

**CITY OF KERMAN**

**INDEPENDENT AUDITOR'S REPORT**

**AND**

**FINANCIAL STATEMENTS**

**JUNE 30, 2015**

## **TABLE OF CONTENTS**

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	<b><u>Page</u></b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1 - 2
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3 – 11
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-Wide Financial Statements</b>	
Statement of Net Position	12
Statement of Activities	13
<b>Fund Financial Statements</b>	
Balance Sheet - Governmental Funds	14
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities	15
Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds	16
Reconciliation of Statement of Revenue, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	17
Statement of Net Position - Proprietary Funds	18
Statement of Revenue, Expenses and Changes in Fund Net Position - Proprietary Funds	19
Statement of Cash Flows - Proprietary Funds	20
Statement of Fiduciary Assets and Liabilities - Agency Funds	21
Statement of Fiduciary Net Position – Private Purpose Trust Fund	22
Statement of Changes in Fiduciary Net Position – Private Purpose Trust Fund	23
Notes to Basic Financial Statements	24 - 48

## **TABLE OF CONTENTS (Continued)**

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	<u>Page</u>
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – General Fund	50
Budgetary Comparison Schedule – Gas Tax Fund	51
Schedule of the City’s Proportionate Share of Net Pension Liability	52
Schedule of Contributions	53
<b>Supplemental Only Information</b>	
Combining Balance Sheet – Nonmajor Governmental Funds	55 – 56
Combining Statement of Revenue, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds	57 – 58
<b>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 <i>GOVERNMENT AUDITING STANDARDS</i></b>	59 – 60

**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, 2015, 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, 2015, 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.

## **Emphasis of Matter**

As described in Note 1 to the financial statements, the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, Schedule of Proportionate Share of Net Pension Liability and Schedule of Contributions on pages 3 - 11, pages 43 - 44, and pages 52 - 53 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.

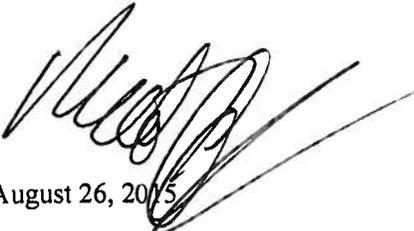
### Other Information

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 combining and individual nonmajor financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 combining and individual nonmajor fund financial statements are 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 26, 2015, 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.



August 26, 2015

CITY OF KERMAN  
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2015

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The management of the City of Kerman is pleased to present the following discussion and analysis that provides an overview of the financial position and activities of the City of Kerman as of and for the year ended June 30, 2015. The discussion should be read in conjunction with the financial statements and accompanying notes which follow this section.

### **Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's financial statements which include all activities of the City of Kerman including the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position. The statements are accompanied by footnotes to clarify unique accounting policies and other financial information and required supplementary information. The assets, liabilities, revenues and expenses of the City are reported on an accrual basis of accounting.

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 two categories: governmental funds and proprietary 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-side 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 and Gas Tax Funds, which are considered to be major funds. Data from the other fifteen 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 and the Gas Tax Funds to demonstrate compliance to this budget and can be found on pages 50 - 57.

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-side financial statements. The City utilizes enterprise funds to account for those activities that are supported primarily by user charges to external users, and include water, sewer, disposal 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.

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 Water, Sewer, Disposal 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 – 19 of this report.

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.

The **Statement of Net Position** presents information on all of the City's assets and liabilities, with the difference between the two representing net position (equity). Assets and liabilities are classified as current or noncurrent. Changes from one year to the next in total net position, as presented on the Statement of Net Position, are based on the activity presented on the Statement of Revenues, Expenses and Changes in Net Position.

The **Statement of Revenues, Expenses and Changes in Net Position** is the City's income statement. Revenues earned and expenses incurred during the year are classified as either "operating" or "non-operating." All revenues and expenses are recognized as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in the disbursement or collection of cash during future fiscal years.

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes describe the nature of the City's operations and significant accounting policies and provide clarification regarding unique financial information. The notes to the financial statements can be found on pages 24 – 48 of this report.

Following the basic financial statements and footnotes is **required supplementary information**, which provides further detail.

## Financial Highlights

Government-wide financial highlights for the fiscal year ended June 30, 2015:

### I. Statement of Net Position

#### Condensed Statement of Net Position

	2015	2014	
\$	48,988,387	\$ 48,655,676	Government-wide total assets at fiscal year ending June 30, 2015 increased by \$332,711 which is .68% higher than fiscal year ending June 30, 2014.
\$	13,308,547	\$ 11,611,775	Government-wide total liabilities at fiscal year ending June 30, 2015 increased by \$1,696,772 which is 12.75% more than fiscal year ending June 30, 2014.
\$	(489,656)		Net of Deferred Outflows/Inflows of Resources - Result of GASB68 requirement to record City's unfunded pension liability.
\$	35,190,184	\$ 37,043,901	The Net Position (assets less liabilities) at fiscal year ending June 30, 2015 decreased by \$1,853,717 which is 5.27% less than fiscal year ending June 30, 2014. The net position includes (\$489,656) of deferred outflows/inflows of resources. Of the total amount \$2,989,490 is unrestricted which is available to meet the City's ongoing commitments to citizens and creditors.

#### Statement of Net Position (Detail)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Assets:</b>						
Current and other assets	5,334,004	4,742,085	4,388,432	4,084,702	9,722,436	8,826,787
Capital assets	22,359,050	22,130,584	16,906,901	17,698,305	39,265,951	39,828,889
Total Assets	<u>27,693,054</u>	<u>26,872,669</u>	<u>21,295,333</u>	<u>21,783,007</u>	<u>48,988,387</u>	<u>48,655,676</u>
<b>Deferred Outflows of Resources:</b>						
Total deferred outflows of resources	262,707	-	63,757	-	326,464	-
<b>Liabilities:</b>						
Current and other liabilities	255,665	218,258	327,899	305,678	583,564	523,936
Long-term liabilities	5,262,239	3,811,486	7,462,744	7,276,353	12,724,983	11,087,839
Total Liabilities	<u>5,517,904</u>	<u>4,029,744</u>	<u>7,790,643</u>	<u>7,582,031</u>	<u>13,308,547</u>	<u>11,611,775</u>
<b>Deferred Inflows of Resources:</b>						
Total deferred inflows of resources	585,840	-	230,280	-	816,120	-
<b>Net Assets:</b>						
Investment in capital assets, net of related debt	18,905,935	18,584,478	10,171,880	10,516,922	29,077,815	29,101,400
Restricted	1,950,538	1,962,695	1,172,341	-	3,122,879	1,962,695
Unrestricted	995,544	2,295,752	1,993,946	3,684,054	2,989,490	5,979,806
Total Net Position	<u>21,852,017</u>	<u>22,842,925</u>	<u>13,338,167</u>	<u>14,200,976</u>	<u>35,190,184</u>	<u>37,043,901</u>

Of the total net position, \$29,077,815 or 83% is the City's investment in capital assets (e.g. land, buildings and improvements, machinery and equipment and infrastructure) less any related debt used to acquire those assets that is still outstanding.

GASB Statement No. 68 was issued to improve accounting and financial reporting by state and local governments for pensions. The Statement of Net Position reflects a separate section for deferred outflows of resources (asset) and a deferred inflow of resources (liability). The net effect is (\$489,656). The City's total net pension liability is \$2,163,973.

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 \$3,122,879 or 9% of the total. Restricted net position are those resources that are subject to external restriction 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 \$2,989,490 or 8% of the total net position. While the business-type activities account for \$1,993,946 or 67% 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 \$21,852,017 or 62% of the total Government-wide net position. This is a decrease of \$990,908 or 4% over the June 30, 2014 governmental net position ending balance.

