

CITY OF KERMAN

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2013**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kerman, California, (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kerman, California, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 - 11 and page 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kerman's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2013, on our consideration of the City of Kerman's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Kerman's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read 'Kegan...', is written over the date. The signature is stylized and extends across the date and slightly to the right.

August 27, 2013

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, 2013. 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 position) at the close of the fiscal year by \$35,817,819 which is 4% higher than fiscal year 2011/2012 (FY 12). Of this amount \$5,816,789 is unrestricted net position, which is available to meet the City's ongoing commitments to citizens and creditors. This represents an increase in unrestricted net position of 7% compared to FY 12.

The City's governmental funds ended the year with a combined fund balance of \$4,454,334, which is an increase of \$191,282 from June 30, 2012. Of this balance, \$1,983,216 is unassigned and available for spending at the City's discretion.

The City's General Fund ended the year with a fund balance of \$2,084,425, an increase of \$440,878 from the previous year. The entire balance of \$2,084,425 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 using the integrated approach as prescribed by GASB Statement No. 34. The Statement of Net Position 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 position* presents information on all the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in the net position 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 position changed in the most recent fiscal year. All changes to the net position 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.

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

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

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

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

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

The City of Kerman maintains seventeen 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. Data from the other sixteen 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 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 six different types of proprietary funds, four enterprise funds and two internal service funds. Enterprise funds are used to report the same functions represented as business-type activities in the government-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 – 42 of this report.

Other information: Combining and individual fund statements and schedules begin on page 44 of this report.

Government-wide Financial Analysis

Comparison data to the prior year is presented below.

The City's combined net position for the fiscal years entered June 30, 2013 and 2012 were:

City of Kerman Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 4,955,365	\$ 4,751,117	\$ 4,256,530	\$ 4,242,593	\$ 9,211,895	\$ 8,993,710
Capital assets	20,392,198	19,385,237	18,397,030	18,852,449	38,789,228	38,237,686
Total assets	25,347,563	24,136,354	22,653,560	23,095,042	48,001,123	47,231,396
Long-term liabilities outstanding	3,881,879	4,075,653	7,723,807	8,188,005	11,605,686	12,263,658
Other liabilities	253,203	177,769	324,415	314,008	577,618	491,777
Total liabilities	4,135,082	4,253,422	8,048,222	8,502,013	12,183,304	12,755,435
Net assets:						
Invested in capital assets, net of related debt	16,753,336	15,543,237	10,776,576	10,754,925	27,529,912	26,298,162
Restricted	2,471,118	2,743,233			2,471,118	2,743,233
Unrestricted	1,988,027	1,596,462	3,828,762	3,838,104	5,816,789	5,434,566
Total net position	\$21,212,481	\$19,882,932	\$14,605,338	\$14,593,029	\$35,817,819	\$34,475,961

As of June 30, 2013 the City's government-wide total assets exceeded liabilities (net position) by \$35,817,819. Both governmental activities and business-type activities finished the year with positive net asset balances (\$21,212,481 and \$14,605,338, respectively). The net position as noted earlier may serve over time as a useful indicator of the City's financial position.

Of the total net position, \$27,529,912 or 77% is the City's investment in capital assets (e.g. land, buildings and improvements, machinery and equipment and the infrastructure) less any related debt used to acquire those assets that is still outstanding.

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

Restricted net position amounts to \$2,471,118, or 7% of the total. Restricted net position are those resources that are subject to external restrictions imposed by the state on how they may be used.

Unrestricted net position are those resources which may be used to meet the City's ongoing commitments to citizens and creditors. Government-wide unrestricted net position are \$5,816,789, or 16% of the total net position. Governmental activities account for \$1,988,027, or 34% of the total unrestricted net position. While the business-type activities account for \$3,828,762, or 66% 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 \$21,212,481 or 59% of the total Government-wide net position. This is an increase of \$1,329,549 or 7% over the June 30, 2012 governmental net assets ending balance.

The following lists key components of this increase:

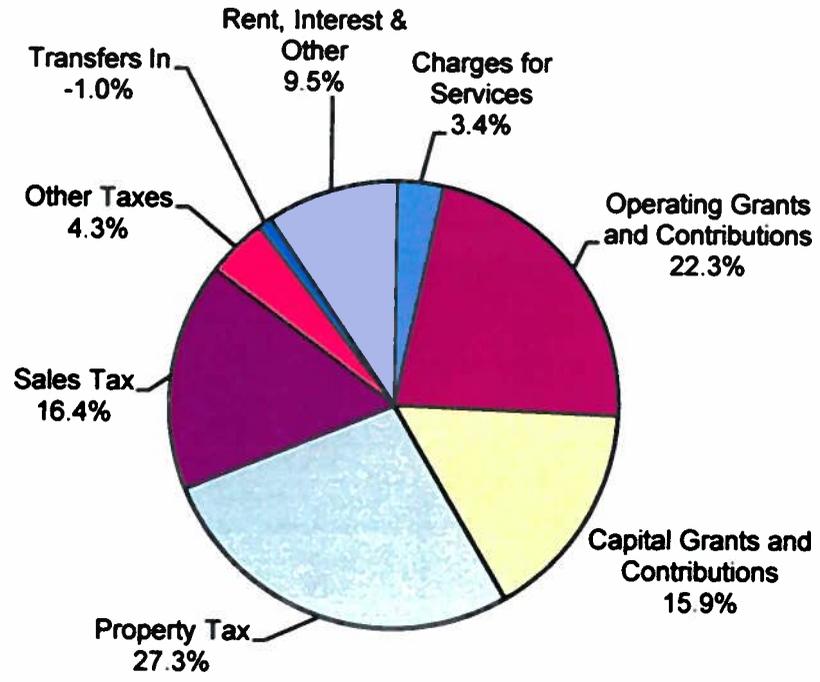
**City of Kerman's
Changes in Net Position
2012-2013**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 228,663	\$ 305,952	\$ 3,972,695	\$ 3,773,717	\$ 4,201,358	\$ 4,079,669
Operating grants and contributions	1,504,591	1,562,674	5,000	10,000	1,509,591	1,572,674
Capital grants and contributions	1,073,457	509,911	112,973	322,635	1,186,430	832,546
General revenues:						
Property taxes	1,841,927	2,125,031			1,841,927	2,125,031
Sales taxes	1,105,446	915,572			1,105,446	915,572
Other taxes	292,015	277,038			292,015	277,038
Transfers	(66,045)	395,711	66,045	(395,711)		
Rents, interest and other	641,708	392,161	65,801	76,954	707,509	469,115
Total revenues	6,621,762	6,484,050	4,222,514	3,787,595	10,844,276	10,271,645
Expenses:						
General government	417,533	432,724			417,533	432,724
Public safety	2,611,345	2,483,628			2,611,345	2,483,628
Social services	847,028	862,144			847,028	862,144
Public works	1,158,522	1,402,236			1,158,522	1,402,236
Community Development	211,906	792,198			211,906	792,198
Tax pass-through		150,793				150,793
Interest and fiscal charges	161,558	163,325			161,558	163,325
Water			1,469,418	1,461,118	1,469,418	1,461,118
Sewer			1,661,687	1,460,523	1,661,687	1,460,523
Disposal			1,005,543	973,206	1,005,543	973,206
Storm Drain			73,557	75,149	73,557	75,149
Total expenses	5,407,892	6,287,048	4,210,205	3,969,996	9,618,097	10,257,044
Extraordinary Loss		(348,325)				(348,325)
Increase in net position	1,213,870	(151,323)	12,309	(182,401)	1,226,179	(333,724)
Net position - beginning	19,882,932	20,034,255	14,593,029	14,775,430	34,475,961	34,809,685
Prior period adjustment:	115,679				115,679	
Net position - ending	\$21,212,481	\$19,882,932	\$14,605,338	\$14,593,029	\$ 35,817,819	\$ 34,475,961

Total governmental revenues for the year were \$6,621,762, with charges for services comprising 3% of the total revenue. Taxes, which include property, sales, and other taxes, account for \$3,239,388 or 49% of the City's governmental activities revenue.

