

# **CITY OF KERMAN**

## **INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS JUNE 30, 2021**

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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, 2021, 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, 2021, 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 49, and pages 50 - 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

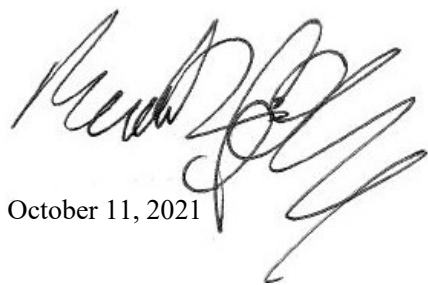
## Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kerman's basic financial statements. The combining and individual nonmajor financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures and federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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 October 11, 2021, 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 "Michael J. [unclear]", written over the date.

October 11, 2021

**CITY OF KERMAN**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**JUNE 30, 2021**

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The management of the City of Kerman is pleased to present the following discussion and analysis that provides an overview of the financial position and activities of the City of Kerman as of and for the year ended June 30, 2021. 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 that 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 fifteen 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 fourteen funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements on pages 52 - 55.

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 49. 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, and Disposal; 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 – 22 of this report.

The **Statement of Net Position** presents information on all of the City's assets, liabilities, and deferred outflows of resources and deferred inflows of resources, with the difference between the components representing the 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 23 – 48 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, 2021:

### I. Statement of Net Position

#### Condensed Statement of Net Position

	2021	2020	
Assets	\$ 68,873,293	\$ 62,912,505	Government-wide total assets at fiscal year ending June 30, 2021 increased by \$5,960,788 which is 9.47% higher than fiscal year ending June 30, 2020.
Liabilities	\$ 13,452,819	\$ 12,748,725	Government-wide total liabilities at fiscal year ending June 30, 2021 increased by \$704,094 which is 5.52% more than fiscal year ending June 30, 2020.
Net of Deferred Outflows/(Inflows) of Resources	\$ 1,186,610	\$ 1,107,356	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 \$1,186,610 which is a 7.16% increase from fiscal year ending June 30, 2020. 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	\$ 56,607,084	\$ 51,271,136	The Net Position (Assets less Liabilities) less (Net of Deferred Outflows/Inflows) at fiscal year ending June 30, 2021 increased by \$5,335,948 which is 10.41% more than fiscal year ending June 30, 2020. The net position includes \$1,186,610 of deferred outflows/inflows of resources. Of the total amount \$8,620,365 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	
	2021	2020	2021	2020	2021	2020
<b>Assets:</b>						
Current and other assets	\$ 13,218,148	\$ 10,570,243	\$ 7,021,439	\$ 6,034,399	\$ 20,239,587	\$ 16,604,642
Capital assets	31,246,274	28,496,017	17,387,432	17,811,846	48,633,706	46,307,863
Total Assets	44,464,422	39,066,260	24,408,871	23,846,245	68,873,293	62,912,505
<b>Deferred Outflows of Resources:</b>						
Total deferred outflows of resources	1,203,808	1,207,298	178,389	190,945	1,382,197	1,398,243
<b>Liabilities:</b>						
Current and other liabilities	1,146,910	679,579	553,724	491,550	1,700,634	1,171,129
Long-term liabilities	6,995,207	6,464,094	4,756,978	5,113,502	11,752,185	11,577,596
Total Liabilities	8,142,117	7,143,673	5,310,702	5,605,052	13,452,819	12,748,725
<b>Deferred Inflows of Resources:</b>						
Total deferred inflows of resources	151,695	230,615	43,892	60,272	195,587	290,887
<b>Net Assets:</b>						
Net Investment in capital assets,	28,195,431	25,571,620	13,363,271	13,373,804	41,558,702	38,945,424
Restricted	3,966,263	3,439,336	2,461,754	2,306,658	6,428,017	5,745,994
Unrestricted	5,212,724	3,888,314	3,407,641	2,691,404	8,620,365	6,579,718
Total Net Position	\$ 37,374,418	\$ 32,899,270	\$ 19,232,666	\$ 18,371,866	\$ 56,607,084	\$ 51,271,136



Of the total net position, \$41,558,702 or 73.42% 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 \$1,186,610. The City's total net pension liability is \$4,123,194 which increased from \$3,640,588 in Fiscal Year 2019-2020.

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

Restricted net position amounts to \$6,428,017 or 11.36% 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 \$8,620,365 or 15.23% of the total net position. While the business-type activities account for \$3,407,641 or 39.53% 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 \$37,374,418 or 66.02% of the total Government-wide net position. This is an increase of \$4,475,148 or 13.60% over the June 30, 2020 governmental activities net position-ending balance.

## II. Statement of Activities

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

		<u>2021</u>		<u>2020</u>
Operating Revenues	\$	19,712,640	\$	17,574,310
Operating Expenses		<u>14,376,692</u>		<u>13,774,469</u>
Increase in Net Position		5,335,948		3,799,841
Net Position, Beginning of Year		<u>51,271,136</u>		<u>47,471,295</u>
Net Position, End of Year		<u>\$56,607,084</u>		<u>\$ 51,271,136</u>

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

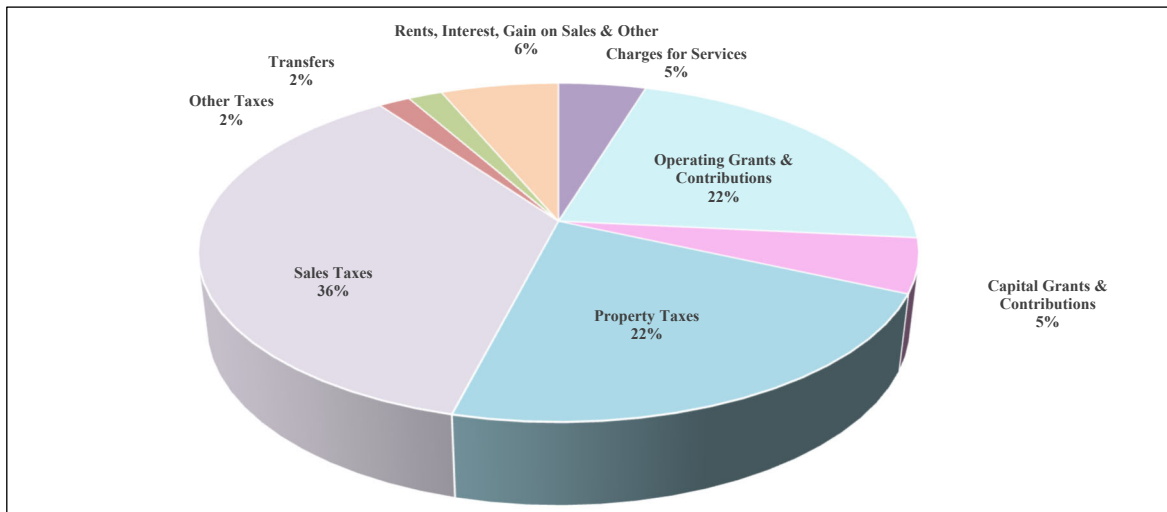
## Statement of Revenues, Expenses and Change in Net Assets (Detail)

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
<b>Revenues</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 643,713	\$ 778,438	\$ 5,828,693	\$ 5,343,404	\$ 6,472,406	\$ 6,121,842
Operating Grants & Contributions	3,008,223	2,414,245	5,000	5,000	3,013,223	2,419,245
Capital Grants & Contributions	708,522	483,512	298,393	443,519	1,006,915	927,031
<b>General Revenues:</b>						
Property Taxes	3,052,000	2,844,900			3,052,000	2,844,900
Sales Taxes	4,969,193	4,291,380			4,969,193	4,291,380
Other Taxes	232,555	198,422			232,555	198,422
Transfers	252,456	(31,283)	97,891	31,283	350,347	-
Rents, Interest, Gain on Sale & Other	868,457	631,394	(252,456)	140,096	616,001	771,490
<b>Total Revenues</b>	<b>13,735,119</b>	<b>11,611,008</b>	<b>5,977,521</b>	<b>5,963,302</b>	<b>19,712,640</b>	<b>17,574,310</b>
<b>Expenses:</b>						
General Government	1,697,731	1,525,459			1,697,731	1,525,459
Public Safety	3,895,514	3,588,439			3,895,514	3,588,439
Social Services	953,714	897,909			953,714	897,909
Public Works	2,130,416	2,072,517			2,130,416	2,072,517
Community Development	498,766	556,947			498,766	556,947
Interest & Fiscal Charges	83,830	135,085			83,830	135,085
Water			1,855,807	1,781,327	1,855,807	1,781,327
Sewer			1,696,048	1,718,705	1,696,048	1,718,705
Disposal			1,466,623	1,408,092	1,466,623	1,408,092
Storm Drain			98,243	89,989	98,243	89,989
<b>Total Expenses</b>	<b>9,259,971</b>	<b>8,776,356</b>	<b>5,116,721</b>	<b>4,998,113</b>	<b>14,376,692</b>	<b>13,774,469</b>
Increase in Net Position	4,475,148	2,834,652	860,800	965,189	5,335,948	3,799,841
Net Position - Beginning	32,899,270	30,064,618	18,371,866	17,406,677	51,271,136	47,471,295
Net Position - Ending	<u>\$ 37,374,418</u>	<u>\$ 32,899,270</u>	<u>\$ 19,232,666</u>	<u>\$ 18,371,866</u>	<u>\$ 56,607,084</u>	<u>\$ 51,271,136</u>

Total governmental revenues for the year were \$13,735,119 with charges for services comprising of 4.69% of the total revenue. Taxes, which include property, sales, and other taxes, account for \$8,253,748 or 60.09% of the City's governmental activities revenue.

Total governmental expenses for the year were \$9,259,971. Public Safety accounts for \$3,895,514 or 42.07% of the total governmental activities (expenses), followed by Public Works, General Government, Social Services and Community Development with \$2,130,416, \$1,697,731, \$953,714 and \$498,776 or 23.01%, 18.33%, 10.30%, and 5.39% respectively.

