

'ATTACHMENT A'

CITY OF KERMAN

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2023**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 – 3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements	
Statement of Net Position	4
Statement of Activities	5
Fund Financial Statements	
Balance Sheet – Governmental Funds	6
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities	7
Statement of Revenue, Expenditures and Changes in Fund Balance – Governmental Funds	8
Reconciliation of Statement of Revenue, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	9
Statement of Net Position – Proprietary Funds	10
Statement of Revenue, Expenses and Changes in Fund Net Position - Proprietary Funds	11
Statement of Cash Flows – Proprietary Funds	12
Statement of Fiduciary Net Position	13
Statement of Changes to Fiduciary Net Position	14
Notes to Basic Financial Statements	15 – 41

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	42
Budgetary Comparison Schedule – Street Maintenance and Construction Fund	43
Budgetary Comparison Schedule – Street Projects & Development Fund	44
Schedule of the City’s Proportionate Share of Net Pension Liability	45
Schedule of Contributions	46
Supplemental Only Information	
Combining Balance Sheet – Nonmajor Governmental Funds	47 – 49
Combining Statement of Revenue, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds	50 – 52
 INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	 53 – 54
 INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE	 55 – 57
 Schedule of Expenditures of Federal Awards	58 57
Notes to Schedule of Expenditures of Federal Awards	59
Schedule of Findings and Questioned Costs	60
Summary Schedule of Prior Audit Findings	61

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements***Opinions***

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 (the "City"), California as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, as of June 30, 2023, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinions on the basic financial statements are not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 42-44, the schedule of the City's proportionate share of net pension liability on page 45, and the schedule of contributions on pages 46 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

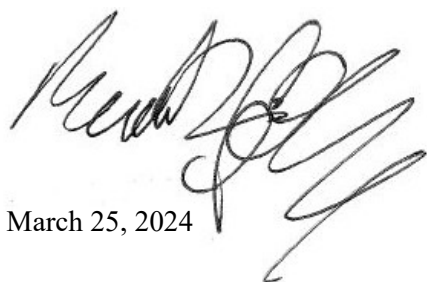
Supplementary Information

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

financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 March 25, 2024 on our consideration of the City'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 solely 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 the effectiveness of the City's 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's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to be "N. J. [unclear]", is written over the date "March 25, 2024".

March 25, 2024

CITY OF KERMAN

STATEMENT OF NET POSITION JUNE 30, 2023

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 19,870,398	\$ 11,704,751	\$ 31,575,149
Accounts receivable, net	157,675	592,075	749,750
Taxes receivable	1,774,305	-	1,774,305
Due from other governments	1,948,590	-	1,948,590
Interest receivable	107,673	-	107,673
Lease receivable	653,761	-	653,761
Internal balances	(199,704)	199,704	-
Capital assets, net of allowance for depreciation	<u>34,012,933</u>	<u>16,672,263</u>	<u>50,685,196</u>
Total assets	<u>58,325,631</u>	<u>29,168,793</u>	<u>87,494,424</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>2,508,893</u>	<u>413,449</u>	<u>2,922,342</u>
Total deferred outflows of resources	<u>2,508,893</u>	<u>413,449</u>	<u>2,922,342</u>
LIABILITIES			
Accounts payable and accrued expense	1,566,213	620,054	2,186,267
Accrued interest payable	17,377	17,779	35,156
Deposits payable	12,400	132,620	145,020
Unearned revenues	3,378	-	3,378
Long-term liabilities			
Due within one year	173,000	418,037	591,037
Due in more than one year	2,836,000	2,777,541	5,613,541
Compensated absences	484,525	129,145	613,670
Net pension liability	<u>4,348,354</u>	<u>754,257</u>	<u>5,102,611</u>
Total liabilities	<u>9,441,247</u>	<u>4,849,433</u>	<u>14,290,680</u>
DEFERRED INFLOWS OF RESOURCES	<u>940,983</u>	<u>63,047</u>	<u>1,004,030</u>
Total deferred inflows of resources	<u>940,983</u>	<u>63,047</u>	<u>1,004,030</u>
NET POSITION			
Net investment in capital assets	31,003,933	13,476,685	44,480,618
Restricted for specific projects and programs	8,890,698	-	8,890,698
Restricted for capital improvements	-	3,597,088	3,597,088
Unrestricted	<u>10,557,663</u>	<u>7,595,989</u>	<u>18,153,652</u>
Total net position	<u>\$ 50,452,294</u>	<u>\$ 24,669,762</u>	<u>\$ 75,122,056</u>

CITY OF KERMAN

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2023

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	\$ 2,166,126	\$ -	\$ 143,388	\$ -	\$ (2,022,738)	\$ -	\$ (2,022,738)
Public works	2,909,447	-	1,961,381	263,142	(684,924)	-	(684,924)
Community development	737,750	605,738	10,800	1,570,214	1,449,002	-	1,449,002
Social services	1,010,349	40,802	76,249	-	(893,298)	-	(893,298)
Public safety	4,510,739	257,081	2,221,718	-	(2,031,940)	-	(2,031,940)
Debt Service							
Interest and fiscal charges	56,216	-	-	-	(56,216)	-	(56,216)
Total governmental activities	11,390,627	903,621	4,413,536	1,833,356	(4,240,114)	-	(4,240,114)
Business-type activities							
Water	2,066,040	2,849,343	-	397,774	-	1,181,077	1,181,077
Sewer	2,207,161	1,989,484	-	504,331	-	286,654	286,654
Disposal	1,955,210	2,084,661	5,000	-	-	134,451	134,451
Storm Drain	220,022	84,638	-	64,063	-	(71,321)	(71,321)
Total business-type activities	6,448,433	7,008,126	5,000	966,168	-	1,530,861	1,530,861
Total primary government	\$ 17,839,060	\$ 7,911,747	\$ 4,418,536	\$ 2,799,524	(4,240,114)	1,530,861	(2,709,253)
General Revenue							
Property taxes					3,331,004	-	3,331,004
Special assessments					355,159	-	355,159
Sales taxes					6,102,938	-	6,102,938
Franchise and other taxes					177,341	-	177,341
Business licenses					93,766	-	93,766
Rents					344,623	6,567	351,190
Interest income/(unrealized gain on investments)					168,185	134,623	302,808
Other					276,491	2,819,532	3,096,023
Transfers					61,150	(61,150)	-
Total general revenue and transfers					10,910,657	2,899,572	13,810,229
Change in Net Position					6,670,543	4,430,433	11,100,976
Net Position							
Beginning of year					43,781,751	20,239,329	64,021,080
End of year					\$ 50,452,294	\$ 24,669,762	\$ 75,122,056

See accompanying notes.

