

CITY OF KERMAN

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2012**

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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, 2012, 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.

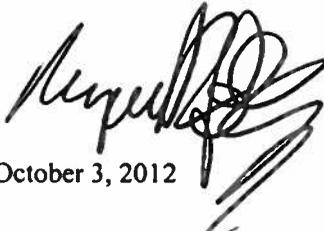
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2012, and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2012 on our consideration of the City of Kerman's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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



October 3, 2012

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, 2012. 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 \$34,475,961 which is 1% lower than fiscal year 2010/2011 (FY 11). Of this amount \$5,434,566 is unrestricted net assets, which is available to meet the City's ongoing commitments to citizens and creditors. This represents an increase in unrestricted net assets of 3% compared to FY 11.

The City's governmental funds ended the year with a combined fund balance of \$4,263,052, which is an increase of \$8,926 from June 30, 2011. Of this balance, \$1,519,819 is unassigned and available for spending at the City's discretion.

The City's General Fund ended the year with a fund balance of \$1,643,547, an increase of \$81,528 from the previous year. The entire balance of \$1,643,547 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. All redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

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

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

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

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

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

The City of Kerman maintains nineteen 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, which is considered to be a major fund. Data from the other eighteen 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 City's only major 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 – 23 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 24 – 44 of this report.

Other information: Combining and individual fund statements and schedules begin on page 46 of this report.

Government-wide Financial Analysis

Comparison data to the prior year is presented below.

The City's combined net assets for the fiscal years ended June 30, 2012 and 2011 were:

City of Kerman Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 4,751,117	\$5,002,665	\$ 4,242,593	\$ 4,276,718	\$8,993,710	\$ 9,279,383
Capital assets	19,385,237	19,567,644	18,852,449	18,434,237	38,237,686	38,001,881
Total assets	24,136,354	24,570,309	23,095,042	22,710,955	47,231,396	47,281,264
Long-term liabilities outstanding	4,075,653	4,031,835	8,188,005	7,593,299	12,263,658	11,625,134
Other liabilities	177,769	504,219	314,008	342,226	491,777	846,445
Total liabilities	4,253,422	4,536,054	8,502,013	7,935,525	12,755,435	12,471,579
Net assets:						
Invested in capital assets, net of related debt	15,543,237	15,766,145	10,754,925	10,962,766	26,298,162	26,728,911
Restricted	2,743,233	2,804,369			2,743,233	2,804,369
Unrestricted	1,596,462	1,463,741	3,838,104	3,812,664	5,434,566	5,276,405
Total net assets	\$19,882,932	\$20,034,255	\$ 14,593,029	\$14,775,430	\$34,475,961	\$34,809,685

As of June 30, 2012 the City's government-wide total assets exceeded liabilities (net assets) by \$34,475,961. Both governmental activities and business-type activities finished the year with positive net asset balances (\$19,882,932 and \$14,593,029, 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, \$26,298,162 or 76% 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 \$2,743,233, 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 \$5,434,566, or 16% of the total net assets. Governmental activities account for \$1,596,462, or 29% of the total unrestricted net assets. While the business-type activities account for \$3,838,104, or 71% of the total, the City can only use this amount to finance the continuing operations of the water, sewer, disposal and storm drain operations.

Governmental Activities. Governmental activities account for \$19,882,932 or 58% of the total Government-wide net assets. This is a decrease of \$151,323 or 0.8% over the June 30, 2011 governmental net assets ending balance.

The following lists key components of this decrease:

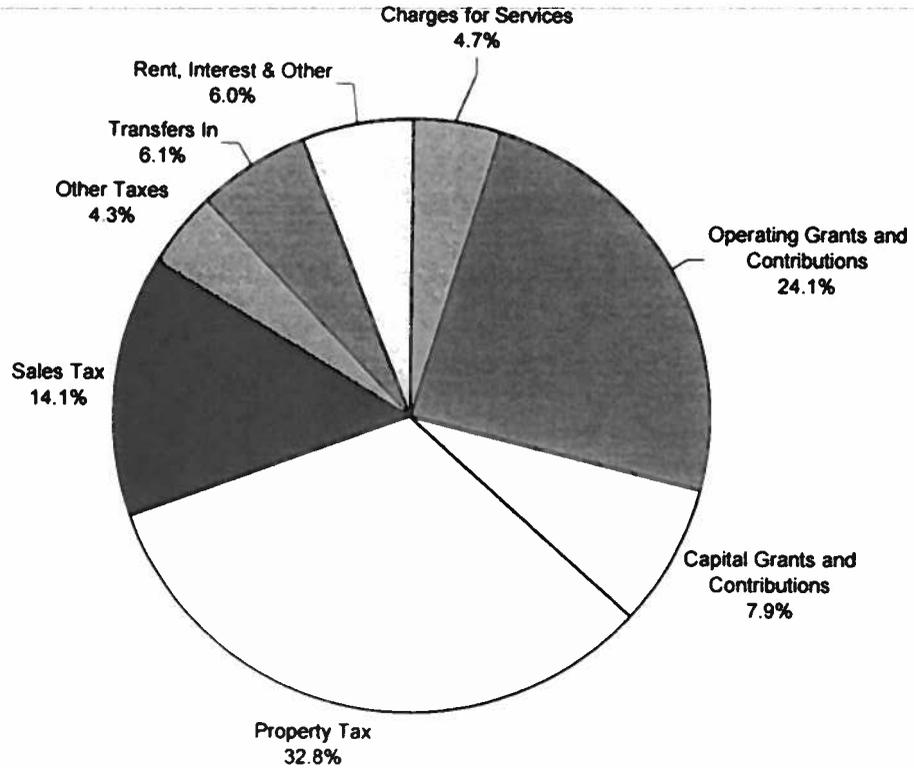
**City of Kerman's
Changes in Net Assets
2011-2012**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 305,952	\$ 426,035	\$ 3,773,717	\$ 3,437,090	\$ 4,079,669	\$ 3,863,125
Operating grants and contributions	1,562,674	1,164,611	10,000		1,572,674	1,164,611
Capital grants and contributions	509,911	1,533,767	322,635	661,553	832,546	2,195,320
General revenues:						
Property taxes	2,125,031	2,145,728			2,125,031	2,145,728
Sales taxes	915,572	1,003,290			915,572	1,003,290
Other taxes	277,038	272,822			277,038	272,822
Developer fees						
Transfers	395,711	(77,802)	(395,711)	77,802		
Rents, interest and other	392,161	491,136	76,954	67,369	469,115	558,505
Total revenues	6,484,050	6,959,587	3,787,595	4,243,814	10,271,645	11,203,401
Expenses:						
General government	432,724	417,421			432,724	417,421
Public safety	2,483,628	2,352,236			2,483,628	2,352,236
Social services	862,144	857,441			862,144	857,441
Public works	1,402,236	1,017,986			1,402,236	1,017,986
Community Development	792,198	1,185,596			792,198	1,185,596
Tax pass-through	150,793	310,562			150,793	310,562
Interest and fiscal charges	163,325	167,767			163,325	167,767
Water			1,461,118	1,454,051	1,461,118	1,454,051
Sewer			1,460,523	1,072,745	1,460,523	1,072,745
Disposal			973,206	937,496	973,206	937,496
Storm Drain			75,149	92,483	75,149	92,483
Total expenses	6,287,048	6,309,009	3,969,996	3,556,775	10,257,044	9,865,784
Extraordinary Loss	(348,325)				(348,325)	
Increase in net assets	(151,323)	650,578	(182,401)	687,039	(333,724)	1,337,617
Net assets – beginning	20,034,255	19,383,677	14,775,430	14,088,391	34,809,685	33,472,068
Net assets - ending	\$19,882,932	\$20,034,255	\$14,593,029	\$14,775,430	\$ 34,475,961	\$ 34,809,685

Total governmental revenues for the year were \$6,484,050, with charges for services comprising 5% of the total revenue. Taxes, which include property, sales, and other taxes, account for \$3,317,641 or 51% of the City's governmental activities revenue.

