

CITY OF KERMAN

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS JUNE 30, 2020

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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, 2020, 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, 2020, 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

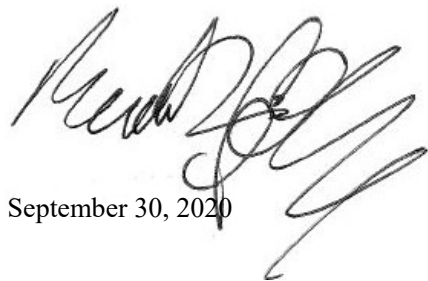
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, Schedule of Proportionate Share of Net Pension Liability and Schedule of Contributions on pages 3 - 11, page 50, and pages 51 - 52 be presented 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

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 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 September 30, 2020, 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 'M. J. [unclear]', is written over the date 'September 30, 2020'.

September 30, 2020

CITY OF KERMAN
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020

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, 2020. The discussion should be read in conjunction with the financial statements and the accompanying notes to those financial statements 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 the City of Kerman Statement of Net Position, Statement of Activities, and Statement of Revenue, Expenditures and Changes in Fund Balance. The statements are accompanied by footnotes, and required supplementary information, to clarify unique accounting policies and indicative financial 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 three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The City of Kerman maintains seventeen individual Governmental Funds. The Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other sixteen funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements on pages 53 - 56.

The City adopts an annual appropriated budget for the City's funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget and can be found on page 50. The basic governmental fund financial statements can be found on pages 14 - 17 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 the 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, 2020:

I. Statement of Net Position

Condensed Statement of Net Position

	2020	2019	
Assets	\$ 62,912,505	\$ 59,231,479	Government-wide total assets at fiscal year ending June 30, 2020 increased by \$3,681,026 which is 6.21% higher than fiscal year ending June 30, 2019.
Liabilities	\$ 12,748,725	\$ 12,887,563	Government-wide total liabilities at fiscal year ending June 30, 2020 decreased by \$138,838 which is 1.08% less than fiscal year ending June 30, 2019.
Net of Deferred Outflows/(Inflows) of Resources	\$ 1,107,356	\$ 1,127,379	Net of Deferred Outflows/(Inflows) of Resources - Result of GASB 68 requirement to record City's unfunded pension liability. The Net of Deferred Outflows/(Inflows) of Resource is \$1,107,356 which is a 1.78% decrease from fiscal year ending June 30, 2019. This net amount shows the necessary consumption of City net assets in order to comply with the pension liability in future reporting periods.
Net Position	\$ 51,271,136	\$ 47,471,295	The Net Position (Assets less Liabilities) less (Net of Deferred Outflows/Inflows) at fiscal year ending June 30, 2020 increased by \$3,799,841 which is 8.00% more than fiscal year ending June 30, 2019. The net position includes \$1,107,356 of deferred outflows/inflows of resources. Of the total amount \$6,579,718 is unrestricted which is available to meet the City's ongoing commitments to citizens and creditors.

Statement of Net Position (Detail)

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Assets:						
Current and other assets	\$10,570,243	\$ 7,971,379	\$ 6,034,399	\$ 5,335,862	\$16,604,642	\$13,307,241
Capital assets	28,496,017	28,046,353	17,811,846	17,877,885	46,307,863	45,924,238
Total Assets	39,066,260	36,017,732	23,846,245	23,213,747	62,912,505	59,231,479
Deferred Outflows of Resources:						
Total deferred outflows of resources	1,207,298	1,258,980	190,945	193,990	1,398,243	1,452,970
Liabilities:						
Current and other liabilities	679,579	753,987	491,550	453,454	1,171,129	1,207,441
Long-term liabilities	6,464,094	6,192,115	5,113,502	5,488,007	11,577,596	11,680,122
Total Liabilities	7,143,673	6,946,102	5,605,052	5,941,461	12,748,725	12,887,563
Deferred Inflows of Resources:						
Total deferred inflows of resources	230,615	216,593	60,272	59,599	290,887	276,192
Net Assets:						
Investment in capital assets,	25,571,620	25,007,685	13,373,804	12,971,680	38,945,424	37,979,365
Restricted	3,439,336	2,821,772	2,306,658	2,185,560	5,745,994	5,007,332
Unrestricted	3,888,314	2,235,161	2,691,404	2,249,437	6,579,718	4,484,598
Total Net Position	\$32,899,270	\$30,064,618	\$18,371,866	\$17,406,677	\$51,271,136	\$47,471,295

Of the total net position, \$38,945,424 or 76.00% 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 inflows of resources (liability). The net amount is \$1,107,356. The City's total net pension liability is \$3,640,588 which increased from \$3,221,609 in Fiscal Year 2018-2019.

Most of all 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 \$5,745,994 or 11.21% 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 is \$6,579,718 or 12.83% of the total net position. While the business-type activities account for \$2,691,404 or 40.90% 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 \$32,899,270 or 64.17% of the total Government-wide net position. This is an increase of \$2,834,652 or 9.43% over the June 30, 2019 governmental activities net position ending balance.

II. Statement of Activities

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

	2020	2019
Operating Revenues	\$ 17,574,310	\$ 16,240,786
Operating Expenses	13,774,469	12,735,221
Increase in Net Position	3,799,841	3,505,565
Net Position, Beginning of Year	47,471,295	43,965,730
Net Position, End of Year	<u>\$ 51,271,136</u>	<u>\$ 47,471,295</u>

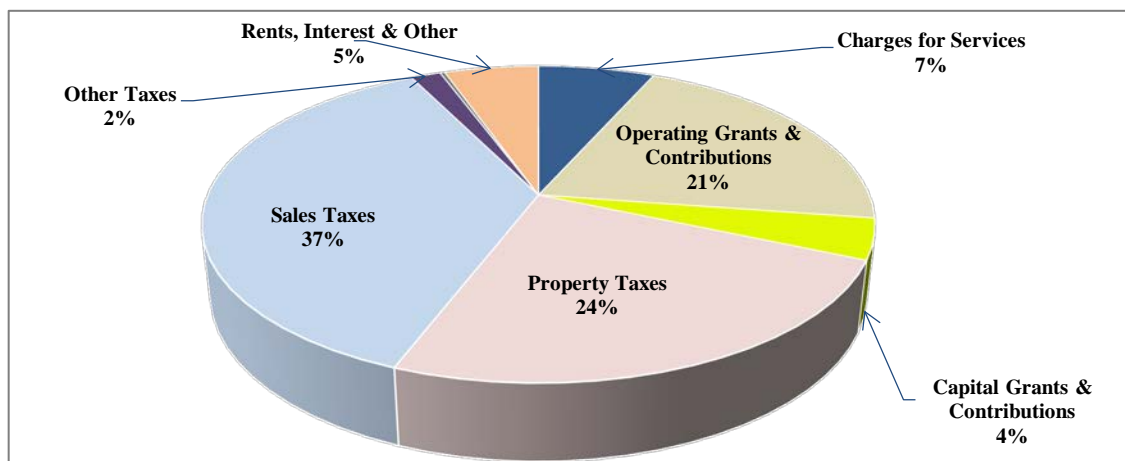
Statement of Revenues, Expenses and Change in Net Assets (Detail)

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues						
Program Revenues:						
Charges for Services	\$ 778,438	\$ 634,964	\$ 5,343,404	\$ 4,861,358	\$ 6,121,842	\$ 5,496,322
Operating Grants & Contributions	2,414,245	2,803,163	5,000	5,000	2,419,245	2,808,163
Capital Grants & Contributions	483,512	1,154,878	443,519	345,247	927,031	1,500,125
General Revenues:						
Property Taxes	2,844,900	2,810,843			2,844,900	2,810,843
Sales Taxes	4,291,380	2,651,504			4,291,380	2,651,504
Other Taxes	198,422	184,540			198,422	184,540
Transfers	(31,283)	(760,644)	31,283	760,644	-	-
Rents, Interest & Other	631,394	669,056	140,096	120,233	771,490	789,289
Total Revenues	11,611,008	10,148,304	5,963,302	6,092,482	17,574,310	16,240,786
Expenses:						
General Government	1,525,459	1,407,786			1,525,459	1,407,786
Public Safety	3,588,439	1,863,807			3,588,439	1,863,807
Social Services	897,909	583,658			897,909	583,658
Public Works	2,072,517	909,983			2,072,517	909,983
Community Development	556,947	3,248,791			556,947	3,248,791
Interest & Fiscal Charges	135,085	139,487			135,085	139,487
Water		-	1,781,327	1,635,756	1,781,327	1,635,756
Sewer		-	1,718,705	1,601,453	1,718,705	1,601,453
Disposal		-	1,408,092	1,268,946	1,408,092	1,268,946
Storm Drain		-	89,989	75,554	89,989	75,554
Total Expenses	8,776,356	8,153,512	4,998,113	4,581,709	13,774,469	12,735,221
Increase in Net Position	2,834,652	1,994,792	965,189	1,510,773	3,799,841	3,505,565
Net Position - Beginning	30,064,618	28,069,826	17,406,677	15,895,904	47,471,295	43,965,730
Net Position - Ending	<u>\$ 32,899,270</u>	<u>\$ 30,064,618</u>	<u>\$ 18,371,866</u>	<u>\$ 17,406,677</u>	<u>\$ 51,271,136</u>	<u>\$ 47,471,295</u>

Total governmental revenues for the year were \$11,611,008 with charges for services comprising of 6.70% of the total revenue. Taxes, which include property, sales, and other taxes, account for \$7,334,702 or 63.17% of the City's governmental activities revenue.