CITY OF KERMAN

BALANCE SHEET – GOVERNMENTAL FUNDS JUNE 30, 2023

	General	Street Maintenance and Construction	Street Projects & Development	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 11,168,887	\$ 3,139,405	\$ 458,319	\$ 5,103,787	\$ 19,870,398
Accounts receivable	21,076	-	-	-	21,076
Taxes receivable	1,774,305	-	-	-	1,774,305
Lease receivable	653,761	-	-	-	653,761
Due from other governments	139,978	860,535	-	948,077	1,948,590
Interest receivable	107,673	-	-	-	107,673
Due from other funds	1,173,703	-	-	-	1,173,703
Total assets	<u>15,039,383</u>	<u>3,999,940</u>	<u>458,319</u>	<u>6,051,864</u>	<u>25,549,506</u>
LIABILITIES					
Accounts payable and accrued expense	506,464	\$ 344,160	\$ 387,505	280,797	1,518,926
Due to other funds	-	-	-	628,405	628,405
Deposits and other liabilities	12,400	-	-	-	12,400
Total liabilities	<u>522,242</u>	<u>344,160</u>	<u>387,505</u>	<u>909,202</u>	<u>2,163,109</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred right to use lease revenue	615,362	-	-	-	615,362
Total deferred inflows of resources	<u>615,362</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>615,362</u>
FUND BALANCE					
Restricted					
Circulation improvements	-	3,655,780	-	4,186,335	7,842,115
Development activities	-	-	70,814	977,769	1,048,583
Committed					
Unfunded liability	100,000	-	-	-	100,000
Emergency reserve	1,897,652	-	-	-	1,897,652
Revenue stability reserve	1,138,591	-	-	-	1,138,591
Major asset repair and replacement reserve	1,138,591	-	-	-	1,138,591
Unassigned	9,626,945	-	-	(21,442)	9,605,503
Total fund balance	<u>13,901,779</u>	<u>3,655,780</u>	<u>70,814</u>	<u>5,142,662</u>	<u>22,771,035</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 15,039,383</u>	<u>\$ 3,999,940</u>	<u>\$ 458,319</u>	<u>\$ 6,051,864</u>	<u>\$ 25,549,506</u>

CITY OF KERMAN

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2023

Total governmental fund balance	\$ 22,771,035
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	33,028,369
Net pension liability applicable to governmental activities are not due and payable in the current period and accordingly is not reported in the funds	(4,348,354)
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	2,508,893
Deferred inflows of resources related to net pension liability and lease income, 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	(325,621)
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(3,009,000)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(484,525)
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	(17,377)
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>328,874</u>
Net position of governmental activities	<u>\$ 50,452,294</u>

CITY OF KERMAN

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2023

	General	Street Maintenance and Construction	Streets Projects & Development	Other Governmental Funds	Total Governmental Funds
Revenue					
Taxes	\$ 9,218,980	\$ -	\$ -	\$ 726,500	\$ 9,945,480
Licenses, permits and impact fees	798,919	-	153,138	511,349	1,463,406
Intergovernmental	652,435	2,689,721	-	2,248,932	5,591,088
Charges for services	246,419	-	-	2,094	248,513
Fines and forfeitures	21,548	-	-	-	21,548
Rents	100,926	-	-	101,878	202,804
Investment earning, net of unrealized gain/(loss)	87,490	-	5,967	68,598	162,055
Other	216,175	-	-	1,000	217,175
Total revenue	<u>11,342,892</u>	<u>2,689,721</u>	<u>159,105</u>	<u>3,660,351</u>	<u>17,852,069</u>
Expenditures					
Current					
General government	1,092,891	-	-	-	1,092,891
Public works	1,048,214	-	211,365	1,154,313	2,413,892
Community development	467,290	-	236,214	21,412	724,916
Social services	667,896	-	-	151,131	819,027
Public safety	4,013,978	-	-	-	4,013,978
Capital outlay	400,339	858,474	-	647,892	1,906,705
Debt Service					
Principal	-	-	-	32,000	32,000
Interest and fiscal charges	-	-	-	69,878	69,878
Total expenditures	<u>7,690,608</u>	<u>858,474</u>	<u>447,579</u>	<u>2,076,626</u>	<u>11,073,287</u>
Revenue over/(under) expenditures	3,652,284	1,831,247	(288,474)	1,583,725	6,778,782
Other Financing Sources/(Uses)					
Lease revenues	147,947	-	-	-	147,947
Transfers in/(out) - net	(94,689)	(3,357)	-	(521,660)	(619,706)
	<u>53,258</u>	<u>(3,357)</u>	<u>-</u>	<u>(521,660)</u>	<u>(471,759)</u>
Change in Fund Balance	3,705,542	1,827,890	(288,474)	1,062,065	6,307,023
Fund Balance					
Beginning of year	<u>10,196,237</u>	<u>1,827,890</u>	<u>359,288</u>	<u>4,080,597</u>	<u>16,464,012</u>
End of year	<u>\$ 13,901,779</u>	<u>\$ 3,655,780</u>	<u>\$ 70,814</u>	<u>\$ 5,142,662</u>	<u>\$ 22,771,035</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, 2023

Net change in fund balance - total governmental funds		\$ 6,307,023
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated lives and reported as depreciation expense		
Capital outlay expenditures are therefore added back to fund balances	1,906,705	
Depreciation expense not reported in governmental funds	<u>(844,936)</u>	
		1,061,769
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		32,000
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		(433,385)
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		(237,750)
In the Statement of Activities interest is accrued on long-term debt, whereas, in governmental funds interest expenditure is reported when due		13,662
Compensated absence costs in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in Governmental Funds		<u>(72,776)</u>
Change in net position of governmental activities		<u>\$ 6,670,543</u>

CITY OF KERMAN

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

JUNE 30, 2023

	Business-Type Activities - Enterprise Funds				Total Proprietary Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain		
ASSETS						
Current assets						
Cash and investments	\$ 8,020,803	\$ 2,715,842	\$ 555,242	\$ 412,864	\$ 11,704,751	\$ -
Accounts receivable, net	204,848	181,886	188,125	17,216	592,075	136,599
Prepays	-	-	-	-	-	-
Total current assets	<u>8,225,651</u>	<u>2,897,728</u>	<u>743,367</u>	<u>430,080</u>	<u>12,296,826</u>	<u>136,599</u>
Non-current assets						
Property, plant and equipment, net of allowance for depreciation	<u>6,858,482</u>	<u>8,782,329</u>	<u>5,745</u>	<u>1,025,707</u>	<u>16,672,263</u>	<u>984,564</u>
Total assets	<u>15,084,133</u>	<u>11,680,057</u>	<u>749,112</u>	<u>1,455,787</u>	<u>28,969,089</u>	<u>1,121,163</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>195,358</u>	<u>156,264</u>	<u>50,951</u>	<u>10,876</u>	<u>413,449</u>	<u>-</u>
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	278,643	61,950	141,139	138,322	620,054	47,287
Accrued interest payable	-	17,779	-	-	17,779	-
Due to other funds	-	-	-	-	-	545,298
Deposits	132,620	-	-	-	132,620	-
Current portion of long-term debt	<u>418,037</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>418,037</u>	<u>-</u>
Total current liabilities	<u>829,300</u>	<u>79,729</u>	<u>141,139</u>	<u>138,322</u>	<u>1,188,490</u>	<u>592,585</u>
Non-current liabilities						
Long-term debt	406,962	2,370,579	-	-	2,777,541	-
Compensated absences	57,251	48,358	23,536	-	129,145	-
Net pension liability	<u>356,395</u>	<u>285,074</u>	<u>92,952</u>	<u>19,836</u>	<u>754,257</u>	<u>-</u>
Total noncurrent liabilities	<u>820,608</u>	<u>2,704,011</u>	<u>116,488</u>	<u>19,836</u>	<u>3,660,943</u>	<u>-</u>
Total liabilities	<u>1,649,908</u>	<u>2,783,740</u>	<u>257,627</u>	<u>158,158</u>	<u>4,849,433</u>	<u>592,585</u>
DEFERRED INFLOWS OF RESOURCES	<u>29,791</u>	<u>23,829</u>	<u>7,769</u>	<u>1,658</u>	<u>63,047</u>	<u>-</u>
NET POSITION						
Net investment in capital assets	6,033,483	6,411,750	5,745	1,025,707	13,476,685	984,564
Restricted for capital improvements	2,473,419	824,133	-	299,536	3,597,088	-
Unrestricted/(deficit)	<u>5,092,890</u>	<u>1,792,869</u>	<u>528,922</u>	<u>(18,396)</u>	<u>7,396,285</u>	<u>(455,986)</u>
Total net position	<u>\$ 13,599,792</u>	<u>\$ 9,028,752</u>	<u>\$ 534,667</u>	<u>\$ 1,306,847</u>	<u>24,470,058</u>	<u>\$ 528,578</u>

Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds

199,704

Net position of business-type activities

\$ 24,669,762

See accompanying notes.

CITY OF KERMAN

**STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET POSITION –
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2023**

	Business-Type Activities - Enterprise Funds				Total Proprietary Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain		
Operating Revenue						
Charges for services	\$ 2,747,778	\$ 1,971,283	\$ 2,084,660	\$ 84,638	\$ 6,888,359	\$ -
Other revenues	2,843,796	54,921	45,528	1,621	2,945,866	59,380
Total operating income	<u>5,591,574</u>	<u>2,026,204</u>	<u>2,130,188</u>	<u>86,259</u>	<u>9,834,225</u>	<u>59,380</u>
Operating Expense						
Contractual services and utilities	667,671	595,935	1,620,335	2,417	2,886,358	66,965
Personnel	823,995	734,825	293,766	61,049	1,913,635	211,381
Supplies and materials	261,612	270,947	42,423	141,326	716,308	468,648
Depreciation	336,201	606,250	682	16,110	959,243	241,576
Total operating expense	<u>2,089,479</u>	<u>2,207,957</u>	<u>1,957,206</u>	<u>220,902</u>	<u>6,475,544</u>	<u>988,570</u>
Operating income/(loss)	<u>3,502,095</u>	<u>(181,753)</u>	<u>172,982</u>	<u>(134,643)</u>	<u>3,358,681</u>	<u>(929,190)</u>
Nonoperating Revenue/(Expense)						
Intergovernmental	-	-	5,000	-	5,000	60,000
Development impact fees	397,774	504,331	-	64,063	966,168	-
Interest income	87,081	34,272	7,555	5,715	134,623	166
Interest expense	-	(22,471)	-	-	(22,471)	-
Total nonoperating revenue/(expense)	<u>484,855</u>	<u>516,132</u>	<u>12,555</u>	<u>69,778</u>	<u>1,083,320</u>	<u>60,166</u>
Net income/(loss) before transfers	3,986,950	334,379	185,537	(64,865)	4,442,001	(869,024)
Operating Transfers In/(Out)	<u>148,656</u>	<u>(98,830)</u>	<u>(92,393)</u>	<u>(18,583)</u>	<u>(61,150)</u>	<u>680,856</u>
Change in Net Position	<u>4,135,606</u>	<u>235,549</u>	<u>93,144</u>	<u>(83,448)</u>	<u>4,380,851</u>	<u>(188,168)</u>
Net Position						
Beginning of year	<u>9,464,186</u>	<u>8,793,203</u>	<u>441,523</u>	<u>1,390,295</u>	<u>20,089,207</u>	<u>716,746</u>
End of year	<u>\$ 13,599,792</u>	<u>\$ 9,028,752</u>	<u>\$ 534,667</u>	<u>\$ 1,306,847</u>	<u>\$ 24,470,058</u>	<u>\$ 528,578</u>

Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds

\$ 49,582

Change in net position of business-type activities (Page 5)

\$ 4,430,433

CITY OF KERMAN

STATEMENT OF CASH FLOW - PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2023

	Business-Type Activities - Enterprise Funds				Total Business-Type Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Disposal	Storm Drain		
Operating Activities						
Receipts from customers and users	\$ 5,518,526	\$ 1,935,106	\$ 2,040,597	\$ 74,891	\$ 9,569,120	\$ (17,219)
Payments for contractual services and utilities	(652,722)	(592,367)	(1,614,063)	117,003	(2,742,149)	(56,203)
Payments to employees	(815,172)	(726,461)	(285,082)	(60,169)	(1,886,884)	(211,381)
Payment to suppliers	(261,612)	(270,947)	(42,423)	(141,326)	(716,308)	(468,648)
Net cash provided by (used) in operating activities	3,789,020	345,331	99,029	(9,601)	4,223,779	(753,451)
Non-capital Financial Activities						
Payments from other governments	-	-	5,000	-	5,000	60,000
Payments (to)/from developers	397,774	504,331	-	64,063	966,168	-
Transfers (to)/from other funds	148,656	(98,830)	(92,393)	(18,583)	(61,150)	1,049,815
Net cash provided by (used) in noncapital financing activities	546,430	405,501	(87,393)	45,480	910,018	1,109,815
Capital and Related Financing Activities						
Purchase of property, plant and equipment	(649,910)	(277,381)	(2,140)	(1,711)	(931,142)	(356,530)
Principal paid on long-term debt	(165,000)	(250,531)	-	-	(415,531)	-
Interest paid on long-term debt	-	(26,211)	-	-	(26,211)	-
Net cash provided by (used) in capital and related financing activities	(814,910)	(554,123)	(2,140)	(1,711)	(1,372,884)	(356,530)
Investing Activities						
Interest received	87,081	34,272	7,555	5,715	134,623	166
Net cash provided by (used) in investing activities	87,081	34,272	7,555	5,715	134,623	166
Net Increase (Decrease) in Cash	3,607,621	230,981	17,051	39,883	3,895,536	-
Cash						
Beginning of year	4,413,182	2,484,861	538,191	372,981	7,809,215	-
End of year	\$ 8,020,803	\$ 2,715,842	\$ 555,242	\$ 412,864	\$ 11,704,751	\$ -
Cash Flows from Operating Activities						
Operating income (loss)	\$ 3,502,095	\$ (181,753)	\$ 172,982	\$ (134,643)	\$ 3,358,681	\$ (929,190)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	336,201	606,250	682	16,110	959,243	241,576
(Increase) Decrease in Accounts Receivable	(83,879)	(91,098)	(89,591)	(11,368)	(275,936)	(76,599)
(Increase) Decrease in Deferred Outflows of Resources	(116,662)	(93,316)	(30,427)	(6,493)	(246,898)	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	14,949	3,568	6,272	119,420	144,209	10,762
Increase (Decrease) in Deposits	10,831	-	-	-	10,831	-
Increase (Decrease) in Deferred Inflows of Resources	(98,698)	(78,946)	(25,742)	(5,493)	(208,879)	-
Increase (Decrease) in Net Pension Liability	231,177	184,915	60,294	12,866	489,252	-
Increase (Decrease) in Compensated Absences	(6,994)	(4,289)	4,559	-	(6,724)	-
Net Cash Provided by (Used) in Operating Activities	\$ 3,789,020	\$ 345,331	\$ 99,029	\$ (9,601)	\$ 4,223,779	\$ (753,451)

See accompanying notes.