Total governmental expenses for the year were \$6,287,048. Public Safety accounts for \$2,483,628 or 40% of the total governmental activities expenses, followed by Public Works, Social Services and Community Development with \$1,402,236, \$862,144 and \$792,198 or 22%, 14% and 13%, respectively.

Revenues by Source-Governmental Activities

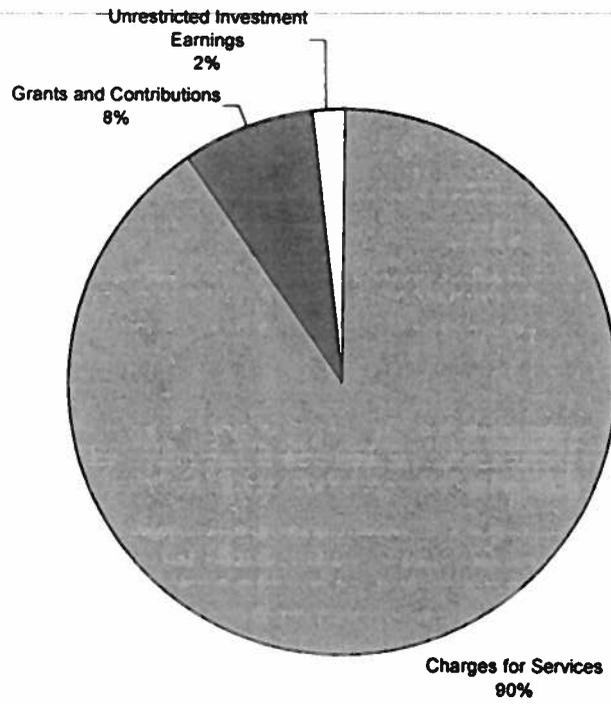


Program revenues which include charges for services, grant revenues and developer capital contributions account for \$2,378,537 or approximately 37% of the total governmental activity revenue. The amounts necessary to fully fund the governmental activity programs are made up by "general" revenues such as taxes, interest, and developer fees.

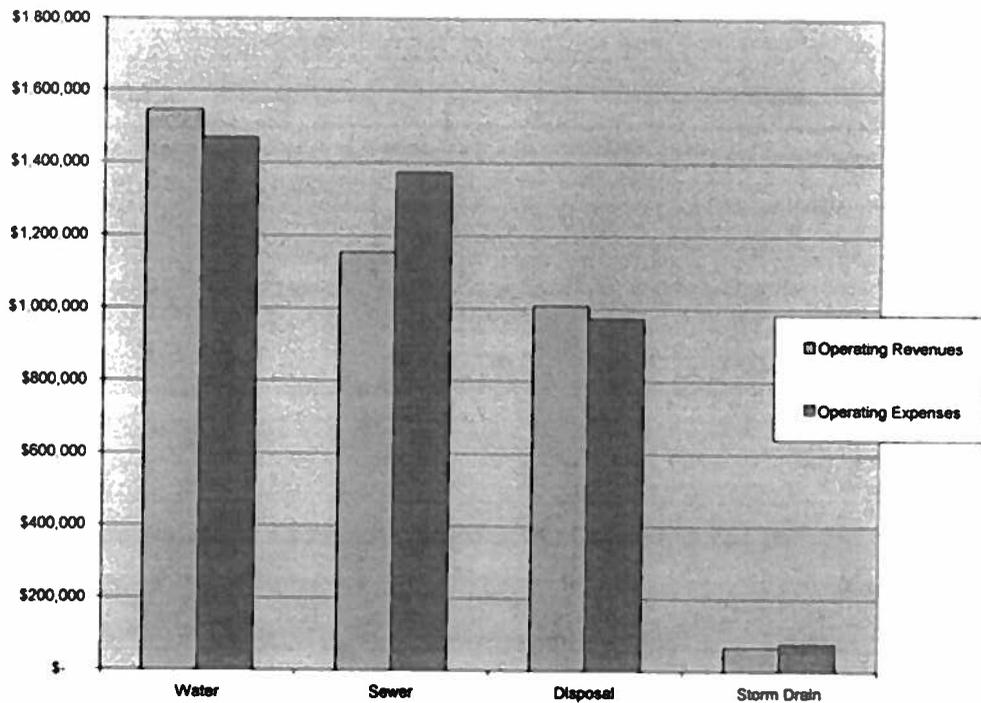
Business-Type Activities

Business-type activities account for \$14,593,029 or 42% of the total Government-wide net assets. This is a decrease of \$182,401 or 1% compared to June 30, 2011. Charges for current services account for \$3,773,717 or 99.6% of the total business-type activity revenue (net of Transfers).

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 Water and in Disposal that the operating revenues exceeded operating expenses and were sufficient to cover on-going operational costs and set aside approximately \$76,167 (or 5% of operating revenues) and approximately \$34,269 (or 3% of operating revenues), respectively, for capital outlay needs and future debt service requirements. On-going operating costs in Sewer and Storm Drain exceeded operating revenues by approximately \$219,607 and \$9,622, 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 Public Building Facility Fund, Transit Fund, Senior Center Fund and the Maintenance District Fund, ended the year with positive fund balances. The ending fund balance for all funds is \$4,263,052, which is an increase of \$8,926 or 0.2% when compared to the prior year balance. Of the total fund balance, \$1,519,819 or 36% 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	\$ 12,167
Circulation Improvements	\$1,879,505
Debt Service Reserve	\$ 13,623
Development Activities	\$ 805,155
Low-Income Housing Activities	\$ 32,783

The general fund is the chief operating fund of the City. As of June 30, 2012, the total fund balance of the general fund was \$1,643,547, with the unassigned fund balance of \$1,643,547. The general fund total fund balance increased \$81,528, or 5% from the previous fiscal year. The unassigned portion, as indicated, is available for spending at the City's discretion.

The increase in the General Fund Balance indicates that the General Fund had more revenues and transfers in than it had expenditures and transfers out. The original 2011/2012 budget allowed for a \$157,582 net decrease and the amended budget allowed for a \$179,582 net decrease to the fund balance. However, the actual end result from current year activity was a \$81,528 net increase to the General Fund, after capital outlay expenditures of \$0. (see page 45)

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

The internal service funds experienced an increase in unrestricted net assets of \$81,814. 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 \$107,845, or 3%, more total revenues and \$94,761,

or approximately 2% less total expenditures than the final budget allowed for. Revenues and transfers in exceeded Expenditures and transfers out and increased the General Fund Balance by \$81,528.

