

CITY OF EXETER

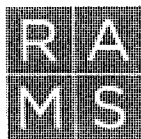
AUDITED BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

CITY OF EXETER
BASIC FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2018

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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, 2018, 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.

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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 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, 2018, 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 January 2, 2019, 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
January 2, 2019

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, 2018. 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 \$16,543,720 (*net position*). Of this amount, <\$1,854,662> (*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 \$4,160,291. Of this amount, there is a balance of \$146,751 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 \$146,751.

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 15 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 EDBG, Home Funds, and Low and Moderate Income Housing, all of which are considered to be major funds. Data from the other 11 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, where operations ceased this fiscal year. The City is working on disposing of the assets in this 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. The City's Successor Agency concluded its activities this year and closed out the fiduciary funds in this fiscal year.

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 \$16,543,722 at the close of the most recent fiscal year.

Of the City of Exeter's net position, 79 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	
	2018	2017	2018	2017	2018	2017
Current & other assets	\$ 12,764,913	\$ 11,105,750	\$ 3,325,759	\$ 2,936,663	\$ 16,090,672	\$ 14,042,413
Capital assets	7,649,880	7,135,329	15,505,978	15,320,049	23,155,858	22,455,378
Total assets	<u>20,414,793</u>	<u>18,241,079</u>	<u>18,831,737</u>	<u>18,256,712</u>	<u>39,246,530</u>	<u>36,497,791</u>
Deferred outflows of resources	1,736,899	1,738,164	563,967	727,424	2,300,866	2,465,588
Long-term liabilities	4,081,012	3,713,945	11,451,817	11,750,529	15,532,829	15,464,474
Other liabilities	8,402,424	7,719,323	816,596	355,708	9,219,020	8,075,031
Total liabilities	<u>12,483,436</u>	<u>11,433,268</u>	<u>12,268,413</u>	<u>12,106,237</u>	<u>24,751,849</u>	<u>23,539,505</u>
Deferred outflows of resources - pension	174,756	422,529	77,071	141,646	251,827	564,175
Net position:						
Investment in capital assets	7,631,655	7,046,157	5,435,377	4,924,833	13,067,032	11,970,990
Restricted	3,593,759	2,591,888	1,737,591	1,274,167	5,331,350	3,866,055
Unrestricted	(1,731,914)	(1,514,599)	(122,748)	537,253	(1,854,662)	(977,346)
Total net position	<u>\$ 9,493,500</u>	<u>\$ 8,123,446</u>	<u>\$ 7,050,220</u>	<u>\$ 6,736,253</u>	<u>\$ 16,543,720</u>	<u>\$ 14,859,699</u>

An additional portion of the City of Exeter's net position (32 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 <\$1,854,662>. 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 deficit of <\$122,748> at June 30, 2018, a decrease from \$537,253 at June 30, 2017.

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	
	2018	2017	2018	2017	2018	2017
Program Revenues:						
Charges for services	\$ 719,764	\$ 777,786	\$ 3,747,906	\$ 3,575,020	\$ 4,467,670	\$ 4,352,806
Operating grants and contributions	899,837	1,498,157	4,639	119,274	904,476	1,617,431
Capital grants and contributions	1,731,413	114,832	-	-	1,731,413	114,832
General Revenues:						
Property taxes	1,855,865	1,776,822	-	-	1,855,865	1,776,822
Other taxes	1,913,371	1,682,910	-	-	1,913,371	1,682,910
Investment earnings - unrestricted	-	2,435	35,255	33,409	35,255	35,844
Gain on sale of capital assets	(11,745)	17,115	-	609	(11,745)	17,724
Special item - fire settlement prmt	140,548	173,494	-	-	140,548	173,494
Special item - successor agency	11,213	-	-	-	11,213	-
Transfers in (out)	(119,000)	-	119,000	-	-	-
Total Revenue	7,141,266	6,043,551	3,906,800	3,728,312	11,048,066	9,771,863
Expenses						
Community & economic development	369,763	433,365	-	-	369,763	433,365
General government	1,136,542	903,969	-	-	1,136,542	903,969
Parks and recreation	540,087	548,007	-	-	540,087	548,007
Public safety	3,046,570	2,691,456	-	-	3,046,570	2,691,456
Public works	678,248	444,945	-	-	678,248	444,945
Water operating	-	-	1,596,745	1,533,203	1,596,745	1,533,203
Sewer operating	-	-	988,992	865,684	988,992	865,684
Transit	-	-	(419)	140,383	(419)	140,383
Sanitation operating	-	-	1,007,515	938,836	1,007,515	938,836
Total expenses	5,771,210	5,021,742	3,592,833	3,478,106	9,364,043	8,499,848
Changes in net position	1,370,056	1,021,809	313,967	250,206	1,684,023	1,272,015
Net position - beginning	8,123,446	7,101,637	6,736,253	6,486,047	14,859,699	13,587,684
Net position - ending	\$ 9,493,502	\$ 8,123,446	\$ 7,050,220	\$ 6,736,253	\$ 16,543,722	\$ 14,859,699

Governmental activities. Governmental activities increased the City of Exeter's net position by \$1,370,056 and \$1,021,809 for the fiscal years ended June 30, 2018 and 2017 respectively.

Business-type activities. Business-type activities increased the City of Exeter's net position by \$313,967 and \$250,206 for the fiscal years ended June 30, 2018 and 2017.

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, 2018 and 2017, the City of Exeter's governmental funds reported combined ending fund balances of \$4,160,291 and \$3,169,138. Of the June 30, 2018 and 2017 total amount, 3.527 percent and 0.817 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, 2018 and 2017, unassigned fund balance of the general fund was \$146,751 and <\$109,095>, respectively. It may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. As of June 30, 2018 and 2017, unassigned fund balance represents 2.79 percent and 0.53 percent, respectively, of the amount needed to cover general fund expenditures.

The fund balance of the City of Exeter's general fund increased by \$100,771 and decreased by \$12,615 for the years ended June 30, 2018 and 2017. Key factors in the increase are as follows:

Increases in revenue:

Property Taxes
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 <\$122,748> and \$537,253 for June 30, 2018 and 2017. The total increase in net position for all these funds in 2018 and 2017 was \$313,967 and \$250,206. 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

For the duration of 2017/18, there were no additional appropriations, and efforts were made to stay within the original, approved budget. Expenditures, not specifically identified in the budget, needed support from grant reimbursements or other new revenue.

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, 2018, amounts to \$23,155,856 (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	
	2018	2017	2018	2017	2018	2017
Land	\$ 1,298,149	\$ 1,298,149	\$ 2,404,191	\$ 2,404,191	\$ 3,702,340	\$ 3,702,340
Buildings & Improvements	2,289,241	2,394,409	9,630,629	9,882,593	11,919,870	12,277,002
Machinery & equipment	1,030,155	1,191,763	2,489,369	2,371,291	3,519,524	3,563,054
Infrastructure	2,297,296	1,947,322	607,542	624,888	2,904,838	2,572,210
Construction in progress	735,039	303,686	374,237	37,086	1,109,276	340,772
	<u>\$ 7,649,880</u>	<u>\$ 7,135,329</u>	<u>\$ 15,505,968</u>	<u>\$ 15,320,049</u>	<u>\$ 23,155,848</u>	<u>\$ 22,455,378</u>

Long-term debt. At June 30, 2018 and 2017, the City of Exeter had total debt outstanding of \$10,088,826 and \$10,484,388. 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	
	2018	2017	2018	2017	2018	2017
Leases payable	\$ 18,225	\$ 89,172	\$ 1,660,547	\$ 1,780,002	\$ 1,678,772	\$ 1,869,174
Notes payable	-	-	8,410,054	8,615,214	8,410,054	8,615,214
	<u>\$ 18,225</u>	<u>\$ 89,172</u>	<u>\$ 10,070,601</u>	<u>\$ 10,395,216</u>	<u>\$ 10,088,826</u>	<u>\$ 10,484,388</u>

Economic Factors and Next Year's Budgets and Rates

The City of Exeter continues to experience a slight increase in development activity, which is comparable to other small cities in Tulare County. Exeter is traditionally very cautious and structured in its approach to City growth, and slow growth is – by design – more the rule than the exception. There were six new building permits pulled within the City in 2017/18 that paid development impact fees.