Total governmental expenses for the year were \$8,776,356. Public Safety accounts for \$3,588,439 or 40.89% of the total governmental activities(expenses), followed by Public Works, General Government, Social Services and Community Development with \$2,072,517, \$1,525,459, \$897,909 and \$556,947 or 23.61%, 17.38%, 10.23%, and 6.35% respectively.

Revenues by Source-Governmental Activities

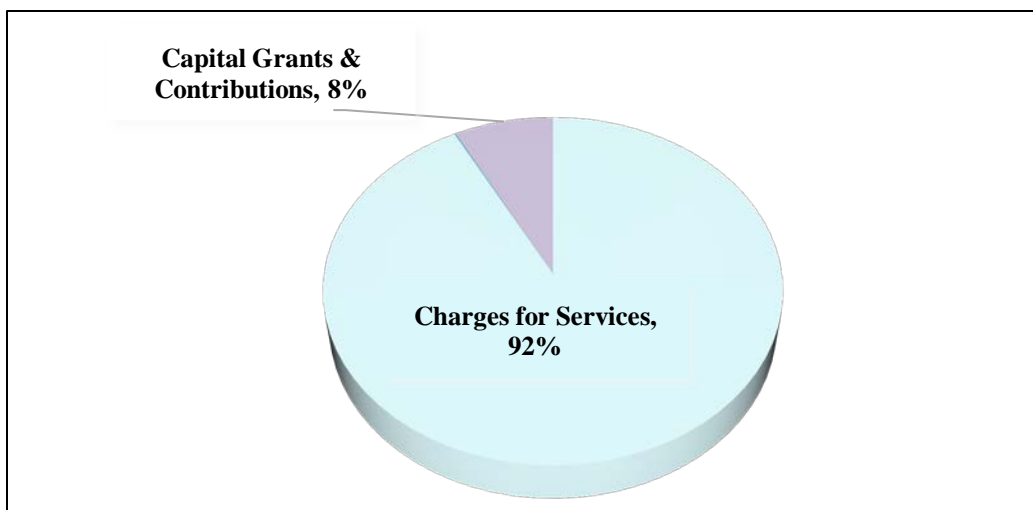


Program revenues which include charges for services, grant revenues, and developer capital contributions account for \$3,676,195 or approximately 31.66% of the total governmental activities' revenue. The amounts necessary to fully fund the governmental activities programs are made up by "general" revenues such as taxes, interest, and developer fees.

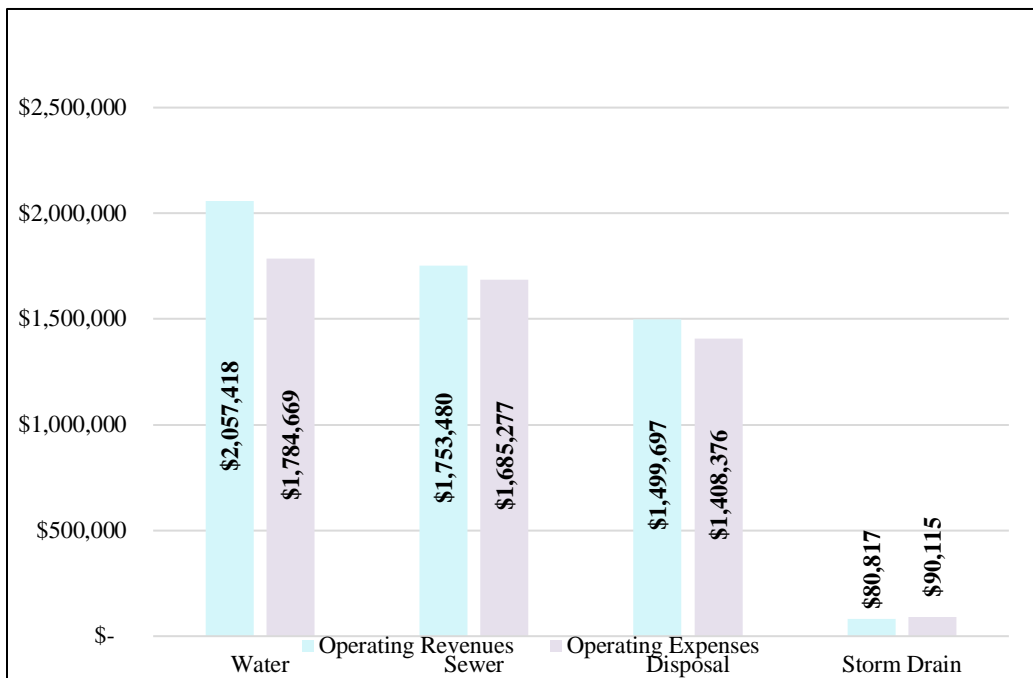
Business-Type Activities

Business-type activities account for \$18,371,866 or 35.83% of the total Government-wide net position. This is an increase of \$965,189 or 5.54% compared to June 30, 2019. Charges for current services account for \$5,343,404 or 92.26% of the total business-type activities 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, above, it can be noted that Water, Sewer, and Disposal operating revenues exceeded operating expenses and were sufficient to cover the on-going operational costs. Storm Drain in contrast, the operating expenses exceeded the revenue; therefore, the reserves will be covering this excess. The combined enterprise funds operating income for

Fiscal Year ending June 30, 2020, is \$422,975, an increase of \$52,552 or 14.19% compared to Fiscal Year 18-19.

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 \$10,000,052, which is an increase of \$2,758,963 or 38.10% when compared to the prior-year balance. Of the total fund balance, \$3,208,953 or 16.89% 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 restricted and committed for the following:

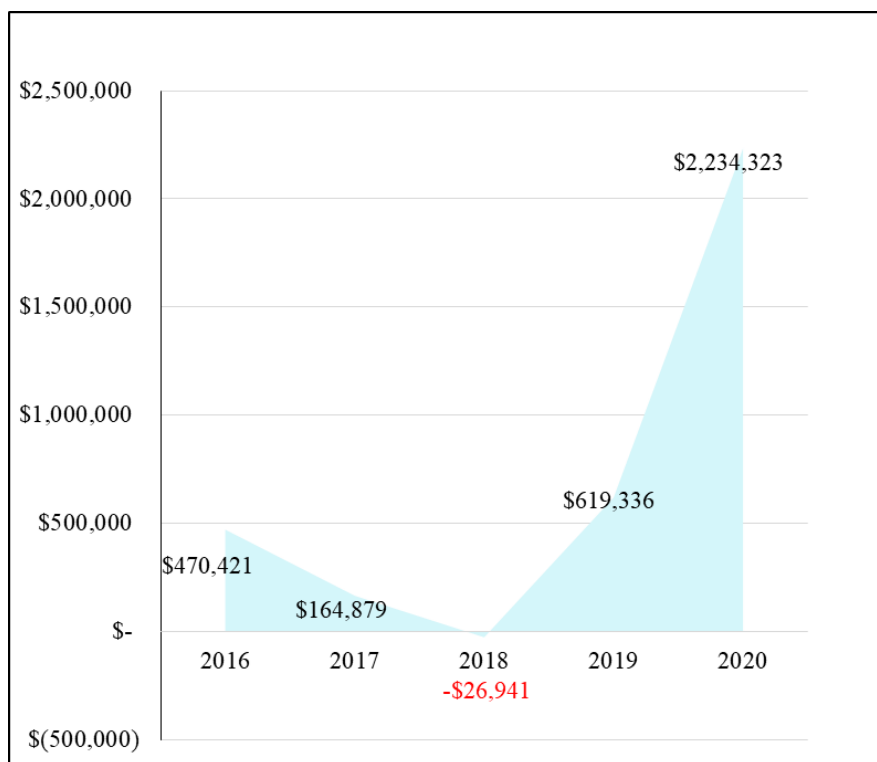
Restricted		Committed	
Circulation Improvements	\$ 1,718,050	Unfunded Liability	\$ 100,000
Development Activities	1,721,286	Emergency Reserve	1,478,074
		Revenue Stability Reserve	886,845
		Major Asset Repair & Replacement Reserve	886,845

The General Fund is the chief operating fund of the City. As of June 30, 2020, the total fund balance of the General Fund was \$6,660,919 with the unassigned fund balance of \$3,309,156. The general fund total fund balance increased by \$2,234,323 or 50.47% from the previous fiscal year. The unassigned portion, as indicated, is available for spending at the City's discretion.