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, 2012, amounts to \$38,237,686 (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	\$ 1,000,351
Infrastructure Improvements	308,157
Machinery & Equipment	91,240
Construction in Progress	406,701

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

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

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 2,252,552	\$ 2,252,552	\$ 3,241,139	\$ 3,241,139	\$ 5,493,691	\$ 5,493,691
Buildings and improvements	6,115,096	6,307,578	15,179,381	8,055,340	21,294,477	14,362,918
Machinery and equipment	459,408	506,859	214,665	288,116	674,073	794,975
Construction in progress	360,774	175,033	217,264	2,849,683	578,038	7,024,716
Infrastructure	10,197,407	10,325,622			10,197,407	9,265,283
Total	\$19,385,237	\$19,567,644	\$18,852,449	\$18,434,278	\$38,237,686	\$38,001,922

Long-term Debt. The City's long-term debt as of June 30, 2012, was \$11,939,524 with governmental activities accounting for \$3,842,000 or 32% and business-type activities accounting for \$8,097,524 or 68%.

CITY OF KERMAN'S Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
REDIP note payable	\$ 86,499				\$ 86,499	
Note payable, CEC	\$ 202,000				\$ 202,000	
Bonds payable, sewer			\$423,285	\$ 468,285	423,285	468,285
Note payable, State of California			38,520	75,152	38,520	75,152
Note payable, State of California			2,639,999	2,804,999	2,639,999	2,804,999
Note Payable, State of California			4,995,720	4,123,035	4,995,720	4,123,035
Kerman PFA L/R Bonds	3,640,000	3,715,000			3,640,000	3,715,000
Total	\$3,842,000	\$3,801,499	\$8,097,524	\$4,471,471	\$11,939,524	\$11,272,970

Economic Factors and Next Year's Budgets and Rates

The state and the national economy continue their slow recovery. Nationally, there has been a series of positive economic indicators in the third quarter of 2012, including a rise in consumer confidence, a rise in new housing starts, a jump in retail sales and a drop in the unemployment rate (to 7.8 percent). In California, the UCLA forecast projects the unemployment rate to remain above 10 percent through the end of the year, average about 9.7 percent through 2013 and dip to 8.3 percent in 2014. Residential construction in California will remain tepid through 2012, with new housing starts to pick up in 2013 and then take off in 2014. Closer to home, the Business Forecasting Center at the University of Pacific reports that 2012 is the first year of economic recovery in most areas of the hard-hit Central Valley with improvements in agriculture, transportation and trade, and manufacturing and the end of declines in housing-related sectors. The California Employment Development Department reported that unemployment in all of the eight counties comprising the Central Valley dropped in September 2012. Fresno County unemployment rate stood at 13.1 percent, down from 16 percent at the height of the recession in 2008. The Central Valley will continue to lag behind the statewide recovery, but economic indicators point to a slow but steady recovery.

Locally, the City of Kerman has fared well during the worst economic downturn in a generation. Sound fiscal planning and conservative decision-making were keys to Kerman's fiscal stability. Three closely watched areas of economic activity are retail, housing and industrial development. The one bright spot for Kerman has been its better than expected sales tax revenues. According to Muni Services, Kerman experienced a 17.2 percent growth in sales tax revenues from July 2011 through June 2012. Sales tax jumped from \$991,942 to \$1,162,417 during this four quarter period. The top three segments were agricultural chemical sales, service stations and restaurants. These segments generated 64 percent of all sales tax revenues. With new retail projects on the drawing board (e.g., Walmart, O'Reilly's Auto Parts, Les Schwab Tire Store), Kerman is poised for continued sales tax revenue growth.

On the housing front, new housing construction remains in a slump. Aside from the 68-unit apartment project currently under construction, there are no other major housing projects on the immediate horizon, despite the fact that mortgage interest rates are at historic lows, foreclosures have ebbed and inventory of existing homes for sale continues to drop. Lastly, two existing companies will lead the way in terms of continued industrial expansion in 2012 and 2013. Panoche Creek Packing is adding 125,000 square feet to its operations and Mid Valley Disposal is planning a three-phase expansion of its recycling and transfer station operations, beginning in 2013. Both projects will result in new investments in property improvements, buildings and equipment and will create new local jobs.

Total citywide expenditures (including capital expenditures) were projected to decrease by approximately 2.4% in 2012/2013, compared to the 2011/2012 Budget. Excluding capital expenditures, citywide expenditures were projected to decrease by approximately 2.3% compared to the 2011/2012 Budget. This reflects a decrease in personnel costs of about 1.2% and an increase in maintenance and operations costs of approximately 6.5%, overall. Citywide capital expenditure budgets for 2012/2013 decreased approximately 9.6% from the 2011/2012 budgets, with about \$560,000 budgeted for Sewer Construction, almost \$2.6 million for Street Construction and \$1.3 million budgeted for Water Construction projects in the 2012/2013 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, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 4,105,069	\$ 4,076,951	\$ 8,182,020
Accounts receivable, net	52,944	116,862	169,806
Taxes receivable	205,812	-	205,812
Due from other governments	305,669	-	305,669
Interest receivable	1,164	-	1,164
Internal balances	(48,780)	48,780	-
Land held for resale	32,783	-	32,783
Deferred charges - Bond issuance costs, net	96,456	-	96,456
Capital assets, net of allowance for depreciation	<u>19,385,237</u>	<u>18,852,449</u>	<u>38,237,686</u>
Total assets	<u>24,136,354</u>	<u>23,095,042</u>	<u>47,231,396</u>
LIABILITIES			
Accounts payable and accrued expense	131,231	179,886	311,117
Accrued interest payable	40,338	41,000	81,338
Deposits payable	6,200	93,122	99,322
Long-term liabilities			
Due within one year	97,979	477,065	575,044
Due in more than one year	3,744,021	7,620,459	11,364,480
Compensated absences	<u>233,653</u>	<u>90,481</u>	<u>324,134</u>
Total liabilities	<u>4,253,422</u>	<u>8,502,013</u>	<u>12,755,435</u>
NET ASSETS			
Invested in capital assets, net of related debt	15,543,237	10,754,925	26,298,162
Restricted for debt service	13,623	-	13,623
Restricted for specific projects and programs	2,729,610	-	2,729,610
Unrestricted	<u>1,596,462</u>	<u>3,838,104</u>	<u>5,434,566</u>
Total net assets/(deficit)	<u>\$ 19,882,932</u>	<u>\$ 14,593,029</u>	<u>\$ 34,475,961</u>