Total governmental expenses for the year were \$5,407,892. Public Safety accounts for \$2,611,345 or 48% of the total governmental activities expenses, followed by Public Works, Social Services and Community Development with \$1,158,522, \$847,028 and \$211,906 or 21%, 16% and 4%, respectively.

Revenues by Source-Governmental Activities

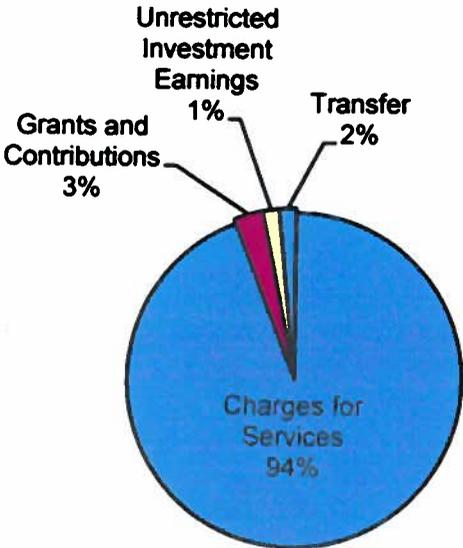


Program revenues which include charges for services, grant revenues and developer capital contributions account for \$2,806,711 or approximately 42% of the total governmental activity revenue. The amounts necessary to fully fund the governmental activity programs are made up by “general” revenues such as taxes, interest, and developer fees.

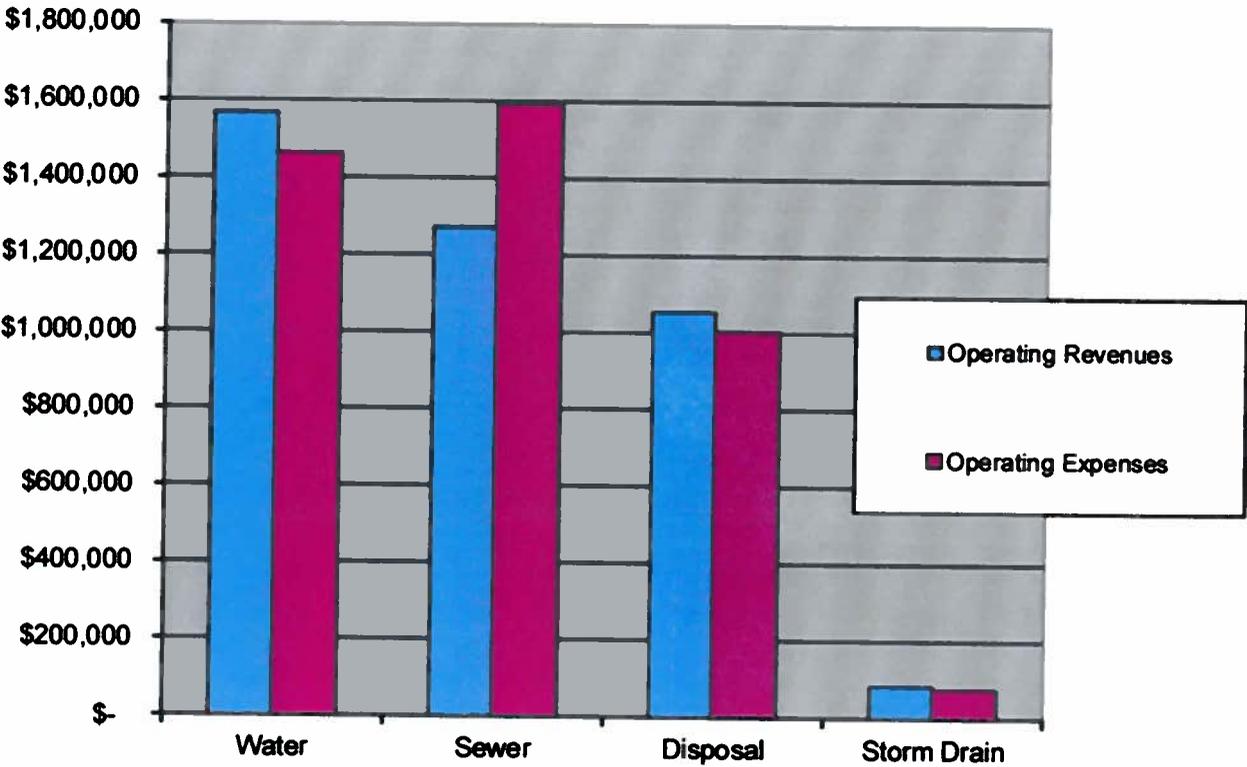
Business-Type Activities

Business-type activities account for \$14,605,338 or 41% of the total Government-wide net assets. This is an increase of \$12,309 or 0.08% compared to June 30, 2012. Charges for current services account for \$3,972,695 or 94% 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, Disposal and in Storm Drain that the operating revenues exceeded operating expenses and were sufficient to cover on-going operational costs and set aside approximately \$103,821 (or 7% of operating revenues), approximately \$50,078 (or 5% of operating revenues), and approximately \$8,602 (or 11% of operating revenues), respectively, for capital outlay needs and future debt service requirements. On-going operating costs in Sewer exceeded operating revenues by approximately \$319,326 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 Transit Fund and the Maintenance District Fund, ended the year with positive fund balances. The ending fund balance for all funds is \$4,454,334, which is an increase of \$191,282 or 4% when compared to the prior year balance. Of the total fund balance, \$1,983,216 or 45% is unreserved, which is available for spending at the City's discretion, within the limitations of the fund's purpose. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for the following:

Circulation Improvements	\$1,713,797
Debt Service Reserve	\$ 13,623
Development Activities	\$ 710,915
Housing and Redevelopment	\$ 32,783

The general fund is the chief operating fund of the City. As of June 30, 2013, the total fund balance of the general fund was \$2,084,425, with the unassigned fund balance of \$2,084,425. The general fund total fund balance increased \$440,878, or 27% 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 2012/2013 budget allowed for a \$23,089 net decrease and the amended budget allowed for a \$24,339 net decrease to the fund balance. However, the actual end result from current year activity was a \$440,878 net increase to the General Fund, after capital outlay expenditures of \$36,604. (see page 43)

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

The internal service funds experienced a decrease in unrestricted net assets of (\$60,842). 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 \$474,260, or 13%, more total revenues and \$78,274, or approximately 2% increase in total expenditures than the final budget allowed for. Revenues and transfers in exceeded Expenditures and transfers out and increased the General Fund Balance by \$440,878.

