

CITY OF KERMAN

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

JUNE 30, 2011

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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, 2011, 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.

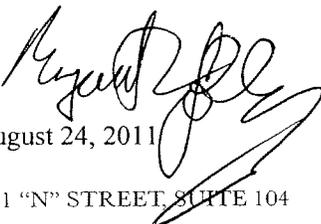
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2011, 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 August 24, 2011 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 pages 42 and 43 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.


August 24, 2011

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, 2011. 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 \$34,809,685 which is 4% higher than fiscal year 2009/2010 (FY 10). Of this amount \$5,276,405 is unrestricted net assets, which is available to meet the City's ongoing commitments to citizens and creditors. This represents a decrease in unrestricted net assets of 12% compared to FY 10.

The City's governmental funds ended the year with a combined fund balance of \$4,254,126, which is an increase of \$202,786 from June 30, 2010. Of this balance, \$1,449,757 is unassigned and available for spending at the City's discretion.

The City's General Fund ended the year with a fund balance of \$1,562,019, a decrease of \$169,900 from the previous year. The entire balance of \$1,562,019 is unassigned.

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 two 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 44 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, 2011 and 2010 were:

City of Kerman Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 5,002,665	\$ 4,798,500	\$ 4,276,718	\$ 5,147,966	\$ 9,279,383	\$ 9,946,466
Capital assets	19,567,644	19,117,866	18,434,237	14,007,019	38,001,881	33,124,885
Total assets	24,570,309	23,916,366	22,710,955	19,154,985	47,281,264	43,071,351
Long-term liabilities outstanding	4,031,835	4,125,286	7,593,299	4,163,937	11,625,134	8,289,223
Other liabilities	504,219	407,403	342,226	902,657	846,445	1,310,060
Total liabilities	4,536,054	4,532,689	7,935,525	5,066,594	12,471,579	9,599,283
Net assets:						
Invested in capital assets, net of related debt	15,766,145	15,231,553	10,962,766	9,949,239	26,728,911	25,180,792
Restricted	2,804,369	2,319,421			2,804,369	2,319,421
Unrestricted	1,463,741	1,832,703	3,812,664	4,139,152	5,276,405	5,971,855
Total net assets	20,034,255	19,383,677	14,775,430	14,088,391	34,809,685	33,472,068

As of June 30, 2011 the City's government-wide total assets exceeded liabilities (net assets) by \$34,809,685. Both governmental activities and business-type activities finished the year with positive net asset balances (\$20,034,255 and \$14,775,430, 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, \$26,728,911 or 77% 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 \$2,804,369, or 8% 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 \$5,276,405, or 15% of the total net assets. Governmental activities account for \$1,463,741, or 28% of the total unrestricted net assets. While the business-type activities account for \$3,812,664, or 72% 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 \$20,034,255 or 58% of the total Government-wide net assets. This is an increase of \$650,578 or 3.4% over the June 30, 2010 governmental net assets ending balance.

The following lists key components of this increase:

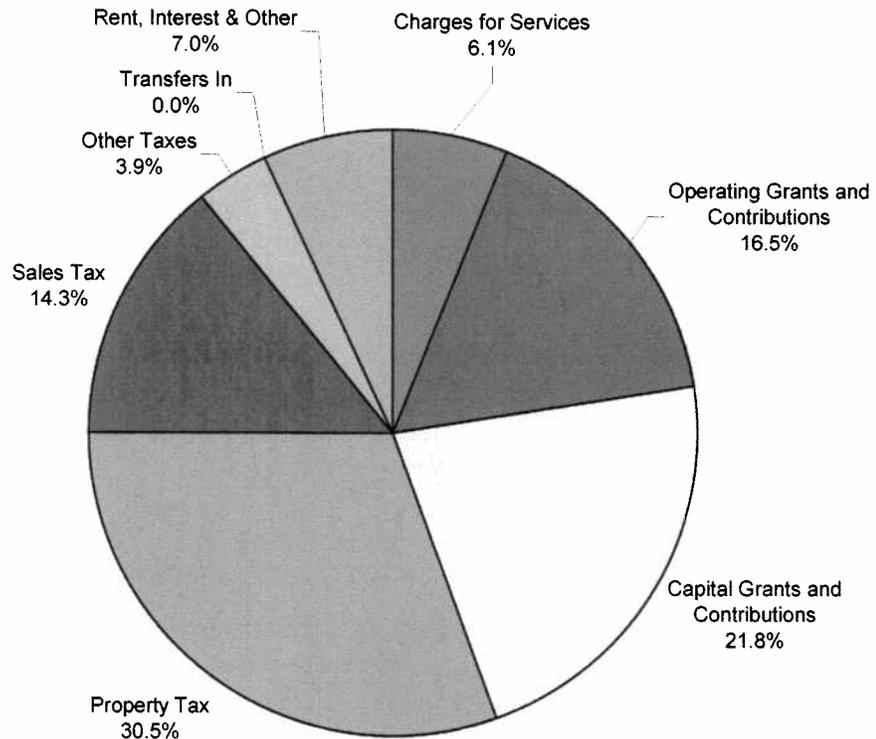
City of Kerman's
Changes in Net Assets
2010-2011

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 426,035	\$ 448,061	\$ 3,437,090	\$ 3,508,557	\$ 3,863,125	\$ 3,956,618
Operating grants and contributions	1,164,611	935,872		5,000	1,164,611	940,872
Capital grants and contributions	1,533,767	886,775	661,553	1,819,621	2,195,320	2,706,396
General revenues:						
Property taxes	2,145,728	2,076,686			2,145,728	2,076,686
Sales taxes	1,003,290	966,099			1,003,290	966,099
Other taxes	272,822	268,217			272,822	268,217
Developer fees						
Transfers	(77,802)	34,418	77,802	(34,418)		
Rents, interest and other	491,136	608,339	67,369	99,187	558,505	707,526
Total revenues	6,959,587	6,224,467	4,243,814	5,397,947	11,203,401	11,622,414
Expenses:						
General government	417,421	454,714			417,421	454,714
Public safety	2,352,236	2,243,829			2,352,236	2,243,829
Social services	857,441	858,027			857,441	858,027
Public works	1,017,986	1,060,122			1,017,986	1,060,122
Community Development	1,185,596	886,641			1,185,596	886,641
Tax pass-through	310,562	441,100			310,562	441,100
Interest and fiscal charges	167,767	176,019			167,767	176,019
Water			1,454,051	1,422,521	1,454,051	1,422,521
Sewer			1,072,745	1,061,695	1,072,745	1,061,695
Disposal			937,496	988,035	937,496	988,035
Storm Drain			92,483	61,046	92,483	61,046
Total expenses	6,309,009	6,120,452	3,556,775	3,533,297	9,865,784	9,653,749
Increase in net assets	650,578	104,015	687,039	1,864,650	1,337,617	1,968,665
Net assets – beginning	19,383,677	19,279,662	14,088,391	12,223,741	33,472,068	31,503,403
Net assets - ending	\$20,034,255	\$19,383,677	\$14,775,430	\$14,088,391	\$ 34,809,685	\$ 33,472,068

Total governmental revenues for the year were \$6,959,587, with charges for services comprising 6% of the total revenue. Taxes, which include property, sales, and other taxes, account for \$3,421,840, or 49% of the City's governmental activities revenue.