CITY OF KERMAN

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2023

	<u>Custodial Funds</u>
ASSETS	
Cash and investments	\$ 532,050
Total assets	<u>532,050</u>
LIABILITIES	
Accounts payable	<u>3,631</u>
Total liabilities	<u>3,631</u>
NET POSITION	
Restricted for	
Individuals, organizations, and other governments	<u>528,419</u>
Total Net Position	<u>\$ 528,419</u>

CITY OF KERMAN

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION JUNE 30, 2023

Additions

Fees	\$	35,736
Deposits		29,943
Special events		<u>1,260</u>
Total additions		<u>66,939</u>

Deductions

Payments to other entities		<u>22,011</u>
Total deductions		<u>22,011</u>

Change In Net Position

44,928

Net Position

Beginning of year		<u>483,491</u>
End of year	\$	<u><u>528,419</u></u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2023

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, 2023

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.

Street Maintenance & Construction – The Street Maintenance and Construction Fund accounts for all capital street and improvement projects.

Street Projects & Development – The Street Projects & Development Fund accounts for all grant related capital street and improvement projects.

The City reports the following major enterprise funds:

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

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

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

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

The City reports the following additional fund types:

Internal Service Fund – The Internal Service Fund accounts for fleet management and computer services provided to other departments or agencies of the government, on a cost reimbursement basis.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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, 2023

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, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

	<u>Years</u>
Infrastructure	50
Buildings	20 - 40
Improvements	30 - 50
Equipment	5 - 10

Leases - Lessor: The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City uses the interest rate charged to the lessees as the discount rate. When the interest rate charged to the lessees is not provided, the City generally uses the implied rate of return as the discount rate for leases. When the implied rate of return has not been determined, the City uses its estimated incremental borrowing rate which it has determined is the prime rate at the inception of the lease.
- The lease term includes the non-cancellable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2023

Note 2 – Stewardship, Compliance and Accountability (continued)

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

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

Note 3 – Cash and Investments

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

Cash and investments as of June 30, 2023 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$ 31,575,149
Fiduciary Funds:	
Cash and Investments	<u>532,050</u>
Total Cash and Investments	<u>\$ 32,107,199</u>

Cash and investments as of June 30, 2023 consist of the following:

Cash on hand	\$ 1,250
Deposits with Financial Institutions	26,833,626
Certificates of deposit	<u>5,272,323</u>
Total Cash and Investments	<u>\$ 32,107,199</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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2023

Note 3 – Cash and Investments (Continued)

- 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.

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, 2023**

Note 3 – Cash and Investments (Continued)

Investments Authorized by Debt Agreements

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

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

Disclosures Relating to Interest Rate Risk

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

Investment Type	Fair Value	Remaining Maturity (in months)		
		12 Months or Less	13 to 24 Months	25 to 60 Months
Certificates of deposit	<u>\$ 5,272,323</u>	<u>\$ 1,162,784</u>	<u>\$ 3,156,237</u>	<u>\$ 953,302</u>
Total	<u>\$ 5,272,323</u>	<u>\$ 1,162,784</u>	<u>\$ 3,156,237</u>	<u>\$ 953,302</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2023

Note 3 – Cash and Investments (Continued)

Disclosures Relating to Credit Risk

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

Investment Type		Minimum	Rating as of Year End
		Legal Rating	Not Rated
Certificates of deposit	\$ 5,272,323	N/A	\$ 5,272,323
Total	\$ 5,272,323		\$ 5,272,323

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, 2023.

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, 2023**

Note 4 – Receivables

The following is a summary of receivables at June 30, 2023 for the City’s individual enterprise funds, including the applicable allowances for uncollectible accounts are as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Disposal</u>	<u>Storm Drain</u>	<u>Internal Service</u>
Enterprise Funds					
Accounts	\$ 231,686	\$ 212,406	\$ 208,023	\$ 18,790	\$ 136,599
Gross receivables	231,686	212,406	208,023	18,790	136,599
Less: Allowance for uncollectible accounts	(26,838)	(30,520)	(19,898)	(1,574)	-
	<u>\$ 204,848</u>	<u>\$ 181,886</u>	<u>\$ 188,125</u>	<u>\$ 17,216</u>	<u>\$ 136,599</u>

Lease receivables

The following is a summary of lease receivables at June 30, 2023

	<u>General Fund</u>
Land Leases:	
Valley Health	\$ 127,513
Generations Dairy	23,028
Tower Leases:	
Verizon	430,938
AT&T	72,282
	<u>\$ 653,761</u>

Valley Heath Team Inc. Land Lease – The City entered into an agreement to lease out a certain property from June 1, 2011 through August 31, 2026 at a monthly rate of \$3,312.24. Payment is due the first of the month at .9% interest.

Generations Dairy Land Lease – The City agreed to lease out 39 acres of land from 5/1/21 to 12/31/25 for an annual payment ranging from \$11,199 to \$12,789 at .9% interest rate.

Verizon Tower Lease – The City entered into an agreement to lease out a cell tower from December 1, 2007 through December 1, 2036 for an annual payment ranging from \$25,412 to \$39,590. Payment is due December 1 each year at .9% interest.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2023

Note 4 – Receivables (continued)

AT&T Tower Lease – The City entered into an agreement to lease out a cell tower from December 1, 2007 through December 1, 2036 to for a monthly payment of \$1,600. Payment is due December 1 each year at .9% interest.

The annual payment receipt schedule for principal and interest on all lease receivable at June 30, 2023 were as follows:

<u>For the year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 92,853	\$ 5,367	\$ 98,220
2025	95,011	4,602	99,613
2026	85,806	3,830	89,636
2027	48,164	3,169	51,333
2028	27,480	2,863	30,343
2029-2033	155,616	10,309	165,925
2034-2037	<u>148,831</u>	<u>2,745</u>	<u>151,576</u>
Total	<u>\$ 653,761</u>	<u>\$ 32,885</u>	<u>\$ 686,646</u>

The related deferred inflows of resources on the right of use on lease revenue will be amortized on a straight-line basis over the term of the agreement as follows:

<u>For the year ended June 30,</u>	<u>Principal</u>
2024	\$ 98,649
2025	91,951
2026	85,253
2027	48,541
2028	30,628
2029-2033	153,139
2034-2037	<u>107,200</u>
Total	<u>\$ 615,362</u>

During the year ended June 30, 2023, the City recognized \$102,522 in lease revenue and \$6,130 in related interest income.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2023

Note 5 – Capital Assets – Capital asset activities for the year ended June 30, 2023 were as follows:

	<u>Balance</u> <u>July 1, 2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2023</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 2,523,592	\$ -	\$ -	\$ 2,523,592
Construction in progress	<u>5,077,288</u>	<u>1,722,619</u>	<u>(2,540,190)</u>	<u>4,259,717</u>
Total capital assets, not being depreciated	<u>7,600,880</u>	<u>1,722,619</u>	<u>(2,540,190)</u>	<u>6,783,309</u>
Capital assets, being depreciated				
Buildings and improvements	9,854,519	2,654,585		12,509,104
Infrastructure	22,944,405	-	-	22,944,405
Machinery and equipment	<u>3,460,817</u>	<u>426,221</u>	<u>-</u>	<u>3,887,038</u>
Total capital assets, being depreciated	<u>36,259,741</u>	<u>3,080,806</u>	<u>-</u>	<u>39,340,547</u>
Less accumulated depreciation for				
Buildings and improvements	(3,273,806)	(279,027)	-	(3,552,833)
Infrastructure	(5,403,853)	(525,096)	-	(5,928,949)
Machinery and equipment	<u>(2,346,752)</u>	<u>(282,389)</u>	<u>-</u>	<u>(2,629,141)</u>
Total accumulated depreciation	<u>(11,024,411)</u>	<u>(1,086,512)</u>	<u>-</u>	<u>(12,110,923)</u>
Total capital assets, being depreciated, net	<u>25,235,330</u>	<u>1,994,294</u>	<u>-</u>	<u>27,229,624</u>
Governmental activities capital assets, net	<u>\$ 32,836,210</u>	<u>\$ 3,716,913</u>	<u>\$ (2,540,190)</u>	<u>\$ 34,012,933</u>
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 3,383,589	\$ -	\$ -	\$ 3,383,589
Construction in progress	<u>3,368,797</u>	<u>545,716</u>	<u>-</u>	<u>3,914,513</u>
Total capital assets, not being depreciated	<u>6,752,386</u>	<u>545,716</u>	<u>-</u>	<u>7,298,102</u>
Capital assets, being depreciated				
Buildings and improvements	22,781,421	373,876	-	23,155,297
Machinery and equipment	<u>1,978,658</u>	<u>11,550</u>	<u>-</u>	<u>1,990,208</u>
Total capital assets, being depreciated	<u>24,760,079</u>	<u>385,426</u>	<u>-</u>	<u>25,145,505</u>
Less: accumulated depreciation	<u>(14,812,101)</u>	<u>(959,243)</u>	<u>-</u>	<u>(15,771,344)</u>
Total capital assets, being depreciated, net	<u>9,947,978</u>	<u>(573,817)</u>	<u>-</u>	<u>9,374,161</u>
Business-type activities capital assets, net	<u>\$ 16,700,364</u>	<u>\$ (28,101)</u>	<u>\$ -</u>	<u>\$ 16,672,263</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2023

Note 5 – Capital Assets (Continued)

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

Governmental Functions:

General Government	\$	108,853
Public Works and Community Development		529,253
Social Services		167,965
Public Safety		38,865
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the asset		<u>241,576</u>
	\$	<u>1,086,512</u>

Business-Type Functions:

Water	\$	336,201
Sewer		606,250
Disposal		682
Storm Drain		<u>16,110</u>
	\$	<u>959,243</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2023

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, 2023 was comprised of the following individual issues:

	<u>Balance</u> <u>July 1, 2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2023</u>	<u>Current</u> <u>Portion</u>
<u>Governmental Activity Long Term Debt</u>					
<i>Direct Borrowings:</i>					
Kerman Public Finance Authority Bonds					
2020 Lease Revenue Bonds	\$ 3,041,000	\$ -	\$ (32,000)	\$ 3,009,000	\$ 173,000
Total Governmental Activity Debt	<u>\$ 3,041,000</u>	<u>\$ -</u>	<u>\$ (32,000)</u>	<u>\$ 3,009,000</u>	<u>\$ 173,000</u>
<u>Business-Type Activity Long Term Debt</u>					
<i>Direct Borrowings:</i>					
Notes Payable					
California Dept. of Water Resources	\$ 989,999	\$ -	\$ (165,000)	\$ 824,999	\$ 165,000
California Dept. of Water Resources	2,621,110	-	(250,531)	2,370,579	253,037
Total Business-Type Activity Debt	<u>\$ 3,611,109</u>	<u>\$ -</u>	<u>\$ (415,531)</u>	<u>\$ 3,195,578</u>	<u>\$ 418,037</u>
<u>Compensated Absences</u>					
Government Activities	<u>\$ 411,749</u>	<u>\$ 72,776</u>	<u>\$ -</u>	<u>\$ 484,525</u>	
Business-Type Activities	<u>\$ 135,869</u>	<u>\$ -</u>	<u>\$ (6,724)</u>	<u>\$ 129,145</u>	
<u>Net Pension Liability</u>					
Government Activities	<u>\$ 1,571,599</u>	<u>\$ 2,776,755</u>	<u>\$ -</u>	<u>\$ 4,348,354</u>	
Business-Type Activities	<u>\$ 265,005</u>	<u>\$ 489,252</u>	<u>\$ -</u>	<u>\$ 754,257</u>	

Kerman Public Financing Authority Bonds - The KPFA was established in 2007 through a Joint Exercise of Powers Agreement between the City and the Agency. The formation of the joint powers authority was approved by the City Council who is also designated as the Board of Directors for the KPFA.

The purpose of the KPFA is solely to provide funds from the sale of revenue bonds to finance or refinance the costs of acquiring, constructing, or improving and equipping capital improvements (projects) for the City and the Agency. The City set up the KPFA to act as a financing/lending type institution only.

In 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%.

CITY OF KERMAN

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2023**

Note 6 – Long-Term Debt (Continued)

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, 2022 was \$824,999.

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, 2022 was \$2,370,579.

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2023 were as follows:

Years ending June 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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	183,000	55,151	425,704	16,039
2028	186,000	50,889	428,310	13,432
2029-2033	998,000	187,272	1,079,837	27,130
2034-2038	1,112,000	65,398	-	-
	<u>\$ 3,009,000</u>	<u>\$ 549,031</u>	<u>\$ 3,195,578</u>	<u>\$ 120,102</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2023

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, 2023:

Special Revenue Funds	
Park Development	(21,442)

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, 2023 are as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 1,173,703	\$ -
Internal Service Fund	-	545,298
Senior Center Fund	-	6,999
Park Development	-	14,267
Housing Grant	-	14,103
State Grants	-	593,036
	<u>\$ 1,173,703</u>	<u>\$ 1,173,703</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2023

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

Interfund Transfers

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

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ -	\$ 94,689
Maintenance and Construction	-	3,357
Proprietary Funds:		
Water	148,656	-
Sewer	-	98,830
Disposal	-	92,393
Storm Drain	-	18,583
Internal Service	680,856	-
Nonmajor Governmental Funds:		
Measure C	-	52,724
Gas Tax	18,345	-
Maintenance District	-	24,496
State Grants	-	426,172
Local Transportation	-	50,262
	<u>\$ 861,506</u>	<u>\$ 861,506</u>

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2023

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, 2023 is as follows:

Total assets	\$ 153,984,502
Total liabilities	<u>120,022,096</u>
Net position	<u>\$ 33,962,406</u>
Total revenues	\$ 73,088,767
Total expenses	<u>71,300,255</u>
Increase/(decrease) in net position	<u>\$ 1,788,512</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, 2023

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 \$2,922,342 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 two items related to deferred inflows, totaling \$1,004,030:

- \$388,667 in deferred inflows of resources related to net pension liability, see Note 11 for more details.
- \$615,363 in deferred inflows of resources related to right of use capital lease revenue in the Balance Sheet of the General Fund, see Note 4 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, 2023 Miscellaneous Classic, PEPRM Miscellaneous, Safety Classic, and PEPRM Safety were 8.630%, 7.470%, 14.740%, and 10.800%, 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, 2023**

Note 11 – Pension Plan (Continued)

The Plans’ provisions and benefits in effect at June 30, 2023, are summarized as follows:

	<u>Miscellaneous Classic</u>	<u>PEPRA Miscellaneous</u>
	Prior to	On or after
Hire Date	<u>January 1, 2013</u>	<u>January 1, 2013</u>
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	8.630%	7.470%
	<u>Safety Classic</u>	<u>PEPRA Safety</u>
	Prior to	On or after
Hire Date	<u>January 1, 2013</u>	<u>January 1, 2013</u>
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	14.740%	10.800%

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, 2023

Note 11 – Pension Plan (Continued)

For the year ended June 30, 2023, the contributions recognized \$1,045,282 as part of the pension expense.