CITY OF KERMAN

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012**

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	\$ 432,724	\$ 9,913	\$ 23,392	\$ -	\$ (399,419)	\$ -	\$ (399,419)
Public works	1,402,236	-	1,170,485	-	(231,751)	-	(231,751)
Community development	792,198	147,629	85,558	509,911	(49,100)	-	(49,100)
Social services	862,144	49,481	118,531	-	(694,132)	-	(694,132)
Public safety	2,483,628	98,929	164,708	-	(2,219,991)	-	(2,219,991)
Tax pass-through	150,793	-	-	-	(150,793)	-	(150,793)
Debt Service							
Interest and fiscal charges	163,325	-	-	-	(163,325)	-	(163,325)
Total governmental activities	6,287,048	305,952	1,562,674	509,911	(3,908,511)	-	(3,908,511)
Business-type activities							
Water	1,461,118	1,545,236	-	110,379	-	194,497	194,497
Sewer	1,460,523	1,154,227	-	148,951	-	(157,345)	(157,345)
Disposal	973,206	1,008,342	10,000	-	-	45,136	45,136
Storm Drain	75,149	65,912	-	63,305	-	54,068	54,068
Total business-type activities	3,969,996	3,773,717	10,000	322,635	-	136,356	136,356
Total primary government	\$ 10,257,044	\$ 4,079,669	\$ 1,572,674	\$ 832,546	(3,908,511)	136,356	(3,772,155)
General Revenue							
Property taxes					2,125,031	-	2,125,031
Special assessments					187,143	-	187,143
Sales taxes					915,572	-	915,572
Franchise and other taxes					89,895	-	89,895
Business licenses					57,702	-	57,702
Rents					353,283	-	353,283
Interest income					50,010	76,954	126,964
Gain (loss) on sale/transfer of property					(167,671)	-	(167,671)
Other					98,837	-	98,837
Transfers					395,711	(395,711)	-
Total general revenue and transfers					4,105,513	(318,757)	3,786,756
Extraordinary Loss					(348,325)	-	(348,325)
Change in Net Assets					(151,323)	(182,401)	(333,724)
Net Assets							
Beginning of year					20,034,255	14,775,430	34,809,685
End of year					\$ 19,882,932	\$ 14,593,029	\$ 34,475,961

See accompanying notes.

CITY OF KERMAN

**BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments	\$ 1,246,201	\$ 2,548,057	\$ 3,794,258
Accounts receivable	52,944	-	52,944
Taxes receivable	205,812	-	205,812
Due from other governments	11,510	294,159	305,669
Interest receivable	1,164	-	1,164
Due from other funds	224,031	-	224,031
Land held for resale	-	32,783	32,783
Total assets	<u>\$ 1,741,662</u>	<u>\$ 2,874,999</u>	<u>\$ 4,616,661</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable and accrued expense	\$ 91,915	\$ 31,463	\$ 123,378
Due to other funds	-	224,031	224,031
Deposits and other liabilities	6,200	-	6,200
Total liabilities	<u>98,115</u>	<u>255,494</u>	<u>353,609</u>
Fund Balance			
Restricted			
Capital improvement projects	-	12,167	12,167
Circulation improvements	-	1,879,505	1,879,505
Debt service reserve	-	13,623	13,623
Development activities	-	805,155	805,155
Low-income housing activities	-	32,783	32,783
Unassigned	1,643,547	(123,728)	1,519,819
Total fund balance	<u>1,643,547</u>	<u>2,619,505</u>	<u>4,263,052</u>
Total liabilities and fund balance	<u>\$ 1,741,662</u>	<u>\$ 2,874,999</u>	<u>\$ 4,616,661</u>

CITY OF KERMAN

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES JUNE 30, 2012

Total governmental fund balance	\$ 4,263,052
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	19,077,790
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(3,842,000)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(233,653)
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	(40,338)
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.	561,625
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>96,456</u>
Net assets of governmental activities	<u>\$ 19,882,932</u>

CITY OF KERMAN

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenue			
Taxes	\$ 2,797,837	\$ 577,506	\$ 3,375,343
Licenses, permits and impact fees	138,612	226,392	365,004
Intergovernmental	197,105	1,510,476	1,707,581
Charges for services	258,729	10,884	269,613
Fines and forfeitures	36,339	-	36,339
Rents	113,932	239,351	353,283
Interest	15,981	34,029	50,010
Gain on sale of property	7,168	-	7,168
Other	73,756	25,081	98,837
Total revenue	<u>3,639,459</u>	<u>2,623,719</u>	<u>6,263,178</u>
Expenditures			
Current			
General government	358,362	-	358,362
Public works	257,820	874,986	1,132,806
Community development	307,011	283,187	590,198
Social services	566,882	204,799	771,681
Public safety	2,459,124	-	2,459,124
Tax pass-through	-	150,793	150,793
Capital outlay	-	493,899	493,899
Debt Service			
Principal	-	85,111	85,111
Interest and fiscal charges	-	165,372	165,372
Total expenditures	<u>3,949,199</u>	<u>2,258,147</u>	<u>6,207,346</u>
Revenue over/(under) expenditures	(309,740)	365,572	55,832
Other Financing Sources/(Uses)			
Transfers in/(out) - net	391,268	(13,462)	377,806
	<u>391,268</u>	<u>(13,462)</u>	<u>377,806</u>
Extraordinary Loss	<u>-</u>	<u>(424,712)</u>	<u>(424,712)</u>
Change in Fund Balance	81,528	(72,602)	8,926
Fund Balance			
Beginning of year	1,562,019	2,692,107	4,254,126
End of year	<u>\$ 1,643,547</u>	<u>\$ 2,619,505</u>	<u>\$ 4,263,052</u>

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, 2012

Net change in fund balance - total governmental funds	\$ 8,926
Amounts reported for governmental activities in the Statement of Activities are different because:	
Difference between reported extraordinary loss on the governmental financial statements and the extraordinary loss reported on the government-wide financial statements	76,387
Difference between capital assets transferred to the Successor Agency and the book value of the assets	(174,839)
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	493,899
Depreciation expense not reported in governmental funds	<u>(493,935)</u>
	(36)
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. Proceeds of long-term debt produces the opposite effect	(116,889)
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	60,256
In the Statement of Activities interest is accrued on long-term debt, whereas, in governmental funds interest expenditure is reported when due	2,047
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>(3,317)</u>
Change in net assets of governmental activities	<u>\$ (151,323)</u>

CITY OF KERMAN

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2012

	Business-Type Activities - Enterprise Funds					Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain	Total Proprietary Funds	
ASSETS						
Current assets						
Cash and investments	\$ 2,268,956	\$ 1,473,148	\$ 249,738	\$ 85,109	\$ 4,076,951	\$ 310,811
Accounts receivable, net	86,658	20,644	8,667	893	116,862	-
Total current assets	<u>2,355,614</u>	<u>1,493,792</u>	<u>258,405</u>	<u>86,002</u>	<u>4,193,813</u>	<u>310,811</u>
Non-current assets						
Property, plant and equipment, net of allowance for depreciation	5,092,543	12,636,494	62,067	1,061,345	18,852,449	307,447
Total assets	<u>\$ 7,448,157</u>	<u>\$ 14,130,286</u>	<u>\$ 320,472</u>	<u>\$ 1,147,347</u>	<u>\$ 23,046,262</u>	<u>\$ 618,258</u>
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	\$ 44,740	\$ 33,103	\$ 67,837	\$ 34,206	\$ 179,886	\$ 7,853
Accrued interest payable	-	41,000	-	-	41,000	-
Deposits	93,122	-	-	-	93,122	-
Current portion of long-term debt	203,520	273,545	-	-	477,065	-
Total current liabilities	<u>341,382</u>	<u>347,648</u>	<u>67,837</u>	<u>34,206</u>	<u>791,073</u>	<u>7,853</u>
Non-current liabilities						
Long-term debt	2,474,999	5,145,460	-	-	7,620,459	-
Compensated absences	42,396	41,982	6,103	-	90,481	-
Total noncurrent liabilities	<u>2,517,395</u>	<u>5,187,442</u>	<u>6,103</u>	<u>-</u>	<u>7,710,940</u>	<u>-</u>
Total liabilities	<u>2,858,777</u>	<u>5,535,090</u>	<u>73,940</u>	<u>34,206</u>	<u>8,502,013</u>	<u>7,853</u>
NET ASSETS						
Invested in capital assets, net of related debt	2,414,024	7,217,489	62,067	1,061,345	10,754,925	307,447
Unrestricted/(deficit)	2,175,356	1,377,707	184,465	51,796	3,789,324	302,958
Total net assets/(deficit)	<u>\$ 4,589,380</u>	<u>\$ 8,595,196</u>	<u>\$ 246,532</u>	<u>\$ 1,113,141</u>	<u>\$ 14,544,249</u>	<u>\$ 610,405</u>
Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds					48,780	
Net assets of business-type activities					<u>\$ 14,593,029</u>	

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

Net assets of business-type activities

See accompanying notes.