## II. Statement of Revenues, Expenses and Changes in Net Position

Statement of Revenues, Expenses and Change in Net Position (Condensed)

	<u>2015</u>	<u>2014</u>
Operating Revenues	\$ 11,057,686	\$ 11,607,385
Operating Expenses	<u>10,267,990</u>	<u>10,381,303</u>
Increase in Net Position	789,696	1,226,082
Prior Period Adjustment	(2,643,413)	-
Net Position, Beginning of Year	<u>37,043,901</u>	<u>35,817,819</u>
Net Position, End of Year	<u>35,190,184</u>	<u>37,043,901</u>

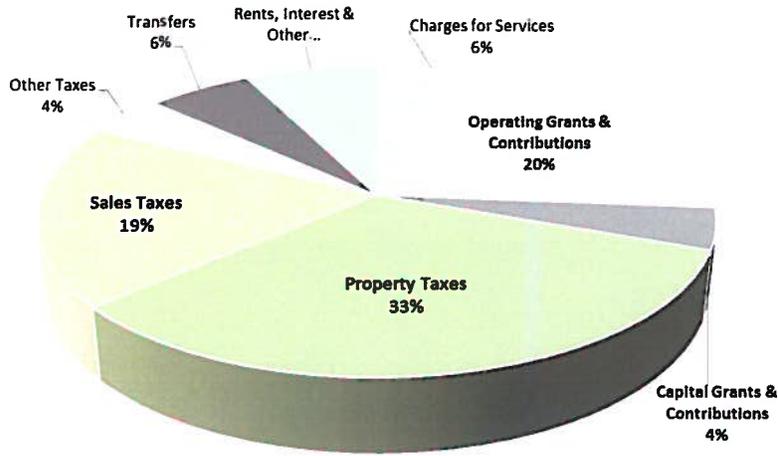
Statement of Revenues, Expenses and Change in Net Assets (Detail)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Revenues</b>						
<b>Program Revenues:</b>						
Charges for Services	442,517	440,443	4,135,810	4,178,152	4,578,327	4,618,595
Operating Grants & Contributions	1,439,906	1,656,391	-	5,000	1,439,906	1,661,391
Capital Grants & Contributions	311,401	878,496	76,482	115,514	387,883	994,010
<b>General Revenues:</b>						
Property Taxes	2,366,314	2,111,286			2,366,314	2,111,286
Sales Taxes	1,362,980	1,195,132			1,362,980	1,195,132
Other Taxes	313,187	307,782			313,187	307,782
Transfers	414,610	293,092	(414,610)	(293,092)	-	-
Rents, Interest & Other	529,915	653,702	79,174	65,487	609,089	719,189
<b>Total Revenues</b>	<b>7,180,830</b>	<b>7,536,324</b>	<b>3,876,856</b>	<b>4,071,061</b>	<b>11,057,686</b>	<b>11,607,385</b>
<b>Expenses:</b>						
General Government	1,008,227	609,727			1,008,227	609,727
Public Safety	2,608,332	2,711,308			2,608,332	2,711,308
Social Services	835,708	828,772			835,708	828,772
Public Works	1,440,741	1,252,754			1,440,741	1,252,754
Community Development	264,095	345,088			264,095	345,088
Interest & Fiscal Charges	154,956	158,231			154,956	158,231
Water			1,389,946	1,489,259	1,389,946	1,489,259
Sewer			1,462,301	1,753,406	1,462,301	1,753,406
Disposal			1,010,716	1,007,728	1,010,716	1,007,728
Storm Drain			92,968	225,030	92,968	225,030
<b>Total Expenses</b>	<b>6,312,059</b>	<b>5,905,880</b>	<b>3,955,931</b>	<b>4,475,423</b>	<b>10,267,990</b>	<b>10,381,303</b>
Increase in Net Position	868,771	1,630,444	(79,075)	(404,362)	789,696	1,226,082
Net Position - Beginning	22,842,925	21,212,481	14,200,976	14,605,338	37,043,901	35,817,819
Prior Period Adjustment	(1,859,679)		(783,734)		(2,643,413)	-
Net Position - Ending	<u>21,852,017</u>	<u>22,842,925</u>	<u>13,338,167</u>	<u>14,200,976</u>	<u>35,190,184</u>	<u>37,043,901</u>

Total governmental revenues for the year were \$7,180,830 with charges for services comprising of 6% of the total revenue. Taxes, which include property, sales and other taxes, account for \$4,042,481 or 56% of the City's governmental activities revenue.

Total governmental expenses for the year were \$6,312,059. Public Safety accounts for \$2,608,332 or 41% of the total governmental activities expenses, followed by Public Works, Social Services and Community Development with \$1,440,741, \$835,708, and \$264,095 or 23%, 13%, and 6% respectively.

**Revenues by Source-Governmental Activities**

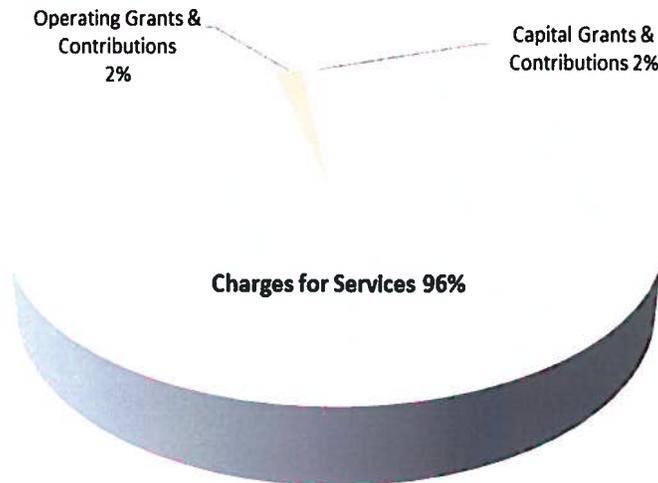


Program revenues which include charges for services, grant revenues and developer capital contributions account for \$2,193,824 or approximately 31% of the total governmental activity revenue. The amounts necessary to fully fund the governmental activity programs are made up by "general" revenues such as taxes, interest and developer fees.

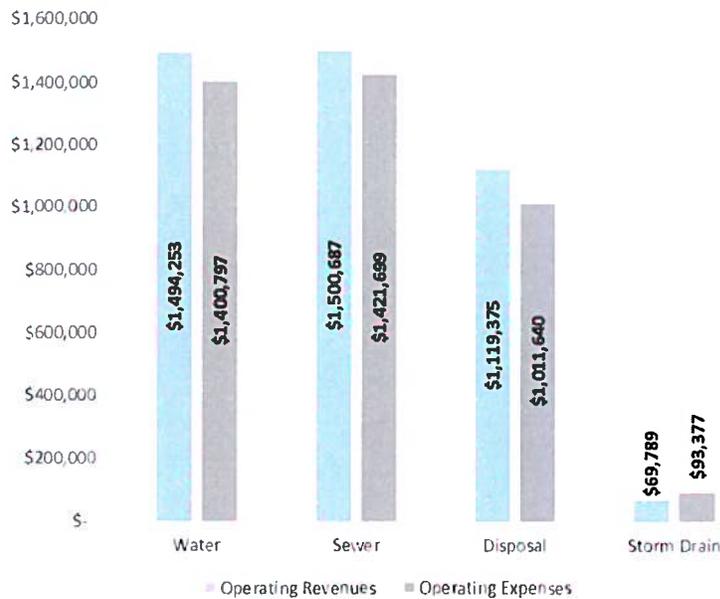
**Business-Type Activities**

Business-type activities account for \$13,338,167 or 38% of the total Government-wide net assets. This is a decrease of \$862,809 or 6% compared to June 30, 2014. Charges for current services account for \$4,135,810 or 96% of the total business-type activity revenue (excluding transfers).

**Revenues by Source-Business Type Activities**



## Operating Expenses and Operating Revenues-Business Type Activities



In a review of the chart illustrating Operating Expenses and Operating Revenues, it can be noted in Water, Sewer and Disposal that the operating revenues exceeded operating expenses and were sufficient to cover on-going operational costs and set aside approximately \$280,179 combined. Storm Drain expenses exceeded operating revenues by approximately \$23,588 for fiscal year ending June 30, 2015.

### Financial Analysis

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

Governmental Funds. The ending fund balance for all governmental funds is \$4,996,042 which is an increase of \$525,282 or 12% when compared to the prior year balance (page 13). Of the total fund balance, \$3,045,504 or 61% 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 \$1,202,146
- Development Activities \$ 730,344
- Low-income Housing Activities \$ 18,048

The General Fund is the chief operating fund of the City. As of June 30, 2015 the total fund balance of the General Fund was \$3,198,901 with the unassigned fund balance of \$910,949. The general fund total fund balance increased \$582,861 or 22% 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 2014/2015 budget allowed for a \$229,732 net increase to the fund balance. However, the actual end result from current year activity was a \$582,861 net increase to the General Fund, after capital outlay expenditures of \$49,162 (page 50).

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

The internal service funds experienced an increase in unrestricted net position of \$87,086 with funds reserved for equipment replacements (page 19).

### General Fund Budgetary Highlights

The Statement of Revenues, Expenditures and Changes in Fund Balance-Budget to Actual on page 50 outlines the differences between the budget and actual numbers. The City experienced \$255,469 or 6% more total revenues and \$129,252 or 3% decrease in total expenditures that the final budget allowed for. Revenues and transfers exceeded expenditures and transfer out and increased the General Fund Balance by \$582,861.

### 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, 2015 amounts to \$39,265,951 (net of depreciation). This investment in capital assets includes land, building and improvements, machinery and equipment, and infrastructure.