### Revenues by Source-Governmental Activities

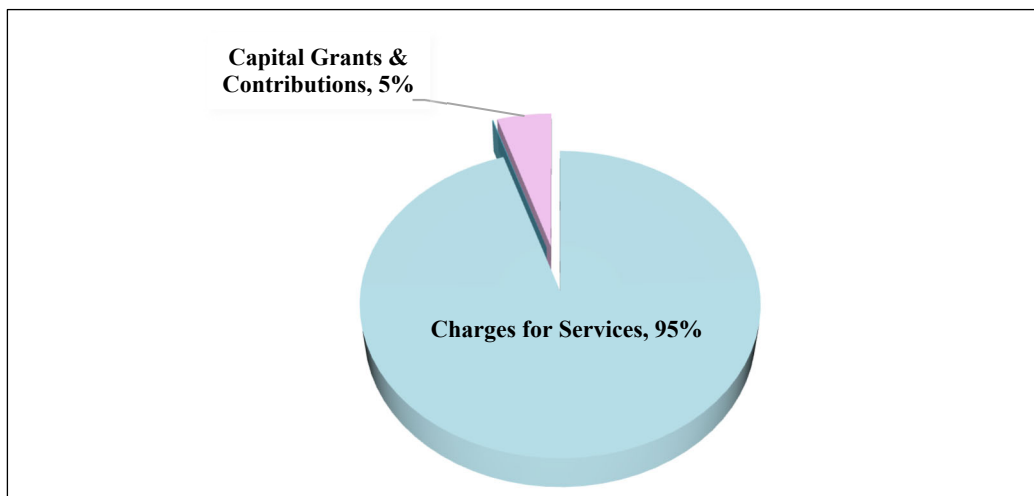


Program revenues which include charges for services, grant revenues, and developer capital contributions account for \$4,360,458 or approximately 31.75% of the total governmental activities' revenue. The “general” revenues such as taxes, interest, and developer fees make up the amounts necessary to fully fund the governmental activities programs.

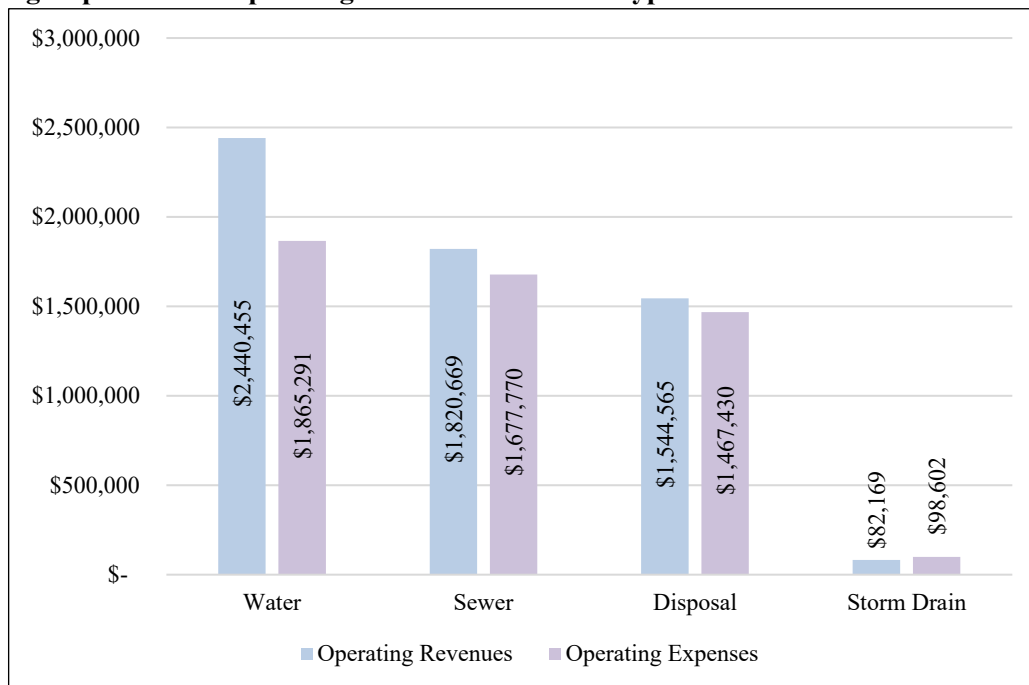
### Business-Type Activities

Business-type activities account for \$19,232,666 or 33.98% of the total Government-wide net position. This is an increase of \$860,800 or 4.69% compared to June 30, 2020. Charges for current services account for \$5,828,693 or 95.05% 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 above, illustrating Operating Expenses and Operating Revenues, 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, 2021, is \$778,765, an increase of \$355,790 or 84.12% compared to Fiscal Year 2019-2020.

## 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 \$12,181,054, which is an increase of \$2,181,002 or 21.81% when compared to the prior-year balance. Of the total fund balance, \$3,967,596 or 32.57% 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:

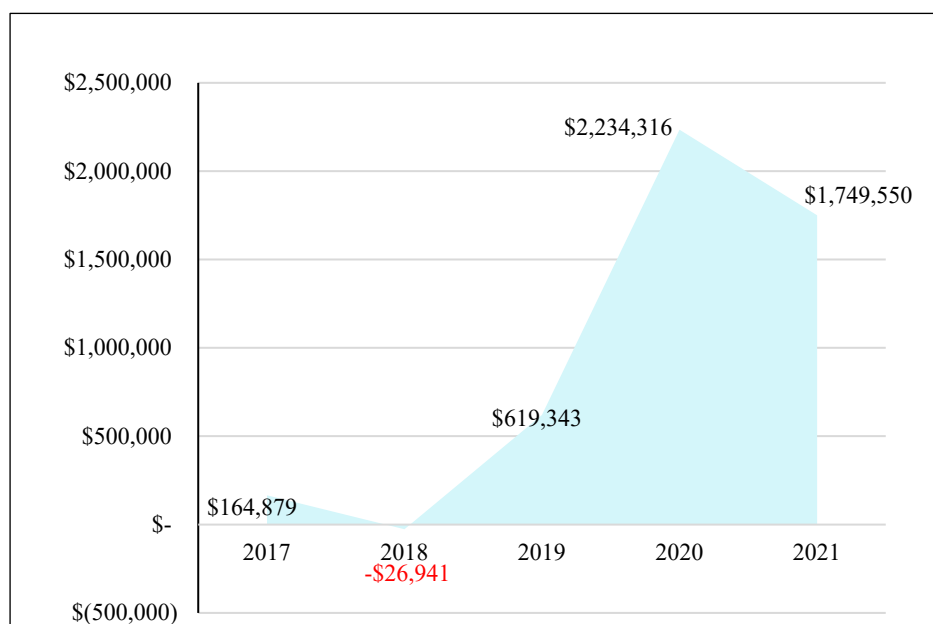
<b>Restricted</b>		<b>Committed</b>	
Circulation Improvements	\$ 2,257,705	Unfunded Liability	\$ 100,000
Development Activities	1,708,558	Emergency Reserve	1,885,089
		Revenue Stability Reserve	1,131,053
		Major Asset Repair & Replacement Reserve	1,131,053

The General Fund is the chief operating fund of the City. As of June 30, 2021, the total fund balance of the General Fund was \$8,410,469 with the unassigned fund balance of \$4,163,275. The General Fund total fund balance increased by \$1,749,550 or 26.27% 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 graph below illustrates the General Fund (GF) fund balance from 2017 to 2021. In Fiscal Year 2018, the GF fund balance encountered a deficit of \$26,941. However, in Fiscal Year 2019, the GF eliminated the deficit and generated a surplus of \$619,343. In Fiscal Year 2021, the GF created a surplus and increased the Fund Balance by \$1,749,550 or 26.27%. This surplus is mainly generated due to the unexpected increased in sales & use tax, the increase in property taxes, the refinancing of the 2007 lease revenue bond, the gain on sale of property, and the reschedule of capital expenditures



The increase in the General Fund Balance indicates that the GF had more revenues and transfers in than expenditures and transfers out. The original 2020-2021 budget allowed for a \$2,974,650 net decrease to the fund balance. However, the actual year-end result from current year activity was a \$1,749,550 net increase to the General Fund, after capital outlay expenditures of \$1,474,245 (page 49).

**Proprietary Funds.** As indicated in the description of proprietary funds, there are two types of funds, enterprise, and internal service funds. Most of the City's enterprise funds ended the year with positive unrestricted net position, the Solid Waste and Disposal Fund ended with a negative net position of \$6,331. The internal service funds experienced a decrease in unrestricted net position of \$76,112, creating a reduction in its net position of 9.44% (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 49 outlines the differences between the budget and actual numbers. The City collected \$1,179,223 or 14.61% more total revenues and incurred \$3,406,070 or 30.83% less of total expenditures than the final budget appropriations. Revenues exceeded expenditures by \$1,610,643, and the sale of property with the transfer in of \$138,907 created a net increase in the General Fund Balance of \$1,749,550.

### 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, 2021, amounts to \$48,633,706 (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	\$145,135	Infrastructure Improvements	\$ 518,717
Building Improvements	121,939	Construction in Progress (CIP)	3,271,328
Machinery and Equipment	279,385		

Additional information on the City's capital assets can be found in note five on page 35.

### Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 2,523,592	\$ 2,378,457	\$ 3,383,589	\$ 3,383,589	\$ 5,907,181	\$ 5,762,046
Buildings and Improvements	5,492,179	5,605,996	8,924,535	8,561,173	14,416,714	14,167,169
Machinery and Equipment	887,335	951,343	1,618,330	1,482,885	2,505,665	2,434,228
Construction in Progress	4,277,520	1,500,953	3,460,978	4,450,238	7,738,498	5,951,191
Infrastructure	18,065,648	18,059,268			18,065,648	18,059,268
<b>Total</b>	<b>\$ 31,246,274</b>	<b>\$ 28,496,017</b>	<b>\$ 17,387,432</b>	<b>\$ 17,877,885</b>	<b>\$ 48,633,706</b>	<b>\$ 46,373,902</b>

**Long-term Debt.** The City's long-term debt as of June 30, 2021 was \$7,075,004 with governmental activities accounting for \$3,050,843 or 43.12% and business-type activities accounting for \$4,024,161 or 56.88%.