Below is a chart showing five years of historical fund balance growth for the General Fund (GF).

Historical Fund Balance Growth (5 Years)-General Fund

The General Fund (GF) fund balance from 2016 to 2017 started to decrease until encounter the deficit faced in 2018 for the first time in more than four years, a deficit of \$26,941. However, in Fiscal Year 18-19, the GF got out of the deficit and generate a surplus of \$619,336. In Fiscal Year 19-20, the GF created a surplus



and an increase in the Fund Balance of \$2,234,323 or 50.47%. This surplus is mainly generated due to the approval of Measure M, a 1% sales & use tax, an increase in property taxes and the reschedule of capital expenditures committed to be developed with measure M funds.

The increase in the General Fund Balance indicates that the GF had more revenues and transfers in than expenditures and transfers out. The original 2019/2020 budget allowed for a \$339,060 net decrease to the fund balance. However, the actual year-end result from current year activity was a \$2,234,316 net increase to the General Fund, after capital outlay expenditures of \$138,988 (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 position. The internal service funds experienced a decrease in unrestricted net position of \$26,817, creating a reduction in its net position of 3.22% (page 19).

General Fund Budgetary Highlights

The Statement of Revenues, Expenditures and Changes in Fund Balance-Budget to Actual of the General Fund on page 50 outlines the differences between the budget and actual numbers. The City collected \$910,830 or 12.26% more total revenues and incurred \$1,659,719 or 21.92% less of total expenditures than the final budget appropriations. Revenues exceeded expenditures by \$2,428,235, and the transfer out of \$193,919 created a net increase in the General Fund Balance by \$2,234,316.

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, 2020, amounts to \$46,307,863 (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:

Land	\$ 76,444	Infrastructure Improvements	\$589,989
Building Improvements	2,367,614	Construction in Progress (CIP)	552,054
Machinery and Equipment	295,611		

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

Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 2,378,457	\$ 2,302,013	\$ 3,383,589	\$ 3,383,589	\$ 5,762,046	\$ 5,685,602
Buildings and Improvements	5,605,996	5,709,004	9,873,125	8,561,173	15,479,121	14,270,177
Machinery and Equipment	951,343	917,275	1,517,682	1,482,885	2,469,025	2,400,160
Construction in Progress	1,500,953	1,153,312	3,037,450	4,450,238	4,538,403	5,603,550
Infrastructure	18,059,268	17,964,749			18,059,268	17,964,749
Total	\$ 28,496,017	\$ 28,046,353	\$ 17,811,846	\$ 17,877,885	\$ 46,307,863	\$ 45,924,238

Long-term Debt. The City's long-term debt as of June 30, 2020 was \$7,362,439 with governmental activities accounting for \$2,924,397 or 39.72% and business-type activities accounting for \$4,438,042 or 60.28%.

	Long Term Debt					
	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Note Payable, CA Energy Comm.	\$ 19,397	\$ 28,668			\$ 19,397	\$ 28,668
Bonds Payable, Sewer			3,286	63,285	3,286	63,285
Note Payable, CA Dept Water Conserv.			1,319,999	1,484,999	1,319,999	1,484,999
Note Payable, CA Dept Water Conserv.			3,114,757	3,357,921	3,114,757	3,357,921
Kerman PFA Lease/Rev Bonds	2,905,000	3,010,000			2,905,000	3,010,000
Total	\$ 2,924,397	\$ 3,038,668	\$ 4,438,042	\$ 4,906,205	\$ 7,362,439	\$ 7,944,873

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

Economic Factors and Next Year's Budgets

The City of Kerman continues growing in population; as of January 1st, 2020, the City's population increased by 1.16% from 15,767 to 15,950, according to the California Department of Finance. The City foresees an optimistic future for our community. Although the pandemic of 2020 affected many cities in the state, the City of Kerman was blessed to face only a small reduction in general sales taxes of less than 10% due to the Top 10 business type generators of sales tax revenue within the City. The City envisions the same or a close behavior of the sales and property taxes at the end of Fiscal Year 2020 for the new Fiscal Year 2021. The CalPERS Unfunded Liability and the continuous rising of health costs continue being a fiscal challenge for the City. However, with the add-on of the general sales tax passed in November 2018 (1% sale & use tax increase). The City developed a plan to enhance the quality of life in the City and attract people and business to invest their life in the City by investing in capital projects such the Animal Shelter, 30 Acres Community Park, a multigenerational center, and a police station with dedicated space for public and health-related issues.

City leaders and the community share the vision of the greater future for the City. The approval of the annexation process and the general plan in 2020 clearly prove this vision.

The Federal Reserve acted by moving near-zero interest rate policy and committed itself to support the corporate bond market, among other actions, and the congress approval of the \$1.8 trillion CARES Act. A recovery is eventually forecasted, but it's expected to be moderate. It could be a while for the GDP and employment levels to reach 2019 levels, as the debt buildup in both the private and public sectors diminish the production.

"The California economy is full of uncertainty due to COVID19", according to Jerry Nickelsburg, director of the UCLA Anderson Forecast released in June 2020. The unemployment rate is expected to decline for the years 2020, 2021, and 2022, with an average rate forecast at 10.5%, 8.2 %, and 6.8%, respectively. Nonetheless, with the like-recession we face today, the continued demand for limited housing stock, and lower interest rates, a rapid return of homebuilding should be seen relative sooner. The forecast expectations are for 94,000 new units in 2020, a 17.3% decline from 2019.

Total citywide revenue budgeted for the fiscal year 2020-2021 is \$19,830,132, with expenditures budgeted at \$39,824,014, of which \$21,689,899 is dedicated to 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, by mail at 850 S. Madera Avenue, Kerman, CA 93630.

CITY OF KERMAN

STATEMENT OF NET POSITION JUNE 30, 2020

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 7,896,446	\$ 5,816,465	\$ 13,712,911
Accounts receivable, net	23,211	87,384	110,595
Prepays	1,034	3,909	4,943
Taxes receivable	1,009,923	-	1,009,923
Due from other governments	1,746,621	-	1,746,621
Interest receivable	19,649	-	19,649
Internal balances	(126,641)	126,641	-
Capital assets, net of allowance for depreciation	28,496,017	17,811,846	46,307,863
Total assets	39,066,260	23,846,245	62,912,505
DEFERRED OUTFLOWS OF RESOURCES			
Total deferred outflows of resources	1,207,298	190,945	1,398,243
LIABILITIES			
Accounts payable and accrued expense	633,607	350,421	984,028
Accrued interest payable	33,346	25,075	58,421
Deposits payable	9,379	116,054	125,433
Unearned revenues	3,247	-	3,247
Long-term liabilities			
Due within one year	119,554	413,881	533,435
Due in more than one year	2,804,843	4,024,161	6,829,004
Compensated absences	440,116	134,453	574,569
Net pension liability	3,099,581	541,007	3,640,588
Total liabilities	7,143,673	5,605,052	12,748,725
DEFERRED INFLOWS OF RESOURCES			
Total deferred inflows of resources	230,615	60,272	290,887
NET POSITION			
Net investment in capital assets	25,571,620	13,373,804	38,945,424
Restricted for specific projects and programs	3,439,336	-	3,439,336
Restricted for capital improvements	-	2,306,658	2,306,658
Unrestricted	3,888,314	2,691,404	6,579,718
Total net position	\$ 32,899,270	\$ 18,371,866	\$ 51,271,136