Major capital asset additions this year include the following:

Building Improvements	\$ 37,426
Infrastructure Improvements	105,197
Machinery and Equipment	172,480
Construction in Progress (CIP)	615,155

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

#### Capital Assets

(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	2,244,496	2,244,496	3,241,139	3,241,139	5,485,635	5,485,635
Buildings and Improvements	5,633,207	5,794,790	12,105,180	14,000,351	17,738,387	19,795,141
Machinery and Equipment	601,456	542,357	1,155,878	145,217	1,757,334	687,574
Construction in Progress	1,391,250	869,201	404,704	311,598	1,795,954	1,180,799
Infrastructure	12,488,641	12,679,740			12,488,641	12,679,740
<b>Total</b>	<b>22,359,050</b>	<b>22,130,584</b>	<b>16,906,901</b>	<b>17,698,305</b>	<b>39,265,951</b>	<b>39,828,889</b>

Long-term Debt. The City's long term debt as of June 30, 2015 was \$10,188,136 with governmental activities accounting for \$3,453,115 or 34% and business-type activities accounting for \$6,735,021 or 66%.

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Note Payable, CA Energy Comm.	63,115	71,106			63,115	71,106
Bonds Payable, Sewer			283,285	333,285	283,285	333,285
Note Payable, CA Dept Water Conserv.			2,144,999	2,309,999	2,144,999	2,309,999
Note Payable, CA Dept Water Conserv.			4,306,737	4,538,099	4,306,737	4,538,099
Kerman PFA Lease/Rev Bonds	3,390,000	3,475,000			3,390,000	3,475,000
<b>Total</b>	<b>3,453,115</b>	<b>3,546,106</b>	<b>6,735,021</b>	<b>7,181,383</b>	<b>10,188,136</b>	<b>10,727,489</b>

Additional information on the City's long term debt can be found in note 6 on page 38.

## **Economic Factors and Next Year's Budgets**

Despite the current economic climate, the City is in excellent financial shape, especially when compared to the fiscal challenges faced by many cities.

Nearly six years after the Great Recession, the U.S. economy continues on a slow path of recovery. One bright spot is that the job market continues to improve although slower than anticipated. These mixed signals reflect an ongoing uncertainty with the pace and strength of the economy's recovery.

Although the state economy is strengthening, the unprecedented four-year drought could have implications for the agricultural-based economy in the Central Valley as farms are left fallow due to lack of water. The ripple effect could prove dire for many Valley communities if the drought continues into a fifth year or beyond.

Other factors impacting local governments include changes to pension contribution rates and the impacts of the Affordable Care Act on the health insurance industry. These two employee benefits must be part of an elongated view in order to carefully evaluate their impacts in the years to come.

Total citywide revenue budgeted for fiscal year 2015-2016 is \$13,884,434 with expenditures budgeted at \$19,288,583. Citywide capital expenditures are budgeted for \$8,577,886 which will be funded by a variety of funding sources.

### **Requests for Information**

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

# CITY OF KERMAN

## STATEMENT OF NET POSITION JUNE 30, 2015

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and investments	\$ 4,853,749	\$ 4,278,630	\$ 9,132,379
Accounts receivable, net	46,686	58,411	105,097
Taxes receivable	277,978	-	277,978
Due from other governments	206,043	-	206,043
Interest receivable	939	-	939
Internal balances	(51,391)	51,391	-
Capital assets, net of allowance for depreciation	<u>22,359,050</u>	<u>16,906,901</u>	<u>39,265,951</u>
Total assets	<u>27,693,054</u>	<u>21,295,333</u>	<u>48,988,387</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Total deferred outflows of resources	<u>262,707</u>	<u>63,757</u>	<u>326,464</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expense	209,857	199,817	409,674
Accrued interest payable	38,030	25,075	63,105
Deposits payable	7,778	103,007	110,785
Long-term liabilities			
Due within one year	98,227	448,675	546,902
Due in more than one year	3,354,888	6,286,346	9,641,234
Compensated absences	280,233	92,640	372,873
Net pension liability	<u>1,528,891</u>	<u>635,083</u>	<u>2,163,974</u>
Total liabilities	<u>5,517,904</u>	<u>7,790,643</u>	<u>13,308,547</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Total deferred inflows of resources	<u>585,840</u>	<u>230,280</u>	<u>816,120</u>
<b>NET POSITION</b>			
Net investment in capital assets	18,905,935	10,171,880	29,077,815
Restricted for specific projects and programs	1,950,538	-	1,950,538
Restricted for capital improvements	-	1,172,341	1,172,341
Unrestricted	<u>995,544</u>	<u>1,993,946</u>	<u>2,989,490</u>
Total net position	<u>\$ 21,852,017</u>	<u>\$ 13,338,167</u>	<u>\$ 35,190,184</u>

**CITY OF KERMAN**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015**

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
<b>Primary Government</b>							
Governmental activities							
General government	\$ 1,008,227	\$ 169,478	\$ -	\$ -	\$ (838,749)	\$ -	\$ (838,749)
Public works	1,440,741	-	1,153,557	208,754	(78,430)	-	(78,430)
Community development	264,095	154,738	47,517	102,647	40,807	-	40,807
Social services	835,708	39,565	62,253	-	(733,890)	-	(733,890)
Public safety	2,608,332	78,736	176,579	-	(2,353,017)	-	(2,353,017)
Debt Service							
Interest and fiscal charges	154,956	-	-	-	(154,956)	-	(154,956)
Total governmental activities	6,312,059	442,517	1,439,906	311,401	(4,118,235)	-	(4,118,235)
Business-type activities							
Water	1,389,946	1,533,079	-	28,496	-	171,629	171,629
Sewer	1,462,301	1,435,401	-	44,274	-	17,374	17,374
Disposal	1,010,716	1,098,511	-	-	-	87,795	87,795
Storm Drain	92,968	68,819	-	3,712	-	(20,437)	(20,437)
Total business-type activities	3,955,931	4,135,810	-	76,482	-	256,361	256,361
<b>Total primary government</b>	<b>\$ 10,267,990</b>	<b>\$ 4,578,327</b>	<b>\$ 1,439,906</b>	<b>\$ 387,883</b>	<b>(4,118,235)</b>	<b>256,361</b>	<b>(3,861,874)</b>
<b>General Revenue</b>							
Property taxes					2,366,314	-	2,366,314
Special assessments					209,275	-	209,275
Sales taxes					1,362,980	-	1,362,980
Franchise and other taxes					103,912	-	103,912
Business licenses					56,473	-	56,473
Rents					374,582	31,336	405,918
Interest income					35,480	30,880	66,360
Other					63,380	16,958	80,338
Transfers					414,610	(414,610)	-
Total general revenue and transfers					4,987,006	(335,436)	4,651,570
<b>Change in Net Position</b>					868,771	(79,075)	789,696
<b>Net Position</b>							
Beginning of year					22,842,925	14,200,976	37,043,901
Prior period adjustments					(1,859,679)	(783,734)	(2,643,413)
End of year					\$ 21,852,017	\$ 13,338,167	\$ 35,190,184

**CITY OF KERMAN**

**BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	<u>General</u>	<u>Gas Tax</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and investments	\$ 2,768,615	\$ 270,045	\$ 1,635,318	\$ 4,673,978
Accounts receivable	46,686	-	-	46,686
Taxes receivable	277,978	-	-	277,978
Due from other governments	25,904	-	180,139	206,043
Interest receivable	939	-	-	939
Due from other funds	215,495	-	-	215,495
Total assets	<u>\$ 3,335,617</u>	<u>\$ 270,045</u>	<u>\$ 1,815,457</u>	<u>\$ 5,421,119</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities</b>				
Accounts payable and accrued expense	\$ 128,938	24,299	\$ 48,567	\$ 201,804
Due to other funds	-	-	215,495	215,495
Deposits and other liabilities	7,778	-	-	7,778
Total liabilities	<u>136,716</u>	<u>24,299</u>	<u>264,062</u>	<u>425,077</u>
<b>Fund Balance</b>				
Restricted				
Circulation improvements	-	245,746	956,400	1,202,146
Development activities	-	-	730,344	730,344
Low-income housing activities	-	-	18,048	18,048
Committed				
Emergency reserve	1,039,978	-	-	1,039,978
Revenue stability reserve	623,987	-	-	623,987
Major asset repair and replacement reserve	623,987	-	-	623,987
Unassigned	910,949	-	(153,397)	757,552
Total fund balance	<u>3,198,901</u>	<u>245,746</u>	<u>1,551,395</u>	<u>4,996,042</u>
Total liabilities and fund balance	<u>\$ 3,335,617</u>	<u>\$ 270,045</u>	<u>\$ 1,815,457</u>	<u>\$ 5,421,119</u>

# CITY OF KERMAN

## RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2015

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Total governmental fund balance	\$ 4,996,042
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	21,910,458
Net pension liability applicable to governmental activities are not due and payable in the current period and accordingly is not reported in the Governmental Funds	(1,528,891)
Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities	262,706
Deferred inflows of resources related to net pension liability, represent an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time	(585,840)
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(3,453,115)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(280,233)
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	(38,030)
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.	<u>568,920</u>
Net position of governmental activities	<u>\$ 21,852,017</u>

