

CITY OF EXETER

AUDITED BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

CITY OF EXETER
BASIC FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2017

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FINANCIAL SECTION



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Independent Auditor's Report

To the Honorable Mayor and Members
of City Council
City of Exeter, California

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Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Exeter, California (the City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Exeter, California, as of June 30, 2017, 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.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Exeter, California's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2018, on our consideration of the City of Exeter, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Exeter, California's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
March 22, 2018

Management's Discussion and Analysis

As management of the City of Exeter, we offer readers of the City of Exeter's financial statement this narrative overview and analysis of the financial activities of the City of Exeter for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here. All amounts, unless otherwise indicated, are expressed in dollars.

Financial Highlights

- The assets and deferred outflows of the City of Exeter exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$14,859,699 (*net position*). Of this amount, <\$977,346> (*unrestricted net position*) is a deficit.
- As of the close of the current fiscal year, the City of Exeter governmental funds reported combined ending fund balances of \$3,169,138. Of this amount, there is a deficit balance of <\$109,095> available *for spending* at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was a deficit of <\$109,095>.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Exeter's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Exeter's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City of Exeter's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Exeter is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Exeter that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Exeter include general government, police service, highways and streets, parks and recreation. The business-type activities of the City of Exeter include a Water, Sewer, Sanitation and Transit.

The government-wide financial statements include the Water, Sewer, Sanitation, and Transit functions for all practical purposes as departments of the City of Exeter, and therefore has been included as an integral part of the primary government.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Exeter, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Exeter can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City of Exeter maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, CDBG Housing and Home Fund, all of which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Exeter adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The City of Exeter maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Exeter uses enterprise funds to account for its Water, Sewer, Sanitation and Transit. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Exeter's various functions. The City of Exeter has an internal service fund to account for its Health Insurance, Workman's Compensation, Liability, Disability, and Life.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, Sanitation and Transit activities, all of which are considered to be major funds of the City of Exeter, with the exception of the Transit Fund.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Exeter's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Please see the table of contents for page numbers.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Exeter's proportionate share of net pension liability and related ratios and schedule of contributions for its employees and budget to actual on major governmental funds.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Exeter's, assets exceeded liabilities by \$14,859,699 at the close of the most recent fiscal year.

Of the City of Exeter's net position, 80.6 percent reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Exeter uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Exeter's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Exeter's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current & other assets	\$ 11,105,750	\$ 10,620,647	\$ 2,936,663	\$ 2,947,305	\$ 14,042,413	\$ 13,567,952
Capital assets	7,135,329	7,219,491	15,320,049	15,589,319	22,455,378	22,808,810
Total assets	<u>18,241,079</u>	<u>17,840,138</u>	<u>18,256,712</u>	<u>18,536,624</u>	<u>36,497,791</u>	<u>36,376,762</u>
Deferred outflows of resources	1,738,164	737,533	727,424	354,736	2,465,588	1,092,269
Long-term liabilities	3,713,945	3,264,650	11,750,529	11,884,921	15,464,474	15,149,571
Other liabilities	7,719,323	7,697,277	355,708	348,140	8,075,031	8,045,417
Total liabilities	<u>11,433,268</u>	<u>10,961,927</u>	<u>12,106,237</u>	<u>12,233,061</u>	<u>23,539,505</u>	<u>23,194,988</u>
Deferred outflows of resources - pension	422,529	514,107	141,646	172,252	564,175	686,359
Net position:						
Investment in capital assets	7,046,157	7,219,491	4,924,833	4,881,269	11,970,990	12,100,760
Restricted	2,591,888	2,286,292	1,274,167	1,160,472	3,866,055	3,446,764
Unrestricted	(1,514,599)	(2,404,146)	537,253	444,306	(977,346)	(1,959,840)
Total net position	<u>\$ 8,123,446</u>	<u>\$ 7,101,637</u>	<u>\$ 6,736,253</u>	<u>\$ 6,486,047</u>	<u>\$ 14,859,699</u>	<u>\$ 13,587,684</u>

An additional portion of the City of Exeter's net position (28 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* is a deficit of <\$977,346>. At the end of the current fiscal year, the City of Exeter is reporting a negative balance for unrestricted net position due to the requirement to post GASB 68. For the business-type activities, unrestricted net position was a \$537,253 at June 30, 2017, an increase from \$444,306 at June 30, 2016.

Deferred outflows of resources

As part of the implementation of GASB 68, the City was required to record contributions made to the pension plan during the current fiscal year as deferred inflows of resources. The contributions for outflows will reduce the pension liability in the following fiscal year.

Net Pension Liability

The addition of net pension liability is a result of GASB 68. This required the City to record the liability related to the defined benefit pension plan as it applies to the CalPERS pension plan.

Deferred inflows of resources

Deferred inflows of resources consist of pension deferrals associated with net pension liability. These deferrals will be amortized and recognized in pension expenses in future years.

Net position

Due to the implementation of GASB 68 pronouncement, the City is required to disclose the net pension liability, and accordingly reduces the net position.

City of Exeter's Changes In Net Assets

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Program Revenues:						
Charges for services	\$ 777,786	\$ 556,977	\$ 3,575,020	\$ 3,451,699	\$ 4,352,806	\$ 4,008,676
Operating grants and contributions	1,498,157	1,581,098	119,274	154,687	1,617,431	1,735,785
Capital grants and contributions	114,832	240,597	-	-	114,832	240,597
General Revenues:						
Property taxes	1,776,822	1,707,667	-	-	1,776,822	1,707,667
Other taxes	1,682,910	1,593,664	-	-	1,682,910	1,593,664
Investment earnings - unrestricted	2,435	6,971	33,409	30,671	35,844	37,642
Gain on sale of capital assets	17,115	-	609	-	17,724	-
Special item - fire settlement pmt	173,494	-	-	-	173,494	-
Total Revenue	6,043,551	5,686,974	3,728,312	3,637,057	9,771,863	9,324,031
Expenses						
Community & economic development	433,365	388,208	-	-	433,365	388,208
General government	903,969	1,293,384	-	-	903,969	1,293,384
Parks and recreation	548,007	538,019	-	-	548,007	538,019
Public safety	2,691,456	2,626,987	-	-	2,691,456	2,626,987
Public works	444,945	608,273	-	-	444,945	608,273
Water operating	-	-	1,533,203	1,384,392	1,533,203	1,384,392
Sewer operating	-	-	865,684	925,869	865,684	925,869
Transit	-	-	140,383	850,938	140,383	850,938
Sanitation operating	-	-	938,836	203,679	938,836	203,679
Total expenses	5,021,742	5,454,871	3,478,106	3,364,878	8,499,848	8,819,749
Changes in net position	1,021,809	232,103	250,206	272,179	1,272,015	504,282
Net position - beginning	7,101,637	6,869,534	6,486,047	6,213,868	13,587,684	13,083,402
Net position - ending	\$ 8,123,446	\$ 7,101,637	\$ 6,736,253	\$ 6,486,047	\$ 14,859,699	\$ 13,587,684

Governmental activities. Governmental activities increased the City of Exeter's net position by \$1,021,809 and \$232,103 for the fiscal years ended June 30, 2017 and 2016 respectively.

Business-type activities. Business-type activities increased the City of Exeter's net position by \$250,206 and \$272,179 for the fiscal years ended June 30, 2017 and 2016.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of Exeter's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Exeter's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2017 and 2016, the City of Exeter's governmental funds reported combined ending fund balances of \$3,169,138 and \$2,840,610. Of the June 30, 2017 and 2016 total amount, 0.817 percent and 1.99 percent, respectively, constitutes *unassigned fund balance*, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City of Exeter. As of June 30, 2017 and 2016, unassigned fund balance of the general fund was <\$109,095> and \$56,538, respectively. It may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. As of June 30, 2017 and 2016, unassigned fund balance represents 0.53 percent and 1.18 percent, respectively, of the amount needed to cover general fund expenditures.

The fund balance of the City of Exeter's general fund decreased by \$12,615 and \$257,249 for the years ended June 30, 2017 and 2016. Key factors in the decreases are as follows:

Decreases in revenue:

Sales Taxes

Increases in expenditures:

Contractual services

Workers Compensation

Health Insurance

Retirement cost

Equipment replacement

Proprietary funds. The City of Exeter's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water, Sewer, Sanitation, and Transit activities at the end of the year amounted to \$537,253 and \$444,306 for June 30, 2017 and 2016. The total increase in net position for all these funds in 2017 and 2016 was \$250,206 and \$272,179. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Exeter's business-type activities.

General Fund Budgetary Highlights

Additional appropriation requests can be briefly summarized as follows:

Workers Compensation

Contractual services

Equipment replacement

The appropriations were supported by available funds.

Capital Asset and Debt Administration

Capital assets. The City of Exeter's investment in capital assets for its governmental and business type activities as of June 30, 2017, amounts to \$22,455,378 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges.

City of Exeter's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 1,298,149	\$ 1,298,149	\$ 2,404,191	\$ 2,404,191	\$ 3,702,340	\$ 3,702,340
Buildings & Improvements	2,394,409	2,499,577	9,882,593	10,096,136	12,277,002	12,595,713
Machinery & equipment	1,191,763	1,282,948	2,371,291	2,442,697	3,563,054	3,725,645
Infrastructure	1,947,322	1,995,856	624,888	642,234	2,572,210	2,638,090
Construction in progress	303,686	142,961	37,086	4,059	340,772	147,020
	<u>\$ 7,135,329</u>	<u>\$ 7,219,491</u>	<u>\$ 15,320,049</u>	<u>\$ 15,589,317</u>	<u>\$ 22,455,378</u>	<u>\$ 22,808,808</u>

Long-term debt. At June 30, 2017 and 2016, the City of Exeter had total debt outstanding of \$10,484,388 and \$10,864,889. The City of Exeter's debt represents three promissory notes to the United States Department of Agriculture Rural Development Agency for wastewater improvement and a water system improvement, the water meter lease and leasing of police vehicles.

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Leases payable	\$ 89,172	\$ 156,839	\$ 1,780,002	\$ 1,895,024	\$ 1,869,174	\$ 2,051,863
Notes payable	-	-	8,615,214	8,813,026	8,615,214	8,813,026
	<u>\$ 89,172</u>	<u>\$ 156,839</u>	<u>\$ 10,395,216</u>	<u>\$ 10,708,050</u>	<u>\$ 10,484,388</u>	<u>\$ 10,864,889</u>

Economic Factors and Next Year's Budgets and Rates

The City of Exeter, like most neighboring Central Valley cities, is continuing to experience a slight increase in development activity, albeit Exeter's growth is minimal compared to others. Exeter has a tradition of being very structured in its approach to growth, and slow growth is – by design- more the rule than the exception. The City's logo says it plainly: "Protect Preserve and Promote Small Town America." There were six new construction building permits pulled within the City in 2016/17 that paid development impact fees, compared to 2015/16 permits, which saw a 24-unit multi-family project and a couple of residential permits.