CITY OF KERMAN

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2020

Functions/Programs	Expense	Program Revenue			Net Revenue/(Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 1,525,459	\$ -	\$ 136,178	\$ -	\$ (1,389,281)	\$ -	\$ (1,389,281)
Public works	2,072,517	-	1,914,077	201,625	43,185	-	43,185
Community development	556,947	464,354	107,920	281,887	297,214	-	297,214
Social services	897,909	30,299	15,654	-	(851,956)	-	(851,956)
Public safety	3,588,439	283,785	240,416	-	(3,064,238)	-	(3,064,238)
Debt Service							
Interest and fiscal charges	135,085	-	-	-	(135,085)	-	(135,085)
Total governmental activities	8,776,356	778,438	2,414,245	483,512	(5,100,161)	-	(5,100,161)
Business-type activities							
Water	1,781,327	2,055,555	-	266,292	-	540,520	540,520
Sewer	1,718,705	1,723,309	-	147,287	-	151,891	151,891
Disposal	1,408,092	1,484,803	5,000	-	-	81,711	81,711
Storm Drain	89,989	79,737	-	29,940	-	19,688	19,688
Total business-type activities	4,998,113	5,343,404	5,000	443,519	-	793,810	793,810
Total primary government	\$ 13,774,469	\$ 6,121,842	\$ 2,419,245	\$ 927,031	(5,100,161)	793,810	(4,306,351)
General Revenue							
Property taxes					2,607,496	-	2,607,496
Special assessments					237,404	-	237,404
Sales taxes					4,291,380	-	4,291,380
Franchise and other taxes					127,452	-	127,452
Business licenses					70,970	-	70,970
Rents					374,787	9,431	384,218
Interest income					147,952	92,088	240,040
Other					108,655	38,577	147,232
Transfers					(31,283)	31,283	-
Total general revenue and transfers					7,934,813	171,379	8,106,192
Change in Net Position					2,834,652	965,189	3,799,841
Net Position							
Beginning of year					30,064,618	17,406,677	47,471,295
End of year					<u>\$ 32,899,270</u>	<u>\$ 18,371,866</u>	<u>\$ 51,271,136</u>

See accompanying notes.

CITY OF KERMAN

BALANCE SHEET – GOVERNMENTAL FUNDS JUNE 30, 2020

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and investments	\$ 4,457,333	\$ 3,211,158	\$ 7,668,491
Accounts receivable	22,211	-	22,211
Taxes receivable	1,009,923	-	1,009,923
Prepays	1,034	-	1,034
Due from other governments	52,440	1,694,181	1,746,621
Interest receivable	19,649	-	19,649
Due from other funds	1,446,853	-	1,446,853
Total assets	<u>7,009,443</u>	<u>4,905,339</u>	<u>11,914,782</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable and accrued expense	335,898	119,353	455,251
Due to other funds	-	1,446,853	1,446,853
Deposits and other liabilities	9,379	-	9,379
Unearned revenues	3,247	-	3,247
Total liabilities	<u>348,524</u>	<u>1,566,206</u>	<u>1,914,730</u>
Fund Balance			
Restricted			
Circulation improvements	-	1,718,050	1,718,050
Development activities	-	1,721,286	1,721,286
Committed			
Unfunded liability	100,000	-	100,000
Emergency reserve	1,478,074	-	1,478,074
Revenue stability reserve	886,845	-	886,845
Major asset repair and replacement reserve	886,845	-	886,845
Unassigned	3,309,156	(100,203)	3,208,953
Total fund balance	<u>6,660,919</u>	<u>3,339,133</u>	<u>10,000,052</u>
Total liabilities and fund balance	<u>\$ 7,009,443</u>	<u>\$ 4,905,339</u>	<u>\$ 11,914,782</u>

CITY OF KERMAN

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2020

Total governmental fund balance	\$ 10,000,052
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	27,740,761
Net pension liability applicable to governmental activities are not due and payable in the current period and accordingly is not reported in the funds	(3,099,581)
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	1,207,298
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	(230,615)
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(2,924,397)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(440,116)
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	(33,346)
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>679,214</u>
Net position of governmental activities	<u><u>\$ 32,899,270</u></u>

CITY OF KERMAN

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2020

	General	Other Governmental Funds	Total Governmental Funds
Revenue			
Taxes	\$ 6,737,248	\$ 505,775	\$ 7,243,023
Licenses, permits and impact fees	599,114	275,157	874,271
Intergovernmental	474,459	2,224,632	2,699,091
Charges for services	210,877	3,523	214,400
Fines and forfeitures	33,886	-	33,886
Rents	132,920	241,867	374,787
Investment earning, net of unrealized gain/(loss)	97,160	50,794	147,954
Other	54,876	-	54,876
Total revenue	<u>8,340,540</u>	<u>3,301,748</u>	<u>11,642,288</u>
Expenditures			
Current			
General government	617,833	-	617,833
Public works	811,115	786,302	1,597,417
Community development	503,717	53,230	556,947
Social services	623,057	135,145	758,202
Public safety	3,217,594	-	3,217,594
Capital outlay	138,981	991,912	1,130,893
Debt Service			
Principal	-	114,271	114,271
Interest and fiscal charges	-	136,161	136,161
Total expenditures	<u>5,912,297</u>	<u>2,217,021</u>	<u>8,129,318</u>
Revenue over/(under) expenditures	2,428,243	1,084,727	3,512,970
Other Financing Sources/(Uses)			
Transfers in/(out) - net	<u>(193,920)</u>	<u>(560,087)</u>	<u>(754,007)</u>
	<u>(193,920)</u>	<u>(560,087)</u>	<u>(754,007)</u>
Change in Fund Balance	2,234,323	524,640	2,758,963
Fund Balance			
Beginning of year	<u>4,426,596</u>	<u>2,814,493</u>	<u>7,241,089</u>
End of year	<u>\$ 6,660,919</u>	<u>\$ 3,339,133</u>	<u>\$ 10,000,052</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, 2020

Net change in fund balance - total governmental funds \$ 2,758,963

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	1,130,899
Depreciation expense not reported in governmental funds	<u>(734,118)</u>
	396,781
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	114,271
Pension expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the Governmental Funds	(372,778)
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	(33,884)
In the Statement of Activities interest is accrued on long-term debt, whereas, in governmental funds interest expenditure is reported when due	1,076
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>(29,777)</u>
Change in net position of governmental activities	<u>\$ 2,834,652</u>

CITY OF KERMAN

STATEMENT OF NET POSITION – PROPRIETARY FUNDS JUNE 30, 2020

	Business-Type Activities - Enterprise Funds					Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain	Total Proprietary Funds	
ASSETS						
Current assets						
Cash and investments	\$ 2,938,236	\$ 2,181,600	\$ 520,202	\$ 176,427	\$ 5,816,465	\$ 227,955
Accounts receivable, net	29,394	32,959	23,332	1,699	87,384	1,000
Prepays	3,909	-	-	-	3,909	-
Total current assets	2,971,539	2,214,559	543,534	178,126	5,907,758	228,955
Non-current assets						
Property, plant and equipment, net of allowance for depreciation	7,149,123	9,580,964	5,542	1,076,217	17,811,846	755,256
Total assets	10,120,662	11,795,523	549,076	1,254,343	23,719,604	984,211
DEFERRED OUTFLOWS OF RESOURCES	90,222	72,167	23,531	5,025	190,945	-
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	177,783	52,877	103,451	16,310	350,421	178,356
Accrued interest payable	-	25,075	-	-	25,075	-
Deposits	116,054	-	-	-	116,054	-
Current portion of long-term debt	410,595	3,286	-	-	413,881	-
Total current liabilities	704,432	81,238	103,451	16,310	905,431	178,356
Non-current liabilities						
Long-term debt	909,404	3,114,757	-	-	4,024,161	-
Compensated absences	66,700	51,931	15,822	-	134,453	-
Net pension liability	255,632	204,475	66,672	14,228	541,007	-
Total noncurrent liabilities	1,231,736	3,371,163	82,494	14,228	4,699,621	-
Total liabilities	1,936,168	3,452,401	185,945	30,538	5,605,052	178,356
DEFERRED INFLOWS OF RESOURCES	28,480	22,780	7,427	1,585	60,272	-
NET POSITION						
Net investment in capital assets	5,829,124	6,462,921	5,542	1,076,217	13,373,804	755,256
Restricted for capital improvements	1,895,776	300,644	-	110,238	2,306,658	-
Unrestricted/(deficit)	521,336	1,628,944	373,693	40,790	2,564,763	50,599
Total net position	\$ 8,246,236	\$ 8,392,509	\$ 379,235	\$ 1,227,245	18,245,225	\$ 805,855
Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds					126,641	
Net position of business-type activities					\$ 18,371,866	

See accompanying notes.