### Long Term Debt

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Note Payable, CA Energy Comm.	\$ 9,843	\$ 19,937			\$ 9,843	\$ 19,937
Bonds Payable, Sewer			0	3,286	0	3,286
Note Payable, CA Dept Water Conserv.			1,154,999	1,319,999	1,154,999	1,319,999
Note Payable, CA Dept Water Conserv.			2,869,162	3,114,757	2,869,162	3,114,757
Kerman PFA Lease/Rev Bonds	3,041,000	2,905,000			3,041,000	2,905,000
<b>Total</b>	<b>\$ 3,050,843</b>	<b>\$ 2,924,937</b>	<b>\$ 4,024,161</b>	<b>\$ 4,438,042</b>	<b>\$ 7,075,004</b>	<b>\$ 7,362,979</b>

Additional information on the City's long-term debt can be found in note six on page 37.

### Economic Factors and Next Year's Budgets

According to the California Department of Finance, the City of Kerman continues growing in population; as of January 1, 2021, the City's population increased from 15,950 to 16,118. The City foresees an optimistic future for our community. Although the pandemic of 2020 affected many cities by reducing their revenue collections, applying furloughs to balance budgets, and reducing deficits. The City of Kerman experienced an increase in sales taxes due to the Top 10 business type generators of sales tax revenue within the City, an increase of 22.90% compared to budget 2020-2021. However, the CalPERS Unfunded Liability and the continuous rising of health costs continue being a fiscal challenge for the City.

The City continues investing in the quality of life. An illustration of this is the Animal Shelter's construction completion by November 2021 and the 30 Acres Community Park expected to begin construction in 2022.

The Federal Reserve continues with near-zero interest rate policy and has committed itself to supporting the corporate bond market, the changes in inflation, and continuing working on the economic recovery. An example of this commitment is the congress approval of \$350 billion for the American Recovery Plan Act (ARPA) to invest in economic growth by providing restricted funding to state, local, territorial, and tribal governments. The City of Kerman expects to receive an estimated \$3.6 million to be obligated by December 31, 2024, and expended by December 31, 2026. Eventually, a recovery is forecasted, but it's expected to be moderate and predicted to happen in 2023. 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, the production continues to weaken due to the supplies and labor constraints.

"The California economy is full of uncertainty due to COVID19", according to Jerry Nickelsburg, director of the UCLA Anderson Forecast released in June 2021. The total employment growth rates in 2021, 2022, and 2023 are forecasted to be 5.3%, 4.0%, and 2.2%, respectively. Non-farm payroll jobs are expected to grow at 2.6%, 5.4%, and 2.2% rates during the same three years. Even though we are still in a moderate recession, the continued demand for limited housing stock, together with low-interest rates, leads to a forecast of a relatively rapid return on home building. The City of Kerman can corroborate this prediction with the expected construction in the Fiscal Year 2021-2022 of three housing developments with 144, 180, and 108 single-family units.

Total citywide revenue budgeted for the Fiscal Year 2021-2022 is \$28,807,142, with expenditures budgeted at \$42,482,199, of which \$22,701,366 is dedicated to capital expenditures, which a variety of funding sources will fund.

### 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, 2021

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 10,569,584	\$ 6,520,951	\$ 17,090,535
Accounts receivable, net	56,603	342,143	398,746
Prepays	-	11,649	11,649
Taxes receivable	970,993	-	970,993
Due from other governments	1,760,106	-	1,760,106
Interest receivable	7,558	-	7,558
Internal balances	(146,696)	146,696	-
Capital assets, net of allowance for depreciation	31,246,274	17,387,432	48,633,706
Total assets	44,464,422	24,408,871	68,873,293
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	1,203,808	178,389	1,382,197
Total deferred outflows of resources	1,203,808	178,389	1,382,197
<b>LIABILITIES</b>			
Accounts payable and accrued expense	1,117,286	411,656	1,528,942
Accrued interest payable	17,562	21,519	39,081
Deposits payable	8,750	120,549	129,299
Unearned revenues	3,312	-	3,312
Long-term liabilities			
Due within one year	9,843	413,051	422,894
Due in more than one year	3,041,000	3,611,110	6,652,110
Compensated absences	427,269	126,718	553,987
Net pension liability	3,517,095	606,099	4,123,194
Total liabilities	8,142,117	5,310,702	13,452,819
<b>DEFERRED INFLOWS OF RESOURCES</b>	151,695	43,892	195,587
Total deferred inflows of resources	151,695	43,892	195,587
<b>NET POSITION</b>			
Net investment in capital assets	28,195,431	13,363,271	41,558,702
Restricted for specific projects and programs	3,966,263	-	3,966,263
Restricted for capital improvements	-	2,461,754	2,461,754
Unrestricted	5,212,724	3,407,641	8,620,365
Total net position	\$ 37,374,418	\$ 19,232,666	\$ 56,607,084

# CITY OF KERMAN

## STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2021

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	\$ 1,697,731	\$ -	\$ 121,752	\$ -	\$ (1,575,979)	\$ -	\$ (1,575,979)
Public works	2,130,416	-	1,533,604	319,742	(277,070)	-	(277,070)
Community development	498,766	376,085	886,831	388,780	1,152,930	-	1,152,930
Social services	953,714	14,142	112,899	-	(826,673)	-	(826,673)
Public safety	3,895,514	253,486	353,137	-	(3,288,891)	-	(3,288,891)
Debt Service							
Interest and fiscal charges	83,830	-	-	-	(83,830)	-	(83,830)
Total governmental activities	<u>9,259,971</u>	<u>643,713</u>	<u>3,008,223</u>	<u>708,522</u>	<u>(4,899,513)</u>	<u>-</u>	<u>(4,899,513)</u>
Business-type activities							
Water	1,855,807	2,410,298	-	67,179	-	621,670	621,670
Sewer	1,696,048	1,800,000	-	94,745	-	198,697	198,697
Disposal	1,466,623	1,536,230	5,000	-	-	74,607	74,607
Storm Drain	<u>98,243</u>	<u>82,165</u>	<u>-</u>	<u>136,469</u>	<u>-</u>	<u>120,391</u>	<u>120,391</u>
Total business-type activities	<u>5,116,721</u>	<u>5,828,693</u>	<u>5,000</u>	<u>298,393</u>	<u>-</u>	<u>1,015,365</u>	<u>1,015,365</u>
Total primary government	<u>\$ 14,376,692</u>	<u>\$ 6,472,406</u>	<u>\$ 3,013,223</u>	<u>\$ 1,006,915</u>	<u>(4,899,513)</u>	<u>1,015,365</u>	<u>(3,884,148)</u>
General Revenue							
Property taxes					2,811,398	-	2,811,398
Special assessments					240,602	-	240,602
Sales taxes					4,969,193	-	4,969,193
Franchise and other taxes					136,653	-	136,653
Business licenses					95,902	-	95,902
Rents					324,332	9,257	333,589
Interest income					14,831	38,727	53,558
Gain on sale of assets					128,409	1,000	129,409
Other					400,885	48,907	449,792
Transfers					<u>252,456</u>	<u>(252,456)</u>	<u>-</u>
Total general revenue and transfers					<u>9,374,661</u>	<u>(154,565)</u>	<u>9,220,096</u>
Change in Net Position					4,475,148	860,800	5,335,948
Net Position							
Beginning of year					<u>32,899,270</u>	<u>18,371,866</u>	<u>51,271,136</u>
End of year					\$ 37,374,418	\$ 19,232,666	\$ 56,607,084

See accompanying notes.



# CITY OF KERMAN

## BALANCE SHEET – GOVERNMENTAL FUNDS JUNE 30, 2021

	General	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and investments	\$ 7,058,206	\$ 3,430,211	\$ 10,488,417
Accounts receivable	34,986	-	34,986
Taxes receivable	970,993	-	970,993
Due from other governments	91,332	1,668,774	1,760,106
Interest receivable	7,558	-	7,558
Due from other funds	1,095,958	-	1,095,958
Total assets	<u>9,259,033</u>	<u>5,098,985</u>	<u>14,358,018</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable and accrued expense	836,502	232,442	1,068,944
Due to other funds	-	1,095,958	1,095,958
Deposits and other liabilities	8,750	-	8,750
Unearned revenues	3,312	-	3,312
Total liabilities	<u>848,564</u>	<u>1,328,400</u>	<u>2,176,964</u>
<b>Fund Balance</b>			
Restricted			
Circulation improvements	-	2,257,705	2,257,705
Development activities	-	1,708,558	1,708,558
Committed			
Unfunded liability	100,000	-	100,000
Emergency reserve	1,885,088	-	1,885,088
Revenue stability reserve	1,131,053	-	1,131,053
Major asset repair and replacement reserve	1,131,053	-	1,131,053
Unassigned	4,163,275	(195,678)	3,967,597
Total fund balance	<u>8,410,469</u>	<u>3,770,585</u>	<u>12,181,054</u>
Total liabilities and fund balance	<u>\$ 9,259,033</u>	<u>\$ 5,098,985</u>	<u>\$ 14,358,018</u>

## CITY OF KERMAN

### RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2021

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Total governmental fund balance	\$ 12,181,054
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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	30,570,973
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Net pension liability applicable to governmental activities are not due and payable in the current period and accordingly is not reported in the funds	(3,517,095)
--	-------------

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	1,203,808
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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	(151,695)
---	-----------

Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(3,050,843)
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Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(427,269)
---	-----------

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	(17,562)
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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>583,047</u>
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Net position of governmental activities	<u>\$ 37,374,418</u>
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# CITY OF KERMAN

## STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2021

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenue</b>			
Taxes	\$ 7,600,359	\$ 536,292	\$ 8,136,651
Licenses, permits and impact fees	493,781	339,261	833,042
Intergovernmental	466,474	2,964,041	3,430,515
Charges for services	241,968	-	241,968
Fines and forfeitures	37,643	-	37,643
Rents	81,704	242,627	324,331
Investment earning, net of unrealized gain/(loss)	(6,078)	20,909	14,831
Other	335,146	124	335,270
Total revenue	<u>9,250,997</u>	<u>4,103,254</u>	<u>13,354,251</u>
<b>Expenditures</b>			
Current			
General government	733,650	-	733,650
Public works	849,204	844,093	1,693,297
Community development	371,266	127,499	498,765
Social services	703,337	106,106	809,443
Public safety	3,508,651	-	3,508,651
Capital outlay	1,474,244	2,104,325	3,578,569
Debt Service			
Principal	-	2,915,065	2,915,065
Interest and fiscal charges	-	99,614	99,614
Total expenditures	<u>7,640,352</u>	<u>6,196,702</u>	<u>13,837,054</u>
Revenue over/(under) expenditures	1,610,645	(2,093,448)	(482,803)
<b>Other Financing Sources/(Uses)</b>			
Loan proceeds	-	3,041,000	3,041,000
Sale of asset	128,409	-	128,409
Transfers in/(out) - net	<u>10,496</u>	<u>(516,100)</u>	<u>(505,604)</u>
	<u>138,905</u>	<u>2,524,900</u>	<u>2,663,805</u>
<b>Change in Fund Balance</b>	1,749,550	431,452	2,181,002
<b>Fund Balance</b>			
Beginning of year	<u>6,660,919</u>	<u>3,339,133</u>	<u>10,000,052</u>
End of year	<u>\$ 8,410,469</u>	<u>\$ 3,770,585</u>	<u>\$ 12,181,054</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, 2021

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Net change in fund balance - total governmental funds \$ 2,181,002

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 3,578,570

Depreciation expense not reported in governmental funds (748,357)

2,830,213

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 (126,446)

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 (342,085)

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 (96,167)

In the Statement of Activities interest is accrued on long-term debt,  
whereas, in governmental funds interest expenditure is reported  
when due 15,784

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 12,847

Change in net position of governmental activities \$ 4,475,148

# CITY OF KERMAN

## STATEMENT OF NET POSITION – PROPRIETARY FUNDS

JUNE 30, 2021

	Business-Type Activities - Enterprise Funds					Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain	Total Proprietary Funds	
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and investments	\$ 3,539,941	\$ 2,293,794	\$ 504,393	\$ 182,823	\$ 6,520,951	\$ 81,167
Accounts receivable, net	93,628	78,894	49,181	120,440	342,143	21,617
Prepays	11,649	-	-	-	11,649	-
Total current assets	<u>3,645,218</u>	<u>2,372,688</u>	<u>553,574</u>	<u>303,263</u>	<u>6,874,743</u>	<u>102,784</u>
<b>Non-current assets</b>						
Property, plant and equipment, net of allowance for depreciation	<u>6,852,272</u>	<u>9,472,083</u>	<u>4,915</u>	<u>1,058,162</u>	<u>17,387,432</u>	<u>675,301</u>
Total assets	<u>10,497,490</u>	<u>11,844,771</u>	<u>558,489</u>	<u>1,361,425</u>	<u>24,262,175</u>	<u>778,085</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>84,289</u>	<u>67,422</u>	<u>21,983</u>	<u>4,695</u>	<u>178,389</u>	<u>-</u>
<b>LIABILITIES</b>						
<b>Current liabilities</b>						
Accounts payable and accrued expenses	206,072	79,785	107,610	18,189	411,656	48,342
Accrued interest payable	-	21,519	-	-	21,519	-
Deposits	120,549	-	-	-	120,549	-
Current portion of long-term debt	<u>413,051</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>413,051</u>	<u>-</u>
Total current liabilities	<u>739,672</u>	<u>101,304</u>	<u>107,610</u>	<u>18,189</u>	<u>966,775</u>	<u>48,342</u>
<b>Non-current liabilities</b>						
Long-term debt	741,948	2,869,162	-	-	3,611,110	-
Compensated absences	59,325	47,537	19,856	-	126,718	-
Net pension liability	<u>286,389</u>	<u>229,077</u>	<u>74,693</u>	<u>15,940</u>	<u>606,099</u>	<u>-</u>
Total noncurrent liabilities	<u>1,087,662</u>	<u>3,145,776</u>	<u>94,549</u>	<u>15,940</u>	<u>4,343,927</u>	<u>-</u>
Total liabilities	<u>1,827,334</u>	<u>3,247,080</u>	<u>202,159</u>	<u>34,129</u>	<u>5,310,702</u>	<u>48,342</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>20,740</u>	<u>16,589</u>	<u>5,409</u>	<u>1,154</u>	<u>43,892</u>	<u>-</u>
<b>NET POSITION</b>						
Net investment in capital assets	5,697,273	6,602,921	4,915	1,058,162	13,363,271	675,301
Restricted for capital improvements	1,940,997	273,188	-	247,569	2,461,754	-
Unrestricted/(deficit)	<u>1,095,435</u>	<u>1,772,415</u>	<u>367,989</u>	<u>25,106</u>	<u>3,260,945</u>	<u>54,442</u>
Total net position	<u>\$ 8,733,705</u>	<u>\$ 8,648,524</u>	<u>\$ 372,904</u>	<u>\$ 1,330,837</u>	<u>19,085,970</u>	<u>\$ 729,743</u>
Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds					<u>146,696</u>	
Net position of business-type activities					<u>\$ 19,232,666</u>	

See accompanying notes.

# CITY OF KERMAN

## STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2021

	Business-Type Activities - Enterprise Funds				Total Proprietary Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain		
<b>Operating Revenue</b>						
Charges for services	\$ 2,403,937	\$ 1,795,585	\$ 1,536,183	\$ 82,165	\$ 5,817,870	\$ -
Other revenues	36,518	25,084	8,382	4	69,988	3,021
Total operating income	<u>2,440,455</u>	<u>1,820,669</u>	<u>1,544,565</u>	<u>82,169</u>	<u>5,887,858</u>	<u>3,021</u>
<b>Operating Expense</b>						
Contractual services and utilities	522,706	237,215	1,183,347	3,169	1,946,437	67,573
Personnel	800,801	668,371	242,483	64,196	1,775,851	187,285
Supplies and materials	170,655	201,498	40,973	13,182	426,308	372,614
Depreciation	371,129	570,686	627	18,055	960,497	230,574
Total operating expense	<u>1,865,291</u>	<u>1,677,770</u>	<u>1,467,430</u>	<u>98,602</u>	<u>5,109,093</u>	<u>858,046</u>
Operating income/(loss)	<u>575,164</u>	<u>142,899</u>	<u>77,135</u>	<u>(16,433)</u>	<u>778,765</u>	<u>(855,025)</u>
<b>Nonoperating Revenue/(Expense)</b>						
Intergovernmental	-	-	5,000	-	5,000	20,000
Development impact fees	67,179	94,745	-	136,469	298,393	-
Interest income	21,158	13,297	3,147	1,125	38,727	853
Interest expense	-	(27,684)	-	-	(27,684)	-
Total nonoperating revenue/(expense)	<u>88,337</u>	<u>80,358</u>	<u>8,147</u>	<u>137,594</u>	<u>314,436</u>	<u>20,853</u>
Net income/(loss) before transfers	663,501	223,257	85,282	121,161	1,093,201	(834,172)
<b>Operating Transfers In/(Out)</b>	<u>(176,032)</u>	<u>32,758</u>	<u>(91,613)</u>	<u>(17,569)</u>	<u>(252,456)</u>	<u>758,060</u>
<b>Change in Net Position</b>	<u>487,469</u>	<u>256,015</u>	<u>(6,331)</u>	<u>103,592</u>	<u>840,745</u>	<u>(76,112)</u>
<b>Net Position</b>						
Beginning of year	8,246,236	8,392,509	379,235	1,227,245	18,245,225	805,855
End of year	<u>\$ 8,733,705</u>	<u>\$ 8,648,524</u>	<u>\$ 372,904</u>	<u>\$ 1,330,837</u>	<u>\$ 19,085,970</u>	<u>\$ 729,743</u>
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds					20,055	
Change in net position of business-type activities (Page 13)					<u>\$ 860,800</u>	

