

**CITY OF KERMAN**

**INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS  
JUNE 30, 2016**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kerman, California, (the City) as of and for the year ended June 30, 2016, 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, 2016, 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.

## 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 50 - 51, 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.

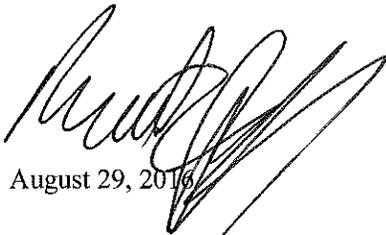
## Other Information

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 29, 2016, on our consideration of the City of Kerman's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Kerman's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to be 'A. J. ...', written over a diagonal line that extends from the bottom left towards the center.

August 29, 2016

CITY OF KERMAN  
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2016

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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, 2016. 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 sixteen 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 Local Transportation Funds, which are considered to be major funds. Data from the other fourteen 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 on pages 54 - 57.

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 Local Transportation Funds to demonstrate compliance to this budget and can be found on pages 50 - 51.

The basic governmental fund financial statements can be found on pages 14 - 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 – 20 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 – 49 of this report.

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

## Financial Highlights

Government-wide financial highlights for the fiscal year ended June 30, 2016:

### I. Statement of Net Position

#### Condensed Statement of Net Position

2016		2015		
\$	50,036,081	\$	48,988,387	Government-wide total assets at fiscal year ending June 30, 2016 increased by \$1,047,694 which is 2.14% higher than fiscal year ending June 30, 2015.
\$	12,544,126	\$	13,308,547	Government-wide total liabilities at fiscal year ending June 30, 2016 decreased by \$764,421 which is 5.74% less than fiscal year ending June 30, 2015.
\$	(424,148)	\$	(489,656)	Net of Deferred Outflows/Inflows of Resources - Result of GASB 68 requirement to record City's unfunded pension liability. The net decreased by \$65,508 which is 13.38% less than fiscal year ending June 30, 2015.
\$	37,067,807	\$	35,190,184	The Net Position ((Assets less Liabilities) less ( Net of Deferred Outflows/Inflows)) at fiscal year ending June 30, 2016 increased by \$1,877,623 which is 5.34% more than fiscal year ending June 30, 2015. The net position includes (\$424,148) of deferred outflows/inflows of resources. Of the total amount \$3,997,278 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		T total	
	2016	2015	2016	2015	2016	2015
<b>Assets:</b>						
Current and other assets	5,668,573	5,334,004	4,849,060	4,388,432	10,517,633	9,722,436
Capital assets	23,268,381	22,359,050	16,250,067	16,906,901	39,518,448	39,265,951
Total Assets	28,936,954	27,693,054	21,099,127	21,295,333	50,036,081	48,988,387
<b>Deferred Outflows of Resources:</b>						
Total deferred outflows of resources	351,486	262,707	98,004	63,757	449,490	326,464
<b>Liabilities:</b>						
Current and other liabilities	325,443	255,665	332,224	327,899	657,667	583,564
Long-term liabilities	4,948,992	5,262,239	6,937,467	7,462,744	11,886,459	12,724,983
Total Liabilities	5,274,435	5,517,904	7,269,691	7,790,643	12,544,126	13,308,547
<b>Deferred Inflows of Resources:</b>						
Total deferred inflows of resources	(604,132)	(585,840)	(269,506)	(230,280)	(873,638)	(816,120)
<b>Net Assets:</b>						
Investment in capital assets, net of related debt	19,913,494	18,905,935	9,963,722	10,171,880	29,877,216	29,077,815
Restricted	1,786,365	1,950,538	1,406,948	1,172,341	3,193,313	3,122,879
Unrestricted	1,710,014	995,544	2,287,264	1,993,946	3,997,278	2,989,490
Total Net Position	23,409,873	21,852,017	13,657,934	13,338,167	37,067,807	35,190,184

Of the total net position, \$29,877,216 or 81% 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 (\$424,148). The City's total net pension liability is \$1,819,119.

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 \$3,193,313 or 8.61% 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 \$3,997,278 or 10.8% of the total net position. While the business-type activities account for \$2,287,264 or 57.2% 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 \$23,409,873 or 63.2% of the total Government-wide net position. This is an increase of \$1,557,856 or 7.13% over the June 30, 2015 governmental net position ending balance.

## II. Statement of Activities

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

	<u>2016</u>		<u>2015</u>
Operating Revenues	\$ 12,301,737	\$	11,057,686
Operating Expenses	10,424,114		10,267,990
Increase in Net Position	<u>1,877,623</u>		<u>789,696</u>
Prior Period Adjustment	-		(2,643,413)
Net Position, Beginning of Year	<u>35,190,184</u>		<u>37,043,901</u>
Net Position, End of Year	<u>37,067,807</u>		<u>35,190,184</u>

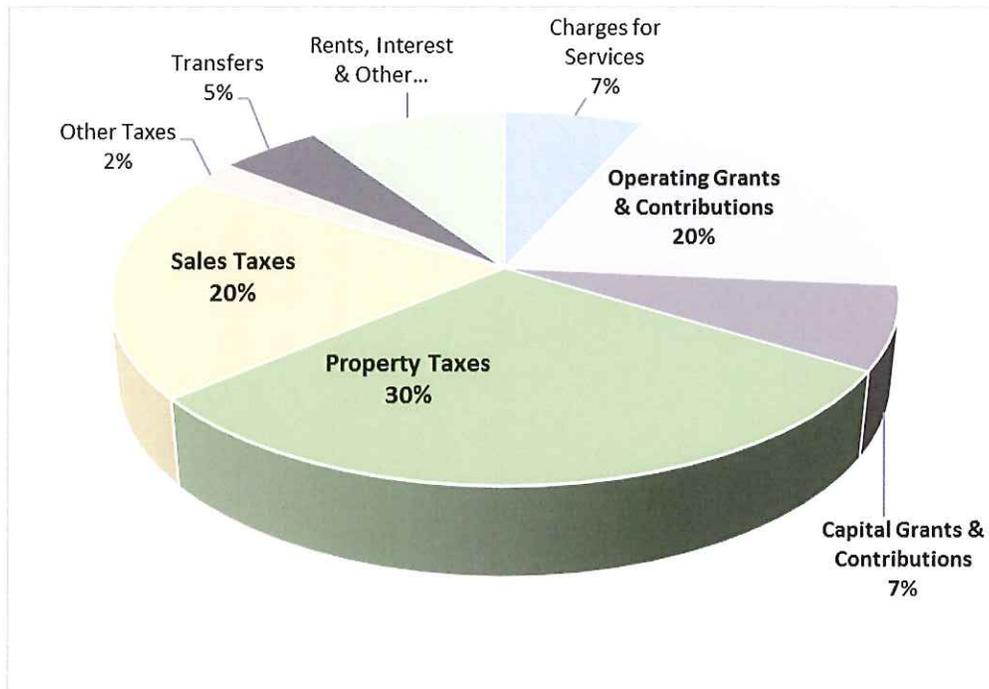
Statement of Revenues, Expenses and Change in Net Assets (Detail)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenues</b>						
<b>Program Revenues:</b>						
Charges for Services	539,596	442,517	4,222,657	4,135,810	4,762,253	4,578,327
Operating Grants & Contributions	1,585,010	1,439,906	10,000	-	1,595,010	1,439,906
Capital Grants & Contributions	585,015	311,401	334,995	76,482	920,010	387,883
<b>General Revenues:</b>						
Property Taxes	2,421,169	2,366,314			2,421,169	2,366,314
Sales Taxes	1,569,517	1,362,980			1,569,517	1,362,980
Other Taxes	181,072	313,187			181,072	313,187
Transfers	398,211	414,610	(398,211)	(414,610)	-	-
Rents, Interest & Other	756,714	529,915	95,992	79,174	852,706	609,089
<b>Total Revenues</b>	<b>8,036,304</b>	<b>7,180,830</b>	<b>4,265,433</b>	<b>3,876,856</b>	<b>12,301,737</b>	<b>11,057,686</b>
<b>Expenses:</b>						
General Government	1,150,956	1,008,227			1,150,956	1,008,227
Public Safety	2,509,952	2,608,332			2,509,952	2,608,332
Social Services	818,001	835,708			818,001	835,708
Public Works	1,420,443	1,440,741			1,420,443	1,440,741
Community Development	285,140	264,095			285,140	264,095
Interest & Fiscal Charges	151,506	154,956			151,506	154,956
Water			1,479,161	1,389,946	1,479,161	1,389,946
Sewer			1,483,410	1,462,301	1,483,410	1,462,301
Disposal			1,054,090	1,010,716	1,054,090	1,010,716
Storm Drain			71,455	92,968	71,455	92,968
<b>Total Expenses</b>	<b>6,335,998</b>	<b>6,312,059</b>	<b>4,088,116</b>	<b>3,955,931</b>	<b>10,424,114</b>	<b>10,267,990</b>
Increase in Net Position	1,700,306	868,771	177,317	(79,075)	1,877,623	789,696
Net Position - Beginning	21,852,017	22,842,925	13,338,167	14,200,976	35,190,184	37,043,901
Prior Period Adjustment	(142,450)	(1,859,679)	142,450	(783,734)	-	(2,643,413)
Net Position - Ending	<b>23,409,873</b>	<b>21,852,017</b>	<b>13,657,934</b>	<b>13,338,167</b>	<b>37,067,807</b>	<b>35,190,184</b>