With a balanced budget passed for 2018/19, the City will continue to look towards operating cost reductions by contracting out services for Animal Control and Park Landscaping maintenance.

Governmental Activities

General Fund operating revenues are shifting in both directions. The City will continue to assess revenue status quarterly and semi-annually to determine available funds for operation. Employee benefit contributions may be looked at to alleviate the financial strain on the City's operating revenue.

The approved 2018/19 balanced budget will continue with a conservative measure in appropriations, utilizing one-time revenues for special projects, and not for ongoing operations.

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, 2019, which will be used towards increased operating costs and infrastructure improvements. There is one more rate increase approved by City Council for 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, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments			
Unrestricted	\$ 2,873,376	\$ 1,417,083	\$ 4,290,459
Restricted	-	1,737,397	1,737,397
Receivables:			
Accounts	2,172	383,786	385,958
Intergovernmental	1,540,449	-	1,540,449
Inventories	-	73,597	73,597
Internal balances	286,104	(286,104)	-
Loans receivable	8,062,812	-	8,062,812
Capital assets:			
Non-depreciable	2,033,188	2,778,428	4,811,616
Depreciable, net of accumulated depreciation	5,616,692	12,727,550	18,344,242
Total assets	20,414,793	18,831,737	39,246,530
DEFERRED OUTFLOWS OF RESOURCES			
Deferred bond issue costs/amortization	-	15,993	15,993
Deferred pensions	1,736,899	547,974	2,284,873
Total deferred outflows of resources	1,736,899	563,967	2,300,866
LIABILITIES			
Accounts payable and other accruals	348,144	646,199	994,343
Interest payable	-	139,129	139,129
Unearned revenue	7,943,047	-	7,943,047
Compensated absences	111,233	31,268	142,501
Noncurrent liabilities:			
Due to depositors	-	71,398	71,398
Net pension liability	3,983,243	1,281,920	5,265,163
Compensated absences	79,544	27,898	107,442
Due in one year	18,225	336,761	354,986
Due in more than one year	-	9,733,840	9,733,840
Total liabilities	12,483,436	12,268,413	24,751,849
DEFERRED INFLOWS OF RESOURCES			
Deferred pensions	174,756	77,071	251,827
NET POSITION			
Net investment in capital assets	7,631,655	5,435,377	13,067,032
Restricted for:			
Public service	3,593,759	-	3,593,759
Debt service	-	845,572	845,572
Impact fees	-	568,672	568,672
Capital	-	323,347	323,347
Unrestricted	(1,731,914)	(122,748)	(1,854,662)
Total net position	\$ 9,493,500	\$ 7,050,220	\$ 16,543,720

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, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	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	\$ 369,763	\$ 273,496	\$ 10,077	\$ 391,944	\$ 305,754		\$ 305,754
General government	1,136,542	70,033	-	-	(1,066,509)		(1,066,509)
Parks and recreation	540,087	58,225	-	-	(481,862)		(481,862)
Public safety - fire	285,841	-	-	32,977	(252,864)		(252,864)
Public safety - police	2,760,731	79,475	203,776	60,449	(2,417,031)		(2,417,031)
Public works	678,248	238,535	685,984	1,246,043	1,492,314		1,492,314
Total governmental activities	<u>5,771,212</u>	<u>719,764</u>	<u>899,837</u>	<u>1,731,413</u>	<u>(2,420,198)</u>		<u>(2,420,198)</u>
Business-type Activities:							
Water operations	1,596,745	1,655,057	4,639	-		\$ 62,951	62,951
Sewer operations	988,992	1,134,519	-	-		145,527	145,527
Sanitation operations	1,007,515	957,855	-	-		(49,660)	(49,660)
Transit	(419)	475	-	-		894	894
Total business-type activities	<u>3,592,833</u>	<u>3,747,906</u>	<u>4,639</u>	<u>-</u>		<u>159,712</u>	<u>159,712</u>
Total primary government	<u>\$ 9,364,045</u>	<u>\$ 4,467,670</u>	<u>\$ 904,476</u>	<u>\$ 1,731,413</u>	<u>(2,420,198)</u>	<u>159,712</u>	<u>(2,260,486)</u>
General revenues:							
Property taxes					1,855,865	-	1,855,865
Fire property taxes					166,380	-	166,380
Sales tax					924,151	-	924,151
Utility users tax					565,154	-	565,154
Franchise tax					149,151	-	149,151
Other taxes					108,535	-	108,535
Gain(loss) on sale of capital assets					(11,745)	-	(11,745)
Unrestricted investment earnings					-	35,255	35,255
Transfers					(119,000)	119,000	-
Special item - successor agency close out					11,213	-	11,213
Special item - fire settlement payment					140,548	-	140,548
Total general revenues					<u>3,790,252</u>	<u>154,255</u>	<u>3,944,507</u>
Change in net position					1,370,054	313,967	1,684,021
Net position - beginning					<u>8,123,446</u>	<u>6,736,253</u>	<u>14,859,699</u>
Net position - ending					<u>\$ 9,493,500</u>	<u>\$ 7,050,220</u>	<u>\$ 16,543,720</u>

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

**City of Exeter
Balance Sheet
Governmental Funds
June 30, 2018**

	General	CDBG Housing BIP	Home Funds	Low/Mod Housing	Non-major Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ -	\$ 873,915	\$ 110,577	\$ 77,701	\$ 1,582,356	\$ 2,644,549
Receivables - (net):						
Intergovernmental	1,060,232	-	-	-	480,217	1,540,449
Due from other funds	84,460	-	-	-	806,434	890,894
Note receivable	135,000	4,575,003	1,888,934	1,267,694	196,181	8,062,812
Total assets	<u>\$ 1,279,692</u>	<u>\$ 5,448,918</u>	<u>\$ 1,999,511</u>	<u>\$ 1,345,395</u>	<u>\$ 3,065,188</u>	<u>\$ 13,138,704</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts and other payables	\$ 255,773	\$ 2,008	\$ 1,000	\$ -	\$ 60,562	\$ 319,343
Compensated absences payable	111,233	-	-	-	-	111,233
Due to other funds	603,024	-	-	-	1,766	604,790
Unearned revenue	-	4,575,003	1,888,934	1,267,694	211,416	7,943,047
Total liabilities	<u>970,030</u>	<u>4,577,011</u>	<u>1,889,934</u>	<u>1,267,694</u>	<u>273,744</u>	<u>8,978,413</u>
Fund balances:						
Nonspendable	135,000	-	-	-	-	135,000
Restricted	-	871,907	109,577	77,701	2,534,574	3,593,759
Committed impact fees	-	-	-	-	188,846	188,846
Committed alley repair	25,411	-	-	-	-	25,411
Committed parking-in-lieu	2,500	-	-	-	-	2,500
Committed for storm drains	-	-	-	-	68,024	68,024
Assigned for vehicle replacement	-	-	-	-	-	-
Unassigned	146,751	-	-	-	-	146,751
Total fund balances	<u>309,662</u>	<u>871,907</u>	<u>109,577</u>	<u>77,701</u>	<u>2,791,444</u>	<u>4,160,291</u>
Total liabilities and fund balances	<u>\$ 1,279,692</u>	<u>\$ 5,448,918</u>	<u>\$ 1,999,511</u>	<u>\$ 1,345,395</u>	<u>\$ 3,065,188</u>	<u>\$ 13,138,704</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, 2018

Fund balances of governmental funds		\$ 4,160,291
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-		5,616,692
Other long-term assets are not available to pay current expenditures, and therefore are deferred in the funds - construction-in-progress and land.		2,033,188
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.		201,159
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	527,012	
Internal Service	28,243	
Safety	<u>1,181,644</u>	1,736,899
Deferred pension inflows of resources		
Miscellaneous	(74,124)	
Internal Service	(3,972)	
Safety	<u>(96,660)</u>	(174,756)
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	(1,232,884)	
Internal Service	(66,070)	
Safety	<u>(2,684,289)</u>	(3,983,243)
Capital Lease payable		(18,225)
Long-term portion of compensated absences and sick leave		<u>(78,505)</u>
Net position of governmental activities		<u><u>\$ 9,493,500</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, 2018

