

CITY OF EXETER

AUDITED BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

**CITY OF EXETER**  
**BASIC FINANCIAL REPORT**  
**For the Fiscal Year Ended June 30, 2016**

<u><b>Financial Section:</b></u>	<u><b>PAGE</b></u>
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of the Balance Sheet to the	
Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in	
Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes	
in Fund Balances to the Statement of Activities	17
Proprietary Funds:	
Statement of Net Position - Enterprise Funds	18
Statement of Revenues, Expenses, and Changes in	
Fund Net Position - Enterprise Funds	19
Statement of Cash Flows - Enterprise Funds	20
Fiduciary Funds:	
Statement of Net Position - Enterprise Funds	21
Statement of Changes in Net Position	22
Notes to the Financial Statements	23
 <u><b>Required Supplementary Information:</b></u>	
Schedule of City's Proportionate Share of Net Pension Liabilities and Related Ratios	51
Schedule of Contributions	52
Major Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual:	
General Fund	53
CDBG Special Revenue Fund	54
Program Income/Home fund	55

<b><u>Supplemental Information:</u></b>	<b><u>PAGE</u></b>
Combining and Individual Nonmajor Governmental Funds Statements: Combining Balance Sheet - Nonmajor Governmental funds	56
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental funds	57
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -Nonmajor Special Revenue Funds:	
Gas Tax Fund	58
Transportation Development Act Fund	59
Storm Drain Development Fund	60
Grant Fund	61
Low and Moderate Income Housing Fund	62
Measure R Fund	63
<b><u>Other Reports</u></b>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	64
<b><u>Single Audit Section</u></b>	
Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance	66
Schedule of Expenditures of Federal Awards	68
Schedule of Findings and Questioned Costs	70
Status of Prior Year Audit Findings	72

## FINANCIAL SECTION



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## **Independent Auditor's Report**

Honorable Mayor and Members  
of the City Council  
Exeter, California

### **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 the City of Exeter, California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of 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, 2016, 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 budgetary comparison information on pages 48 through 51, and the Schedule of Changes in the Net Pension Liability and Related Ratios and Schedule of Contributions pages 53 and 54, 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 the 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 inquires 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's basic financial statements. The combining and individual nonmajor fund financial statements are presented for the purposes of additional analysis, and are not a required part of the basic financial statements. The schedule of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditure of federal awards 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 and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The schedules of revenues, expenditures and changes in fund balances – budget and actual – nonmajor special revenue funds have not been subjected to the auditing procedures applied in the audit of the

Honorable Mayor and Members  
of the City Council  
Exeter, California

Page 3 of 3

basic financial statements, and according, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the City's internal control over financial reporting and compliance.

*Infinity Accountancy Group, LLP*

Arroyo Grande, California  
March 20, 2017

## 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, 2016. 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 \$13,587,684 (*net position*). Of this amount, <\$1,959,840> (*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 \$2,840,610. Of this amount, there is a balance of \$53,538 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 \$56,538.

### Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Exeter's, assets exceeded liabilities by \$13,587,684 at the close of the most recent fiscal year.

Of the City of Exeter's net position, 89.1 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	
	2016	2015	2016	2015	2016	2015
Current & other assets	\$ 10,620,647	\$ 10,574,273	\$ 2,966,206	\$ 2,958,434	\$ 13,586,853	\$ 13,532,707
Capital assets	7,219,491	7,178,561	15,589,319	15,995,018	22,808,810	23,173,579
Total assets	<u>17,840,138</u>	<u>17,752,834</u>	<u>18,555,525</u>	<u>18,953,452</u>	<u>36,395,663</u>	<u>36,706,286</u>
Deferred outflows of resources - pension	<u>737,533</u>	<u>549,318</u>	<u>335,835</u>	<u>195,884</u>	<u>1,073,368</u>	<u>745,202</u>
Long-term liabilities	3,264,650	3,290,790	11,884,921	12,226,208	15,149,571	15,516,998
Other liabilities	7,697,277	7,641,293	348,140	516,937	8,045,417	8,158,230
Total liabilities	<u>10,961,927</u>	<u>10,932,083</u>	<u>12,233,061</u>	<u>12,743,145</u>	<u>23,194,988</u>	<u>23,675,228</u>
Deferred outflows of resources - pension	<u>514,107</u>	<u>500,535</u>	<u>172,252</u>	<u>192,323</u>	<u>686,359</u>	<u>692,858</u>
Net position:						
Investment in capital assets	7,219,491	7,178,561	4,881,269	5,007,371	12,100,760	12,185,932
Restricted	2,286,292	2,039,407	1,160,472	958,632	3,446,764	2,998,039
Unrestricted	(2,404,146)	(2,348,434)	444,306	247,865	(1,959,840)	(2,100,569)
Total net position	<u>\$ 7,101,637</u>	<u>\$ 6,869,534</u>	<u>\$ 6,486,047</u>	<u>\$ 6,213,868</u>	<u>\$ 13,587,684</u>	<u>\$ 13,083,402</u>

An additional portion of the City of Exeter's net position (25.4 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 <\$1,959,840>. 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 \$444,306 at June 30, 2016 an increase from \$247,865 at June 30, 2015.

**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	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
<b>Program Revenues:</b>						
Charges for services	\$ 556,977	\$ 793,994	\$ 3,451,699	\$ 3,297,876	\$ 4,008,676	\$ 4,091,870
Operating grants and contributions	2,455,249	1,935,636	154,687	189,998	2,609,936	2,125,634
Capital grants and contributions	240,597	32,020	-	4,700	240,597	36,720
<b>General Revenues:</b>						
Property taxes	833,516	764,283	-	-	833,516	764,283
Other taxes	1,593,664	1,655,007	-	-	1,593,664	1,655,007
Investment earnings - unrestricted	6,971	6,319	30,671	19,419	37,642	25,738
Gain on sale of capital assets	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
<b>Total Revenue</b>	<b>5,686,974</b>	<b>5,187,259</b>	<b>3,637,057</b>	<b>3,511,993</b>	<b>9,324,031</b>	<b>8,699,252</b>
<b>Expenses</b>						
Community & economic development	388,208	552,674	-	-	388,208	552,674
General government	1,293,384	1,009,435	-	-	1,293,384	1,009,435
Parks and recreation	538,019	502,474	-	-	538,019	502,474
Public safety	2,626,987	2,534,040	-	-	2,626,987	2,534,040
Public works	608,273	471,418	-	-	608,273	471,418
Water operating	-	-	1,384,392	1,322,491	1,384,392	1,322,491
Sewer operating	-	-	925,869	970,867	925,869	970,867
Transit	-	-	850,938	187,326	850,938	187,326
Refuse operating	-	-	203,679	830,085	203,679	830,085
<b>Total expenses</b>	<b>5,454,871</b>	<b>5,070,041</b>	<b>3,364,878</b>	<b>3,310,769</b>	<b>8,819,749</b>	<b>8,380,810</b>
Changes in net position	232,103	117,218	272,179	201,224	504,282	318,442
Net position - beginning	6,869,534	6,752,316	6,213,868	6,012,644	13,083,402	12,764,960
<b>Net position - ending</b>	<b>\$ 7,101,637</b>	<b>\$ 6,869,534</b>	<b>\$ 6,486,047</b>	<b>\$ 6,213,868</b>	<b>\$ 13,587,684</b>	<b>\$ 13,083,402</b>

**Governmental activities.** Governmental activities increased the City of Exeter's net position by \$232,103 and \$117,218 for the fiscal years ended June 30, 2016 and 2015 respectively.

**Business-type activities.** Business-type activities increased the City of Exeter's net position by \$272,179 and \$201,224 for the fiscal years ended June 30, 2016 and 2015.

## 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, 2016 and 2015, the City of Exeter's governmental funds reported combined ending fund balances of \$2,840,610 and \$2,768,372. Of the June 30, 2016 and 2015 total amount, 18.8 percent and 17.3 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, 2016 and 2015, unassigned fund balance of the general fund was \$53,538 and \$478,816, respectively. It may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. As of June 30, 2016 and 2015, unassigned fund balance represents 11.2 percent and 17 percent, respectively, of the amount needed to cover general fund expenditures.

The fund balance of the City of Exeter's general fund decreased by \$257,249 and \$179,906 for the years ended June 30, 2016 and 2015. Key factors in the decreases are as follows:

Decrease in revenues:

Sales tax  
Utility users tax  
Franchise fees

Increase in expenditures:

Contractual services  
Workers' compensation cost  
Health insurance cost  
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, Refuse, and Transit activities at the end of the year amounted to \$444,956 and \$247,865 for June 30, 2016 and 2015. The total increase in net positions for all these funds in 2016 and 2015 was \$201,224 and \$272,179. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Exeter's business-type activities.

### **General Fund Budgetary Highlights**

The difference between the original budget and the final amended budget was an increase of \$374,775. The approved appropriation requests can be briefly summarized as follows:

Workers' compensation  
Contractual services  
Equipment

The appropriations were supported by available funds and grant reimbursements.