Governmental Activities

General Fund operating revenues are shifting in both directions, with Property Taxes being the prominent most optimistic revenue. However, other revenues increased mildly or slightly decreased, such as sales tax. The City will continue to assess revenue status regularly to determine available funds for operation. The City will look towards decreasing operating costs, where possible, and look towards organizational modifications to improve efficiencies. Employee benefit contributions may also increase to alleviate the financial strain on the City's operating revenue.

The 2017-2018 budget will continue with a conservative measure in appropriations.

Business Type Activities

The Enterprise Funds for Water, Refuse and Sewer all had a 3 percent increase in rates. There is another 3 percent increase in rates approved for January 1, 2018, which will be used towards increased operating costs and infrastructure improvements. There are two more rate increases approved by City Council for 2019 and 2020 of 3 percent.

Requests for Information

This financial report is designed to provide a general overview of the City of Exeter's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, P. O. Box 237, City of Exeter, CA. 93221.

BASIC FINANCIAL STATEMENTS

**City of Exeter
Statement of Net Position
June 30, 2017**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments			
Unrestricted	\$ 2,673,366	\$ 2,007,177	\$ 4,680,543
Restricted	-	752,893	752,893
Receivables:			
Accounts	-	338,876	338,876
Intergovernmental	512,858	119,275	632,133
Prepaid expenses	-	45,889	45,889
Inventories	-	40,318	40,318
Internal balances	367,765	(367,765)	-
Loans receivable	7,551,761	-	7,551,761
Capital assets:			
Non-depreciable	1,601,835	2,441,277	4,043,112
Depreciable, net of accumulated depreciation	5,533,494	12,878,772	18,412,266
Total assets	<u>18,241,079</u>	<u>18,256,712</u>	<u>36,497,791</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred bond issue costs/amortization	-	17,447	17,447
Deferred pensions	1,738,164	709,977	2,448,141
Total deferred outflows of resources	<u>1,738,164</u>	<u>727,424</u>	<u>2,465,588</u>
LIABILITIES			
Accounts payable and other accruals	161,316	143,969	305,285
Interest payable	-	143,649	143,649
Unearned revenue	7,431,996	-	7,431,996
Compensated absences	126,011	51,379	177,390
Noncurrent liabilities:			
Due to depositors	-	71,331	71,331
Net pension liability	3,523,724	1,283,982	4,807,706
Compensated absences	101,049	16,711	117,760
Due in one year	-	324,615	324,615
Due in more than one year	89,172	10,070,601	10,159,773
Total liabilities	<u>11,433,268</u>	<u>12,106,237</u>	<u>23,539,505</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pensions	422,529	141,646	564,175
NET POSITION			
Net investment in capital assets	7,046,157	4,924,833	11,970,990
Restricted for:			
Public service	2,591,888	-	2,591,888
Debt service	-	752,893	752,893
Impact fees	-	521,274	521,274
Unrestricted	(1,514,599)	537,253	(977,346)
Total net position	<u>\$ 8,123,446</u>	<u>\$ 6,736,253</u>	<u>\$ 14,859,699</u>

The notes to the financial statements are an integral part of this statement.

City of Exeter
Statement of Activities
For the Fiscal Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
Community and economic development	\$ 433,365	\$ 281,808	\$ 277,399	\$ -	\$ 125,842		\$ 125,842
General government	903,969	113,893	867,579	-	77,503		77,503
Parks and recreation	548,007	70,051	-	-	(477,956)		(477,956)
Public safety - fire	250,349	-	-	-	(250,349)		(250,349)
Public safety - police	2,441,107	129,919	353,179	-	(1,958,009)		(1,958,009)
Public works	444,945	182,115	-	114,832	(147,998)		(147,998)
Total governmental activities	5,021,742	777,786	1,498,157	114,832	(2,630,967)		(2,630,967)
Business-type Activities:							
Water operations	1,533,203	1,560,651	-	-		\$ 27,448	27,448
Sewer operations	865,684	1,070,311	-	-		204,627	204,627
Sanitation operations	938,836	936,779	-	-		(2,057)	(2,057)
Transit	140,383	7,279	119,274	-		(13,830)	(13,830)
Total business-type activities	3,478,106	3,575,020	119,274	-		216,188	216,188
Total primary government	\$ 8,499,848	\$ 4,352,806	\$ 1,617,431	\$ 114,832	(2,630,967)	216,188	(2,414,779)
General revenues:							
Property taxes					1,776,822	-	1,776,822
Fire property taxes					118,338	-	118,338
Sales tax					782,078	-	782,078
Utility users tax					547,843	-	547,843
Franchise tax					136,221	-	136,221
Other taxes					98,430	-	98,430
Gain(loss) on sale of capital assets					17,115	609	17,724
Unrestricted investment earnings					2,435	33,409	35,844
Special item - fire settlement payment					173,494	-	173,494
Total general revenues					3,652,776	34,018	3,686,794
Change in net position					1,021,809	250,206	1,272,015
Net position - beginning					7,101,637	6,486,047	13,587,684
Net position - ending					\$ 8,123,446	\$ 6,736,253	\$ 14,859,699

The notes to the financial statements are an integral part of this statement.

**City of Exeter
Balance Sheet
Governmental Funds
June 30, 2017**

	General	CDBG Housing	Home Funds	Non-major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 246,907	\$ 703,795	\$ 35,579	\$ 1,465,819	\$ 2,452,100
Receivables - (net):					
Intergovernmental	240,707	-	-	272,151	512,858
Due from other funds	138,043	-	-	231,488	369,531
Note receivable	135,000	4,823,221	2,095,174	498,366	7,551,761
Total assets	<u>\$ 760,657</u>	<u>\$ 5,527,016</u>	<u>\$ 2,130,753</u>	<u>\$ 2,467,824</u>	<u>\$ 10,886,250</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts and other payables	\$ 121,459	\$ 3,527	\$ -	\$ 34,211	\$ 159,197
Compensated absences payable	124,153	-	-	-	124,153
Due to other funds	-	-	-	1,766	1,766
Unearned revenue	-	4,823,221	2,095,174	513,601	7,431,996
Total liabilities	<u>245,612</u>	<u>4,826,748</u>	<u>2,095,174</u>	<u>549,578</u>	<u>7,717,112</u>
Fund balances:					
Nonspendable	135,000	-	-	-	135,000
Restricted	-	700,268	35,579	1,856,041	2,591,888
Committed impact fees	173,629	-	-	-	173,629
Committed alley repair	144,411	-	-	-	144,411
Committed parking-in-lieu	2,500	-	-	-	2,500
Committed for storm drains	-	-	-	62,205	62,205
Assigned for vehicle replacement	168,600	-	-	-	168,600
Unassigned	(109,095)	-	-	-	(109,095)
Total fund balances	<u>515,045</u>	<u>700,268</u>	<u>35,579</u>	<u>1,918,246</u>	<u>3,169,138</u>
Total liabilities and fund balances	<u>\$ 760,657</u>	<u>\$ 5,527,016</u>	<u>\$ 2,130,753</u>	<u>\$ 2,467,824</u>	<u>\$ 10,886,250</u>

The notes to the financial statements are an integral part of this statement.

City of Exeter
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2017

Fund balances of governmental funds		\$ 3,169,138
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds-		5,533,494
Other long-term assets are not available to pay current expenditures, and therefore are deferred in the funds - construction-in-progress and land.		1,601,835
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets, outflows, liabilities and inflows of the internal service funds are included governmental activities in the statement of net position. The pension activity is recorded elsewhere in this reconciliation.		216,288
Deferred outflows of resources and deferred inflows of resources:		
Deferred outflows of resources are not current assets of financial resources; and deferred inflows of resources are not due and payable in the current period and therefore are not reported in the governmental funds:		
Deferred pension outflows of resources		
Miscellaneous	562,888	
Internal Service	40,450	
Safety	<u>1,134,826</u>	1,738,164
Deferred pension inflows of resources		
Miscellaneous	(112,303)	
Internal Service	(8,071)	
Safety	<u>(302,155)</u>	(422,529)
Long-term liabilities; including accrued interest on bonds, are not due and payable in the current period and therefore are not reported in the funds:		
Net pension liability		
Miscellaneous	(1,017,971)	
Internal Service	(73,153)	
Safety	<u>(2,432,600)</u>	(3,523,724)
Capital Lease payable		(89,172)
Long-term portion of compensated absences and sick leave		<u>(100,048)</u>
Net position of governmental activities		<u><u>\$ 8,123,446</u></u>

The notes to the financial statements are an integral part of this statement.

City of Exeter
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2017

	General	CDBG Housing Fund	Home Fund	Non-major Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 973,335	\$ -	\$ -	\$ -	\$ 973,335
Sales taxes	858,843	-	-	-	858,843
Utility users tax	547,843	-	-	-	547,843
Franchise tax	136,221	-	-	-	136,221
Other taxes	98,430	-	-	211,712	310,142
Licenses and permits	41,871	-	-	-	41,871
Intergovernmental	1,310,782	269,681	-	592,821	2,173,284
Charges for services	316,540	-	-	7,605	324,145
Rental income	33,380	-	-	-	33,380
Loan payments	-	231,131	32,982	17,695	281,808
Fines and forfeitures	51,312	-	-	-	51,312
Investment earnings	1,713	7,023	179	19,284	28,199
Miscellaneous	92,559	-	-	-	92,559
Total revenues	<u>4,462,829</u>	<u>507,835</u>	<u>33,161</u>	<u>849,117</u>	<u>5,852,942</u>
EXPENDITURES					
Community and economic development	-	427,843	3,302	2,220	433,365
General government	767,670	-	-	174,651	942,321
Parks and recreation	568,675	-	-	-	568,675
Public safety - fire	237,824	-	-	-	237,824
Public safety - police	2,706,394	-	-	-	2,706,394
Public works	420,556	-	-	-	420,556
Debt service:					
Principal	67,667	-	-	-	67,667
Interest	5,926	-	-	-	5,926
Capital outlay	146,608	-	-	190,954	337,562
Total expenditures	<u>4,921,320</u>	<u>427,843</u>	<u>3,302</u>	<u>367,825</u>	<u>5,720,290</u>
Excess (deficiency) of revenues over expenditures	<u>(458,491)</u>	<u>79,992</u>	<u>29,859</u>	<u>481,292</u>	<u>132,652</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	22,382	-	-	-	22,382
Transfers in	250,000	-	-	-	250,000
Transfers out	-	-	-	(250,000)	(250,000)
Special item - fire settlement payment	173,494	-	-	-	173,494
Total other financing sources and uses	<u>445,876</u>	<u>-</u>	<u>-</u>	<u>(250,000)</u>	<u>195,876</u>
Net change in fund balances	<u>(12,615)</u>	<u>79,992</u>	<u>29,859</u>	<u>231,292</u>	<u>328,528</u>
Fund balances, July 1	<u>527,660</u>	<u>620,276</u>	<u>5,720</u>	<u>1,686,954</u>	<u>2,840,610</u>
Fund balances, June 30	<u>\$ 515,045</u>	<u>\$ 700,268</u>	<u>\$ 35,579</u>	<u>\$ 1,918,246</u>	<u>\$ 3,169,138</u>

The notes to the financial statements are an integral part of this statement.