CITY OF KERMAN

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds					Total Proprietary Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain			
Operating Revenue							
Charges for services	\$ 1,543,954	\$ 1,118,350	\$ 1,008,342	\$ 65,037	\$ 3,735,683	\$ 494,543	
Other revenues	1,282	35,877	-	875	38,034	-	
Total operating income	<u>1,545,236</u>	<u>1,154,227</u>	<u>1,008,342</u>	<u>65,912</u>	<u>3,773,717</u>	<u>494,543</u>	
Operating Expense							
Contractual services and utilities	485,226	414,489	786,803	20,407	1,706,925	58,620	
Personnel	566,979	549,501	133,588	34,665	1,284,733	88,838	
Supplies and materials	59,798	69,872	7,189	3,069	139,928	187,956	
Depreciation	357,066	339,972	46,493	17,393	760,924	98,771	
Total operating expense	<u>1,469,069</u>	<u>1,373,834</u>	<u>974,073</u>	<u>75,534</u>	<u>3,892,510</u>	<u>434,185</u>	
Operating income/(loss)	<u>76,167</u>	<u>(219,607)</u>	<u>34,269</u>	<u>(9,622)</u>	<u>(118,793)</u>	<u>60,358</u>	
Nonoperating Revenue/(Expense)							
Intergovernmental	-	-	10,000	-	10,000	-	
Development impact fees	110,379	148,951	-	63,305	322,635	-	
Interest income	30,431	41,944	3,539	1,040	76,954	3,551	
Interest expense	(2,243)	(96,801)	-	-	(99,044)	-	
Total nonoperating revenue/(expense)	<u>138,567</u>	<u>94,094</u>	<u>13,539</u>	<u>64,345</u>	<u>310,545</u>	<u>3,551</u>	
Net income/(loss) before transfers	214,734	(125,513)	47,808	54,723	191,752	63,909	
Operating Transfers In/(Out)	<u>(155,898)</u>	<u>(141,971)</u>	<u>(84,917)</u>	<u>(12,925)</u>	<u>(395,711)</u>	<u>17,905</u>	
Change in Net Assets	<u>58,836</u>	<u>(267,484)</u>	<u>(37,109)</u>	<u>41,798</u>	<u>(203,959)</u>	<u>81,814</u>	
Net Assets							
Beginning of year	4,530,544	8,862,680	283,641	1,071,343	14,748,208	528,591	
End of year	<u>\$ 4,589,380</u>	<u>\$ 8,595,196</u>	<u>\$ 246,532</u>	<u>\$ 1,113,141</u>	<u>\$ 14,544,249</u>	<u>\$ 610,405</u>	
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds							
Change in net assets of business-type activities (Page 13)					<u>21,558</u>		
					<u>\$ (182,401)</u>		

See accompanying notes.

CITY OF KERMAN

COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds					Total Business-Type Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain			
Operating Activities							
Receipts from customers and users	\$ 1,508,707	\$ 1,188,365	\$ 1,015,992	\$ 71,926	\$ 3,784,990	\$ 494,543	
Payments for contractual services and utilities	(497,415)	(461,640)	(782,667)	(23,279)	(1,765,001)	(58,620)	
Payments to employees	(577,788)	(562,778)	(140,849)	(34,665)	(1,316,080)	(88,838)	
Payment to suppliers	(59,798)	(69,792)	(7,189)	(3,069)	(139,928)	(189,161)	
Net cash provided by (used in) operating activities	373,706	94,075	85,287	10,913	563,981	157,924	
Non-capital Financial Activities							
Payments from other governments	-	-	10,000	-	10,000	-	
Payments from developers	110,379	148,951	-	47,419	306,749	-	
Transfers (to)/from other funds	(155,898)	(141,971)	(84,917)	(12,925)	(395,711)	17,905	
Net cash provided by (used in) noncapital financing activities	(45,519)	6,980	(74,917)	34,494	(78,962)	17,905	
Capital and Related Financing Activities							
Purchase of property, plant and equipment	(138,052)	(1,041,084)	-	-	(1,179,136)	(91,240)	
Principal received (paid) on long-term debt, net	(201,632)	827,685	-	-	626,053	-	
Interest paid on long-term debt	(2,243)	(55,801)	-	-	(58,044)	-	
Net cash used in capital and related financing activities	(341,927)	(269,200)	-	-	(611,127)	(91,240)	
Investing Activities							
Interest received	30,431	41,944	3,539	1,040	76,954	3,551	
Net cash provided by investing activities	30,431	41,944	3,539	1,040	76,954	3,551	
Net Increase (Decrease) in Cash	16,691	(126,201)	13,909	46,447	(49,154)	88,140	
Cash							
Beginning of year	2,252,265	1,599,349	235,829	38,662	4,126,105	222,671	
End of year	\$ 2,268,956	\$ 1,473,148	\$ 249,738	\$ 85,109	\$ 4,076,951	\$ 310,811	
Cash Flows from Operating Activities							
Operating income (loss)	\$ 76,167	\$ (219,607)	\$ 34,269	\$ (9,622)	\$ (118,793)	\$ 60,358	
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	357,066	339,972	46,493	17,393	760,924	98,771	
(Increase) Decrease in Accounts Receivable	(41,273)	34,138	7,650	6,014	6,529	-	
Increase (Decrease) in Accounts Payable and Accrued Liabilities	-18254	(60,428)	(3,125)	(2,872)	(66,425)	(1,205)	
Net Cash Provided by (Used in) Operating Activities	\$ 373,706	\$ 94,075	\$ 85,287	\$ 10,913	\$ 563,981	\$ 157,924	

See accompanying notes.