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, 2013, amounts to \$38,789,228 (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	\$ 49,619
Infrastructure improvements	1,019,994
Machinery & Equipment	96,170
C.I.P.	1,118,645

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	
	2013	2012	2013	2012	2013	2012
<u>Land</u>	\$ 2,244,496	\$ 2,252,552	\$ 3,241,139	\$ 3,241,139	\$ 5,485,635	\$ 5,493,691
<u>Buildings and improvements</u>	5,948,083	6,115,096	14,332,498	15,179,381	20,280,581	21,294,477
<u>Machinery and equipment</u>	462,721	459,408	144,272	214,665	606,993	674,073
<u>Construction in progress</u>	793,922	360,774	679,121	217,264	1,473,043	578,038
<u>Infrastructure</u>	10,942,976	10,197,407			10,942,976	10,197,407
<u>Total</u>	\$20,392,198	\$19,385,237	\$18,397,030	\$18,852,449	\$38,789,228	\$38,237,686

Long-term Debt. The City's long-term debt as of June 30, 2013, was \$11,259,316 with governmental activities accounting for \$3,638,862 or 32% and business-type activities accounting for \$7,620,454 or 68%.

CITY OF KERMAN'S Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<u>Note payable, CEC</u>	\$ 78,862	202,000			\$ 78,862	202,000
<u>Bonds payable, sewer</u>			\$378,285	\$ 423,285	378,285	423,285
<u>Note payable, State of California</u>				38,520		38,520
<u>Note payable, State of California</u>			2,474,999	2,639,999	2,474,999	2,639,999
<u>Note Payable, State of California</u>			4,767,170	4,995,720	4,767,170	4,995,720
<u>Kerman PFA L/R Bonds</u>	3,560,000	3,640,000			3,560,000	3,640,000
<u>Total</u>	\$3,638,862	\$3,842,000	\$7,620,454	\$8,097,524	\$11,259,316	\$11,939,524

Economic Factors and Next Year's Budgets and Rates

The Great Recession officially ended in the second quarter of 2009. Although the effects of the economic downturn linger to this day, the economy has remained resilient. Employment bottomed in February 2010 and has since added 6.2 million private sector jobs of the 8.6 million jobs lost beginning in January 2008. Over the last three years, the economy has added an average of 162,000 jobs a month. The federal unemployment rate stood at 7.3% in August compared to a high of 10% in 2010.

Locally, the City of Kerman has weathered the economic downturn with little to no impact on service levels. Sound fiscal planning and conservative decision-making are 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. Sales tax increased from \$1,161,335 to \$1,434,922 during this four quarter period. The top three segments were agricultural chemical sales, service stations and restaurants. Sales tax revenues are projected to increase by 18% in FY 2013-14. The projected increase in sales tax revenue is based on continued strong sales in chemical products, service stations, and new commercial development.

On the housing front, new housing permits remains stagnant. There has been growing interest from home builders as staff fields more inquires on development opportunities in the community. The short supply of existing homes, record low mortgage rates, increasing property values are all positive signs that new home construction is needed to meet demand.

Total citywide expenditures (including capital expenditures) are projected to increase by approximately 17.5% in 2013/2014, compared to the 2012/2013 Budget. Excluding capital expenditures, citywide expenditures are projected to increase by approximately 3.1% compared to the 2012/2013 Budget. This reflects a increase in personnel costs of about 3.3% and an increase in maintenance and operations costs of approximately 2.9%, overall. Citywide capital expenditure budgets for 2013/2014 increased approximately 42.7% from the 2012/2013 budgets, with almost \$2.6 million budgeted for Water Construction, almost \$440,000 for Sewer Construction and \$3.6 million for Street Construction projects in the 2013/2014 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 POSITION JUNE 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 4,267,589	\$ 4,114,812	\$ 8,382,401
Accounts receivable, net	105,993	108,970	214,963
Taxes receivable	189,101	-	189,101
Due from other governments	298,611	-	298,611
Interest receivable	1,438	-	1,438
Internal balances	(32,748)	32,748	-
Land held for resale	32,783	-	32,783
Deferred charges - Bond issuance costs, net	92,598	-	92,598
Capital assets, net of allowance for depreciation	<u>20,392,198</u>	<u>18,397,030</u>	<u>38,789,228</u>
Total assets	<u>25,347,563</u>	<u>22,653,560</u>	<u>48,001,123</u>
LIABILITIES			
Accounts payable and accrued expense	206,095	189,070	395,165
Accrued interest payable	39,538	35,754	75,292
Deposits payable	7,570	99,591	107,161
Long-term liabilities			
Due within one year	92,756	439,074	531,830
Due in more than one year	3,546,106	7,181,380	10,727,486
Compensated absences	<u>243,017</u>	<u>103,353</u>	<u>346,370</u>
Total liabilities	<u>4,135,082</u>	<u>8,048,222</u>	<u>12,183,304</u>
NET POSITION			
Invested in capital assets, net of related debt	16,753,336	10,776,576	27,529,912
Restricted for debt service	13,623	-	13,623
Restricted for specific projects and programs	2,457,495	-	2,457,495
Unrestricted	<u>1,988,027</u>	<u>3,828,762</u>	<u>5,816,789</u>
Total net position	<u>\$ 21,212,481</u>	<u>\$ 14,605,338</u>	<u>\$ 35,817,819</u>

CITY OF KERMAN

**STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013**

Functions/Programs	Program Revenue			Net Revenue/(Expense) and Changes in Net Position			
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 417,533	\$ 4,417	\$ 10,759	\$ -	\$ (402,357)	\$ -	\$ (402,357)
Public works	1,158,522	5,678	1,053,791	-	(99,053)	-	(99,053)
Community development	211,906	65,596	170,485	1,073,457	1,097,632	-	1,097,632
Social services	847,028	43,099	106,222	-	(697,707)	-	(697,707)
Public safety	2,611,345	109,873	163,334	-	(2,338,138)	-	(2,338,138)
Debt Service							
Interest and fiscal charges	161,558	-	-	-	(161,558)	-	(161,558)
Total governmental activities	5,407,892	228,663	1,504,591	1,073,457	(2,601,181)	-	(2,601,181)
Business-type activities							
Water	1,469,418	1,565,121	-	19,421	-	115,124	115,124
Sewer	1,661,687	1,270,725	-	35,766	-	(355,196)	(355,196)
Disposal	1,005,543	1,054,976	5,000	-	-	54,433	54,433
Storm Drain	73,557	81,873	-	57,786	-	66,102	66,102
Total business-type activities	4,210,205	3,972,695	5,000	112,973	-	(119,537)	(119,537)
Total primary government	9,618,097	4,201,358	1,509,591	1,186,430	(2,601,181)	(119,537)	(2,720,718)
General Revenue							
Property taxes					1,841,927	-	1,841,927
Special assessments					193,448	-	193,448
Sales taxes					1,105,446	-	1,105,446
Franchise and other taxes					98,567	-	98,567
Business licenses					66,908	-	66,908
Rents					362,172	-	362,172
Interest income					45,038	65,801	110,839
Gain on sale of property					80,508	-	80,508
Other					87,082	-	87,082
Transfers					(66,045)	66,045	-
Total general revenue and transfers					3,815,051	131,846	3,946,897
Change in Net Position					1,213,870	12,309	1,226,179
Net Position							
Beginning of year					19,882,932	14,593,029	34,475,961
Prior period adjustment					115,679	-	115,679
End of year					21,212,481	14,605,338	35,817,819

See accompanying notes.

