due to City of Kerman	-	282,756
Agency funds payable	<u>315,524</u>	-
Total liabilities	<u>\$ 315,524</u>	<u>\$ 282,756</u>
Net Assets		
Held in trust for Kerman Unified School District projects	-	<u>553,335</u>
Total net assets	<u>\$ -</u>	<u>\$ 553,335</u>

CITY OF KERMAN

**STATEMENT OF CHANGES IN NET ASSETS – FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2010**

	Kerman Unified School District Private-Purpose Trust Fund
Additions	
Property taxes	\$ 182,313
Interest	12,266
Total governmental activities	<u>194,579</u>
Deductions	
Administrative costs	938
Community development	12,000
Debt service	
Principal	35,000
Interest	16,750
Total general revenue	<u>64,688</u>
CHANGE IN NET ASSETS	129,891
NET ASSETS	
Beginning of year	<u>423,444</u>
End of year	<u>\$ 553,335</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

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, 2010 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, 2010

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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

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, 2010

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, 2010

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 within limits outlined in Memorandums of Understanding (MOU). 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, 2010

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, 2010

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, 2010 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and Investments	\$ 8,510,842
Fiduciary Funds:	
Cash and Investments	<u>1,151,615</u>
Total Cash and Investments	<u>\$ 9,662,457</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

Note 3 – Cash and Investments (Continued)

Cash and investments as of June 30, 2010 consist of the following:

Cash on hand	\$ 850
Deposits with Financial Institutions	5,163,020
Local Agency Investment Fund	148,587
Certificates of deposit	<u>4,350,000</u>
Total Cash and Investments	<u>\$ 9,662,457</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, 2010

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	\$ 148,587	\$ 148,587	\$ -	\$ -
Certificates of deposit	4,350,000	497,928	507,538	3,344,534
Total	\$ 4,498,587	\$ 646,515	\$ 507,538	\$ 3,344,534

CITY OF KERMAN

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010**

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	\$ 148,587	N/A	\$ 148,587
Certificates of deposit	<u>4,350,000</u>	N/A	<u>4,350,000</u>
Total	<u>\$ 4,498,587</u>		<u>\$ 4,498,587</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, 2010:

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

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, 2010

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, 2010 for the City's individual major and non-major funds in the aggregate:

	<u>General</u>	<u>Other Governmental Funds</u>
Governmental Funds		
Accounts	\$ 51,719	\$ -
Taxes	160,856	-
Grants	8,956	203,290
Interest	1,689	250
	<u>\$ 223,220</u>	<u>\$ 203,540</u>

CITY OF KERMAN

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010**

Note 4 – Receivables (Continued)

The following is a summary of receivables at June 30, 2010 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	\$ 58,192	\$ 9,880	\$ 25,762	\$ 981
Grants	-	649,753	-	-
Gross receivables	58,192	659,633	25,762	981
Less: Allowance for uncollectible accounts	(4,100)	(1,000)	(1,400)	(100)
	<u>\$ 54,092</u>	<u>\$ 658,633</u>	<u>\$ 24,362</u>	<u>\$ 881</u>

Note 5 – Proposition 1A Borrowing by the State of California

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties, and special districts. The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City was \$153,901.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority (“California Communities”), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds (“Prop 1A Bonds”) to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