Total governmental expenses for the year were \$6,309,009. Public Safety accounts for \$2,352,236 or 37% of the total governmental activities expenses, followed by Community Development, Public Works and Social Services with \$1,185,596, \$1,017,986 and \$857,441 or 19%, 16% and 14%, respectively.

Revenues by Source-Governmental Activities

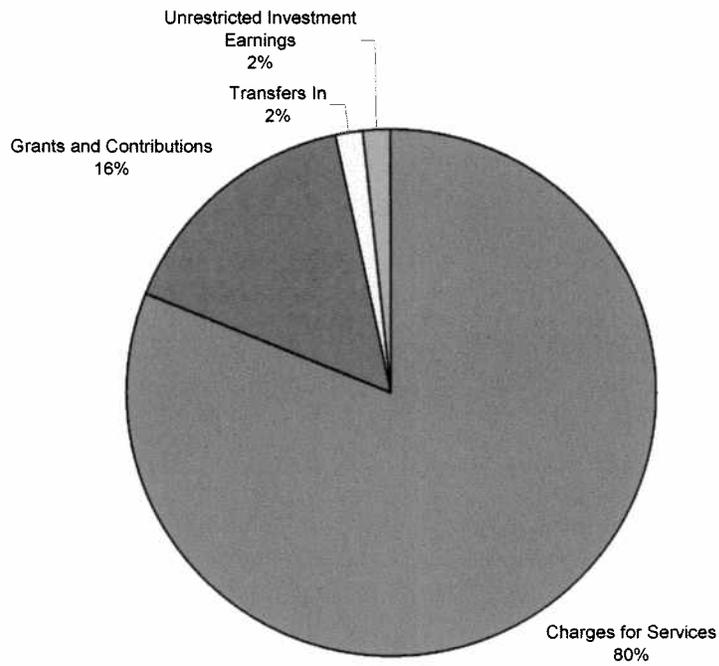


Program revenues which include charges for services, grant revenues and developer capital contributions account for \$3,124,413 or approximately 44% of the total governmental activity revenue. The amounts necessary to fully fund the governmental activity programs are made up by “general” revenues such as taxes, interest, and developer fees.

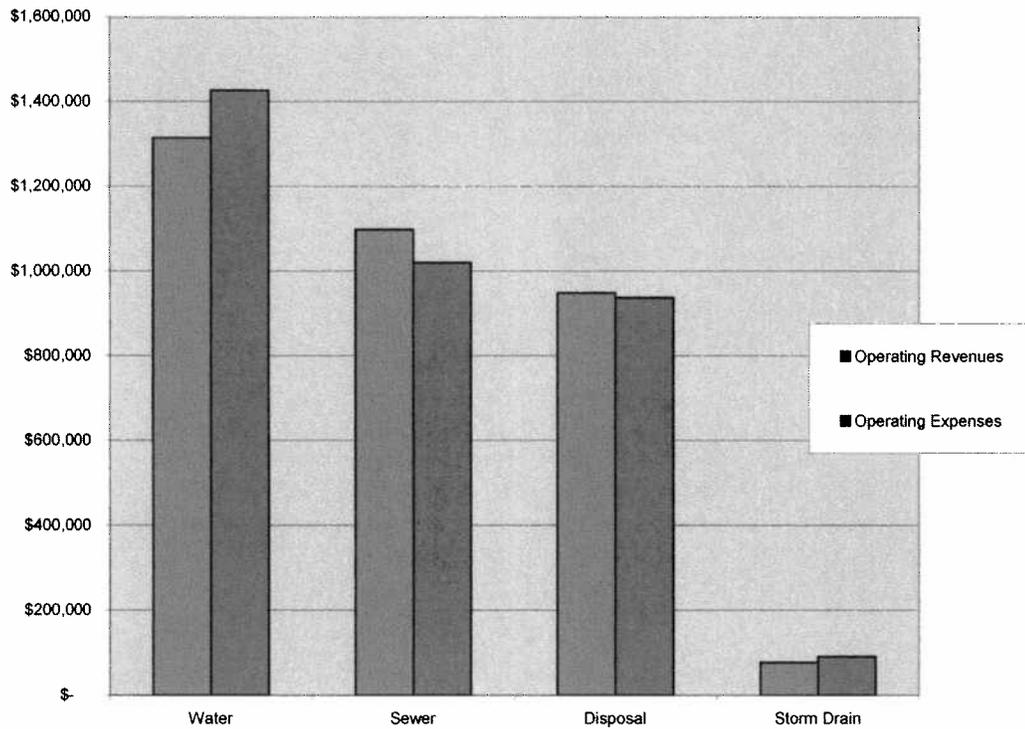
Business-Type Activities

Business-type activities account for \$14,775,430 or 42% of the total Government-wide net assets. This is an increase of \$687,039 or 5% compared to June 30, 2010. Charges for current services account for \$3,437,090 or 89% 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 Disposal that the operating revenues exceeded operating expenses and were sufficient to cover on-going operational costs and set aside approximately \$78,000 (or 7% of operating revenues) and approximately \$12,000 (or 1% of operating revenues), respectively, for capital outlay needs and future debt service requirements. On-going operating costs in Water and Storm Drain exceeded operating revenues by approximately \$113,000 and \$13,000, respectively, 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 \$4,254,126, which is an increase of \$202,786 or 5% when compared to the prior year balance. Of the total fund balance, \$1,449,757 or 34% 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:

Capital Improvement Projects	\$ 12,016
Circulation Improvements	\$1,605,840
Debt Service Reserve	\$ 26,686
Development Activities	\$ 704,938
Lighting, Landscape & Park Maintenance	\$ 10,103
Housing and Redevelopment	\$ 444,786

The general fund is the chief operating fund of the City. As of June 30, 2011, the total fund balance of the general fund was \$1,562,019, with the unassigned fund balance of \$1,562,019. The general fund total fund balance decreased \$169,900, or 10% from the previous fiscal year. The unassigned portion, as indicated, is available for spending at the City's discretion.

The decrease 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 2010/2011 budget allowed for a \$419,268 net decrease and the final budget allowed for a \$146,792 net decrease to the fund balance. However, the actual end result from current year activity was a \$169,900 net decrease to the General Fund, after capital outlay expenditures of \$64,231 for improvements to the City Hall Annex (South Wing). (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 a decrease in unrestricted net assets of \$173,570. 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 \$5,207, or 0.2%, more total revenues and \$6,775, or approximately 0.2% 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 \$169,900.