CITY OF KERMAN

STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2020

	Business-Type Activities - Enterprise Funds				Total Proprietary Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain		
Operating Revenue						
Charges for services	\$ 1,997,498	\$ 1,703,233	\$ 1,472,135	\$ 79,737	\$ 5,252,603	\$ -
Other revenues	59,920	50,247	27,562	1,080	138,809	2,542
Total operating income	<u>2,057,418</u>	<u>1,753,480</u>	<u>1,499,697</u>	<u>80,817</u>	<u>5,391,412</u>	<u>2,542</u>
Operating Expense						
Contractual services and utilities	423,125	280,416	1,147,066	1,575	1,852,182	60,743
Personnel	833,526	672,527	222,606	56,326	1,784,985	162,697
Supplies and materials	172,604	167,595	38,076	14,158	392,433	334,351
Depreciation	355,414	564,739	628	18,056	938,837	207,932
Total operating expense	<u>1,784,669</u>	<u>1,685,277</u>	<u>1,408,376</u>	<u>90,115</u>	<u>4,968,437</u>	<u>765,723</u>
Operating income/(loss)	<u>272,749</u>	<u>68,203</u>	<u>91,321</u>	<u>(9,298)</u>	<u>422,975</u>	<u>(763,181)</u>
Nonoperating Revenue/(Expense)						
Intergovernmental	-	-	5,000	-	5,000	-
Development impact fees	266,292	147,287	-	29,940	443,519	-
Interest income	46,424	34,234	8,538	2,892	92,088	13,640
Interest expense	-	(36,743)	-	-	(36,743)	-
Total nonoperating revenue/(expense)	<u>312,716</u>	<u>144,778</u>	<u>13,538</u>	<u>32,832</u>	<u>503,864</u>	<u>13,640</u>
Net income/(loss) before transfers	585,465	212,981	104,859	23,534	926,839	(749,541)
Operating Transfers In/(Out)	<u>219,227</u>	<u>(84,771)</u>	<u>(87,597)</u>	<u>(15,576)</u>	<u>31,283</u>	<u>722,724</u>
Change in Net Position	<u>804,692</u>	<u>128,210</u>	<u>17,262</u>	<u>7,958</u>	<u>958,122</u>	<u>(26,817)</u>
Net Position						
Beginning of year	7,441,544	8,264,299	361,973	1,219,287	17,287,103	832,672
End of year	<u>\$ 8,246,236</u>	<u>\$ 8,392,509</u>	<u>\$ 379,235</u>	<u>\$ 1,227,245</u>	<u>\$ 18,245,225</u>	<u>\$ 805,855</u>
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds					<u>7,067</u>	
Change in net position of business-type activities (Page 13)					<u>\$ 965,189</u>	

CITY OF KERMAN

STATEMENT OF CASH FLOW - PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2020

	Business-Type Activities - Enterprise Funds					Governmental
					Total	Activities
	Water	Sewer	Disposal	Storm Drain	Proprietary	Internal
					Funds	Service Fund
ASSETS						
Current assets						
Cash and investments	\$ 2,938,236	\$ 2,181,600	\$ 520,202	\$ 176,427	\$ 5,816,465	\$ 227,955
Accounts receivable, net	29,394	32,959	23,332	1,699	87,384	1,000
Prepays	3,909	-	-	-	3,909	-
Total current assets	2,971,539	2,214,559	543,534	178,126	5,907,758	228,955
Non-current assets						
Property, plant and equipment, net of allowance for depreciation	7,149,123	9,580,964	5,542	1,076,217	17,811,846	755,256
Total assets	10,120,662	11,795,523	549,076	1,254,343	23,719,604	984,211
DEFERRED OUTFLOWS OF RESOURCES						
	90,222	72,167	23,531	5,025	190,945	-
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	177,783	52,877	103,451	16,310	350,421	178,356
Accrued interest payable	-	25,075	-	-	25,075	-
Deposits	116,054	-	-	-	116,054	-
Current portion of long-term debt	410,595	3,286	-	-	413,881	-
Total current liabilities	704,432	81,238	103,451	16,310	905,431	178,356
Non-current liabilities						
Long-term debt	909,404	3,114,757	-	-	4,024,161	-
Compensated absences	66,700	51,931	15,822	-	134,453	-
Net pension liability	255,632	204,475	66,672	14,228	541,007	-
Total noncurrent liabilities	1,231,736	3,371,163	82,494	14,228	4,699,621	-
Total liabilities	1,936,168	3,452,401	185,945	30,538	5,605,052	178,356
DEFERRED INFLOWS OF RESOURCES						
	28,480	22,780	7,427	1,585	60,272	-
NET POSITION						
Net investment in capital assets	5,829,124	6,462,921	5,542	1,076,217	13,373,804	755,256
Restricted for capital improvements	1,895,776	300,644	-	110,238	2,306,658	-
Unrestricted/(deficit)	521,336	1,628,944	373,693	40,790	2,564,763	50,599
Total net position	\$ 8,246,236	\$ 8,392,509	\$ 379,235	\$ 1,227,245	18,245,225	\$ 805,855
Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds					126,641	
Net position of business-type activities					\$ 18,371,866	

See accompanying notes.

CITY OF KERMAN

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS JUNE 30, 2020

	<u>Agency Funds</u>
ASSETS	
Cash and investments	<u>\$ 313,343</u>
Total assets	<u> 313,343</u>
LIABILITIES	
Agency funds payable	<u>\$ 313,344</u>
Total liabilities	<u> 313,344</u>

CITY OF KERMAN

STATEMENT OF FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUNDS JUNE 30, 2020

	Redevelopment Successor Agency
Assets	
Cash and investments	\$ -
Total assets	-
Liabilities	
Unearned revenues	\$ -
Long-term debt	
Due within one year	-
Total liabilities	-
Net Position	
Held in trust for other governments	\$ -

CITY OF KERMAN

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND JUNE 30, 2020

	<u>Redevelopment Successor Agency</u>
Additions	
Property taxes	\$ -
Total additions	-
Deductions	
Administrative costs	-
Total deductions	-
Change In Net Position	-
Net Position	
Beginning of year	-
End of year	\$ -

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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, 2020

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.

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 Successor Agency.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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, 2020

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, 2020

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:

	Years
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, 2020

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, 2020

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, 2020

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, 2020 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$ 13,712,911
Fiduciary Funds:	
Cash and Investments	<u>313,343</u>
Total Cash and Investments	<u><u>\$ 14,026,254</u></u>

Cash and investments as of June 30, 2020 consist of the following:

Cash on hand	\$ 1,350
Deposits with Financial Institutions	10,668,786
Certificates of deposit	<u>3,356,118</u>
Total Cash and Investments	<u><u>\$ 14,026,254</u></u>

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2: Inputs to valuation methodology include inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within a fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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, 2020

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	\$ 3,356,118	\$ 1,591,464	\$ 620,196	\$ 1,144,458
Total	\$ 3,356,118	\$ 1,591,464	\$ 620,196	\$ 1,144,458

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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	\$ 3,356,118	N/A	\$ 3,356,118
Total	\$ 3,356,118		\$ 3,356,118

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, 2020.

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, 2020

Note 4 – Receivables

The following is a summary of receivables at June 30, 2020 for the City's individual major and non-major funds in the aggregate:

	<u>General</u>	<u>Other Governmental Funds</u>
Governmental Funds		
Accounts	\$ 22,211	\$ -
Taxes	1,009,923	-
Intergovernmental	52,440	1,694,181
Interest	19,649	-
	<u>\$ 1,104,223</u>	<u>\$ 1,694,181</u>

The following is a summary of receivables at June 30, 2020 for the City's individual enterprise funds, including the applicable allowances for uncollectible accounts are as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Disposal</u>	<u>Storm Drain</u>	<u>Internal Service</u>
Enterprise Funds					
Accounts	\$ 56,232	\$ 63,479	\$ 43,230	\$ 3,273	\$ 1,000
Gross receivables	56,232	63,479	43,230	3,273	1,000
Less: Allowance for uncollectible accounts	(26,838)	(30,520)	(19,898)	(1,574)	-
	<u>\$ 29,394</u>	<u>\$ 32,959</u>	<u>\$ 23,332</u>	<u>\$ 1,699</u>	<u>\$ 1,000</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

Note 5 – Capital Assets – Capital asset activities for the year ended June 30, 2020 were as follows:

	Balance July 1, 2019	Additions	Retirements	Balance June 30, 2020
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 2,302,013	\$ 76,444	\$ -	\$ 2,378,457
Construction in progress	1,153,312	443,752	(96,111)	1,500,953
Total capital assets, not being depreciated	<u>3,455,325</u>	<u>520,196</u>	<u>(96,111)</u>	<u>3,879,410</u>
Capital assets, being depreciated				
Buildings and improvements	8,306,124	116,826	-	8,422,950
Infrastructure	21,835,699	589,989	-	22,425,688
Machinery and equipment	2,779,931	260,814	(206,519)	2,834,226
Total capital assets, being depreciated	<u>32,921,754</u>	<u>967,629</u>	<u>(206,519)</u>	<u>33,682,864</u>
Less accumulated depreciation for				
Buildings and improvements	(2,597,120)	(219,834)	-	(2,816,954)
Infrastructure	(3,870,950)	(495,470)	-	(4,366,420)
Machinery and equipment	(1,862,656)	(226,746)	206,519	(1,882,883)
Total accumulated depreciation	<u>(8,330,726)</u>	<u>(942,050)</u>	<u>206,519</u>	<u>(9,066,257)</u>
Total capital assets, being depreciated, net	<u>24,591,028</u>	<u>25,579</u>	<u>-</u>	<u>24,616,607</u>
Governmental activities capital assets, net	<u>\$ 28,046,353</u>	<u>\$ 545,775</u>	<u>\$ (96,111)</u>	<u>\$ 28,496,017</u>
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 3,383,589	\$ -	\$ -	\$ 3,383,589
Construction in progress	4,450,238	108,302	(1,521,090)	3,037,450
Total capital assets, not being depreciated	<u>7,833,827</u>	<u>108,302</u>	<u>(1,521,090)</u>	<u>6,421,039</u>
Capital assets, being depreciated				
Buildings and improvements	20,491,121	2,250,788	-	22,741,909
Machinery and equipment	1,482,885	34,797	-	1,517,682
Total capital assets, being depreciated	<u>21,974,006</u>	<u>2,285,585</u>	<u>-</u>	<u>24,259,591</u>
Less: accumulated depreciation	<u>(11,929,948)</u>	<u>(938,836)</u>	<u>-</u>	<u>(12,868,784)</u>
Total capital assets, being depreciated, net	<u>10,044,058</u>	<u>1,346,749</u>	<u>-</u>	<u>11,390,807</u>
Business-type activities capital assets, net	<u>\$ 17,877,885</u>	<u>\$ 1,455,051</u>	<u>\$ (1,521,090)</u>	<u>\$ 17,811,846</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

Note 5 – Capital Assets (Continued)

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

Governmental Functions:

General Government	\$	106,948
Public Works and Community Development		499,433
Social Services		109,994
Public Safety		17,743
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the asset		207,932
	\$	<u>942,050</u>

Business-Type Functions:

Water	\$	355,414
Sewer		564,739
Storm Drain		18,056
	\$	<u>938,837</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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, 2020 was comprised of the following individual issues:

	Balance July 1, 2019	Additions	Retirements	Balance June 30, 2020	Current Portion
<u>Governmental Activity Long Term Debt</u>					
Notes Payable					
California Energy Commission	\$ 28,668	\$ -	\$ (9,271)	\$ 19,397	\$ 9,554
Kerman Public Finance Authority Bonds					
2007 Lease Revenue Bonds	3,010,000	-	(105,000)	2,905,000	110,000
Total Governmental Activity Debt	<u>\$ 3,038,668</u>	<u>\$ -</u>	<u>\$ (114,271)</u>	<u>\$ 2,924,397</u>	<u>\$ 119,554</u>
<u>Business-Type Activity Long Term Debt</u>					
Bonds Payable					
Sewer Revenue Bond	\$ 63,286	\$ -	\$ (60,000)	\$ 3,286	\$ 3,286
Notes Payable					
California Dept. of Water Resources	1,484,999	-	(165,000)	1,319,999	165,000
California Dept. of Water Resources	3,357,921	-	(243,164)	3,114,757	245,595
Total Business-Type Activity Debt	<u>\$ 4,906,206</u>	<u>\$ -</u>	<u>\$ (468,164)</u>	<u>\$ 4,438,042</u>	<u>\$ 413,881</u>
<u>Compensated Absences</u>					
Government Activities	<u>\$ 410,339</u>	<u>\$ 29,777</u>	<u>\$ -</u>	<u>\$ 440,116</u>	
Business-Type Activities	<u>\$ 103,301</u>	<u>\$ 31,152</u>	<u>\$ -</u>	<u>\$ 134,453</u>	

California Energy Commission Note Payable – In June of 2012, the City entered into a loan agreement for \$86,321 with the State of California Energy Commission to retrofit existing street lights with LED technology. Terms of the note call for semi-annual payments of \$5,032 including interest at 3.00%, which begins December 2012 and will mature in June 2022. The outstanding balance on the note at June 30, 2020 was \$19,397.

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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

Note 6 – Long-Term Debt (Continued)

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%.

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, 2020 was \$3,286.

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, 2020 was \$1,319,999.

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, 2020 was \$3,114,757.

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2020 were as follows:

Years ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2021	\$ 119,554	\$ 131,638	\$ 413,881	\$ 31,230
2022	124,843	126,737	413,051	28,692
2023	120,000	121,697	415,532	26,211
2024	125,000	116,488	418,037	23,706
2025	130,000	110,877	420,567	21,175
2026-2030	730,000	461,360	1,811,685	67,028
2029-2035	915,000	269,444	545,289	8,193
2036-2038	660,000	47,975	-	-
	<u>\$ 2,924,397</u>	<u>\$ 1,386,216</u>	<u>\$ 4,438,042</u>	<u>\$ 206,235</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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, 2020:

Capital Project Funds	
Public Building Facility	\$ (100,203)
	<u>\$ (100,203)</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, 2020 are as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 1,446,853	\$ -
Senior Center Fund	-	2,591
Public Building Facility Fund	-	98,994
Street Maintenance and Construction	-	54,257
Housing Grant	-	20,933
State Grants	-	1,270,078
	<u>\$ 1,446,853</u>	<u>\$ 1,446,853</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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>
Major Governmental Funds:		
General Fund	\$ -	\$ 193,920
Proprietary Funds:		
Water	219,227	-
Sewer	-	84,771
Disposal	-	87,597
Storm Drain	-	15,576
Internal Service	722,724	-
Nonmajor Governmental Funds:		
Measure C	-	43,417
Gas Tax	15,054	-
Senior Center	6,469	-
Maintenance District	-	33,760
Street Maintenance and Construction	-	-
State Grants	-	481,403
Transit	491	-
Local Transportation	-	23,521
	<u>\$ 963,965</u>	<u>\$ 963,965</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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, 2019 is as follows:

Total assets	\$ 128,442,162
Total liabilities	<u>109,661,346</u>
Net position	<u>\$ 18,780,816</u>
Total revenues	\$ 53,005,963
Total expenses	<u>52,250,549</u>
Increase/(decrease) in net position	<u>\$ 755,414</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, 2020

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 2019-20 pension contributions subsequent to measurement date	\$ 605,251
Difference between expected and actual experience	247,427
Change in employer's proportion	345,741
Change in assumptions	164,874
Difference in projected and actual contributions	<u>34,950</u>
Total deferred outflows of resources	<u>\$1,398,243</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:

Difference between expected and actual experience	\$ 12,577
Change in assumptions	49,931
Difference in projected and actual contributions	169,587
Net differences between projected and actual earnings on investments	<u>58,792</u>
Total deferred inflows of resources	<u>\$ 290,887</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, 2020 Miscellaneous Classic, PEPRM Miscellaneous, Safety Classic, and PEPRM Safety were 8.081%, 6.985%, 13.540%, and 10.216%, 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, 2020

Note 11 – Pension Plan (Continued)

The Plans' provisions and benefits in effect at June 30, 2020, are summarized as follows:

	Miscellaneous Classic	PEPRA Miscellaneous
	Prior to	On or after
Hire Date	January 1, 2013	January 1, 2013
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	8.08%	6.25%
Required Employer Contribution Rates	7.634%	6.985%

	Safety Classic	PEPRA Safety
	Prior to	On or after
Hire Date	January 1, 2013	January 1, 2013
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	13.540%	10.216%

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 the 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 District 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, 2020

Note 11 – Pension Plan (Continued)

For the year ended June 30, 2020, the contributions recognized as part of the pension expense is as follows:

Contributions – employer	\$ 605,251
Contributions – employee	\$ 296,475

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

As of June 30, 2020, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Plan	\$ 2,337,202
Safety Police Plan	1,303,386
Total Net Pension Liability	<u>\$ 3,640,588</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, 2019, 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, 2018 rolled forward to June 30, 2019 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, 2019 and 2020 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion – June 30, 2019	0.05485%	0.01968%
Proportion – June 30, 2020	<u>0.05836%</u>	<u>0.02088%</u>
Change – Increase/(Decrease)	0.00351%	0.00120%

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

Note 11 – Pension Plan (Continued)

For the year ended June 30, 2020, the City recognized pension expense of \$1,044,249. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 605,251	\$ -
Difference between expected and actual experience	247,427	(12,577)
Difference in projected and actual contributions	34,950	(169,587)
Change in employer's proportion	345,741	-
Changes in assumptions	164,874	(49,931)
Net differences between projected and actual earnings on pension plan investments	-	(58,792)
Total	<u>\$ 1,398,243</u>	<u>\$ (290,887)</u>

\$605,251 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, 2020. 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	
2021	\$ 398,178
2022	39,893
2023	52,285
2024	11,749
Thereafter	-

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

Note 11 – Pension Plan (Continued)

Actuarial Methods and Assumptions – The collective total pension liability for the June 30, 2019 measurement period was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. The collective total pension liability was based on the following assumptions:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	3.00%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership ¹ Date for all Funds
Post Retirement Benefit Increases	Contract COLA up to 2.5% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

¹ The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

All other actuarial assumptions used in the June 30, 2017 valuation was based on the results of a December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015), including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at CalPERS' website.