CITY OF KERMAN

**BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments	\$ 1,653,735	\$ 2,369,776	\$ 4,023,511
Accounts receivable	105,873	-	105,873
Taxes receivable	189,101	-	189,101
Due from other governments	15,126	283,485	298,611
Interest receivable	1,438	-	1,438
Due from other funds	280,796	-	280,796
Land held for resale	-	32,783	32,783
Total assets	<u>\$ 2,246,069</u>	<u>\$ 2,686,044</u>	<u>\$ 4,932,113</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable and accrued expense	\$ 154,074	\$ 35,339	\$ 189,413
Due to other funds	-	280,796	280,796
Deposits and other liabilities	7,570	-	7,570
Total liabilities	<u>161,644</u>	<u>316,135</u>	<u>477,779</u>
Fund Balance			
Restricted			
Circulation improvements	-	1,713,797	1,713,797
Debt service reserve	-	13,623	13,623
Development activities	-	710,915	710,915
Low-income housing activities	-	32,783	32,783
Unassigned	<u>2,084,425</u>	<u>(101,209)</u>	<u>1,983,216</u>
Total fund balance	<u>2,084,425</u>	<u>2,369,909</u>	<u>4,454,334</u>
Total liabilities and fund balance	<u>\$ 2,246,069</u>	<u>\$ 2,686,044</u>	<u>\$ 4,932,113</u>

CITY OF KERMAN

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2013

Total governmental fund balance	\$ 4,454,334
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	20,070,151
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(3,638,862)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(243,017)
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	(39,538)
Internal service funds are used by management to charge the costs of fleet maintenance and computer services to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Position.	516,815
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>92,598</u>
Net position of governmental activities	<u>\$ 21,212,481</u>

CITY OF KERMAN

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenue			
Taxes	\$ 3,112,848	\$ 193,448	\$ 3,306,296
Licenses, permits and impact fees	216,960	119,777	336,737
Intergovernmental	184,289	2,057,022	2,241,311
Charges for services	162,328	9,308	171,636
Fines and forfeitures	57,027	-	57,027
Rents	120,920	241,252	362,172
Interest	20,246	24,792	45,038
Gain on sale of property	88,564	-	88,564
Other	40,838	46,244	87,082
Total revenue	<u>4,004,020</u>	<u>2,691,843</u>	<u>6,695,863</u>
Expenditures			
Current			
General government	320,678	-	320,678
Public works	262,405	613,795	876,200
Community development	158,807	53,099	211,906
Social services	565,192	190,826	756,018
Public safety	2,591,135	-	2,591,135
Capital outlay	36,604	1,453,142	1,489,746
Debt Service			
Principal	-	87,459	87,459
Interest and fiscal charges	-	162,358	162,358
Total expenditures	<u>3,934,821</u>	<u>2,560,679</u>	<u>6,495,500</u>
Revenue over/(under) expenditures	69,199	131,164	200,363
Other Financing Sources/(Uses)			
Transfers in/(out) - net	<u>371,679</u>	<u>(380,760)</u>	<u>(9,081)</u>
	<u>371,679</u>	<u>(380,760)</u>	<u>(9,081)</u>
Change in Fund Balance	440,878	(249,596)	191,282
Fund Balance			
Beginning of year	<u>1,643,547</u>	<u>2,619,505</u>	<u>4,263,052</u>
End of year	<u>\$ 2,084,425</u>	<u>\$ 2,369,909</u>	<u>\$ 4,454,334</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 POSITION YEAR ENDED JUNE 30, 2013

Net change in fund balance - total governmental funds		\$ 191,282
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report the sale of capital assets as revenue. However, in the Statement of Activities the book value of the capitalized asset reduces the gain on sale.		(8,056)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated lives and reported as depreciation expense		
Capital outlay expenditures are therefore added back to fund balances	1,489,746	
Depreciation expense not reported in governmental funds	<u>(489,329)</u>	
		1,000,417
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 position. Proceeds of long-term debt produces the opposite effect		87,459
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		(44,810)
In the Statement of Activities interest is accrued on long-term debt, whereas, in governmental funds interest expenditure is reported when due		800
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>(9,364)</u>
Change in net position of governmental activities		<u>\$ 1,213,870</u>

CITY OF KERMAN

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2013**

	Business-Type Activities - Enterprise Funds					Total Proprietary Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain			
ASSETS							
Current assets							
Cash and investments	\$ 2,467,499	\$ 1,189,660	\$ 295,183	\$ 162,470	\$ 4,114,812	\$ 244,078	
Accounts receivable, net	76,400	18,191	13,432	947	108,970	120	
Total current assets	<u>2,543,899</u>	<u>1,207,851</u>	<u>308,615</u>	<u>163,417</u>	<u>4,223,782</u>	<u>244,198</u>	
Non-current assets							
Property, plant and equipment, net of allowance for depreciation	4,759,355	12,575,091	18,632	1,043,952	18,397,030	322,047	
Total assets	<u>\$ 7,303,254</u>	<u>\$ 13,782,942</u>	<u>\$ 327,247</u>	<u>\$ 1,207,369</u>	<u>\$ 22,620,812</u>	<u>\$ 566,245</u>	
LIABILITIES							
Current liabilities							
Accounts payable and accrued expenses	\$ 56,279	\$ 32,267	\$ 66,797	\$ 33,727	\$ 189,070	\$ 16,682	
Accrued interest payable	-	35,754	-	-	35,754	-	
Deposits	99,591	-	-	-	99,591	-	
Current portion of long-term debt	165,000	274,074	-	-	439,074	-	
Total current liabilities	<u>320,870</u>	<u>342,095</u>	<u>66,797</u>	<u>33,727</u>	<u>763,489</u>	<u>16,682</u>	
Non-current liabilities							
Long-term debt	2,309,999	4,871,381	-	-	7,181,380	-	
Compensated absences	47,277	48,079	7,997	-	103,353	-	
Total noncurrent liabilities	<u>2,357,276</u>	<u>4,919,460</u>	<u>7,997</u>	<u>-</u>	<u>7,284,733</u>	<u>-</u>	
Total liabilities	<u>2,678,146</u>	<u>5,261,555</u>	<u>74,794</u>	<u>33,727</u>	<u>8,048,222</u>	<u>16,682</u>	
NET POSITION							
Invested in capital assets, net of related debt	2,284,356	7,429,636	18,632	1,043,952	10,776,576	322,047	
Unrestricted/(deficit)	2,340,752	1,091,751	233,821	129,690	3,796,014	227,516	
Total net position	<u>\$ 4,625,108</u>	<u>\$ 8,521,387</u>	<u>\$ 252,453</u>	<u>\$ 1,173,642</u>	<u>\$ 14,572,590</u>	<u>\$ 549,563</u>	
Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds					32,748		
Net position of business-type activities					<u>\$ 14,605,338</u>		

See accompanying notes.