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, 2011, amounts to \$38,001,881 (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	\$ 500,768
Infrastructure improvements	1,301,765
Machinery & Equipment	155,457
Waste Water System Improvements (C.I.P.)	4,224,476
Other C.I.P.	449,152

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	
	2011	2010	2011	2010	2011	2010
Land	\$ 2,252,552	\$ 2,252,552	\$ 3,241,139	\$ 3,241,139	\$ 5,493,691	\$ 5,493,691
Buildings and improvements	6,307,578	6,439,237	8,055,340	8,111,512	14,362,918	14,550,749
Machinery and equipment	506,859	579,444	288,116	280,620	794,975	860,064
Construction in progress	175,033	581,350	6,849,683	2,373,748	7,024,716	2,955,098
Infrastructure	10,325,622	9,265,283			10,325,622	9,265,283
Total	\$19,567,644	\$19,117,866	\$18,434,278	\$14,007,019	\$38,001,922	\$33,124,885

Long-term Debt. The City’s long-term debt as of June 30, 2011, was \$11,272,970 with governmental activities accounting for \$3,801,499 or 34% and business-type activities accounting for \$7,471,471 or 66%.

CITY OF KERMAN’S Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
REDIP note payable	\$ 86,499	\$ 96,313			\$ 86,499	\$ 96,313
Bonds payable, sewer			\$468,285	\$ 508,285	468,285	508,285
Note payable, State of California			75,152	127,209	75,152	127,209
Note payable, State of California			2,804,999	2,969,999	2,804,999	2,969,999
Note Payable, State of California			4,123,035	452,287	4,123,035	452,287
Kerman PFA L/R Bonds	3,715,000	3,790,000			3,715,000	3,790,000
Total	\$3,801,499	\$3,886,313	\$7,471,471	\$4,057,780	\$11,272,970	\$7,944,093

Economic Factors and Next Year's Budgets and Rates

The City is no longer experiencing the substantial residential growth of the several years prior to 2008. During the 2011/2012 budget process it was estimated that 69 new multi-family units would be constructed within the City, compared to 60 homes estimated during the 2010/2011 budget preparations. With the estimated 69 new units comes an estimated population increase of 138 people in 2011/2012, compared to 180 people in 2010/2011. These growth factors were utilized in developing the City's revenue estimates.

Total citywide expenditures including capital expenditures were projected to decrease by approximately 10.2% in 2011/2012, compared to the 2010/2011 Budget. Excluding capital expenditures, citywide expenditures were projected to increase by approximately 4.4% compared to the 2010/2011 Budget. This decrease reflects an increase in budgeted personnel costs of about 2.5% and an increase in maintenance and operations costs of approximately 6.8%, overall. Citywide capital expenditure budgets for 2011/2012 decreased approximately 26% from the 2010/2011 budgets, with more than \$1.6 million budgeted for Sewer Construction related to the Waste Water Treatment Plant Expansion Project, almost \$2.0 million for Street Construction and \$1.5 million budgeted for Water Construction projects in the 2011/2012 Budget.

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, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 4,042,101	\$ 4,126,105	\$ 8,168,206
Accounts receivable, net	52,323	123,391	175,714
Taxes receivable	168,262	-	168,262
Due from other governments	633,058	-	633,058
Interest receivable	1,046	-	1,046
Internal balances	(27,222)	27,222	-
Land held for resale	32,783	-	32,783
Deferred charges - Bond issuance costs, net	100,314	-	100,314
Capital assets, net of allowance for depreciation	19,567,644	18,434,237	38,001,881
Total assets	<u>24,570,309</u>	<u>22,710,955</u>	<u>47,281,264</u>
LIABILITIES			
Accounts payable and accrued expense	453,035	253,848	706,883
Accrued interest payable	42,385	-	42,385
Deposits payable	8,799	88,378	97,177
Long-term liabilities			
Due within one year	85,112	246,638	331,750
Due in more than one year	3,716,387	7,224,833	10,941,220
Compensated absences	230,336	121,828	352,164
Total liabilities	<u>4,536,054</u>	<u>7,935,525</u>	<u>12,471,579</u>
NET ASSETS			
Invested in capital assets, net of related debt	15,766,145	10,962,766	26,728,911
Restricted for debt service	26,686	-	26,686
Restricted for specific projects and programs	2,777,683	-	2,777,683
Unrestricted	1,463,741	3,812,664	5,276,405
Total net assets/(deficit)	<u>\$ 20,034,255</u>	<u>\$ 14,775,430</u>	<u>\$ 34,809,685</u>

CITY OF KERMAN

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011**

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	\$ 417,421	\$ 101,052	\$ -	\$ -	\$ (316,369)	\$ -	\$ (316,369)
Public works	1,017,986	-	867,482	-	(150,504)	-	(150,504)
Community development	1,185,596	213,427	-	1,533,767	561,598	-	561,598
Social services	857,441	44,427	187,292	-	(625,722)	-	(625,722)
Public safety	2,352,236	67,129	109,837	-	(2,175,270)	-	(2,175,270)
Tax pass-through	310,562	-	-	-	(310,562)	-	(310,562)
Debt Service	167,767	-	-	-	(167,767)	-	(167,767)
Interest and fiscal charges	6,309,009	426,035	1,164,611	1,533,767	(3,184,596)	-	(3,184,596)
Total governmental activities							
Business-type activities							
Water	1,454,051	1,313,520	-	112,748	-	(27,783)	(27,783)
Sewer	1,072,745	1,097,742	-	534,270	-	559,267	559,267
Disposal	937,496	948,450	-	-	-	10,954	10,954
Storm Drain	92,483	77,378	-	14,535	-	(570)	(570)
Total business-type activities	3,556,775	3,437,090	-	661,553	-	541,868	541,868
Total primary government	\$ 9,865,784	\$ 3,863,125	\$ 1,164,611	\$ 2,195,320	(3,184,596)	541,868	(2,642,728)
General Revenue							
Property taxes					2,145,728	-	2,145,728
Special assessments					183,351	-	183,351
Sales taxes					1,003,290	-	1,003,290
Franchise and other taxes					89,471	-	89,471
Business licenses					59,924	-	59,924
Rents					313,331	-	313,331
Interest income					61,591	67,369	128,960
Other					56,290	-	56,290
Transfers					(77,802)	77,802	-
Total general revenue and transfers					3,835,174	145,171	3,980,345
Change in Net Assets					650,578	687,039	1,337,617
Net Assets							
Beginning of year					19,383,677	14,088,391	33,472,068
End of year					\$ 20,034,255	\$ 14,775,430	\$ 34,809,685

See accompanying notes.