## 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, 2016, amounts to \$22,808,808 (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	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,298,149	\$ 1,298,149	\$ 2,404,191	\$ 2,404,191	\$ 3,702,340	\$ 3,702,340
Buildings & Improvements	2,499,577	2,564,320	10,096,136	10,404,931	12,595,713	12,969,251
Machinery & equipment	1,282,948	1,317,994	2,442,697	122,125	3,725,645	1,440,119
Infrastructure	1,995,856	1,998,098	642,234	3,063,771	2,638,090	5,061,869
Construction in progress	142,961	-	4,059	-	147,020	-
	<u>\$ 7,219,491</u>	<u>\$ 7,178,561</u>	<u>\$ 15,589,317</u>	<u>\$ 15,995,018</u>	<u>\$ 22,808,808</u>	<u>\$ 23,173,579</u>

**Long-term debt.** At June 30 2016 and 2015, the City of Exeter had total debt outstanding of \$10,864,889 and \$11,209,051. 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. Additionally the new debt is from the water meter lease and leasing of police vehicles.

### City of Exeter's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Leases payable	\$ 156,839	\$ 221,405	\$ 1,895,024	\$ 1,983,967	\$ 2,051,863	\$ 2,205,372
Notes payable	-	-	8,813,026	9,003,679	8,813,026	9,003,679
Revenue bonds	-	-	-	-	-	-
	<u>\$ 156,839</u>	<u>\$ 221,405</u>	<u>\$ 10,708,050</u>	<u>\$ 10,987,646</u>	<u>\$ 10,864,889</u>	<u>\$ 11,209,051</u>

## Economic Factors and Next Year's Budgets and Rates

The City of Exeter, like most Central Valley cities, is continuing to experience renewed development activity, albeit slow and cautious. Despite encouraging economic indicators, both residential and commercial growth has been slow to return to Exeter. To our credit, Exeter is traditionally very cautious and structured in its approach to growth, and slow growth is – by design- more the rule than the exception. This year saw a new 24-unit multi-family building project, and the beginnings of some limited residential subdivision activity. Business growth was also positive, with not only new businesses locating in existing buildings but a new standalone Rite-Aid drug store. Though moderate even in terms of Exeter growth patterns, this development shows encouraging signs for the future.

Despite encouraging economic indicators, sales tax revenue continues to ride very shallow waves of growth and decline, with the overall pattern being relatively flat. Businesses report a relatively positive business climate, and there are very few vacant storefronts. Yet actual sales tax revenue is slow to increase.

### **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 will increase to alleviate the financial strain on the City's operating revenue.

The 2016-2017 budget will continue with a conservative measure in appropriations.

### **Business Type Activities**

CPI increases are part of the City's adopted plan. CPI will be reviewed each year to determine if a rate increase will be considered.

### **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, 2016**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b><u>ASSETS</u></b>			
Cash and investments			
Unrestricted	\$ 2,427,154	\$ 1,913,235	\$ 4,340,389
Restricted	-	717,452	717,452
Receivables:			
Accounts	-	344,504	344,504
Intergovernmental	733,933	112,857	846,790
Inventory	-	34,064	34,064
Internal balances	174,807	(174,807)	-
Loans receivable	7,284,753	-	7,284,753
Capital assets:			
Non-depreciable	1,441,110	2,408,250	3,849,360
Depreciable, net of accumulated depreciation	5,778,381	13,181,069	18,959,450
<b>Total assets</b>	<b>17,840,138</b>	<b>18,536,624</b>	<b>36,376,762</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Deferred bond issue costs/amortization	-	18,901	18,901
Deferred pensions	737,533	335,835	1,073,368
<b>Total deferred outflows of resources</b>	<b>737,533</b>	<b>354,736</b>	<b>1,092,269</b>
<b><u>LIABILITIES</u></b>			
Accounts payable and other accruals	348,035	127,166	475,201
Interest payable	-	156,666	156,666
Unearned revenue	7,209,988	-	7,209,988
Compensated absences	139,254	64,308	203,562
Noncurrent liabilities:			
Due to depositors	-	70,051	70,051
Net pension liability	2,987,498	1,084,473	4,071,971
Compensated absences	120,313	-	120,313
Due in one year	-	312,834	312,834
Due in more than one year	156,839	10,417,563	10,574,402
<b>Total liabilities</b>	<b>10,961,927</b>	<b>12,233,061</b>	<b>23,194,988</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Deferred pensions	514,107	172,252	686,359
<b><u>NET POSITION</u></b>			
Net investment in capital assets	7,219,491	4,881,269	12,100,760
Restricted for:			
Inventory	-	34,064	34,064
Public service	2,259,072	-	2,259,072
Debt service	-	717,452	717,452
Impact fees	-	408,956	408,956
Self-insurance	27,220	-	27,220
Unrestricted	(2,404,146)	444,306	(1,959,840)
<b>Total net position</b>	<b>\$ 7,101,637</b>	<b>\$ 6,486,047</b>	<b>\$ 13,587,684</b>

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



**City of Exeter  
Balance Sheet  
Governmental Funds  
June 30, 2016**

	General	CDBG Housing	Home Funds	Non-major Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 285,564	\$ 623,029	\$ 5,720	\$ 1,407,041	\$ 2,321,354
Receivables - misc (net):					
Intergovernmental	444,254	55,322	-	234,357	733,933
Taxes	-	-	-	-	-
Due from other funds	96,341	-	-	80,232	176,573
Note receivable	90,000	4,467,560	2,128,037	599,156	7,284,753
Total assets	<u>\$ 916,159</u>	<u>\$ 5,145,911</u>	<u>\$ 2,133,757</u>	<u>\$ 2,320,786</u>	<u>\$ 10,516,613</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts and other payables	\$ 253,534	\$ 58,075	\$ -	\$ 17,675	\$ 329,284
Compensated absences payable	134,965	-	-	-	134,965
Deferred revenue	-	4,467,560	2,128,037	614,391	7,209,988
Due to other funds	-	-	-	1,766	1,766
Total liabilities	<u>388,499</u>	<u>4,525,635</u>	<u>2,128,037</u>	<u>633,832</u>	<u>7,676,003</u>
Fund balances:					
Restricted	-	620,276	5,720	1,633,076	2,259,072
Committed Impact fees	324,211	-	-	-	324,211
Committed Alley repair	144,411	-	-	-	144,411
Committed Parking-in-lieu	2,500	-	-	-	2,500
Committed for storm drains	-	-	-	53,878	53,878
Assigned for City Hall	-	-	-	-	-
Unassigned	56,538	-	-	-	56,538
Total fund balances	<u>527,660</u>	<u>620,276</u>	<u>5,720</u>	<u>1,686,954</u>	<u>2,840,610</u>
Total liabilities and fund balances	<u>\$ 916,159</u>	<u>\$ 5,145,911</u>	<u>\$ 2,133,757</u>	<u>\$ 2,320,786</u>	<u>\$ 10,516,613</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, 2016**

Fund balances of governmental funds		\$ 2,840,610
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-		5,778,381
Other long-term assets are not available to pay current expenditures, and therefore are deferred in the funds - construction-in-progress and land.		1,441,110
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.		81,350
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	277,117	
Internal Service	19,739	
Safety	<u>440,677</u>	737,533
Deferred pension inflows of resources		
Miscellaneous	(142,141)	
Internal Service	(10,124)	
Safety	<u>(361,842)</u>	(514,107)
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	(894,875)	
Internal Service	(63,745)	
Safety	<u>(2,028,878)</u>	(2,987,498)
Capital Lease payable		(156,839)
Long-term portion of compensated absences and sick leave		<u>(118,903)</u>
Net position of governmental activities		<u><u>\$ 7,101,637</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, 2016**

	General	CDBG Housing Fund	Home Fund	Non-major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property taxes	\$ 833,516	\$ -	\$ -	\$ -	\$ 833,516
Sales taxes	893,918	-	-	-	893,918
Utility users tax	538,480	-	-	-	538,480
Franchise tax	149,372	-	-	-	149,372
Other taxes	86,519	-	-	230,986	317,505
Licenses and permits	52,865	-	-	-	52,865
Intergovernmental	1,369,111	263,523	11,250	713,882	2,357,766
Charges for services	288,100	-	-	12,839	300,939
Rental income	8,915	-	-	-	8,915
Loan payments	-	106,889	2,400	-	109,289
Fines and forfeitures	54,399	-	-	-	54,399
Investment earnings	6,411	6,186	152	16,482	29,231
Miscellaneous	38,079	-	-	-	38,079
Total revenues	<u>4,319,685</u>	<u>376,598</u>	<u>13,802</u>	<u>974,189</u>	<u>5,684,274</u>
<b>EXPENDITURES</b>					
Community and economic development	-	189,997	37,856	800	228,653
General government	737,495	-	-	247,445	984,940
Parks and recreation	523,670	-	-	-	523,670
Public safety - fire	101,821	-	-	-	101,821
Public safety - police	2,535,909	-	-	-	2,535,909
Public works	581,413	-	-	-	581,413
Debt service:					
Principal	64,819	-	-	-	64,819
Interest	8,774	-	-	-	8,774
Capital outlay	225,733	-	-	359,004	584,737
Total expenditures	<u>4,779,634</u>	<u>189,997</u>	<u>37,856</u>	<u>607,249</u>	<u>5,614,736</u>
Excess (deficiency) of revenues over expenditures	<u>(459,949)</u>	<u>186,601</u>	<u>(24,054)</u>	<u>366,940</u>	<u>69,538</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of capital assets	2,700	-	-	-	2,700
Transfers in	200,000	54,546	-	-	254,546
Transfers out	-	-	(54,546)	(200,000)	(254,546)
Total other financing sources and uses	<u>202,700</u>	<u>54,546</u>	<u>(54,546)</u>	<u>(200,000)</u>	<u>2,700</u>
Net change in fund balances	(257,249)	241,147	(78,600)	166,940	72,238
Fund balances - beginning	<u>784,909</u>	<u>379,129</u>	<u>84,320</u>	<u>1,520,014</u>	<u>2,768,372</u>
Fund balances - ending	<u>\$ 527,660</u>	<u>\$ 620,276</u>	<u>\$ 5,720</u>	<u>\$ 1,686,954</u>	<u>\$ 2,840,610</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, 2016**