Total governmental revenues for the year were \$8,036,304 with charges for services comprising of 6.7% of the total revenue. Taxes, which include property, sales and other taxes, account for \$4,171,758 or 51.9% of the City's governmental activities revenue.

Total governmental expenses for the year were \$6,335,998. Public Safety accounts for \$2,509,952 or 39.6% of the total governmental activities expenses, followed by Public Works, Social Services and Community Development with \$1,420,443, \$818,001, and \$285,140 or 22.4%, 12.9%, and 4.5% respectively.

### Revenues by Source-Governmental Activities

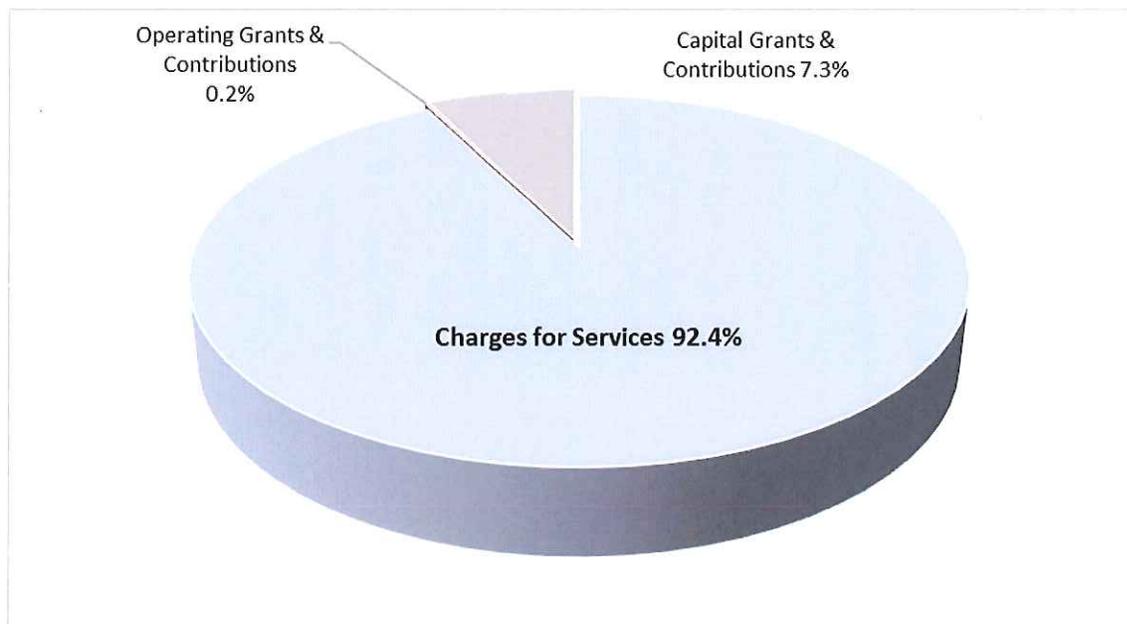


Program revenues which include charges for services, grant revenues and developer capital contributions account for \$2,709,621 or approximately 33.7% of the total governmental activity revenue. The amounts necessary to fully fund the governmental activity programs are made up by “general” revenues such as taxes, interest and developer fees.

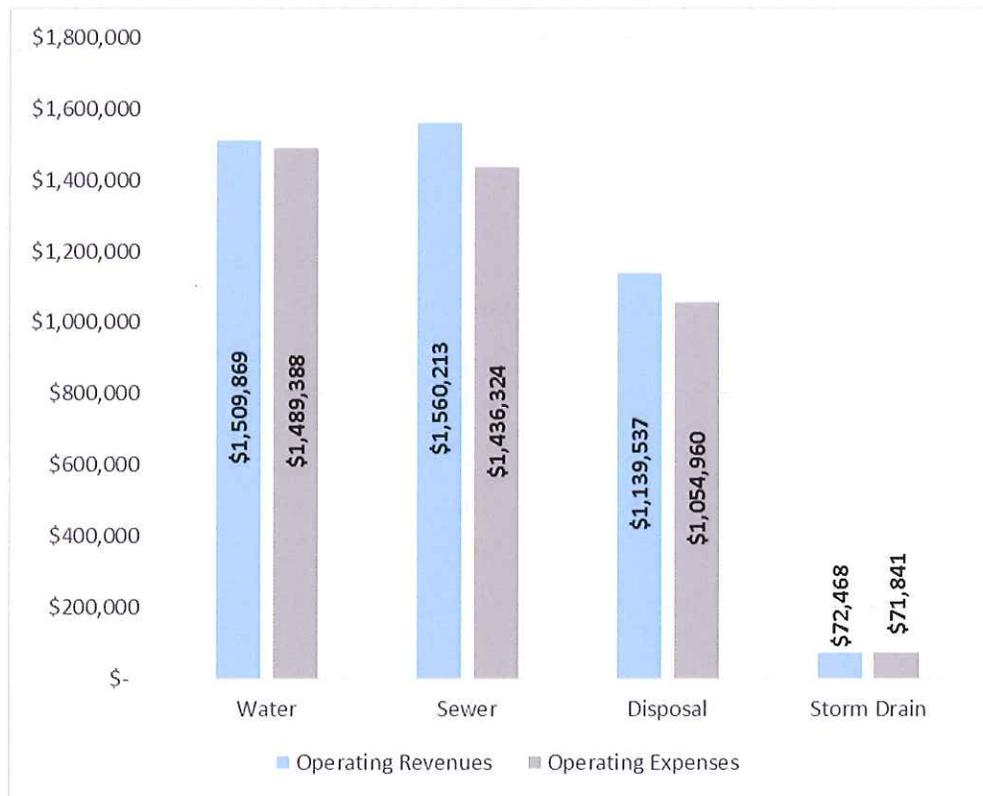
### Business-Type Activities

Business-type activities account for \$13,657,934 or 36.8% of the total Government-wide net assets. This is an increase of \$319,767 or 2.4% compared to June 30, 2015. Charges for current services account for \$4,222,657 or 88.7% 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, Disposal and Storm Drain that the operating revenues exceeded operating expenses and were sufficient to cover on-going operational costs and set aside approximately \$229,574 combined for Fiscal Year ending June 30, 2016.

### 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 \$5,342,685 which is an increase of \$346,643 or 6.9% when compared to the prior year balance. Of the total fund balance, \$963,879 or 18.0% 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           \$ 797,188
- Development Activities             \$ 989,177

The General Fund is the chief operating fund of the City. As of June 30, 2016 the total fund balance of the General Fund was \$3,669,322 with the unassigned fund balance of \$963,879. The general fund total fund balance increased \$470,421 or 14.7% 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 2015/2016 budget allowed for a \$261,184 net decrease to the fund balance. However, the actual end result from current year activity was a \$470,421 net increase to the General Fund, after capital outlay expenditures of \$257,540 (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 \$82,078 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 \$849,334 or 19.3% more total revenues and \$143,037 or 3.1% increase in total expenditures that the final budget allowed for. Revenues and transfers exceeded expenditures and transfer out and increased the General Fund Balance by \$470,421.