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

As of June 30, 2023, 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	\$	3,258,465
Safety Police Plan		1,844,146
Total Net Pension Liability	\$	<u>5,102,611</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, 2022, 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, 2021 rolled forward to June 30, 2022 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, 2022 and 2023 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion – June 30, 2022	0.06029%	0.01971%
Proportion – June 30, 2023	<u>0.06964%</u>	<u>0.02684%</u>
Change – Increase/(Decrease)	0.00935%	0.00713%

CITY OF KERMAN

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2023**

Note 11 – Pension Plan (Continued)

For the year ended June 30, 2023, the City recognized pension expense of \$1,244,696. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 777,837	\$ -
Difference between expected and actual experience	141,759	(63,852)
Difference in projected and actual contributions	892	(324,815)
Change in employer's proportion	593,929	-
Changes in assumptions	519,844	-
Net differences between projected and actual earnings on pension plan investments	<u>888,081</u>	<u>-</u>
Total	<u>\$ 2,922,342</u>	<u>\$ (388,667)</u>

\$777,837 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, 2024. 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 <u>June 30</u>	
2024	\$ 538,936
2025	438,189
2026	236,002
2027	542,711
Thereafter	-

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2023

Note 11 – Pension Plan (Continued)

Actuarial Methods and Assumptions – The collective total pension liability for the June 30, 2022 measurement period was determined by an actuarial valuation as of June 30, 2021, with update procedures used to roll forward the total pension liability to June 30, 2022. The collective total pension liability was based on the following assumptions:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Payroll Growth	2.30%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership ¹ Date for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.5% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

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

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

Change of assumptions – No changes in assumptions.

Discount rate – The discount rate used to measure the total pension liability for PERF C was 6.90%. 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.

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2023

Note 11 – Pension Plan (Continued)

Long-term Expected Rate of Return

In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and, combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the longterm projected portfolio return.

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, 2022.

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	Assumed Asset Allocation	Real Return Years 1-10	¹ ²
Global equity - cap-weighted	30%	4.50%	
Global equity - noncap-weighted	12%	3.84%	
Private equity	13%	7.28%	
Treasury	5%	0.27%	
Mortgage-backed securities	5%	0.50%	
Investment grade corporates	10%	1.56%	
High yield	5%	2.27%	
Emerging market debt	5%	2.48%	
Private debt	5%	3.57%	
Real assets	15%	3.21%	
Leverage	-5%	-0.59%	

¹ An expected inflation of 2.30% used for this period

² Figures are based on the 2021-22 Asset Liability Management Study

CITY OF KERMAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2023

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 (5.90%) or 1-percentage point higher (7.90%) than the current rate:

	1% Decrease (5.90%)	Current Discount Rate (6.90%)	1% Increase (7.90%)
Net Pension Liability:			
Miscellaneous Plan	\$ 5,273,691	\$ 3,258,465	\$ 1,600,434
Safety Police Plan	\$ 3,013,917	\$ 1,844,146	\$ 888,124

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, 2023, the City has no outstanding amount of contributions to the pension plan required for the year ended June 30, 2023.

Note 12 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through March 25, 2024, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2023 that required recognition or disclosure in such financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KERMAN

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2023**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Taxes	\$ 7,725,436	\$ 7,725,436	\$ 9,218,980	\$ 1,493,544
Licenses, permits and impact fees	701,380	701,380	798,919	97,539
Intergovernmental	673,345	673,345	652,435	(20,910)
Charges for services	256,346	256,346	246,419	(9,927)
Fines and forfeitures	31,707	31,707	21,548	(10,159)
Rents	167,445	167,445	100,926	(66,519)
Investment earning, net of unrealized gain/(loss)	68,430	68,430	87,490	19,060
Other	<u>234,058</u>	<u>234,058</u>	<u>216,175</u>	<u>(17,883)</u>
Total revenue	<u>9,858,149</u>	<u>9,858,149</u>	<u>11,342,892</u>	<u>1,484,743</u>
Expenditures				
Current				
General government	1,136,574	1,136,574	1,092,891	43,683
Public works	1,279,953	1,279,953	1,048,214	231,739
Community development	779,337	779,337	467,290	312,047
Social services	813,706	813,706	667,896	145,810
Public safety	4,604,675	4,604,675	4,013,978	590,697
Capital outlay	<u>807,873</u>	<u>807,873</u>	<u>400,339</u>	<u>407,534</u>
Total expenditures	<u>9,422,119</u>	<u>9,422,119</u>	<u>7,690,608</u>	<u>1,731,511</u>
Revenue over (under) expenditures	436,030	436,030	3,652,284	3,216,254
Other Financing Sources				
Lease revenues	-	-	147,947	147,947
Transfers in (out) - net	<u>(985,034)</u>	<u>(985,034)</u>	<u>(94,689)</u>	<u>890,345</u>
Net Change in Fund Balance	<u>\$ (549,004)</u>	<u>\$ (549,004)</u>	3,705,542	<u>\$ 4,106,599</u>
Fund Balance				
Beginning of year			10,196,237	
End of year			<u>\$ 13,901,779</u>	

CITY OF KERMAN

**BUDGETARY COMPARISON SCHEDULE
STREET MAINTENANCE AND CONSTRUCTION CAPITAL PROJECT FUND
YEAR ENDED JUNE 30, 2023**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive/ (Negative)
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ 3,343,091	\$ 3,343,091	\$ 2,689,721	\$ (653,370)
Total revenue	<u>3,343,091</u>	<u>3,343,091</u>	<u>2,689,721</u>	<u>(653,370)</u>
Expenditures				
Capital outlay	<u>1,568,319</u>	<u>1,568,319</u>	<u>858,474</u>	<u>709,845</u>
Total expenditures	<u>1,568,319</u>	<u>1,568,319</u>	<u>858,474</u>	<u>709,845</u>
Revenue over expenditures	1,774,772	1,774,772	1,831,247	56,475
Other Financing Sources/(Uses)				
Transfers in/(out) - net	<u>-</u>	<u>-</u>	<u>(3,357)</u>	<u>(3,357)</u>
Change in Fund Balance	<u>\$ 1,774,772</u>	<u>\$ 1,774,772</u>	1,827,890	<u>\$ 53,118</u>
Fund Balance				
Beginning of year			<u>1,827,890</u>	
End of year			<u>\$ 3,655,780</u>	