# CITY OF KERMAN

## STATEMENT OF CASH FLOW - PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2021

	Business-Type Activities - Enterprise Funds				Total Business-Type Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain		
<b>Operating Activities</b>						
Receipts from customers and users	\$ 2,380,716	\$ 1,774,734	\$ 1,518,716	\$ (36,572)	\$ 5,637,594	\$ (17,596)
Payments for contractual services and utilities	(502,157)	(210,307)	(1,179,188)	(1,290)	(1,892,942)	(197,587)
Payments to employees	(779,226)	(649,609)	(230,898)	(62,585)	(1,722,318)	(187,285)
Payment to suppliers	(170,655)	(201,498)	(40,973)	(13,182)	(426,308)	(372,614)
Net cash provided by (used) in operating activities	928,678	713,320	67,657	(113,629)	1,596,026	(775,082)
<b>Non-capital Financial Activities</b>						
Payments from other governments	-	-	5,000	-	5,000	20,000
Payments (to)/from developers	67,179	94,745	-	136,469	298,393	-
Transfers (to)/from other funds	(176,032)	32,758	(91,613)	(17,569)	(252,456)	758,060
Net cash provided by (used) in noncapital financing activities	(108,853)	127,503	(86,613)	118,900	50,937	778,060
<b>Capital and Related Financing Activities</b>						
Purchase of property, plant and equipment	(74,278)	(461,805)	-	-	(536,083)	(150,619)
Principal paid on long-term debt	(165,000)	(248,881)	-	-	(413,881)	-
Interest paid on long-term debt	-	(31,240)	-	-	(31,240)	-
Net cash provided by (used) in capital and related financing activities	(239,278)	(741,926)	-	-	(981,204)	(150,619)
<b>Investing Activities</b>						
Interest received	21,158	13,297	3,147	1,125	38,727	853
Net cash provided by (used) in investing activities	21,158	13,297	3,147	1,125	38,727	853
<b>Net Increase (Decrease) in Cash</b>	601,705	112,194	(15,809)	6,396	704,486	(146,788)
<b>Cash</b>						
Beginning of year	2,938,236	2,181,600	520,202	176,427	5,816,465	227,955
End of year	\$ 3,539,941	\$ 2,293,794	\$ 504,393	\$ 182,823	\$ 6,520,951	\$ 81,167
<b>Cash Flows from Operating Activities</b>						
Operating income (loss)	\$ 575,164	\$ 142,899	\$ 77,135	\$ (16,433)	\$ 778,765	\$ (855,025)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	371,129	570,686	627	18,055	960,497	230,574
(Increase) Decrease in Accounts Receivable	(64,234)	(45,935)	(25,849)	(118,741)	(254,759)	(20,617)
(Increase) Decrease in Prepaids	(7,740)	-	-	-	(7,740)	-
(Increase) Decrease in Deferred Outflows of Resources	5,933	4,745	1,548	330	12,556	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	28,289	26,908	4,159	1,879	61,235	(130,014)
Increase (Decrease) in Deposits	4,495	-	-	-	4,495	-
Increase (Decrease) in Deferred Inflows of Resources	(7,740)	(6,191)	(2,018)	(431)	(16,380)	-
Increase (Decrease) in Net Pension Liability	30,757	24,602	8,021	1,712	65,092	-
Increase (Decrease) in Compensated Absences	(7,375)	(4,394)	4,034	-	(7,735)	-
<b>Net Cash Provided (Used) by Operating Activities</b>	\$ 928,678	\$ 713,320	\$ 67,657	\$ (113,629)	\$ 1,596,026	\$ (775,082)

See accompanying notes.

# CITY OF KERMAN

## STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2021

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	<u>Custodial Funds</u>
<b>ASSETS</b>	
Cash and investments	\$ 383,200
Total assets	<u>383,200</u>
<b>LIABILITIES</b>	
Accounts payable	<u>14,393</u>
Total liabilities	<u>14,393</u>
<b>NET POSITION</b>	
Restricted for	
Individuals, organizations, and other governments	<u>368,807</u>
Total Net Position	<u>\$ 368,807</u>



# CITY OF KERMAN

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION JUNE 30, 2021

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### Additions

Fees	\$	34,206
Deposits		27,687
Special events		<u>13,251</u>
Total additions		<u>75,144</u>

### Deductions

Payments to other entities		<u>19,681</u>
Total deductions		<u>19,681</u>

<b>Change In Net Position</b>		55,463
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### Net Position

Beginning of year		<u>313,344</u>
End of year	\$	<u><u>368,807</u></u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

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### **Note 1 – Summary of Significant Accounting Policies**

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

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

#### **Reporting Entity**

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

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

#### **Basis of Presentation – Fund Accounting**

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

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

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

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

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

The City reports the following major governmental funds:

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

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.

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.

*Fiduciary Funds* - The Fiduciary 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.

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

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

#### **Basis of Accounting**

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

Governmental Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating.

#### **Financial Statement Amounts**

*Cash and Cash Equivalents* - Cash and cash equivalents represent the City's cash bank accounts including, but not limited to, certificates of deposit, money market funds and cash management pools for reporting purposes in the Statement of Cash Flows. Additionally, investments with maturities of three months or less when purchased are included as cash equivalents in the Statement of Cash Flows.

The City maintains a cash and investment pool that is available for use by all funds. Interest earnings as a result of this pooling are distributed to the appropriate funds based on quarterly ending cash balances in each fund.

Investments of the pool include only those investments authorized by the California Government Code such as, United States Treasury securities, agencies guaranteed by the United States Government, registered state warrants, and other investments. Investments primarily consist of deposits in money market accounts and certificates of deposit. Investments are stated at fair value.

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

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

*Accounts Receivable* – Billed, but unpaid, services provided to individuals or non-governmental entities are recorded as accounts receivable. The Proprietary Funds include a year end accrual for services through the end of the fiscal year which have not yet been billed. Accounts receivable are reported net of an allowance for uncollectible.

Fresno County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. Property taxes are levied in equal installments on November 1 and February 1. They become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes are accounted for in the General Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities. The City considers property taxes as available if they are collected within 60 days after year end. Property tax on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid on August 31. However, unsecured property taxes are not susceptible to year end accrual.

The City is permitted by Article XIII A of the State of California Constitution (known as Proposition 13) to levy a maximum tax of \$1.00 per \$100 of full cash value.

*Interfund Receivables/Payables* - Items classified as interfund receivable/payable represent short-term lending/borrowing transactions between funds. This classification also includes the current portion of an advance to or from another fund.

*Advances To/From Other Funds* - This classification represents non-current portions of any long-term lending/borrowing transactions between funds. This amount will be equally offset by a reserve of fund balance which indicates that it does not represent available financial resources and therefore, is not available for appropriation. The current portion of any interfund long-term loan (advance) is included as an interfund receivable/payable.

*Capital Assets* - Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the Government-Wide Financial Statements to the extent the City's capitalization threshold is met.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the Government-Wide Financial Statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$10,000 for roadways and \$5,000 for all other assets, and an estimated useful life of at least three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

	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, 2021

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

In the fund financial statements, however, debt principal payments of Governmental Funds are recognized as expenditures when paid. Governmental Fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

*Non-Current Governmental Assets/Liabilities* - GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the Government-Wide Statement of Net Position.

*Net Position* - The government-wide and business-type activities financial statements utilize a net position presentation. Net position are categorized as net investment in capital assets, restricted and unrestricted.

- Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Position - This category presents external restrictions on net position imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This category represents net position of the City not restricted for any project or other purpose.

*Fund Equity* – In the fund financial statements, governmental fund balance is made up of the following components:

- Nonspendable fund balance typically includes inventories, prepaid items, and other items that must be maintained intact pursuant to legal or contractual requirements, such as endowments.
- Restricted fund balance category includes amounts that can be spent only for specific purposes imposed by creditors, grantors, contributors, or laws or regulations of other governments or through enabling legislations.
- Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has the authority to establish, modify, or rescind a fund balance commitment.
- Assigned fund balance are amounts designated by the City Council for specific purposes and do not meet the criteria to be classified as restricted or committed.

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

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

- Unassigned fund balance is the residual classification that includes all spendable amounts in the General Fund not contained in other classifications.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to apply restricted first. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

*Use of Estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

### **Note 2 – Stewardship, Compliance and Accountability**

California law authorizes the City to invest in obligations of the United States Treasury, agencies and instrumentalities, certificates of deposit or time deposits in banks and savings and loan associations which are insured by the Federal Deposit Insurance Corporation.

In accordance with applicable sections of the California Government Code and the Kerman Municipal Code, the City prepares and legally adopts an annual balanced budget on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, specific Special Revenue Funds, and specific Capital Projects Funds. Budget plans are adopted for Proprietary Funds. A proposed budget is presented to the City Council during June of each year for review. The Council holds public hearings and may add to, subtract from, or change appropriations within the revenues and reserves estimated as available. Expenditures may not legally exceed budgeted appropriations at the fund level. Supplementary appropriations which alter the total expenditures of any fund, or expenditures in excess of total budgeted fund appropriations, must be approved by the City Council.

All annual appropriations lapse at fiscal year end to the extent they have not been expended or encumbered.



# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

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### Note 3 – Cash and Investments

The City pools all of its cash and investments except those funds required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash is allocated to the various funds on average cash balances. Interest income from cash investments held with fiscal agents is credited directly to the related funds.

Cash and investments as of June 30, 2021 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments	\$ 17,090,535
Fiduciary Funds:	
Cash and Investments	<u>383,200</u>
Total Cash and Investments	<u>\$ 17,473,735</u>

Cash and investments as of June 30, 2021 consist of the following:

Cash on hand	\$ 1,350
Deposits with Financial Institutions	15,492,943
Certificates of deposit	<u>1,979,442</u>
Total Cash and Investments	<u>\$ 17,473,735</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, 2021

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

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

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

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

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

### 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	\$ 1,979,442	\$ 706,961	\$ 255,241	\$ 1,017,240
Total	\$ 1,979,442	\$ 706,961	\$ 255,241	\$ 1,017,240

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

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

#### Disclosures Relating to Credit Risk

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

Investment Type		Minimum Legal Rating	Rating as of Year End
			Not Rated
Certificates of deposit	<u>\$ 1,979,442</u>	N/A	<u>\$ 1,979,442</u>
Total	<u><u>\$ 1,979,442</u></u>		<u><u>\$ 1,979,442</u></u>

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, 2021.