	General	CDBG Housing BIP	Home Fund	Low/Mod Housing	Non-major Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 2,022,245	\$ -	\$ -	\$ -	\$ -	\$ 2,022,245
Sales taxes	924,151	-	-	-	-	924,151
Utility users tax	565,154	-	-	-	-	565,154
Franchise tax	149,151	-	-	-	-	149,151
Other taxes	108,535	-	-	-	233,398	341,933
Licenses and permits	51,484	-	-	-	-	51,484
Intergovernmental	900,873	319,063	72,881	-	1,068,726	2,361,543
Charges for services	265,160	-	-	-	18,080	283,240
Rental income	42,595	-	-	-	-	42,595
Loan payments	-	212,024	4,886	56,586	-	273,496
Fines and forfeitures	68,949	-	-	-	-	68,949
Investment earnings	-	1,890	832	547	26,232	29,501
Miscellaneous	6,808	-	-	-	-	6,808
Total revenues	<u>5,105,105</u>	<u>532,977</u>	<u>78,599</u>	<u>57,133</u>	<u>1,346,436</u>	<u>7,120,250</u>
EXPENDITURES						
Community and economic development	-	361,338	4,601	2,048	1,776	369,763
General government	565,868	-	-	-	295,569	861,437
Parks and recreation	431,261	-	-	-	-	431,261
Public safety - fire	275,045	-	-	-	-	275,045
Public safety - police	2,662,473	-	-	-	-	2,662,473
Public works	425,271	-	-	-	-	425,271
Debt service:						
Principal	71,194	-	-	-	-	71,194
Interest	2,399	-	-	-	-	2,399
Capital outlay	835,314	-	-	-	227,701	1,063,015
Total expenditures	<u>5,268,825</u>	<u>361,338</u>	<u>4,601</u>	<u>2,048</u>	<u>525,046</u>	<u>6,161,858</u>
Excess (deficiency) of revenues over expenditures	<u>(163,720)</u>	<u>171,639</u>	<u>73,998</u>	<u>55,085</u>	<u>821,390</u>	<u>958,392</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	231,730	-	-	-	-	231,730
Transfers out	(119,000)	-	-	-	(231,730)	(350,730)
Special item - successor agency closeout	11,213	-	-	-	-	11,213
Special item - fire settlement payment	140,548	-	-	-	-	140,548
Total other financing sources and uses	<u>264,491</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(231,730)</u>	<u>32,761</u>
Net change in fund balances	100,771	171,639	73,998	55,085	589,660	991,153
Fund balances, July 1	<u>208,891</u>	<u>700,268</u>	<u>35,579</u>	<u>22,616</u>	<u>2,201,784</u>	<u>3,169,138</u>
Fund balances, June 30	<u>\$ 309,662</u>	<u>\$ 871,907</u>	<u>\$ 109,577</u>	<u>\$ 77,701</u>	<u>\$ 2,791,444</u>	<u>\$ 4,160,291</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, 2018

Net change in fund balances --total governmental funds	\$	991,153
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 (\$925,789) exceeded depreciation (\$399,493) and disposition of capital assets (\$11,746) in the current period -		514,550
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.		70,948
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		21,543
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.		(16,154)
Certain pension expenses in the statement of activities are recognized on the accrual basis of accounting in accordance with GASB Statement No. 68.		(211,986)
Change in net position of governmental activities	\$	<u>1,370,054</u>

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

City of Exeter
Statement of Net Position
Proprietary Funds
June 30, 2018

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	Major Funds			Non-major Fund Transit	Total Proprietary Funds	
	Water Operations	Sewer Operations	Sanitation Operations			
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 1,049,845	\$ 367,238	\$ -	\$ -	\$ 1,417,083	\$ 228,827
Accounts receivable, net of allowance	151,334	109,607	122,845	-	383,786	2,172
Due from other funds	2,003	-	-	-	2,003	-
Inventories	73,597	-	-	-	73,597	-
Noncurrent assets:						
Restricted cash and cash equivalents	1,228,730	508,667	-	-	1,737,397	-
Bond issue costs net of amortization	15,993	-	-	-	15,993	-
Capital assets:						
Nondepreciable	-	2,778,428	-	-	2,778,428	-
Depreciable, net	7,532,074	5,119,004	-	76,472	12,727,550	-
Total assets	10,053,576	8,882,944	122,845	76,472	19,135,837	230,999
DEFERRED OUTFLOWS OF RESOURCES						
Deferred pensions	298,975	206,194	42,805	-	547,974	28,243
Total deferred outflow of resources	298,975	206,194	42,805	-	547,974	28,243
LIABILITIES						
Current liabilities:						
Accounts and other payables	171,683	397,386	77,042	88	646,199	28,801
Compensated absences	17,415	11,687	2,166	-	31,268	-
Accrued Interest	62,086	77,043	-	-	139,129	-
Due to other funds	-	-	82,001	206,106	288,107	-
Noncurrent liabilities:						
Due to depositors	71,398	-	-	-	71,398	-
Compensated absences	15,330	10,288	2,280	-	27,898	1,039
Due in one year	222,395	114,366	-	-	336,761	-
Due in more than one year	6,257,942	3,475,898	-	-	9,733,840	-
Net pension liability	699,417	482,365	100,138	-	1,281,920	66,070
Total liabilities	7,517,666	4,569,033	263,627	206,194	12,556,520	95,910
DEFERRED INFLOWS OF RESOURCES						
Deferred pensions	42,050	29,001	6,020	-	77,071	3,972
NET POSITION						
Net investment in capital assets	1,051,737	4,307,168	-	76,472	5,435,377	-
Restricted for debt service	406,577	438,995	-	-	845,572	-
Restricted for impact fees	499,000	69,672	-	-	568,672	-
Restricted for capital	323,153	194	-	-	323,347	-
Unrestricted	512,368	(324,925)	(103,997)	(206,194)	(122,748)	159,360
Total net position	\$ 2,792,835	\$ 4,491,104	\$ (103,997)	\$ (129,722)	\$ 7,050,220	\$ 159,360

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, 2018

	Business-type Activities - Enterprise Funds				Total Proprietary Funds	Governmental Activities - Internal Service Fund
	Major Funds			Non-major Fund		
	Water Operations	Sewer Operations	Sanitation Operations	Transit		
OPERATING REVENUES						
Charges for services	\$ 1,612,024	\$ 1,134,519	\$ 957,855	\$ 475	\$ 3,704,873	\$ -
Connection fees	43,033	-	-	-	43,033	-
Internal Service Charges	-	-	151,166	-	151,166	1,001,662
Total operating revenues	<u>1,655,057</u>	<u>1,134,519</u>	<u>1,109,021</u>	<u>475</u>	<u>3,899,072</u>	<u>1,001,662</u>
OPERATING EXPENSES						
Personnel Services	587,660	372,773	85,942	(395)	1,045,980	58,003
General and administrative	35,426	319,804	50,700	(24)	405,906	962,388
Materials & Supplies	403,259	21,927	870,874	-	1,296,060	-
Depreciation/amortization	290,344	157,351	-	-	447,695	-
Total operating expenses	<u>1,316,689</u>	<u>871,855</u>	<u>1,007,516</u>	<u>(419)</u>	<u>3,195,641</u>	<u>1,020,391</u>
Operating income (loss)	<u>338,368</u>	<u>262,664</u>	<u>101,505</u>	<u>894</u>	<u>703,431</u>	<u>(18,729)</u>
NONOPERATING REVENUES (EXPENSES)						
Grants and reimbursements	4,639	-	(151,166)	-	(146,527)	-
Transfers in (out)	(978)	978	119,000	-	119,000	-
Investment earnings	27,005	8,251	-	-	35,256	2,575
Interest expense	(280,056)	(117,137)	-	-	(397,193)	-
Total nonoperating revenue (expenses)	<u>(249,390)</u>	<u>(107,908)</u>	<u>(32,166)</u>	<u>-</u>	<u>(389,464)</u>	<u>2,575</u>
Change in net position	88,978	154,756	69,339	894	313,967	(16,154)
Net position (deficit), July 1	<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>
Net position (deficit), June 30	<u>\$ 2,792,835</u>	<u>\$ 4,491,104</u>	<u>\$ (103,997)</u>	<u>\$ (129,722)</u>	<u>\$ 7,050,220</u>	<u>\$ 159,360</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, 2018