**CITY OF KERMAN**

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE –  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2015**

	<u>General</u>	<u>Gas Tax</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenue</b>				
Taxes	\$ 3,583,542	\$ -	\$ 209,275	\$ 3,792,817
Licenses, permits and impact fees	242,685	-	101,085	343,770
Intergovernmental	496,091	358,798	1,077,458	1,932,347
Charges for services	217,502	-	7,583	225,085
Fines and forfeitures	34,214	-	-	34,214
Rents	134,436	-	240,147	374,583
Interest	21,476	2,605	11,397	35,478
Other	24,026	-	3,900	27,926
<b>Total revenue</b>	<u>4,753,972</u>	<u>361,403</u>	<u>1,650,845</u>	<u>6,766,220</u>
<b>Expenditures</b>				
<b>Current</b>				
General government	400,310	-	-	400,310
Public works	388,710	152,702	603,483	1,144,895
Community development	160,062	-	107,332	267,394
Social services	557,660	-	180,163	737,823
Public safety	2,604,008	-	-	2,604,008
Capital outlay	49,162	418,468	227,475	695,105
<b>Debt Service</b>				
Principal	-	7,991	85,000	92,991
Interest and fiscal charges	-	2,074	153,647	155,721
<b>Total expenditures</b>	<u>4,159,912</u>	<u>581,235</u>	<u>1,357,100</u>	<u>6,098,247</u>
Revenue over/(under) expenditures	594,060	(219,832)	293,745	667,973
<b>Other Financing Sources/(Uses)</b>				
Transfers in/(out) - net	(11,199)	7,137	(138,629)	(142,691)
	<u>(11,199)</u>	<u>7,137</u>	<u>(138,629)</u>	<u>(142,691)</u>
<b>Change in Fund Balance</b>	582,861	(212,695)	155,116	525,282
<b>Fund Balance</b>				
Beginning of year	2,616,040	458,441	1,396,279	4,470,760
End of year	<u>\$ 3,198,901</u>	<u>\$ 245,746</u>	<u>\$ 1,551,395</u>	<u>\$ 4,996,042</u>

# CITY OF KERMAN

## RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2015

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Net change in fund balance - total governmental funds \$ 525,282

Amounts reported for governmental activities in the Statement of Activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated lives and reported as depreciation expense		
Capital outlay expenditures are therefore added back to fund balances	707,120	
Depreciation expense not reported in governmental funds	<u>(514,327)</u>	192,793
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		92,991
Net pension liability		(376,695)
Contributions in the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position		262,706
Pension expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the Governmental Funds		121,645
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		64,137
In the Statement of Activities interest is accrued on long-term debt, whereas, in governmental funds interest expenditure is reported when due		765
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>(14,853)</u>
Change in net position of governmental activities		<u>\$ 868,771</u>

**CITY OF KERMAN**

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS  
JUNE 30, 2015**

	Business-Type Activities - Enterprise Funds					Total Proprietary Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain			
<b>ASSETS</b>							
<b>Current assets</b>							
Cash and investments	\$ 2,746,308	\$ 1,120,468	\$ 379,804	\$ 32,050	\$ 4,278,630	\$ 179,771	
Accounts receivable, net	18,422	23,287	15,419	1,283	58,411	-	
Total current assets	2,764,730	1,143,755	395,223	33,333	4,337,041	179,771	
<b>Non-current assets</b>							
Property, plant and equipment, net of allowance for depreciation	4,289,699	11,607,316	19	1,009,867	16,906,901	448,592	
Total assets	7,054,429	12,751,071	395,242	1,043,200	21,243,942	628,363	
	30,992	23,212	7,383	2,170	63,757	-	
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
<b>LIABILITIES</b>							
<b>Current liabilities</b>							
Accounts payable and accrued expenses	57,703	31,845	75,482	34,787	199,817	8,053	
Accrued interest payable	-	25,075	-	-	25,075	-	
Deposits	103,007	-	-	-	103,007	-	
Current portion of long-term debt	165,000	283,675	-	-	448,675	-	
Total current liabilities	325,710	340,595	75,482	34,787	776,574	8,053	
<b>Non-current liabilities</b>							
Long-term debt	1,979,999	4,306,347	-	-	6,286,346	-	
Compensated absences	48,159	35,428	9,053	-	92,640	-	
Net pension liability	299,843	245,314	72,160	17,766	635,083	-	
Total noncurrent liabilities	2,328,001	4,587,089	81,213	17,766	7,014,069	-	
Total liabilities	2,653,711	4,927,684	156,695	52,553	7,790,643	8,053	
	108,723	88,950	26,165	6,442	230,280	-	
<b>DEFERRED INFLOWS OF RESOURCES</b>							
<b>NET POSITION</b>							
Net investment in capital assets	2,144,700	7,017,294	19	1,009,867	10,171,880	448,592	
Restricted for capital improvements	1,016,643	181,213	-	(25,515)	1,172,341	-	
Unrestricted/(deficit)	1,161,644	559,142	219,746	2,023	1,942,555	171,718	
Total net position	\$ 4,322,987	\$ 7,757,649	\$ 219,765	\$ 986,375	\$ 13,286,776	\$ 620,310	
Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds						51,391	
Net position of business-type activities					\$ 13,338,167		

See accompanying notes.

**CITY OF KERMAN**

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2015**

	Business-Type Activities - Enterprise Funds				Total Proprietary Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain		
<b>Operating Revenue</b>						
Charges for services	\$ 1,447,115	\$ 1,411,376	\$ 1,098,511	\$ 68,819	\$ 4,025,821	\$ -
Other revenues	47,138	89,311	20,864	970	158,283	5,456
Total operating income	1,494,253	1,500,687	1,119,375	69,789	4,184,104	5,456
<b>Operating Expense</b>						
Contractual services and utilities	324,663	283,883	841,400	1,065	1,451,011	52,754
Personnel	581,692	428,172	142,767	40,875	1,193,506	104,096
Supplies and materials	154,369	169,271	27,373	34,044	385,057	238,852
Depreciation	340,073	540,373	100	17,393	897,939	80,929
Total operating expense	1,400,797	1,421,699	1,011,640	93,377	3,927,513	476,631
Operating income/(loss)	93,456	78,988	107,735	(23,588)	256,591	(471,175)
<b>Nonoperating Revenue/(Expense)</b>						
Development impact fees	28,496	44,277	-	3,709	76,482	-
Interest income	20,824	6,877	2,875	304	30,880	960
Interest expense	-	(51,366)	-	-	(51,366)	-
Total nonoperating revenue/(expense)	49,320	(212)	2,875	4,013	55,996	960
Net income/(loss) before transfers	142,776	78,776	110,610	(19,575)	312,587	(470,215)
<b>Operating Transfers In/(Out)</b>	(163,192)	(155,650)	(79,624)	(16,144)	(414,610)	557,301
<b>Change in Net Position</b>	(20,416)	(76,874)	30,986	(35,719)	(102,023)	87,086
<b>Net Position</b>						
Beginning of year	4,713,429	8,137,257	277,828	1,044,019	14,172,533	533,224
Prior period adjustments	(370,026)	(302,734)	(89,049)	(21,925)	(783,734)	-
End of year	4,322,987	7,757,649	219,765	986,375	13,286,776	620,310
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds						22,948
Change in net position of business-type activities (Page 13)						(79,075)

See accompanying notes.

