

CITY OF EXETER

Transportation and Transit Funds

Audited Financial Statements
Years Ended June 30, 2017 and 2016

CITY OF EXETER
Transportation and Transit Funds
For the Years 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 Transportation and Transit Funds 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 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.



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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Transportation and Transit Funds of the City of Exeter, California, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Transportation and Transit Funds 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 Transportation and Transit Funds 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 of Exeter'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 Transportation and Transit Funds 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 Transportation and Transit Funds 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, flowing style.

San Bernardino, California
March 22, 2018

CITY OF EXETER
Transportation Fund

Balance Sheets
June 30, 2017 and 2016

	2017	2016
<u>Assets</u>		
Cash in Treasury	\$ 571,379	\$ 440,519
Due from other governmental agencies	257,453	183,282
Due from other funds	78,466	78,466
Total Assets	\$ 907,298	\$ 702,267
 <u>Liabilities and Fund Balance</u>		
Liabilities		
Accounts payable	\$ 1,957	\$ 1,000
Unearned revenue	15,235	15,235
Total Liabilities	17,192	16,235
Fund Balance		
Restricted for:		
Laws and regulations of other governments	890,106	686,032
Total Liabilities and Fund Balance	\$ 907,298	\$ 702,267

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

CITY OF EXETER
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		
Local Transportation Funds	\$ 257,454	\$ 207,962
Other intergovernmental	77,246	-
Interest	<u>7,483</u>	<u>5,858</u>
Total Revenues	<u>342,183</u>	<u>213,820</u>
Expenditures		
Streets and roads, maintenance and construction	38,109	68,188
Capital outlay	<u>-</u>	<u>-</u>
Total Expenditures	<u>38,109</u>	<u>68,188</u>
Revenues Over (Under) Expenditures	304,074	145,632
Other Financing Sources (Uses)		
Operating Transfer Out	<u>(100,000)</u>	<u>(50,000)</u>
Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	204,074	95,632
Fund Balance, July 1	<u>686,032</u>	<u>590,400</u>
Fund Balance, June 30	<u><u>\$ 890,106</u></u>	<u><u>\$ 686,032</u></u>

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

CITY OF EXETER
Transit Fund

Statement of Net Position
June 30, 2017 and 2016

	2017	2016
<u>Assets</u>		
Current Assets		
Cash in city treasury	\$ -	\$ -
Intergovernmental receivable	119,275	112,857
Noncurrent Assets		
Capital Assets		
Depreciable, net	76,472	81,655
Total Assets	195,747	194,512
<u>Deferred Outflows of Resources</u>		
Deferred pensions	83,789	42,138
<u>Liabilities</u>		
Current Liabilities		
Accounts and other payables	5,037	6,972
Due to other funds	229,722	174,807
Noncurrent Liabilities		
Compensated absences	7,144	14,584
Net pension liability	151,532	136,070
Total Liabilities	393,435	332,433
<u>Deferred Inflows of Resources</u>		
Deferred pensions	16,717	21,612
<u>Net Position</u>		
Net investment in capital assets	76,472	81,655
Restricted for PTMISEA	9,366	9,366
Restricted for LTF	(216,454)	(208,416)
Total Net Position (deficit)	\$ (130,616)	\$ (117,395)

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

CITY OF EXETER
Transit Fund

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2017 and 2016

	2017	2016
Operating Revenues		
Fares	\$ 7,279	\$ 8,097
Operating Expenses		
Salaries and benefits	124,952	121,429
General and administrative	10,248	55,349
Depreciation	5,183	26,901
Total Operating Expenses	140,383	203,679
Operating Loss	(133,104)	(195,582)
Non-Operating Revenues		
Local Transportation Funds	119,274	59,062
State Transit Assistance Funds	-	53,795
CMAQ grant	-	41,830
Grants received for others	-	1,575,551
Payments made for others	-	(1,575,551)
Gain (loss) on disposal of capital assets	609	-
Total Non-Operating Revenues	119,883	154,687
Changes in Net Position	(13,221)	(40,895)
Net Position (deficit), July 1	(117,395)	(76,500)
Net Position (deficit), June 30	\$ (130,616)	\$ (117,395)