CITY OF KERMAN

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General	Street Maintenance & Construction	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 1,214,213	\$ -	\$ 2,605,217	\$ 3,819,430
Accounts receivable	52,323	-	-	52,323
Taxes receivable	168,262	-	-	168,262
Due from other governments	11,358	320,061	301,639	633,058
Interest receivable	1,040	-	6	1,046
Due from other funds	362,723	-	-	362,723
Land held for resale	-	-	32,783	32,783
Total assets	\$ 1,809,919	\$ 320,061	\$ 2,939,645	\$ 5,069,625
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expense	\$ 239,101	\$ -	\$ 204,876	\$ 443,977
Due to other funds	-	185,018	177,705	362,723
Deposits and other liabilities	8,799	-	-	8,799
Total liabilities	\$ 247,900	\$ 185,018	\$ 382,581	\$ 815,499
Fund Balance				
Restricted				
Capital improvement projects	-	-	12,016	12,016
Circulation improvements	-	135,043	1,470,797	1,605,840
Debt service reserve	-	-	26,686	26,686
Development activities	-	-	704,938	704,938
Lighting, landscape & park maintenance	-	-	10,103	10,103
Low-income housing activities	-	-	343,024	343,024
Redevelopment activities	-	-	101,762	101,762
Unassigned	1,562,019	-	(112,262)	1,449,757
Total fund balance	\$ 1,562,019	\$ 135,043	\$ 2,557,064	\$ 4,254,126
Total liabilities and fund balance	\$ 1,809,919	\$ 320,061	\$ 2,939,645	\$ 5,069,625

See accompanying notes.

CITY OF KERMAN

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES JUNE 30, 2011

Total governmental fund balance	\$ 4,254,126
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	19,252,666
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(3,801,499)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(230,336)
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	(42,385)
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.	501,369
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>100,314</u>
Net assets of governmental activities	<u>\$ 20,034,255</u>

CITY OF KERMAN

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011**

	General	Street Maintenance & Construction	Other Governmental Funds	Total Governmental Funds
Revenue				
Taxes	\$ 2,595,486	\$ -	\$ 886,278	\$ 3,481,764
Licenses, permits and impact fees	244,060	-	305,649	549,709
Intergovernmental	207,044	861,894	1,292,729	2,361,667
Charges for services	164,885	-	10,048	174,933
Fines and forfeitures	38,104	-	-	38,104
Rents	70,979	-	242,352	313,331
Interest	21,983	747	38,861	61,591
Other	54,990	-	1,300	56,290
Total revenue	<u>3,397,531</u>	<u>862,641</u>	<u>2,777,217</u>	<u>7,037,389</u>
Expenditures				
Current				
General government	361,389	-	-	361,389
Public works	289,589	3,002	689,761	982,352
Community development	348,692	-	570,720	919,412
Social services	548,020	-	200,510	748,530
Public safety	2,262,479	-	-	2,262,479
Tax pass-through	-	-	310,562	310,562
Capital outlay	64,231	798,716	96,732	959,679
Debt Service				
Principal	-	-	84,814	84,814
Interest and fiscal charges	-	-	168,669	168,669
Total expenditures	<u>3,874,400</u>	<u>801,718</u>	<u>2,121,768</u>	<u>6,797,886</u>
Revenue over/(under) expenditures	(476,869)	60,923	655,449	239,503
Other Financing Sources/(Uses)				
Transfers in/(out) - net	306,969	(255,416)	(88,270)	(36,717)
	<u>306,969</u>	<u>(255,416)</u>	<u>(88,270)</u>	<u>(36,717)</u>
Change in Fund Balance	(169,900)	(194,493)	567,179	202,786
Fund Balance				
Beginning of year	1,731,919	329,536	1,989,885	4,051,340
End of year	<u>\$ 1,562,019</u>	<u>\$ 135,043</u>	<u>\$ 2,557,064</u>	<u>\$ 4,254,126</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, 2011

Net change in fund balance - total governmental funds		\$ 202,786
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	959,679	
Depreciation expense not reported in governmental funds	<u>(474,548)</u>	
		485,131
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		84,814
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		(127,834)
In the Statement of Activities interest is accrued on long-term debt, whereas, in governmental funds interest expenditure is reported when due		902
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>8,637</u>
Change in net assets of governmental activities		<u>\$ 650,578</u>

CITY OF KERMAN

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2011

	Business-Type Activities - Enterprise Funds					Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain	Total Proprietary Funds	
ASSETS						
Current assets						
Cash and investments	\$ 2,252,265	\$ 1,599,349	\$ 235,829	\$ 38,662	\$ 4,126,105	\$ 222,671
Accounts receivable, net	45,385	54,782	16,317	6,907	123,391	-
Total current assets	<u>2,297,650</u>	<u>1,654,131</u>	<u>252,146</u>	<u>45,569</u>	<u>4,249,496</u>	<u>222,671</u>
Non-current assets						
Property, plant and equipment, net of allowance for depreciation	5,311,557	11,935,382	108,560	1,078,738	18,434,237	314,978
Total assets	<u>\$ 7,609,207</u>	<u>\$ 13,589,513</u>	<u>\$ 360,706</u>	<u>\$ 1,124,307</u>	<u>\$ 22,683,733</u>	<u>\$ 537,649</u>
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	\$ 56,929	\$ 80,254	\$ 63,701	\$ 52,964	\$ 253,848	\$ 9,058
Deposits	88,378	-	-	-	88,378	-
Current portion of long-term debt	201,638	45,000	-	-	246,638	-
Total current liabilities	<u>346,945</u>	<u>125,254</u>	<u>63,701</u>	<u>52,964</u>	<u>588,864</u>	<u>9,058</u>
Non-current liabilities						
Long-term debt	2,678,513	4,546,320	-	-	7,224,833	-
Compensated absences	53,205	55,259	13,364	-	121,828	-
Total noncurrent liabilities	<u>2,731,718</u>	<u>4,601,579</u>	<u>13,364</u>	<u>-</u>	<u>7,346,661</u>	<u>-</u>
Total liabilities	<u>3,078,663</u>	<u>4,726,833</u>	<u>77,065</u>	<u>52,964</u>	<u>7,935,525</u>	<u>9,058</u>
NET ASSETS						
Invested in capital assets, net of related debt	2,431,406	7,344,062	108,560	1,078,738	10,962,766	314,978
Unrestricted/(deficit)	2,099,138	1,518,618	175,081	(7,395)	3,785,442	213,613
Total net assets/(deficit)	<u>\$ 4,530,544</u>	<u>\$ 8,862,680</u>	<u>\$ 283,641</u>	<u>\$ 1,071,343</u>	<u>\$ 14,748,208</u>	<u>\$ 528,591</u>
Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds					27,222	
Net assets of business-type activities					<u>\$ 14,775,430</u>	

See accompanying notes.