CITY OF KERMAN

**BUDGETARY COMPARISON SCHEDULE
STREET PROJECTS & DEVELOPMENT CAPITAL PROJECT FUND
YEAR ENDED JUNE 30, 2023**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive/ (Negative)</u>
Revenue				
License, permits and impact fees	\$ 311,776	\$ 311,776	\$ 153,138	\$ (158,638)
Interest	<u>5,967</u>	<u>5,967</u>	<u>5,967</u>	<u>-</u>
Total revenue	<u>317,743</u>	<u>317,743</u>	<u>159,105</u>	<u>(158,638)</u>
Expenditures				
Public works	126,912	126,912	211,365	(84,453)
Community development	<u>77,000</u>	<u>77,000</u>	<u>236,214</u>	<u>(159,214)</u>
Total expenditures	<u>203,912</u>	<u>203,912</u>	<u>447,579</u>	<u>(243,667)</u>
Revenue over expenditures	113,831	113,831	(288,474)	(402,305)
Other Financing Sources/(Uses)				
Transfers in/(out) - net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balance	<u>\$ 113,831</u>	<u>\$ 113,831</u>	(288,474)	<u>\$ (402,305)</u>
Fund Balance				
Beginning of year			<u>359,288</u>	
End of year			<u>\$ 70,814</u>	

CITY OF KERMAN

**SCHEDULE OF THE CITY’S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TEN YEARS*
YEAR ENDED JUNE 30, 2023**

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 covered-employee payroll	Plan's fiduciary net position	Plan's fiduciary net position as a percentage of the Total Pension 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%	
2022	0.01971%	\$ 691,756	\$ 1,558,752	44.38%	\$ 6,678,594	90.61%	
2023	0.02684%	\$ 1,844,146	\$ 1,726,380	106.82%	\$ 6,626,406	78.23%	
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 covered-employee payroll	Plan's fiduciary net position	Plan's fiduciary net position as a percentage of the Total Pension 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%	
2022	0.06029%	\$ 1,144,848	\$ 2,360,679	48.50%	\$ 12,469,009	91.59%	
2023	0.06964%	\$ 3,258,465	\$ 2,326,594	140.05%	\$ 11,524,805	104.34%	

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

CITY OF KERMAN

**SCHEDULE OF CONTRIBUTIONS
LAST TEN YEARS*
YEAR ENDED JUNE 30, 2023**

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%
2022	\$ 318,886	\$ (318,886)	\$ -	\$ 1,558,752	20.46%
2023	\$ 334,035	\$ (334,035)	\$ -	\$ 1,726,380	19.35%

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%
2022	\$ 365,112	\$ (365,112)	\$ -	\$ 2,360,679	15.47%
2023	\$ 398,314	\$ (398,314)	\$ -	\$ 2,326,594	17.12%

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

SUPPLEMENTAL ONLY INFORMATION

CITY OF KERMAN

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2023**

	Special Revenue Funds					
	Measure C	Gas Tax	Senior Center	Maintenance District	SB1 Road Maintenance	Park Grants
ASSETS						
Cash and investments	\$ 406,181	\$ 977,950	\$ -	\$ 194,740	\$ 817,196	\$ 230
Due from other governments	<u>170,863</u>	<u>36,391</u>	<u>7,387</u>	<u>-</u>	<u>65,070</u>	<u>18,551</u>
Total assets	<u>\$ 577,044</u>	<u>\$ 1,014,341</u>	<u>\$ 7,387</u>	<u>\$ 194,740</u>	<u>\$ 882,266</u>	<u>\$ 18,781</u>
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable and accrued expense	\$ 8,361	\$ 44,433	\$ 388	\$ 11,049	\$ 330	\$ 4,448
Due to other funds	<u>-</u>	<u>-</u>	<u>6,999</u>	<u>-</u>	<u>-</u>	<u>14,103</u>
Total liabilities	<u>8,361</u>	<u>44,433</u>	<u>7,387</u>	<u>11,049</u>	<u>330</u>	<u>18,551</u>
Fund Balance						
Restricted						
Circulation improvements	568,683	969,908	-	-	881,936	-
Development activities	-	-	-	183,691	-	230
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>568,683</u>	<u>969,908</u>	<u>-</u>	<u>183,691</u>	<u>881,936</u>	<u>230</u>
Total liabilities and fund balance	<u>\$ 577,044</u>	<u>\$ 1,014,341</u>	<u>\$ 7,387</u>	<u>\$ 194,740</u>	<u>\$ 882,266</u>	<u>\$ 18,781</u>

CITY OF KERMAN

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2023**

	Capital Projects Funds			
	Jobs/Housing Mitigation	Public Building Facility	Fire Facility	Park Development
ASSETS				
Cash and investments	\$ 67,627	\$ 31,779	\$ 694,442	\$ -
Due from other governments	-	-	-	-
Total assets	<u>\$ 67,627</u>	<u>\$ 31,779</u>	<u>\$ 694,442</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expense	\$ -	\$ -	\$ -	\$ 7,175
Due to other funds	-	-	-	14,267
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,442</u>
Fund Balance				
Restricted				
Circulation improvements	-	-	-	-
Development activities	67,627	31,779	694,442	-
Unassigned	-	-	-	(21,442)
Total fund balance	<u>67,627</u>	<u>31,779</u>	<u>694,442</u>	<u>(21,442)</u>
Total liabilities and fund balance	<u>\$ 67,627</u>	<u>\$ 31,779</u>	<u>\$ 694,442</u>	<u>\$ -</u>

CITY OF KERMAN

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2023**

	<u>Capitol Project Funds</u>		<u>Debt Service Fund</u>	<u>Total</u>
	<u>State Grants</u>	<u>Local Transportation</u>	<u>Kerman Public Financing Authority</u>	<u>Non-major Governmental Funds</u>
ASSETS				
Cash and investments	\$ -	\$ 1,913,642	\$ -	\$ 5,103,787
Due from other governments	641,436	8,379	-	948,077
Total assets	<u>\$ 641,436</u>	<u>\$ 1,922,021</u>	<u>\$ -</u>	<u>\$ 6,051,864</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expense	\$ 48,400	\$ 156,213	\$ -	\$ 280,797
Due to other funds	593,036	-	-	628,405
Total liabilities	<u>641,436</u>	<u>156,213</u>	<u>-</u>	<u>909,202</u>
Fund Balance				
Restricted				
Circulation improvements	-	1,765,808	-	4,186,335
Development activities	-	-	-	977,769
Unassigned	-	-	-	(21,442)
Total fund balance	<u>-</u>	<u>1,765,808</u>	<u>-</u>	<u>5,142,662</u>
Total liabilities and fund balance	<u>\$ 641,436</u>	<u>\$ 1,922,021</u>	<u>\$ -</u>	<u>\$ 6,051,864</u>

CITY OF KERMAN

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE NON-MAJOR GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2023