#### 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, 2021

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### Note 4 – Receivables

The following is a summary of receivables at June 30, 2021 for the City's individual major and non-major funds in the aggregate:

	<u>General</u>	<u>Other Governmental Funds</u>
<b>Governmental Funds</b>		
Accounts	\$ 34,986	\$ -
Taxes	970,993	-
Intergovernmental	91,332	1,668,774
Interest	7,558	-
	<u>\$ 1,104,869</u>	<u>\$ 1,668,774</u>

The following is a summary of receivables at June 30, 2021 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>
<b>Enterprise Funds</b>					
Accounts	\$ 120,466	\$ 109,414	\$ 69,079	\$ 122,014	\$ 21,617
Gross receivables	120,466	109,414	69,079	122,014	21,617
Less: Allowance for uncollectible accounts	(26,838)	(30,520)	(19,898)	(1,574)	-
	<u>\$ 93,628</u>	<u>\$ 78,894</u>	<u>\$ 49,181</u>	<u>\$ 120,440</u>	<u>\$ 21,617</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

**Note 5 – Capital Assets** – Capital asset activities for the year ended June 30, 2021 were as follows:

	<b>Balance July 1, 2020</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2021</b>
<b><u>Governmental Activities</u></b>				
Capital assets, not being depreciated				
Land	\$ 2,378,457	\$ 145,135	\$ -	\$ 2,523,592
Construction in progress	1,500,953	2,847,800	(71,233)	4,277,520
Total capital assets, not being depreciated	<u>3,879,410</u>	<u>2,992,935</u>	<u>(71,233)</u>	<u>6,801,112</u>
Capital assets, being depreciated				
Buildings and improvements	8,422,950	110,032	-	8,532,982
Infrastructure	22,425,688	518,717	-	22,944,405
Machinery and equipment	2,834,226	178,737	-	3,012,963
Total capital assets, being depreciated	<u>33,682,864</u>	<u>807,486</u>	<u>-</u>	<u>34,490,350</u>
Less accumulated depreciation for				
Buildings and improvements	(2,816,954)	(223,849)	-	(3,040,803)
Infrastructure	(4,366,420)	(512,337)	-	(4,878,757)
Machinery and equipment	(1,882,883)	(242,745)	-	(2,125,628)
Total accumulated depreciation	<u>(9,066,257)</u>	<u>(978,931)</u>	<u>-</u>	<u>(10,045,188)</u>
Total capital assets, being depreciated, net	<u>24,616,607</u>	<u>(171,445)</u>	<u>-</u>	<u>24,445,162</u>
Governmental activities capital assets, net	<u>\$ 28,496,017</u>	<u>\$ 2,821,490</u>	<u>\$ (71,233)</u>	<u>\$ 31,246,274</u>
<b><u>Business-Type Activities</u></b>				
Capital assets, not being depreciated				
Land	\$ 3,383,589	\$ -	\$ -	\$ 3,383,589
Construction in progress	3,037,450	423,528	-	3,460,978
Total capital assets, not being depreciated	<u>6,421,039</u>	<u>423,528</u>	<u>-</u>	<u>6,844,567</u>
Capital assets, being depreciated				
Buildings and improvements	22,741,909	11,907	-	22,753,816
Machinery and equipment	1,517,682	100,648	-	1,618,330
Total capital assets, being depreciated	<u>24,259,591</u>	<u>112,555</u>	<u>-</u>	<u>24,372,146</u>
Less: accumulated depreciation	<u>(12,868,784)</u>	<u>(960,497)</u>	<u>-</u>	<u>(13,829,281)</u>
Total capital assets, being depreciated, net	<u>11,390,807</u>	<u>(847,942)</u>	<u>-</u>	<u>10,542,865</u>
Business-type activities capital assets, net	<u>\$ 17,811,846</u>	<u>\$ (424,414)</u>	<u>\$ -</u>	<u>\$ 17,387,432</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

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### Note 5 – Capital Assets (Continued)

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

**Governmental Functions:**

General Government	\$	100,531
Public Works and Community Development		516,300
Social Services		112,789
Public Safety		18,737
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the asset		<u>230,574</u>
	\$	<u>978,931</u>

**Business-Type Functions:**

Water	\$	371,129
Sewer		570,686
Disposal		627
Storm Drain		<u>18,055</u>
	\$	<u>960,497</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

### 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, 2021 was comprised of the following individual issues:

	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021	Current Portion
<b><u>Governmental Activity Long Term Debt</u></b>					
Notes Payable					
California Energy Commission	\$ 19,397	\$ -	\$ (9,554)	\$ 9,843	\$ 9,843
Kerman Public Finance Authority Bonds					
2020 Lease Revenue Bonds	-	3,041,000	-	3,041,000	-
2007 Lease Revenue Bonds	2,905,000	-	(2,905,000)	-	-
Total Governmental Activity Debt	<u>\$ 2,924,397</u>	<u>\$ 3,041,000</u>	<u>\$ (2,914,554)</u>	<u>\$ 3,050,843</u>	<u>\$ 9,843</u>
<b><u>Business-Type Activity Long Term Debt</u></b>					
Bonds Payable					
Sewer Revenue Bond	\$ 3,286	\$ -	\$ (3,286)	\$ -	\$ -
Notes Payable					
California Dept. of Water Resources	1,319,999	-	(165,000)	1,154,999	165,000
California Dept. of Water Resources	3,114,757	-	(245,595)	2,869,162	248,051
Total Business-Type Activity Debt	<u>\$ 4,438,042</u>	<u>\$ -</u>	<u>\$ (413,881)</u>	<u>\$ 4,024,161</u>	<u>\$ 413,051</u>
<b><u>Compensated Absences</u></b>					
Government Activities	<u>\$ 440,116</u>	<u>\$ -</u>	<u>\$ (12,847)</u>	<u>\$ 427,269</u>	
Business-Type Activities	<u>\$ 134,453</u>	<u>\$ -</u>	<u>\$ (7,735)</u>	<u>\$ 126,718</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, 2021 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.

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.



# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

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

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%. This bond was paid off and refinanced with the 2020 Lease Revenue noted below.

In September 2020, the KPFA issued the 2020 Lease Revenue Refunding Bonds in the amount of \$3,041,000. The 2020 Lease Revenue principal payments are made each October 1 beginning in 2022 through 2038. Interest is to be paid semi-annually on April 1 and October 1 through 2038. 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 bond was paid off during the fiscal year ended June 30, 2021.

**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, 2021 was \$1,154,999.

**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, 2021 was \$2,869,162.

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2021 were as follows:

Years ending June 30,	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2022	\$ 9,843	\$ 70,469	\$ 413,051	\$ 28,692
2023	32,000	69,878	415,532	26,211
2024	173,000	67,510	418,037	23,706
2025	177,000	63,467	420,567	21,175
2026	180,000	59,344	423,123	18,620
2027-2031	952,000	232,270	1,659,851	53,861
2032-2036	1,067,000	115,767	274,000	2,740
2037-2038	460,000	10,673	-	-
	<u>\$ 3,050,843</u>	<u>\$ 689,378</u>	<u>\$ 4,024,161</u>	<u>\$ 175,005</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

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### Note 7 – Fund Balance

**Fund Balance and Retained Earnings Deficits** - The following is a summary of deficit fund balances and retained earnings as of June 30, 2021:

Capital Project Funds	
Public Building Facility	\$ (195,678)
	<u>\$ (195,678)</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, 2021 are as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 1,095,958	\$ -
Public Building Facility Fund	-	225,001
Street Maintenance and Construction	-	38,449
Housing Grant	-	750,075
State Grants	-	82,433
	<u>\$ 1,095,958</u>	<u>\$ 1,095,958</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

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

#### Interfund Transfers

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

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Major Governmental Funds:</b>		
General Fund	\$ 10,496	\$ -
<b>Proprietary Funds:</b>		
Water	-	176,032
Sewer	32,758	-
Disposal	-	91,613
Storm Drain	-	17,569
Internal Service	758,060	-
<b>Nonmajor Governmental Funds:</b>		
Measure C	-	47,961
Gas Tax	15,054	-
Maintenance District	-	26,845
Kerman Public Financing Authority	-	203,406
State Grants	-	228,068
Local Transportation	-	24,874
	<u>\$ 816,368</u>	<u>\$ 816,368</u>

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

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### Note 9 – Risk Management

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

The CSJVRMA is a consortium of 55 cities in San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500, et. seq. The CSJVRMA is governed by a Board of Directors, which meets three to four times each year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by the CSJVRMA. The financial statements of CSJVRMA can be obtained at 1831 K Street, Sacramento, CA 95814.

Each member government pays a primary deposit to cover estimated losses for a fiscal year (claims year). Six months after the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Costs are spread to members as follows: the first \$25,000 of each occurrence is charged directly to the member. Each member maintains a \$1,000,000 self-insured retention (SIR) amount covered by the Authority pooled investments. The Authority purchases excess liability coverage through the California Affiliated Risk Management Authority for the amount in excess of \$1,000,000.

The City maintains a self-insured retention level of \$50,000 for workers' compensation insurance. Coverage between \$50,000 and \$500,000 is provided through the risk pool. CSJVRMA participates in an excess pool which provides workers' compensation coverage from \$5,000,000 to \$200,000,000. Each program year is retrospectively adjusted three years after the end of the program year and annually thereafter.

The City also purchases various property coverage programs. Deductibles and limits per property type can be obtained from the City Manager or directly from the Authority.

The latest audited financial information and the most current information available for CSJVRMA for fiscal year ended June 30, 2020 is as follows:

Total assets	\$ 140,373,479
Total liabilities	120,609,137
Net position	<u>\$ 19,764,342</u>
Total revenues	\$ 58,244,856
Total expenses	<u>57,261,330</u>
Increase/(decrease) in net position	<u>\$ 983,526</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, 2021

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

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports the \$1,382,197 in deferred outflows related to net pension liability in the Statement of Net Position. See Note 11 for more details.

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 \$195,587 in deferred inflows related to net pension in the Statement of Net Position. See Note 11 for more details.

### **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, 2021 Miscellaneous Classic, PEPRSA Miscellaneous, Safety Classic, and PEPRSA 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, 2021

### Note 11 – Pension Plan (Continued)

The Plans' provisions and benefits in effect at June 30, 2021, 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	8.650%	7.732%

	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	14.810%	11.114%

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, 2021

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### Note 11 – Pension Plan (Continued)

For the year ended June 30, 2021, the contributions recognized as part of the pension expense is as follows:

Contributions – employer	\$ 683,998
Contributions – employee	\$ 303,609

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

As of June 30, 2021, 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	\$ 2,618,410
Safety Police Plan	1,504,784
Total Net Pension Liability	<u>\$ 4,123,194</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, 2020, 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, 2019 rolled forward to June 30, 2020 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, 2020 and 2021 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion – June 30, 2020	0.05836%	0.02088%
Proportion – June 30, 2021	<u>0.06208%</u>	<u>0.02259%</u>
Change – Increase/(Decrease)	0.00371%	0.00171%

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

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### Note 11 – Pension Plan (Continued)

For the year ended June 30, 2021, the City recognized pension expense of \$1,087,314. At June 30, 2021, 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	\$ 683,998	\$ -
Difference between expected and actual experience	251,622	-
Difference in projected and actual contributions	18,551	(171,899)
Change in employer's proportion	317,534	-
Changes in assumptions	-	(23,688)
Net differences between projected and actual earnings on pension plan investments	110,492	-
Total	<u>\$ 1,382,197</u>	<u>\$ (195,587)</u>

\$683,998 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, 2021. 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	
2022	\$ 157,158
2023	173,473
2024	118,284
2025	53,697
Thereafter	-



# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

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### Note 11 – Pension Plan (Continued)

**Actuarial Methods and Assumptions** – The collective total pension liability for the June 30, 2020 measurement period was determined by an actuarial valuation as of June 30, 2019, with update procedures used to roll forward the total pension liability to June 30, 2020. The collective total pension liability was based on the following assumptions:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
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	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership <sup>1</sup> Date for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.5% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

<sup>1</sup> 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, 2021

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### 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, 2020.