CITY OF KERMAN

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011**

	Business-Type Activities - Enterprise Funds					Total Proprietary Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain			
Operating Revenue							
Charges for services	\$ 1,313,448	\$ 1,089,470	\$ 948,450	\$ 63,380	\$ 3,414,748	\$ 323,731	
Other revenues	72	8,272	-	13,998	22,342	-	
Total operating income	<u>1,313,520</u>	<u>1,097,742</u>	<u>948,450</u>	<u>77,378</u>	<u>3,437,090</u>	<u>323,731</u>	
Operating Expense							
Contractual services and utilities	468,976	318,196	740,942	42,400	1,570,514	85,008	
Personnel	541,431	507,729	144,778	33,939	1,227,877	72,960	
Supplies and materials	57,655	45,609	5,264	4,865	113,393	188,290	
Depreciation	358,032	148,490	45,696	9,439	561,657	114,368	
Total operating expense	<u>1,426,094</u>	<u>1,020,024</u>	<u>936,680</u>	<u>90,643</u>	<u>3,473,441</u>	<u>460,626</u>	
Operating income/(loss)	<u>(112,574)</u>	<u>77,718</u>	<u>11,770</u>	<u>(13,265)</u>	<u>(36,351)</u>	<u>(136,895)</u>	
Nonoperating Revenue/(Expense)							
Intergovernmental	-	394,340	-	-	394,340	-	
Development impact fees	112,748	139,930	-	14,535	267,213	-	
Interest income	38,644	23,575	4,374	776	67,369	4,410	
Interest expense	(6,330)	(31,268)	-	-	(37,598)	-	
Total nonoperating revenue/(expense)	<u>145,062</u>	<u>526,577</u>	<u>4,374</u>	<u>15,311</u>	<u>691,324</u>	<u>4,410</u>	
Net income/(loss) before transfers	32,488	604,295	16,144	2,046	654,973	(132,485)	
Operating Transfers In/(Out)	<u>(107,923)</u>	<u>(102,811)</u>	<u>(48,000)</u>	<u>336,536</u>	<u>77,802</u>	<u>(41,085)</u>	
Change in Net Assets	<u>(75,435)</u>	<u>501,484</u>	<u>(31,856)</u>	<u>338,582</u>	<u>732,775</u>	<u>(173,570)</u>	
Net Assets							
Beginning of year	4,605,979	8,361,196	315,497	732,761	14,015,433	702,161	
End of year	<u>\$ 4,530,544</u>	<u>\$ 8,862,680</u>	<u>\$ 283,641</u>	<u>\$ 1,071,343</u>	<u>\$ 14,748,208</u>	<u>\$ 528,591</u>	

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

(45,736)

Change in net assets of business-type activities (Page 13)

\$ 687,039

CITY OF KERMAN

**COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011**

	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	\$ 1,332,505	\$ 1,051,840	\$ 956,495	\$ 71,352	\$ 3,412,192	\$ 323,731
Payments for contractual services and utilities	(470,184)	(883,237)	(748,423)	(39,379)	(2,141,223)	(97,521)
Payments to employees	(536,317)	(499,197)	(142,753)	(33,939)	(1,212,206)	(72,960)
Payment to suppliers	(57,655)	(45,609)	(5,264)	(4,865)	(113,393)	(188,290)
Net cash provided by (used in) operating activities	268,349	(376,203)	60,055	(6,831)	(54,630)	(35,040)
Non-capital Financial Activities						
Payments from other governments	-	1,044,093	-	-	1,044,093	-
Payments from developers	112,748	139,930	-	14,535	267,213	-
Transfers (to)/from other funds	(107,923)	(102,811)	(48,000)	336,536	77,802	(41,085)
Net cash provided by (used in) noncapital financing activities	4,825	1,081,212	(48,000)	351,071	1,389,108	(41,085)
Capital and Related Financing Activities						
Purchase of property, plant and equipment	(24,869)	(4,594,783)	(25,661)	(343,562)	(4,988,875)	(79,015)
Principal received (paid) on long-term debt, net	(217,057)	3,630,748	-	-	3,413,691	-
Interest paid on long-term debt	(6,330)	(31,268)	-	-	(37,598)	-
Net cash used in capital and related financing activities	(248,256)	(995,303)	(25,661)	(343,562)	(1,612,782)	(79,015)
Investing Activities						
Interest received	38,644	23,575	4,374	776	67,369	4,410
Net cash provided by investing activities	38,644	23,575	4,374	776	67,369	4,410
Net Increase (Decrease) in Cash	63,562	(266,719)	(9,232)	1,454	(210,935)	(150,730)
Cash						
Beginning of year	2,188,703	1,866,068	245,061	37,208	4,337,040	373,401
End of year	\$ 2,252,265	\$ 1,599,349	\$ 235,829	\$ 38,662	\$ 4,126,105	\$ 222,671
Cash Flows from Operating Activities						
Operating income (loss)	\$ (112,574)	\$ 77,718	\$ 11,770	\$ (13,265)	\$ (36,351)	\$ (136,895)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	358,032	148,490	45,696	9,439	561,657	114,368
(Increase) Decrease in Accounts Receivable	8,707	(45,902)	8,045	(6,026)	(35,176)	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	14,184	(556,509)	(5,456)	3,021	(544,760)	(12,513)
Net Cash Provided by (Used in) Operating Activities	\$ 268,349	\$ (376,203)	\$ 60,055	\$ (6,831)	\$ (54,630)	\$ (35,040)

See accompanying notes.

CITY OF KERMAN

STATEMENT OF NET ASSETS – FIDUCIARY FUNDS

JUNE 30, 2011

	<u>Agency Funds</u>	<u>Kerman Unified School District Private-Purpose Trust Fund</u>
ASSETS		
Cash and investments	\$ 207,831	\$ 96,703
Total assets	<u>207,831</u>	<u>96,703</u>
LIABILITIES		
Due to City of Kerman	-	-
Agency funds payable	<u>207,831</u>	-
Total liabilities	<u>\$ 207,831</u>	<u>\$ -</u>
Net Assets		
Held in trust for Kerman Unified School District projects	<u>-</u>	<u>96,703</u>
Total net assets	<u>\$ -</u>	<u>\$ 96,703</u>

CITY OF KERMAN

**STATEMENT OF CHANGES IN NET ASSETS – FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2011**

	Kerman Unified School District Private-Purpose Trust Fund
Additions	
Property taxes	\$ 184,223
Interest	<u>2,284</u>
Total governmental activities	<u>186,507</u>
Deductions	
Administrative costs	975
Community development	591,164
Debt service	
Principal	36,000
Interest	<u>15,000</u>
Total general revenue	<u>643,139</u>
CHANGE IN NET ASSETS	(456,632)
NET ASSETS	
Beginning of year	<u>553,335</u>
End of year	<u>\$ 96,703</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

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, 2011 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, 2011

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.

Street Maintenance & Construction Fund – The Street Maintenance and Construction Fund accounts for the construction and maintenance of the street network system of the City. Financing is provided through governmental funding through the Regional Surface Transportation Program and the Traffic Congestion Relief Act of 2000.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

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, 2011

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, 2011

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, 2011

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 - 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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 1 – Summary of Significant Accounting Policies (Continued)

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

- Nonspendable fund balance typically includes inventories, prepaid items, and other items that must be maintained intact pursuant to legal or contractual requirements, such as endowments.
- Restricted fund balance category includes amounts that can be spent only for specific purposes imposed by creditors, grantors, contributors, or laws or regulations of other governments or through enabling legislations.
- Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has the authority to establish, modify, or rescind a fund balance commitment.
- Assigned fund balance are amounts designated by the City Council for specific purposes and do not meet the criteria to be classified as restricted or committed.
- Unassigned fund balance is the residual classification that includes all spendable amounts in the General Fund not contained in other classifications.