CITY OF KERMAN

COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2015

	Business-Type Activities - Enterprise Funds					Total Business-Type Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain			
<b>Operating Activities</b>							
Receipts from customers and users	\$ 1,560,883	\$ 1,500,854	\$ 1,115,615	\$ 69,547	\$ 4,246,899	\$ 5,456	
Payments for contractual services and utilities	(315,739)	(265,053)	(837,330)	(719)	(1,418,841)	(61,333)	
Payments to employees	(572,697)	(424,755)	(139,751)	(40,762)	(1,177,965)	(104,096)	
Payment to suppliers	(154,369)	(169,271)	(27,373)	(34,044)	(385,057)	(238,853)	
Net cash provided (used) by operating activities	518,078	641,775	111,161	(5,978)	1,265,036	(398,826)	
<b>Non-capital Financial Activities</b>							
Payments (to)/from developers	28,496	44,274	-	3,709	76,479	-	
Transfers (to)/from other funds	(163,192)	(155,650)	(79,624)	(16,144)	(414,610)	557,301	
Net cash provided by (used in) noncapital financing activities	(134,696)	(111,376)	(79,624)	(12,435)	(338,131)	557,301	
<b>Capital and Related Financing Activities</b>							
Purchase of property, plant and equipment	(79,215)	(26,619)	-	(701)	(106,535)	(116,602)	
Principal paid on long-term debt	(165,000)	(281,362)	-	-	(446,362)	-	
Interest paid on long-term debt	-	(62,042)	-	-	(62,042)	-	
Net cash used in capital and related financing activities	(244,215)	(370,023)	-	(701)	(614,939)	(116,602)	
<b>Investing Activities</b>							
Interest received	20,824	6,877	2,875	304	30,880	960	
Net cash provided by investing activities	20,824	6,877	2,875	304	30,880	960	
<b>Net Increase (Decrease) in Cash</b>	159,991	167,253	34,412	(18,810)	342,846	42,833	
<b>Cash</b>							
Beginning of year	2,586,317	953,215	345,392	50,860	3,935,784	136,938	
End of year	2,746,308	1,120,468	379,804	32,050	4,278,630	179,771	
<b>Cash Flows from Operating Activities</b>							
Operating income (loss)	\$ 93,456	\$ 78,988	\$ 107,735	\$ (23,588)	\$ 256,591	\$ (471,175)	
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	340,073	540,373	100	17,393	897,939	80,929	
(Increase) Decrease in Accounts Receivable	65,899	167	(3,760)	(242)	62,064	-	
(Increase) Decrease in Deferred Outflows of Resources	(30,992)	(23,212)	(7,383)	(2,170)	(63,757)	-	
Increase (Decrease) in Accounts Payable and Accrued Liabilities	8,924	18,830	4,070	346	32,170	(8,580)	
Increase (Decrease) in Deposits	731	-	-	-	731	-	
Increase (Decrease) in Deferred Inflows of Resources	108,723	88,950	26,165	6,442	230,280	-	
Increase (Decrease) in Net Pension Liability	(70,184)	(57,420)	(16,889)	(4,159)	(148,652)	-	
Increase (Decrease) in Compensated Absences	1,448	(4,901)	1,123	-	(2,330)	-	
<b>Net Cash Provided (Used) by Operating Activities</b>	\$ 518,078	\$ 641,775	\$ 111,161	\$ (5,978)	\$ 1,265,036	\$ (398,826)	

**CITY OF KERMAN**

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS  
JUNE 30, 2015**

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and investments	\$ 173,735
Total assets	<u>173,735</u>
<b>LIABILITIES</b>	
Agency funds payable	<u>173,734</u>
Total liabilities	<u>\$ 173,734</u>

# CITY OF KERMAN

## STATEMENT OF FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUNDS JUNE 30, 2015

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	<u>Kerman Unified School District</u>	<u>Redevelopment Successor Agency</u>
<b>Assets</b>		
Cash and investments	\$ 8,623	\$ 108,849
Total assets	<u>8,623</u>	<u>108,849</u>
<b>Liabilities</b>		
Unearned revenues	-	108,848
Long-term debt		
Due within one year	-	11,562
Due in more than one year	<u>-</u>	<u>26,968</u>
Total liabilities	<u>-</u>	<u>147,378</u>
<b>Net Position</b>		
Held in trust for other governments	<u>\$ 8,623</u>	<u>\$ (38,529)</u>

# CITY OF KERMAN

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND JUNE 30, 2015

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	<u>Kerman Unified School District</u>	<u>Redevelopment Successor Agency</u>
<b>Additions</b>		
Property taxes	\$ -	\$ 56,316
Total additions	<u>-</u>	<u>56,316</u>
<b>Deductions</b>		
Administrative costs	-	169,479
Program expenses	-	58,054
Interest expense	-	1,409
Total deductions	<u>-</u>	<u>228,942</u>
<b>Change In Net Position</b>	-	(172,626)
<b>Net Position</b>		
Beginning of year	<u>8,623</u>	<u>134,097</u>
End of year	<u>\$ 8,623</u>	<u>\$ (38,529)</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### **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) 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 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, 2015

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### 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, community services, planning and general administrative services.

*Gas Tax Fund* - This fund accounts for the expenditures of State Gas Tax monies received.

The City reports the following major enterprise funds:

*Water Fund* – The Water Fund accounts for the operation and maintenance of the City's water treatment and water transmission and distribution systems.

*Sewer Fund* – The Sewer Fund accounts for the operation and maintenance of the City's sewer system.

*Disposal Fund* – The Disposal Fund accounts for the operation and maintenance of the City's sanitation system.

*Storm Drain Fund* – The Storm Drain Fund accounts for the operation and maintenance of the City's storm drain system.

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, 2015

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### 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 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.

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.

#### **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 quarterly ending 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 money market accounts and certificates of deposit. Investments are stated at fair value.

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### Note 1 – Summary of Significant Accounting Policies (Continued)

*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.

*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.

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### Note 1 – Summary of Significant Accounting Policies (Continued)

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).

Vested or accumulated vacation 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.

*Pension* – For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employee Retirement System (CalPERS) plan and additions to/deduction from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*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 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.

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### Note 1 – Summary of Significant Accounting Policies (Continued)

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 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 net investment in capital assets, restricted and unrestricted.

- Net Investment in Capital Assets - 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.

*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.

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### Note 1 – Summary of Significant Accounting Policies (Continued)

- 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.

#### **New GASB Pronouncements Not Yet Adopted**

*Government Accounting Standards Board Statement No. 72* - In February 2015, GASB issued Statement No. 69, Fair Value Measurement and Application. The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, Measurement of Elements of Financial Statements, and other relevant literature. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2016.

#### **New Effective Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the City's financial reporting process. The City became subject to the following GASB Statement for the year ended June 30, 2015:

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. The Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred as to trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### 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 June 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, 2015 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$ 9,132,379
Fiduciary Funds:	
Cash and Investments	<u>291,207</u>
Total Cash and Investments	<u>\$ 9,423,586</u>

Cash and investments as of June 30, 2015 consist of the following:

Cash on hand	\$ 1,350
Deposits with Financial Institutions	4,059,744
Certificates of deposit	<u>5,362,492</u>
Total Cash and Investments	<u>\$ 9,423,586</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### 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, 2015

### 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	<u>\$ 5,362,492</u>	<u>\$ 1,190,879</u>	<u>\$ 1,244,803</u>	<u>\$ 2,926,810</u>
Total	<u>\$ 5,362,492</u>	<u>\$ 1,190,879</u>	<u>\$ 1,244,803</u>	<u>\$ 2,926,810</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### 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 Legal Rating	Rating as of Year End Not Rated
Certificates of deposit	\$ 5,362,492	N/A	\$ 5,362,492
Total	<u>\$ 5,362,492</u>		<u>\$ 5,362,492</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, 2015.

#### 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.

**CITY OF KERMAN**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

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**Note 4 – Receivables**

The following is a summary of receivables at June 30, 2015 for the City’s individual major and non-major funds in the aggregate:

	<u>General</u>	<u>Other Governmental Funds</u>
<b>Governmental Funds</b>		
Accounts	\$ 46,686	\$ -
Taxes	277,978	-
Intergovernmental	25,904	180,139
Interest	939	-
	<u>\$ 351,507</u>	<u>\$ 180,139</u>

The following is a summary of receivables at June 30, 2015 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>
<b>Enterprise Funds</b>				
Accounts	\$ 26,116	\$ 33,017	\$ 21,458	\$ 1,820
Gross receivables	26,116	33,017	21,458	1,820
Less: Allowance for uncollectible accounts	<u>(7,694)</u>	<u>(9,730)</u>	<u>(6,039)</u>	<u>(537)</u>
	<u>\$ 18,422</u>	<u>\$ 23,287</u>	<u>\$ 15,419</u>	<u>\$ 1,283</u>

**CITY OF KERMAN**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

**Note 5 – Capital Assets** – Capital asset activities for the year ended June 30, 2015 were as follows:

	<b>Balance July 1, 2014</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2015</b>
<b><u>Governmental Activities</u></b>				
Capital assets, not being depreciated				
Land	\$ 2,244,496	\$ -	\$ -	\$ 2,244,496
Construction in progress	869,201	522,049	-	1,391,250
Total capital assets, not being depreciated	<u>3,113,697</u>	<u>522,049</u>	<u>-</u>	<u>3,635,746</u>
Capital assets, being depreciated				
Buildings and improvements	7,448,585	37,426	-	7,486,011
Infrastructure	14,622,950	105,197	-	14,728,147
Machinery and equipment	2,173,111	159,050	(27,089)	2,305,072
Total capital assets, being depreciated	<u>24,244,646</u>	<u>301,673</u>	<u>(27,089)</u>	<u>24,519,230</u>
Less accumulated depreciation for				
Buildings and improvements	(1,653,795)	(199,009)	-	(1,852,804)
Infrastructure	(1,943,210)	(296,296)	-	(2,239,506)
Machinery and equipment	(1,630,754)	(99,951)	27,089	(1,703,616)
Total accumulated depreciation	<u>(5,227,759)</u>	<u>(595,256)</u>	<u>27,089</u>	<u>(5,795,926)</u>
Total capital assets, being depreciated, net	<u>19,016,887</u>	<u>(293,583)</u>	<u>-</u>	<u>18,723,304</u>
Governmental activities capital assets, net	<u>\$ 22,130,584</u>	<u>\$ 228,466</u>	<u>\$ -</u>	<u>\$ 22,359,050</u>
<b><u>Business-Type Activities</u></b>				
Land	\$ 3,241,139	\$ -	\$ -	\$ 3,241,139
Construction in progress	311,598	93,106	-	404,704
Total capital assets, not being depreciated	<u>3,552,737</u>	<u>93,106</u>	<u>-</u>	<u>3,645,843</u>
Capital assets, being depreciated				
Buildings and improvements	20,398,303	-	-	20,398,303
Machinery and equipment	1,142,448	13,430	-	1,155,878
Total capital assets, being depreciated	<u>21,540,751</u>	<u>13,430</u>	<u>-</u>	<u>21,554,181</u>
Less: accumulated depreciation	<u>(7,395,183)</u>	<u>(897,940)</u>	<u>-</u>	<u>(8,293,123)</u>
Total capital assets, being depreciated, net	<u>14,145,568</u>	<u>(884,510)</u>	<u>-</u>	<u>13,261,058</u>
Business-type activities capital assets, net	<u>\$ 17,698,305</u>	<u>\$ (791,404)</u>	<u>\$ -</u>	<u>\$ 16,906,901</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### Note 5 – Capital Assets (Continued)