Net change in fund balances --total governmental funds	\$	72,238
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 (\$ 425,182) exceeded depreciation (\$384,251) and disposition of capital assets in the current period -		40,931
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.		64,819
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		(11,964)
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 -		(69,203)
Certain pension expenses in the statement of activities are recognized on the accrual basis of accounting in accordance with GASB Statement No. 68		189,560
Change in net position of governmental activities	<u>\$</u>	<u>286,381</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, 2016**

**Business-Type Activities - Enterprise Funds**

	<b>Major Funds</b>			<b>Non-major</b>	<b>Total</b>	<b>Governmental</b>
	<b>Water Operations</b>	<b>Sewer Operations</b>	<b>Sanitation Operations</b>	<b>Fund Transit</b>	<b>Proprietary Funds</b>	<b>Activities - Internal Service Fund</b>
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 1,712,599	\$ 200,636	\$ -	\$ -	\$ 1,913,235	\$ 105,800
Accounts receivable, net of allowance	141,475	100,834	102,195	-	344,504	-
Intergovernmental receivable	-	-	-	112,857	112,857	-
Due from other funds	131,656	-	-	-	131,656	-
Loans Receivable	-	-	-	-	-	-
Inventories	34,064	-	-	-	34,064	-
Noncurrent assets:						
Restricted cash and cash equivalents	320,137	397,315	-	-	717,452	-
Capital assets:						
Nondepreciable	-	2,408,250	-	-	2,408,250	-
Depreciable, net	7,772,407	5,326,812	195	81,655	13,181,069	-
<b>Total assets</b>	<b>10,112,338</b>	<b>8,433,847</b>	<b>102,390</b>	<b>194,512</b>	<b>18,843,087</b>	<b>105,800</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred bond issues costs/amort	18,901	-	-	-	18,901	-
Deferred pensions	136,030	133,434	24,233	42,138	335,835	19,739
<b>Total deferred outflow of resources</b>	<b>154,931</b>	<b>133,434</b>	<b>24,233</b>	<b>42,138</b>	<b>354,736</b>	<b>19,739</b>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts and other payables	27,808	22,703	69,683	6,972	127,166	18,751
Accrued Interest	74,153	82,513	-	-	156,666	-
Due to other funds	-	-	131,656	174,807	306,463	-
Compensated absences payable	26,355	22,991	4,369	10,593	64,308	4,289
Bonds, notes and leases payable	205,554	107,280	-	-	312,834	-
Noncurrent liabilities:						
Due to depositors	70,051	-	-	-	70,051	-
Compensated absences payable	9,772	7,068	1,516	3,991	22,347	1,410
Net pension liability	439,265	430,888	78,250	136,070	1,084,473	63,745
Bonds, notes and leases payable	6,694,185	3,701,031	-	-	10,395,216	-
<b>Total liabilities</b>	<b>7,547,143</b>	<b>4,374,474</b>	<b>285,474</b>	<b>332,433</b>	<b>12,539,524</b>	<b>88,195</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred pensions	69,770	68,442	12,428	21,612	172,252	10,124
<b>NET POSITION</b>						
Net investment in capital assets	872,668	3,926,751	195	81,655	4,881,269	-
Restricted for inventory	34,064	-	-	-	34,064	-
Restricted for debt service	320,137	397,315	-	-	717,452	-
Restricted for self-insurance	-	-	-	-	-	27,220
Restricted for impact fees	408,956	-	-	-	408,956	-
Unrestricted	1,014,531	(199,701)	(171,474)	(199,050)	444,306	-
<b>Total net position</b>	<b>\$ 2,650,356</b>	<b>\$ 4,124,365</b>	<b>\$ (171,279)</b>	<b>\$ (117,395)</b>	<b>\$ 6,486,047</b>	<b>\$ 27,220</b>

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, 2016**

	<b>Business-type Activities - Enterprise Funds</b>				<b>Total Proprietary Funds</b>	<b>Governmental Activities - Internal Service Fund</b>
	<b>Major Funds</b>			<b>Non-major Fund</b>		
	<b>Water Operations</b>	<b>Sewer Operations</b>	<b>Sanitation Operations</b>	<b>Transit</b>		
Operating revenues:						
Charges for services	\$ 1,462,627	\$ 1,055,889	\$ 877,520	\$ 8,097	\$ 3,404,133	\$ -
Connection fees	47,566	-	-	-	47,566	-
Internal Service Charges	-	-	135,237	-	135,237	947,582
Total operating revenues	<u>1,510,193</u>	<u>1,055,889</u>	<u>1,012,757</u>	<u>8,097</u>	<u>3,586,936</u>	<u>947,582</u>
Operating expenses:						
Personnel Services	367,231	347,752	55,348	121,429	891,760	59,525
General and administrative	31,772	26,866	21,816	54,810	135,264	957,260
Materials & Supplies	395,902	267,661	773,580	539	1,437,682	-
Depreciation/amortization	282,850	157,282	194	26,901	467,227	-
Total operating expenses	<u>1,077,755</u>	<u>799,561</u>	<u>850,938</u>	<u>203,679</u>	<u>2,931,933</u>	<u>1,016,785</u>
Operating income (loss)	<u>432,438</u>	<u>256,328</u>	<u>161,819</u>	<u>(195,582)</u>	<u>655,003</u>	<u>(69,203)</u>
Nonoperating revenues (expenses):						
Grants and reimbursements	-	-	(135,237)	154,687	19,450	-
Grants received for others	-	-	-	1,575,551	1,575,551	-
Payments made for others	-	-	-	(1,575,551)	(1,575,551)	-
Investment earnings	25,014	5,657	-	-	30,671	-
Interest expense	(306,637)	(126,308)	-	-	(432,945)	-
Total nonoperating revenue (expenses)	<u>(281,623)</u>	<u>(120,651)</u>	<u>(135,237)</u>	<u>154,687</u>	<u>(382,824)</u>	<u>-</u>
Change in net position	150,815	135,677	26,582	(40,895)	272,179	(69,203)
Total net position - beginning	<u>2,499,541</u>	<u>3,988,688</u>	<u>(197,861)</u>	<u>(76,500)</u>	<u>6,213,868</u>	<u>96,423</u>
Total net position - ending	<u><u>\$ 2,650,356</u></u>	<u><u>\$ 4,124,365</u></u>	<u><u>\$ (171,279)</u></u>	<u><u>\$ (117,395)</u></u>	<u><u>\$ 6,486,047</u></u>	<u><u>\$ 27,220</u></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 Year Ended June 30, 2016**

	Business-type Activities - Enterprise Funds				Total Proprietary Funds	Governmental Activities - Internal Service Fund
	Major Funds			Non-Major		
	Water Operating	Sewer Operating	Sanitation Operating	Fund Transit		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Charges for services	\$ 1,519,092	\$ 1,052,032	\$ 1,004,584	\$ 8,097	\$ 3,583,805	\$ 947,582
Personnel services	(445,261)	(432,662)	(79,077)	(153,369)	(1,110,369)	(70,481)
General administration	(31,772)	(26,866)	(21,816)	(54,810)	(135,264)	(957,260)
Payments to suppliers and contractors	(582,975)	(275,347)	(768,373)	2,266	(1,624,429)	6,581
Net cash provided by operating activities	<u>459,084</u>	<u>317,157</u>	<u>135,318</u>	<u>(197,816)</u>	<u>713,743</u>	<u>(73,578)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Intergovernmental - operating assistance	-	-	-	231,185	231,185	-
Local - operating reimbursements	-	-	(135,237)	-	(135,237)	-
Increase (decrease) in amount due to other funds	81	-	(81)	(33,369)	(33,369)	-
Net cash (used) by noncapital financing	<u>81</u>	<u>-</u>	<u>(135,318)</u>	<u>197,816</u>	<u>62,579</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Interest paid on long-term debt	(299,422)	(127,147)	-	-	(426,569)	-
Principal paid on bonds	(194,595)	(103,903)	-	-	(298,498)	-
Intergovernmental - capital assistance - for others	-	-	-	1,575,551	1,575,551	-
Other agency - capital reimbursements/payments	-	-	-	(1,575,551)	(1,575,551)	-
Purchase of capital assets	(3,108)	(58,420)	-	-	(61,528)	-
Net cash (used) by capital and related financing activities	<u>(497,125)</u>	<u>(289,470)</u>	<u>-</u>	<u>-</u>	<u>(786,595)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Investment earnings	25,014	5,657	-	-	30,671	-
(Increase) decrease in restricted cash	(34,425)	(27,258)	-	-	(61,683)	-
Net cash provided by investing activities	<u>(9,411)</u>	<u>(21,601)</u>	<u>-</u>	<u>-</u>	<u>(31,012)</u>	<u>-</u>
Net Increase (decrease) in cash and cash equivalents	<u>(47,371)</u>	<u>6,086</u>	<u>-</u>	<u>-</u>	<u>(41,285)</u>	<u>(73,578)</u>
Balances - beginning of year	1,759,970	194,550	-	-	1,954,520	179,378
Balances - end of the year	<u>\$ 1,712,599</u>	<u>\$ 200,636</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,913,235</u>	<u>\$ 105,800</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ 432,438	\$ 256,328	\$ 161,819	\$ (195,582)	\$ 655,003	\$ (69,203)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization	282,850	157,282	194	26,901	467,227	-
Changes in assets, deferred outflows/inflows and liabilities:						
(Increase) decrease in inventory	(5,796)	-	-	-	(5,796)	-
(Increase) decrease in receivables	6,224	(3,857)	(8,173)	-	(5,806)	-
(Increase) decrease deferred outflows	(57,328)	(57,059)	(8,815)	(16,749)	(139,951)	(8,606)
Increase (decrease) in accounts payable	(181,277)	(7,686)	5,207	2,805	(180,951)	6,581
Increase (decrease) in deferred inflows	(7,501)	(6,544)	(2,710)	(3,316)	(20,071)	(807)
Increase (decrease) in due to depositors	2,675	-	-	-	2,675	-
Increase (decrease) in compensated absences	9,647	(3,750)	75	1,132	7,104	83
Increase (decrease) in net pension liability	(22,848)	(17,557)	(12,279)	(13,007)	(65,691)	(1,626)
Net cash provided by operating activities	<u>\$ 459,084</u>	<u>\$ 317,157</u>	<u>\$ 135,318</u>	<u>\$ (197,816)</u>	<u>\$ 713,743</u>	<u>\$ (73,578)</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, 2016**