CITY OF KERMAN

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010**

Note 6 – Capital Assets – Capital asset activities for the year ended June 30, 2010 were as follows:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2010</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 2,252,552	\$ -	\$ -	\$ 2,252,552
Construction in progress	3,270,477	456,451	(3,145,578)	581,350
Total capital assets, not being depreciated	<u>5,523,029</u>	<u>456,451</u>	<u>(3,145,578)</u>	<u>2,833,902</u>
Capital assets, being depreciated				
Buildings and improvements	4,224,423	3,091,758	-	7,316,181
Infrastructure	9,547,358	670,292	-	10,217,650
Machinery and equipment	1,728,213	119,228	-	1,847,441
Total capital assets, being depreciated	<u>15,499,994</u>	<u>3,881,278</u>	<u>-</u>	<u>19,381,272</u>
Less accumulated depreciation for				
Buildings and improvements	(763,218)	(113,726)	-	(876,944)
Infrastructure	(735,845)	(216,522)	-	(952,367)
Machinery and equipment	(1,100,425)	(167,572)	-	(1,267,997)
Total accumulated depreciation	<u>(2,599,488)</u>	<u>(497,820)</u>	<u>-</u>	<u>(3,097,308)</u>
Total capital assets, being depreciated, net	<u>12,900,506</u>	<u>3,383,458</u>	<u>-</u>	<u>16,283,964</u>
Governmental activities capital assets, net	<u>\$ 18,423,535</u>	<u>\$ 3,839,909</u>	<u>\$ (3,145,578)</u>	<u>\$ 19,117,866</u>
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 3,241,139	\$ -	\$ -	\$ 3,241,139
Construction in progress	682,524	1,691,223	-	2,373,747
Total capital assets, not being depreciated	<u>3,923,663</u>	<u>1,691,223</u>	<u>-</u>	<u>5,614,886</u>
Capital assets, being depreciated				
Buildings and improvements	11,359,189	229,661	-	11,588,850
Machinery and equipment	974,337	42,990	-	1,017,327
Total capital assets, being depreciated	<u>12,333,526</u>	<u>272,651</u>	<u>-</u>	<u>12,606,177</u>
Less: accumulated depreciation	<u>(3,611,712)</u>	<u>(602,332)</u>	<u>-</u>	<u>(4,214,044)</u>
Total capital assets, being depreciated, net	<u>8,721,814</u>	<u>(329,681)</u>	<u>-</u>	<u>8,392,133</u>
Business-type activities capital assets, net	<u>\$ 12,645,477</u>	<u>\$ 1,361,542</u>	<u>\$ -</u>	<u>\$ 14,007,019</u>

CITY OF KERMAN

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010**

Note 6 – Capital Assets (Continued)

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

Governmental Functions:

General Government	\$	31,481
Public Works and Development		237,602
Social Services		89,470
Public Safety		28,981
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the asset		<u>110,286</u>
	\$	<u>497,820</u>

Business-Type Functions:

Water	\$	355,960
Sewer		144,793
Disposal		95,303
Storm Drain		<u>6,277</u>
	\$	<u>602,333</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

Note 7 – 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.

Long-term debt payable at June 30, 2010 was comprised of the following individual issues:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Current</u> <u>Portion</u>
<u>Governmental Activity Long Term Debt</u>					
Notes Payable					
RDA Note Payable - REDIP	\$ 105,840	\$ -	\$ 9,527	\$ 96,313	\$ 9,814
CHFA Note Payable	343,203	-	343,203	-	-
Kerman Public Finance Authority Bonds					
2007 Lease Revenue Bonds	<u>3,860,000</u>	<u>-</u>	<u>70,000</u>	<u>3,790,000</u>	<u>75,000</u>
Total Governmental Activity Debt	<u>\$ 4,309,043</u>	<u>\$ -</u>	<u>\$ 422,730</u>	<u>\$ 3,886,313</u>	<u>\$ 84,814</u>
<u>Business-Type Activity Long Term Debt</u>					
Bonds Payable					
Sewer Revenue Bond	\$ 548,285	\$ -	\$ 40,000	\$ 508,285	\$ 40,000
Notes Payable					
California Dept. of Water Resources	144,181	-	16,972	127,209	52,685
California Dept. of Water Resources	3,134,999	-	165,000	2,969,999	165,000
California Dept. of Water Resources	<u>-</u>	<u>452,287</u>	<u>-</u>	<u>452,287</u>	<u>-</u>
Total Business-Type Activity Debt	<u>\$ 3,827,465</u>	<u>\$ 452,287</u>	<u>\$ 221,972</u>	<u>\$ 4,057,780</u>	<u>\$ 257,685</u>
<u>Compensated Absences</u>					
Government Activities	<u>\$ 191,196</u>	<u>\$ 47,777</u>	<u>\$ -</u>	<u>\$ 238,973</u>	
Business-Type Activities	<u>\$ 94,150</u>	<u>\$ 12,007</u>	<u>\$ -</u>	<u>\$ 106,157</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, 2010 was \$96,313.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

Note 7 – 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%, was due on November 21, 2012. The loan was paid off during the fiscal year ended June 30, 2010.

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. Interest at the rate of 5% annually is paid semi-annually each April and October. The outstanding balance at June 30, 2010 was \$508,285.

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, 2010 was \$127,209.

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, 2010 and will mature on January 1, 2028. The outstanding balance on the note at June 30, 2010 was \$2,969,999.

California Department of Water Resources Wastewater Upgrade Loan – The City entered into a revolving loan agreement with the State of California, Department of Water Resources in September 2009. The agreement provides for a loan of up to \$6,957,479 for sewer system upgrades. Two million of this loan will be forgiven upon project completion through the receipt of a federal grant in the same amount. The final loan will bear interest at 1% per annum with repayment beginning one year after project completion over a twenty year period. As of June 30, 2010, the City had received \$452,287 in loan funds and \$1,605,660 in federal grant funds.