### 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, 2016 amounts to \$39,518,448 (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	\$ 593,749
Infrastructure Improvements	1,058,571
Machinery and Equipment	415,432
Construction in Progress (CIP)	406,508

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	
	2016	2015	2016	2015	2016	2015
Land	2,282,104	2,244,496	3,383,589	3,241,139	5,665,693	5,485,635
Buildings and Improvements	6,030,245	5,633,207	11,203,939	12,105,180	17,234,184	17,738,387
Machinery and Equipment	753,552	601,456	1,257,063	1,155,878	2,010,615	1,757,334
Construction in Progress	1,004,104	1,391,250	405,476	404,704	1,409,580	1,795,954
Infrastructure	13,198,376	12,488,641			13,198,376	12,488,641
<b>Total</b>	<b>23,268,381</b>	<b>22,359,050</b>	<b>16,250,067</b>	<b>16,906,901</b>	<b>39,518,448</b>	<b>39,265,951</b>

**Long-term Debt.** The City's long term debt as of June 30, 2016 was \$9,641,232 with governmental activities accounting for \$3,354,887 or 34.8% and business-type activities accounting for \$6,286,345 or 65.2%.

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Note Payable, CA Energy Comm.	54,887	63,115			54,887	63,115
Bonds Payable, Sewer			233,285	283,285	233,285	283,285
Note Payable, CA Dept Water Conserv.			1,979,999	2,144,999	1,979,999	2,144,999
Note Payable, CA Dept Water Conserv.			4,073,061	4,306,737	4,073,061	4,306,737
Kerman PFA Lease/Rev Bonds	3,300,000	3,390,000			3,300,000	3,390,000
<b>Total</b>	<b>3,354,887</b>	<b>3,453,115</b>	<b>6,286,345</b>	<b>6,735,021</b>	<b>9,641,232</b>	<b>10,188,136</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 continued slowed economy, the City is in excellent financial shape, especially when compared to the fiscal challenges faced by many cities.

Nearly eight 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 continued 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. The City of Kerman along with the other west side communities rely on the agricultural economy so there is continued concern with the water issues still unresolved.

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. The City has experienced a sizeable increase to health insurance costs effective July 1, 2016 and there is still a lot of uncertainty surrounding the rates and benefits.

Total citywide revenue budgeted for fiscal year 2016-2017 is \$13,780,788 with expenditures budgeted at \$17,594,860 of which \$6,553,020 is dedicated for capital expenditures, 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, 2016**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments	\$ 4,924,443	\$ 4,723,467	\$ 9,647,910
Accounts receivable, net	20,525	52,574	73,099
Taxes receivable	598,104	-	598,104
Due from other governments	194,193	-	194,193
Interest receivable	4,327	-	4,327
Internal balances	(73,019)	73,019	-
Capital assets, net of allowance for depreciation	<u>23,268,381</u>	<u>16,250,067</u>	<u>39,518,448</u>
Total assets	<u>28,936,954</u>	<u>21,099,127</u>	<u>50,036,081</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Total deferred outflows of resources	<u>351,486</u>	<u>98,004</u>	<u>449,490</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expense	276,002	199,432	475,434
Accrued interest payable	37,214	25,075	62,289
Deposits payable	12,227	107,717	119,944
Long-term liabilities			
Due within one year	103,481	456,012	559,493
Due in more than one year	3,251,406	5,830,333	9,081,739
Compensated absences	323,359	102,749	426,108
Net pension liability	<u>1,270,746</u>	<u>548,373</u>	<u>1,819,119</u>
Total liabilities	<u>5,274,435</u>	<u>7,269,691</u>	<u>12,544,126</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Total deferred inflows of resources	<u>604,132</u>	<u>269,506</u>	<u>873,638</u>
<b>NET POSITION</b>			
Net investment in capital assets	19,913,494	9,963,722	29,877,216
Restricted for specific projects and programs	1,786,365	-	1,786,365
Restricted for capital improvements	-	1,406,948	1,406,948
Unrestricted	<u>1,710,014</u>	<u>2,287,264</u>	<u>3,997,278</u>
Total net position	<u>\$ 23,409,873</u>	<u>\$ 13,657,934</u>	<u>\$ 37,067,807</u>

**CITY OF KERMAN**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016**

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	\$ 1,150,956	\$ 94,478	\$ -	\$ -	\$(1,056,478)	\$ -	\$(1,056,478)
Public works	1,420,443	-	1,190,115	160,019	(70,309)	-	(70,309)
Community development	285,140	297,397	182,620	422,124	617,001	-	617,001
Social services	818,001	42,264	21,942	-	(753,795)	-	(753,795)
Public safety	2,509,952	105,457	190,333	2,872	(2,211,290)	-	(2,211,290)
Debt Service							
Interest and fiscal charges	151,506	-	-	-	(151,506)	-	(151,506)
Total governmental activities	6,335,998	539,596	1,585,010	585,015	(3,626,377)	-	(3,626,377)
Business-type activities							
Water	1,479,161	1,530,685	-	107,558	-	159,082	159,082
Sewer	1,483,410	1,503,639	-	137,528	-	157,757	157,757
Disposal	1,054,090	1,117,259	10,000	-	-	73,169	73,169
Storm Drain	71,455	71,074	-	89,909	-	89,528	89,528
Total business-type activities	4,088,116	4,222,657	10,000	334,995	-	479,536	479,536
<b>Total primary government</b>	<b>\$ 10,424,114</b>	<b>\$ 4,762,253</b>	<b>\$ 1,595,010</b>	<b>\$ 920,010</b>	<b>\$(3,626,377)</b>	<b>479,536</b>	<b>\$(3,146,841)</b>
<b>General Revenue</b>							
Property taxes					2,208,399	-	2,208,399
Special assessments					212,770	-	212,770
Sales taxes					1,569,517	-	1,569,517
Franchise and other taxes					113,400	-	113,400
Business licenses					67,672	-	67,672
Rents					399,550	34,747	434,297
Interest income					82,394	36,562	118,956
Other					274,770	24,683	299,453
Transfers					398,211	(398,211)	-
Total general revenue and transfers					5,326,683	(302,219)	5,024,464
<b>Change in Net Position</b>					1,700,306	177,317	1,877,623
<b>Net Position</b>							
Beginning of year					21,852,017	13,338,167	35,190,184
Prior period adjustments					(142,450)	142,450	-
End of year					\$ 23,409,873	\$ 13,657,934	\$ 37,067,807

See accompanying notes.

# CITY OF KERMAN

## BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2016

	General	Local Transportation	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 3,047,422	\$ 288,567	\$ 1,466,245	\$ 4,802,234
Accounts receivable	20,525	-	-	20,525
Taxes receivable	598,104	-	-	598,104
Due from other governments	16,581	44,795	132,817	194,193
Interest receivable	4,327	-	-	4,327
Due from other funds	185,232	-	-	185,232
Total assets	<u>\$ 3,872,191</u>	<u>\$ 333,362</u>	<u>\$ 1,599,062</u>	<u>\$ 5,804,615</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities</b>				
Accounts payable and accrued expense	\$ 190,642	13,960	\$ 59,869	\$ 264,471
Due to other funds	-	-	185,232	185,232
Deposits and other liabilities	12,227	-	-	12,227
Total liabilities	<u>202,869</u>	<u>13,960</u>	<u>245,101</u>	<u>461,930</u>
<b>Fund Balance</b>				
<b>Restricted</b>				
Circulation improvements	-	319,402	477,786	797,188
Development activities	-	-	989,177	989,177
<b>Committed</b>				
Emergency reserve	1,178,383	-	-	1,178,383
Revenue stability reserve	707,030	-	-	707,030
Major asset repair and replacement reserve	707,030	-	-	707,030
Unassigned	1,076,881	-	(113,002)	963,879
Total fund balance	<u>3,669,322</u>	<u>319,402</u>	<u>1,353,961</u>	<u>5,342,685</u>
Total liabilities and fund balance	<u>\$ 3,872,191</u>	<u>\$ 333,362</u>	<u>\$ 1,599,062</u>	<u>\$ 5,804,615</u>

# CITY OF KERMAN

## RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2016

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Total governmental fund balance	\$ 5,342,685
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	22,676,671
Net pension liability applicable to governmental activities are not due and payable in the current period and accordingly is not reported in the funds	(1,270,746)
Deferred outflows of resources related to net pension liability, represent an consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time	351,486
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	(604,132)
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(3,354,887)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(323,359)
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	(37,214)
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>629,369</u>
Net position of governmental activities	<u>\$ 23,409,873</u>

**CITY OF KERMAN**

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE –  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2016**

