

CITY OF EXETER

Measure R Transportation Fund

Audited Financial Statements
Years Ended June 30, 2017 and 2016

CITY OF EXETER
Measure R Transportation Fund
Year Ended June 30, 2017 and 2016

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Independent Auditor's Report

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 Measure R Transportation Fund of the City of Exeter, California, as of and for the year ended June 30, 2017, and the related notes to the 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 an opinion 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.



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure R Fund of the City of Exeter, California, as of June 30, 2017, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Measure R Fund of the City of Exeter, California for the year ended June 30, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on March 20, 2017.

As discussed in Note 1, the accompanying financial statements present only the Measure R Fund of the City of Exeter, California and does not purport to, and does not present fairly, the financial position of the City of Exeter, California, as of June 30, 2017, and the changes in the City's financial position, or where applicable, its cash flows, for the year then ended. Our opinion is not modified with respect to this matter.

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 Measure R Fund 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 Measure R Fund of the City of Exeter, California's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Rogers, Anderson, Malody & Scott, LLP." The signature is written in a cursive style.

San Bernardino, California
March 22, 2018

CITY OF EXETER
Measure R Transportation Fund

Balance Sheet
June 30, 2017 and 2016

	2017	2016
<u>Assets</u>		
Cash and investments	\$ 505,040	\$ 586,060
Due from other governmental agencies	14,698	51,075
Due from other funds	151,256	-
Total Assets	\$ 670,994	\$ 637,135
 <u>Liabilities and Fund Balance</u>		
<u>Liabilities</u>		
Accounts payable	\$ 22,720	\$ 13,645
Due to other funds	1,766	1,766
Total Liabilities	24,486	15,411
 <u>Fund Balance</u>		
Restricted for:		
Laws and regulations of other governments	646,508	621,724
Total Liabilities and Fund Balance	\$ 670,994	\$ 637,135

The accompanying notes are an integral part of these financial statements.

CITY OF EXETER
Measure R Transportation Fund

Statements of Revenues, Expenditures, and Changes in Fund Balance
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues		
Measure R Local Programs	\$ 184,317	\$ 189,384
Measure R Special Projects	73,525	309,833
Interest	<u>7,896</u>	<u>6,948</u>
Total Revenues	<u>265,738</u>	<u>506,165</u>
Expenditures		
Local program expenditures	19,019	49,172
Special project expenditures	<u>171,935</u>	<u>309,833</u>
Total Expenditures	<u>190,954</u>	<u>359,005</u>
Revenues (Under) Expenditures	74,784	147,160
Other Financing Sources (Uses)		
Operating Transfers In (Out)	<u>(50,000)</u>	<u>(50,000)</u>
Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	24,784	97,160
Fund Balance - Beginning of Year	<u>621,724</u>	<u>524,564</u>
Fund Balance - End of Year	<u><u>\$ 646,508</u></u>	<u><u>\$ 621,724</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF EXETER
Measure R Transportation Fund

Notes to Financial Statements
June 30, 2017 and 2016

Note 1: Summary of Significant Accounting Policies

Measure R:

The Tulare County Transportation Authority (the "Authority"), a component unit of the Tulare County Association of Governments, California, was established on August 7, 2006. The primary purpose of the Authority is to impose within the incorporated and unincorporated territory of Tulare County, a retail transaction and use tax for transportation purposes in accordance with the provisions as provided in Division 19 (commencing with section 180000) of the California Public Utilities Code and Part 1.6 (commencing with section 7251) of division 2 of the California Revenue and Taxation Code.

The tax rate shall be one-half of one percent (0.5%) per dollar for a period of thirty (30) years commencing on the operative date of this ordinance. This tax shall be in addition to any other taxes authorized by law, including any existing or future state or local sales tax or transactions and use taxes.

The revenue derived from the tax shall be used for transportation purposes only and may include, but are not limited to, the administration of the Measure R Expenditure Plan. These purposes include expenditures for planning, environmental review, engineering and design costs, related special and expert consulting costs, and related right-of-way acquisition and associated administrative and legal costs.

The City of Exeter's Measure R Transportation Fund's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the City of Exeter's Measure R Transportation Fund are discussed below.

A. Reporting Entity

The financial statements are intended to reflect the financial position, results of operation and compliance of the Measure R funds allocated for non-transit purposes to the Measure R Transportation Fund of the City of Exeter (City) with the laws, rules and regulations of Measure R and the Tulare County Association of Governments. They do not present fairly the financial position and results of operations of the City, in conformity with generally accepted accounting principles.

B. Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or net assets, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund presented in the financial statements in this report, consists of one generic fund type and one broad fund category as follows:

CITY OF EXETER
Measure R Transportation Fund

Notes to Financial Statements
June 30, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (continued)

Governmental Fund Types

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Measure R Transportation Fund is a Special Revenue Fund.

C. Basis of Accounting

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 City 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. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

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

D. Cash and Investments

The City maintains and controls three major 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 market 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.).

E. Use of Management Estimates

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

F. Fund Equity

The fund financial statements utilize a fund balance presentation. Fund balances are categorized as nonspendable, restricted, committed, assigned, and unassigned.

CITY OF EXETER
Measure R Transportation Fund

Notes to Financial Statements
June 30, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (continued)

Nonspendable – to reflect amounts that cannot be spent because they are (1) not in spendable form, such as prepaid items, inventories, and long-term receivables for which the payment of proceeds are not restricted or committed with respect to the nature of the specific expenditures of that fund, or (2) legally or contractually required to remain intact.

Restricted – to reflect amounts that are restricted by external parties such as creditors or imposed by grants, laws, or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – to reflect amounts that can only be used for specific purposes pursuant to constraints imposed by a formal action by the entity’s “highest level of decision-making authority,” which the City considers to be the City Council. As of June 30, 2017, the City had no committed fund balance.

Assigned – to reflect amounts that have been allocated by action of the City Council in which the Council’s intent is to use the funds for a specific purpose.

Unassigned – to reflect amounts that constitute the residual balances that have no restrictions placed on them.

The City does not have a policy on the order of spending of unrestricted amounts when an expenditure is incurred for which amounts in any of the unrestricted fund balance classifications could be used. Therefore, by default under GASB Statement No. 54, the Agency uses committed resources first, then assigned resources, and unassigned resources last as they are needed.

Note 2: Cash and Cash Equivalents

Cash is pooled with other City funds to maximize investment opportunities and yields. Investment income resulting from this pooling is allocated to the respective funds, including the Transportation Fund and the Transit Fund on a monthly basis, based on weighted average cash balances in each fund. For reporting of cash flows, the City considers all demand deposits and investments maturing within ninety days of their purchased to be cash and cash equivalents. Information regarding categorization of investments can be found in the City’s financial statements.

Note 3: Subsequent Events

Subsequent events have been evaluated through March 22, 2018, the date these financial statements have been made available to be issued. There were no subsequent events identified by management which would require disclosure in the financial statements.

Note 4: 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.

CITY OF EXETER
Measure R Transportation Fund

Notes to Financial Statements
June 30, 2017 and 2016

Note 4: Recent Accounting Pronouncements (continued)

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.

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.

OTHER REPORTS



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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 AND MEASURE R**

Independent Auditor's Report

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

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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Measure R Transportation Fund of the City of Exeter, California (the City), as of and for the year ended June 30, 2017, and the related notes to the 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. Our audit was further made to determine that Measure R funds allocated to and received by the City were expended in conformance with applicable rules and regulations of the Measure R Ordinance and instructions and resolutions of Tulare County Association of Governments and the Tulare County Transportation Authority. 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* and Measure R.

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