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

#### **Governmental Functions:**

General Government	\$	94,334
Public Works and Community Development		304,192
Social Services		93,155
Public Safety		22,646
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the asset		<u>80,929</u>
	\$	<u>595,256</u>

#### **Business-Type Functions:**

Water	\$	340,073
Sewer		540,373
Disposal		100
Storm Drain		<u>17,393</u>
	\$	<u>897,939</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

### 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.

Long-term debt payable at June 30, 2015 was comprised of the following individual issues:

	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015	Current Portion
<b><u>Governmental Activity Long Term Debt</u></b>					
Notes Payable					
California Energy Commission	\$ 71,106	\$ -	\$ (7,991)	\$ 63,115	\$ 8,227
Kerman Public Finance Authority Bonds					
2007 Lease Revenue Bonds	3,475,000	-	(85,000)	3,390,000	90,000
Total Governmental Activity Debt	<u>\$ 3,546,106</u>	<u>\$ -</u>	<u>\$ (92,991)</u>	<u>\$ 3,453,115</u>	<u>\$ 98,227</u>
<b><u>Business-Type Activity Long Term Debt</u></b>					
Bonds Payable					
Sewer Revenue Bond	\$ 333,285	-	\$ (50,000)	\$ 283,285	\$ 50,000
Notes Payable					
California Dept. of Water Resources	2,309,999	-	(165,000)	2,144,999	165,000
California Dept. of Water Resources	4,538,099	-	(231,362)	4,306,737	233,675
Total Business-Type Activity Debt	<u>\$ 7,181,383</u>	<u>\$ -</u>	<u>\$ (446,362)</u>	<u>\$ 6,735,021</u>	<u>\$ 448,675</u>
<b><u>Compensated Absences</u></b>					
Government Activities	\$ 265,380	\$ 14,853	-	\$ 280,233	
Business-Type Activities	<u>\$ 94,970</u>	<u>\$ -</u>	<u>\$ (2,330)</u>	<u>\$ 92,640</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, 2015 was \$63,115.

**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 KPFA 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%.

**CITY OF KERMAN**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

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**Note 6 – Long-Term Debt (Continued)**

**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, 2015 was \$283,285.

**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, 2015 was \$2,149,999.

**California Department of Water Resources Wastewater Upgrade Loan** – The City entered into a revolving loan agreement with the State of California, Department of Water Resources in September 2009. The agreement provides for a loan of up to \$4,957,479 for sewer system upgrades. Construction period interest of \$38,241 was combined with the loan amount for a final total loan of \$4,995,720. Terms of the loan call for annual payments of \$276,743 including interest at 1.00%, which begins September 2012 and will mature in September 2031. The outstanding balance on the note at June 30, 2015 was \$4,306,737.

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2015 were as follows:

Years ending June 30,	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2016	\$ 98,227	\$ 152,323	\$ 448,675	\$ 57,231
2017	103,481	148,658	456,012	52,395
2018	103,737	144,767	458,372	47,285
2019	109,003	140,702	465,756	42,151
2020	114,271	136,328	468,164	36,743
2021-2025	619,396	607,437	2,081,067	131,014
2026-2030	730,000	461,360	1,811,685	67,028
2031-2035	915,000	269,444	545,290	8,193
2036-2038	660,000	47,975	-	-
	<u>\$ 3,453,115</u>	<u>\$ 2,108,994</u>	<u>\$ 6,735,021</u>	<u>\$ 442,040</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### 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, 2015:

Capital Project Funds	
Public Building Facility	\$ (138,067)
Special Revenue Funds	
Maintenance District	(11,888)
Transit	(3,442)
	<u>\$ (153,397)</u>

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

### Note 8 – Interfund Receivables, Payables and Transfers

Interfund receivables and payables consist of short-term loans resulting from regular transactions. These loans are expected to be repaid as soon as the borrowing fund has cash, and carry an interest rate equal to the rate earned on pooled cash.

Individual fund interfund receivables and payables balances as of June 30, 2015 are as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 215,495	\$ -
Senior Center Fund	-	620
Transit Fund	-	20,818
Public Building Facility Fund	-	138,067
State Grants	-	18,205
Maintenance District	-	1,603
Housing Grant	-	15,891
Street Maintenance & Construction Fund	-	20,291
	<u>\$ 215,495</u>	<u>\$ 215,495</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### Note 8 – Interfund Receivables, Payables and Transfers (Continued)

#### Interfund Transfers

In general, the City uses interfund transfers to (1) move revenues from the funds that collect them to the funds' that statute or budget requires to expend them, (2) use unrestricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments become due. In general, the effect of the interfund activity has been eliminated from the government-wide financial statements.

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Major Governmental Funds:</b>		
General Fund	\$ -	\$ 11,199
Gas Tax	7,137	-
<b>Proprietary Funds:</b>		
Water	-	163,192
Sewer	-	155,650
Disposal	-	79,624
Storm Drain	-	16,144
Internal Service	557,301	-
<b>Nonmajor Governmental Funds:</b>		
Measure C	-	51,659
Local Transportation	-	12,442
Senior Center	1,593	-
Maintenance District	-	45,151
Transit	6,553	-
State Grants	-	37,523
	<u>\$ 572,584</u>	<u>\$ 572,584</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### Note 9 – Risk Management

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

The CSJVRMA is a consortium of 55 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.

The latest audited financial information and the most current information available for CSJVRMA for fiscal year ended June 30, 2014 is as follows:

Total assets	\$ 80,694,798
Total liabilities	<u>65,440,947</u>
Net position	<u>\$ 15,253,851</u>
Total revenues	\$ 32,108,146
Total expenses	<u>32,739,704</u>
Increase/(decrease) in net position	<u>\$ (631,558)</u>

### Contingent Liabilities

The City participates in a number of Federal and State assisted grant programs which are subject to financial and compliance audits. Audits for these programs and the respective findings are to be determined at a future date, and the City expects the amount, if any, of the expenditures which may be disallowed by the granting agency to be immaterial.

The City is a defendant in various lawsuits and claims. The City attorney anticipates that actual or potential claims against the City, not covered by insurance, would not materially affect the financial position of the City.

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### Note 10 – Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial element, deferred outflows or resources, represents a consumption of net position or fund balance that applies to future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports the following deferred outflows related to net pension liability in the Statement of Net Position:

Fiscal year 2014-15 pension contributions subsequent to measurement date	\$326,464
Total deferred outflows of resources	<u>\$326,464</u>

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City reports the following deferred inflows related to net pension in the Statement of Net Position:

Net differences between projected and actual earnings on pension plan investments	\$116,124
Adjustment due to differences in proportions	<u>699,996</u>
Total deferred inflows of resources	<u>\$816,120</u>

### 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 4% 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, 2015 was 8.005% for the miscellaneous plan and 15.370% for the safety plan. The contribution requirements of plan members is established by State statute and the employer contribution is established and may be amended by PERS.

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### Note 11 – Pension Plan (Continued)

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>Miscellaneous</u>	<u>Miscellaneous</u>
	Prior to	On or after
Hire Date	January 1, 2013	January 1, 2013
Benefit Formula	2.0% at 60; maximum 2%	2.0% at 60; maximum 2%
	COLA	COLA
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	60	60
Monthly Benefits, as a % of Eligible Compensation	2.00%	2.00%
Required Employee Contribution Rates	7.00%	6.25%
Required Employer Contribution Rates	8.005%	6.25%
	<u>Safety</u>	<u>Safety</u>
	Prior to	On or after
Hire Date	January 1, 2013	January 1, 2013
Benefit Formula	2.0% at 55; maximum 2%	2.0% at 55; maximum 2%
	COLA	COLA
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Monthly Benefits, as a % of Eligible Compensation	2.00%	2.00%
Required Employer Contribution Rates	15.370%	9.50%

Employees hired July 1, 2012 and thereafter pay the full 7% employee contribution per adopted Mutual of Understanding if the employee is considered a "Classic" employee under PEPR.