	<u>General</u>	<u>Local Transportation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenue</b>				
Taxes	\$ 3,812,930	\$ -	\$ 212,770	\$ 4,025,700
Licenses, permits and impact fees	420,511	-	418,994	839,505
Intergovernmental	366,130	429,522	1,070,846	1,866,498
Charges for services	164,640	-	6,136	170,776
Fines and forfeitures	49,787	-	-	49,787
Rents	157,565	-	241,985	399,550
Interest	67,813	4,254	11,725	83,792
Other	202,482	-	-	202,482
Total revenue	<u>5,241,858</u>	<u>433,776</u>	<u>1,962,456</u>	<u>7,638,090</u>
<b>Expenditures</b>				
Current				
General government	516,512	-	-	516,512
Public works	480,917	116,563	499,378	1,096,858
Community development	180,740	-	104,398	285,138
Social services	553,029	-	205,193	758,222
Public safety	2,724,792	-	-	2,724,792
Capital outlay	257,540	918,096	301,147	1,476,783
Debt Service				
Principal	-	-	98,228	98,228
Interest and fiscal charges	-	-	152,322	152,322
Total expenditures	<u>4,713,530</u>	<u>1,034,659</u>	<u>1,360,666</u>	<u>7,108,855</u>
Revenue over/(under) expenditures	528,328	(600,883)	601,790	529,235
<b>Other Financing Sources/(Uses)</b>				
Transfers in/(out) - net	<u>(57,907)</u>	<u>(13,672)</u>	<u>(111,013)</u>	<u>(182,592)</u>
	<u>(57,907)</u>	<u>(13,672)</u>	<u>(111,013)</u>	<u>(182,592)</u>
<b>Change in Fund Balance</b>	470,421	(614,555)	490,777	346,643
<b>Fund Balance</b>				
Beginning of year	<u>3,198,901</u>	<u>933,957</u>	<u>863,184</u>	<u>4,996,042</u>
End of year	<u>\$ 3,669,322</u>	<u>\$ 319,402</u>	<u>\$ 1,353,961</u>	<u>\$ 5,342,685</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, 2016

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Net change in fund balance - total governmental funds		\$ 346,643
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated lives and reported as depreciation expense		
Capital outlay expenditures are therefore added back to fund balances	1,476,783	
Depreciation expense not reported in governmental funds	<u>(568,119)</u>	
		908,664
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		98,228
Pension expenses reported in the Statement of Activities do not require the use of current financial resources an, therefore are not reported as expenditures in the Governmental Funds		328,630
Internal service funds are used by management to charge the costs of fleet maintenance and computer services to individual funds. The net revenue (loss) of certain activities of internal service funds is reported with governmental activities		60,451
In the Statement of Activities interest is accrued on long-term debt, whereas, in governmental funds interest expenditure is reported when due		816
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>(43,126)</u>
Change in net position of governmental activities		<u>\$ 1,700,306</u>

**CITY OF KERMAN**

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS  
JUNE 30, 2016**

	Business-Type Activities - Enterprise Funds					Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain	Total Proprietary Funds	
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and investments	\$ 2,850,145	\$ 1,376,103	\$ 393,964	\$ 103,255	\$ 4,723,467	\$ 122,209
Accounts receivable, net	15,426	19,655	16,379	1,114	52,574	-
Total current assets	2,865,571	1,395,758	410,343	104,369	4,776,041	122,209
<b>Non-current assets</b>						
Property, plant and equipment, net of allowance for depreciation	4,013,944	11,101,269	-	1,134,854	16,250,067	591,710
Total assets	6,879,515	12,497,027	410,343	1,239,223	21,026,108	713,919
	46,271	37,856	11,135	2,742	98,004	-
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
	72,746	34,201	76,940	15,545	199,432	11,531
	-	25,075	-	-	25,075	-
	107,717	-	-	-	107,717	-
Current portion of long-term debt	165,000	291,012	-	-	456,012	-
Total current liabilities	345,463	350,288	76,940	15,545	788,236	11,531
<b>Non-current liabilities</b>						
Long-term debt	1,814,999	4,015,334	-	-	5,830,333	-
Compensated absences	54,098	38,999	9,652	-	102,749	-
Net pension liability	258,015	213,237	62,169	14,952	548,373	-
Total noncurrent liabilities	2,127,112	4,267,570	71,821	14,952	6,481,455	-
Total liabilities	2,472,575	4,617,858	148,761	30,497	7,269,691	11,531
	127,244	104,101	30,622	7,539	269,506	-
<b>DEFERRED INFLOWS OF RESOURCES</b>						
	2,033,945	6,794,923	-	1,134,854	9,963,722	591,710
Restricted for capital improvements	1,081,510	260,425	-	65,013	1,406,948	-
Unrestricted/(deficit)	1,210,512	757,576	242,095	4,062	2,214,245	110,678
Total net position	\$ 4,325,967	\$ 7,812,924	\$ 242,095	\$ 1,203,929	\$ 13,584,915	\$ 702,388
					73,019	
Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds						
Net position of business-type activities					\$ 13,657,934	

See accompanying notes.

CITY OF KERMAN

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2016

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain	
<b>Operating Revenue</b>					
Charges for services	\$ 1,452,843	\$ 1,469,101	\$ 1,117,259	\$ 71,074	\$ 4,110,277
Other revenues	57,026	91,112	22,278	1,394	171,810
Total operating income	1,509,869	1,560,213	1,139,537	72,468	4,282,087
<b>Operating Expense</b>					
Contractual services and utilities	321,062	298,725	857,133	1,001	1,477,921
Personnel	611,029	432,747	148,015	42,188	1,233,979
Supplies and materials	213,832	163,856	49,794	11,189	438,671
Depreciation	343,465	540,996	18	17,463	901,942
Total operating expense	1,489,388	1,436,324	1,054,960	71,841	4,052,513
Operating income/(loss)	20,481	123,889	84,577	627	229,574
<b>Nonoperating Revenue/(Expense)</b>					
Intergovernmental	-	-	10,000	-	10,000
Development impact fees	107,558	137,528	-	89,909	334,995
Interest income	23,049	9,593	3,117	803	36,562
Interest expense	-	(57,231)	-	-	(57,231)
Total nonoperating revenue/(expense)	130,607	89,890	13,117	90,712	324,326
Net income/(loss) before transfers	151,088	213,779	97,694	91,339	553,900
<b>Operating Transfers In/(Out)</b>	(148,108)	(158,504)	(75,364)	(16,235)	(398,211)
<b>Change in Net Position</b>	2,980	55,275	22,330	75,104	155,689
<b>Net Position</b>					
Beginning of year	4,322,987	7,757,649	219,765	986,375	13,286,776
Prior period adjustments	-	-	-	142,450	142,450
End of year	\$ 4,325,967	\$ 7,812,924	\$ 242,095	\$ 1,203,929	\$ 13,584,915
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds					21,628
Change in net position of business-type activities (Page 13)					\$ 177,317