CITY OF KERMAN

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010**

Note 7 – Long-Term Debt (Continued)

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2010 were as follows:

Years ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 84,814	\$ 168,669	\$ 257,685	\$ 31,033
2012	85,111	165,372	246,638	25,646
2013	90,417	161,967	247,886	22,136
2014	95,732	158,564	210,000	18,914
2015	96,056	155,222	215,000	16,664
2016-2020	529,183	719,028	1,557,287	44,070
2021-2025	600,000	606,704	828,285	82
2026-2030	730,000	461,360	494,999	-
2031-2035	915,000	269,444	-	-
2036-2038	660,000	47,975	-	-
	<u>\$ 3,886,313</u>	<u>\$ 2,914,305</u>	<u>\$ 4,057,780</u>	<u>\$ 158,545</u>

Note 8 – Fund Balance

Fund Balance and Retained Earnings Deficits - The following is a summary of deficit fund balances and retained earnings as of June 30, 2010:

Capital Projects Fund	
Park Development	\$ (264,562)
Public Building Facility	(60,325)
Special Revenue Fund	
Transit	(26,813)
	<u>\$ (351,700)</u>

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

Note 9 – Risk Management

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

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

Note 9 – Risk Management (Continued)

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.

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.

Note 10 – Pension Plan

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

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

Note 10 – Pension Plan (Continued)

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 contributed the full 7% employee portion of the contribution through August 2009 and 6% thereafter. 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, 2010 was 6.614% for the miscellaneous plan and 11.769% 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, 2010, the City's annual pension cost of \$463,230 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, 2008, was 16 years for safety members and 4 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, 2008	\$ 436,314	100%	-
June 30, 2009	\$ 463,230	100%	-
June 30, 2010	\$ 436,540	100%	-

A new State law authorized the creation of risk pools by PERS and required mandatory participation of employers to help reduce large fluctuations in their contribution rates. The City of Kerman is now required to participate in the risk pool. Under this pooling method, assets and liabilities of the participant employers are aggregated. As such, individual employer's retirement data is no longer available.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KERMAN

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Taxes	\$ 2,589,500	\$ 2,423,964	\$ 2,555,130	\$ 131,166
Licenses, permits and impact fees	217,530	230,450	226,745	(3,705)
Intergovernmental	105,000	107,000	120,406	13,406
Charges for services	111,322	151,876	193,029	41,153
Fines and forfeitures	96,800	48,800	40,078	(8,722)
Rents	68,900	66,920	64,883	(2,037)
Interest	25,000	32,000	47,268	15,268
Other	93,600	103,543	129,827	26,284
Total revenue	<u>3,307,652</u>	<u>3,164,553</u>	<u>3,377,366</u>	<u>212,813</u>
Expenditures				
Current				
General government	388,205	388,430	372,655	15,775
Public works	229,796	215,546	221,079	(5,533)
Community development	328,049	282,893	284,774	(1,881)
Social services	607,977	598,604	582,022	16,582
Public safety	2,308,548	2,254,476	2,236,930	17,546
Capital outlay	10,000	8,500	12,392	(3,892)
Total expenditures	<u>3,872,575</u>	<u>3,748,449</u>	<u>3,709,852</u>	<u>38,597</u>
Revenue over (under) expenditures	(564,923)	(583,896)	(332,486)	251,410
Other Financing Sources				
Transfers in (out) - net	<u>256,753</u>	<u>262,024</u>	<u>262,620</u>	<u>596</u>
Net Change in Fund Balance	<u>\$ (308,170)</u>	<u>\$ (321,872)</u>	<u>(69,866)</u>	<u>\$ 252,006</u>
Fund Balance				
Beginning of year			<u>1,801,785</u>	
End of year			<u>\$ 1,731,919</u>	