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

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

Implementation of New GASB Pronouncement – The District adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, a new accounting standard which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

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, 2011 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and Investments	\$ 8,168,206
Fiduciary Funds:	
Cash and Investments	<u>304,534</u>
Total Cash and Investments	<u>\$ 8,472,740</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 3 – Cash and Investments (Continued)

Cash and investments as of June 30, 2011 consist of the following:

Cash on hand	\$ 850
Deposits with Financial Institutions	3,839,668
Local Agency Investment Fund	149,343
Certificates of deposit	4,482,879
Total Cash and Investments	<u>\$ 8,472,740</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, 2011

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	\$ 149,343	\$ 149,343	\$ -	\$ -
Certificates of deposit	4,482,879	696,858	1,150,041	2,635,980
Total	\$ 4,632,222	\$ 846,201	\$ 1,150,041	\$ 2,635,980

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

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	Rating as of Year End
		Legal Rating	Not Rated
Local Agency Investment Fund	\$ 149,343	N/A	\$ 149,343
Certificates of deposit	<u>4,482,879</u>	N/A	<u>4,482,879</u>
Total	<u>\$ 4,632,222</u>		<u>\$ 4,632,222</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. The City did not have any investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of total City-wide investments as of June 30, 2011.

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, 2011

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, 2011 for the City's individual major and non-major funds in the aggregate:

	<u>General</u>	<u>Street Maintenance & Construction</u>	<u>Other Governmental Funds</u>
Governmental Funds			
Accounts	\$ 52,323	\$ -	\$ -
Taxes	168,262	-	-
Grants	11,358	320,061	301,639
Interest	1,040	-	6
	<u>\$ 232,983</u>	<u>\$ 320,061</u>	<u>\$ 301,645</u>

The following is a summary of receivables at June 30, 2011 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	\$ 49,485	\$ 55,782	\$ 17,717	\$ 7,007
Gross receivables	49,485	55,782	17,717	7,007
Less: Allowance for uncollectible accounts	(4,100)	(1,000)	(1,400)	(100)
	<u>\$ 45,385</u>	<u>\$ 54,782</u>	<u>\$ 16,317</u>	<u>\$ 6,907</u>

CITY OF KERMAN

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011**

Note 5 – Capital Assets – Capital asset activities for the year ended June 30, 2011 were as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 2,252,552	\$ -	\$ -	\$ 2,252,552
Construction in progress	581,350	143,606	(549,923)	175,033
Total capital assets, not being depreciated	<u>2,833,902</u>	<u>143,606</u>	<u>(549,923)</u>	<u>2,427,585</u>
Capital assets, being depreciated				
Buildings and improvements	7,316,181	64,231	-	7,380,412
Infrastructure	10,217,650	1,301,765	-	11,519,415
Machinery and equipment	1,847,441	79,015	-	1,926,456
Total capital assets, being depreciated	<u>19,381,272</u>	<u>1,445,011</u>	<u>-</u>	<u>20,826,283</u>
Less accumulated depreciation for				
Buildings and improvements	(876,944)	(195,890)	-	(1,072,834)
Infrastructure	(952,367)	(241,426)	-	(1,193,793)
Machinery and equipment	(1,267,997)	(151,600)	-	(1,419,597)
Total accumulated depreciation	<u>(3,097,308)</u>	<u>(588,916)</u>	<u>-</u>	<u>(3,686,224)</u>
Total capital assets, being depreciated, net	<u>16,283,964</u>	<u>856,095</u>	<u>-</u>	<u>17,140,059</u>
Governmental activities capital assets, net	<u>\$ 19,117,866</u>	<u>\$ 999,701</u>	<u>\$ (549,923)</u>	<u>\$ 19,567,644</u>
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 3,241,139	\$ -	\$ -	\$ 3,241,139
Construction in progress	2,373,747	4,530,022	(54,126)	6,849,643
Total capital assets, not being depreciated	<u>5,614,886</u>	<u>4,530,022</u>	<u>(54,126)</u>	<u>10,090,782</u>
Capital assets, being depreciated				
Buildings and improvements	11,588,850	436,537	-	12,025,387
Machinery and equipment	1,017,327	76,442	-	1,093,769
Total capital assets, being depreciated	<u>12,606,177</u>	<u>512,979</u>	<u>-</u>	<u>13,119,156</u>
Less: accumulated depreciation	<u>(4,214,044)</u>	<u>(561,657)</u>	<u>-</u>	<u>(4,775,701)</u>
Total capital assets, being depreciated, net	<u>8,392,133</u>	<u>(48,678)</u>	<u>-</u>	<u>8,343,455</u>
Business-type activities capital assets, net	<u>\$ 14,007,019</u>	<u>\$ 4,481,344</u>	<u>\$ (54,126)</u>	<u>\$ 18,434,237</u>

CITY OF KERMAN

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011**

Note 5 – Capital Assets (Continued)

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

Governmental Functions:

General Government	\$	97,575
Public Works and Development		266,184
Social Services		90,790
Public Safety		19,999
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the asset		<u>114,368</u>
	\$	<u>588,916</u>

Business-Type Functions:

Water	\$	358,032
Sewer		148,490
Disposal		45,696
Storm Drain		<u>9,439</u>
	\$	<u>561,657</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 6 – Long-Term Debt

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

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

Long-term debt payable at June 30, 2011 was comprised of the following individual issues:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Current Portion
<u>Governmental Activity Long Term Debt</u>					
Notes Payable					
RDA Note Payable - REDIP	\$ 96,313	\$ -	\$ 9,814	\$ 86,499	\$ 10,112
Kerman Public Finance Authority Bonds					
2007 Lease Revenue Bonds	<u>3,790,000</u>	<u>-</u>	<u>75,000</u>	<u>3,715,000</u>	<u>75,000</u>
Total Governmental Activity Debt	<u>\$ 3,886,313</u>	<u>\$ -</u>	<u>\$ 84,814</u>	<u>\$ 3,801,499</u>	<u>\$ 85,112</u>
<u>Business-Type Activity Long Term Debt</u>					
Bonds Payable					
Sewer Revenue Bond	\$ 508,285	\$ -	\$ 40,000	\$ 468,285	\$ 45,000
Notes Payable					
California Dept. of Water Resources	127,209	-	52,057	75,152	36,638
California Dept. of Water Resources	2,969,999	-	165,000	2,804,999	165,000
California Dept. of Water Resources	<u>452,287</u>	<u>3,670,748</u>	<u>-</u>	<u>4,123,035</u>	<u>-</u>
Total Business-Type Activity Debt	<u>\$ 4,057,780</u>	<u>\$ 3,670,748</u>	<u>\$ 257,057</u>	<u>\$ 7,471,471</u>	<u>\$ 246,638</u>
<u>Compensated Absences</u>					
Government Activities	<u>\$ 238,973</u>	<u>\$ -</u>	<u>\$ 8,637</u>	<u>\$ 230,336</u>	
Business-Type Activities	<u>\$ 106,157</u>	<u>\$ 15,671</u>	<u>\$ -</u>	<u>\$ 121,828</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, 2011 was \$86,499.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 6 – Long-Term Debt (Continued)

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, 2011 was \$468,285.