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

CITY OF EXETER

Transit Fund

Statements of Cash Flow
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 7,279	\$ 8,097
Cash payments to suppliers for goods and services	(12,183)	2,266
Cash payments to employees for services	<u>(163,476)</u>	<u>(208,179)</u>
Net Cash Used in Operating Activities	<u>(168,380)</u>	<u>(197,816)</u>
Cash Flows from Non-Capital Financing Activities		
Local Transportation Funds	112,856	135,560
State Transit Assistance	-	53,795
CMAQ grant	-	41,830
Increase (decrease) in amounts due to other funds	<u>54,915</u>	<u>(33,369)</u>
Net Cash Provided from Non-Capital Financing Activities	<u>167,771</u>	<u>197,816</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition of fixed assets	-	-
Intergovernmental - capital assistance - for others	-	1,575,551
Other agency - capital reimbursements/payments	-	(1,575,551)
Proceeds from sale of capital assets	<u>609</u>	<u>-</u>
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>609</u>	<u>-</u>
Net Increase (Decrease) in Cash	-	-
Cash, July 1	<u>-</u>	<u>-</u>
Cash, June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Reconcile of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (133,104)	\$ (195,582)
Adjustment to reconcile operating loss to net cash used in operating activities:		
Depreciation	5,183	26,901
Change in assets and liabilities		
(Increase) decrease in deferred outflows	(41,651)	(16,749)
Increase (decrease) in accounts and other payables	(1,935)	2,805
Increase (decrease) in deferred inflows	(4,895)	(3,316)
Increase (decrease) in compensated absences	(7,440)	1,132
Increase (decrease) in net pension liability	<u>15,462</u>	<u>(13,007)</u>
Net Cash Used in Operating Activities	<u><u>\$ (168,380)</u></u>	<u><u>\$ (197,816)</u></u>

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

CITY OF EXETER
Transportation and Transit Funds

Notes to Financial Statements
June 30, 2017 and 2016

Note 1: Summary of Significant Accounting Policies

A. Description of Reporting Entity

The financial statements are intended to reflect the financial position, results of operation and compliance of the Transportation Development Act (TDA), Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA) and Measure R funds allocated for non-transit and transit purposes to the Transportation and Transit Funds of the City of Exeter (City) with the laws, rules and regulations of the Transportation Development Act, certain bond act requirements 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, 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 various funds are grouped, in the financial statements in this report, into two generic fund types and two broad fund categories as follows:

Governmental Funds

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 Transportation Fund is a Special Revenue Fund.

Proprietary Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through use charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accounting ability, or other purposes. The Transit Fund is an Enterprise 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 collectible 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.

CITY OF EXETER
Transportation and Transit Funds

Notes to Financial Statements
June 30, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (continued)

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.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

D. Cash and Investments

The City of Exeter 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 of Exeter operates its temporary pooled idle cash investments under the prudent man rule (Civil Code Section 2261, et. Seq.). This affords the City of Exeter 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. Capital Assets

Capital Assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

As the City acquires additional capital assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs, which are amounts essentially spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimates. In the case of donations, capital assets are valued at their acquisition value at the date of donation.

Capital assets of the City are depreciated using the straight-line method over the following estimated lives:

Assets	Years
Buildings and improvements	40
Vehicles	8
City equipment	5

F. Use of Management Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF EXETER
Transportation and Transit Funds

Notes to Financial Statements
June 30, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (continued)

G. Fund Equity

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

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.

H. Pension Plan

All qualified permanent and probationary employees are eligible to participate in the City’s Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan administered by the California Public Employees’ Retirement System (CalPERS). For additional information on the pension plan, please refer to the City’s basic financial statements, Note 6.

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.