City of Exeter
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2017

Net change in fund balances --total governmental funds	\$ 328,528
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$328,409) exceeded depreciation (\$407,306) and disposition of capital assets (\$5,265) in the current period -	(84,162)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	67,667
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Compensated absences	18,855
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service fund is reported with governmental activities.	148,294
Certain pension expenses in the statement of activities are recognized on the accrual basis of accounting in accordance with GASB Statement No. 68.	542,627
Change in net position of governmental activities	\$ 1,021,809

The notes to the financial statements are an integral part of this statement.

City of Exeter
Statement of Net Position
Proprietary Funds
June 30, 2017

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	Major Funds			Non-major Fund	Total Proprietary Funds	
	Water Operations	Sewer Operations	Sanitation Operations	Transit		
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 1,794,905	\$ 212,272	\$ -	\$ -	\$ 2,007,177	\$ 221,266
Accounts receivable, net of allowance	133,286	102,934	102,656	-	338,876	-
Intergovernmental receivable	-	-	-	119,275	119,275	-
Due from other funds	2,003	-	-	-	2,003	-
Prepaid expenses	-	45,889	-	-	45,889	-
Inventories	40,318	-	-	-	40,318	-
Noncurrent assets:						
Restricted cash and cash equivalents	326,999	425,894	-	-	752,893	-
Bond issue costs net of amortization	17,447	-	-	-	17,447	-
Capital assets:						
Nondepreciable	-	2,441,277	-	-	2,441,277	-
Depreciable, net	7,630,336	5,171,964	-	76,472	12,878,772	-
Total assets	9,945,294	8,400,230	102,656	195,747	18,643,927	221,266
DEFERRED OUTFLOWS OF RESOURCES						
Deferred pensions	340,149	237,710	48,329	83,789	709,977	40,450
Total deferred outflow of resources	340,149	237,710	48,329	83,789	709,977	40,450
LIABILITIES						
Current liabilities:						
Accounts and other payables	36,570	21,265	81,097	5,037	143,969	2,119
Accrued Interest	63,460	80,189	-	-	143,649	-
Due to other funds	-	-	140,046	229,722	369,768	-
Noncurrent liabilities:						
Due to depositors	71,331	-	-	-	71,331	-
Compensated absences	33,027	21,787	6,132	7,144	68,090	2,859
Due in one year	213,848	110,767	-	-	324,615	-
Due in more than one year	6,480,337	3,590,264	-	-	10,070,601	-
Net pension liability	615,152	429,894	87,404	151,532	1,283,982	73,153
Total liabilities	7,513,725	4,254,166	314,679	393,435	12,476,005	78,131
DEFERRED INFLOWS OF RESOURCES						
Deferred pensions	67,861	47,426	9,642	16,717	141,646	8,071
NET POSITION						
Net investment in capital assets	936,151	3,912,210	-	76,472	4,924,833	-
Restricted for debt service	326,999	425,894	-	-	752,893	-
Restricted for impact fees	464,246	57,028	-	-	521,274	-
Unrestricted	976,461	(58,784)	(173,336)	(207,088)	537,253	175,514
Total net position	\$ 2,703,857	\$ 4,336,348	\$ (173,336)	\$ (130,616)	\$ 6,736,253	\$ 175,514

The notes to the financial statements are an integral part of this statement.

City of Exeter
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	Major Funds			Non-major Fund	Total Proprietary Funds	
	Water Operations	Sewer Operations	Sanitation Operations	Transit		
OPERATING REVENUES						
Charges for services	\$ 1,500,399	\$ 1,070,311	\$ 936,779	\$ 7,279	\$ 3,514,768	\$ -
Connection fees	60,252	-	-	-	60,252	-
Internal Service Charges	-	-	150,521	-	150,521	1,152,201
Total operating revenues	<u>1,560,651</u>	<u>1,070,311</u>	<u>1,087,300</u>	<u>7,279</u>	<u>3,725,541</u>	<u>1,152,201</u>
OPERATING EXPENSES						
Personnel Services	529,159	272,979	59,254	124,952	986,344	46,215
General and administrative	39,143	32,098	19,236	9,463	99,940	957,692
Materials & Supplies	398,802	284,314	860,152	785	1,544,053	-
Depreciation/amortization	286,927	154,847	194	5,183	447,151	-
Total operating expenses	<u>1,254,031</u>	<u>744,238</u>	<u>938,836</u>	<u>140,383</u>	<u>3,077,488</u>	<u>1,003,907</u>
Operating income (loss)	<u>306,620</u>	<u>326,073</u>	<u>148,464</u>	<u>(133,104)</u>	<u>648,053</u>	<u>148,294</u>
NONOPERATING REVENUES (EXPENSES)						
Grants and reimbursements	-	-	(150,521)	119,274	(31,247)	-
Gain (Loss) on disposal of capital assets	-	-	-	609	609	-
Investment earnings	26,053	7,356	-	-	33,409	-
Interest expense	(279,172)	(121,446)	-	-	(400,618)	-
Total nonoperating revenue (expenses)	<u>(253,119)</u>	<u>(114,090)</u>	<u>(150,521)</u>	<u>119,883</u>	<u>(397,847)</u>	<u>-</u>
Change in net position	53,501	211,983	(2,057)	(13,221)	250,206	148,294
Net position (deficit), July 1	<u>2,650,356</u>	<u>4,124,365</u>	<u>(171,279)</u>	<u>(117,395)</u>	<u>6,486,047</u>	<u>27,220</u>
Net position (deficit), June 30	<u>\$ 2,703,857</u>	<u>\$ 4,336,348</u>	<u>\$ (173,336)</u>	<u>\$ (130,616)</u>	<u>\$ 6,736,253</u>	<u>\$ 175,514</u>

The notes to the financial statements are an integral part of this statement.

City of Exeter
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds				Total Proprietary Funds	Governmental Activities - Internal Service Fund
	Major Funds			Non-Major Fund Transit		
	Water Operating	Sewer Operating	Sanitation Operating			
CASH FLOWS FROM OPERATING ACTIVITIES						
Charges for services	\$ 1,570,120	\$ 1,068,211	\$ 1,086,839	\$ 7,279	\$ 3,732,449	\$ 1,152,201
Personnel services	(562,400)	(407,537)	(76,735)	(163,476)	(1,210,148)	(62,411)
General administration	(39,143)	(32,098)	(19,236)	(9,463)	(99,940)	(957,692)
Payments to suppliers and contractors	(396,294)	(331,641)	(848,737)	(2,720)	(1,579,392)	(16,632)
Net cash provided (used) by operating activities	<u>572,283</u>	<u>296,935</u>	<u>142,131</u>	<u>(168,380)</u>	<u>842,969</u>	<u>115,466</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Intergovernmental - operating assistance	-	-	-	112,856	112,856	-
Local - operating reimbursements	-	-	(150,521)	-	(150,521)	-
Increase (decrease) in amount due to other funds	129,653	-	8,390	54,915	192,958	-
Net cash provided (used) by noncapital financing	<u>129,653</u>	<u>-</u>	<u>(142,131)</u>	<u>167,771</u>	<u>155,293</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Interest paid on long-term debt	(288,411)	(123,770)	-	-	(412,181)	-
Principal paid on bonds	(205,554)	(107,280)	-	-	(312,834)	-
Proceeds from sale of capital assets	-	-	-	609	609	-
Purchase of capital assets	(144,856)	(33,026)	-	-	(177,882)	-
Net cash provided (used) by capital and related financing activities	<u>(638,821)</u>	<u>(264,076)</u>	<u>-</u>	<u>609</u>	<u>(902,288)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment earnings	26,053	7,356	-	-	33,409	-
(Increase) decrease in restricted cash	(6,862)	(28,579)	-	-	(35,441)	-
Net cash provided (used) by investing activities	<u>19,191</u>	<u>(21,223)</u>	<u>-</u>	<u>-</u>	<u>(2,032)</u>	<u>-</u>
Net Increase (decrease) in cash and cash equivalents	<u>82,306</u>	<u>11,636</u>	<u>-</u>	<u>-</u>	<u>93,942</u>	<u>115,466</u>
Balances - beginning of year	<u>1,712,599</u>	<u>200,636</u>	<u>-</u>	<u>-</u>	<u>1,913,235</u>	<u>105,800</u>
Balances - end of the year	<u>\$ 1,794,905</u>	<u>\$ 212,272</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,007,177</u>	<u>\$ 221,266</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 306,620	\$ 326,073	\$ 148,464	\$ (133,104)	\$ 648,053	\$ 148,294
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization	286,927	154,847	194	5,183	447,151	-
Changes in assets, deferred outflows/inflows and liabilities:						
(Increase) decrease in inventory	(6,254)	-	-	-	(6,254)	-
(Increase) decrease in receivables	8,189	(2,100)	(461)	-	5,628	-
(Increase) decrease in prepaid expenses	-	(45,889)	-	-	(45,889)	-
(Increase) decrease deferred outflows	(204,119)	(104,276)	(24,096)	(41,651)	(374,142)	(20,711)
Increase (decrease) in accounts payable	8,762	(1,438)	11,415	(1,935)	16,804	(16,632)
Increase (decrease) in deferred inflows	(1,909)	(21,016)	(2,786)	(4,895)	(30,606)	(2,053)
Increase (decrease) in due to depositors	1,280	-	-	-	1,280	-
Increase (decrease) in compensated absences	(3,100)	(8,272)	247	(7,440)	(18,565)	(2,840)
Increase (decrease) in net pension liability	175,887	(994)	9,154	15,462	199,509	9,408
Net cash provided by operating activities	<u>\$ 572,283</u>	<u>\$ 296,935</u>	<u>\$ 142,131</u>	<u>\$ (168,380)</u>	<u>\$ 842,969</u>	<u>\$ 115,466</u>

The notes to the financial statements are an integral part of this statement.

**City of Exeter
Statement of Net Position
Fiduciary Fund
June 30, 2017**

	Private-purpose Trust Fund
ASSETS	
Cash and cash equivalents	\$ 11,213
Investments	-
Due from other funds	-
Notes receivable	-
Capital assets:	
Land	-
Improvements other than land	-
Less accumulated depreciation	-
Total Assets	11,213
 LIABILITIES	
Accounts payable	-
Advances payable	-
Unearned revenues	-
Total Liabilities	-
 NET POSITION	
Net position held in trust	\$ 11,213

The notes to the financial statements are an integral part of this statement.