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, 2011 was \$75,152.

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, 2011 and will mature on January 1, 2028. The outstanding balance on the note at June 30, 2011 was \$2,804,999.

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, 2011, the City had received \$4,123,035 in loan funds and \$1,605,660 in federal grant funds.

CITY OF KERMAN

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011**

Note 6 – Long-Term Debt (Continued)

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2011 were as follows:

Years ending June 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 85,112	\$ 165,372	\$ 246,638	\$ 25,646
2013	90,417	161,967	248,514	22,136
2014	95,732	158,564	210,000	18,914
2015	96,056	155,222	215,000	16,664
2016	101,390	151,727	215,000	14,164
2017-2021	537,792	698,428	5,181,320	29,988
2022-2026	625,000	580,624	825,000	-
2027-2031	760,000	427,207	329,999	-
2032-2036	960,000	224,912	-	-
2037-2038	450,000	21,613	-	-
	<u>\$ 3,801,499</u>	<u>\$ 2,745,636</u>	<u>\$ 7,471,471</u>	<u>\$ 127,512</u>

Note 7 – Fund Balance

Fund Balance and Retained Earnings Deficits - The following is a summary of deficit fund balances and retained earnings as of June 30, 2011:

Capital Project Funds	
Park Development	\$ (9,694)
Public Building Facility	(74,178)
Special Revenue Funds	
Senior Center	(1,216)
Transit	(27,174)
	<u>\$ (112,262)</u>

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

Note 8 – Risk Management

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

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 8 – 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 9 – Pension Plan

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

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 9 – 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, 2011 was 6.755% for the miscellaneous plan and 11.874% 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, 2011, the City's annual pension cost of \$422,794 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2008, 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, 2009	\$ 463,230	100%	-
June 30, 2010	\$ 436,540	100%	-
June 30, 2011	\$ 422,794	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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Taxes	\$ 2,467,750	\$ 2,628,459	\$ 2,595,486	\$ (32,973)
Licenses, permits and impact fees	248,138	229,191	244,060	14,869
Intergovernmental	106,500	181,620	207,044	25,424
Charges for services	170,398	147,288	164,885	17,597
Fines and forfeitures	58,250	36,805	38,104	1,299
Rents	61,420	71,420	70,979	(441)
Interest	20,000	20,000	21,983	1,983
Other	69,700	77,541	54,990	(22,551)
Total revenue	<u>3,202,156</u>	<u>3,392,324</u>	<u>3,397,531</u>	<u>5,207</u>
Expenditures				
Current				
General government	374,325	362,080	361,389	691
Public works	286,718	282,232	289,589	(7,357)
Community development	373,560	366,751	348,692	18,059
Social services	576,903	574,921	548,020	26,901
Public safety	2,333,115	2,290,791	2,262,479	28,312
Capital outlay	5,700	4,400	64,231	(59,831)
Total expenditures	<u>3,950,321</u>	<u>3,881,175</u>	<u>3,874,400</u>	<u>6,775</u>
Revenue over (under) expenditures	(748,165)	(488,851)	(476,869)	11,982
Other Financing Sources				
Transfers in (out) - net	<u>328,897</u>	<u>342,059</u>	<u>306,969</u>	<u>(35,090)</u>
Net Change in Fund Balance	<u>\$ (419,268)</u>	<u>\$ (146,792)</u>	<u>(169,900)</u>	<u>\$ (23,108)</u>
Fund Balance				
Beginning of year			<u>1,731,919</u>	
End of year			<u>\$ 1,562,019</u>	

CITY OF KERMAN

**BUDGETARY COMPARISON SCHEDULE
STREET MAINTENANCE & CONSTRUCTION FUND
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ 845,108	\$ 845,108	\$ 861,894	\$ 16,786
Interest	1,000	1,000	747	(253)
Total revenue	<u>846,108</u>	<u>846,108</u>	<u>862,641</u>	<u>16,533</u>
Expenditures				
Public works	-	-	3,002	(3,002)
Capital outlay	1,144,495	1,144,495	798,716	345,779
Total expenditures	<u>1,144,495</u>	<u>1,144,495</u>	<u>801,718</u>	<u>342,777</u>
Revenue over expenditures	(298,387)	(298,387)	60,923	359,310
Other Financing Sources/(Uses)				
Transfers in/(out) - net	-	-	(255,416)	(255,416)
Change in Fund Balance	<u>\$ (298,387)</u>	<u>\$ (298,387)</u>	(194,493)	<u>\$ 103,894</u>
Fund Balance				
Beginning of year			<u>329,536</u>	
End of year			<u>\$ 135,043</u>	

SUPPLEMENTAL ONLY INFORMATION

**CITY OF KERMAN
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011**

	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	\$ 594,206	\$ 9,700	\$ 689,907	\$ -	\$ 17,984	\$ -	\$ 462,050	\$ 15,414	\$ 12,632	
Due from other governments	22,573	25,999	156,400	7,107	-	17,289	-	-	-	
Interest receivable	-	-	-	-	-	-	-	-	-	
Land held for resale	-	-	-	-	-	-	32,783	-	-	
Total assets	\$ 616,779	\$ 35,699	\$ 846,307	\$ 7,107	\$ 17,984	\$ 17,289	\$ 494,833	\$ 15,414	\$ 12,632	
LIABILITIES AND FUND BALANCE										
Liabilities										
Accounts payable and accrued expense	\$ 10,938	\$ 12,853	\$ 4,197	\$ 2,011	\$ 7,881	\$ 1,950	\$ 151,809	\$ 1,360	\$ -	
Due to other funds	-	-	-	6,312	-	42,513	-	-	-	
Total liabilities	10,938	12,853	4,197	8,323	7,881	44,463	151,809	1,360	-	
Fund Balance										
Restricted										
Capital improvement projects	-	-	-	-	-	-	-	-	-	
Circulation improvements	605,841	22,846	842,110	-	-	-	-	-	-	
Debt service reserve	-	-	-	-	-	-	-	14,054	12,632	
Development activities	-	-	-	-	-	-	-	-	-	
Lighting, landscape & park maintenance	-	-	-	-	10,103	-	-	-	-	
Low-income housing activities	-	-	-	-	-	-	343,024	-	-	
Redevelopment activities	-	-	-	-	-	-	-	-	-	
Unassigned	-	-	-	(1,216)	-	(27,174)	-	-	-	
Total fund balance	605,841	22,846	842,110	(1,216)	10,103	(27,174)	343,024	14,054	12,632	
Total liabilities and fund balance	\$ 616,779	\$ 35,699	\$ 846,307	\$ 7,107	\$ 17,984	\$ 17,289	\$ 494,833	\$ 15,414	\$ 12,632	