CITY OF KERMAN

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013**

	Business-Type Activities - Enterprise Funds					Total Proprietary Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain			
Operating Revenue							
Charges for services	\$ 1,564,341	\$ 1,257,918	\$ 1,054,976	\$ 65,373	\$ 3,942,608	\$ 453,233	
Other revenues	780	12,807	-	16,500	30,087	-	
Total operating income	<u>1,565,121</u>	<u>1,270,725</u>	<u>1,054,976</u>	<u>81,873</u>	<u>3,972,695</u>	<u>453,233</u>	
Operating Expense							
Contractual services and utilities	477,909	452,680	812,131	19,385	1,762,105	58,746	
Personnel	568,064	547,310	146,743	35,448	1,297,565	239,888	
Supplies and materials	63,331	62,005	2,589	1,045	128,970	90,291	
Depreciation	351,996	528,056	43,435	17,393	940,880	70,982	
Total operating expense	<u>1,461,300</u>	<u>1,590,051</u>	<u>1,004,898</u>	<u>73,271</u>	<u>4,129,520</u>	<u>459,907</u>	
Operating income/(loss)	<u>103,821</u>	<u>(319,326)</u>	<u>50,078</u>	<u>8,602</u>	<u>(156,825)</u>	<u>(6,674)</u>	
Nonoperating Revenue/(Expense)							
Intergovernmental	-	-	5,000	-	5,000	-	
Development impact fees	19,421	35,766	-	57,786	112,973	-	
Interest income	27,508	33,511	3,216	1,566	65,801	2,796	
Interest expense	(537)	(64,116)	-	-	(64,653)	-	
Total nonoperating revenue/(expense)	<u>46,392</u>	<u>5,161</u>	<u>8,216</u>	<u>59,352</u>	<u>119,121</u>	<u>2,796</u>	
Net income/(loss) before transfers	150,213	(314,165)	58,294	67,954	(37,704)	(3,878)	
Operating Transfers In/(Out)	<u>(114,485)</u>	<u>240,356</u>	<u>(52,373)</u>	<u>(7,453)</u>	<u>66,045</u>	<u>(56,964)</u>	
Change in Net Position	<u>35,728</u>	<u>(73,809)</u>	<u>5,921</u>	<u>60,501</u>	<u>28,341</u>	<u>(60,842)</u>	
Net Position							
Beginning of year	4,589,380	8,595,196	246,532	1,113,141	14,544,249	610,405	
End of year	<u>4,625,108</u>	<u>8,521,387</u>	<u>252,453</u>	<u>1,173,642</u>	<u>14,572,590</u>	<u>549,563</u>	
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds							
Change in net position of business-type activities (Page 13)					<u>(16,032)</u>		
						<u>\$ 12,309</u>	

See accompanying notes.

CITY OF KERMAN

**COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013**

	Business-Type Activities - Enterprise Funds					Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain	Total Business-Type Funds	
Operating Activities						
Receipts from customers and users	1,581,848	1,273,178	1,050,211	81,819	3,987,056	453,113
Payments for contractual services and utilities	(466,370)	(453,316)	(813,171)	(19,864)	(1,752,921)	(49,917)
Payments to employees	(563,183)	(541,213)	(144,849)	(35,448)	(1,284,693)	(239,888)
Payment to suppliers	(63,331)	(62,005)	(2,589)	(1,045)	(128,970)	(90,291)
Net cash provided by operating activities	488,964	216,444	89,602	25,462	820,472	73,017
Non-capital Financial Activities						
Payments from other governments	-	-	5,000	-	5,000	-
Payments from developers	19,421	35,766	-	57,786	112,973	-
Transfers (to)/from other funds	(114,485)	240,356	(52,373)	(7,453)	66,045	(56,964)
Net cash provided by (used in) noncapital financing activities	(95,064)	276,122	(47,373)	50,333	184,018	(56,964)
Capital and Related Financing Activities						
Purchase of property, plant and equipment	(18,808)	(466,653)	-	-	(485,461)	(85,582)
Principal received (paid) on long-term debt, net	(203,520)	(273,550)	-	-	(477,070)	-
Interest paid on long-term debt	(537)	(69,362)	-	-	(69,899)	-
Net cash used in capital and related financing activities	(222,865)	(809,565)	-	-	(1,032,430)	(85,582)
Investing Activities						
Interest received	27,508	33,511	3,216	1,566	65,801	2,796
Net cash provided by investing activities	27,508	33,511	3,216	1,566	65,801	2,796
Net Increase (Decrease) in Cash	198,543	(283,488)	45,445	77,361	37,861	(66,733)
Cash						
Beginning of year	2,268,956	1,473,148	249,738	85,109	4,076,951	310,811
End of year	2,467,499	1,189,660	295,183	162,470	4,114,812	244,078
Cash Flows from Operating Activities						
Operating income (loss)	103,821	(319,326)	50,078	8,602	(156,825)	(6,674)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	351,996	528,056	43,435	17,393	940,880	70,982
(Increase) Decrease in Accounts Receivable	10,258	2,453	(4,765)	(54)	7,892	(120)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	22,889	5,261	854	(479)	28,525	8,829
Net Cash Provided by Operating Activities	488,964	216,444	89,602	25,462	820,472	73,017

See accompanying notes.

CITY OF KERMAN

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS
JUNE 30, 2013**

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 161,787
Total assets	<u>161,787</u>
 LIABILITIES	
Agency funds payable	<u>161,787</u>
Total liabilities	<u>\$ 161,787</u>

CITY OF KERMAN

STATEMENT OF FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUNDS JUNE 30, 2013

	<u>Kerman Unified School District</u>	<u>Redevelopment Successor Agency</u>
Assets		
Cash and investments	\$ 8,623	\$ 193,982
Taxes receivable	-	-
Total assets	<u>8,623</u>	<u>193,982</u>
Liabilities		
Accounts payable and accrued liabilities	-	2,409
Long-term debt		
Due within one year	-	5,406
Due in more than one year	-	55,239
Total liabilities	<u>-</u>	<u>63,054</u>
Net Position		
Held in trust for other governments	<u>\$ 8,623</u>	<u>\$ 130,928</u>

CITY OF KERMAN

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND JUNE 30, 2013

	<u>Kerman Unified School District</u>	<u>Redevelopment Successor Agency</u>
Additions		
Property taxes	\$ -	\$ 315,185
Investment earnings and other	10	227
Total additions	<u>10</u>	<u>315,412</u>
Deductions		
Administrative costs	-	251,109
Program expenses	2,762	216,223
Interest expense	<u>5,625</u>	<u>2,058</u>
Total deductions	<u>8,387</u>	<u>469,390</u>
Change In Net Position	(8,377)	(153,978)
Net Position		
Beginning of year	<u>17,000</u>	<u>284,906</u>
End of year	<u>\$ 8,623</u>	<u>\$ 130,928</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 1 – Summary of Significant Accounting Policies

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

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

Reporting Entity

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

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

Basis of Presentation – Fund Accounting

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

The Statement of Activities and Changes in Net Position 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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