City of Exeter
Statement of Changes in Net Position
Fiduciary Fund
For the Year Ended June 30, 2017

	Private-purpose Trust Fund
ADDITIONS	
Loan payments received	\$ 17,502
Interest revenue	1,012
Total Additions	18,514
 DEDUCTIONS	
Administrative expenses	(134,748)
Total Deductions	(134,748)
Change in net position	(116,234)
Net position held in trust, July 1	127,447
Net position held in trust, June 1	\$ 11,213

The notes to the financial statements are an integral part of this statement.

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - Summary of significant accounting policies

A. Reporting entity

The City of Exeter is a municipal corporation governed by an elected mayor at large and a four-member council. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. The component unit, although a legally separate entity, is, in substance, part of the government's operation. As such, its operations are "blended" with the City's.

The Successor Agency of the City of Exeter (Successor Agency) was established January 12, 2012 for the purpose of dissolving the Redevelopment Agency as a result of Assembly Bill(AB) X1 26 and AB 1484.

Impact of State Legislation – Pursuant to Assembly Bill 1X26, the Redevelopment Agency of the City of Exeter was dissolved on January 31, 2012. The dissolution of the Redevelopment Agency created an extraordinary item. Additional information about the dissolution of the Redevelopment Agency can be found in Note 7.

B. Government-wide and fund financial statements

The government-wide financial statements (e.g., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include:

- 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and
- 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - Summary of significant accounting policies (continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period if received within 60 days of year end. All other revenue items are considered to be measurable and available only when the government receives cash.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *CDBG Community Development Block Grant Housing fund* is the governments fund to assist in Low – Moderate Housing Rehabilitation, Low- Moderate Housing Acquisition and the replacement of curb, gutter and sidewalk.

The *Home Program Income Revolving Fund* is the governments fund to assist in Low – Moderate Housing Acquisition and Administrative Services.

The City reports the following major proprietary funds:

The *Water Fund* account for the operating activities of the City's water utilities services, water related endeavors, water utilities construction, contracting, and debt.

The *Sewer Fund* accounts for the operating activities of the City's sewer pumping stations, treatment plant, and laboratory. This fund also has an annual debt payment to USDA for a sewer upgrade.

The *Sanitation Fund* accounts for the activities associated with refuse collections and recycling.

Additionally, the government reports the following fund types:

Internal service fund accounts for the financing of goods or services provided by one department to other departments within the City on a cost-reimbursement basis. These include risk management, information technology, and central financing services.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The exceptions to this general rule are the fleet management and the risk management charges to the enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

C. Measurement focus, basis of accounting, and financial statement presentation

Fiduciary Fund Financial Statements

The City's fiduciary funds represent:

An agency fund, which is custodial in nature (assets equal liabilities) and do not involve measurement of results of operations, and a private purpose trust fund, which is used to record the assets, liabilities and activities of the Redevelopment Successor Agency. The financial activities of these funds are excluded from the Government-wide financial statements, but are presented in separate Fiduciary Fund financial statements. The City has no agency funds.

The City reports the following private purpose trust funds:

The **Successor Agency Fund** is responsible for the wind down of the affairs of the dissolved Redevelopment Agency of the City of Exeter.

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - Summary of significant accounting policies (continued)

Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources, as they are needed.

D. Assets, liabilities, and net position or equity

1. Deposits and Investments

The City maintains its cash in cash and investment pools. Each fund's or component unit's portion of a pool is displayed on its respective balance sheet as "pooled cash and cash equivalents" and "investments". All investments are reported at fair value.

In accordance with its investment policy, the City operates its temporary pooled idle cash investments under the prudent man rule (Civil Code Section 2261, et. Seq.). This affords the City a broad spectrum of opportunities as long as the investment is deemed prudent and allowable under current legislation of the State of California (Government Code Section 53600 et. Seq.).

For purposes of the Statement of Cash Flows, the City considered all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All cash and investments of the enterprise fund types are pooled with the City's pooled cash and investments.

Fair Value Measurement

As defined in GASB Statement No. 72, *Fair Value Measurement and Application*, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City uses valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

GASB Statement No. 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Observable inputs, other than Level 1 prices, for asset or liability, either directly or indirectly;
- Level 3 – Unobservable inputs for the asset or liability.

For fiscal year ended June 30, 2017, the application of valuation technique applied to the City's financial statements has been consistent.

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - Summary of significant accounting policies (continued)

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (e.g., the current portion of interfund loans) or "advances receivable/payable" (e.g., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable, available financial resources.

3. Inventories and Prepaid Items

Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis.

Any payments to vendors that reflect costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements.

Fund balance is reserved for inventories and prepaids, if any, to indicate that a portion of fund balance is not available for appropriation and not expendable, available financial resources.

4. Capital Assets

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary and component unit capital assets are also reported in their respective funds. Donated assets are stated at acquisition value on the date donated. The City generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized.

When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. For information describing capital assets, see Note 4.

Property, plant, and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Public domain infrastructure	50
System infrastructure	25
Vehicles	5-8
City equipment	5-20

CITY OF EXETER
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2017

NOTE 1 - Summary of significant accounting policies (continued)

5. Compensated Absences

Full-time, permanent employees are granted vacation and sick pay benefits in varying amounts to specified maximums depending on tenure with the City. The City's policy is to record such amounts as operating expenses in the period vacations or sick-leaves are taken. In the event of an employee leaving the employ of the City, this employee is paid the full value of his/her vacation leave and a percentage of the total amount accumulated for sick leave based on years of service.

<u>Years of Service</u>	<u>Percentage of Accumulated Sick Leave Benefit Received</u>
0 - 4	0%
5 - 9	15%
10 - 14	20%
15 - 19	25%
20+	30%

6. Long-term Obligations

In the government-wide financial statements, and 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.

7. Deferred Outflows/Inflows of Resources

In additions to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In additions to liabilities, this statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from federal and state grants, and from the housing loan principal. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

8. Classification of Net Position and Fund Balances

In the government-wide and proprietary fund financial statements utilize a net position presentation. Net position are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted net position - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Additionally, this category presents restrictions placed on the categories of capital projects, and specific projects and programs as established by the City Council and Management.

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - Summary of significant accounting policies (continued)

Unrestricted net position - This component of net position consists of net position that do not meet the definition of "restricted net position" or "invested in capital assets, net of related debt".

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

In accordance with generally accepted accounting principles, governmental funds report fund balances in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable fund balance - includes amounts that are (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance - includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other government or (b) imposed by law through constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed fund balance - includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council and Management. These amounts cannot be used for any other purpose unless the City Council and Management removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance - includes amounts that are constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. This intent is expressed by (a) the City Council and Management or (b) an appointed body or official to which the City Council and Management has delegated the authority to assign, modify, or rescind amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.

Unassigned fund balance - this classification includes all residual fund balances for the General Fund that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, it is the City's policy to use restricted resources first, followed by committed, assigned and unassigned. However, the City reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

9. Property Taxes

Tulare County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. The property tax calendar for the City is as follows:

Lien date	January 1
Levy dates	July 1 through June 30
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - Summary of significant accounting policies (continued)

Property taxes are accounted for in the General Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities. Property taxes on the unsecured roll are due on the March 1 lien date and become delinquent if unpaid on August 31.

The City is permitted to levy property taxes in accordance with Article XIII A of the California Constitution (Proposition 13), which limits ad valorem taxes on real property to 1.0 percent of value plus taxes necessary to pay indebtedness approved by voters prior to July 1, 1978. The Article also established the 1975/76 assessed valuation as the basis and limits annual increases to the cost of living, not to exceed 2.0 percent, for each year thereafter. Property may also be reassessed to full fair value after a sale, transfer of ownership, or completion of new construction. The State is prohibited under the Article from imposing new ad valorem, sales, or transactions taxes on real property. Local government may impose special taxes (except on real property) with the approval of 66.67 percent of the qualified electors.

10. Utility Users Tax

The City is permitted by Chapter 22, Article V, of the Exeter Municipal Code to collect a utility user's tax on certain types of utility services. The tax imposed is set by City Council resolution and was established at a 5.0 percent tax rate beginning July 1, 1994.

11. Pension Plan

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable, in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2015
Measure Date (MD)	June 30, 2016
Measurement Period (MP)	July 1, 2015 to June 30, 2016

NOTE 2 - Reconciliation of government-wide and fund financial statements

A. Explanation of differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. The components of that reconciliation detail the inclusion of capital assets and long-term debt formerly reported in the general fixed assets account group and general long-term debt account group, respectively. Also reported in the reconciliation are the internal service fund additions to the government-wide statements.

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 - Reconciliation of government-wide and fund financial statements (continued)

B. Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in government-wide statement of activities. One element of that reconciliation explains the recording of current year capital assets that had formerly not been recognized in the financial statements (infrastructure). Another element of that reconciliation is the treatment of long-term debt principal payments made in the current fiscal year, previously recorded in the long-term debt account group. Interest payable is recorded in conformity with rules applied to business-type activities.

Internal service funds are blended into the governmental activities as they primarily serve the governmental functions. The reconciliation details the inclusion of those revenues and expenditures.

C. Explanation of certain differences between the proprietary fund statement of net position and the government-wide statement of net position

The proprietary fund statement of net position includes a reconciliation between net position – total enterprise funds and net position of business-type activities as reported in the government-wide statement of net position. The sole element of that reconciliation is the adjustment to reflect the internal receivable representing charges in excess of cost to business-type activities.

NOTE 3 - Stewardship, compliance, and accountability

A. Budgetary information

Budget policy and practice

The Finance Director and City Administrator submit an annual budget to the City Council in accordance with the City Charter. The budget is presented to the City Council for review, and public hearings are held to address priorities and the allocation of resources. The City Council adopts the annual fiscal year budgets for City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Basis of budgeting

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, other services and charges, supplies, capital outlay, and transfers. Budget revisions at this level are subject to final review by the City Council. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without Council approval. Revisions to the budget were made throughout the year. For the 2016/17 fiscal year, the City increased expenditure budgets in the General Fund, Community Block Grant Fund and Program Income/Home Fund, planning to use reserves for those additional costs. The expenditures in excess of appropriations are shown below:

Expenditure	Appropriation	Actual	Difference	Explanation
Public safety - Fire	\$ 100,000	\$ 237,824	\$ 137,824	Actual costs grossed up per agreement with County; see Note 10 - Special Item
Public safety - Police	2,684,025	2,706,394	22,369	Pension adjustments
Capital outlay	-	146,608	146,608	Capital outlay was not budgeted

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 3 - Stewardship, compliance, and accountability (continued)

The budgets for the operating funds and proprietary fund operations are prepared on the cash basis and expenditures/encumbrances basis. Revenues are budgeted in the year receipt is expected; and expenditures, which include encumbrances, are budgeted in the year that the applicable purchase orders are expected to be issued. The budget and actual financial statements are reported on these bases. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes. If appropriations from proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or returned to the taxpayers through revised tax rates, revised fee schedules or other refund arrangements. For the fiscal year ended June 30, 2017, based on calculations by City staff, appropriations from proceeds of taxes did not exceed the appropriations limit.