SUPPLEMENTAL ONLY INFORMATION

CITY OF KERMAN

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010

	Special Revenue Funds							Debt Service Fund		
	Gax Tax	Measure C	Local Transportation	Senior Center	Maintenance District	Transit	Low-Moderate Housing	RDA	Kerman Public Financing Authority	RDA Debt Service
ASSETS										
Cash and investments	\$ 440,747	\$ 50,413	\$ 496,557	\$ (2,672)	\$ 13,214	\$ (38,171)	\$ 295,552	\$ 16,738	\$ 12,632	
Due from other governments	27,300	18,093	70,688	3,634	-	13,319	-	-	-	
Interest receivable	-	-	-	-	-	-	-	-	-	
Notes receivable	-	-	-	-	-	-	-	-	-	
Land held for resale	-	-	-	-	-	-	-	-	-	
Total assets	\$ 468,047	\$ 68,506	\$ 567,245	\$ 962	\$ 13,214	\$ (24,852)	\$ 462,063	\$ 16,738	\$ 12,632	
LIABILITIES AND FUND BALANCE										
Liabilities										
Accounts payable and accrued expense	\$ -	\$ 49,510	\$ -	\$ 436	\$ 5,270	\$ 1,961	\$ 1,110	\$ -	\$ -	
Deferred revenue	-	-	-	-	-	-	-	-	-	
Total liabilities	-	49,510	-	436	5,270	1,961	1,110	-	-	
Fund Balance										
Reserved for land held for resale	-	-	-	-	-	-	166,511	-	-	
Reserved for notes receivable	-	-	-	-	-	-	-	-	-	
Reserved for housing funds	-	-	-	-	-	-	294,442	-	-	
Reserved for debt service	-	-	-	-	-	-	-	16,738	12,632	
Unreserved, undesignated/(deficit)	468,047	18,996	567,245	526	7,944	(26,813)	-	-	-	
Total fund balance	468,047	18,996	567,245	526	7,944	(26,813)	460,953	16,738	12,632	
Total liabilities and fund balance	\$ 468,047	\$ 68,506	\$ 567,245	\$ 962	\$ 13,214	\$ (24,852)	\$ 462,063	\$ 16,738	\$ 12,632	

CITY OF KERMAN

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2010

	Capital Projects Funds							Total	
	CDBG	RZH Park Grant	Public Building Facility	Fire Facility	Street Maintenance & Construction	Street Projects & Development	Park Development		Community Redevelopment
ASSETS									
Cash and investments	\$ (12,187)	\$ -	\$ (60,325)	\$ 117,200	\$ 297,400	\$ 551,356	\$ (223,962)	\$ 108,813	\$ 2,063,305
Due from other governments	30,400	-	-	-	39,856	-	-	-	203,290
Interest receivable	-	-	-	-	-	-	-	250	250
Notes receivable	-	-	-	-	-	-	-	213	213
Land held for resale	-	-	-	-	-	-	-	-	166,511
Total assets	\$ 18,213	\$ -	\$ (60,325)	\$ 117,200	\$ 337,256	\$ 551,356	\$ (223,962)	\$ 109,276	\$ 2,433,569
LIABILITIES AND FUND BALANCE									
Liabilities									
Accounts payable and accrued expense	\$ 5,197	\$ -	\$ -	\$ -	\$ 7,720	\$ -	\$ -	\$ 2,344	\$ 73,548
Deferred revenue	-	-	-	-	-	-	40,600	-	40,600
Total liabilities	\$ 5,197	\$ -	\$ -	\$ -	\$ 7,720	\$ -	\$ 40,600	\$ 2,344	\$ 114,148
Fund Balance									
Reserved for land held for resale	-	-	-	-	-	-	-	-	166,511
Reserved for notes receivable	-	-	-	-	-	-	-	213	213
Reserved for housing funds	-	-	-	-	-	-	-	-	294,442
Reserved for debt service	-	-	-	-	-	-	-	-	29,370
Unreserved, undesignated/(deficit)	13,016	-	(60,325)	117,200	329,536	551,356	(264,562)	106,719	1,828,885
Total fund balance	\$ 13,016	\$ -	\$ (60,325)	\$ 117,200	\$ 329,536	\$ 551,356	\$ (264,562)	\$ 106,932	\$ 2,319,421
Total liabilities and fund balance	\$ 18,213	\$ -	\$ (60,325)	\$ 117,200	\$ 337,256	\$ 551,356	\$ (223,962)	\$ 109,276	\$ 2,433,569