	Private-purpose Trust Fund
<b><u>ASSETS</u></b>	
Cash and cash equivalents	\$ 82,447
Investments	-
Due from other funds	-
Notes receivable	1,085,500
Capital assets:	
Land	-
Improvements other than land	-
Less accumulated depreciation	-
<b>Total Assets</b>	<b>1,167,947</b>
 <b><u>LIABILITIES</u></b>	
Accounts payable	-
Advances payable	-
Unearned revenues	1,040,500
<b>Total Liabilities</b>	<b>1,040,500</b>
 <b><u>NET POSITION</u></b>	
Net assets held in trust	<b>\$ 127,447</b>

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 Fiscal Year Ended June 30, 2016**

	Private-purpose Trust Fund
<b><u>ADDITIONS</u></b>	
Intergovernmental	\$ -
Loan payments received	18,750
Interest revenue	979
Total Additions	19,729
 <b><u>DEDUCTIONS</u></b>	
Administrative expenses	(1,351)
Advance payments to General Fund	-
Depreciation expense	-
Total Deductions	(1,351)
 Change in net position	 21,080
 Net position held in trust - beginning	 52,089
Prior period adjustment	54,278
Net position held in trust - beginning, restated	106,367
 Net position held in trust - ending	 \$ 127,447

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

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 1 - Summary of significant accounting policies**

**A. Reporting entity**

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

**Blended component unit.** The Exeter Redevelopment Agency (ERA) was established with the primary purpose of developing, financing and maintaining the property inside the Redevelopment Project Area of the City of Exeter, California. The Mayor and the City Council members of the City of Exeter, California serve as the governing body. The City council reviews the ERA budget. Because of this level of control, the ERA is treated as a blended component unit in the financial statements of the City.

The ERA was established in March of 1990 pursuant to the California Community Redevelopment Laws contained in Sections 33000 Et. Seq. of Division 24 of the Health and Safety Code.

**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.

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 1 - Summary of significant accounting policies** (continued)

**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.

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. All other revenue items are considered to be measurable and available only when the government receives cash.

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary funds:

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

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

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

Additionally, the government reports the following fund types:

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

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

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 1 - Summary of significant accounting policies** (continued)

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

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.

**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 reports the following agency and special 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.

Amounts reported as *program revenues* include:

- 1) charges to customers or applicants for goods, services, or privileges provided;
- 2) operating grants and contributions; and
- 3) capital grants and contributions, including special assessments.

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 of Exeter's policy to use restricted resources first, and then unrestricted resources, as they are needed.

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 1 - Summary of significant accounting policies** (continued)

**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 of Exeter 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.).

GASB Statement No. 40 requires agencies to expand on the level of detail related to deposit and investment risk. This Statement has been implemented with the June 30, 2005 report, and the detailed information can be found in Note 4.

**Fair Value Measurement**

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

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

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

For fiscal year ended June 30, 2016, the application of valuation technique applied to the City's financial statements has been consistent.

**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.

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 1 - Summary of significant accounting policies** (continued)

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 fair 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.

**4. Capital Assets**

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	6-8
City equipment	12-20

**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 would be entitled to draw a percentage of the total amount accumulated for sick leave based on years of service and the full amount of vacation benefits.

Years of Service	Percentage of Accumulated Benefit Received
0 – 4	0%
5 – 9	15%
10 – 14	20%
15 – 19	25%
20+	30%

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 1 - Summary of significant accounting policies** (continued)

**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. Classification of Net Position and Fund Balances**

In the government-wide financial statements, net position is classified in the following categories:

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.

**7. Classification of Net Position and Fund Balances**

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.

The City implemented GASB No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, in fiscal year 2011. The objective of the statement is to enhance the usefulness of fund balance information by provided clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

As prescribed by GASB Statement No. 54, 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.

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 1 - Summary of significant accounting policies** (continued)

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. The City did not have any committed fund balance resources as of June 30, 2016.

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.

**8. 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

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.

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 1 - Summary of significant accounting policies** (continued)

**9. 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.

**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.

**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.

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

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

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.

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 XIIB of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes. If appropriations from proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or returned to the taxpayers through revised tax rates, revised fee schedules or other refund arrangements. For the fiscal year ended June 30, 2016, based on calculations by City staff, appropriations from proceeds of taxes did not exceed the appropriations limit.

**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 Assets	Private- Purpose Trust fund	Total
Cash and investments	\$ 4,340,389	\$ 82,447	\$ 4,422,836
Restricted - Cash and investments	717,452	-	717,452
Total cash and investments	\$ 5,057,841	\$ 82,447	\$ 5,140,288

Cash and investments as of June 30, 2016, consist of the following:

Cash on hand	\$ 1,000
Deposits with financial institutions	711,713
Investments	4,427,575
Total cash and investments	\$ 5,140,288

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

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 4 – Detailed notes on all funds** (continued)

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	270 days	30%	None
Commercial Paper	270 days	25%	None
Certificates of Deposit	5 years	30%	None
Repurchase Agreements	90 days	None	None
State of California Obligations	5 years	None	None
Medium-Term Notes/Corporate Bonds	5 years	30%	None
Mutual Funds	N/A	15%	None
Money Market Mutual Funds	N/A	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	None

\* 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 the Financial Statements**  
**June 30, 2016**

**NOTE 4 - Detailed notes on all funds** (continued)

The following is a summary of the fair value measurements as of June 30, 2016:

	<b>Fair Value</b>	<b>Significant Other Observable Inputs (Level 2)</b>
Investments classified by fair value hierarchy		
U.S. Government Securities	\$ 246,962	\$ 246,962
Total investments by fair value hierarchy	\$ 246,962	\$ 246,962
Investments not subject to fair value hierarchy		
Local Agency Investment Fund	\$ 703,947	
Money market funds	\$ 13,666	
Non-negotiable Certificates of Deposits	3,463,000	
Total investments not subject to fair value hierarchy	\$ 4,180,613	
Total investments measured at fair value	\$ 4,427,575	

*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	\$ 703,947	\$ 703,947	\$ -	\$ -	\$ -
U.S. Treasury bonds/notes	246,962	246,962			
Held by trustee:					
Money market funds	13,666	13,666	-	-	-
Certificates of Deposits	3,463,000	496,000	992,000	1,975,000	-
	\$ 4,427,575	\$ 1,460,575	\$ 992,000	\$ 1,975,000	\$ -

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 4 - Detailed notes on all funds** (continued)

*Disclosures relating to credit risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the City's investment policy or debt agreements, and the actual rating as of year end for each investment type.

<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	\$ 703,947	N/A	-	\$ 703,947
Held by trustee:				
Money market funds	13,666	AAA/Aa	AAA	-
U.S. Treasury Bonds/Notes	246,962	TSY	AAA,Aaa	-
Certificates of deposit	<u>3,463,000</u>	N/A	-	<u>3,463,000</u>
	<u>\$ 4,427,575</u>			<u>\$ 4,166,947</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.

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 4 - Detailed notes on all funds** (continued)

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, 2016 was \$703,947.

Investments for the City and the component unit are reported at fair value as determined by quoted market prices. Changes in the fair value of investments are included with all other investment income.

**B. Receivables**

*Enterprise Receivables*

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

*Property Taxes, and Property Tax Calendar*

Property taxes are collected and remitted to the City by the County of Tulare. Taxes are levied July 1 – June 30, and are due November 1 – February 1. Major tax payments are received December through April. Lien dates for real property are in January.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the City regardless of when cash is received. Over time, substantially all property taxes are collected.