	Special Revenue Funds					
	Measure C	Gas Tax	Senior Center	Maintenance District	SBI Road Maintenance	Park Grants
Revenue						
Taxes	\$ -	\$ -	\$ -	\$ 355,159	\$ 371,341	\$ -
Developer impact fees	-	-	-	-	-	-
Intergovernmental	634,095	417,753	13,877	-	-	40,278
Charges for services	-	-	2,094	-	-	-
Rents	-	-	-	-	-	-
Interest	5,323	12,960	-	2,235	10,069	-
Other	-	-	-	-	-	-
Total revenue	<u>639,418</u>	<u>430,713</u>	<u>15,971</u>	<u>357,394</u>	<u>381,410</u>	<u>40,278</u>
Expenditures						
Public works	429,341	142,730	-	322,469	-	-
Community development	-	-	-	-	-	-
Social services	-	-	29,620	-	-	40,048
Capital outlay	9,446	238,824	-	1,711	47,158	-
Debt service						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>438,787</u>	<u>381,554</u>	<u>29,620</u>	<u>324,180</u>	<u>47,158</u>	<u>40,048</u>
Revenue over (under) expenditures	200,631	49,159	(13,649)	33,214	334,252	230
Other financing sources/(uses)						
Loan proceeds	-	-	-	-	-	-
Operating transfers in/(out) - net	<u>(52,724)</u>	<u>18,345</u>	<u>13,649</u>	<u>(24,496)</u>	<u>-</u>	<u>-</u>
	<u>(52,724)</u>	<u>18,345</u>	<u>13,649</u>	<u>(24,496)</u>	<u>-</u>	<u>-</u>
Change in Fund Balance	147,907	67,504	-	8,718	334,252	230
Fund Balance						
Beginning of year	<u>420,776</u>	<u>902,404</u>	<u>-</u>	<u>174,973</u>	<u>547,684</u>	<u>-</u>
End of year	<u>\$ 568,683</u>	<u>\$ 969,908</u>	<u>\$ -</u>	<u>\$ 183,691</u>	<u>\$ 881,936</u>	<u>\$ 230</u>

CITY OF KERMAN

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED) YEAR ENDED JUNE 30, 2023

	<u>Capital Projects Funds</u>			
	<u>Jobs/Housing Mitigation</u>	<u>Public Building Facility</u>	<u>Fire Facility</u>	<u>Park Development</u>
Revenue				
Taxes	\$ -	\$ -	\$ -	\$ -
Developer impact fees	-	221,610	122,248	167,491
Intergovernmental	-	-	-	-
Rents	-	-	-	-
Interest	911	208	9,124	3,477
Other	-	-	-	-
Total revenue	<u>911</u>	<u>221,818</u>	<u>131,372</u>	<u>170,968</u>
Expenditures				
Public works	-	-	-	-
Community development	-	21,412	-	-
Social services	-	-	-	81,463
Capital outlay	-	-	-	145,091
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>-</u>	<u>21,412</u>	<u>-</u>	<u>226,554</u>
Revenue over (under) expenditures	911	200,406	131,372	(55,586)
Other financing sources/(uses)				
Operating transfers in/(out) - net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balance	911	200,406	131,372	(55,586)
Fund Balance				
Beginning of year	<u>66,716</u>	<u>(168,627)</u>	<u>563,070</u>	<u>34,144</u>
End of year	<u>\$ 67,627</u>	<u>\$ 31,779</u>	<u>\$ 694,442</u>	<u>\$ (21,442)</u>

CITY OF KERMAN

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED) YEAR ENDED JUNE 30, 2023

	Capital Projects Funds		Debt Service Fund	Total
	State Grants	Local Transportation	Kerman Public Financing Authority	Non-major Governmental Funds
Revenue				
Taxes	\$ -	\$ -	\$ -	\$ 726,500
Developer impact fees	-	-	-	511,349
Intergovernmental	196,515	946,414	-	2,248,932
Rents	-	-	101,878	101,878
Interest	-	24,291	-	68,598
Other	-	1,000	-	1,000
Total revenue	<u>196,515</u>	<u>971,705</u>	<u>101,878</u>	<u>3,660,351</u>
Expenditures				
Public works	70,343	189,430	-	1,154,313
Community development	-	-	-	21,412
Social services	-	-	-	151,131
Capital outlay	-	205,662	-	647,892
Debt service				
Principal	-	-	32,000	32,000
Interest and fiscal charges	-	-	69,878	69,878
Total expenditures	<u>70,343</u>	<u>395,092</u>	<u>101,878</u>	<u>2,076,626</u>
Revenue over (under) expenditures	126,172	576,613	-	1,583,725
Other financing sources/(uses)				
Operating transfers in/(out) - net	(426,172)	(50,262)	-	(521,660)
	<u>(426,172)</u>	<u>(50,262)</u>	<u>-</u>	<u>(521,660)</u>
Change in Fund Balance	(300,000)	526,351	-	1,062,065
Fund Balance				
Beginning of year	<u>300,000</u>	<u>1,239,457</u>	<u>-</u>	<u>4,080,597</u>
End of year	<u>\$ -</u>	<u>\$ 1,765,808</u>	<u>\$ -</u>	<u>\$ 5,142,662</u>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Kerman (the "City"), California, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 25, 2024.

Report on 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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

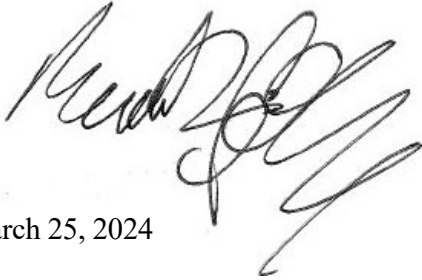
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 "Meredith J. [unclear]", written in a cursive style.

March 25, 2024

**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

Opinion on Each Major Federal Program

We have audited City of Kerman (the "City"), California's compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2022. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

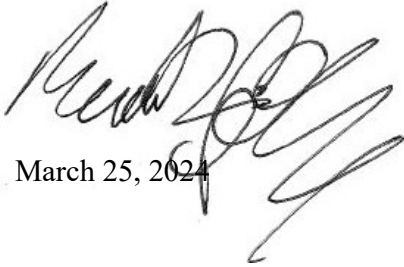
Report on Internal Control over Compliance

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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 'Rena J. [unclear]', written in a cursive style.

March 25, 2024

CITY OF KERMAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2023

Federal Grantor/Pass-through Grantor/Program Title	Assistance Listing 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)	66
Surface Transportation Block Grant Program	20.205	STPL5291(029)	434,175
Surface Transportation Block Grant Program	20.205	STPL5291(030)	238,780
Congestion Mitigation and Air Quality Grant Program	20.205	CML5291(031)	113,806
Surface Transportation Block Grant Program	20.205	STPL5291(033)	27,506
Surface Transportation Block Grant Program	20.205	STPL5291(034)	24,125
Congestion Mitigation and Air Quality Grant Program	20.205	STPL5291(027)	<u>7,802</u>
			<u>846,260</u>
U.S. Department of Housing and Urban Development			
Passed through County of Fresno			
Community Development Block Grant	14.218	09371	<u>39,817</u>
U.S. Department of Homeland Security			
Passed through California Department of Finance			
Corona Relief Fund	21.019	N/A	<u>16,380</u>
U.S. Department of Justice			
Homeland Security Grant Program	97.067	019-00000	<u>7,149</u>
<i>Total Federal Expenditures</i>			<u>\$ 909,606</u>

CITY OF KERMAN

NOTES SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2023

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 – 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 4 – 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, 2023**

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

Assistance Listing Number	Name of Federal Program or Cluster
20.205	Highway Planning and Construction

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, 2023**

There were no prior year audit findings.