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	Major Funds			Non-Major	Total	
	Water Operating	Sewer Operating	Sanitation Operating	Fund Transit	Proprietary Funds	
CASH FLOWS FROM OPERATING ACTIVITIES						
Charges for services	\$ 1,637,076	\$ 1,127,846	\$ 1,088,832	\$ 475	\$ 3,854,229	\$ 999,490
Personnel services	(488,314)	(307,023)	(72,992)	(91,209)	(959,538)	(58,798)
General administration	(35,426)	(21,927)	(50,700)	24	(108,029)	(962,388)
Payments to suppliers and contractors	(301,425)	102,206	(874,929)	(4,949)	(1,079,097)	26,682
Net cash provided (used) by operating activities	<u>811,911</u>	<u>901,102</u>	<u>90,211</u>	<u>(95,659)</u>	<u>1,707,565</u>	<u>4,986</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Intergovernmental - operating assistance	-	-	-	119,275	119,275	-
Local - operating reimbursements	4,639	-	(151,166)	-	(146,527)	-
Transfers in (out)	(978)	978	119,000	-	119,000	-
Increase (decrease) in amount due to other funds	-	-	(58,045)	(23,616)	(81,661)	-
Net cash provided (used) by noncapital financing	<u>3,661</u>	<u>978</u>	<u>(90,211)</u>	<u>95,659</u>	<u>10,087</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Interest paid on long-term debt	(281,430)	(118,829)	-	-	(400,259)	-
Principal paid on bonds	(213,848)	(110,767)	-	-	(324,615)	-
Capital asset transferred to governmental activities	-	(4,640)	-	-	(4,640)	-
Purchase of capital assets	(190,628)	(438,356)	-	-	(628,984)	-
Net cash provided (used) by capital and related financing activities	<u>(685,906)</u>	<u>(672,592)</u>	<u>-</u>	<u>-</u>	<u>(1,358,498)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment earnings	27,005	8,251	-	-	35,256	2,575
(Increase) decrease in restricted cash	(901,731)	(82,773)	-	-	(984,504)	-
Net cash provided (used) by investing activities	<u>(874,726)</u>	<u>(74,522)</u>	<u>-</u>	<u>-</u>	<u>(949,248)</u>	<u>2,575</u>
Net increase (decrease) in cash and cash equivalents	<u>(745,060)</u>	<u>154,966</u>	<u>-</u>	<u>-</u>	<u>(590,094)</u>	<u>7,561</u>
Balances - beginning of year	1,794,905	212,272	-	-	2,007,177	221,266
Balances - end of the year	<u>\$ 1,049,845</u>	<u>\$ 367,238</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,417,083</u>	<u>\$ 228,827</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 338,368	\$ 262,664	\$ 101,505	\$ 894	\$ 703,431	\$ (18,729)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization	290,344	157,351	-	-	447,695	-
Changes in assets, deferred outflows/inflows and liabilities:						
(Increase) decrease in inventory	(33,279)	-	-	-	(33,279)	-
(Increase) decrease in receivables	(18,048)	(6,673)	(20,189)	-	(44,910)	(2,172)
(Increase) decrease in prepaid expenses	-	45,889	-	-	45,889	-
(Increase) decrease deferred outflows	41,174	31,516	5,524	83,789	162,003	12,207
Increase (decrease) in accounts payable	135,113	376,121	(4,055)	(4,949)	502,230	26,682
Increase (decrease) in deferred inflows	(25,811)	(18,425)	(3,622)	(16,717)	(64,575)	(4,099)
Increase (decrease) in due to depositors	67	-	-	-	67	-
Increase (decrease) in compensated absences	(282)	188	(1,686)	(7,144)	(8,924)	(1,820)
Increase (decrease) in net pension liability	84,265	52,471	12,734	(151,532)	(2,062)	(7,083)
Net cash provided by operating activities	<u>\$ 811,911</u>	<u>\$ 901,102</u>	<u>\$ 90,211</u>	<u>\$ (95,659)</u>	<u>\$ 1,707,565</u>	<u>\$ 4,986</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, 2018

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

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, 2018**

	Private-purpose Trust Fund
ADDITIONS	
Loan payments received	\$ -
Interest revenue	-
Total Additions	-
 DEDUCTIONS	
Successor Agency close out to the General Fund	(11,213)
Total Deductions	(11,213)
Change in net position	(11,213)
Net position held in trust, July 1	11,213
Net position held in trust, June 30	\$ -

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

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - Summary of significant accounting policies

A. Reporting entity

The City of Exeter is a municipal corporation governed by an elected five member council by district. 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, 2018

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 government's 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 government's fund to assist in Low – Moderate Housing Acquisition and Administrative Services.

The *Low – Moderate Housing Fund* is the government's fund to record loans and loan payments made for housing.

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.

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - Summary of significant accounting policies (continued)

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. This fund was closed at June 30, 2018.

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 current fiscal year, 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, 2018

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-D.

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, 2018

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, 2018

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, 2018

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, 2016
Measure Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

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, 2018

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 current 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	\$ 152,000	\$ 275,045	\$ 123,045	Actual costs grossed up per agreement with County; see Note 10 - Special Item
Public safety - Police	2,628,730	2,662,473	33,743	Pension adjustments
Public works	309,250	425,271	116,021	Capital project contracted services

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

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 current fiscal year, 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 \$103,997 as of June 30, 2018. During the 2016/17 fiscal 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 \$129,722. In 2018/19, 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	\$ 4,290,459	\$ -	\$ 4,290,459
Restricted - Cash and investments	1,737,397	-	1,737,397
Total cash and investments	\$ 6,027,856	\$ -	\$ 6,027,856

Cash and investments as of June 30, 2018, consist of the following:

Cash on hand	\$ 1,000
Deposits with financial institutions	656,775
Investments	5,370,081
Total cash and investments	\$ 6,027,856

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

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, 2018

NOTE 4 - Detailed notes on all funds (continued)

The following is a summary of the fair value measurements as of June 30, 2018:

	Fair Value	Significant Other Observable Inputs (Level 2)
Investments classified by fair value hierarchy		
U.S. Government Securities	\$ 251,453	\$ 251,453
Total investments by fair value hierarchy	<u>251,453</u>	<u>\$ 251,453</u>
Investments not subject to fair value hierarchy		
Local Agency Investment Fund	2,371,830	
Money Market funds	28,798	
Non-negotiable Certificates of Deposit	<u>2,718,000</u>	
Total investments not subject to fair value hierarchy	<u>5,118,628</u>	
Total investments measured at fair value	<u>\$ 5,370,081</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:

Investment type	Total	Remaining maturity (in months)			
		12 months or less	13 to 24 months	25 to 60 months	Over 60 mos/ No maximum
State investment pool	\$ 2,371,830	\$ 2,371,830	\$ -	\$ -	\$ -
U.S. Treasury bonds/notes	251,453	251,453			
Held by trustee:					
Money market funds	28,798	28,798	-	-	-
Certificates of Deposits	<u>2,718,000</u>	<u>494,000</u>	<u>1,481,000</u>	<u>743,000</u>	<u>-</u>
	<u>\$ 5,370,081</u>	<u>\$ 3,146,081</u>	<u>\$ 1,481,000</u>	<u>\$ 743,000</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, 2018

NOTE 4 - Detailed notes on all funds (continued)

<u>Investment type</u>	<u>Total</u>	<u>Minimum legal rating</u>	<u>Ratings as of year end</u>	<u>Not rated</u>
State investment pool	\$ 2,371,830	N/A	-	\$ 2,371,830
Held by trustee:				
Money market funds	28,798	AAA/Aa	AAA	-
U.S. Treasury Bonds/Notes	251,453	TSY	AAA,Aaa	-
Certificates of deposit	<u>2,718,000</u>	N/A	-	<u>2,718,000</u>
	<u>\$ 5,370,081</u>			<u>\$ 5,089,830</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, 2018 was \$2,371,830.