CITY OF KERMAN

COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2016

	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	\$ 1,517,575	\$ 1,563,845	\$ 1,138,577	\$ 72,638	\$ 4,292,635	\$ -	
Payments for contractual services and utilities	(306,019)	(296,369)	(855,674)	(20,244)	(1,478,306)	(37,939)	
Payments to employees	(213,832)	(643,676)	(156,702)	(44,477)	(1,305,601)	(109,892)	
Payment to suppliers	(213,832)	(163,856)	(49,794)	(11,189)	(438,671)	(210,162)	
Net cash provided (used) by operating activities	354,048	642,874	76,407	(3,272)	1,070,057	(357,993)	
<b>Non-capital Financial Activities</b>							
Payments from other governments	-	-	10,000	-	10,000	-	
Payments (to)/from developers	107,528	137,528	-	89,908	334,994	-	
Transfers (to)/from other funds	(148,108)	(158,504)	(75,364)	(16,234)	(398,210)	580,803	
Net cash provided by (used in) noncapital financing activities	(40,550)	(20,976)	(65,364)	73,674	(53,216)	580,803	
<b>Capital and Related Financing Activities</b>							
Purchase of property, plant and equipment	(67,710)	(34,949)	-	-	(102,659)	(281,995)	
Principal paid on long-term debt	(165,000)	(283,676)	-	-	(448,676)	-	
Interest paid on long-term debt	-	(57,231)	-	-	(57,231)	-	
Net cash used in capital and related financing activities	(232,710)	(375,856)	-	-	(608,566)	(281,995)	
<b>Investing Activities</b>							
Interest received	23,049	9,593	3,117	803	36,562	1,623	
Net cash provided by investing activities	23,049	9,593	3,117	803	36,562	1,623	
<b>Net Increase (Decrease) in Cash</b>	103,837	255,635	14,160	71,205	444,837	(57,562)	
<b>Cash</b>							
Beginning of year	2,746,308	1,120,468	379,804	32,050	4,278,630	179,771	
End of year	2,850,145	1,376,103	393,964	103,255	4,723,467	122,209	
<b>Cash Flows from Operating Activities</b>							
Operating income (loss)	\$ 20,481	\$ 123,889	\$ 84,577	\$ 627	\$ 229,574	\$ (500,348)	
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	343,465	540,996	18	17,463	901,942	138,877	
(Increase) Decrease in Accounts Receivable	2,996	3,632	(960)	169	5,837	-	
(Increase) Decrease in Deferred Outflows of Resources	(15,279)	(14,644)	(3,752)	(572)	(34,247)	-	
Increase (Decrease) in Accounts Payable and Accrued Liabilities	15,043	2,356	1,459	(19,242)	(384)	3,478	
Increase (Decrease) in Deposits	4,710	-	-	-	4,710	-	
Increase (Decrease) in Deferred Inflows of Resources	18,521	15,151	4,457	1,097	39,226	-	
Increase (Decrease) in Net Pension Liability	(41,828)	(32,077)	(9,991)	(2,814)	(86,710)	-	
Increase (Decrease) in Compensated Absences	5,939	3,571	599	-	10,109	-	
<b>Net Cash Provided (Used) by Operating Activities</b>	\$ 354,048	\$ 642,874	\$ 76,407	\$ (3,272)	\$ 1,070,057	\$ (357,993)	

See accompanying notes.

**CITY OF KERMAN**

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS**  
**JUNE 30, 2016**

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and investments	\$ 503,311
Total assets	<u>503,311</u>
<b>LIABILITIES</b>	
Agency funds payable	<u>503,311</u>
Total liabilities	<u>\$ 503,311</u>

# CITY OF KERMAN

## STATEMENT OF FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUNDS JUNE 30, 2016

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	<u>Kerman Unified School District</u>	<u>Redevelopment Successor Agency</u>
<b>Assets</b>		
Cash and investments	\$ -	\$ 66,873
Total assets	<u>-</u>	<u>66,873</u>
<b>Liabilities</b>		
Unearned revenues	-	66,870
Long-term debt		
Due within one year	-	11,911
Due in more than one year	<u>-</u>	<u>15,057</u>
Total liabilities	<u>-</u>	<u>93,838</u>
<b>Net Position</b>		
Held in trust for other governments	<u>\$ -</u>	<u>\$ (26,965)</u>

# CITY OF KERMAN

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND JUNE 30, 2016

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	<u>Kerman Unified School District</u>	<u>Redevelopment Successor Agency</u>
<b>Additions</b>		
Property taxes	\$ -	\$ 165,164
Investment earnings and other	-	12
Total additions	<u>-</u>	<u>165,176</u>
<b>Deductions</b>		
Administrative costs	-	94,487
Program expenses	8,624	58,054
Interest expense	-	1,070
Total deductions	<u>8,624</u>	<u>153,611</u>
<b>Change In Net Position</b>	(8,624)	11,565
<b>Net Position</b>		
Beginning of year	<u>8,624</u>	<u>(38,530)</u>
End of year	<u>\$ -</u>	<u>\$ (26,965)</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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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, 2016

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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.

*Local Transportation Fund* - This fund accounts for the expenditures of Local Transportation funds 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, 2016

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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, 2016

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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 uncollectible.

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, 2016

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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, 2016

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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, 2016

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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.

### **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.

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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### 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, 2016 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$ 9,647,910
Fiduciary Funds:	
Cash and Investments	<u>570,184</u>
Total Cash and Investments	<u>\$ 10,218,094</u>

Cash and investments as of June 30, 2016 consist of the following:

Cash on hand	\$ 1,350
Deposits with Financial Institutions	4,819,478
Certificates of deposit	<u>5,397,266</u>
Total Cash and Investments	<u>\$ 10,218,094</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

### Note 3 – Cash and Investments (Continued)

#### Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City’s investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Certificates of Deposits	1 year	None	None
Repurchase Agreements	30 days	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Municipal Bonds	None	None	None

#### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City of Kerman manages its exposure to interest rate risk is through the purchase of a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Investment Type	Fair Value	Remaining Maturity (in months)		
		12 Months or Less	13 to 24 Months	25 to 60 Months
Certificates of deposit	\$ 5,397,266	\$ 1,340,526	\$ 1,993,558	\$ 2,063,182
Total	\$ 5,397,266	\$ 1,340,526	\$ 1,993,558	\$ 2,063,182

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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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	\$ 5,397,266	N/A	\$	5,397,266
Total	\$ 5,397,266		\$	5,397,266

#### 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, 2016.

#### 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, 2016**

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**Note 4 – Receivables**

The following is a summary of receivables at June 30, 2016 for the City’s individual major and non-major funds in the aggregate:

	<u>General</u>	<u>Local Transportation</u>	<u>Other Governmental Funds</u>
<b>Governmental Funds</b>			
Accounts	\$ 20,525	\$ -	\$ -
Taxes	598,104	-	-
Intergovernmental	16,581	44,795	132,817
Interest	4,327	-	-
	<u>\$ 639,537</u>	<u>\$ 44,795</u>	<u>\$ 132,817</u>

The following is a summary of receivables at June 30, 2016 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	\$ 26,296	\$ 33,505	\$ 23,704	\$ 1,901
Gross receivables	26,296	33,505	23,704	1,901
Less: Allowance for uncollectible accounts	<u>(10,870)</u>	<u>(13,850)</u>	<u>(7,325)</u>	<u>(787)</u>
	<u>\$ 15,426</u>	<u>\$ 19,655</u>	<u>\$ 16,379</u>	<u>\$ 1,114</u>

**CITY OF KERMAN**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2016**

**Note 5 – Capital Assets** – Capital asset activities for the year ended June 30, 2016 were as follows:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2016</u>
<b><u>Governmental Activities</u></b>				
Capital assets, not being depreciated				
Land	\$ 2,102,046	\$ 180,058	\$ -	\$ 2,282,104
Construction in progress	1,391,253	351,246	(738,395)	1,004,104
Total capital assets, not being depreciated	<u>3,493,299</u>	<u>531,304</u>	<u>(738,395)</u>	<u>3,286,208</u>
Capital assets, being depreciated				
Buildings and improvements	7,262,083	593,047	-	7,855,130
Infrastructure	14,952,075	1,058,571	-	16,010,646
Machinery and equipment	2,305,072	314,247	(200,195)	2,419,124
Total capital assets, being depreciated	<u>24,519,230</u>	<u>1,965,865</u>	<u>(200,195)</u>	<u>26,284,900</u>
Less accumulated depreciation for				
Buildings and improvements	(1,751,661)	(196,009)	-	(1,947,670)
Infrastructure	(2,340,650)	(348,836)	-	(2,689,486)
Machinery and equipment	(1,703,615)	(162,151)	200,195	(1,665,571)
Total accumulated depreciation	<u>(5,795,926)</u>	<u>(706,996)</u>	<u>200,195</u>	<u>(6,302,727)</u>
Total capital assets, being depreciated, net	<u>18,723,304</u>	<u>1,258,869</u>	<u>-</u>	<u>19,982,173</u>
Governmental activities capital assets, net	<u>\$ 22,216,603</u>	<u>\$ 1,790,173</u>	<u>\$ (738,395)</u>	<u>\$ 23,268,381</u>
<b><u>Business-Type Activities</u></b>				
Capital assets, not being depreciated				
Land	\$ 3,383,589	\$ -	\$ -	\$ 3,383,589
Construction in progress	404,704	55,262	(54,490)	405,476
Total capital assets, not being depreciated	<u>3,788,293</u>	<u>55,262</u>	<u>(54,490)</u>	<u>3,789,065</u>
Capital assets, being depreciated				
Buildings and improvements	20,398,303	702	-	20,399,005
Machinery and equipment	1,155,878	101,185	-	1,257,063
Total capital assets, being depreciated	<u>21,554,181</u>	<u>101,887</u>	<u>-</u>	<u>21,656,068</u>
Less: accumulated depreciation	<u>(8,293,123)</u>	<u>(901,943)</u>	<u>-</u>	<u>(9,195,066)</u>
Total capital assets, being depreciated, net	<u>13,261,058</u>	<u>(800,056)</u>	<u>-</u>	<u>12,461,002</u>
Business-type activities capital assets, net	<u>\$ 17,049,351</u>	<u>\$ (744,794)</u>	<u>\$ (54,490)</u>	<u>\$ 16,250,067</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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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	\$	99,001
Public Works and Community Development		356,733
Social Services		92,740
Public Safety		19,645
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the asset		<u>138,877</u>
	\$	<u>706,996</u>