The Sanitation Fund had a deficit net position balance of \$173,336 as of June 30, 2017. During the year, the City increased rates by 3 percent and expects to replenish the net position with future income generated from sanitation.

The Transit Fund had a deficit net position balance of \$130,616. In 2017/18, Transit operations will transfer to the City of Visalia. The deficit will be covered by a pending receivable and disposal of capital assets.

The General Fund budgeted an operational deficit, with the intent of using current revenues and reserves to cover costs.

NOTE 4 - Detailed notes on all funds

A. Cash and investments

Cash and investments are reported in the accompanying financial statements as follows:

	Statement of Net Position	Private- Purpose Trust fund	Total
Cash and investments	\$ 4,680,543	\$ 11,213	\$ 4,691,756
Restricted - Cash and investments	752,893	-	752,893
Total cash and investments	\$ 5,433,436	\$ 11,213	\$ 5,444,649

Cash and investments as of June 30, 2017, consist of the following:

Cash on hand	\$ 1,000
Deposits with financial institutions	651,789
Investments	4,791,860
Total cash and investments	\$ 5,444,649

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 4 - Detailed notes on all funds (continued)

Investments authorized by the California Government Code and the City's investment policy

The table below identifies the investment types that are authorized by the City's investment policy. The table also identifies certain provisions of the City's investment policy that address 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 Securities	5 years	None	None
U.S. Agency Securities/Mortgage Securities	5 years	None	None
Banker's Acceptances	180 days	40%	None
Non-negotiable Certificates of Deposit	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	5%
Placement Service Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
State of California Obligations	5 years	None	None
Medium-Term Notes/Corporate Bonds	5 years	30%	5%
Mutual Funds	N/A	20%	None
Mortgage Securities	5 years	20%	None
Money Market Mutual Funds	N/A	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	\$65,000,000

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions

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 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 allowed	Maximum investment in one issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities/Mortgage Securities	None	None	None
Banker's Acceptances	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Medium Term Notes/Corporate Bonds	5 years	30%	None

Investment Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy, established by generally accepted accounting principles. Investments classified in Level 2 of the fair value hierarchy are valued using quote prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based pricing valuations for which all significant assumptions are observable or can be corroborated by observable market data.

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 4 - Detailed notes on all funds (continued)

The following is a summary of the fair value measurements as of June 30, 2017:

	<u>Fair Value</u>	<u>Significant Other Observable Inputs (Level 2)</u>
Investments classified by fair value hierarchy		
U.S. Government Securities	\$ 247,953	\$ 247,953
Total investments by fair value hierarchy	<u>247,953</u>	<u>\$ 247,953</u>
Investments not subject to fair value hierarchy		
Local Agency Investment Fund	1,008,849	
Money Market funds	72,058	
Non-negotiable Certificates of Deposit	<u>3,463,000</u>	
Total investments not subject to fair value hierarchy	<u>4,543,907</u>	
Total investments measured at fair value	<u>\$ 4,791,860</u>	

Disclosures related 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 manages its exposure to interest rate risk is by purchasing 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.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

<u>Investment type</u>	<u>Total</u>	<u>Remaining maturity (in months)</u>			
		<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25 to 60 months</u>	<u>Over 60 mos/ No maximum</u>
State investment pool	\$ 1,008,849	\$ 1,008,849	\$ -	\$ -	\$ -
U.S. Treasury bonds/notes	247,953	247,953			
Held by trustee:					
Money market funds	72,058	72,058	-	-	-
Certificates of Deposits	<u>3,463,000</u>	<u>992,000</u>	<u>494,000</u>	<u>1,977,000</u>	<u>-</u>
	<u>\$ 4,791,860</u>	<u>\$ 2,320,860</u>	<u>\$ 494,000</u>	<u>\$ 1,977,000</u>	<u>\$ -</u>

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. Presented below is the minimum rating required by (where applicable) the City's investment policy or debt agreements, and the actual rating as of yearend for each investment type.

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 4 - Detailed notes on all funds (continued)

Investment type	Total	Minimum legal rating	Ratings as of year end	Not rated
State investment pool	\$ 1,008,849	N/A	-	\$ 1,008,849
Held by trustee:				
Money market funds	72,058	AAA/Aa	AAA	-
U.S. Treasury Bonds/Notes	247,953	TSY	AAA,Aaa	-
Certificates of deposit	<u>3,463,000</u>	N/A	-	<u>3,463,000</u>
	<u>\$ 4,791,860</u>			<u>\$ 4,471,849</u>

Concentration of credit risk

The investment policy of the City contains certain limitations on the amount that can be invested in any one issuer.

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 custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) 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 deposits or investments, 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.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. For withdrawals over \$10,000,000, LAIF requires at least 24-hour notice. Also, this is a \$5,000 minimum and a limit of 15 transactions per month.

The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of pool shares in LAIF which may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the City's position in the pool. Investments in LAIF are highly liquid and are secured by the full faith and credit of the State of California. The City's investment in LAIF at June 30, 2017 was \$1,008,849.

B. Receivables

Enterprise Receivables

Significant receivables include amounts due from customers primarily for utility services. These receivables are due within 60 days.

CITY OF EXETER
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2017

NOTE 4 - Detailed notes on all funds (continued)

C. Interfund receivable/payables, and transfers

The composition of interfund balances as of June 30, 2017, is as follows:

Due to/from other funds:

Receivable Fund	Payable fund	Amount	Purpose
Gas tax	Measure R	\$ 1,766	Cash flow
Transportation	Transit	78,466	Cash flow
Water	Sanitation	2,003	Cash flow
General Fund	Sanitation	138,043	Cash flow
Measure R	Transit	151,256	Cash flow

Interfund transfers:

Transfer Out:	Transfer In: General Fund	Purpose
Non-major Governmental	\$ 250,000	Costs applied

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CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 4 - Detailed notes on all funds (continued)

D. Capital assets

Capital asset activity, for the year ended June 30, 2017, was as follows:

	Balance June 30, 2016	Additions & Transfers	Dispositions & Transfers	Balance June 30, 2017
Governmental Activities:				
Capital assets not depreciated				
Construction in progress	\$ 142,961	\$ 160,725	\$ -	\$ 303,686
Land	1,298,149	-	-	1,298,149
Total capital assets not depreciated	<u>1,441,110</u>	<u>160,725</u>	<u>-</u>	<u>1,601,835</u>
Capital assets being depreciated				
Buildings & improvements	3,442,652	-	-	3,442,652
Infrastructure	2,440,865	-	-	2,440,865
Equipment/autos	3,707,648	167,684	(247,349)	3,627,983
	<u>9,591,165</u>	<u>167,684</u>	<u>(247,349)</u>	<u>9,511,500</u>
Less accumulated depreciation & amortization	<u>(3,812,784)</u>	<u>(407,306)</u>	<u>242,084</u>	<u>(3,978,006)</u>
Total capital assets being depreciated:	<u>5,778,381</u>	<u>(239,622)</u>	<u>(5,265)</u>	<u>5,533,494</u>
Governmental activities capital assets, net	<u>\$ 7,219,491</u>	<u>\$ (78,897)</u>	<u>\$ (5,265)</u>	<u>\$ 7,135,329</u>
Business-Type Activities:				
Capital assets not depreciated				
Construction in progress	\$ 4,059	\$ 33,027	\$ -	\$ 37,086
Land	2,404,191	-	-	2,404,191
Total capital assets not depreciated	<u>2,408,250</u>	<u>33,027</u>	<u>-</u>	<u>2,441,277</u>
Capital assets being depreciated:				
Buildings & improvements	13,293,029	102,055	-	13,395,084
Infrastructure	867,307	-	-	867,307
Equipment/autos	3,368,373	42,800	(163,688)	3,247,485
	<u>17,528,709</u>	<u>144,855</u>	<u>(163,688)</u>	<u>17,509,876</u>
Less accumulated depreciation & amortization	<u>(4,347,642)</u>	<u>(447,150)</u>	<u>163,688</u>	<u>(4,631,104)</u>
Business-type activities	<u>13,181,067</u>	<u>(302,295)</u>	<u>-</u>	<u>12,878,772</u>
Business-type activities capital assets, net	<u>15,589,317</u>	<u>(269,268)</u>	<u>-</u>	<u>15,320,049</u>
Entity wide capital assets	<u>\$ 22,808,808</u>	<u>\$ (348,165)</u>	<u>\$ (5,265)</u>	<u>\$ 22,455,378</u>

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 4 - Detailed notes on all funds (continued)

Depreciation

Depreciation expense was charged to governmental activities as follows:

Governmental departments	
General government	\$ 186,385
Parks and recreation	46,637
Public safety - fire	12,525
Public safety - police	98,181
Public works	<u>63,578</u>
 Governmental activities	 <u>407,306</u>

Depreciation expense was charged to business-type activities as follows:

Water Funds	286,927
Sewer Fund	154,847
Sanitation Fund	194
Transit Fund	<u>5,183</u>
Total depreciation expense, business-type activities	 <u>447,151</u>
 Total depreciation, entity wide	 <u><u>\$ 854,457</u></u>

E. Infrastructure capitalization

The City has included estimated fair market value of infrastructure items with the City's capital assets.

F. Unearned revenue – Governmental activities

Details on unearned revenue at June 30, 2017, are as follows:

<u>Funds</u>	<u>Amount</u>
Governmental activities:	
Special revenue funds:	
Community Development Block Grant	\$ 4,823,221
Home Fund	2,095,174
Non-Major Governmental Funds	<u>513,601</u>
Total Unearned Revenue - Governmental Activities	<u><u>\$ 7,431,996</u></u>

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

G. Long-term debt

The following is a summary of long-term debt for the year ended June 30, 2017:

	Adjusted Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due within one year
Governmental activities					
Compensated Absences	\$ 259,537	\$ 46,843	\$ 79,320	\$ 227,060	\$ 126,011
Lease Payable	156,839	-	67,667	89,172	70,947
	<u>\$ 416,376</u>	<u>\$ 46,843</u>	<u>\$ 146,987</u>	<u>\$ 316,232</u>	<u>\$ 196,958</u>
Business-type activities					
Notes Payable	\$ 8,813,026	\$ -	\$ 197,812	\$ 8,615,214	\$ 205,160
Lease Payable	1,895,024	-	115,022	1,780,002	119,455
Compensated Absences	86,655	22,198	40,763	68,090	51,379
Due to depositors	70,051	1,481	201	71,331	-
	<u>\$ 10,864,756</u>	<u>\$ 23,679</u>	<u>\$ 353,798</u>	<u>\$ 10,534,637</u>	<u>\$ 375,994</u>

Business type activities:

On May 12, 2014, the City entered into a lease purchase contract with Global Water Management, financed through Deutsche Bank, in the amount of \$ 2,097,701, at 3.80%, with 60 quarterly payments of \$46,351.61. The water meters have a cost of \$2,097,701 and accumulated depreciation of \$129,859 at June 30, 2017.