The City reports the following major governmental funds:

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

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, 2013

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, 2013

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, 2013

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, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

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

Net Position - The government-wide and business-type activities financial statements utilize a net position presentation. Net position 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 position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- **Restricted Net Position** - This category presents external restrictions on net position imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** - This category represents net position of the City not restricted for any project or other purpose.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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, 2013

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, 2013 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments	\$ 8,382,401
Fiduciary Funds:	
Cash and Investments	355,769
Total Cash and Investments	<u>\$ 8,738,170</u>

Cash and investments as of June 30, 2013 consist of the following:

Cash on hand	\$ 850
Deposits with Financial Institutions	3,793,320
Certificates of deposit	4,944,000
Total Cash and Investments	<u>\$ 8,738,170</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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, 2013

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	\$ 4,944,000	\$ 1,428,000	\$ 1,037,000	\$ 2,479,000
Total	<u>\$ 4,944,000</u>	<u>\$ 1,428,000</u>	<u>\$ 1,037,000</u>	<u>\$ 2,479,000</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 3 – Cash and Investments (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Investment Type		Minimum	Rating as of Year End
		Legal Rating	Not Rated
Certificates of deposit	<u>\$ 4,944,000</u>	N/A	<u>\$ 4,944,000</u>
Total	<u>\$ 4,944,000</u>		<u>\$ 4,944,000</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of total City-wide investments as of June 30, 2013.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 4 – Receivables

The following is a summary of receivables at June 30, 2013 for the City's individual major and non-major funds in the aggregate:

	<u>General</u>	<u>Other Governmental Funds</u>
Governmental Funds		
Accounts	\$ 105,873	\$ -
Taxes	189,101	-
Intergovernmental	15,126	283,485
Interest	1,438	-
	<u>\$ 311,538</u>	<u>\$ 283,485</u>

The following is a summary of receivables at June 30, 2013 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>	<u>Internal Service</u>
Enterprise Funds					
Accounts	\$ 80,500	\$ 19,191	\$ 14,832	\$ 1,047	\$ 120
Gross receivables	80,500	19,191	14,832	1,047	120
Less: Allowance for uncollectible accounts	(4,100)	(1,000)	(1,400)	(100)	-
	<u>\$ 76,400</u>	<u>\$ 18,191</u>	<u>\$ 13,432</u>	<u>\$ 947</u>	<u>\$ 120</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 5 – Capital Assets – Capital asset activities for the year ended June 30, 2013 were as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 2,252,552	\$ -	\$ (8,056)	\$ 2,244,496
Construction in progress	360,774	656,787	(223,639)	793,922
Total capital assets, not being depreciated	<u>2,613,326</u>	<u>656,787</u>	<u>(231,695)</u>	<u>3,038,418</u>
Capital assets, being depreciated				
Buildings and improvements	7,380,412	26,016	-	7,406,428
Infrastructure	11,548,185	1,019,994	-	12,568,179
Machinery and equipment	1,885,608	96,170	-	1,981,778
Total capital assets, being depreciated	<u>20,814,205</u>	<u>1,142,180</u>	<u>-</u>	<u>21,956,385</u>
Less accumulated depreciation for				
Buildings and improvements	(1,265,316)	(193,029)	-	(1,458,345)
Infrastructure	(1,350,778)	(274,425)	-	(1,625,203)
Machinery and equipment	(1,426,200)	(92,857)	-	(1,519,057)
Total accumulated depreciation	<u>(4,042,294)</u>	<u>(560,311)</u>	<u>-</u>	<u>(4,602,605)</u>
Total capital assets, being depreciated, net	<u>16,771,911</u>	<u>581,869</u>	<u>-</u>	<u>17,353,780</u>
Governmental activities capital assets, net	<u>\$ 19,385,237</u>	<u>\$ 1,238,656</u>	<u>\$ (231,695)</u>	<u>\$ 20,392,198</u>
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 3,241,139	\$ -	\$ -	\$ 3,241,139
Construction in progress	217,264	461,858	-	679,122
Total capital assets, not being depreciated	<u>3,458,403</u>	<u>461,858</u>	<u>-</u>	<u>3,920,261</u>
Capital assets, being depreciated				
Buildings and improvements	19,836,902	23,603	-	19,860,505
Machinery and equipment	1,093,769	-	-	1,093,769
Total capital assets, being depreciated	<u>20,930,671</u>	<u>23,603</u>	<u>-</u>	<u>20,954,274</u>
Less: accumulated depreciation	<u>(5,536,625)</u>	<u>(940,880)</u>	<u>-</u>	<u>(6,477,505)</u>
Total capital assets, being depreciated, net	<u>15,394,046</u>	<u>(917,277)</u>	<u>-</u>	<u>14,476,769</u>
Business-type activities capital assets, net	<u>\$ 18,852,449</u>	<u>\$ (455,419)</u>	<u>\$ -</u>	<u>\$ 18,397,030</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 5 – Capital Assets (Continued)

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

Governmental Functions:

General Government	\$	95,787
Public Works and Development		282,322
Social Services		91,010
Public Safety		20,210
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the asset		<u>70,982</u>
	\$	<u>560,311</u>

Business-Type Functions:

Water	\$	351,996
Sewer		528,056
Disposal		43,435
Storm Drain		<u>17,393</u>
	\$	<u>940,880</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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, 2013 was comprised of the following individual issues:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustment</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Current</u> <u>Portion</u>
<u>Governmental Activity Long Term Debt</u>						
Notes Payable						
California Energy Commission	\$ 202,000	\$ -	\$ 7,459	\$ (115,679)	\$ 78,862	\$ 7,756
Kerman Public Finance Authority Bonds						
2007 Lease Revenue Bonds	<u>3,640,000</u>	<u>-</u>	<u>80,000</u>	<u>-</u>	<u>3,560,000</u>	<u>85,000</u>
Total Governmental Activity Debt	<u>\$ 3,842,000</u>	<u>\$ -</u>	<u>\$ 87,459</u>	<u>\$ (115,679)</u>	<u>\$ 3,638,862</u>	<u>\$ 92,756</u>
<u>Business-Type Activity Long Term Debt</u>						
Bonds Payable						
Sewer Revenue Bond	\$ 423,285	\$ -	\$ 45,000	\$ -	\$ 378,285	\$ 45,000
Notes Payable						
California Dept. of Water Resources	38,520	-	38,520	-	-	-
California Dept. of Water Resources	2,639,999	-	165,000	-	2,474,999	165,000
California Dept. of Water Resources	<u>4,995,720</u>	<u>-</u>	<u>228,550</u>	<u>-</u>	<u>4,767,170</u>	<u>229,074</u>
Total Business-Type Activity Debt	<u>\$ 8,097,524</u>	<u>\$ -</u>	<u>\$ 477,070</u>	<u>\$ -</u>	<u>\$ 7,620,454</u>	<u>\$ 439,074</u>
<u>Compensated Absences</u>						
Government Activities	<u>\$ 233,653</u>	<u>\$ 9,364</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 243,017</u>	
Business-Type Activities	<u>\$ 90,481</u>	<u>\$ 12,872</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,353</u>	

California Energy Commission Note Payable – In June of 2012, the City entered into a loan agreement for \$86,321 with the State of California Energy Commission to retrofit existing street lights with LED technology. Terms of the note call for semi-annual payments of \$5,032 including interest at 3.00%, which begins December 2012 and will mature in June 2022. The outstanding balance on the note at June 30, 2013 was \$78,862.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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, 2013 was \$378,285.