**Business-Type Functions:**

Water	\$	343,465
Sewer		540,996
Disposal		18
Storm Drain		<u>17,463</u>
	\$	<u>901,942</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

### 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, 2016 was comprised of the following individual issues:

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Current Portion
<b><u>Governmental Activity Long Term Debt</u></b>					
Notes Payable					
California Energy Commission	\$ 63,115	\$ -	\$ (8,228)	\$ 54,887	\$ 8,481
Kerman Public Finance Authority Bonds					
2007 Lease Revenue Bonds	3,390,000	-	(90,000)	3,300,000	95,000
<b>Total Governmental Activity Debt</b>	<b>\$ 3,453,115</b>	<b>\$ -</b>	<b>\$ (98,228)</b>	<b>\$ 3,354,887</b>	<b>\$ 103,481</b>
<b><u>Business-Type Activity Long Term Debt</u></b>					
Bonds Payable					
Sewer Revenue Bond	\$ 283,285	\$ -	\$ (50,000)	\$ 233,285	\$ 55,000
Notes Payable					
California Dept. of Water Resources	2,144,999	-	(165,000)	1,979,999	165,000
California Dept. of Water Resources	4,306,737	-	(233,676)	4,073,061	236,012
<b>Total Business-Type Activity Debt</b>	<b>\$ 6,735,021</b>	<b>\$ -</b>	<b>\$ (448,676)</b>	<b>\$ 6,286,345</b>	<b>\$ 456,012</b>
<b><u>Compensated Absences</u></b>					
Government Activities	\$ 280,233	\$ 43,126	\$ -	\$ 323,359	
Business-Type Activities	\$ 92,640	\$ 10,109	\$ -	\$ 102,749	

**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, 2016 was \$54,887.

**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, 2016

### 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, 2016 was \$233,285.

**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, 2016 was \$1,979,999.

**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, 2016 was \$4,073,061.

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2016 were as follows:

Years ending June 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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	119,554	131,638	413,880	31,230
2022-2026	634,842	580,846	2,090,310	118,404
2027-2031	760,000	427,207	1,659,851	53,861
2031-2036	960,000	224,912	274,000	2,740
2037-2038	449,999	21,613	-	-
	<u>\$ 3,354,887</u>	<u>\$ 1,956,671</u>	<u>\$ 6,286,345</u>	<u>\$ 384,809</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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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, 2016:

Capital Project Funds	
Public Building Facility	\$ (113,002)
	<u>\$ (113,002)</u>

These deficits 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.

Individual fund interfund receivables and payables balances as of June 30, 2016 are as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 185,232	\$ -
Senior Center Fund	-	1,273
Transit Fund	-	12,511
Public Building Facility Fund	-	113,002
State Grants	-	6,884
Housing Grant	-	10,670
Street Maintenance & Construction Fund	-	40,892
	<u>\$ 185,232</u>	<u>\$ 185,232</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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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	\$ -	\$ 57,907
Local Transportation	4,918	-
<b>Proprietary Funds:</b>		
Water	-	148,108
Sewer	-	158,504
Disposal	-	75,364
Storm Drain	-	16,235
Internal Service	580,803	-
<b>Nonmajor Governmental Funds:</b>		
Measure C	-	70,855
Gas Tax	-	13,672
Senior Center	3,485	-
Maintenance District	-	32,878
Transit	15,558	-
State Grants	-	31,241
	<u>\$ 604,764</u>	<u>\$ 604,764</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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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, 2015 is as follows:

Total assets	\$ 86,630,360
Total liabilities	<u>73,673,710</u>
Net position	<u>\$ 12,956,650</u>
Total revenues	\$ 38,130,606
Total expenses	<u>40,427,807</u>
Increase/(decrease) in net position	<u>\$ (2,297,201)</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, 2016

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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 of 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 2015-16 pension contributions subsequent to measurement date	\$350,320
Adjustment due to differences in proportions	36,413
Difference between expected and actual experience	9,432
Difference in projected and actual contributions	<u>54,220</u>
Total deferred outflows of resources	<u>\$449,490</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	\$100,677
Difference between expected and actual experience	24,000
Difference in projected and actual contributions	79,261
Adjustment due to differences in proportions	<u>470,083</u>
Total deferred inflows of resources	<u>\$873,638</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 rates for the fiscal year ended June 30, 2016 Miscellaneous Classic, PEPRSA miscellaneous, Safety Classic, and PEPRSA Safety were 6.709%, 6.25%, 13.985%, and 9.07%, respectively. 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, 2016**

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

The Plans’ provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>Miscellaneous Classic</u> Prior to January 1, 2013	<u>PEPRA Miscellaneous</u> On or after January 1, 2013
Hire Date		
Benefit Formula	2.0% at 60; maximum 2% COLA	2.0% at 62; maximum 2% 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%	6.24%
Required Employer Contribution Rates	6.709%	6.25%
	<u>Safety Classic</u> Prior to January 1, 2013	<u>PEPRA Safety</u> On or after January 1, 2013
Hire Date		
Benefit Formula	2.0% at 55; maximum 2% COLA	2.0% at 57; maximum 2% COLA
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	55	55
Monthly Benefits, as a % of Eligible Compensation	2.00%	2.00%
Required Employee Contribution Rates	7.00%	9.50%
Required Employer Contribution Rates	13.985%	9.07%

Employees hired July 1, 2012 and thereafter pay the full 7% employee contribution per adopted Memoranda of Understanding if the employee is considered a “Classic” employee under PEPRA.

**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, 2016

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### Note 11 – Pension Plan (Continued)

For the year ended June 30, 2016, the contributions recognized as part of the pension expense is as follows:

Contributions – employer	\$ 350,320
Contributions – employee	\$ 233,353

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

As of June 30, 2016, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Shre of Net Pension Liability	
Miscellaneous Plan	\$	1,170,326
Safety Police Plan		648,964
PEPRA Miscellaneous Plan		(179)
PEPRA Safety Police Plan		8
Total Net Pension Liability	\$	<u>1,819,119</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, 2014 rolled forward to June 30, 2015 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, 2014 and 2015 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion – June 30, 2014	0.02196%	.01281%
Proportion – June 30, 2015	0.04265%	.01575%
Change – Increase/(Decrease)	0.02069%	.00294%

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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### Note 11 – Pension Plan (Continued)

For the year ended June 30, 2016, the City recognized pension expense of \$222,427. At June 30, 2016, 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	\$ 350,320	\$ -
Adjustment due to differences in proportions	36,413	(470,083)
Difference between expected and actual experience	9,432	(24,000)
Difference in projected and actual contributions	53,325	(79,261)
Changes in assumptions or other inputs	-	(199,617)
Net differences between projected and actual earnings on pension plan investments	-	(100,677)
Total	<u>\$ 449,490</u>	<u>\$ (873,638)</u>

\$350,320 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	
2016	\$ (203,807)
2017	(203,807)
2018	(203,807)
2019	(163,047)
Thereafter	-

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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### Note 11 – Pension Plan (Continued)

**Actuarial Assumptions** – The total pension liability in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Date for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

<sup>1</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, 2014 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.

**Change of assumptions** – GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.5 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

**Discount rate** – The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for public agency plans, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained on CalPERS' website under the GASB 68 section.

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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### Note 11 – Pension Plan (Continued)

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected nominal rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The long-term expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015.