The following is a summary of future required minimum payments due:

Fiscal Year Ending	Water Meter Lease		
	Principal	Interest	Total
2018	\$ 119,445	\$ 65,961	\$ 185,406
2019	124,060	61,347	185,407
2020	128,841	56,565	185,406
2021	133,808	51,599	185,407
2022	138,965	46,441	185,406
2023-2027	779,423	147,609	927,032
2028-2032	355,460	15,363	370,823
Totals	<u>\$ 1,780,002</u>	<u>\$ 444,885</u>	<u>\$ 2,224,887</u>

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

G. Long-term debt (continued)

USDA Water system improvement loan

The City entered into a USDA loan in the amount of \$3,000,000 for the improvements to the City water system. Interest on the loan is at a fixed rate of 4.375 percent per annum. The City is required to make annual principal payments on April 1 of each year commencing July 1, 2003 through July 1, 2043, with interest payments made semi-annually on April 1 and October 1. The payments will vary based on number of days that interest is accrued.

The following is a summary of future required minimum payments due:

Fiscal Year Ending	Water Loan USDA Bond		
	Principal	Interest	Total
2018	\$ 50,000	\$ 108,588	\$ 158,588
2019	52,000	106,400	158,400
2020	54,000	104,125	158,125
2021	57,000	101,763	158,763
2022	59,000	99,269	158,269
2023-2027	336,000	455,263	791,263
2028-2032	418,000	374,895	792,895
2033-2037	518,000	275,144	793,144
2038-2042	641,000	151,508	792,508
2043-2047	297,000	19,644	316,644
Totals	\$ 2,482,000	\$ 1,796,599	\$ 4,278,599

USDA Water Well loan

The City entered into a USDA loan in the amount of \$2,732,619 for the improvements and drilling of new water wells. Interest on the loan is at a fixed rate of 4.375 percent per annum. The City is required to make annual principal payments on October 20 of each year commencing July 1, 2010 through July 1, 2045, with interest payments made semi-annually on October 20 and April 20. The payments will vary based on number of days that interest is accrued.

The following is a summary of future required minimum payments due:

Fiscal Year Ending	Water Well Loan USDA Bond		
	Principal	Interest	Total
2018	\$ 44,393	\$ 107,083	\$ 151,476
2019	46,335	105,099	151,434
2020	48,363	103,027	151,390
2021	50,479	100,865	151,344
2022	52,687	98,608	151,295
2023-2027	300,095	455,579	755,674
2028-2032	371,741	382,387	754,128
2033-2037	460,494	291,671	752,165
2038-2042	570,434	179,328	749,762
2043-2047	487,164	45,350	532,514
Totals	\$ 2,432,185	\$ 1,868,997	\$ 4,301,182

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

G. Long-term debt (continued)

USDA Sewer improvement loan

The City entered into a USDA loan in the amount of \$5,000,000 for the improvements to the City sewer system. Interest on the loan is at a fixed rate of 3.25 percent per annum. The City is required to make annual principal and interest payments on November 1 of each year commencing July 1, 2001 through July 1, 2039. The payments will vary based on number of days that interest is accrued.

The following is a summary of future required minimum payments due:

Fiscal Year Ending	Sewer USDA Bond		
	Principal	Interest	Total
2018	\$ 110,767	\$ 120,283	\$ 231,050
2019	114,366	116,684	231,050
2020	118,083	112,967	231,050
2021	121,921	109,129	231,050
2022	125,883	105,167	231,050
2023-2027	693,511	461,739	1,155,250
2028-2032	813,772	341,478	1,155,250
2033-2037	954,890	200,360	1,155,250
2038-2042	647,838	42,467	690,305
Totals	<u>\$ 3,701,031</u>	<u>\$ 1,610,274</u>	<u>\$ 5,311,305</u>

For USDA loans, the City has pledged the revenues of the Water and Sewer Funds for payment of the loans. The revenues will remain pledged for the duration for the loans. The Water Fund had approximately \$1,500,000 in revenues to pay \$310,064 in debt service. The Sewer Fund had approximately \$1,070,000 in revenues to pay \$231,050 in debt service.

Government-Wide activities:

On October 10, 2013, the City entered into a lease purchase contract to lease Ford Police cars in the amount of \$328,640, at 4.70%, with 60 monthly payments of \$6,132.75 per month. The Police cars meters have a cost of \$328,640 and accumulated depreciation of \$200,835 at June 30, 2017.

The following is a summary of future required minimum lease payments due:

Year ended June 30,	Government-Type Activities
	Lease Payable
2018	\$ 73,593
2019	18,398
	91,991
Less interest	(2,819)
	<u>\$ 89,172</u>

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 - Other information

A. Risk management

The City's risk management activities are reported with governmental activities and recorded in the Insurance Internal Service Fund. The purpose of this fund is to administer employee life, health, dental, property and liability, workers' compensation, unemployment, and disability insurance programs of the City on a cost reimbursement basis. This fund accounts for the risk financing activities of the City but does not constitute a transfer of risk from the City.

Significant losses are covered by commercial insurance for all major programs except dental, for which the City retains risk of loss. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

B. Joint venture

The City is a member of the Central San Joaquin Valley Risk Management Authority (the Authority). The Authority is comprised of 54 Central California member cities and is organized under the provisions of Sections 6500 - 6515 of the California Government Code. It was established for the purpose of operating and maintaining a cooperative program of self-insurance and risk management which benefits its member agencies through cost reductions, insurance coverage stability and loss control techniques. Each member city has a representative on the Board of Directors. The Board members elect officers of the Authority. The Authority establishes claim liabilities based on actuarial estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred, but not reported.

The following is the summary audited statement of net position and the changes in net position of the Authority for the year ended June 30, 2017:

Net Assets		
Assets	\$	100,984,219
Liabilities to member cities		(83,009,648)
Net assets, reserved for insurance claims and losses		17,974,571
<hr style="border: 0.5px solid black;"/>		
Changes in Net Assets		
Revenues	\$	44,722,848
Expenses		(42,218,070)
Excess of income over (under) expenses	\$	2,504,778

This information is not included in the accompanying financial statements. Separate financial statements of the Authority may be obtained at Bickmore Risk Services, 1020 19th Street, Suite 200, Sacramento, CA 95814.

C. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Various other claims and suits have been filed against the City in the normal course of business. Based upon information received from the City Attorney and the self-insurance administrator, the estimated liability under such claims would be adequately covered by self-insurance and other insurance coverage.

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 - Other information (continued)

D. Deferred compensation plans

The City offers several deferred compensation plans created in accordance with Internal Revenue Service Code Section 457 and 401(a). The original 457 plan has two provisions to accommodate regular and part-time, temporary and seasonal employees (PTS). For regular employees, the plan permits them to defer a portion of their salary until future years. Participation in the plan is optional. For PTS employees, participation is not optional. In lieu of participation in PERS, PTS employees must contribute 7.5 percent of their earnings in accordance with IRS regulations. In regard to both classifications of employees, the deferred compensation is not available until termination, retirement, death or unforeseeable emergency.

The City Council has adopted amendments to the 457 plan to accommodate certain tax law changes established by the Internal Revenue Service. The ICMA Retirement Corporation administers the plans and offers several investment options. The choice of the investment option(s) is available only to regular employees and is made solely by the participants. The City has no liability for investment losses under the plan and in accordance with GASB 32, the assets of each of the aforementioned plans have been excluded from the financial statements.

NOTE 6 - Defined benefit pension plan

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The City sponsors four rate plans (two miscellaneous and two safety). Benefit provisions under the Plan are established by State statute and the City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS' website, at www.calpers.ca.gov.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily-reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: 1) Basic Death Benefit; the 1957 Survivor Benefit, Level 3; or 2) Optional Settlement 2W Death Benefit (if decedent is at least age 50). The City has contracted for the Special Death Benefit for public safety members, whose death is the direct result of a violent act while on duty. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan operates under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plan's authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature, and in some cases require approval by the CalPERS Board.

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 6 - Defined benefit pension plan (continued)

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous	
	Classic Members	New Members
Hire date		
Benefit formula	3% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	60	62
Monthly benefits, as a % of eligible compensation	2.00%	2.00%
Required employee contribution rates	8.00%	6.25%
Required employer contribution rates	33.709%	6.237%

	Safety	
	Classic Members	New Members
Hire date		
Benefit formula	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	55	57
Monthly benefits, as a 5 of eligible compensation	2.00%	2.00%
Required employee contribution rates	9.00%	11.50%
Required employer contribution rates	30.402%	11.500%

Contributions - Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

Employer contributions to the Plan for the fiscal year ended June 30, 2017, were \$800,017. The actual employer payments of \$716,962, made to CalPERS by the City during the measurement period ended June 30, 2016, differed from the City's proportionate share of the employer's contributions of \$ 477,186 by \$239,776, which is being amortized average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

B. Net Pension Liability

The City's net pension liability for (each) Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016 using standard update procedures.

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 6 - Defined benefit pension plan (continued)

A summary of principal assumptions and methods, used to determine the net pension liability, is as follows:

Actuarial Assumptions Methods and Assumptions Used to Determine Total Pension Liability

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Asset valuation method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary increases (1)	3.3% - 14.2%
Investment rate of return (2)	7.65%
Mortality rate table (3)	Derived using CalPERS' Membership data for all Funds Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter
Post Retirement Benefit Increase	2.75% thereafter

(1) Annual increases vary by category, entry age, and duration of service

(2) Net of pension plan investment and administrative expenses; includes inflation

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

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at the CalPERS website at www.calpers.ca.gov.

Change in Assumption

There were no changes in assumptions.

Discount Rate – The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund (PERF).

The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website, at www.calpers.ca.gov.

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 returns, net of pension plan investment expense and inflation) are developed for each major asset class.

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 6 - Defined benefit pension plan (continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the PERF asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2015.

Asset Class	Current target allocation	Real return years 1-10 ¹	Real return years 11+ ²
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
	<u>100.0%</u>		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

Pension Plan Fiduciary Net Position

Information about the pension plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in CalPERS' audited financial statements, which are publicly available reports that can be obtained at CalPERS' website, at www.calpers.ca.gov.

The plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investments are reported at fair value.