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, 2018

NOTE 4 - Detailed notes on all funds (continued)

C. Interfund receivable/payables, and transfers

The composition of interfund balances as of June 30, 2018, 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
Measure R	Sanitation	79,998	Cash flow
Measure R	Transit	43,180	Cash flow
Measure R	General Fund	603,024	Cash flow
General Fund	Transit	84,460	Cash flow

Interfund transfers:

Transfer Out:	Transfer In:	Amount	Purpose
General fund	Sanitation fund	\$ 119,000	Costs applied
Gas tax fund	General fund	100,000	Costs applied
Transportation fund	General fund	131,730	Costs applied
Water fund	Sewer fund	978	Costs applied

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CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 - Detailed notes on all funds (continued)

D. Capital assets

Capital asset activity, for the year ended June 30, 2018, was as follows:

	Balance June 30, 2017	Additions & Transfers	Dispositions & Transfers	Balance June 30, 2018
Governmental Activities:				
Capital assets not depreciated				
Construction in progress	\$ 303,686	\$ 431,353	\$ -	\$ 735,039
Land	1,298,149	-	-	1,298,149
Total capital assets not depreciated	<u>1,601,835</u>	<u>431,353</u>	<u>-</u>	<u>2,033,188</u>
Capital assets being depreciated				
Buildings & improvements	3,442,652	-	-	3,442,652
Infrastructure	2,440,865	398,508	-	2,839,373
Equipment/autos	3,627,983	95,929	(69,448)	3,654,464
	<u>9,511,500</u>	<u>494,437</u>	<u>(69,448)</u>	<u>9,936,489</u>
Less accumulated depreciation & amortization	<u>(3,978,006)</u>	<u>(399,493)</u>	<u>57,702</u>	<u>(4,319,797)</u>
Total capital assets being depreciated:	<u>5,533,494</u>	<u>94,944</u>	<u>(11,746)</u>	<u>5,616,692</u>
Governmental activities capital assets, net	<u>\$ 7,135,329</u>	<u>\$ 526,297</u>	<u>\$ (11,746)</u>	<u>\$ 7,649,880</u>
Business-Type Activities:				
Capital assets not depreciated				
Construction in progress	\$ 37,086	\$ 337,151	\$ -	\$ 374,237
Land	2,404,191	-	-	2,404,191
Total capital assets not depreciated	<u>2,441,277</u>	<u>337,151</u>	<u>-</u>	<u>2,778,428</u>
Capital assets being depreciated:				
Buildings & improvements	13,395,084	76,482	-	13,471,566
Infrastructure	867,307	-	-	867,307
Equipment/autos	3,247,485	215,351	37,381	3,500,217
	<u>17,509,876</u>	<u>291,833</u>	<u>37,381</u>	<u>17,839,090</u>
Less accumulated depreciation & amortization	<u>(4,631,104)</u>	<u>(447,695)</u>	<u>(32,741)</u>	<u>(5,111,540)</u>
Business-type activities Total capital assets being depreciated:	<u>12,878,772</u>	<u>(155,862)</u>	<u>4,640</u>	<u>12,727,550</u>
Business-type activities capital assets, net	<u>15,320,049</u>	<u>181,289</u>	<u>4,640</u>	<u>15,505,978</u>
Entity wide capital assets	<u>\$ 22,455,378</u>	<u>\$ 707,586</u>	<u>\$ (7,106)</u>	<u>\$ 23,155,858</u>

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 - Detailed notes on all funds (continued)

Depreciation

Depreciation expense was charged to governmental activities as follows:

Governmental departments	
General government	\$ 180,913
Parks and recreation	44,839
Public safety - fire	10,796
Public safety - police	98,822
Public works	<u>64,123</u>
 Governmental activities	 <u>399,493</u>

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

Water Funds	290,344
Sewer Fund	157,351
Sanitation Fund	-
Transit Fund	<u>-</u>
Total depreciation expense, business-type activities	<u>447,695</u>
 Total depreciation, entity wide	 <u><u>\$ 847,188</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, 2018, are as follows:

<u>Funds</u>	<u>Amount</u>
Governmental activities:	
Special revenue funds:	
Community Development Block Grant	\$ 4,575,003
Home Fund	1,888,934
Low and Moderate Income Fund	1,267,694
Non-Major Governmental Funds	<u>211,416</u>
Total Unearned Revenue - Governmental Activities	<u><u>\$ 7,943,047</u></u>

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 - Detailed notes on all funds (continued)

G. Long-term debt

The following is a summary of long-term debt for the year ended June 30, 2018:

	Adjusted Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due within one year
Governmental activities					
Compensated Absences	\$ 227,060	\$ 46,843	\$ 83,126	\$ 190,777	\$ 111,233
Lease Payable	89,172	-	70,947	18,225	18,225
	<u>\$ 316,232</u>	<u>\$ 46,843</u>	<u>\$ 154,073</u>	<u>\$ 209,002</u>	<u>\$ 129,458</u>
Business-type activities					
Notes Payable	\$ 8,615,214	\$ -	\$ 205,160	\$ 8,410,054	\$ 212,701
Lease Payable	1,780,002	-	119,455	1,660,547	124,060
Compensated Absences	68,090	22,198	31,122	59,166	31,268
Due to depositors	71,331	28,807	24,535	71,398	71,398
	<u>\$ 10,534,637</u>	<u>\$ 51,005</u>	<u>\$ 380,272</u>	<u>\$ 10,201,165</u>	<u>\$ 439,427</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 \$46,352. The water meters have a cost of \$2,097,701 and accumulated depreciation of \$189,793 at June 30, 2018.

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

Fiscal Year Ending	Water Meter Lease		
	Principal	Interest	Total
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	144,322	41,085	185,407
2024-2028	809,466	117,566	927,032
2029-2033	181,085	4,321	185,406
Totals	<u>\$ 1,660,547</u>	<u>\$ 378,924</u>	<u>\$ 2,039,471</u>

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 - Detailed notes on all funds (continued)

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
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	62,000	96,688	158,688
2024-2028	351,000	440,563	791,563
2029-2033	436,000	356,607	792,607
2034-2038	540,000	252,482	792,482
2039-2043	669,000	123,464	792,464
2044-2048	152,000	6,650	158,650
Totals	\$ 2,432,000	\$ 1,688,011	\$ 4,120,011

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 Loan USDA Bond		
	Principal	Interest	Total
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	54,992	96,253	151,245
2024-2028	313,224	442,183	755,407
2029-2033	388,005	365,747	753,752
2034-2038	480,640	271,084	751,724
2039-2043	595,391	153,825	749,216
2044-2048	357,674	25,223	382,897
Totals	\$ 2,387,790	\$ 1,761,914	\$ 4,149,704

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 - Detailed notes on all funds (continued)

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
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	129,975	101,075	231,050
2024-2028	716,050	439,200	1,155,250
2029-2033	840,219	315,031	1,155,250
2034-2038	985,294	169,326	1,154,620
2039-2043	438,473	21,412	459,885
Totals	<u>\$ 3,590,264</u>	<u>\$ 1,489,991</u>	<u>\$ 5,080,255</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 \$1,700,000 in revenues to pay \$310,064 in debt service. The Sewer Fund had approximately \$1,100,000 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 \$6,133 per month. The Police cars have a cost of \$328,640 and accumulated depreciation of \$255,609 at June 30, 2018.

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

Year ended June 30,	Government-Type Activities
	Lease Payable
2019	\$ 18,398
Less interest	(173)
	<u>\$ 18,225</u>

CITY OF EXETER
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

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, 2018:

Net Assets		
Assets	\$	110,234,633
Liabilities to member cities		(92,209,231)
Net assets, reserved for insurance claims and losses		18,025,402
Changes in Net Assets		
Revenues	\$	46,669,852
Expenses		(46,619,021)
Excess of income over (under) expenses	\$	50,831

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, 2018

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, 2018

NOTE 6 - Defined benefit pension plan (continued)

The Plans' provisions and benefits in effect at June 30, 2018, 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	20.534%	6.692%

	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	37.010%	12.649%

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, 2018, were \$586,271. The actual employer payments of \$800,017, made to CalPERS by the City during the measurement period ended June 30, 2017, differed from the City's proportionate share of the employer's contributions of \$545,971 by \$254,046, which is being amortized over the expected 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, 2017, using an annual actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017 using standard update procedures.

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

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, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Asset valuation method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.15%
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, 2016 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

In fiscal year 2018 (measurement date June 30, 2017), the discount rate was reduced from 7.65% to 7.15%.