Change of assumptions – No changes in assumptions.

Discount rate – The discount rate used to measure the total pension liability for PERF C was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. 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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

Note 11 – Pension Plan (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. 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+ 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 for each fund. The expected rate of return was set by calculating the rounded 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 adjusted to account for assumed administrative expenses.

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, 2018.

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.

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 ¹	New Strategic Allocation	Real Return Years 1-10 ²	Real Return ³ Years 11+
Global Equity	50%	4.80%	5.98%
Fixed Income	28%	1.00%	2.62%
Inflation Assets	0%	0.77%	1.81%
Private Equity	8%	6.30%	7.23%
Real Estate	13%	3.75%	4.93%
Liquidity	2%	0.00%	-0.92%
Total	101%		

¹ In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities

² An expected inflation of 2.0% used for this period

³ An expected inflation of 2.92% used for this period

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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 (6.15%) or 1-percentage point higher (8.15%) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Net Pension Liability:			
Miscellaneous Plan	\$ 3,930,550	\$ 2,337,202	\$ 1,022,005
Safety Police Plan	\$ 2,158,260	\$ 1,303,386	\$ 602,522

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, 2020, the City has no outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

Note 12 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through September 30, 2020, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2020 that required recognition or disclosure in such financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KERMAN

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2020

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive/ (Negative)
Revenue				
Taxes	\$ 6,063,749	\$ 6,063,749	\$ 6,737,248	\$ 673,499
Licenses, permits and impact fees	520,073	520,073	599,114	79,041
Intergovernmental	358,271	358,271	474,459	116,188
Charges for services	236,873	236,873	210,877	(25,996)
Fines and forfeitures	27,123	27,123	33,886	6,763
Rents	142,630	142,630	132,920	(9,710)
Investment earning, net of unrealized gain/(35,000	35,000	97,160	62,160
Other	45,991	45,991	54,876	8,885
Total revenue	<u>7,429,710</u>	<u>7,429,710</u>	<u>8,340,540</u>	<u>910,830</u>
Expenditures				
Current				
General government	760,995	760,995	617,834	143,161
Public works	886,595	886,595	811,115	75,480
Community development	647,933	647,933	503,717	144,216
Social services	673,819	673,819	623,057	50,762
Public safety	3,580,281	3,580,281	3,217,594	362,687
Capital outlay	<u>1,022,400</u>	<u>1,022,400</u>	<u>138,988</u>	<u>883,412</u>
Total expenditures	<u>7,572,024</u>	<u>7,572,024</u>	<u>5,912,305</u>	<u>1,659,719</u>
Revenue over (under) expenditures	(142,314)	(142,314)	2,428,235	2,570,549
Other Financing Sources				
Transfers in (out) - net	<u>(196,746)</u>	<u>(196,746)</u>	<u>(193,919)</u>	<u>2,827</u>
Net Change in Fund Balance	<u>\$ (339,060)</u>	<u>\$ (339,060)</u>	<u>2,234,316</u>	<u>\$ 2,573,376</u>
Fund Balance				
Beginning of year			<u>4,426,603</u>	
End of year			<u>\$ 6,660,919</u>	

CITY OF KERMAN

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY LAST TEN YEARS* YEAR ENDED JUNE 30, 2020

	Safety					
	2015	2016	2017	2018	2019	2020
Proportion of the net pension liability	0.01281%	0.01575%	0.01854%	0.01899%	0.01968%	0.02088%
Proportionate share of the net pension liability	\$ 797,321	\$ 648,972	\$ 959,979	\$ 1,134,650	\$ 1,154,435	\$ 1,303,386
Covered - employee payroll	\$ 1,144,549	\$ 1,241,193	\$ 1,457,400	\$ 1,411,999	\$ 1,645,891	\$ 1,585,991
Proportionate share of the net pension liability as percentage of covered-employee payroll	69.66%	52.29%	65.87%	80.36%	70.14%	82.18%
Plan's fiduciary net position	\$ 4,290,975	\$ 3,869,632	\$ 3,916,861	\$ 4,136,749	\$ 4,431,768	\$ 4,934,602
Plan's fiduciary net position as a percentage of the Total Pension Liability	81.42%	85.62%	80.32%	78.48%	79.33%	79.11%

	Miscellaneous					
	2015	2016	2017	2018	2019	2020
Proportion of the net pension liability	0.02196%	0.04266%	0.04971%	0.05351%	0.05485%	0.05836%
Proportionate share of the net pension liability	\$ 1,366,654	\$ 1,170,147	\$ 1,726,827	\$ 2,109,314	\$ 2,067,174	\$ 2,337,202
Covered - employee payroll	\$ 2,046,348	\$ 1,858,214	\$ 2,065,491	\$ 2,138,981	\$ 2,009,964	\$ 2,297,565
Proportionate share of the net pension liability as percentage of covered-employee payroll	66.79%	62.97%	83.60%	98.61%	102.85%	101.73%
Plan's fiduciary net position	\$ 6,686,104	\$ 7,331,180	\$ 7,344,945	\$ 8,344,687	\$ 8,856,335	\$ 9,508,983
Plan's fiduciary net position as a percentage of the Total Pension Liability	83.03%	86.23%	80.96%	79.82%	81.08%	80.27%

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

Changes of Assumptions: None

CITY OF KERMAN

SCHEDULE OF CONTRIBUTIONS

LAST TEN YEARS*

YEAR ENDED JUNE 30, 2020

	Safety					
	2015	2016	2017	2018	2019	2020
Contractually required contribution (actuarially determined)	\$ 172,707	\$ 182,432	\$ 179,871	\$ 194,771	\$ 182,432	\$ 248,979
Contributions in relation to the actuarially determined contributions	(172,707)	(182,432)	(179,871)	(194,771)	(182,432)	(248,979)
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,144,549	\$ 1,241,193	\$ 1,457,400	\$ 1,411,999	\$ 1,645,891	\$ 1,585,991
Contributions as a percentage of covered-employee payroll	15.09%	14.70%	12.34%	13.79%	11.08%	15.70%
	Miscellaneous					
	2015	2016	2017	2018	2019	2020
Contractually required contribution (actuarially determined)	\$ 149,116	\$ 139,800	\$ 170,449	\$ 198,655	\$ 233,708	\$ 266,848
Contributions in relation to the actuarially determined contributions	(149,116)	(139,800)	(170,449)	(198,655)	(233,708)	(266,848)
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 2,046,348	\$ 1,858,214	\$ 2,065,491	\$ 2,138,981	\$ 2,009,964	\$ 2,297,565
Contributions as a percentage of covered-employee payroll	7.29%	7.52%	8.25%	9.29%	11.63%	11.61%

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

SUPPLEMENTAL ONLY INFORMATION

CITY OF KERMAN

COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS JUNE 30, 2020

	Special Revenue Funds							Debt Service Fund
	Measure C	Gas Tax	Senior Center	Maintenance District	Transit	SB1 Road Maintenance	Park Grants	Kerman Public Financing Authority
ASSETS								
Cash and investments	\$ 150,499	\$ 324,022	\$ -	\$ 188,596	\$ -	\$ 227,681	\$ -	\$ -
Due from other governments	26,657	-	2,591	-	-	40,982	22,983	-
Total assets	<u>\$ 177,156</u>	<u>\$ 324,022</u>	<u>\$ 2,591</u>	<u>\$ 188,596</u>	<u>\$ -</u>	<u>\$ 268,663</u>	<u>\$ 22,983</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts payable and accrued expense	\$ 10,730	\$ 5,274	\$ -	\$ 8,554	\$ -	\$ 5,371	\$ 2,050	\$ -
Due to other funds	-	-	2,591	-	-	-	20,933	-
Total liabilities	<u>10,730</u>	<u>5,274</u>	<u>2,591</u>	<u>8,554</u>	<u>-</u>	<u>5,371</u>	<u>22,983</u>	<u>-</u>
Fund Balance								
Restricted								
Circulation improvements	166,426	318,748	-	-	-	263,292	-	-
Development activities	-	-	-	180,042	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-
Total fund balance	<u>166,426</u>	<u>318,748</u>	<u>-</u>	<u>180,042</u>	<u>-</u>	<u>263,292</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 177,156</u>	<u>\$ 324,022</u>	<u>\$ 2,591</u>	<u>\$ 188,596</u>	<u>\$ -</u>	<u>\$ 268,663</u>	<u>\$ 22,983</u>	<u>\$ -</u>