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and Other Post-Employment Benefits (OPEB) expense included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 6 - Defined benefit pension plan (continued)

C. Proportionate Share of Net Pension Liability

The following table shows the Plans' proportionate share of the net pension liability over the measurement period:

	Increase (decrease)		
	Plan Total Pension Liability	Plan Fiduciary Net Position	Plan Net Pension Liability
	(a)	(b)	(c) = (a) - (b)
Balance at: 6/30/2015 (VD*)	\$ 16,969,252	\$ 12,897,281	\$ 4,071,971
Balance at: 6/30/2016 (MD*)	18,078,918	13,271,212	4,807,706
Net changes during 2015-16	1,109,666	373,931	735,735

*Valuation Date (VD), Measurement Date (MD)

The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The Local Government's proportion of the net pension liability was determined by CalPERS using the output from the Actuarial Valuation System and the fiduciary net position, as provided in the CalPERS Public Agency Cost-Sharing Allocation Methodology Report, which is a publicly available report that can be obtained at CalPERS' website, at www.calpers.ca.gov. The City's proportionate share of the net pension liability for the Plan as of the June 30, 2015 and 2016 measurement dates was as follows:

	Misc	Safety	Total
Proportion - June 30, 2015	0.07447%	0.04924%	0.05932%
Proportion - June 30, 2016	0.06837%	0.04697%	0.05556%
Change - increase/(decrease)	-0.00610%	-0.00227%	-0.00376%

The City reports a net pension liability for its proportionate share of the net pension liability as follows:

	Misc	Safety	Total
Plan's proportionate share of the Net Pension Liability	\$ 2,375,106	\$ 2,432,600	\$ 4,807,706

Sensitivity 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 as of the measurement date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount rate -1% 6.65%	Current discount rate 7.65%	Discount rate +1% 8.65%
Employer's Net Pension Liability - Misc	\$ 3,628,432	\$ 2,375,106	\$ 1,339,295
Employer's Net Pension Liability - Safety	3,623,016	2,432,600	1,455,390
Employer's Net Pension Liability - Total	\$ 7,251,448	\$ 4,807,706	\$ 2,794,685

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 6 - Defined benefit pension plan (continued)

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5-year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the Public Agency Cost-Sharing Multiple-Employer Plan (PERF C).

The EARSL for the Plan for the 2015-2016 measurement period is 3.7 years, which was obtained by dividing the total service years of 475,689 (the sum of remaining service lifetimes of the active employees) by 127,009 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

As of the start of the measurement period (July 1, 2015), the net pension liability for the plan was \$4,071,971. For the measurement period ending June 30, 2016 (the measurement date), the City incurred a pension expense of \$455,064 for the Plan.

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CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 6 - Defined benefit pension plan (continued)

At June 30, 2017, the City has deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Pension contributions subsequent to measurement date	\$ 800,017	\$ -
Differences between actual contributions and proportionate share of employer contributions	352,173	-
Changes in assumptions	-	253,596
Differences between actual and expected experience	10,924	27,403
Net differences between projected & actual earnings on pension plan investments	1,285,027	-
Change in proportion	<u>-</u>	<u>283,176</u>
Total	<u>\$ 2,448,141</u>	<u>\$ 564,175</u>

These amounts above are net of outflows and inflows recognized in the 2015-2016 measurement period expense. The \$285,896 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, 2018. Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

<u>Fiscal year ending June 30:</u>	<u>Misc</u>	<u>Safety</u>	<u>Total</u>
2018	\$ 79,323	\$ 15,401	\$ 94,724
2019	59,218	21,882	81,100
2020	307,716	266,800	574,516
2021	180,789	152,821	333,610
2022	-	-	-
Thereafter	-	-	-
	<u>\$ 627,046</u>	<u>\$ 456,904</u>	<u>\$ 1,083,950</u>

E. Payable to the Pension Plan

At June 30, 2017, the City reports a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

NOTE 7 - Successor agency trust for assets of former redevelopment agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Exeter that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the City or another unit of local government will agree to serve as the "Successor Agency" to hold the assets until they are distributed to other units of state and local government. On January 24, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of a City resolution, which passed unanimously.

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 - Successor agency trust for assets of former redevelopment agency (continued)

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfer of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in conjunction with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the Successor Agency trustee under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

NOTE 8 - Subsequent Events

The date to which events occurring after June 30, 2017, have been evaluated for possible adjustments to the financial statements or disclosures is March 22, 2018, which is the date that the financial statements were available to be issued.

In the 2017/18 fiscal year, the City will no longer be operating transit, as another County agency will provide the service.

NOTE 9 - Recent Accounting Pronouncements

GASB Statement No. 78 - Pensions Provide through Certain Multiple-Employer Defined Pension Plans. The provisions of GASB Statement No. 78 are effective for financial statements beginning after December 15, 2015. Management has not yet determined the impact of this Statement on its financial statements.

GASB Statement No. 81 – Irrevocable Split-Interest Agreements. The provisions of GASB Statement No. 81 are effective for reporting periods beginning after December 15, 2016. Management has not yet determined the impact of this Statement on its financial statements.

GASB Statement No. 83 – Certain Asset Retirement Obligations. The provisions of GASB Statement No. 83 are effective for reporting periods beginning after June 15, 2018. Management has not yet determined the impact of this Statement on its financial statements.

GASB Statement No. 84 – Fiduciary Activities. The provisions of GASB Statement No. 84 are effective for reporting periods beginning after December 15, 2018. Management has not yet determined the impact of this Statement on its financial statements.

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 9 - Recent Accounting Pronouncements (continued)

GASB Statement No. 85 – Omnibus 2017. The provisions of GASB Statement No. 85 are effective for reporting periods beginning after June 15, 2017. Management has not yet determined the impact of this Statement on its financial statements.

GASB Statement No. 86 – Certain Debt Extinguishment issues. The provisions of GASB Statement No. 86 are effective for reporting periods beginning after June 15, 2017. Management has not yet determined the impact of this Statement on its financial statements.

GASB Statement No. 87 – Leases. The provisions of GASB Statement No. 87 are effective for reporting periods beginning after December 15, 2019. Management has not yet determined the impact of this Statement on its financial statements.

NOTE 10 - Special Item

The County of Tulare and the City have come to an agreement on prior fire protection costs relating to the City. In this agreement the City will receive a credit against the City fire prevention costs which will be shown as a special item in the general fund annually until the credit is used up.

REQUIRED SUPPLEMENTAL INFORMATION

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

- The beginning and ending balances of the City's share of total pension liability, the plan assets available for pension benefits (called plan fiduciary net position), and the net pension liability
- A ratio of the City's share of plan net position divided by the total pension liability, the payroll amount for employees in the plan (covered-employee payroll), and a ratio of the City's share of net pension liability divided by covered-employee payroll

SCHEDULE OF CONTRIBUTIONS

- If an agent employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements: the agent employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

City of Exeter
For the Fiscal Year Ended June 30, 2017
 Last 10 Years*

Schedule of City's Proportionate Share of Net Pension Liabilities and Related Ratios

	Miscellaneous		
	June 30, 2016	June 30, 2015	June 30, 2014
City's Proportionate Share of Plan Total Pension Liability	\$ 9,309,329	\$ 8,748,514	\$ 8,347,222
City's Proportionate Share of Plan Fiduciary Net Position	\$ 6,934,223	\$ 6,705,421	\$ 6,312,979
City's Proportionate Share of Fiduciary Net Position as a Percentage of City's Total Pension Liability	74.487%	76.646%	75.630%
City's Proportionate Share of Net Pension Liability (Asset)	\$ 2,375,106	\$ 2,043,093	\$ 2,034,243
City's Covered-Employee Payroll	\$ 1,410,468	\$ 1,238,307	\$ 1,245,778
City's Proportionate Share of Net Pension Liability (Asset) as a Percentage of its Covered Payroll	168.39%	164.99%	163.29%
City's Proportionate Share of Collective NPL	0.0684%	0.0745%	0.0823%
	Safety		
	June 30, 2016	June 30, 2015	June 30, 2014
City's Proportionate Share of Plan Total Pension Liability	\$ 8,769,589	\$ 8,220,738	\$ 8,101,862
City's Proportionate Share of Plan Fiduciary Net Position	\$ 6,336,989	\$ 6,191,860	\$ 5,972,166
City's Proportionate Share of Fiduciary Net Position as a Percentage of City's Total Pension Liability	72.261%	75.320%	73.713%
City's Proportionate Share of Net Pension Liability (Asset)	\$ 2,432,600	\$ 2,028,878	\$ 2,129,696
City's Covered-Employee Payroll	\$ 1,276,485	\$ 1,153,308	\$ 1,058,178
City's Proportionate Share of Net Pension Liability (Asset) as a Percentage of its Covered Payroll	190.57%	175.92%	201.26%
City's Proportionate Share of Collective NPL	0.0470%	0.0492%	0.0568%

Notes to Schedule:

* - Fiscal year 2015 was the 1st year of implementation; historical information is required only for measurement periods during which GASB 68 was in effect.

City of Exeter
For the Fiscal Year Ended June 30, 2017
 Last 10 Years*
SCHEDULE OF CONTRIBUTIONS

Fiscal Year	Miscellaneous		
	2017	2016	2015
Actuarially determined contribution	\$ 424,250	\$ 378,098	\$ 356,472
Contributions in relation to the actuarially determined contributions	<u>424,250</u>	<u>378,098</u>	<u>356,472</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,541,257	\$ 1,410,468	\$ 1,238,307
Contributions as a percentage of covered-employee payroll	27.53%	26.81%	28.79%

Fiscal Year	Safety		
	2017	2016	2015
Actuarially determined contribution	\$ 375,767	\$ 338,864	\$ 346,841
Contributions in relation to the actuarially determined contributions	<u>375,767</u>	<u>338,864</u>	<u>346,841</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,394,849	\$ 1,276,485	\$ 1,153,308
Contributions as a percentage of covered-employee payroll	26.94%	26.55%	30.07%

Notes to Schedule

Valuation date: 6/30/2016 6/30/2015 6/30/2014

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	3.50%
Salary increases	4.5%, average, including inflation of 3.0%
Investment rate of return	7.65%, net of pension plan investment expense, including inflation
Retirement age	67 yrs. Misc., 57 yrs. Safety
Mortality	RP-2000 Healthy Annuitant Mortality Table

* - Fiscal year 2015 was the 1st year of implementation; historical information is required only for measurement periods during which GASB 68 was in effect.