**C. Interfund receivable/payables, and transfers**

The composition of interfund balances as of June 30, 2016, is as follows:

Due to/from other funds:

Receivable Fund	Payable fund	Amount
Gas tax	Measure R	\$ 1,766
Transportation	Transit	78,466
Water	Sanitation	131,656
General Fund	Transit	96,341

Interfund transfers:

Transfer Out:	Transfer In:			Total
	General Fund	CDBG Housing Fund	Non-major Governmental Funds	
Non-major Governmental	\$ 200,000	\$ -	\$ -	\$ 200,000
Home	\$ -	\$ 54,546	\$ -	\$ 54,546

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 4 - Detailed notes on all funds** (continued)

**D. Capital assets**

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Additions & Transfers	Dispositions & Transfers	Balance June 30, 2016
<u>Governmental Activities:</u>				
Capital assets not depreciated				
Construction in progress	\$ -	\$ 142,961	\$ -	\$ 142,961
Land	1,298,149	-	-	1,298,149
Total capital assets not depreciated	<u>1,298,149</u>	<u>142,961</u>	<u>-</u>	<u>1,441,110</u>
Capital assets being depreciated				
Buildings & improvements	3,404,288	38,364	-	3,442,652
Infrastructure	2,394,571	46,294	-	2,440,865
Equipment/autos	3,510,085	197,563	-	3,707,648
	<u>9,308,944</u>	<u>282,221</u>	<u>-</u>	<u>9,591,165</u>
Less accumulated depreciation & amortization	<u>(3,428,533)</u>	<u>(384,251)</u>	<u>-</u>	<u>(3,812,784)</u>
Total capital assets being depreciated:	<u>5,880,411</u>	<u>(102,030)</u>	<u>-</u>	<u>5,778,381</u>
Governmental activities capital assets, net	<u>\$ 7,178,560</u>	<u>\$ 40,931</u>	<u>\$ -</u>	<u>\$ 7,219,491</u>
<u>Business-Type Activities:</u>				
Capital assets not depreciated				
Construction in progress	\$ -	\$ 4,059	\$ -	\$ 4,059
Land	2,404,191	-	-	2,404,191
Total capital assets not depreciated	<u>2,404,191</u>	<u>4,059</u>	<u>-</u>	<u>2,408,250</u>
Capital assets being depreciated:				
Buildings & improvements	13,293,029	-	-	13,293,029
Infrastructure	867,307	-	-	867,307
Equipment/autos	3,310,906	57,467	-	3,368,373
	<u>17,471,242</u>	<u>57,467</u>	<u>-</u>	<u>17,528,709</u>
Less accumulated depreciation & amortization	<u>(3,880,415)</u>	<u>(467,227)</u>	<u>-</u>	<u>(4,347,642)</u>
Business-type activities Total capital assets being depreciated:	<u>13,590,827</u>	<u>(409,760)</u>	<u>-</u>	<u>13,181,067</u>
Business-type activities capital assets, net	<u>15,995,018</u>	<u>(405,701)</u>	<u>-</u>	<u>15,589,317</u>
Entity wide capital assets	<u>\$ 23,173,578</u>	<u>\$ (364,770)</u>	<u>\$ -</u>	<u>\$ 22,808,808</u>

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 4 - Detailed notes on all funds** (continued)

Depreciation

Depreciation expense was charged to governmental activities as follows:

Governmental departments	
General government	\$ 185,593
Parks and recreation	37,185
Public safety - fire	12,253
Public safety - police	102,679
Public works	<u>46,541</u>
 Governmental activities	 <u>384,251</u>

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

Water Funds	282,850
Sewer Fund	157,282
Sanitation Fund	194
Transit Fund	<u>26,901</u>
Total depreciation expense, business-type activities	<u>467,227</u>
 Total depreciation, entity wide	 <u><u>\$ 851,478</u></u>

**E. Infrastructure capitalization**

The City of Exeter 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, 2016, are as follows:

<u>Funds</u>	<u>Amount</u>
Governmental activities:	
Special revenue funds:	
Community Development Block Grant	\$ 4,467,560
Home Fund	2,128,037
Non-Major Governmental Funds	<u>614,391</u>
Total Unearned Revenue - Governmental Activities	<u><u>\$ 7,209,988</u></u>

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 4 - Detailed notes on all funds** (continued)

**G. Long-term debt**

Business type activities:

The City owes three promissory notes to the United States Department of Agriculture Rural Development Agency for waste water improvements in the Sewer Fund, in the amount of \$4,110,311 and for water system improvements in the Water Fund, in the amount of \$5,253,912. The Sewer fund has annual principal and interest of \$231,050 at 3.25% through November 1, 2039. The Water Fund's average annual principal and interest payment totals \$279,643 at 4.375% through April 1, 2046.

On May 12, 2014, the City entered into a lease purchase contract with Global Water Management, financed through Deutsche Bank, in the amount of \$ 2,097,701, at 3.80%, with 60 quarterly payments of \$46,351.61.

Government-Wide activities:

On October 10, 2013, The City entered into a lease purchase contract to lease Ford Police cars in the amount of \$328,640, at 4.70%, with 60 monthly payments of \$6,132.75 per month.

A schedule of changes in long-term debt for the year ended June 30, 2016 is shown below:

	Adjusted Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due within one year
<b>Governmental activities</b>					
Compensated Absences	\$ 235,798	\$ 46,843	\$ 23,104	\$ 259,537	\$ 142,505
Lease Payable	221,405	-	64,566	156,839	71,926
	<u>\$ 457,203</u>	<u>\$ 46,843</u>	<u>\$ 87,670</u>	<u>\$ 416,376</u>	<u>\$ 214,431</u>
<b>Business-type activities</b>					
Notes Payable	\$ 9,003,679	\$ -	\$ 190,653	\$ 8,813,026	\$ 197,812
Lease Payable	1,983,967	21,809	110,752	1,895,024	115,022
Compensated Absences	79,551	22,198	15,094	86,655	64,308
Due to depositors	67,376	2,675	-	70,051	-
	<u>\$ 11,134,573</u>	<u>\$ 46,682</u>	<u>\$ 316,499</u>	<u>\$ 10,864,756</u>	<u>\$ 377,142</u>

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 4 - Detailed notes on all funds** (continued)

**G. Long-term debt**

The annual requirements to amortize all debt outstanding as of June 30, 2016, including interest, is as follows:

Year ended June 30,	Business-type Activities Notes/lease Payable	Government-Wide Activities Lease Payable
2017	\$ 726,661	\$ 73,593
2018	726,520	73,593
2019	726,290	18,398
2020	725,971	-
2021	726,563	-
2022-2026	3,629,582	-
2026-2030	3,258,332	-
2031-2035	2,700,682	-
2036-2040	2,465,052	-
2041-2045	1,156,979	-
	<u>16,842,632</u>	<u>165,584</u>
Less interest	<u>(6,134,582)</u>	<u>(8,745)</u>
	<u>\$ 10,708,050</u>	<u>\$ 156,839</u>

**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 55 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.

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 5 – Other information** (continued)

**B. Joint venture** (continued)

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, 2016:

Net Assets	
Assets	\$ 92,743,162
Liabilities to member cities	(77,308,330)
Net assets, reserved for insurance claims and losses	15,434,832
<b>Changes in Net Assets</b>	
Revenues	\$ 37,945,462
Expenses	(37,742,471)
Excess of income over (under) expenses	\$ 202,991

This information is not included in the accompanying financial statements. Separate financial statements of the Authority may be obtained at Bickmore Risk Services, 1020 19<sup>th</sup> 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.

**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.

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 5 – Other information** (continued)

**E. Implementation of GASB Statement No. 45, Other Postemployment Benefits (OPEB)**

In 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45 regarding Postemployment Benefits Other than Pensions. Any postemployment benefits, such as healthcare or other benefits not offered through a pension plan, defined as being paid on behalf of retirees and their eligible spouses fall under the guidance of Statement No. 45 and must be accounted for.

The City of Exeter does not provide postemployment benefits.

**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 City of Exeter’s separate Safety (police) and Miscellaneous (all other) Plans, cost-sharing, multiple-employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and City of Exeter resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website (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 benefits are: 1) Basic Death Benefit; the 1957 Survivor Benefit, Level 3 (Level 4 Miscellaneous), if qualified; or 3) 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 Plans’ provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous	
	Classic Members <sup>1 3</sup>	New Members <sup>2 3</sup>
Hire date		
Benefit formula	3% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	60	62
Monthly benefits, as a % of eligible compensation	2.00%	2.00%
Required employee contribution rates	8.00%	6.25%
Required employer contribution rates	33.709%	6.237%

<sup>1</sup> Classic members are defined as: 1) employees currently working for the City that were hired before January 1, 2013, 2) new hires, who previously worked for a CalPERS agency and did not have a break in service of greater than 6 months, and 3) new hires eligible for reciprocity with another California public retirement system.

<sup>2</sup> New members are defined as employees that: 1) have never worked for a CalPERS agency, 2) have worked previously for a CalPERS agency, and had a break in service of greater than 6 months, or 3) have never worked for a CalPERS agency and are not eligible for reciprocity with another Public retirement system.

<sup>3</sup> Rehired employees return to the plan established as of their original hire date.

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 6 – Defined benefit pension plan** (continued)

**A. General Information about the Pension Plans** (continued)

	Safety	
	Classic Members <sup>1 3</sup>	New Members <sup>2 3</sup>
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 % of eligible compensation	2.00%	2.00%
Required employee contribution rates	9.00%	11.50%
Required employer contribution rates	30.402%	11.50%

<sup>1</sup> Classic members are defined as: 1) employees currently working for the City that were hired before January 1, 2013, 2) new hires, who previously worked for a CalPERS agency and did not have a break in service of greater than 6 months, and 3) new hires eligible for reciprocity with another California public retirement system.