CITY OF KERMAN

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2010

	Special Revenue Funds						Debt Service Fund		
	Gas Tax	Measure C	Local Transportation	Senior Center	Maintenance District	Transit	RDA Low-Moderate Housing	Kerman Public Financing Authority	RDA Debt Service
Revenue									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 183,518	\$ -	\$ 127,494	\$ -	\$ -
Developer impact fees	-	-	-	-	-	-	-	-	-
Intergovernmental	246,172	288,080	181,529	17,291	-	82,394	-	-	-
Charges for services	-	-	-	8,149	-	2,776	-	-	-
Rents	-	-	-	-	-	-	-	238,749	-
Interest	305	6,895	8,752	-	56	-	13,763	18	-
Other	-	-	-	-	-	-	-	-	-
Total revenue	<u>246,477</u>	<u>294,975</u>	<u>190,281</u>	<u>25,440</u>	<u>183,574</u>	<u>85,170</u>	<u>141,257</u>	<u>238,767</u>	-
Expenditures									
Public works	122,205	391,316	152,017	-	165,101	-	-	-	-
Community development	-	-	-	-	-	-	64,687	-	-
Social services	-	-	-	36,092	-	93,350	-	-	-
Tax pass-through	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	181,712	-	-	-	-	221,666	-
Debt service	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	43,203	70,000	-
Interest and fiscal charges	-	-	-	-	-	-	-	172,166	-
Total expenditures	<u>122,205</u>	<u>391,316</u>	<u>333,729</u>	<u>36,092</u>	<u>165,101</u>	<u>93,350</u>	<u>107,890</u>	<u>463,832</u>	-
Revenue over (under) expenditures	124,272	(96,341)	(143,448)	(10,652)	18,473	(8,180)	33,367	(225,065)	-
Other financing sources/(uses)									
Operating transfers in/(out) - net	(21,534)	(8,180)	-	9,024	(4,723)	8,180	-	-	-
	<u>(21,534)</u>	<u>(8,180)</u>	-	<u>9,024</u>	<u>(4,723)</u>	<u>8,180</u>	-	-	-
Change in Fund Balance	102,738	(104,521)	(143,448)	(1,628)	13,750	-	33,367	(225,065)	-
Fund Balance									
Beginning of year	365,309	123,517	710,693	2,154	(5,806)	(26,813)	427,586	241,803	12,632
End of year	<u>\$ 468,047</u>	<u>\$ 18,996</u>	<u>\$ 567,245</u>	<u>\$ 526</u>	<u>\$ 7,944</u>	<u>\$ (26,813)</u>	<u>\$ 460,953</u>	<u>\$ 16,738</u>	<u>\$ 12,632</u>

CITY OF KERMAN

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2010

	Capital Projects Funds							Total Non-major Governmental Funds	
	CDBG	RZH Park Grant	Public Building Facility	Fire Facility	Street Maintenance & Construction	Street Projects & Development	Park Development		Community Redevelopment
Revenue									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 509,975	\$ 820,987
Developer impact fees	-	-	61,319	20,340	-	39,837	103,629	-	225,125
Intergovernmental	208,664	99,552	-	-	330,718	-	-	-	1,462,549
Charges for services	-	-	-	-	-	-	-	-	2,776
Rents	-	-	-	-	-	-	-	-	238,749
Interest	-	-	-	2,675	11,332	13,441	142	165	57,544
Other	-	-	-	-	-	-	4,953	-	4,953
Total revenue	208,664	99,552	61,319	23,015	342,050	53,278	108,724	510,140	2,812,683
Expenditures									
Public works	-	-	-	-	4,841	14,843	-	-	850,323
Community development	1,194	-	60,316	-	-	-	-	238,068	364,265
Social services	-	-	-	-	-	-	62,829	-	192,271
Tax pass-through	-	-	-	-	-	-	-	441,100	441,100
Capital outlay	-	99,552	-	-	526,364	-	-	52,656	1,081,950
Debt service	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	9,527	122,730
Interest and fiscal charges	-	-	-	-	-	-	-	3,104	175,270
Total expenditures	1,194	99,552	60,316	-	531,205	14,843	62,829	744,455	3,227,909
Revenue over (under) expenditures	207,470	-	1,003	23,015	(189,155)	38,435	45,895	(234,315)	(415,226)
Other financing sources/(uses)									
Operating transfers in/(out) - net	(207,470)	-	-	-	-	-	-	-	(224,703)
	(207,470)	-	-	-	-	-	-	-	(224,703)
Change in Fund Balance	-	-	1,003	23,015	(189,155)	38,435	45,895	(234,315)	(639,929)
Fund Balance									
Beginning of year	13,016	-	(61,328)	94,185	518,691	512,921	(310,457)	341,247	2,959,350
End of year	13,016	-	(60,325)	117,200	329,536	551,356	(264,562)	106,932	2,319,421

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

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

We have audited the financial statements of the City of Kerman, as of, and for the year ended June 30, 2010, and have issued our report thereon dated September 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Kerman in a separate letter dated September 17, 2010.

This report is intended solely for the information and use of the City Council, management, federal and state awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to be "Neytiri", written in a cursive style.

September 17, 2010