The table below reflects long-term expected real rates 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. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10 <sup>1</sup>	Real Return Years 11+ <sup>2</sup>
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>		

1 An expected inflation of 2.5% used for this period

2 An expected inflation of 3.0% used for this period

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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### Note 11 – Pension Plan (Continued)

**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 (6.65%) or 1-percentage point higher (8.65%) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Net Pension Liability:			
Miscellaneous Plan	\$ 1,962,713	\$ 1,170,326	\$ 516,112
Safety Police Plan	1,040,512	648,964	327,902
PEPRA Miscellaneous Plan	(300)	(179)	(79)
PEPRA Safety Police Plan	13	8	4

**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, 2016, the City has no outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

### Note 12 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through August 29, 2016, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2016 that required recognition or disclosure in such financial statements.

### Note 13 – Prior Period Adjustments

The Storm Drain Fund has a prior period adjustment of \$142,450 for the understatement of land. The net effect of the prior period adjustments increased the net position to that fund.

The Statement of Activities has a prior period adjustment of \$142,450 for the overstatement of land. The net effect of the prior period adjustments decreased the net position in the government-wide.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**CITY OF KERMAN**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive/ (Negative)</u>
<b>Revenue</b>				
Taxes	\$ 3,508,554	\$ 3,601,100	\$ 3,812,930	\$ 211,830
Licenses, permits and impact fees	185,250	179,250	420,511	241,261
Intergovernmental	47,262	244,798	366,130	121,332
Charges for services	169,488	169,488	164,640	(4,848)
Fines and forfeitures	65,000	35,500	49,787	14,287
Rents	125,172	136,565	157,565	21,000
Interest	59,000	10,000	67,813	57,813
Other	17,200	15,823	202,482	186,659
Total revenue	<u>4,176,926</u>	<u>4,392,524</u>	<u>5,241,858</u>	<u>849,334</u>
<b>Expenditures</b>				
Current				
General government	440,759	456,279	516,512	(60,233)
Public works	362,043	423,134	480,917	(57,783)
Community development	170,671	207,098	180,740	26,358
Social services	512,009	561,229	553,029	8,200
Public safety	2,612,002	2,788,653	2,724,792	63,861
Capital outlay	114,899	134,100	257,540	(123,440)
Total expenditures	<u>4,212,383</u>	<u>4,570,493</u>	<u>4,713,530</u>	<u>(143,037)</u>
Revenue over (under) expenditures	(35,457)	(177,969)	528,328	706,297
<b>Other Financing Sources</b>				
Transfers in (out) - net	<u>(83,215)</u>	<u>(83,215)</u>	<u>(57,907)</u>	<u>25,308</u>
<b>Net Change in Fund Balance</b>	<u>\$ (118,672)</u>	<u>\$ (261,184)</u>	470,421	<u>\$ 731,605</u>
<b>Fund Balance</b>				
Beginning of year			<u>3,198,901</u>	
End of year			<u>\$ 3,669,322</u>	

**CITY OF KERMAN**

**BUDGETARY COMPARISON SCHEDULE  
LOCAL TRANSPORTATION FUND  
YEAR ENDED JUNE 30, 2016**

	<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	\$ 433,179	\$ 433,179	\$ 429,522	\$ (3,657)
Interest	4,050	4,050	4,254	204
Total revenue	<u>437,229</u>	<u>437,229</u>	<u>433,776</u>	<u>(3,453)</u>
<b>Expenditures</b>				
Public works	153,876	153,876	116,563	37,313
Capital outlay	<u>1,070,900</u>	<u>1,070,900</u>	<u>918,096</u>	<u>152,804</u>
Total expenditures	<u>1,224,776</u>	<u>1,224,776</u>	<u>1,034,659</u>	<u>190,117</u>
Revenue over expenditures	(787,547)	(787,547)	(600,883)	186,664
<b>Other Financing Sources/(Uses)</b>				
Transfers in/(out) - net	<u>(13,672)</u>	<u>(13,672)</u>	<u>(13,672)</u>	<u>-</u>
<b>Change in Fund Balance</b>	<u>\$ (801,220)</u>	<u>\$ (801,220)</u>	<u>(614,555)</u>	<u>\$ 186,665</u>
<b>Fund Balance</b>				
Beginning of year			<u>933,957</u>	
End of year			<u>\$ 319,402</u>	

**CITY OF KERMAN**

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
LAST TEN YEARS\*  
YEAR ENDED JUNE 30, 2016**

	Safety		PEPRA Safety		Miscellaneous		PEPRA Miscellaneous	
	2015	2016	2016	2016	2015	2016	2016	2016
Proportion of the net pension liability	0.01281%	0.00158%	0.00000%	0.02196%	0.04266%	0.00001%	0.00001%	
Proportionate share of the net pension liability	\$ 797,321	\$ 648,964	\$ 8	\$ 1,366,654	\$ 1,170,326	\$ (179)	\$	
Covered - employee payroll	\$ 1,144,549	\$ 1,099,799	\$ 141,394	\$ 2,046,348	\$ 1,744,550	\$ 113,664	\$	
Proportionate share of the net pension liability as percentage of covered-employee payroll	69.66%	59.01%	0.01%	66.79%	67.08%	-0.16%		
Plan's fiduciary net position	\$ 4,290,975	\$ 3,868,371	\$ 1,261	\$ 6,686,104	\$ 7,331,180	\$ 7,954	\$	
Plan's fiduciary net position as a percentage of the Total Pension Liability	81.42%	81.42%	99.4%	83.03%	86.23%	102.30%		

\*Fiscal year 2014-15 was the first year of implementation, therefore only two years are shown.

**CITY OF KERMAN**  
**SCHEDULE OF CONTRIBUTIONS**  
**LAST TEN YEARS\***  
**YEAR ENDED JUNE 30, 2016**

	Safety		PEPRA Safety		Miscellaneous		PEPRA Miscellaneous	
	2015	2016	2016	2016	2015	2016	2016	2016
Contractually required contribution (actuarially determined)	\$ 172,707	\$ 169,401	\$ 13,031	\$ 13,031	\$ 149,116	\$ 139,800	\$ 7,359	\$ 7,359
Contributions in relation to the actuarially determined contributions	(172,707)	(169,401)	(13,031)	(13,031)	(149,116)	(139,800)	(7,359)	(7,359)
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 1,144,549	\$ 1,099,799	\$ 141,394	\$ 141,394	\$ 2,046,348	\$ 1,744,550	\$ 113,664	\$ 113,664
Contributions as a percentage of covered-employee payroll	15.09%	15.40%	9.22%	9.22%	7.29%	8.01%	6.47%	6.47%

\*Fiscal year 2014-15 was the first year of implementation, therefore only two years are shown.

**Notes to Schedule of Contributions**

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method Entry Age Normal

Actuarial Assumptions:

Discount Rate 7.65%

Inflation 2.75%

Salary Increases Varies by Entry Age and Service

Investment Rate of Return 7.50%, net of pension plan investment and administrative expenses, including inflation to 2007

Retirement Age The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries

Mortality 3.00%

Payroll Growth

**SUPPLEMENTAL ONLY INFORMATION**

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**CITY OF KERMAN**

**COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	Special Revenue Funds						Debt	
	Measure C	Gas Tax	Senior Center	Maintenance District	Transit	Park Grants	Service Fund	Kerman Public Financing Authority
<b>ASSETS</b>								
Cash and investments	\$ 24,598	\$ 448,414	\$ -	\$ 43,739	\$ -	\$ -	\$ -	\$ -
Due from other governments	31,616	-	2,000	-	17,747	11,860	-	-
Total assets	\$ 56,214	\$ 448,414	\$ 2,000	\$ 43,739	\$ 17,747	\$ 11,860	\$ -	\$ -
<b>LIABILITIES AND FUND BALANCE</b>								
<b>Liabilities</b>								
Accounts payable and accrued expense	\$ 9,860	\$ 16,982	\$ 727	\$ 7,377	\$ 5,236	\$ 1,190	\$ -	\$ -
Due to other funds	-	-	1,273	-	12,511	10,670	-	-
Total liabilities	9,860	16,982	2,000	7,377	17,747	11,860	-	-
<b>Fund Balance</b>								
Restricted								
Circulation improvements	46,354	431,432	-	-	-	-	-	-
Development activities	-	-	-	36,362	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-
Total fund balance	46,354	431,432	-	36,362	-	-	-	-
Total liabilities and fund balance	\$ 56,214	\$ 448,414	\$ 2,000	\$ 43,739	\$ 17,747	\$ 11,860	\$ -	\$ -