Discount Rate – The discount rate used to measure the total pension liability was 7.15 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 7.15 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 7.15 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.

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 - Defined benefit pension plan (continued)

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.

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, 2014.

Asset Class	New strategic allocation	Real return years 1-10 ¹	Real return years 11+ ²
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	(0.40%)	(0.90%)
	<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, 2018

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: 6/30/2016 (VD*)	\$ 18,078,918	\$ 13,271,212	\$ 4,807,706
Balance at: 6/30/2017 (MD*)	20,301,610	15,036,447	5,265,163
Net changes during 2016-17	<u>\$ 2,222,692</u>	<u>\$ 1,765,235</u>	<u>\$ 457,457</u>

*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, 2017, 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, 2016 rolled forward to June 30, 2017 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, 2016 and 2017 measurement dates was as follows:

	Misc	Safety	Total
Proportion - June 30, 2016	0.06837%	0.04697%	0.05556%
Proportion - June 30, 2017	<u>0.06547%</u>	<u>0.04492%</u>	<u>0.05309%</u>
Change - increase/(decrease)	<u>-0.00290%</u>	<u>-0.00204%</u>	<u>-0.00247%</u>

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	\$ 2,580,874	\$ 2,684,289	\$ 5,265,163

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 7.15 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 (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount rate -1% 6.15%	Current discount rate 7.15%	Discount rate +1% 8.15%
Employer's Net Pension Liability - Misc	\$ 4,054,919	\$ 2,580,874	\$ 1,360,043
Employer's Net Pension Liability - Safety	4,025,386	2,684,289	1,588,010
Employer's Net Pension Liability - Total	<u>\$ 8,080,304</u>	<u>\$ 5,265,163</u>	<u>\$ 2,948,053</u>

CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

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 2016-2017 measurement period is 3.8 years, which was obtained by dividing the total service years of 490,088 (the sum of remaining service lifetimes of the active employees) by 130,595 (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, 2016), the net pension liability for the plan was \$4,807,706. For the measurement period ending June 30, 2017 (the measurement date), the City incurred a pension expense of \$1,066,123 for the Plan.

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CITY OF EXETER
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 - Defined benefit pension plan (continued)

At June 30, 2018, the City has deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	Deferred outflows of resources	Deferred inflows of resources
Pension contributions subsequent to measurement date	\$ 586,271	\$ -
Differences between actual contributions and proportionate share of employer contributions	371,317	-
Changes in assumptions	853,135	65,244
Differences between actual and expected experience	31,596	58,934
Net differences between projected & actual earnings on pension plan investments	189,648	-
Change in proportion	252,905	127,649
Total	<u>\$ 2,284,873</u>	<u>\$ 251,827</u>

These amounts above are net of outflows and inflows recognized in the 2016-2017 measurement period expense. The \$586,271 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, 2019. Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Fiscal year ending June 30:	Misc	Safety	Total
2019	\$ 261,580	\$ 232,288	\$ 493,868
2020	329,622	316,988	646,610
2021	211,532	206,602	418,135
2022	(60,045)	(51,792)	(111,838)
2023	-	-	-
Thereafter	-	-	-
	<u>\$ 742,689</u>	<u>\$ 704,085</u>	<u>\$ 1,446,775</u>

E. Payable to the Pension Plan

At June 30, 2018, the City reports a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

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, 2018

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. On September 22, 2017 the State of California Department of Finance notified the City the Successor Agency was dissolved and no future correspondence would occur. All obligations were paid off, all outstanding litigation resolved and all assets disposed with proceeds remitted to Tulare County Auditor-Controller.

This trust was closed at June 30, 2018, and will not be reported on in subsequent financial statements of the City.

NOTE 8 - Subsequent Events

The date to which events occurring after June 30, 2018, have been evaluated for possible adjustments to the financial statements or disclosures is January 7, 2019, which is the date that the financial statements were available to be issued.

In the 2018/19 fiscal year, the City will no longer be operating transit, as another County agency will provide the service as of July 1, 2017.

NOTE 9 - Recent Accounting Pronouncements

GASB Statement No. 83 – Certain Asset Retirement Obligation: This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities, related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

CITY OF EXETER
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 9 - Recent Accounting Pronouncements (continued)

GASB Statement No. 84 – Fiduciary Activities: The Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 87 – Leases: This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 88 – Certain Disclosures Related to Debt: The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, included direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 89 – Accounting for Interest Cost Incurred before the End of a Construction Period: This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 90 – Majority Equity Interests: The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

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.

NOTE 11 – New Special Revenue Funds

In the current fiscal year, new special revenues, previously presented in the General Fund, were set up as separate funds. Their equity balances were moved from the General Fund to these new funds as shown below:

<u>COPS</u>	<u>Police Donations</u>	<u>Landscape & Lighting</u>	<u>Medians</u>	<u>Public Facilities</u>	<u>Railroad Crossing</u>	<u>Traffic Signal</u>	<u>Parks</u>	<u>Bike Path</u>	<u>Total</u>
<u>\$ 50,940</u>	<u>\$ 41,750</u>	<u>\$ 39,834</u>	<u>\$ 27,410</u>	<u>\$ 59,426</u>	<u>\$ 11,376</u>	<u>\$ 21,855</u>	<u>\$ 51,289</u>	<u>\$ 2,274</u>	<u>\$ 306,154</u>

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, 2018
 Last 10 Years*

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

Measurement date	Miscellaneous			
	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
City's Proportionate Share of Plan Total Pension Liability	\$ 10,716,672	\$ 9,309,329	\$ 8,748,514	\$ 8,347,222
City's Proportionate Share of Plan Fiduciary Net Position	\$ 8,135,798	\$ 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	75.917%	74.487%	76.646%	75.630%
City's Proportionate Share of Net Pension Liability (Asset)	\$ 2,580,874	\$ 2,375,106	\$ 2,043,093	\$ 2,034,243
City's Covered-Employee Payroll	\$ 1,307,030	\$ 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	197.46%	168.39%	164.99%	163.29%
City's Proportionate Share of Collective NPL	0.0655%	0.0684%	0.0745%	0.0823%
	Safety			
Measurement date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
City's Proportionate Share of Plan Total Pension Liability	\$ 9,584,938	\$ 8,769,589	\$ 8,220,738	\$ 8,101,862
City's Proportionate Share of Plan Fiduciary Net Position	\$ 6,900,649	\$ 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	71.995%	72.261%	75.320%	73.713%
City's Proportionate Share of Net Pension Liability (Asset)	\$ 2,684,289	\$ 2,432,600	\$ 2,028,878	\$ 2,129,696
City's Covered-Employee Payroll	\$ 1,009,726	\$ 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	265.84%	190.57%	175.92%	201.26%
City's Proportionate Share of Collective NPL	0.0450%	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, 2018
 Last 10 Years*
Schedule of Contributions

Fiscal Year	Miscellaneous			
	2018	2017	2016	2015
Actuarially determined contribution	\$ 205,373	\$ 424,250	\$ 378,098	\$ 356,472
Contributions in relation to the actuarially determined contributions	<u>205,373</u>	<u>424,250</u>	<u>378,098</u>	<u>356,472</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,346,241	\$ 1,307,030	\$ 1,410,468	\$ 1,238,307
Contributions as a percentage of covered-employee payroll	15.26%	32.46%	26.81%	28.79%

Fiscal Year	Safety			
	2018	2017	2016	2015
Actuarially determined contribution	\$ 380,898	\$ 375,767	\$ 338,864	\$ 346,841
Contributions in relation to the actuarially determined contributions	<u>380,898</u>	<u>375,767</u>	<u>338,864</u>	<u>346,841</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,040,018	\$ 1,009,726	\$ 1,276,485	\$ 1,153,308
Contributions as a percentage of covered-employee payroll	36.62%	37.21%	26.55%	30.07%

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.

Changes in Benefit Terms: None

Changes in Assumptions: In 2017, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

* = Only four years of data is available.