CITY OF KERMAN

COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED) JUNE 30, 2020

	Capital Projects Funds								Total Non-major Governmental Funds
	Jobs/Housing Mitigation	Street Maintenance and Construction	Public Building Facility	Fire Facility	Street Projects & Development	Park Development	State Grants	Local Transportation	
ASSETS									
Cash and investments	\$ 65,999	\$ -	\$ -	\$ 473,804	\$ 412,126	\$ 593,981	\$ -	\$ 774,450	\$ 3,211,158
Due from other governments	-	62,792	-	-	-	132	1,328,801	209,243	1,694,181
Total assets	<u>\$ 65,999</u>	<u>\$ 62,792</u>	<u>\$ -</u>	<u>\$ 473,804</u>	<u>\$ 412,126</u>	<u>\$ 594,113</u>	<u>\$ 1,328,801</u>	<u>\$ 983,693</u>	<u>\$ 4,905,339</u>
LIABILITIES AND FUND BALANCE									
Liabilities									
Accounts payable and accrued expense	\$ -	\$ 8,535	\$ 1,209	\$ -	\$ 1,750	\$ 6,718	\$ 55,053	\$ 14,109	\$ 119,353
Due to other funds	-	54,257	98,994	-	-	-	1,270,078	-	1,446,853
Total liabilities	<u>-</u>	<u>62,792</u>	<u>100,203</u>	<u>-</u>	<u>1,750</u>	<u>6,718</u>	<u>1,325,131</u>	<u>14,109</u>	<u>1,566,206</u>
Fund Balance									
Restricted									
Circulation improvements	-	-	-	-	-	-	-	969,584	1,718,050
Development activities	65,999	-	-	473,804	410,376	587,395	3,670	-	1,721,286
Unassigned	-	-	(100,203)	-	-	-	-	-	(100,203)
Total fund balance	<u>65,999</u>	<u>-</u>	<u>(100,203)</u>	<u>473,804</u>	<u>410,376</u>	<u>587,395</u>	<u>3,670</u>	<u>969,584</u>	<u>3,339,133</u>
Total liabilities and fund balance	<u>\$ 65,999</u>	<u>\$ 62,792</u>	<u>\$ -</u>	<u>\$ 473,804</u>	<u>\$ 412,126</u>	<u>\$ 594,113</u>	<u>\$ 1,328,801</u>	<u>\$ 983,693</u>	<u>\$ 4,905,339</u>

CITY OF KERMAN

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE NON-MAJOR GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2020

	Special Revenue Funds							Debt Service Fund
	Measure C	Gas Tax	Senior Center	Maintenance District	Transit	SB1 Road Maintenance	Park Grants	Kerman Public Financing Authority
Revenue								
Taxes	\$ -	\$ -	\$ -	\$ 237,404	\$ -	\$ 268,371	\$ -	\$ -
Developer impact fees	-	-	-	-	-	-	-	-
Intergovernmental	437,436	351,243	8,000	-	70,477	-	49,952	-
Charges for services	-	-	2,655	-	868	-	-	-
Rents	-	-	-	-	-	-	-	241,867
Interest	2,424	4,628	-	2,596	-	3,031	-	-
Other	-	-	-	-	-	-	-	-
Total revenue	<u>439,860</u>	<u>355,871</u>	<u>10,655</u>	<u>240,000</u>	<u>71,345</u>	<u>271,402</u>	<u>49,952</u>	<u>241,867</u>
Expenditures								
Public works	309,429	69,082	-	184,844	-	(1)	-	-
Community development	-	-	-	-	-	-	-	1,500
Social services	-	-	17,124	-	77,071	-	-	-
Capital outlay	6,618	5,702	-	-	-	373,518	49,952	-
Debt service								
Principal	-	9,271	-	-	-	-	-	105,000
Interest and fiscal charges	-	794	-	-	-	-	-	135,367
Total expenditures	<u>316,047</u>	<u>84,849</u>	<u>17,124</u>	<u>184,844</u>	<u>77,071</u>	<u>373,517</u>	<u>49,952</u>	<u>241,867</u>
Revenue over (under) expenditures	123,813	271,022	(6,469)	55,156	(5,726)	(102,115)	-	-
Other financing sources/(uses)								
Operating transfers in/(out) - net	<u>(43,417)</u>	<u>15,054</u>	<u>6,469</u>	<u>(33,760)</u>	<u>491</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(43,417)</u>	<u>15,054</u>	<u>6,469</u>	<u>(33,760)</u>	<u>491</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balance	80,396	286,076	-	21,396	(5,235)	(102,115)	-	-
Fund Balance								
Beginning of year	<u>86,030</u>	<u>32,672</u>	<u>-</u>	<u>158,646</u>	<u>5,235</u>	<u>365,407</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ 166,426</u>	<u>\$ 318,748</u>	<u>\$ -</u>	<u>\$ 180,042</u>	<u>\$ -</u>	<u>\$ 263,292</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, 2020

	Capital Projects Funds								Total Non-major Governmental Funds
	Jobs/Housing Mitigation	Street Maintenance and Construction	Public Building Facility	Fire Facility	Street Projects & Development	Park Development	State Grants	Local Transportation	
Revenue									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 505,775
Developer impact fees	-	-	64,177	27,895	80,061	103,024	-	-	275,157
Intergovernmental	-	128,340	-	-	-	-	481,402	697,782	2,224,632
Charges for services	-	-	-	-	-	-	-	-	3,523
Rents	-	-	-	-	-	-	-	-	241,867
Interest	1,084	-	-	7,740	6,625	10,657	-	12,009	50,794
Other	-	-	-	-	-	-	-	-	-
Total revenue	<u>1,084</u>	<u>128,340</u>	<u>64,177</u>	<u>35,635</u>	<u>86,686</u>	<u>113,681</u>	<u>481,402</u>	<u>709,791</u>	<u>3,301,748</u>
Expenditures									
Public works	-	34,932	-	-	-	-	-	188,016	786,302
Community development	-	-	51,730	-	-	-	-	-	53,230
Social services	-	-	-	-	-	40,950	-	-	135,145
Capital outlay	-	93,408	106,321	-	2,495	122,573	-	231,325	991,912
Debt service									
Principal	-	-	-	-	-	-	-	-	114,271
Interest and fiscal charges	-	-	-	-	-	-	-	-	136,161
Total expenditures	<u>-</u>	<u>128,340</u>	<u>158,051</u>	<u>-</u>	<u>2,495</u>	<u>163,523</u>	<u>-</u>	<u>419,341</u>	<u>2,217,021</u>
Revenue over (under) expenditures	1,084	-	(93,874)	35,635	84,191	(49,842)	481,402	290,450	1,084,727
Other financing sources/(uses)									
Operating transfers in/(out) - net	<u>-</u>	<u>-</u>	<u>950</u>	<u>-</u>	<u>-</u>	<u>(950)</u>	<u>(481,403)</u>	<u>(23,521)</u>	<u>(560,087)</u>
	<u>-</u>	<u>-</u>	<u>950</u>	<u>-</u>	<u>-</u>	<u>(950)</u>	<u>(481,403)</u>	<u>(23,521)</u>	<u>(560,087)</u>
Change in Fund Balance	1,084	-	(92,924)	35,635	84,191	(50,792)	(1)	266,929	524,640
Fund Balance									
Beginning of year	<u>64,915</u>	<u>-</u>	<u>(7,279)</u>	<u>438,169</u>	<u>326,185</u>	<u>638,187</u>	<u>3,671</u>	<u>702,655</u>	<u>2,814,493</u>
End of year	<u>\$ 65,999</u>	<u>\$ -</u>	<u>\$ (100,203)</u>	<u>\$ 473,804</u>	<u>\$ 410,376</u>	<u>\$ 587,395</u>	<u>\$ 3,670</u>	<u>\$ 969,584</u>	<u>\$ 3,339,133</u>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kerman, California, (the "City") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated September 30, 2020.

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) as a basis for designing 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.

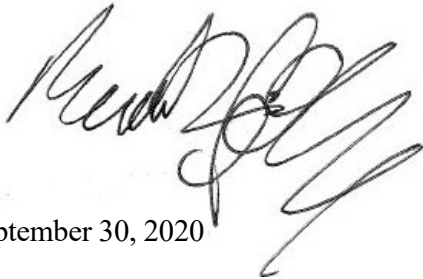
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not 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 financial statements. 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 "Michael J. [unclear]", written over a faint, illegible printed name.

September 30, 2020