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 <sup>1</sup>	New Strategic Allocation	Real Return Years 1-10 <sup>2</sup>	Real Return <sup>3</sup> 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	1%	0.00%	-0.92%
<b>Total</b>	<b>100%</b>		

<sup>1</sup> 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

<sup>2</sup> An expected inflation of 2.0% used for this period

<sup>3</sup> An expected inflation of 2.92% used for this period

# CITY OF KERMAN

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

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### Note 11 – Pension Plan (Continued)

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

The following presents the City's proportionate share of the net pension liability for each Plan, calculating using the discount rate of each Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.15%) 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	\$ 4,308,642	\$ 2,618,410	\$ 1,221,825
Safety Police Plan	\$ 2,420,551	\$ 1,504,784	\$ 753,310

**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, 2021, the City has no outstanding amount of contributions to the pension plan required for the year ended June 30, 2021.

### Note 12 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through October 11, 2021, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2021 that required recognition or disclosure in such financial statements.

## **REQUIRED SUPPLEMENTARY INFORMATION**

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# CITY OF KERMAN

## BUDGETARY COMPARISON SCHEDULE GENERAL FUND YEAR ENDED JUNE 30, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive/ (Negative)
<b>Revenue</b>				
Taxes	\$ 6,577,583	\$ 6,577,583	\$ 7,600,359	\$ 1,022,776
Licenses, permits and impact fees	493,437	493,437	493,781	344
Intergovernmental	397,951	397,951	466,474	68,523
Charges for services	200,449	200,449	241,968	41,519
Fines and forfeitures	20,200	20,200	37,643	17,443
Rents	65,024	65,024	81,704	16,680
Investment earning, net of unrealized gain/(loss)	37,126	37,126	(6,078)	(43,204)
Other	280,005	280,005	335,146	55,141
Total revenue	<u>8,071,774</u>	<u>8,071,774</u>	<u>9,250,997</u>	<u>1,179,223</u>
<b>Expenditures</b>				
Current				
General government	718,258	718,258	733,651	(15,393)
Public works	817,011	817,011	849,204	(32,193)
Community development	671,896	671,896	371,266	300,630
Social services	831,687	831,687	703,337	128,350
Public safety	3,750,773	3,750,773	3,508,651	242,122
Capital outlay	<u>4,256,800</u>	<u>4,256,800</u>	<u>1,474,245</u>	<u>2,782,555</u>
Total expenditures	<u>11,046,424</u>	<u>11,046,424</u>	<u>7,640,354</u>	<u>3,406,070</u>
Revenue over (under) expenditures	(2,974,650)	(2,974,650)	1,610,643	4,585,293
<b>Other Financing Sources</b>				
Sale of assets	-	-	128,409	128,409
Transfers in (out) - net	<u>(1,156,725)</u>	<u>(1,156,725)</u>	<u>10,498</u>	<u>1,167,223</u>
<b>Net Change in Fund Balance</b>	<u>\$ (4,131,375)</u>	<u>\$ (4,131,375)</u>	1,749,550	<u>\$ 5,752,516</u>
<b>Fund Balance</b>				
Beginning of year			<u>6,660,919</u>	
End of year			<u>\$ 8,410,469</u>	

# CITY OF KERMAN

## SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY LAST TEN YEARS\* YEAR ENDED JUNE 30, 2021

Safety Plan							
	Proportion of the net pension liability	Proportionate share of the net pension liability	Covered - employee payroll	Proportionate share of the net pension liability as percentage of		Plan's fiduciary net position as a percentage of the Total Pension	
				covered-employee payroll	Plan's fiduciary net position	Liability	
2015	0.01281%	\$ 797,321	\$ 1,144,549	69.66%	\$ 4,290,975		81.42%
2016	0.01575%	\$ 648,972	\$ 1,241,193	52.29%	\$ 3,869,632		85.62%
2017	0.01854%	\$ 959,979	\$ 1,457,400	65.87%	\$ 3,916,861		80.32%
2018	0.01899%	\$ 1,134,650	\$ 1,411,999	80.36%	\$ 4,136,749		78.48%
2019	0.01968%	\$ 1,154,435	\$ 1,645,891	70.14%	\$ 4,431,768		79.33%
2020	0.02088%	\$ 1,303,386	\$ 1,585,991	82.18%	\$ 4,934,602		79.11%
2021	0.02259%	\$ 1,504,784	\$ 1,628,209	92.42%	\$ 5,238,533		77.68%
Miscellaneous Plan							
	Proportion of the net pension liability	Proportionate share of the net pension liability	Covered - employee payroll	Proportionate share of the net pension liability as percentage of		Plan's fiduciary net position as a percentage of the Total Pension	
				covered-employee payroll	Plan's fiduciary net position	Liability	
2015	0.02196%	\$ 1,366,654	\$ 2,046,348	66.79%	\$ 6,686,104		83.03%
2016	0.04266%	\$ 1,170,147	\$ 1,858,214	62.97%	\$ 7,331,180		86.23%
2017	0.04971%	\$ 1,726,827	\$ 2,065,491	83.60%	\$ 7,344,945		80.96%
2018	0.05351%	\$ 2,109,314	\$ 2,138,981	98.61%	\$ 8,344,687		79.82%
2019	0.05485%	\$ 2,067,174	\$ 2,009,964	102.85%	\$ 8,856,335		81.08%
2020	0.05836%	\$ 2,337,202	\$ 2,297,565	101.73%	\$ 9,508,983		80.27%
2021	0.06208%	\$ 2,618,410	\$ 2,571,344	101.83%	\$ 10,082,879		79.38%

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

Changes of Assumptions: None

# CITY OF KERMAN

## SCHEDULE OF CONTRIBUTIONS LAST TEN YEARS\* YEAR ENDED JUNE 30, 2021

### Safety Plan

	Contractually required contribution (actuarially determined)	Contributions in relation to the actuarially determined contributions	Contributions deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered- employee payroll
2015	\$ 172,707	\$ (172,707)	\$ -	\$ 1,144,549	15.09%
2016	\$ 182,432	\$ (182,432)	\$ -	\$ 1,241,193	14.70%
2017	\$ 179,871	\$ (179,871)	\$ -	\$ 1,457,400	12.34%
2018	\$ 194,771	\$ (194,771)	\$ -	\$ 1,411,999	13.79%
2019	\$ 182,432	\$ (182,432)	\$ -	\$ 1,645,891	11.08%
2020	\$ 248,979	\$ (248,979)	\$ -	\$ 1,585,991	15.70%
2021	\$ 275,389	\$ (275,389)	\$ -	\$ 1,628,209	16.91%

### Miscellaneous

	Contractually required contribution (actuarially determined)	Contributions in relation to the actuarially determined contributions	Contributions deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered- employee payroll
2015	\$ 149,116	\$ (149,116)	\$ -	\$ 2,046,348	7.29%
2016	\$ 139,800	\$ (139,800)	\$ -	\$ 1,858,214	7.52%
2017	\$ 170,449	\$ (170,449)	\$ -	\$ 2,065,491	8.25%
2018	\$ 198,655	\$ (198,655)	\$ -	\$ 2,138,981	9.29%
2019	\$ 233,708	\$ (233,708)	\$ -	\$ 2,009,964	11.63%
2020	\$ 266,848	\$ (266,848)	\$ -	\$ 2,297,565	11.61%
2021	\$ 329,826	\$ (329,826)	\$ -	\$ 2,571,344	12.83%

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

## **SUPPLEMENTAL ONLY INFORMATION**

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# CITY OF KERMAN

## COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS JUNE 30, 2021

	Special Revenue Funds					Debt Service Fund
	Measure C	Gas Tax	Maintenance District	SB1 Road Maintenance	Park Grants	Kerman Public Financing Authority
<b>ASSETS</b>						
Cash and investments	\$ 233,094	\$ 601,676	\$ 205,179	\$ 179,848	\$ -	\$ -
Due from other governments	81,607	-	-	53,883	821,142	-
Total assets	<u>\$ 314,701</u>	<u>\$ 601,676</u>	<u>\$ 205,179</u>	<u>\$ 233,731</u>	<u>\$ 821,142</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCE</b>						
<b>Liabilities</b>						
Accounts payable and accrued expense	\$ 12,432	\$ 5,330	\$ 8,441	\$ -	\$ 71,067	\$ -
Due to other funds	-	-	-	-	750,075	-
Total liabilities	<u>12,432</u>	<u>5,330</u>	<u>8,441</u>	<u>-</u>	<u>821,142</u>	<u>-</u>
<b>Fund Balance</b>						
Restricted						
Circulation improvements	302,269	596,346	-	233,731	-	-
Development activities	-	-	196,738	-	-	-
Unassigned	-	-	-	-	-	-
Total fund balance	<u>302,269</u>	<u>596,346</u>	<u>196,738</u>	<u>233,731</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 314,701</u>	<u>\$ 601,676</u>	<u>\$ 205,179</u>	<u>\$ 233,731</u>	<u>\$ 821,142</u>	<u>\$ -</u>