CITY OF KERMAN

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS
JUNE 30, 2012

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 215,321
Total assets	<u>215,321</u>
LIABILITIES	
Agency funds payable	<u>215,321</u>
Total liabilities	<u>\$ 215,321</u>

CITY OF KERMAN

**STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUNDS
JUNE 30, 2012**

	<u>Kerman Unified School District</u>	<u>Redevelopment Successor Agency</u>
Assets		
Cash and investments	\$ 17,000	\$ 325,594
Taxes receivable	-	40,524
Total assets	<u>17,000</u>	<u>366,118</u>
Liabilities		
Accounts payable and accrued liabilities	-	3,679
Interest payable	-	1,146
Long-term debt		
Due within one year	-	10,417
Due in more than one year	-	65,970
Total liabilities	<u>-</u>	<u>81,212</u>
Net Assets		
Held in trust for other governments	<u>\$ 17,000</u>	<u>\$ 284,906</u>

CITY OF KERMAN

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUND
JUNE 30, 2012**

	Kerman Unified School District	Redevelopment Successor Agency
Additions		
Property taxes	\$ 98,196	\$ 40,524
Investment earnings and other	163	-
Total additions	<u>98,359</u>	<u>40,524</u>
Deductions		
Administrative costs	760	102,797
Program expenses	125,000	-
Interest, principal and fiscal agency expenses	52,302	1,146
Total deductions	<u>178,062</u>	<u>103,943</u>
Extraordinary gain	<u>-</u>	<u>348,325</u>
Change In Net Assets	(79,703)	284,906
Net Assets		
Beginning of year	96,703	-
End of year	<u>\$ 17,000</u>	<u>\$ 284,906</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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. All redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

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, 2012

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.

The City reports the following additional fund types:

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

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

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

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The Government-Wide and Proprietary Fund Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, 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, 2012

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, 2012

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, 2012

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, 2012

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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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, 2012 are classified in the accompanying financial statements as follows:

Statement of Net Assets:

Cash and Investments	\$ 8,182,020
Fiduciary Funds:	
Cash and Investments	<u>557,915</u>
Total Cash and Investments	<u>\$ 8,739,935</u>

Cash and investments as of June 30, 2012 consist of the following:

Cash on hand	\$ 850
Deposits with Financial Institutions	3,544,395
Certificates of deposit	<u>5,194,690</u>
Total Cash and Investments	<u>\$ 8,739,935</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 3 – Cash and Investments (Continued)

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
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, 2012

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.

Investment Type	Fair Value	Remaining Maturity (in months)		
		12 Months or Less	13 to 24 Months	25 to 60 Months
Certificates of deposit	\$ 5,194,690	\$ 1,634,690	\$ 1,329,000	\$ 2,231,000
Total	\$ 5,194,690	\$ 1,634,690	\$ 1,329,000	\$ 2,231,000

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End Not Rated</u>
Certificates of deposit	N/A	\$ 5,194,690
Total		\$ 5,194,690

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of total City-wide investments are as follows at June 30, 2012:

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>
Central Valley Community Bank	Certificates of Deposit	\$ 705,690

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, 2012**

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).

Note 4 – Receivables

The following is a summary of receivables at June 30, 2012 for the City’s individual major and non-major funds in the aggregate:

	<u>General</u>	<u>Other Governmental Funds</u>
Governmental Funds		
Accounts	\$ 52,944	\$ -
Taxes	205,812	-
Grants	11,510	11,510
Interest	1,164	1,164
	<u>\$ 271,430</u>	<u>\$ 12,674</u>

The following is a summary of receivables at June 30, 2012 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	\$ 90,758	\$ 21,644	\$ 10,067	\$ 993
Gross receivables	90,758	21,644	10,067	993
Less: Allowance for uncollectible accounts	(4,100)	(1,000)	(1,400)	(100)
	<u>\$ 86,658</u>	<u>\$ 20,644</u>	<u>\$ 8,667</u>	<u>\$ 893</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 5 – Capital Assets – Capital asset activities for the year ended June 30, 2012 were as follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 2,252,552	\$ -	\$ -	\$ 2,252,552
Construction in progress	175,033	227,916	(42,175)	360,774
Total capital assets, not being depreciated	<u>2,427,585</u>	<u>227,916</u>	<u>(42,175)</u>	<u>2,613,326</u>
Capital assets, being depreciated				
Buildings and improvements	7,380,412	-	-	7,380,412
Infrastructure	11,519,415	308,157	(279,387)	11,548,185
Machinery and equipment	1,926,456	91,240	(132,088)	1,885,608
Total capital assets, being depreciated	<u>20,826,283</u>	<u>399,397</u>	<u>(411,475)</u>	<u>20,814,205</u>
Less accumulated depreciation for				
Buildings and improvements	(1,072,834)	(192,482)	-	(1,265,316)
Infrastructure	(1,193,793)	(261,533)	104,548	(1,350,778)
Machinery and equipment	(1,419,597)	(138,691)	132,088	(1,426,200)
Total accumulated depreciation	<u>(3,686,224)</u>	<u>(592,706)</u>	<u>236,636</u>	<u>(4,042,294)</u>
Total capital assets, being depreciated, net	<u>17,140,059</u>	<u>(193,309)</u>	<u>(174,839)</u>	<u>16,771,911</u>
Governmental activities capital assets, net	<u>\$ 19,567,644</u>	<u>\$ 34,607</u>	<u>\$ (217,014)</u>	<u>\$ 19,385,237</u>
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 3,241,139	\$ -	\$ -	\$ 3,241,139
Construction in progress	6,849,643	178,785	(6,811,164)	217,264
Total capital assets, not being depreciated	<u>10,090,782</u>	<u>178,785</u>	<u>(6,811,164)</u>	<u>3,458,403</u>
Capital assets, being depreciated				
Buildings and improvements	12,025,387	7,811,515	-	19,836,902
Machinery and equipment	1,093,769	-	-	1,093,769
Total capital assets, being depreciated	<u>13,119,156</u>	<u>7,811,515</u>	<u>-</u>	<u>20,930,671</u>
Less: accumulated depreciation	<u>(4,775,701)</u>	<u>(760,924)</u>	<u>-</u>	<u>(5,536,625)</u>
Total capital assets, being depreciated, net	<u>8,343,455</u>	<u>7,050,591</u>	<u>-</u>	<u>15,394,046</u>
Business-type activities capital assets, net	<u>\$ 18,434,237</u>	<u>\$ 7,229,376</u>	<u>\$ (6,811,164)</u>	<u>\$ 18,852,449</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 5 – Capital Assets (Continued)

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

Governmental Functions:

General Government	\$	109,538
Public Works and Development		269,430
Social Services		90,463
Public Safety		24,504
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the asset		98,771
	\$	<u>592,706</u>

Business-Type Functions:

Water	\$	357,066
Sewer		339,972
Disposal		46,493
Storm Drain		17,393
	\$	<u>760,924</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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, 2012 was comprised of the following individual issues:

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012	Current Portion
<u>Governmental Activity Long Term Debt</u>					
Notes Payable					
California Energy Commission	\$ -	\$ 202,000	\$ -	\$ 202,000	\$ 17,979
Kerman Public Finance Authority Bonds					
2007 Lease Revenue Bonds	3,715,000	-	75,000	3,640,000	80,000
Total Governmental Activity Debt	\$ 3,715,000	\$ 202,000	\$ 75,000	\$ 3,842,000	\$ 97,979
<u>Business-Type Activity Long Term Debt</u>					
Bonds Payable					
Sewer Revenue Bond	\$ 468,285	\$ -	\$ 45,000	\$ 423,285	\$ 45,000
Notes Payable					
California Dept. of Water Resources	75,152	-	36,632	38,520	38,520
California Dept. of Water Resources	2,804,999	-	165,000	2,639,999	165,000
California Dept. of Water Resources	4,123,035	872,685	-	4,995,720	228,545
Total Business-Type Activity Debt	\$ 7,471,471	\$ 872,685	\$ 246,632	\$ 8,097,524	\$ 477,065
<u>Compensated Absences</u>					
Government Activities	\$ 230,336	\$ 3,317	\$ -	\$ 233,653	
Business-Type Activities	\$ 121,828	\$ -	\$ 31,347	\$ 90,481	

California Energy Commission Note Payable – In February of 2012, the City entered into a loan agreement for \$202,000 with the State of California Energy Commission to retrofit existing street lights with LED technology. Terms of the note call for semi-annual payments of \$13,023 including interest at 3.00%, which begins December 2012 and will mature in June 2021. The outstanding balance on the note at June 30, 2012 was \$202,000.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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, 2012 was \$423,285.