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 loan was retired as of June 30, 2013.

California Department of Water Resources Construction Loan – The City entered into a contract with the State of California, Department of Water Resources in 2003. The contract provides for a 20 year loan at a zero percent interest rate. Terms of the note call for semi-annual principal payments of \$82,500 beginning January 1, 2008 and will mature on January 1, 2028. The outstanding balance on the note at June 30, 2013 was \$2,474,999.

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 2013 and will mature in September 2031. The outstanding balance on the note at June 30, 2013 was \$4,767,170.

CITY OF KERMAN

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

Note 6 – Long-Term Debt (Continued)

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2013 were as follows:

Years ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 92,756	\$ 158,973	\$ 439,074	\$ 66,586
2015	92,991	155,721	446,362	62,045
2016	98,227	152,323	448,675	57,231
2017	103,481	148,658	456,012	52,395
2018	103,738	144,767	458,372	47,285
2019-2023	587,669	657,102	2,176,383	165,027
2024-2028	675,000	524,137	2,115,741	92,972
2029-2033	835,000	352,569	1,079,835	27,130
2034-2038	1,050,000	129,438	-	-
	<u>\$ 3,638,862</u>	<u>\$ 2,423,688</u>	<u>\$ 7,620,454</u>	<u>\$ 570,671</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, 2013:

Capital Project Funds	
Public Building Facility	\$ (71,470)
Special Revenue Funds	
Maintenance District	(3,730)
Transit	(26,009)
	<u>\$ (101,209)</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, 2013

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 – Prior Period Adjustment

During the current year, it was determined that in the prior year a note payable was recorded for \$202,000 rather than the actual loan amount of \$86,321. To correct this error, the beginning net position of governmental activities in the government-wide financial statements was increased by \$115,679.

Note 10 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through August 27, 2013, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2013 that required recognition or disclosure in such financial statements.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 11 – 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, 2013 was 7.846% for the miscellaneous plan and 15.358% for the safety plan. The contribution requirements of plan members is established by State statute and the employer contribution is established and may be amended by PERS.

Annual Pension Cost - For the year ended June 30, 2013, the City's annual pension cost of \$443,052 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.0 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.75 percent. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, was 17 years for safety members and 9 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, 2011	\$ 422,794	100%	-
June 30, 2012	\$ 503,827	100%	-
June 30, 2013	\$ 443,052	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, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Taxes	\$ 2,935,700	\$ 2,935,700	\$ 3,112,848	\$ 177,148
Licenses, permits and impact fees	93,900	93,900	216,960	123,060
Intergovernmental	108,000	108,000	184,289	76,289
Charges for services	171,570	171,570	162,328	(9,242)
Fines and forfeitures	11,000	11,000	57,027	46,027
Rents	123,596	123,596	120,920	(2,676)
Interest	12,000	12,000	20,246	8,246
Gain on sale of property	250	250	88,564	88,314
Other	60,744	73,744	40,838	(32,906)
Total revenue	<u>3,516,760</u>	<u>3,529,760</u>	<u>4,004,020</u>	<u>474,260</u>
Expenditures				
Current				
General government	269,580	269,580	320,678	(51,098)
Public works	172,191	172,191	262,405	(90,214)
Community development	186,379	186,379	158,807	27,572
Social services	619,953	619,953	565,192	54,761
Public safety	2,563,294	2,577,544	2,591,135	(13,591)
Capital outlay	30,900	30,900	36,604	(5,704)
Total expenditures	<u>3,842,297</u>	<u>3,856,547</u>	<u>3,934,821</u>	<u>(78,274)</u>
Revenue over (under) expenditures	(325,537)	(326,787)	69,199	395,986
Other Financing Sources				
Transfers in (out) - net	<u>302,448</u>	<u>302,448</u>	<u>371,679</u>	<u>69,231</u>
Net Change in Fund Balance	<u>\$ (23,089)</u>	<u>\$ (24,339)</u>	<u>440,878</u>	<u>\$ 465,217</u>
Fund Balance				
Beginning of year			<u>1,643,547</u>	
End of year			<u>\$ 2,084,425</u>	

SUPPLEMENTAL ONLY INFORMATION

CITY OF KERMAN

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013**

	Special Revenue Funds							Debt Service Fund
	Gax Tax	Measure C	Local Transportation	Senior Center	Maintenance District	Transit	Low-Moderate Housing Asset	
ASSETS								
Cash and investments	\$ 845,534	\$ 2,797	\$ 792,047	\$ -	\$ 764	\$ -	\$ -	\$ 13,623
Due from other governments	29,217	22,765	38,628	762	-	18,211	-	-
Land held for resale	-	-	-	-	-	-	32,783	-
Total assets	<u>\$ 874,751</u>	<u>\$ 25,562</u>	<u>\$ 830,675</u>	<u>\$ 762</u>	<u>\$ 764</u>	<u>\$ 18,211</u>	<u>\$ 32,783</u>	<u>\$ 13,623</u>
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts payable and accrued expense	\$ 4,158	\$ 7,516	\$ 5,517	\$ 137	\$ 4,494	\$ 862	\$ -	\$ -
Due to other funds	-	-	-	625	-	43,358	-	-
Total liabilities	<u>4,158</u>	<u>7,516</u>	<u>5,517</u>	<u>762</u>	<u>4,494</u>	<u>44,220</u>	<u>-</u>	<u>-</u>
Fund Balance								
Restricted								
Circulation improvements	870,593	18,046	825,158	-	-	-	-	-
Debt service reserve	-	-	-	-	-	-	-	13,623
Development activities	-	-	-	-	-	-	-	-
Low-income housing activities	-	-	-	-	-	-	32,783	-
Unassigned	-	-	-	-	(3,730)	(26,009)	-	-
Total fund balance	<u>870,593</u>	<u>18,046</u>	<u>825,158</u>	<u>-</u>	<u>(3,730)</u>	<u>(26,009)</u>	<u>32,783</u>	<u>13,623</u>
Total liabilities and fund balance	<u>\$ 874,751</u>	<u>\$ 25,562</u>	<u>\$ 830,675</u>	<u>\$ 762</u>	<u>\$ 764</u>	<u>\$ 18,211</u>	<u>\$ 32,783</u>	<u>\$ 13,623</u>