<sup>2</sup> New members are defined as employees that: 1) have never worked for a CalPERS agency, 2) have worked previously for a CalPERS agency, and had a break in service of greater than 6 months, or 3) have never worked for a CalPERS agency and are not eligible for reciprocity with another Public retirement system.

<sup>3</sup> Rehired employees return to the plan established as of their original hire date.

**Employees Covered** – As of the June 30, 2015 measurement date, the following employees were covered by the benefit terms for each Plan:

	Miscellaneous	Safety
Active employees	25	18
Inactive employees entitled to but not yet receiving benefits	12	12
Inactive employees or beneficiaries currently receiving benefits	11	12
<b>Total</b>	<b>48</b>	<b>42</b>

**Contributions** – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City of Exeter is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

**B. Net Pension Liability**

The City of Exeter’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, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 6 – Defined benefit pension plan** (continued)

**B. Net Pension Liability** (continued)

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	3.3% - 14.2% (1)	3.3% - 14.2% (1)
Investment Rate of Return	7.65% (2)	7.65% (2)
Mortality	7%	7%

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website ([calpers.ca.gov](http://calpers.ca.gov)) under Forms and Publications.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a 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. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called GASB Crossover Testing Report that can be obtained from the CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 6 – Defined benefit pension plan** (continued)

**B. Net Pension Liability** (continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the 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. These rates of return are net of administrative expenses.

	New Strategic <u>Allocation</u>	Real Return <u>Years 1 - 10(a)</u>	Real Return <u>Years 1 - 11+(b)</u>
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	10.00	6.83	6.95
Real Estate	10.00	4.50	5.13
Infrastructure and Forestland	2.00	4.50	5.09
Liquidity	2.00	-0.55	1.05

(a) An expected inflation of 2.5% used this period.

(b) An expected inflation of 3.0% used this period.

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 6 – Defined benefit pension plan** (continued)

**C. Changes in the Net Pension Liability**

The changes in the Net Pension Liability for each Plan follows:

**Miscellaneous Plan:**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
<b>Balance at 6/30/14</b>	\$ 5,427,691	\$ 4,439,034	\$ 988,657
<b>Changes recognized for the Measurement Period</b>			
Recognized difference in proportion (TPL & FNP)	(100,975)	(36,106)	(64,869)
Recognized difference in proportion (DOR & DIR)		34,513	(34,513)
Service Cost	124,384		124,384
Interest on the Total Pension Liability (TPL)	362,691		362,691
Changes on Benefit Terms	180		180
Changes on Assumptions	(89,812)		(89,812)
Differences between Expected Actual Experience	9,493		9,493
Plan to Plan Resource Movement		24,284	(24,284)
Contributions from the Employer		155,974	(155,974)
Contributions from Employees		57,179	(57,179)
Net Investment Income		89,263	(89,263)
Benefit Payments, including Refunds of Employee Contributions	(192,195)	(192,195)	-
Administrative Expenses		(4,537)	4,537
Proportion credit		(58,302)	58,302
<b>Net Changes</b>	<b>\$ 113,766</b>	<b>\$ 70,073</b>	<b>\$ 43,693</b>
<b>Balance at 6/30/15</b>	<b>\$ 5,541,457</b>	<b>\$ 4,509,107</b>	<b>\$ 1,032,350</b>

**Safety Plan:**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
<b>Balance at 6/30/14</b>	\$ 3,729,749	\$ 2,698,954	\$ 1,030,795
<b>Changes recognized for the Measurement Period</b>			
Recognized difference in proportion (TPL & FNP)	(36,751)	207,935	(244,686)
Recognized difference in proportion (DOR & DIR)		(89,772)	89,772
Service Cost	103,185		103,185
Interest on the Total Pension Liability (TPL)	375,004		375,004
Changes on Benefit Terms	-		-
Changes on Assumptions	(93,703)		(93,703)
Differences between Expected Actual Experience	(20,373)		(20,373)
Plan to Plan Resource Movement		(177)	177
Contributions from the Employer		99,204	(99,204)
Contributions from Employees		37,405	(37,405)
Net Investment Income		88,463	(88,463)
Benefit Payments, including Refunds of Employee Contributions	(278,099)	(278,099)	-
Administrative Expenses		(4,518)	4,518
Proportion credit		156,490	(156,490)
<b>Net Changes</b>	<b>\$ 49,263</b>	<b>\$ 216,931</b>	<b>\$ (167,668)</b>
<b>Balance at 6/30/15</b>	<b>\$ 3,779,012</b>	<b>\$ 2,915,885</b>	<b>\$ 863,127</b>

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 6 – Defined benefit pension plan** (continued)

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** – The following presents the net pension liability of the City of Exeter for each Plan, calculated using the discount rate for each Plan, as well as what the City of Exeter’s net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.65%	6.65%
Net Pension Liability	\$5,575,842	\$5,765,217
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$3,324,753	\$3,595,747
1% Increase	8.65%	8.65%
Net Pension Liability	\$1,466,217	\$1,816,821

**Pension Plan Fiduciary Net Position** – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

**D. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

For the year ended June 30, 2016, the City of Exeter recognized pension expense of (\$115,996) for Miscellaneous, and (\$89,555) for Safety. At June 30, 2016, the City of Exeter reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Miscellaneous</u>		<u>Safety</u>		<u>Total</u>	
	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Pension contributions subsequent to measurement date	\$ 409,652	\$ -	\$ 348,796	\$ -	\$ 758,448	\$ -
Changes in assumptions	-	216,156	-	209,858	-	426,014
Differences between actual and expected experience	22,847	-	-	45,627	22,847	45,627
Net differences between projected & actual earnings on pension plan investments	-	108,361	-	106,357	-	214,718
Adjustment due to differences in proportions	185,640	-	63,095	-	248,735	-
Employer contributions under proportionated contributions	14,552	-	28,786	-	43,338	-
Total	<u>\$ 632,691</u>	<u>\$ 324,517</u>	<u>\$ 440,677</u>	<u>\$ 361,842</u>	<u>\$ 1,073,368</u>	<u>\$ 686,359</u>

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 6 – Defined benefit pension plan** (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Miscellaneous	Safety	Total
2016	310,800	186,646	497,446
2017	(88,202)	(148,291)	(236,493)
2018	(52,938)	(90,082)	(143,020)
2019	138,514	130,562	269,076
2020	-	-	-
	<u>\$ 308,174</u>	<u>\$ 78,835</u>	<u>\$ 387,009</u>

**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.

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.

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

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

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

**NOTE 8 – Prior Period Adjustment**

	Successor Agency	Governmental Activities
Net position, June 30, 2015	\$ 52,089	\$ 6,869,534
Prior period adjustment to pension entries		
Increase (Decrease) deferred outflows of resources	(9,275)	9,275
(Increase) Decrease net pension liability	54,449	(54,449)
(Increase) Decrease deferred inflows of resources	9,104	(9,104)
Change in net position	54,278	(54,278)
Net position, June 30, 2015 - restated	\$ 106,367	\$ 6,815,256

**NOTE 9 – Subsequent Events**

The date to which events occurring after June 30, 2016, have been evaluated for possible adjustments to the financial statements or disclosures is March 20, 2017, which is the date that the financial statements were available to be issued.

The City had a claim settled against them in December 2016 in the amount of \$ 85,000.

**NOTE 10 – Recent Accounting Pronouncements**

*GASB Statement No. 72 - Fair Value Measurement and Application.* The provisions of GASB Statement No. 72 are effective for financial statements beginning after June 15, 2015. See Note 1- C, and Note 2 for further discussion.

*GASB Statement No. 73 – Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* The provisions of GASB Statement No. 73 are effective for financial statements beginning after June 15, 2015, except those provisions that address employers and governmental non-employer contributing entities for pensions that are within the scope of GASB Statement No. 68, which are effective for the fiscal years beginning after June 15, 2016. Implementation of this Statement did not have a material impact on the City's financial statements.

*GASB Statement No. 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The provisions of GASB Statement No. 74 are effective for financial statements beginning after June 15, 2016. Management has not yet determined the impact of this Statement on its financial statements.

*GASB Statement No. 75 - Accounting and Reporting for Postemployment Benefit Plans Other Than Pensions.* The provisions of GASB Statement No. 75 are effective for financial statements beginning after June 15, 2017. GASB Statement No. 75 does not apply to the City, as Postemployment Benefits are not offered to employees, at this time.

**CITY OF EXETER**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 17 – RECENT ACCOUNTING PRONOUNCEMENTS** (continued)

*GASB Statement No. 76 - The Hierarchy of Generally Accepted Accounting Principles of State and Local Governments.* The provisions of GASB Statement No. 76 are effective for financial statements beginning after June 15, 2015. Implementation of this Statement did not have a material impact on the City's financial statements.

*GASB Statement No. 77 - The Abatement Disclosures.* The provisions of GASB Statement No. 77 are effective for financial statements beginning after December 15, 2015. Management has not yet determined the impact of this Statement on its financial statements.

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

*GASB Statement No. 79 – Certain External Investment Pools and Pool Participants.* The provisions of GASB Statement No. 79 are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23-26, and 40, which are effective for reporting periods beginning after December 15, 2015. Management has not yet determined the impact of this Statement on its financial statements.

*GASB Statement No. 80 – Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14.* The provisions of GASB Statement No. 80 are effective for reporting periods beginning after June 15, 2016. Management has determined the impact of this Statement on its financial statements is not applicable.

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

*GASB Statement No. 82 – Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73.* The provisions of GASB Statement No. 82 are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Management has not yet determined the impact of this Statement on its financial statements.