**Contributions** – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

### Note 11 – Pension Plan (Continued)

For the year ended June 30, 2015, the contributions recognized as part of the pension expense is as follows:

Contributions – employer	\$ 326,464
Contributions – employee	\$ 212,801

### Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$1,366,654
Safety	<u>797,319</u>
Total Net Pension Liability	<u>\$2,163,973</u>

The City’s net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City’s proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion – June 30, 2013	0.05699%	.02207%
Proportion – June 30, 2014	0.02196%	.01281%
Change – Increase/(Decrease)	(0.03503%)	(.00926%)

For the year ended June 30, 2015, the City recognized pension expense of \$336,679. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 326,464	\$ -
Adjustment due to differences in proportions Net differences between projected and actual earnings on pension plan investments	-	(116,124)
	<u>-</u>	<u>(699,996)</u>
Total	<u>\$ 326,464</u>	<u>\$ (816,120)</u>

**CITY OF KERMAN**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

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**Note 11 – Pension Plan (Continued)**

\$326,464 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30		
2015	\$	(216,471)
2016		(216,471)
2017		(208,177)
2018		(175,001)
2019		-
Thereafter		-

**Actuarial Assumptions** – The total pension liability in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
<b>Actuarial Assumptions:</b>	
Discount Rate	7.5%, (net of administrative expenses)
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service <sup>1</sup>
Investment Rate of Return	7.50% <sup>2</sup>
Mortality	Derived using CalPERS' Membership <sup>3</sup> Data for all Funds

<sup>1</sup> 3.30% to 14.20% depending on age, service, and type of employment

<sup>2</sup> Net of pension plan investment expenses, including inflation

<sup>3</sup> The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for fiscal years 1997-2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at CalPERS' website under Forms and Publications.

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

### Note 11 – Pension Plan (Continued)

**Discount rate** – The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected rate of returns, net of inflation) are developed for each major asset class.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return <sup>1</sup>	Real Return <sup>2</sup>
		Years 1-10	Years 11+
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.83%	6.95%
Real Estate	11%	4.50%	5.13%
Infrastructure and Forestland	3%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
<b>Total</b>	<b>100%</b>		

<sup>1</sup> An expected inflation of 2.5% used for this period

<sup>2</sup> An expected inflation of 3.0% used for this period

### Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate -

The following presents the City's proportionate share of the net pension liability for each Plan, calculating using the discount rate of each Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	1% Decrease	Current	1% Increase
	(6.50%)	Rate (7.50%)	(8.50%)
Net Pension Liability	\$ 3,807,040	\$ 2,163,973	\$ 803,807

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### Note 11 – Pension Plan (Continued)

**Pension Plan Fiduciary Net Position** – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

#### **Payable to the Pension Plan**

At June 30, 2015, the City has no outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

### Note 12 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through August 26, 2015, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2015 that required recognition or disclosure in such financial statements.

### Note 13 – Prior Period Adjustments

The following funds have prior period adjustments due to the implementation of GASB No. 68 to record opening balance of the net pension liability:

Water Fund	\$	(370,026)
Sewer Fund		(302,734)
Disposal Fund		(89,049)
Storm Drain Fund		<u>(21,925)</u>
Total Prior Period Adjustments	\$	<u>(783,734)</u>

The net effect of the prior period adjustments decreased the net position for those funds, respectively.

The Statement of Activities has a prior period adjustment in the amount of \$1,859,679 and the net effect of that adjustment decreased the governmental activities net position, respectively.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**CITY OF KERMAN**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenue</b>				
Taxes	\$ 3,508,554	\$ 3,534,795	\$ 3,583,542	\$ 48,747
Licenses, permits and impact fees	185,250	223,100	242,685	19,585
Intergovernmental	47,262	315,539	496,091	180,552
Charges for services	224,706	224,706	217,502	(7,204)
Fines and forfeitures	65,000	35,893	34,214	(1,679)
Rents	125,172	122,091	134,436	12,345
Interest	59,000	17,000	21,476	4,476
Other	17,200	25,379	24,026	(1,353)
Total revenue	<u>4,232,144</u>	<u>4,498,503</u>	<u>4,753,972</u>	<u>255,469</u>
<b>Expenditures</b>				
Current				
General government	440,759	427,266	400,310	26,956
Public works	362,043	391,939	388,710	3,229
Community development	170,671	173,120	160,062	13,058
Social services	512,009	560,976	557,660	3,316
Public safety	2,612,002	2,641,540	2,604,008	37,532
Capital outlay	114,899	94,324	49,162	45,162
Total expenditures	<u>4,212,383</u>	<u>4,289,164</u>	<u>4,159,912</u>	<u>129,252</u>
Revenue over (under) expenditures	19,761	209,339	594,060	384,721
<b>Other Financing Sources</b>				
Transfers in (out) - net	<u>(184,929)</u>	<u>(184,929)</u>	(11,199)	<u>173,730</u>
<b>Net Change in Fund Balance</b>	<u>\$ (165,168)</u>	<u>\$ 24,410</u>	582,861	<u>\$ 558,451</u>
<b>Fund Balance</b>				
Beginning of year			<u>2,616,040</u>	
End of year			<u>\$ 3,198,901</u>	

**CITY OF KERMAN**

**BUDGETARY COMPARISON SCHEDULE**

**GAS TAX FUND**

**YEAR ENDED JUNE 30, 2015**

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	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenue</b>				
Intergovernmental	\$ 414,185	\$ 414,185	\$ 358,798	\$ (55,387)
Interest	<u>2,500</u>	<u>2,500</u>	<u>2,605</u>	<u>105</u>
Total revenue	<u>416,685</u>	<u>416,685</u>	<u>361,403</u>	<u>(55,282)</u>
<b>Expenditures</b>				
Public works	326,295	326,295	152,702	173,593
Capital outlay	409,212	409,212	418,468	(9,256)
Debt Service				
Principal	5,032	5,032	7,991	(2,959)
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>2,074</u>	<u>(2,074)</u>
Total expenditures	<u>740,539</u>	<u>740,539</u>	<u>581,235</u>	<u>159,304</u>
Revenue over expenditures	(323,854)	(323,854)	(219,832)	104,022
<b>Other Financing Sources/(Uses)</b>				
Transfers in/(out) - net	<u>15,054</u>	<u>15,054</u>	7,137	<u>(7,917)</u>
<b>Change in Fund Balance</b>	<u>\$ (308,800)</u>	<u>\$ (308,800)</u>	(212,695)	<u>\$ 96,105</u>
<b>Fund Balance</b>				
Beginning of year			<u>458,441</u>	
End of year			<u>\$ 245,746</u>	

# CITY OF KERMAN

## SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY LAST TEN YEARS YEAR ENDED JUNE 30, 2015

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	Safety 2015	Miscellaneous 2015
Proportion of the net pension liability	0.01281%	0.02196%
Proportionate share of the net pension liability	\$ 797,321	\$ 1,366,654
Covered - employee payroll	\$ 1,144,549	\$ 2,046,348
Proportionate share of the net pension liability as percentage of covered-employee payroll	69.66%	66.79%
Plan's fiduciary net position	\$ 649,179	\$ 1,134,733
Plan's fiduciary net position as a percentage of the Total Pension Liability	81.42%	83.03%

\*Fiscal year 2014-15 was the first year of implementation, therefore only one year is shown.

**CITY OF KERMAN**

**SCHEDULE OF CONTRIBUTIONS  
LAST TEN YEARS  
YEAR ENDED JUNE 30, 2015**

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	Safety 2015	Miscellaneous 2015
Contractually required contribution (actuarially determined)	\$ 172,707	\$ 149,116
Contributions in relation to the actuarially determined contributions	<u>(172,707)</u>	<u>(149,116)</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,144,549	\$ 2,046,348
Contributions as a percentage of covered-employee payroll	15.09%	7.29%

\*Fiscal year 2014-15 was the first year of implementation, therefore only one year is shown.