CITY OF EXETER
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP basis) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive(Negative)</u>
REVENUES				
Property taxes	\$ 885,050	\$ 885,050	\$ 877,994	\$ (7,056)
Sales taxes	810,000	810,000	782,079	(27,921)
Sales taxes - Prop 172	74,000	74,000	76,765	2,765
Utility users tax	490,000	490,000	547,843	57,843
Transient occupancy tax	85,000	85,000	98,430	13,430
Property transfer tax/Real Property Transfer	29,500	29,500	28,417	(1,083)
Franchise tax	149,000	149,000	136,221	(12,779)
Business licenses	43,000	43,000	35,596	(7,404)
Dog licenses	3,700	3,700	2,840	(860)
Other licenses and permits	4,500	4,500	3,435	(1,065)
Motor vehicle in-lieu tax	920,000	920,000	921,825	1,825
Street Sweeping/Leaf Pickup	51,000	51,000	53,758	2,758
Federal grants(homeland security, traffic safety)	80,000	80,000	121,224	41,224
State grants/reimbursements	108,000	108,000	227,318	119,318
Zoning and subdivision fees	3,300	3,300	6,000	2,700
Police services	70,000	70,000	70,819	819
Recreational activities	67,000	67,000	59,224	(7,776)
Landscape & Lighting (assessment districts)	64,000	64,000	66,923	2,923
CNG fuel reimbursement	20,000	20,000	40,321	20,321
Development Impact Fees	54,130	54,130	16,920	(37,210)
Parking fines	1,000	1,000	1,865	865
Vehicle code fines	13,000	13,000	14,032	1,032
Street sweeping fees	5,888	5,888	5,888	-
Alley repair	42,000	42,000	43,005	1,005
Other fines	36,700	36,700	35,508	(1,192)
Investment Earnings	2,000	2,000	1,713	(287)
Rent	9,000	9,000	33,380	24,380
Other revenues	1,000	1,000	153,486	152,486
	<u>4,121,768</u>	<u>4,121,768</u>	<u>4,462,829</u>	<u>341,061</u>
EXPENDITURES				
Current:				
General government	876,185	876,185	767,670	108,515
Parks and recreation	576,285	576,285	568,675	7,610
Public safety - fire	100,000	100,000	237,824	(137,824)
Public safety - police	2,554,025	2,684,025	2,706,394	(22,369)
Public works	266,330	454,330	420,556	33,774
Debt service	74,000	74,000	73,593	407
Capital Outlay	-	-	146,608	(146,608)
	<u>4,446,825</u>	<u>4,764,825</u>	<u>4,921,320</u>	<u>(156,495)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(325,057)</u>	<u>(643,057)</u>	<u>(458,491)</u>	<u>184,566</u>
Transfers in	324,000	324,000	250,000	(74,000)
Sale of capital assets	-	-	22,382	22,382
Special item - Fire settlement payment	-	-	173,494	173,494
	<u>324,000</u>	<u>324,000</u>	<u>445,876</u>	<u>121,876</u>
Net change in fund balance	<u>\$ (1,057)</u>	<u>\$ (319,057)</u>	<u>(12,615)</u>	<u>\$ 306,442</u>
Fund balance, July 1			<u>527,660</u>	
Fund balance, June 30			<u>\$ 515,045</u>	

CITY OF EXETER
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP basis) AND ACTUAL
COMMUNITY DEVELOPMENT BLOCK GRANT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Loan payments	\$ -	\$ -	\$ 231,131	\$ 231,131
Investment earnings	-	-	7,023	7,023
Federal grants	-	-	269,681	269,681
Total revenues	<u>-</u>	<u>-</u>	<u>507,835</u>	<u>507,835</u>
EXPENDITURES				
Current:				
Community and economic development	1,166,344	1,166,344	427,843	738,501
Total expenditures	<u>1,166,344</u>	<u>1,166,344</u>	<u>427,843</u>	<u>738,501</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,166,344)</u>	<u>(1,166,344)</u>	<u>79,992</u>	<u>1,008,182</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (1,166,344)</u>	<u>\$ (1,166,344)</u>	79,992	<u>\$ 1,008,182</u>
Fund balance, July 1			<u>620,276</u>	
Fund balance, June 30			<u>\$ 700,268</u>	

CITY OF EXETER
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP basis) AND ACTUAL
PROGRAM INCOME/HOME FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Loan payments	\$ -	\$ -	\$ 32,982	\$ 32,982
Investment earnings	-	-	179	179
Total revenues	<u>-</u>	<u>-</u>	<u>33,161</u>	<u>33,161</u>
EXPENDITURES				
Current:				
Community and economic development	52,700	52,700	3,302	49,398
Total expenditures	<u>52,700</u>	<u>52,700</u>	<u>3,302</u>	<u>49,398</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(52,700)</u>	<u>(52,700)</u>	<u>29,859</u>	<u>82,559</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (52,700)</u>	<u>\$ (52,700)</u>	29,859	<u>\$ 82,559</u>
Fund balance, July 1			<u>5,720</u>	
Fund balance, June 30			<u>\$ 35,579</u>	

SUPPLEMENTAL INFORMATION

**City of Exeter
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017**

	Special Revenue					Measure R Fund	Total Nonmajor Governmental Funds
	Gas Tax	Transportation	Storm Drain	Grant Fund	Low/Mod Housing		
ASSETS							
Cash and cash equivalents	\$ 250,810	\$ 571,379	\$ 62,205	\$ 53,769	\$ 22,616	\$ 505,040	\$ 1,465,819
Intergovernmental receivables	-	257,453	-	-	-	14,698	272,151
Due from other funds	1,766	78,466	-	-	-	151,256	231,488
Notes receivables	-	-	-	196,181	302,185	-	498,366
Total assets	<u>\$ 252,576</u>	<u>\$ 907,298</u>	<u>\$ 62,205</u>	<u>\$ 249,950</u>	<u>\$ 324,801</u>	<u>\$ 670,994</u>	<u>\$ 2,467,824</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts and other payables	\$ 9,438	\$ 1,957	\$ -	\$ 96	\$ -	\$ 22,720	\$ 34,211
Due to other funds	-	-	-	-	-	1,766	1,766
Unearned revenue	-	15,235	-	196,181	302,185	-	513,601
Total liabilities	<u>9,438</u>	<u>17,192</u>	<u>-</u>	<u>196,277</u>	<u>302,185</u>	<u>24,486</u>	<u>549,578</u>
Fund balances:							
Restricted	243,138	890,106	-	53,673	22,616	646,508	1,856,041
Committed	-	-	62,205	-	-	-	62,205
Assigned	-	-	-	-	-	-	-
Total fund balances	<u>243,138</u>	<u>890,106</u>	<u>62,205</u>	<u>53,673</u>	<u>22,616</u>	<u>646,508</u>	<u>1,918,246</u>
Total liabilities and fund balances	<u>\$ 252,576</u>	<u>\$ 907,298</u>	<u>\$ 62,205</u>	<u>\$ 249,950</u>	<u>\$ 324,801</u>	<u>\$ 670,994</u>	<u>\$ 2,467,824</u>

City of Exeter
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2017

	Special Revenue					Measure R Fund	Total Nonmajor Governmental Funds
	Gas Tax	Transportation	Storm Drain	Grant Fund	Low/Mod Housing		
REVENUES							
Gas Tax	\$ 211,712	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 211,712
Intergovernmental	-	334,700	-	279	-	257,842	592,821
Charges for services	-	-	7,605	-	-	-	7,605
Loan payments	-	-	-	13,819	3,876	-	17,695
Investment earnings	2,946	7,483	722	237	-	7,896	19,284
Total revenues	214,658	342,183	8,327	14,335	3,876	265,738	849,117
EXPENDITURES							
Community and economic development	-	-	-	1,376	844	-	2,220
General government	136,542	38,109	-	-	-	-	174,651
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	190,954	190,954
Total expenditures	136,542	38,109	-	1,376	844	190,954	367,825
Excess (deficiency) of revenues over expenditures	78,116	304,074	8,327	12,959	3,032	74,784	481,292
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	-	-	-	-
Transfers out	(100,000)	(100,000)	-	-	-	(50,000)	(250,000)
Total other financing sources and uses	(100,000)	(100,000)	-	-	-	(50,000)	(250,000)
Net change in fund balances	(21,884)	204,074	8,327	12,959	3,032	24,784	231,292
Fund balances - beginning	265,022	686,032	53,878	40,714	19,584	621,724	1,686,954
Fund balances - ending	\$ 243,138	\$ 890,106	\$ 62,205	\$ 53,673	\$ 22,616	\$ 646,508	\$ 1,918,246

OTHER REPORT



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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

Independent Auditor's Report

To the Honorable Mayor and Members
of City Council
City of Exeter, California

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Exeter (the City) as of and for the year ended June 30, 2017, 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 22, 2018.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (finding 2017-001).



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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. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency (finding 2017-002).

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Exeter's Response to Findings

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and responses or schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
March 22, 2018

City of Exeter
Schedule of findings and responses
(For the year ended) June 30, 2017

MATERIAL WEAKNESS

Finding 2017-001
Segregation of duties

Observation

During our audit of the City, we noted a lack of segregation of duties in the City's accounting process. Proper segregation of duties dictates that the functions of recording, authorization, custody and execution are not dominated by one individual. This separation reduces the possibility of fraud and defalcations from occurring and provides adequate controls to ensure the integrity of the information provided by the City's financial reporting system.

As stated above, an adequate segregation of duties requires that one individual does not handle a transaction from its inception to its completion. However, we realize that this is due to the limited number of employees available to the City to perform numerous, and sometimes incompatible, duties. We believe it is important for management and the City Council to be aware that whenever a limited number of people are in control of the accounting process, the system is far more susceptible to errors or other irregularities, either intentional or unintentional, not being discovered.

Recommendation

Therefore, in order to strengthen internal controls over financial reporting, we recommend that the City implement other safeguards, such as direct management/council oversight, the requiring of various approvals on journal entries, requiring two signatures on all checks, etc. to help mitigate any effects of the above situation. In addition, the City could hire an outside consultant to periodically (monthly/quarterly) review the bank reconciliations, various journal entries, assist with account reconciliations and to assist with the year-end closing process.

Views of responsible officials and planned corrective action

The City has instituted steps to strengthen internal controls over financial reporting. For example, two people must review a journal entry before it is entered, two signatures are required for checks including any manual checks processed, and monthly reconciliation of cash accounts that are reported to City Council as the "Treasurer's Report". For the fiscal year 2016/17 the City hired a consultant for year-end review and closing processes and plans to continue this relationship in the future in order to insure strong internal controls and mitigate effects of having a limited number of employees.

SIGNIFICANT DEFICIENCY

Finding 2017-002

Financial award accounting and reporting

Observation

During the current fiscal year, we noted the City was using Measure R Regional Funds for various street related improvements throughout the City. The Regional Funds are received on a reimbursement basis from the Tulare County Association of Governments and as of June 30, 2017, reimbursement claims had not been submitted. The longer the amounts are outstanding, the less of a chance they can be collected in full. Also, by not submitting the claim forms in a timely manner, the City has less funds available for current operations and is losing any potential investment income that could be earned on the amounts yet to be reimbursed.

Recommendation

Therefore, we recommend in the short term the City prepare the proper claims forms and submit them as soon as possible in order to secure full reimbursement. In addition, we recommend the City develop policies and procedures to ensure that all reimbursable monies are claimed and collected by the City when all requirements have been met.

Views of responsible officials and planned corrective action

The Visalia Road Project during the time period was in Design and Right of Way Phases of the project. It is intended to be funded primarily with Measure R Regional Funds. As of June 30, 2017, the project had exceeded its funding allocation from Measure R Regional and Measure R Local funds were used to pay for the overage. City staff has subsequently met with the Tulare County Association of Governments (TCAG), who administers the funding and is in discussion about possible reimbursement of the overage. Due to increased construction costs estimates, reimbursement is not guaranteed due to the need to fund the Construction Phase of the project, but will be pursued if TCAG approves.

City of Exeter
Schedule of findings and responses
(For the year ended) June 30, 2017

Status of prior year findings

There were no prior year findings