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, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 849,250	\$ 849,250	\$ 1,018,306	\$ 169,056
Sales taxes	806,000	806,000	843,361	37,361
Sales taxes - Prop 172	74,000	74,000	80,790	6,790
Utility users tax	540,000	540,000	565,154	25,154
Transient occupancy tax	91,000	91,000	108,535	17,535
Property transfer tax/Real Property Transfer	31,500	31,500	38,333	6,833
Franchise tax	135,000	135,000	149,151	14,151
Business licenses	43,000	43,000	44,297	1,297
Dog licenses	3,700	3,700	2,500	(1,200)
Other licenses and permits	4,500	4,500	4,687	187
Motor vehicle in-lieu tax	920,000	920,000	965,607	45,607
Street Sweeping/Leaf Pickup	53,000	53,000	53,988	988
Federal grants(homeland security, traffic safety)	938,000	938,000	750,944	(187,056)
State grants/reimbursements	95,500	95,500	139,885	44,385
Zoning and subdivision fees	-	-	4,125	4,125
Police services	70,000	70,000	71,026	1,026
Recreational activities	60,000	60,000	58,225	(1,775)
Landscape & Lighting (assessment districts)	80,000	80,000	-	(80,000)
CNG fuel reimbursement	22,000	22,000	9,970	(12,030)
Development Impact Fees	-	-	-	-
Parking fines	1,300	1,300	6,355	5,055
Vehicle code fines	14,000	14,000	14,825	825
Street sweeping fees	5,888	5,888	5,888	-
Alley repair	43,000	43,000	43,190	190
Other fines	28,700	28,700	47,842	19,142
Investment Earnings	2,000	2,000	-	(2,000)
Rent	9,000	9,000	42,595	33,595
Other revenues	7,200	7,200	35,526	28,326
Total revenues	<u>4,927,538</u>	<u>4,927,538</u>	<u>5,105,105</u>	<u>177,567</u>
EXPENDITURES				
Current:				
General government	831,773	831,773	565,868	265,905
Parks and recreation	601,280	601,280	431,261	170,019
Public safety - fire	152,000	152,000	275,045	(123,045)
Public safety - police	2,628,730	2,628,730	2,662,473	(33,743)
Public works	309,250	309,250	425,271	(116,021)
Debt service	74,000	74,000	73,593	407
Capital Outlay	1,027,000	1,027,000	835,314	191,686
Total expenditures	<u>5,624,033</u>	<u>5,624,033</u>	<u>5,268,825</u>	<u>355,208</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(696,495)</u>	<u>(696,495)</u>	<u>(163,720)</u>	<u>532,775</u>
Transfers in	250,000	250,000	231,730	(18,270)
Transfers out	-	-	(119,000)	(119,000)
Special item - successor agency closeout	-	-	11,213	11,213
Special item - fire settlement payment	-	-	140,548	140,548
Total other financing sources (uses)	<u>250,000</u>	<u>250,000</u>	<u>264,491</u>	<u>14,491</u>
Net change in fund balance	<u>\$ (446,495)</u>	<u>\$ (446,495)</u>	<u>100,771</u>	<u>\$ 547,266</u>
Fund balance, July 1			<u>208,891</u>	
Fund balance, June 30			<u>\$ 309,662</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, 2018

	<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	\$ -	\$ -	\$ 212,024	\$ 212,024
Investment earnings	-	-	1,890	1,890
Federal grants	65,000	65,000	319,063	254,063
Total revenues	<u>65,000</u>	<u>65,000</u>	<u>532,977</u>	<u>467,977</u>
EXPENDITURES				
Current:				
Community and economic development	65,000	65,000	361,338	(296,338)
Total expenditures	<u>65,000</u>	<u>65,000</u>	<u>361,338</u>	<u>(296,338)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>171,639</u>	<u>(42,275)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	171,639	<u>\$ (42,275)</u>
Fund balance, July 1			<u>700,268</u>	
Fund balance, June 30			<u>\$ 871,907</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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive(Negative)
	Original	Final		
REVENUES				
Loan payments	\$ -	\$ -	\$ 4,886	\$ 4,886
Investment earnings	-	-	832	832
Federal grants	52,700	52,700	72,881	20,181
Total revenues	<u>52,700</u>	<u>52,700</u>	<u>78,599</u>	<u>25,899</u>
EXPENDITURES				
Current:				
Community and economic development	52,700	52,700	4,601	48,099
Total expenditures	<u>52,700</u>	<u>52,700</u>	<u>4,601</u>	<u>48,099</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>73,998</u>	<u>73,998</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	73,998	<u>\$ 73,998</u>
Fund balance, July 1			<u>35,579</u>	
Fund balance, June 30			<u>\$ 109,577</u>	

CITY OF EXETER
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP basis) AND ACTUAL
LOW AND MODERATE INCOME HOUSING PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive(Negative)
	Original	Final		
REVENUES				
Loan payments	\$ -	\$ -	\$ 56,586	\$ 56,586
investment earnings	-	-	547	547
Total revenues	-	-	57,133	57,133
EXPENDITURES				
Current:				
Community and economic development	-	-	2,048	(2,048)
Total expenditures	-	-	2,048	(2,048)
Excess (deficiency) of revenues over (under) expenditures	-	-	55,085	55,085
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	\$ -	\$ -	55,085	\$ 55,085
Fund balance, July 1			22,616	
Fund balance, June 30			\$ 77,701	

SUPPLEMENTAL INFORMATION

**City of Exeter
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018**

	Special Revenue					
	Gas Tax	Transportation	Storm Drain	Grant Fund	RMRA Fund	
ASSETS						
Cash and cash equivalents	\$ 268,959	\$ 664,981	\$ 68,024	\$ 52,500	\$ 41,312	\$ 97,142
Intergovernmental receivables	-	266,758	-	-	23,282	178,875
Due from other funds	1,766	78,466	-	-	-	726,202
Notes receivables	-	-	-	196,181	-	-
Total assets	\$ 270,725	\$ 1,010,205	\$ 68,024	\$ 248,681	\$ 64,594	\$ 1,002,219
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts and other payables	\$ 10,106	\$ 2,395	\$ -	\$ -	\$ -	\$ 37,350
Due to other funds	-	-	-	-	-	1,766
Unearned revenue	-	15,235	-	196,181	-	-
Total liabilities	10,106	17,630	-	196,181	-	39,116
Fund balances:						
Restricted	260,619	992,575	-	52,500	64,594	963,103
Committed	-	-	68,024	-	-	-
Assigned	-	-	-	-	-	-
Total fund balances	260,619	992,575	68,024	52,500	64,594	963,103
Total liabilities and fund balances	\$ 270,725	\$ 1,010,205	\$ 68,024	\$ 248,681	\$ 64,594	\$ 1,002,219

**City of Exeter
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018**

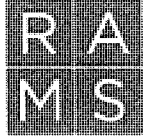
	Special Revenue					Total
	CASP Fund	COPS Fund	Police Donations Fund	Landscape & Lighting Fund	Impact Fees Fund	Nonmajor Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 2,478	\$ 134,984	\$ 61,620	\$ 1,510	\$ 188,846	\$ 1,582,356
Intergovernmental receivables	-	9,876	-	1,426	-	480,217
Due from other funds	-	-	-	-	-	806,434
Notes receivables	-	-	-	-	-	196,181
Total assets	<u>\$ 2,478</u>	<u>\$ 144,860</u>	<u>\$ 61,620</u>	<u>\$ 2,936</u>	<u>\$ 188,846</u>	<u>\$ 3,065,188</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts and other payables	\$ -	\$ 10,510	\$ -	\$ 201	\$ -	\$ 60,562
Due to other funds	-	-	-	-	-	1,766
Unearned revenue	-	-	-	-	-	211,416
Total liabilities	<u>-</u>	<u>10,510</u>	<u>-</u>	<u>201</u>	<u>-</u>	<u>273,744</u>
Fund balances:						
Restricted	2,478	134,350	61,620	2,735	-	2,534,574
Committed	-	-	-	-	188,846	256,870
Assigned	-	-	-	-	-	-
Total fund balances	<u>2,478</u>	<u>134,350</u>	<u>61,620</u>	<u>2,735</u>	<u>188,846</u>	<u>2,791,444</u>
Total liabilities and fund balances	<u>\$ 2,478</u>	<u>\$ 144,860</u>	<u>\$ 61,620</u>	<u>\$ 2,936</u>	<u>\$ 188,846</u>	<u>\$ 3,065,188</u>