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

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

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 YEAR ENDED JUNE 30, 2016  
Last 10 Years\*

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

Measurement date	<b>Miscellaneous</b>	
	<b>June 30, 2015</b>	<b>June 30, 2014</b>
City's Proportionate Share of Plan Total Pension Liability	\$ 8,748,514	\$ 8,347,222
City's Proportionate Share of Plan Fiduciary Net Position	\$ 6,705,421	\$ 6,312,979
City's Proportionate Share of Fiduciary Net Position as a Percentage of City's Total Pension Liability	76.646%	75.630%
City's Proportionate Share of Net Pension Liability(Asset)	\$ 2,043,093	\$ 2,034,243
City's Covered-Employee Payroll	\$ 1,238,307	\$ 1,245,778
City's Proportionate Share of Net Pension Liability(Asset) as a Percentage of its Covered Payroll	164.99%	163.29%
	<b>Safety</b>	
	<b>June 30, 2015</b>	<b>June 30, 2014</b>
City's Proportionate Share of Plan Total Pension Liability	\$ 8,220,738	\$ 8,101,862
City's Proportionate Share of Plan Fiduciary Net Position	\$ 6,191,860	\$ 5,972,166
City's Proportionate Share of Fiduciary Net Position as a Percentage of City's Total Pension Liability	75.320%	73.713%
City's Proportionate Share of Net Pension Liability(Asset)	\$ 2,028,878	\$ 2,129,696
City's Covered-Employee Payroll	\$ 1,153,308	\$ 1,058,178
City's Proportionate Share of Net Pension Liability(Asset) as a Percentage of its Covered Payroll	175.92%	201.26%

**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 YEAR ENDED JUNE 30, 2016  
 Last 10 Years\*  
**SCHEDULE OF CONTRIBUTIONS**

	<b>Miscellaneous</b>	
	<b>2016</b>	<b>2015</b>
Actuarially determined contribution	\$ 409,652	\$ 356,472
Contributions in relation to the actuarially determined contributions	409,652	356,472
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 1,275,456	\$ 1,238,307
Contributions as a percentage of covered-employee payroll	32.12%	28.79%

	<b>Safety</b>	
	<b>2016</b>	<b>2015</b>
Actuarially determined contribution	\$ 348,796	\$ 346,841
Contributions in relation to the actuarially determined contributions	348,796	346,841
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 1,187,907	\$ 1,153,308
Contributions as a percentage of covered-employee payroll	29.36%	30.07%

**Notes to Schedule**

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

Methods and assumptions used to determine contribution rates:

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

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

**City of Exeter  
General Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Fiscal Year Ended June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 681,010	\$ 681,010	\$ 709,972	\$ 28,962
Sales taxes	826,402	826,402	819,293	(7,109)
Sales taxes - Prop 172	57,000	57,000	74,625	17,625
Utility users tax	600,000	600,000	538,480	(61,520)
Transient occupancy tax	80,000	80,000	86,519	6,519
Property transfer tax/Real Property Transfer	26,000	26,000	29,755	3,755
Franchise tax	158,000	158,000	149,372	(8,628)
Business licenses	40,000	40,000	44,591	4,591
Dog licenses	4,500	4,500	3,750	(750)
Other licenses and permits	4,200	4,200	4,524	324
Motor vehicle in-lieu tax	835,000	835,000	874,151	39,151
Street Sweeping/Leaf Pickup	50,000	50,000	48,299	(1,701)
Federal grants(homeland security, traffic safety)	100,000	100,000	219,704	119,704
State grants/reimbursements	119,000	119,000	287,622	168,622
Zoning and subdivision fees	29,000	29,000	5,075	(23,925)
Engineering and inspection	-	-	21,000	21,000
Recreational activities	70,000	70,000	67,979	(2,021)
Landscape & Lighting (assessment districts)	64,000	64,000	92,441	28,441
Development Impact Fees	13,010	13,010	52,729	39,719
Parking fines	1,000	1,000	1,614	614
Vehicle code fines	12,000	12,000	14,288	2,288
Street sweeping fees	5,888	5,888	11,776	5,888
Alley repair	41,000	41,000	38,639	(2,361)
Other fines	30,700	30,700	38,781	8,081
Investment Earnings	5,100	5,100	8,436	3,336
Rent	9,000	9,000	3,415	(5,585)
Other revenues	1,000	1,000	72,855	71,855
Total revenues	<u>3,862,810</u>	<u>3,862,810</u>	<u>4,319,685</u>	<u>456,875</u>
<b>EXPENDITURES</b>				
Current:				
General government	854,510	999,010	737,495	261,515
Parks and recreation	529,343	609,343	523,670	85,673
Public safety - fire	100,000	100,000	101,821	(1,821)
Public safety - police	2,768,749	2,852,924	2,535,909	317,015
Public works	431,290	497,390	581,413	(84,023)
Debt service	-	-	73,593	(73,593)
Capital Outlay	-	-	225,733	(225,733)
Total expenditures	<u>4,683,892</u>	<u>5,058,667</u>	<u>4,779,634</u>	<u>279,033</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(821,082)</u>	<u>(1,195,857)</u>	<u>(459,949)</u>	<u>735,908</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	150,000	150,000	200,000	50,000
Transfers out	-	-	-	-
Sale of capital assets	-	-	2,700	2,700
Total other financing sources (uses)	<u>150,000</u>	<u>150,000</u>	<u>202,700</u>	<u>52,700</u>
Net change in fund balances	<u>\$ (671,082)</u>	<u>\$ (1,045,857)</u>	<u>(257,249)</u>	<u>\$ 788,608</u>
Fund balance - beginning			<u>784,909</u>	
Fund balance - ending			<u>\$ 527,660</u>	

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

**City of Exeter**  
**Community Development Block Grant**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Loan Payments	\$ -	\$ -	\$ 106,889	\$ 106,889
Investment Earnings	-	-	6,186	6,186
Federal grants	-	-	263,523	263,523
Total revenues	<u>-</u>	<u>-</u>	<u>376,598</u>	<u>376,598</u>
<b>EXPENDITURES</b>				
Current:				
Community Development	400,000	400,000	189,997	210,003
Total expenditures	<u>400,000</u>	<u>400,000</u>	<u>189,997</u>	<u>210,003</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(400,000)</u>	<u>(400,000)</u>	<u>186,601</u>	<u>473,526</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	54,546	54,546
Transfers out	-	-	-	-
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>54,546</u>	<u>54,546</u>
Net change in fund balances	<u>\$ (400,000)</u>	<u>\$ (400,000)</u>	241,147	<u>\$ 528,072</u>
Fund balance - beginning			<u>379,129</u>	
Fund balance - ending			<u>\$ 620,276</u>	

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

**City of Exeter**  
**Program Income/Home Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Loan Payoff	\$ -	\$ -	\$ 2,400	\$ 2,400
Home Fund	-	-	11,250	11,250
Investment Earnings	-	-	152	152
Total revenues	<u>-</u>	<u>-</u>	<u>13,802</u>	<u>13,802</u>
<b>EXPENDITURES</b>				
Current:				
Community Development	57,200	57,200	32,232	24,968
Capital	<u>627,625</u>	<u>627,625</u>	<u>5,624</u>	<u>622,001</u>
Total expenditures	<u>684,825</u>	<u>684,825</u>	<u>37,856</u>	<u>646,969</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(684,825)</u>	<u>(684,825)</u>	<u>(24,054)</u>	<u>660,771</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>(54,546)</u>	<u>(54,546)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(54,546)</u>	<u>(54,546)</u>
Net change in fund balances	<u>\$ (684,825)</u>	<u>\$ (684,825)</u>	<u>(78,600)</u>	<u>\$ 606,225</u>
Fund balance - beginning			<u>84,320</u>	
Fund balance - ending			<u>\$ 5,720</u>	

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

## SUPPLEMENTAL INFORMATION

**City of Exeter  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2016**

	Special Revenue					Total Nonmajor Governmental Funds	
	Gas Tax	Transportation	Storm Drain	Grant Fund	Low/Mod Housing		Measure R Fund
<b>ASSETS:</b>							
Cash and cash equivalents	\$ 266,158	\$ 440,519	\$ 53,878	\$ 40,842	\$ 19,584	\$ 586,060	\$ 1,407,041
Receivables - misc (net):	-	-	-	-	-	-	-
Intergovernmental receivables	-	183,282	-	-	-	51,075	234,357
Due from other funds	1,766	78,466	-	-	-	-	80,232
Property held for resale	-	-	-	-	-	-	-
Notes receivables	-	-	-	210,000	389,156	-	599,156
<b>Total assets</b>	<b>\$ 267,924</b>	<b>\$ 702,267</b>	<b>\$ 53,878</b>	<b>\$ 250,842</b>	<b>\$ 408,740</b>	<b>\$ 637,135</b>	<b>\$ 2,320,786</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts and other payables	\$ 2,902	\$ 1,000	\$ -	\$ 128	\$ -	\$ 13,645	\$ 17,675
Compensated absences payable	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	1,766	1,766
Deferred revenue	-	15,235	-	210,000	389,156	-	614,391
<b>Total liabilities</b>	<b>2,902</b>	<b>16,235</b>	<b>-</b>	<b>210,128</b>	<b>389,156</b>	<b>15,411</b>	<b>633,832</b>
Fund balances:							
Restricted	265,022	686,032	-	40,714	19,584	621,724	1,633,076
Committed	-	-	53,878	-	-	-	53,878
Assigned	-	-	-	-	-	-	-
<b>Total fund balances</b>	<b>265,022</b>	<b>686,032</b>	<b>53,878</b>	<b>40,714</b>	<b>19,584</b>	<b>621,724</b>	<b>1,686,954</b>
<b>Total liabilities and fund balances</b>	<b>\$ 267,924</b>	<b>\$ 702,267</b>	<b>\$ 53,878</b>	<b>\$ 250,842</b>	<b>\$ 408,740</b>	<b>\$ 637,135</b>	<b>\$ 2,320,786</b>