# CITY OF KERMAN

## COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED) JUNE 30, 2021

	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	
<b>ASSETS</b>									
Cash and investments	\$ 66,418	\$ -	\$ -	\$ 499,180	\$ 512,855	\$ 116,511	\$ (1,356)	\$ 1,016,806	\$ 3,430,211
Due from other governments	-	59,927	33,379	-	68,417	112	423,680	126,627	1,668,774
Total assets	<u>\$ 66,418</u>	<u>\$ 59,927</u>	<u>\$ 33,379</u>	<u>\$ 499,180</u>	<u>\$ 581,272</u>	<u>\$ 116,623</u>	<u>\$ 422,324</u>	<u>\$ 1,143,433</u>	<u>\$ 5,098,985</u>
<b>LIABILITIES AND FUND BALANCE</b>									
<b>Liabilities</b>									
Accounts payable and accrued expense	\$ -	\$ 21,478	\$ 4,056	\$ -	\$ 464	\$ 53,523	\$ 37,577	\$ 18,074	\$ 232,442
Due to other funds	-	38,449	225,001	-	-	-	82,433	-	1,095,958
Total liabilities	<u>-</u>	<u>59,927</u>	<u>229,057</u>	<u>-</u>	<u>464</u>	<u>53,523</u>	<u>120,010</u>	<u>18,074</u>	<u>1,328,400</u>
<b>Fund Balance</b>									
Restricted									
Circulation improvements	-	-	-	-	-	-	-	1,125,359	2,257,705
Development activities	66,418	-	-	499,180	580,808	63,100	302,314	-	1,708,558
Unassigned	-	-	(195,678)	-	-	-	-	-	(195,678)
Total fund balance	<u>66,418</u>	<u>-</u>	<u>(195,678)</u>	<u>499,180</u>	<u>580,808</u>	<u>63,100</u>	<u>302,314</u>	<u>1,125,359</u>	<u>3,770,585</u>
Total liabilities and fund balance	<u>\$ 66,418</u>	<u>\$ 59,927</u>	<u>\$ 33,379</u>	<u>\$ 499,180</u>	<u>\$ 581,272</u>	<u>\$ 116,623</u>	<u>\$ 422,324</u>	<u>\$ 1,143,433</u>	<u>\$ 5,098,985</u>

# CITY OF KERMAN

## COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE NON-MAJOR GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2021

	Special Revenue Funds					Debt Service Fund
	Measure C	Gas Tax	Maintenance District	SB1 Road Maintenance	Park Grants	Kerman Public Financing Authority
<b>Revenue</b>						
Taxes	\$ -	\$ -	\$ 240,602	\$ 295,690	\$ -	\$ -
Developer impact fees	-	-	-	-	-	-
Intergovernmental	516,945	347,318	-	-	920,148	-
Rents	-	-	-	-	-	242,627
Interest	1,161	3,200	1,018	865	-	-
Other	-	-	12	-	-	-
Total revenue	<u>518,106</u>	<u>350,518</u>	<u>241,632</u>	<u>296,555</u>	<u>920,148</u>	<u>242,627</u>
<b>Expenditures</b>						
Public works	326,545	68,270	198,091	-	-	-
Community development	-	-	-	-	-	75,607
Social services	-	-	-	-	37,898	-
Capital outlay	7,757	9,639	-	326,116	882,250	-
Debt service						
Principal	-	10,065	-	-	-	2,905,000
Interest and fiscal charges	-	-	-	-	-	99,614
Total expenditures	<u>334,302</u>	<u>87,974</u>	<u>198,091</u>	<u>326,116</u>	<u>920,148</u>	<u>3,080,221</u>
Revenue over (under) expenditures	183,804	262,544	43,541	(29,561)	-	(2,837,594)
<b>Other financing sources/(uses)</b>						
Loan proceeds	-	-	-	-	-	3,041,000
Operating transfers in/(out) - net	(47,961)	15,054	(26,845)	-	-	(203,406)
	<u>(47,961)</u>	<u>15,054</u>	<u>(26,845)</u>	<u>-</u>	<u>-</u>	<u>2,837,594</u>
<b>Change in Fund Balance</b>	135,843	277,598	16,696	(29,561)	-	-
<b>Fund Balance</b>						
Beginning of year	<u>166,426</u>	<u>318,748</u>	<u>180,042</u>	<u>263,292</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ 302,269</u>	<u>\$ 596,346</u>	<u>\$ 196,738</u>	<u>\$ 233,731</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, 2021

	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	
<b>Revenue</b>									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 536,292
Developer impact fees	-	-	83,387	22,237	171,266	62,371	-	-	339,261
Intergovernmental	-	73,693	-	-	-	-	558,250	547,687	2,964,041
Rents	-	-	-	-	-	-	-	-	242,627
Interest	419	-	-	3,139	3,202	2,279	-	5,626	20,909
Other	-	-	-	-	-	112	-	-	124
Total revenue	419	73,693	83,387	25,376	174,468	64,762	558,250	553,313	4,103,254
<b>Expenditures</b>									
Public works	-	15,559	-	-	-	-	31,538	204,090	844,093
Community development	-	-	51,892	-	-	-	-	-	127,499
Social services	-	-	-	-	-	68,208	-	-	106,106
Capital outlay	-	58,134	126,970	-	4,036	520,849	-	168,574	2,104,325
Debt service									
Principal	-	-	-	-	-	-	-	-	2,915,065
Interest and fiscal charges	-	-	-	-	-	-	-	-	99,614
Total expenditures	-	73,693	178,862	-	4,036	589,057	31,538	372,664	6,196,702
Revenue over (under) expenditures	419	-	(95,475)	25,376	170,432	(524,295)	526,712	180,649	(2,093,448)
<b>Other financing sources/(uses)</b>									
Loan proceeds	-	-	-	-	-	-	-	-	3,041,000
Operating transfers in/(out) - net	-	-	-	-	-	-	(228,068)	(24,874)	(516,100)
	-	-	-	-	-	-	(228,068)	(24,874)	(516,100)
<b>Change in Fund Balance</b>	419	-	(95,475)	25,376	170,432	(524,295)	298,644	155,775	431,452
<b>Fund Balance</b>									
Beginning of year	65,999	-	(100,203)	473,804	410,376	587,395	3,670	969,584	3,339,133
End of year	\$ 66,418	\$ -	\$ (195,678)	\$ 499,180	\$ 580,808	\$ 63,100	\$ 302,314	\$ 1,125,359	\$ 3,770,585

**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, 2021, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated October 11, 2021.

**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.

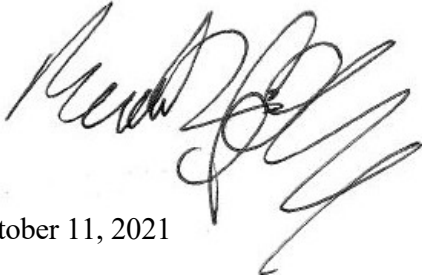
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not 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 in a cursive style.

October 11, 2021

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Kerman's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2021. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

**Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

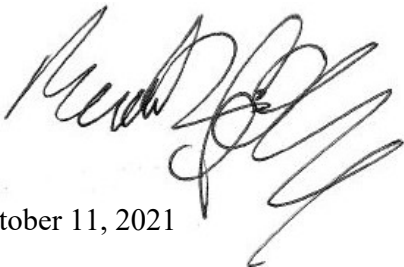
## Report on Internal Control Over Compliance

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

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

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

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

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

October 11, 2021



# CITY OF KERMAN

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2021

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Transportation			
Passed through California Department of Transportation			
RSTP Regional Surface Transportation Program	20.205	STPL5291(025)	1,309
RSTP Regional Surface Transportation Program	20.205	STPL5291(028)	<u>3,711</u>
			<u>5,020</u>
U.S. Department of Housing and Urban Development			
Passed through County of Fresno			
Community Development Block Grant	14.218	09371	<u>927,202</u>
U.S. Department of Homeland Security			
Passed through California Department of Finance			
Corona Relief Fund	21.019		<u>158,203</u>
U.S. Department of Justice			
Homeland Security Grant Program	97.067	019-00000	<u>4,418</u>
<i>Total Federal Expenditures</i>			<u>\$ 1,094,843</u>

# CITY OF KERMAN

## NOTES SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2021

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### **Note 1 – Significant Accounting Policies**

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the City of Kerman, California (the City). Federal awards received directly from federal agencies as well as federal awards passed through other nonfederal agencies, primarily the State of California, are included in the SEFA. The City's reporting entity is defined in Note 1 to the City's basic financial statements.

### **Note 2 – Basis of Accounting**

The accompanying SEFA is presented using the modified accrual basis of accounting for grants accounted for in the governmental fund types and the accrual basis of accounting for grants accounted for in the proprietary fund types, as described in Note 1 to the City's basic financial statements. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in, or used in the preparation of, the SEFA may differ from amounts presented in the basic financial statements.

### **Note 3 – Catalog of Federal Domestic Assistance (CFDA) Numbers**

The CFDA numbers included in the accompanying SEFA were determined based on program name, review of grant contract information, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

### **Note 4 – Relationship to the Financial Statements**

Expenditures of federal awards are reported in the City's basic financial statements as expenditures/expenses in the General Fund, nonmajor special revenue funds, nonmajor capital project funds, and the enterprise funds.

### **Note 5 – Indirect Cost Rate**

The City did not elect to use the 10% de minimus cost rate as covered in 2 CFR §200.414.

# CITY OF KERMAN

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2021

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### A. Summary of Auditor's Results

#### *Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Non-compliance material to financial statements noted? ☐ Yes ☒ No

#### *Federal Awards*

Internal control over major programs:

- Material weaknesses identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ Yes ☒ No

#### *Identification of Major Programs*

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

### B. Findings – Financial Statements Audit

None noted.

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

None noted.

## **CITY OF KERMAN**

### **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED JUNE 30, 2021**

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There were no prior year audit findings.