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, 2012 was \$38,520.

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, 2012 and will mature on January 1, 2028. The outstanding balance on the note at June 30, 2012 was \$2,639,999.

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

CITY OF KERMAN

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

Note 6 – Long-Term Debt (Continued)

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2012 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>
2013	\$ 97,979	\$ 167,821	\$ 477,065	\$ 70,334
2014	105,680	162,032	439,071	66,586
2015	106,304	158,389	446,362	62,045
2016	111,938	154,595	448,675	57,231
2017	117,612	150,509	456,012	52,395
2018-2022	622,487	682,954	2,219,223	186,101
2023-2027	650,000	553,107	2,102,963	105,751
2028-2032	795,000	391,028	1,508,153	40,562
2033-2037	1,005,000	178,243	-	-
2038	230,000	5,463	-	-
	<u>\$ 3,842,000</u>	<u>\$ 2,604,141</u>	<u>\$ 8,097,524</u>	<u>\$ 641,005</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, 2012:

Capital Project Funds	
Public Building Facility	\$ (79,185)
Special Revenue Funds	
Senior Center	(1,249)
Maintenance District	(17,743)
Transit	(25,551)
	<u>\$ (123,728)</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, 2012

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 – Successor Agency Trust for Assets of Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Kerman that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. The City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 9 – Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary loss.

Because of the different measurement focus of the governmental funds (current financial resources measurement focus) and the measurement focus of the trust funds (economic resources measurement focus), the extraordinary loss recognized in the governmental funds was not the same amount as the extraordinary loss that was recognized in the fiduciary fund financial statements.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 9 – Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

The difference between the extraordinary loss recognized in the fund financial statements and the extraordinary loss recognized in the fiduciary fund financial statements is reconciled as follows:

Total extraordinary loss reported in governmental funds - increase to net assets of the Successor Agency Trust Fund	\$ 424,712
Long-term debt reported in the government-wide financial statements - decrease to net assets of the Successor Agency Trust Fund	<u>(76,387)</u>
Net increase to net assets of the Successor Agency Trust Fund as a result of initial transfers (equal to amount of extraordinary gain reported in the government-wide financial statements of the City)	<u>\$ 348,325</u>

Note 10 – Pension Plan

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

Funding Policy – Active plan members in the Plan are required to contribute 7% of their covered salary for both miscellaneous and public safety members. The City contributes 6% of the employee portion. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2012 was 7.733% for the miscellaneous plan and 15.201% 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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 10 – Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2012, the City's annual pension cost of \$503,827 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2010, 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, 2010, was 17 years for safety members and 7 years for miscellaneous members.

THREE YEAR TREND INFORMATION FOR PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2010	\$ 436,540	100%	-
June 30, 2011	\$ 422,794	100%	-
June 30, 2012	\$ 503,827	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, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Taxes	\$ 2,848,700	\$ 2,848,700	\$ 2,797,837	\$ (50,863)
Licenses, permits and impact fees	275,299	275,299	138,612	(136,687)
Intergovernmental	9,000	33,800	197,105	163,305
Charges for services	167,395	169,395	258,729	89,334
Fines and forfeitures	11,000	11,000	36,339	25,339
Rents	118,420	118,420	113,932	(4,488)
Interest	20,000	20,000	15,981	(4,019)
Gain on sale of property	-	-	7,168	7,168
Other	55,000	55,000	73,756	18,756
Total revenue	<u>3,504,814</u>	<u>3,531,614</u>	<u>3,639,459</u>	<u>107,845</u>
Expenditures				
Current				
General government	376,185	378,185	358,362	19,823
Public works	259,231	259,231	257,820	1,411
Community development	358,982	378,982	307,011	71,971
Social services	616,340	616,340	566,882	49,458
Public safety	2,384,422	2,411,222	2,459,124	(47,902)
Capital outlay	-	-	-	-
Total expenditures	<u>3,995,160</u>	<u>4,043,960</u>	<u>3,949,199</u>	<u>94,761</u>
Revenue over (under) expenditures	(490,346)	(512,346)	(309,740)	202,606
Other Financing Sources				
Transfers in (out) - net	<u>332,764</u>	<u>332,764</u>	<u>391,268</u>	<u>58,504</u>
Net Change in Fund Balance	<u>\$ (157,582)</u>	<u>\$ (179,582)</u>	81,528	<u>\$ 261,110</u>
Fund Balance				
Beginning of year			<u>1,562,019</u>	
End of year			<u>\$ 1,643,547</u>	

SUPPLEMENTAL ONLY INFORMATION

CITY OF KERMAN
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

	Special Revenue Funds										Debt Service Fund	
	Gas Tax	Measure C	Local Transportation	Senior Center	Maintenance District	Transit	Low-Moderate Housing Asset	RDA Low-Moderate Housing	Kerman Public Financing Authority	RDA Debt Service		
ASSETS												
Cash and investments	\$ 754,012	\$ -	\$ 975,586	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,623	\$ -		
Due from other governments	41,279	25,592	105,966	573	9,369	17,984	-	-	-	-		
Land held for resale	-	-	-	-	-	-	32,783	-	-	-		
Total assets	\$ 795,291	\$ 25,592	\$ 1,081,552	\$ 573	\$ 9,369	\$ 17,984	\$ 32,783	\$ -	\$ 13,623	\$ -		
LIABILITIES AND FUND BALANCE												
Liabilities												
Accounts payable and accrued expense	\$ 10,020	\$ 5,478	\$ 1,272	\$ 1,249	\$ 5,785	\$ 2,393	\$ -	\$ -	\$ -	\$ -		
Due to other funds	-	6,160	-	573	21,327	41,142	-	-	-	-		
Total liabilities	10,020	11,638	1,272	1,822	27,112	43,535	-	-	-	-		
Fund Balance												
Restricted												
Capital improvement projects	-	-	-	-	-	-	-	-	-	-		
Circulation improvements	785,271	13,954	1,080,280	-	-	-	-	-	-	-		
Debt service reserve	-	-	-	-	-	-	-	-	13,623	-		
Development activities	-	-	-	-	-	-	-	-	-	-		
Low-income housing activities	-	-	-	-	-	-	32,783	-	-	-		
Unassigned	-	-	-	(1,249)	(17,743)	(25,551)	-	-	-	-		
Total fund balance	785,271	13,954	1,080,280	(1,249)	(17,743)	(25,551)	32,783	-	13,623	-		
Total liabilities and fund balance	\$ 795,291	\$ 25,592	\$ 1,081,552	\$ 573	\$ 9,369	\$ 17,984	\$ 32,783	\$ -	\$ 13,623	\$ -		