**Notes to Schedule of Contributions**

Valuation Date 6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry-Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.50%, (net of administrative expenses)
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.50%
Mortality	Derived using CalPERS' Membership Data for all Funds

**SUPPLEMENTAL ONLY INFORMATION**

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**CITY OF KERMAN  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	Special Revenue Funds							Debt
	Measure C	Local Transportation	Senior Center	Maintenance District	Transit	Low-Moderate Housing Asset	Housing Grants	Kerman Public Financing Authority
<b>ASSETS</b>								
Cash and investments	\$ 1,755	\$ 902,434	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due from other governments	27,867	35,988	1,334	-	21,157	-	44,367	-
Total assets	<u>\$ 29,622</u>	<u>\$ 938,422</u>	<u>\$ 1,334</u>	<u>\$ -</u>	<u>\$ 21,157</u>	<u>\$ -</u>	<u>\$ 44,367</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCE</b>								
<b>Liabilities</b>								
Accounts payable and accrued expense	\$ 7,179	\$ 4,465	\$ 714	\$ 10,285	\$ 3,781	\$ -	\$ 14,098	\$ -
Due to other funds	-	-	620	1,603	20,818	-	15,891	-
Total liabilities	<u>7,179</u>	<u>4,465</u>	<u>1,334</u>	<u>11,888</u>	<u>24,599</u>	<u>-</u>	<u>29,989</u>	<u>-</u>
<b>Fund Balance</b>								
Restricted								
Circulation improvements	22,443	933,957	-	-	-	-	-	-
Development activities	-	-	-	-	-	-	-	-
Low-income housing activities	-	-	-	-	-	-	14,378	-
Unassigned	-	-	-	(11,888)	(3,442)	-	-	-
Total fund balance	<u>22,443</u>	<u>933,957</u>	<u>-</u>	<u>(11,888)</u>	<u>(3,442)</u>	<u>-</u>	<u>14,378</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 29,622</u>	<u>\$ 938,422</u>	<u>\$ 1,334</u>	<u>\$ -</u>	<u>\$ 21,157</u>	<u>\$ -</u>	<u>\$ 44,367</u>	<u>\$ -</u>

**CITY OF KERMAN  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)  
JUNE 30, 2015**

	Capital Projects Funds						Total Non-major Governmental Funds
	Jobs/Housing Mitigation	Public Building Facility	Fire Facility	Street Projects & Development	Park Development	Street Maintenance & Construction	
<b>ASSETS</b>							
Cash and investments	\$ 58,657	\$ -	\$ 247,468	\$ 397,295	\$ 27,709	\$ -	\$ -
Due from other governments	-	-	-	-	-	21,779	27,647
Total assets	\$ 58,657	\$ -	\$ 247,468	\$ 397,295	\$ 27,709	\$ 21,779	\$ 1,815,457
<b>LIABILITIES AND FUND BALANCE</b>							
<b>Liabilities</b>							
Accounts payable and accrued expense	\$ -	\$ -	\$ -	\$ 785	\$ -	\$ 1,488	\$ 5,772
Due to other funds	-	138,067	-	-	-	20,291	18,205
Total liabilities	-	138,067	-	785	-	21,779	23,977
<b>Fund Balance</b>							
Restricted							
Circulation improvements	-	-	-	-	-	-	-
Development activities	58,657	-	247,468	396,510	27,709	-	-
Low-income housing activities	-	-	-	-	-	-	3,670
Unassigned	-	(138,067)	-	-	-	-	-
Total fund balance	\$ 58,657	\$ (138,067)	\$ 247,468	\$ 396,510	\$ 27,709	\$ -	\$ 3,670
Total liabilities and fund balance	\$ 58,657	\$ -	\$ 247,468	\$ 397,295	\$ 27,709	\$ 21,779	\$ 27,647

**CITY OF KERMAN**

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
NON-MAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2015**

	Special Revenue Funds							Debt	
	Measure C	Local Transportation	Senior Center	Maintenance District	Transit	Low-Moderate Housing Asset	Housing Grants	Kerman Public Financing Authority	Service Fund
<b>Revenue</b>									
Taxes	\$ -	\$ -	\$ -	\$ 209,275	\$ -	\$ -	\$ -	\$ -	\$ -
Developer impact fees	-	-	-	-	-	-	-	-	-
Intergovernmental	368,125	417,471	20,762	-	104,768	-	44,367	-	-
Charges for services	-	-	3,989	-	3,594	-	-	-	-
Rentis	-	-	-	-	-	-	-	-	240,147
Interest	246	5,543	-	3	-	-	2	-	-
Other	-	-	-	-	-	-	-	-	-
<b>Total revenue</b>	<b>368,371</b>	<b>423,014</b>	<b>24,751</b>	<b>209,278</b>	<b>108,362</b>	<b>-</b>	<b>44,369</b>	<b>240,147</b>	<b>-</b>
<b>Expenditures</b>									
Public works	297,401	108,327	-	197,755	-	-	-	-	-
Community development	-	-	-	-	-	32,783	-	-	1,500
Social services	-	-	25,779	-	113,726	-	-	-	-
Capital outlay	10,037	73,058	-	-	2,048	-	29,991	-	-
Debt service	-	-	-	-	-	-	-	-	85,000
Principal	-	-	-	-	-	-	-	-	153,647
Interest and fiscal charges	-	-	-	-	-	-	-	-	240,147
<b>Total expenditures</b>	<b>307,438</b>	<b>181,385</b>	<b>25,779</b>	<b>197,755</b>	<b>115,774</b>	<b>32,783</b>	<b>29,991</b>	<b>240,147</b>	<b>-</b>
Revenue over (under) expenditures	60,933	241,629	(1,028)	11,523	(7,412)	(32,783)	14,378	-	-
<b>Other financing sources/(uses)</b>									
Operating transfers in/(out) - net	(51,659)	(12,442)	1,593	(45,151)	6,553	-	-	-	-
	(51,659)	(12,442)	1,593	(45,151)	6,553	-	-	-	-
<b>Change in Fund Balance</b>	<b>9,274</b>	<b>229,187</b>	<b>565</b>	<b>(33,628)</b>	<b>(859)</b>	<b>(32,783)</b>	<b>14,378</b>	<b>-</b>	<b>-</b>
<b>Fund Balance</b>									
Beginning of year	13,169	704,770	(565)	21,740	(2,583)	32,783	-	-	-
End of year	\$ 22,443	\$ 933,957	\$ -	\$ (11,888)	\$ (3,442)	\$ -	\$ 14,378	\$ -	\$ -

**CITY OF KERMAN**

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)  
YEAR ENDED JUNE 30, 2015**

	Capital Projects Funds							Total Non-major Governmental Funds
	Jobs/Housing Mitigation	Public Building Facility	Fire Facility	Street Projects & Development	Park Development	Street Maintenance & Construction	State Grants	
<b>Revenue</b>								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 209,275
Developer impact fees	3,350	18,122	10,367	16,415	52,831	-	-	101,085
Intergovernmental	-	-	-	-	-	52,939	69,026	1,077,458
Charges for services	-	-	-	-	-	-	-	7,583
Rents	-	-	-	-	-	-	-	240,147
Interest	445	-	1,846	3,127	185	-	-	11,397
Other	-	-	-	-	3,900	-	-	3,900
Total revenue	<u>3,795</u>	<u>18,122</u>	<u>12,213</u>	<u>19,542</u>	<u>56,916</u>	<u>52,939</u>	<u>69,026</u>	<u>1,650,845</u>
<b>Expenditures</b>								
Public works	-	-	-	-	-	-	-	603,483
Community development	-	51,362	-	21,687	-	-	-	107,332
Social services	-	-	-	-	40,658	-	-	180,163
Capital outlay	-	-	-	31,569	-	52,939	27,833	227,475
Debt service	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	85,000
Interest and fiscal charges	-	-	-	-	-	-	-	153,647
Total expenditures	-	<u>51,362</u>	-	<u>53,256</u>	<u>40,658</u>	<u>52,939</u>	<u>27,833</u>	<u>1,357,100</u>
Revenue over (under) expenditures	3,795	(33,240)	12,213	(33,714)	16,258	-	41,193	293,745
<b>Other financing sources/(uses)</b>								
Operating transfers in/(out) - net	-	-	-	-	-	-	(37,523)	(138,629)
	-	-	-	-	-	-	(37,523)	(138,629)
<b>Change in Fund Balance</b>	3,795	(33,240)	12,213	(33,714)	16,258	-	3,670	155,116
<b>Fund Balance</b>								
Beginning of year	54,862	(104,827)	235,255	430,224	11,451	-	-	1,396,279
End of year	<u>\$ 58,657</u>	<u>\$ (138,067)</u>	<u>\$ 247,468</u>	<u>\$ 396,510</u>	<u>\$ 27,709</u>	<u>\$ -</u>	<u>\$ 3,670</u>	<u>\$ 1,551,395</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, 2015, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated August 26, 2015.

#### **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.

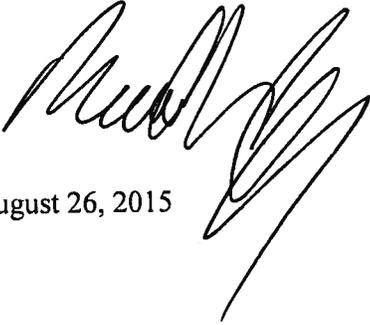
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not 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, consisting of several loops and a long tail stroke extending downwards and to the right.

August 26, 2015