City of Exeter
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2018

	Special Revenue					Measure R Fund
	Gas Tax	Transportation	Storm Drain	Grant Fund	RMRA Fund	
REVENUES						
Gas Tax	\$ 233,398	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	266,758	-	-	64,367	506,891
Charges for services	-	-	5,070	-	-	-
Loan payments	-	-	-	-	-	-
Investment earnings	3,744	10,908	749	603	227	7,780
Total revenues	237,142	277,666	5,819	603	64,594	514,671
EXPENDITURES						
Community and economic development	-	-	-	1,776	-	-
General government	119,661	43,467	-	-	-	2,635
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	195,441
Total expenditures	119,661	43,467	-	1,776	-	198,076
Excess (deficiency) of revenues over expenditures	117,481	234,199	5,819	(1,173)	64,594	316,595
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	(100,000)	(131,730)	-	-	-	-
Total other financing sources and uses	(100,000)	(131,730)	-	-	-	-
Net change in fund balances	17,481	102,469	5,819	(1,173)	64,594	316,595
Fund balances - beginning	243,138	890,106	62,205	53,673	-	646,508
Fund balances - ending	\$ 260,619	\$ 992,575	\$ 68,024	\$ 52,500	\$ 64,594	\$ 963,103

City of Exeter
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2018

	Special Revenue				Total Nonmajor Governmental Funds	
	CASP Fund	COPS Fund	Police Donations Fund	Landscape & Lighting Fund		Impact Fees Fund
REVENUES						
Gas Tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 233,398
Intergovernmental	2,463	139,416	20,000	68,831	-	1,068,726
Charges for services	-	-	-	-	13,010	18,080
Loan payments	-	-	-	-	-	-
Investment earnings	15	-	-	-	2,206	26,232
Total revenues	<u>2,478</u>	<u>139,416</u>	<u>20,000</u>	<u>68,831</u>	<u>15,216</u>	<u>1,346,436</u>
EXPENDITURES						
Community and economic development	-	-	-	-	-	1,776
General government	-	23,746	130	105,930	-	295,569
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay	-	32,260	-	-	-	227,701
Total expenditures	<u>-</u>	<u>56,006</u>	<u>130</u>	<u>105,930</u>	<u>-</u>	<u>525,046</u>
Excess (deficiency) of revenues over expenditures	<u>2,478</u>	<u>83,410</u>	<u>19,870</u>	<u>(37,099)</u>	<u>15,216</u>	<u>821,390</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	(231,730)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(231,730)</u>
Net change in fund balances	2,478	83,410	19,870	(37,099)	15,216	589,660
Fund balances - beginning	-	50,940	41,750	39,834	173,630	2,201,784
Fund balances - ending	<u>\$ 2,478</u>	<u>\$ 134,350</u>	<u>\$ 61,620</u>	<u>\$ 2,735</u>	<u>\$ 188,846</u>	<u>\$ 2,791,444</u>



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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**

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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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 2, 2019.

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.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

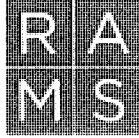
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
January 2, 2019



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**INDEPENDENT ACCOUNTANT'S REPORT ON
AGREED-UPON PROCEDURES
APPLIED TO APPROPRIATIONS LIMIT WORKSHEETS**

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

We have performed the procedures enumerated below, which were agreed to by the City of Exeter (the City) and the League of California Cities (as presented in the publication entitled *Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII-B of the California Constitution*) on the accompanying Appropriations Limit worksheet of the City for the year ended June 30, 2018. These procedures were performed solely to assist the City in meeting the requirements of Section 1.5 of Article XIII-B of the California Constitution. The City's management is responsible for the Appropriations Limit worksheet. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the completed worksheets and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the City Council. We also compared the population and inflation options included in the aforementioned documents to those that were selected by a recorded vote of the City Council.

Finding: No exceptions were noted as a result of our procedures.

2. For the accompanying Appropriations Limit worksheet, we added last year's limit to total adjustments and agreed the resulting amount to this year's limit.

Finding: No exceptions were noted as a result of our procedures.

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To the Honorable City Council
City of Exeter, California

3. We agreed the current year information presented in the accompanying Appropriations Limit worksheet to the other documents referenced in #1 above.

Finding: No exceptions were noted as a result of our procedures.

4. We agreed the prior year appropriations limit presented in the accompanying Appropriations Limit worksheet to the prior year appropriations limit adopted by the City Council during the prior year.

Finding: No exceptions were noted as a result of our procedures.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion on the accompanying Appropriations Limit worksheet. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by the League publication entitled *Article XIII-B of the California Constitution*.

This report is intended solely for the information and use of the City Council and management of the City of Exeter, California and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

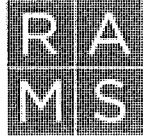
Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
January 2, 2019

**City of Exeter
 APPROPRIATIONS LIMIT COMPUTATION
 2017 – 2018**

		2017-18
Per capita personal income change		3.69%
Population change:		
City population growth		0.53%
CPI change converted to a ratio		1.0369
Population change converted to a ratio		1.0053
Calculation of growth factor		1.0424
2016-2017 Limit	<u>\$ 7,740,986</u>	
2017-2018 Limit		
(\$7,740,986) x (1.0369 x 1.0053)*	<u>\$ 8,069,170</u>	

* = allow for rounding



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To the Honorable Mayor and Members
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City of Exeter, California

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We have audited 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) for the year ended June 30, 2018. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated May 24, 2018, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America and *Government Auditing Standards*. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

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STABILITY. ACCURACY. TRUST.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practice

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2018. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies if controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events, and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

Management's estimate of the fair value of investments is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the depreciation expenses is based on historical estimates of each capitalized item's useful life. We evaluated the key factors and assumptions used to develop the estimated useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability and related deferred inflows and outflows is based on actuarial reports provided by independent actuaries. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of the fair value of investments in the notes to the financial statements represents amounts susceptible to market fluctuations.

The disclosure of accumulated depreciation in the notes to the financial statements is based on estimated useful lives which could differ from actual useful lives of each capitalized item.

The disclosure of net pension liability and related deferred inflows and outflows in the notes to the financial statements is based on actuarial assumptions. Actual future liabilities may vary from disclosed estimates.

The financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. There were no such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Management Representations

We have requested certain written representations from management, which are included in the attached letter dated January 2, 2019.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the City, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

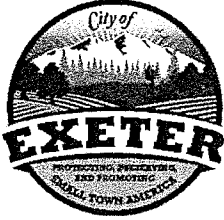
Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, the Schedule of the City's Proportionate Share of the Plan's Net Pension Liability and Related Ratios as of the Measurement Date, the Schedule of Plan Contributions, and the budgetary comparison information, which are Required Supplementary Information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This report is intended solely for the information and use of City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
January 2, 2019



Finance Department

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Ph. #559-592-2755 Fax # 559-592-3556

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This representation letter is provided in connection with your audit of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Exeter (the City) as of June 30, 2018 and for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of the City in accordance with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of January 2, 2019:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated May 24, 2018, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
- All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.
- With regard to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in accordance with U.S. GAAP.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.

- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- The City has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which the City is contingently liable.
- We have disclosed to you all nonexchange financial guarantees, under which we are obligated and have declared liabilities and disclosed properly in accordance with GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, for those guarantees where it is more likely than not that the entity will make a payment on any guarantee.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
 - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
 - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
 - Continuing disclosure consent decree agreements or filings with the Securities and Exchange Commission and we have filed updates on a timely basis in accordance with the agreements (Rule 240, 15c2-12).
- The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Supplementary Information in Relation to the Financial Statements as a Whole

With respect to the supplementary information accompanying the financial statements:

- a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
- b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
- c. The methods of measurement or presentation have not changed from those used in the prior period.
- d. When the supplementary information is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users

- of the supplementary information no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon.
- e. We acknowledge our responsibility to include the auditor's report on the supplementary information in any document containing the supplementary information and that indicates the auditor reported on such supplementary information.
 - f. We acknowledge our responsibility to present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon.

Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements:


- a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with U.S. GAAP and any required GASB statements.
- b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with U.S. GAAP and any required GASB statements.
- c. The methods of measurement or presentation have not changed from those used in the prior period.

Use of a Specialist

We agree with the findings of specialists in evaluating the pension valuation and related amounts and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

Pension Benefits

We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.



Chris Tavarez
Finance Director/Treasurer