CITY OF KERMAN

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2011

	Capital Projects Funds							Total Non-major Governmental Funds
	CDBG	Jobs/Housing Mitigation	Public Building Facility	Fire Facility	Street Projects & Development	Park Development	Community Redevelopment	
ASSETS								
Cash and investments	\$ 12,016	\$ 15,876	\$ -	\$ 144,112	\$ 527,361	\$ -	\$ 103,959	\$ 2,605,217
Due from other governments	-	5,501	5,540	6,947	8,827	45,456	-	301,639
Interest receivable	-	-	-	-	-	-	6	6
Land held for resale	-	-	-	-	-	-	-	32,783
Total assets	\$ 12,016	\$ 21,377	\$ 5,540	\$ 151,059	\$ 536,188	\$ 45,456	\$ 103,965	\$ 2,939,645
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts payable and accrued expense	\$ -	\$ -	\$ -	\$ -	\$ 3,686	\$ 5,988	\$ 2,203	\$ 204,876
Due to other funds	-	-	79,718	-	-	49,162	-	177,705
Total liabilities	-	-	79,718	-	3,686	55,150	2,203	382,581
Fund Balance								
Restricted								
Capital improvement projects	12,016	-	-	-	-	-	-	12,016
Circulation improvements	-	-	-	-	-	-	-	1,470,797
Debt service reserve	-	-	-	-	-	-	-	26,686
Development activities	-	21,377	-	151,059	532,502	-	-	704,938
Lighting, landscape & park maintenance	-	-	-	-	-	-	-	10,103
Low-income housing activities	-	-	-	-	-	-	-	343,024
Redevelopment activities	-	-	-	-	-	-	101,762	101,762
Unassigned	-	-	(74,178)	-	-	(9,694)	-	(112,262)
Total fund balance	12,016	21,377	(74,178)	151,059	532,502	(9,694)	101,762	2,557,064
Total liabilities and fund balance	\$ 12,016	\$ 21,377	\$ 5,540	\$ 151,059	\$ 536,188	\$ 45,456	\$ 103,965	\$ 2,939,645

CITY OF KERMAN

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2011

	Special Revenue Funds						Debt Service Fund			
	Gas Tax	Measure C	Local Transportation	Senior Center	Maintenance District	Transit	Low-Moderate Housing	RDA	Kerman Public Financing Authority	RDA Debt Service
Revenue										
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 183,351	\$ -	\$ 140,585	\$ -	\$ -	\$ -
Developer impact fees	-	-	-	-	-	-	-	-	-	-
Intergovernmental	219,202	303,195	322,398	12,821	-	99,951	-	-	-	-
Charges for services	-	-	-	8,031	-	2,017	-	-	-	-
Rents	-	-	-	-	-	-	-	-	242,352	-
Interest	8,338	151	14,223	-	59	-	3,156	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Total revenue	227,540	303,346	336,621	20,852	183,410	101,968	143,741	-	242,352	-
Expenditures										
Public works	62,132	307,676	95,529	-	173,751	-	-	-	-	-
Community development	-	-	-	-	-	-	261,670	-	2,824	-
Social services	-	-	-	25,274	-	111,459	-	-	-	-
Tax pass-through	-	-	-	-	-	-	-	-	-	-
Capital outlay	15,000	-	68,802	-	-	-	-	-	1,360	-
Debt service	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	75,000	-
Interest and fiscal charges	-	-	-	-	-	-	-	-	165,852	-
Total expenditures	77,132	307,676	164,331	25,274	173,751	111,459	261,670	-	245,036	-
Revenue over (under) expenditures	150,408	(4,330)	172,290	(4,422)	9,659	(9,491)	(117,929)	-	(2,684)	-
Other financing sources/(uses)										
Operating transfers in/(out) - net	(12,614)	8,180	102,575	2,680	(7,500)	9,130	-	-	-	-
	(12,614)	8,180	102,575	2,680	(7,500)	9,130	-	-	-	-
Change in Fund Balance	137,794	3,850	274,865	(1,742)	2,159	(361)	(117,929)	-	(2,684)	-
Fund Balance										
Beginning of year	468,047	18,996	567,245	526	7,944	(26,813)	460,953	-	16,738	12,632
End of year	\$ 605,841	\$ 22,846	\$ 842,110	\$ (1,216)	\$ 10,103	\$ (27,174)	\$ 343,024	\$ -	\$ 14,054	\$ 12,632

CITY OF KERMAN

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
 YEAR ENDED JUNE 30, 2011

	Capital Projects Funds							Total Non-major Governmental Funds
	CDBG	Jobs/Housing Mitigation	Public Building Facility	Fire Facility	Street Projects & Development	Park Development	Community Redevelopment	
Revenue								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 562,342	\$ 886,278
Developer impact fees	-	21,250	47,373	31,552	33,728	171,746	-	305,649
Intergovernmental	189,682	-	-	-	-	145,480	-	1,292,729
Charges for services	-	-	-	-	-	-	-	10,048
Rents	-	-	-	-	-	-	-	242,352
Interest	39	127	-	2,307	9,661	119	681	38,861
Other	-	-	-	-	-	1,300	-	1,300
Total revenue	189,721	21,377	47,373	33,859	43,389	318,645	563,023	2,777,217
Expenditures								
Public works	-	-	-	-	50,673	-	-	689,761
Community development	-	-	61,226	-	-	-	245,000	570,720
Social services	-	-	-	-	-	63,777	-	200,510
Tax pass-through	-	-	-	-	-	-	310,562	310,562
Capital outlay	-	-	-	-	11,570	-	-	96,732
Debt service	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	9,814	84,814
Interest and fiscal charges	-	-	-	-	-	-	2,817	168,669
Total expenditures	-	-	61,226	-	62,243	63,777	568,193	2,121,768
Revenue over (under) expenditures	189,721	21,377	(13,853)	33,859	(18,854)	254,868	(5,170)	655,449
Other financing sources/(uses)								
Operating transfers in/(out) - net	(190,721)	-	-	-	-	-	-	(88,270)
	(190,721)	-	-	-	-	-	-	(88,270)
Change in Fund Balance	(1,000)	21,377	(13,853)	33,859	(18,854)	254,868	(5,170)	567,179
Fund Balance								
Beginning of year	13,016	-	(60,325)	117,200	551,356	(264,562)	106,932	1,989,885
End of year	\$ 12,016	\$ 21,377	\$ (74,178)	\$ 151,059	\$ 532,502	\$ (9,694)	\$ 101,762	\$ 2,557,064

**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, 2011, and have issued our report thereon dated August 24, 2011. 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*.

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 read "August 24, 2011". The signature is stylized and cursive.

August 24, 2011