CITY OF KERMAN

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2012

	Capital Projects Funds								Total
	CDBG	Jobs/Housing Mitigation	Public Building Facility	Fire Facility	Street Projects & Development	Park Development	Street Maintenance & Construction	Community Redevelopment	
ASSETS									
Cash and investments	\$ -	\$ 41,097	\$ -	\$ 184,538	\$ 521,157	\$ 58,044	\$ -	\$ -	\$ 2,548,057
Due from other governments	18,128	1,500	3,962	2,190	1,387	360	65,869	-	294,159
Land held for resale	-	-	-	-	-	-	-	-	32,783
Total assets	\$ 18,128	\$ 42,597	\$ 3,962	\$ 186,728	\$ 522,544	\$ 58,404	\$ 65,869	\$ -	\$ 2,874,999
LIABILITIES AND FUND BALANCE									
Liabilities									
Accounts payable and accrued expense	\$ 148	\$ -	\$ -	\$ -	\$ 5,118	\$ -	\$ -	\$ -	\$ 31,463
Due to other funds	5,813	-	83,147	-	-	-	65,869	-	224,031
Total liabilities	\$ 5,961	\$ -	\$ 83,147	\$ -	\$ 5,118	\$ -	\$ 65,869	\$ -	\$ 255,494
Fund Balance									
Restricted									
Capital improvement projects	12,167	-	-	-	-	-	-	-	12,167
Circulation improvements	-	-	-	-	-	-	-	-	1,879,505
Debt service reserve	-	-	-	-	-	-	-	-	13,623
Development activities	-	42,597	-	186,728	517,426	58,404	-	-	805,155
Low-income housing activities	-	-	-	-	-	-	-	-	32,783
Unassigned	-	-	(79,185)	-	-	-	-	-	(123,728)
Total fund balance	\$ 12,167	\$ 42,597	\$ (79,185)	\$ 186,728	\$ 517,426	\$ 58,404	\$ -	\$ -	\$ 2,619,505
Total liabilities and fund balance	\$ 18,128	\$ 42,597	\$ 3,962	\$ 186,728	\$ 522,544	\$ 58,404	\$ 65,869	\$ -	\$ 2,874,999

CITY OF KERMAN

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

Revenue	Special Revenue Funds							Debt Service Fund		
	Gas Tax	Measure C	Local Transportation	Senior Center	Maintenance District	Transit	Low-Moderate Housing Asset	Low-Moderate Housing	RDA Financing Authority	RDA Debt Service
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 187,143	\$ -	\$ -	\$ -	\$ -	\$ -
Developer impact fees	-	-	-	-	-	-	-	-	-	-
Intergovernmental	398,286	321,801	427,711	6,858	-	108,673	-	-	-	-
Charges for services	-	-	-	7,965	-	2,919	-	-	-	-
Rents	-	-	-	-	-	-	-	-	-	-
Interest	8,678	70	11,846	-	-	-	-	789	239,351	-
Other	-	-	-	-	-	-	-	-	-	-
Total revenue	406,964	321,871	439,557	14,823	187,143	111,592	-	789	239,351	-
Expenditures										
Public works	60,559	330,763	84,520	-	198,763	-	-	-	-	-
Community development	-	-	-	-	-	-	-	94,807	1,930	-
Social services	-	-	-	20,095	-	119,099	-	-	-	-
Tax pass-through	-	-	-	-	-	-	-	-	-	-
Capital outlay	303,879	-	116,867	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	75,000	-
Interest and fiscal charges	-	-	-	-	-	-	-	-	162,852	-
Total expenditures	364,438	330,763	201,387	20,095	198,763	119,099	-	94,807	239,782	-
Revenue over (under) expenditures	42,526	(8,892)	238,170	(5,272)	(11,620)	(7,507)	-	(94,018)	(431)	-
Other financing sources/(uses)										
Operating transfers in/(out) - net	136,904	-	-	5,239	(16,226)	9,130	32,783	(32,783)	-	-
	136,904	-	-	5,239	(16,226)	9,130	32,783	(32,783)	-	-
Extraordinary Loss	-	-	-	-	-	-	-	(216,223)	-	(12,632)
Change in Fund Balance	179,430	(8,892)	238,170	(33)	(27,846)	1,623	32,783	(343,024)	(431)	(12,632)
Fund Balance										
Beginning of year	605,841	22,846	842,110	(1,216)	10,103	(27,174)	-	343,024	14,054	12,632
End of year	785,271	13,954	1,080,280	(1,249)	(17,743)	(25,551)	32,783	-	13,623	-

CITY OF KERMAN

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2012

	Capital Projects Funds										Total Non-major Governmental Funds	
	CDBG	Jobs/Housing Mitigation	Public Building Facility	Fire Facility	Street Projects & Development	Park Development	Street Maintenance & Construction	Community Redevelopment				
Revenue												
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Developer impact fees	-	20,748	50,468	33,294	70,789	51,093	-	390,363	-	-	-	577,506
Intergovernmental	34,986	-	-	-	-	-	212,161	-	-	-	-	226,392
Charges for services	-	-	-	-	-	-	-	-	-	-	-	1,510,476
Rents	-	-	-	-	-	-	-	-	-	-	-	10,884
Interest	152	472	-	2,375	7,739	853	-	1,055	-	-	-	239,351
Other	-	-	-	-	-	25,081	-	-	-	-	-	34,029
Total revenue	35,138	21,220	50,468	35,669	78,528	77,027	212,161	391,418	-	-	-	2,623,719
Expenditures												
Public works	-	-	-	-	41,939	-	158,442	-	-	-	-	874,986
Community development	-	-	69,428	-	-	-	-	117,022	-	-	-	283,187
Social services	-	-	-	-	-	65,605	-	-	-	-	-	204,799
Tax pass-through	-	-	-	-	-	-	-	-	-	-	-	150,793
Capital outlay	-	-	-	-	51,665	-	21,488	-	-	-	-	493,899
Debt service	-	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-	-	-	85,111
Interest and fiscal charges	-	-	-	-	-	-	-	-	-	-	-	165,372
Total expenditures	-	-	69,428	-	93,604	65,605	179,930	280,446	-	-	-	2,258,147
Revenue over (under) expenditures	35,138	21,220	(18,960)	35,669	(15,076)	11,422	32,231	110,972	-	-	-	365,572
Other financing sources/(uses)												
Operating transfers in/(out) - net	(34,987)	-	13,953	-	-	56,676	(167,274)	(16,877)	-	-	-	(13,462)
	(34,987)	-	13,953	-	-	56,676	(167,274)	(16,877)	-	-	-	(13,462)
Extraordinary Loss	-	-	-	-	-	-	-	(195,857)	-	-	-	(424,712)
Change in Fund Balance	151	21,220	(5,007)	35,669	(15,076)	68,098	(135,043)	(101,762)	-	-	-	(72,602)
Fund Balance												
Beginning of year	12,016	21,377	(74,178)	151,059	532,502	(9,694)	135,043	101,762	-	-	-	2,692,107
End of year	\$ 12,167	\$ 42,597	\$ (79,185)	\$ 186,728	\$ 517,426	\$ 58,404	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,619,505

**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, 2012, and have issued our report thereon dated October 3, 2012. 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 2012" followed by a stylized flourish.

October 3, 2012