CITY OF EXETER
Transportation and Transit Funds

Notes to Financial Statements
June 30, 2017 and 2016

Note 3: Capital Assets

The changes in capital assets and the related accumulated depreciation for the years ended June 30, 2017 and 2016, are as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital Assets:				
Non-depreciable assets:				
Construction-in-progress	\$ -	\$ -	\$ -	\$ -
Total non- depreciable assets	-	-	-	-
Depreciable assets:				
Buildings and improvements	75,938	-	-	75,938
Machinery and equipment	10,058	-	-	10,058
Vehicles	261,439	-	163,688	97,751
Total depreciable assets	347,435	-	163,688	183,747
Less: accumulated depreciation	265,780	5,183	163,688	107,275
Capital Assets, net	\$ 81,655	\$ (5,183)	\$ -	\$ 76,472
	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital Assets:				
Non-depreciable assets:				
Construction-in-progress	\$ -	\$ -	\$ -	\$ -
Total non- depreciable assets	-	-	-	-
Depreciable assets:				
Buildings and improvements	75,938	-	-	75,938
Machinery and equipment	10,058	-	-	10,058
Vehicles	261,439	-	-	261,439
Total depreciable assets	347,435	-	-	347,435
Less: accumulated depreciation	238,879	26,901	-	265,780
Capital Assets, net	\$ 108,556	\$ (26,901)	\$ -	\$ 81,655

CITY OF EXETER
Transportation and Transit Funds

Notes to Financial Statements
June 30, 2017 and 2016

Note 4: Fare Revenue Ratio

The City is required under the Transportation Development Act to maintain a fare revenue to operating expense ratio of 15%. The calculation of the fare revenue ratio for the years ended June 30, 2017 and 2016, is as follows:

	2017	2016
Fare Revenues	\$ 7,279	\$ 8,097
Operating Expenses	\$ 140,383	\$ 203,679
Less: Depreciation	(5,183)	(26,901)
Net Operating Expenses	\$ 135,200	\$ 176,778
Ratio	5.38%	4.58%

The City did not meet their 15% operating expense ratio for the fiscal years ended June 30, 2017 and 2016.

Note 5: PTMISEA

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006. Of the \$19.925 billion of state general obligation bonds authorized, \$4 billion was set aside by the State as instructed by statute as the Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA). These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements or for rolling stock procurement, rehabilitation or replacement.

During the fiscal years ended June 30, 2017 and 2016, the City did not receive proceeds from the State's PTMISEA account. As of June 30, 2017 and 2016, the City has not spent the complete amount of PTMISEA fund on qualifying expenditures, resulting in an unexpended restricted fund balance of \$9,366. Qualifying expenditures must be encumbered within three years from the date of the allocation and expended within three years from the date of the encumbrance. As of June 30, 2017 and 2016, PTMISEA funds received and expended were as follows:

	2017	2016
Unexpended PTMISEA at July 1	\$ 9,366	\$ 9,366
PTMISEA Revenues	-	-
Qualifying expenditures incurred	-	-
Unexpended proceeds at June 30:	\$ 9,366	\$ 9,366

CITY OF EXETER
Transportation and Transit Funds

Notes to Financial Statements
June 30, 2017 and 2016

Note 6: Subsequent Events

Subsequent events have been evaluated through March 22, 2018, the date these financial statements have been made 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.

There were no other subsequent events identified by management which would require disclosure in the financial statements.

Note 7: 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.

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, TRANSPORTATION
DEVELOPMENT ACT, PUBLIC TRANSPORTATION MODERNIZATION
IMPROVEMENT AND SERVICE AND ENHANCEMENT
ACCOUNT (PTMISEA) AND MEASURE R**

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Transportation and Transit Funds 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 Transportation Development Act (TDA) and Measure R funds allocated to and received by the City were expended in conformance with applicable rules and regulations of the TDA, Measure R Ordinance and instructions and resolutions of Tulare County Association of Governments and the Tulare County Transportation Authority. Our audit was expanded to include verification of receipt and appropriated expenditures of PTMISEA bond funds in accordance with government Code 8879.55(f). 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*, the TDA, PTMISEA 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, CA
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