CITY OF KERMAN

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2013**

	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	
ASSETS								
Cash and investments	\$ -	\$ 47,442	\$ -	\$ 224,056	\$ 416,214	\$ 27,299	\$ -	\$ 2,369,776
Due from other governments	131,927	-	-	-	-	-	41,975	283,485
Land held for resale	-	-	-	-	-	-	-	32,783
Total assets	\$ 131,927	\$ 47,442	\$ -	\$ 224,056	\$ 416,214	\$ 27,299	\$ 41,975	\$ 2,686,044
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts payable and accrued expense	\$ 1,534	\$ -	\$ -	\$ -	\$ 671	\$ 3,425	\$ 7,025	\$ 35,339
Due to other funds	130,393	-	71,470	-	-	-	34,950	280,796
Total liabilities	131,927	-	71,470	-	671	3,425	41,975	316,135
Fund Balance								
Restricted								
Circulation improvements	-	-	-	-	-	-	-	1,713,797
Debt service reserve	-	-	-	-	-	-	-	13,623
Development activities	-	47,442	-	224,056	415,543	23,874	-	710,915
Low-income housing activities	-	-	-	-	-	-	-	32,783
Unassigned	-	-	(71,470)	-	-	-	-	(101,209)
Total fund balance	-	47,442	(71,470)	224,056	415,543	23,874	-	2,369,909
Total liabilities and fund balance	\$ 131,927	\$ 47,442	\$ -	\$ 224,056	\$ 416,214	\$ 27,299	\$ 41,975	\$ 2,686,044

CITY OF KERMAN

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013**

	Special Revenue Funds							Debt Service Fund
	Gas Tax	Measure C	Local Transportation	Senior Center	Maintenance District	Transit	Low-Moderate Housing Asset	
Revenue								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 193,448	\$ -	\$ -	\$ -
Developer impact fees	-	-	-	-	-	-	-	-
Intergovernmental	322,417	335,944	372,743	9,144	-	97,078	-	-
Charges for services	-	-	-	5,336	-	3,972	-	-
Rents	-	-	-	-	-	-	-	241,252
Interest	7,938	109	7,913	-	19	-	-	-
Other	-	-	-	-	-	-	-	-
Total revenue	<u>330,355</u>	<u>336,053</u>	<u>380,656</u>	<u>14,480</u>	<u>193,467</u>	<u>101,050</u>	-	<u>241,252</u>
Expenditures								
Public works	33,643	325,134	80,444	-	171,498	-	-	-
Community development	-	-	-	-	-	-	-	1,500
Social services	-	-	-	29,830	-	108,335	-	-
Capital outlay	161,340	-	555,334	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-
Principal	7,459	-	-	-	-	-	-	80,000
Interest and fiscal charges	2,606	-	-	-	-	-	-	159,752
Total expenditures	<u>205,048</u>	<u>325,134</u>	<u>635,778</u>	<u>29,830</u>	<u>171,498</u>	<u>108,335</u>	-	<u>241,252</u>
Revenue over (under) expenditures	125,307	10,919	(255,122)	(15,350)	21,969	(7,285)	-	-
Other financing sources/(uses)								
Operating transfers in/(out) - net	(39,985)	(6,827)	-	16,599	(7,956)	6,827	-	-
	<u>(39,985)</u>	<u>(6,827)</u>	-	<u>16,599</u>	<u>(7,956)</u>	<u>6,827</u>	-	-
Change in Fund Balance	85,322	4,092	(255,122)	1,249	14,013	(458)	-	-
Fund Balance								
Beginning of year	785,271	13,954	1,080,280	(1,249)	(17,743)	(25,551)	32,783	13,623
End of year	<u>\$ 870,593</u>	<u>\$ 18,046</u>	<u>\$ 825,158</u>	<u>\$ -</u>	<u>\$ (3,730)</u>	<u>\$ (26,009)</u>	<u>\$ 32,783</u>	<u>\$ 13,623</u>

CITY OF KERMAN

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

	Capital Projects Funds						Total	
	CDBG	Jobs/Housing Mitigation	Public Building Facility	Fire Facility	Street Projects & Development	Park Development		Street Maintenance & Construction
Revenue								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 193,448
Developer impact fees	-	4,322	59,314	34,895	18,107	3,139	-	119,777
Intergovernmental	337,230	-	-	-	-	11,815	570,651	2,057,022
Charges for services	-	-	-	-	-	-	-	9,308
Rentis	-	-	-	-	-	-	-	241,252
Interest	21	523	-	2,433	5,259	577	-	24,792
Other	-	-	-	-	-	46,244	-	46,244
Total revenue	<u>337,251</u>	<u>4,845</u>	<u>59,314</u>	<u>37,328</u>	<u>23,366</u>	<u>61,775</u>	<u>570,651</u>	<u>2,691,843</u>
Expenditures								
Public works	-	-	-	-	-	-	3,076	613,795
Community development	-	-	51,599	-	-	-	-	53,099
Social services	-	-	-	-	-	52,661	-	190,826
Capital outlay	-	-	-	-	125,249	43,644	567,575	1,453,142
Debt service	-	-	-	-	-	-	-	87,459
Principal	-	-	-	-	-	-	-	162,358
Interest and fiscal charges	-	-	-	-	-	-	-	2,560,679
Total expenditures	-	-	<u>51,599</u>	-	<u>125,249</u>	<u>96,305</u>	<u>570,651</u>	-
Revenue over (under) expenditures	337,251	4,845	7,715	37,328	(101,883)	(34,530)	-	131,164
Other financing sources/(uses)								
Operating transfers in/(out) - net	(349,418)	-	-	-	-	-	-	(380,760)
	<u>(349,418)</u>	-	-	-	-	-	-	<u>(380,760)</u>
Change in Fund Balance	(12,167)	4,845	7,715	37,328	(101,883)	(34,530)	-	(249,596)
Fund Balance								
Beginning of year	12,167	42,597	(79,185)	186,728	517,426	58,404	-	2,619,505
End of year	<u>\$ -</u>	<u>\$ 47,442</u>	<u>\$ (71,470)</u>	<u>\$ 224,056</u>	<u>\$ 415,543</u>	<u>\$ 23,874</u>	<u>\$ -</u>	<u>\$ 2,369,909</u>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kerman, California, (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated August 27, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink, appearing to be "M. J. [unclear]", written in a cursive style.

August 27, 2013

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

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

Report on Compliance for Each Major Federal Program

We have audited City of Kerman, California's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended June 30, 2013. City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, City of Kerman, California, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

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

A handwritten signature in black ink, appearing to be 'M. J. ...', written over a horizontal line.

August 27, 2013

CITY OF KERMAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2013

U.S. Department of Transportation			
Passed through California Department of Transportation			
CMAQ Congestion Mitigation and Air Quality	20.205	N/A	\$ 142,400
RSTP Regional Surface Transportation Program	20.205	ESPLSTP-5291	<u>287,074</u>
			<u>429,474</u>
U.S. Department of Housing and Urban Development			
Passed through County of Fresno			
Community Development Block Grant	14.218	B-09-UY-06-0003	349,418
U.S. Department of Health & Human Services			
Passed through California Department of Aging			
Special Program for Aging	93.045	11-0121	9,144
U.S. Department of Justice			
Bulletproof Vest Partnership Program	16.607	N/A	4,749
Homeland Security Grant Program	97.067	019-00000	<u>13,595</u>
			<u>18,344</u>
<i>Total Federal Expenditures</i>			<u>\$ 806,380</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

CITY OF KERMAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2013

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

Yes No

Identification of Major Programs

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

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee? Yes No

B. Findings – Financial Statements Audit

None noted.

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

None noted.

CITY OF KERMAN

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013**

Summary Schedule of Prior Audit Findings

There were no prior year audit findings.