CITY OF KERMAN

COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)  
JUNE 30, 2016

	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>ASSETS</b>								
Cash and investments	\$ 60,997	\$ -	\$ 281,586	\$ 492,499	\$ 114,412	\$ -	\$ -	\$ 1,466,245
Due from other governments	-	-	-	-	-	51,272	18,322	132,817
Total assets	\$ 60,997	\$ -	\$ 281,586	\$ 492,499	\$ 114,412	\$ 51,272	\$ 18,322	\$ 1,599,062
<b>LIABILITIES AND FUND BALANCE</b>								
<b>Liabilities</b>								
Accounts payable and accrued expense	\$ -	\$ -	\$ -	\$ 349	\$ -	\$ 10,380	\$ 7,768	\$ 59,869
Due to other funds	-	113,002	-	-	-	40,892	6,884	185,232
Total liabilities	-	113,002	-	349	-	51,272	14,652	245,101
<b>Fund Balance</b>								
Restricted								
Circulation improvements	-	-	-	-	-	-	-	477,786
Development activities	60,997	-	281,586	492,150	114,412	-	3,670	989,177
Unassigned	-	(113,002)	-	-	-	-	-	(113,002)
Total fund balance	60,997	(113,002)	281,586	492,150	114,412	-	3,670	1,353,961
Total liabilities and fund balance	\$ 60,997	\$ -	\$ 281,586	\$ 492,499	\$ 114,412	\$ 51,272	\$ 18,322	\$ 1,599,062

**CITY OF KERMAN**

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
NON-MAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2016**

	Special Revenue Funds						Debt Service Fund
	Measure C	Gas Tax	Senior Center	Maintenance District	Transit	Park Grants	
<b>Revenue</b>							
Taxes	\$ -	\$ -	\$ -	\$ 212,770	\$ -	\$ -	\$ -
Developer impact fees	-	-	-	-	-	-	-
Intergovernmental	385,365	306,921	12,000	-	110,597	162,321	-
Charges for services	-	-	3,942	-	2,194	-	-
Rents	-	-	-	-	-	-	241,985
Interest	342	2,785	-	148	-	-	-
Other	-	-	-	-	-	-	-
Total revenue	<u>385,707</u>	<u>309,706</u>	<u>15,942</u>	<u>212,918</u>	<u>112,791</u>	<u>162,321</u>	<u>241,985</u>
<b>Expenditures</b>							
Public works	285,148	82,440	-	131,790	-	-	-
Community development	-	-	-	-	-	-	1,500
Social services	-	-	19,427	-	124,907	-	-
Capital outlay	5,793	36,433	-	-	-	176,699	-
Debt service	-	-	-	-	-	-	-
Principal	-	8,228	-	-	-	-	90,000
Interest and fiscal charges	-	1,837	-	-	-	-	150,485
Total expenditures	<u>290,941</u>	<u>128,938</u>	<u>19,427</u>	<u>131,790</u>	<u>124,907</u>	<u>176,699</u>	<u>241,985</u>
Revenue over (under) expenditures	94,766	180,768	(3,485)	81,128	(12,116)	(14,378)	-
<b>Other financing sources/(uses)</b>							
Operating transfers in/(out) - net	(70,855)	4,918	3,485	(32,878)	15,558	-	-
	<u>(70,855)</u>	<u>4,918</u>	<u>3,485</u>	<u>(32,878)</u>	<u>15,558</u>	<u>-</u>	<u>-</u>
<b>Change in Fund Balance</b>	23,911	185,686	-	48,250	3,442	(14,378)	-
<b>Fund Balance</b>							
Beginning of year	22,443	245,746	-	(11,888)	(3,442)	14,378	-
End of year	<u>\$ 46,354</u>	<u>\$ 431,432</u>	<u>\$ -</u>	<u>\$ 36,362</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF KERMAN**

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)  
YEAR ENDED JUNE 30, 2016**

	Capital Projects Funds										Total
	Jobs/Housing Mitigation	Public Building Facility	Fire Facility	Street Projects & Development	Park Development	Street Maintenance & Construction	State Grants	Non-major Governmental Funds			
<b>Revenue</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Taxes	-	-	-	-	-	-	-	-	-	-	391,607
Developer impact fees	1,850	83,973	31,957	154,254	146,960	-	-	-	-	-	418,994
Intergovernmental	-	-	-	-	-	62,401	31,241	-	-	-	892,009
Charges for services	-	-	-	-	-	-	-	-	-	-	6,136
Rents	-	-	-	-	-	-	-	-	-	-	241,985
Interest	490	-	2,161	5,197	602	-	-	-	-	-	11,725
Other	-	-	-	-	-	-	-	-	-	-	-
Total revenue	2,340	83,973	34,118	159,451	147,562	62,401	31,241	-	-	-	1,962,456
<b>Expenditures</b>											
Public works	-	-	-	-	-	-	-	-	-	-	499,378
Community development	-	51,434	-	51,464	-	-	-	-	-	-	104,398
Social services	-	-	-	-	60,859	-	-	-	-	-	205,193
Capital outlay	-	7,474	-	12,347	-	62,401	-	-	-	-	301,147
Debt service	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-	-	98,228
Interest and fiscal charges	-	-	-	-	-	-	-	-	-	-	152,322
Total expenditures	-	58,908	-	63,811	60,859	62,401	-	-	-	-	1,360,666
Revenue over (under) expenditures	2,340	25,065	34,118	95,640	86,703	-	31,241	-	-	-	601,790
<b>Other financing sources/(uses)</b>											
Operating transfers in/(out) - net	-	-	-	-	-	-	(31,241)	-	-	-	(111,013)
	-	-	-	-	-	-	(31,241)	-	-	-	(111,013)
<b>Change in Fund Balance</b>	2,340	25,065	34,118	95,640	86,703	-	-	-	-	-	490,777
<b>Fund Balance</b>											
Beginning of year	58,657	(138,067)	247,468	396,510	27,709	-	3,670	-	-	-	863,184
End of year	60,997	(113,002)	281,586	492,150	114,412	-	3,670	-	-	-	1,353,961

**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, 2016, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated August 29, 2016.

**Internal Control Over Financial Reporting**

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

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

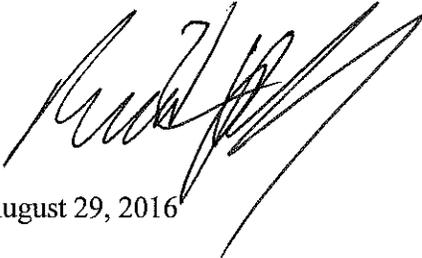
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

**Compliance and Other Matters**

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

## Purpose of this Report

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

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

August 29, 2016

**CITY OF KERMAN**

**MANAGEMENT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2016**

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

We have audited the financial statements of the City of Kerman, California (City) for the year ended June 30, 2016, and have issued our report thereon dated August 29, 2016. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles of the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal controls of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide assurance concerning such internal control.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

### Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in the notes to the financial statements.

We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance and consensus.

### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

- Management has determined the economic useful lives of fixed assets based on past history of similar types of assets, future plans as to their use, and other factors that impact their economic value to the District. We evaluated the key factors and assumptions used by management in computing depreciation expense and believe that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the net pension liability and related deferrals is based on actuarial valuations which include significant assumptions regarding discount rate, inflation, payroll growth, projected salary increases and investment rate of return. We evaluated the key factors and assumptions used to develop the liability and related deferrals in determining that it is reasonable in relation to the financial statements taken as a whole.

### Corrected and Uncorrected Misstatements

For purposes of this letter, professional standards define significant audit adjustments as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). We did not identify any significant audit adjustments.

### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

### Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. Our professional standards require a consulting accountant to check with us if a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements. This is to ensure that the consultant has all of the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

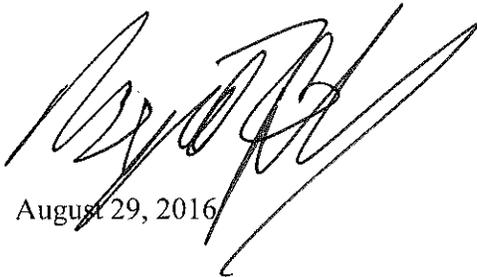
Management Representations

We have requested certain representations from management that are included in the management representation letter.

Other Audit Findings and Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This report is intended for the use of management, the City Council, and others within the organization, and it's not intended to be and should not be used by anyone other than these specified parties.

A large, stylized handwritten signature in black ink, appearing to be 'A. J. [unclear]', is written over the date.

August 29, 2016