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

**City of Exeter**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Fiscal Year Ended June 30, 2016**

	Special Revenue					Measure R Fund	Total Nonmajor Governmental Funds
	Gas Tax	Transportation	Storm Drain	Grant Fund	Low/Mod Housing		
<b>REVENUES</b>							
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gas Tax	230,986	-	-	-	-	-	230,986
Intergovernmental	-	207,962	-	483	6,221	499,216	713,882
Charges for services	-	-	12,839	-	-	-	12,839
Loan payments	-	-	-	-	-	-	-
Investment earnings	3,116	5,858	560	-	-	6,948	16,482
<b>Total revenues</b>	<b>234,102</b>	<b>213,820</b>	<b>13,399</b>	<b>483</b>	<b>6,221</b>	<b>506,164</b>	<b>974,189</b>
<b>EXPENDITURES</b>							
Community and economic development	-	-	-	800	-	-	800
General government	179,257	68,188	-	-	-	-	247,445
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	359,004	359,004
<b>Total expenditures</b>	<b>179,257</b>	<b>68,188</b>	<b>-</b>	<b>800</b>	<b>-</b>	<b>359,004</b>	<b>607,249</b>
Excess (deficiency) of revenues over expenditures	54,845	145,632	13,399	(317)	6,221	147,160	366,940
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	-	-	-	-	-	-	-
Transfers out	(100,000)	(50,000)	-	-	-	(50,000)	(200,000)
<b>Total other financing sources and uses</b>	<b>(100,000)</b>	<b>(50,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(50,000)</b>	<b>(200,000)</b>
Net change in fund balances	(45,155)	95,632	13,399	(317)	6,221	97,160	166,940
Fund balances - beginning	310,177	590,400	40,479	41,031	13,363	524,564	1,520,014
Fund balances - ending	\$ 265,022	\$ 686,032	\$ 53,878	\$ 40,714	\$ 19,584	\$ 621,724	\$ 1,686,954

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

**City of Exeter**  
**Gas Tax Special Revenue Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual**  
**For the Fiscal Year Ended June 30, 2016**

	<u>Budget Amounts</u>		<u>Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues:				
Intergovernmental:				
State gasoline tax section 2103	\$ 48,702	\$ 48,702	\$ 54,308	\$ 5,606
State gasoline tax section 2105	61,429	61,429	59,357	(2,072)
State gasoline tax section 2106	36,470	36,470	37,031	561
State gasoline tax section 2107	83,984	83,984	77,290	(6,694)
State gasoline tax section 2107.5	3,000	3,000	3,000	-
State grants	-	-	-	-
Federal grants	-	-	-	-
Total intergovernmental	<u>233,585</u>	<u>233,585</u>	<u>230,986</u>	<u>(2,599)</u>
Interest	<u>-</u>	<u>-</u>	<u>3,116</u>	<u>3,116</u>
Total revenues	<u>233,585</u>	<u>233,585</u>	<u>234,102</u>	<u>517</u>
Expenditures:				
Street Lighting	100,000	100,000	92,758	7,242
Street Projects	95,000	95,000	81,177	13,823
Equipment Replacement	-	-	5,322	(5,322)
Total expenditures	<u>195,000</u>	<u>195,000</u>	<u>179,257</u>	<u>15,743</u>
Excess (deficiency) of revenues over (under) expenditures	38,585	38,585	54,845	16,260
Other financing sources (uses):				
Transfers out	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(61,415)</u>	<u>(61,415)</u>	<u>(45,155)</u>	<u>16,260</u>
Fund balance - July 1			<u>310,177</u>	
Fund balance - June 30			<u>\$ 265,022</u>	

**City of Exeter**  
**Transportation Development - Special Revenue Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual**  
**For the Fiscal Year Ended June 30, 2016**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Revenues:				
Intergovernmental:				
Transportation-Streets & Roads	\$ 152,000	\$ 152,000	\$ 207,962	\$ 55,962
STP	-	-	-	-
Federal grants	-	-	-	-
Interest	1,000	1,000	5,828	4,828
Total revenues	<u>153,000</u>	<u>153,000</u>	<u>213,790</u>	<u>60,790</u>
Expenditures:				
Street Projects	150,000	150,000	68,188	81,812
Total expenditures	<u>150,000</u>	<u>150,000</u>	<u>68,188</u>	<u>81,812</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,000</u>	<u>3,000</u>	<u>145,632</u>	<u>142,632</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(50,000)	(50,000)	(50,000)	-
Total other financing sources (uses)	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ (47,000)</u>	<u>\$ (47,000)</u>	95,632	<u>\$ 142,632</u>
Fund balance - July 1			<u>590,400</u>	
Fund balance - June 30			<u>\$ 686,032</u>	

**City of Exeter**  
**Storm Drain - Special Revenue Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual**  
**For the Fiscal Year Ended June 30, 2016**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Storm drain fees	\$ -	\$ -	\$ 12,839	\$12,839
Interest	-	-	560	560
Total revenues	-	-	13,399	13,399
Expenditures:				
Capital Outlay	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	13,399	13,399
Other financing sources (uses):				
Transfers in	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ -	13,399	\$ 13,399
Fund balance - July 1			40,479	
Fund balance - June 30			\$ 53,878	

**City of Exeter**  
**Grant Fund - Special Revenue Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual**  
**For the Fiscal Year Ended June 30, 2016**

	Budget Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental:				
Federal grant	\$ -	\$ -	\$ -	\$ -
State grants	-	-	-	-
Interest	-	-	483	483
Other	-	-	-	-
Total revenues	-	-	483	483
Expenditures:				
Community development and services:				
Administration	-	-	800	(800)
Community and housing projects	-	-	-	-
Total expenditures	-	-	800	(800)
Excess (deficiency) of revenues over (under) expenditures	-	-	(317)	(317)
Other financing sources (uses):				
Gain (loss) on sale of capital assets	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources(uses)	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ -	(317)	\$ (317)
Fund balance - July 1			41,031	
Fund balance - June 30			\$ 40,714	

**City of Exeter**  
**Low and Moderate Housing Fund-Special Revenue Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual**  
**For the Fiscal Year Ended June 30, 2016**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ -	\$ -	\$ 6,221	\$ 6,221
Interest	-	-	-	-
Other revenue	-	-	-	-
Total revenues	-	-	6,221	6,221
Expenditures:				
Community development :				
Administration	-	-	-	-
Community and housing projects	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	6,221	6,221
Extraordinary Items				
RDA dissolution transactions	-	-	-	-
Change in fund balance	\$ -	\$ -	6,221	\$ 6,221
Fund balance - July 1			13,363	
Fund balance - June 30			\$ 19,584	

**City of Exeter**  
**Measure R - Special Revenue Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual**  
**For the Fiscal Year Ended June 30, 2016**

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Intergovernmental:				
Measure R local	\$ -	\$ -	\$189,383	\$ 189,383
Measure R regional	-	-	309,833	309,833
Interest	-	-	6,948	6,948
Total revenues	-	-	506,164	506,164
Expenditures:				
Street Projects	6,020,000	6,020,000	359,004	5,660,996
Total expenditures	6,020,000	6,020,000	359,004	5,660,996
Excess (deficiency) of revenues over (under) expenditures	(6,020,000)	(6,020,000)	147,160	6,167,160
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	(50,000)	(50,000)
Total other financing sources (uses)	-	-	(50,000)	(50,000)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	\$ (6,020,000)	\$ (6,020,000)	97,160	\$ 6,117,160
Fund balance - July 1			524,564	
Fund balance - June 30			\$ 621,724	

## OTHER REPORT



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J. STEVEN PRESSLEY, CPA, CGMA  
LEE ANN LISCOMBE, EA  
LISA KIZANIS, EA

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

**Independent Auditor’s Report**

Honorable Mayor and Members of the  
City Council  
Exeter, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Exeter, California (City) as of and for the year ended June 30, 2016, and the related notes to the financial statements which collectively comprise the City’s basic financial statements, and have issued our report thereon dated March 20, 2017.

**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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City’s internal control. Accordingly, we do not express an opinion on the effectiveness of City’s internal control.

*A deficiency in internal control* exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Honorable Mayor and Members  
of the City Council  
Exeter, California

Page 2 of 2

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Infinity Accountancy Group, LLP*

Arroyo Grande, California  
March 20, 2017

**SINGLE AUDIT SECTION**



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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT  
ON INTERNAL CONTROL OVER COMPLIANCE**

**Independent Auditor’s Report**

Honorable Mayor and Members of the  
City Council  
Exeter, California

**Report on Compliance for Each Major Federal Program**

We have audited the City of Exeter, California, (City)’s compliance with the types of compliance requirements described in *the OMB Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended June 30, 2016. The City’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

***Management’s Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor’s Responsibility***

Our responsibility is to express an opinion of compliance for each of City’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Honorable Mayor and Members of the  
City Council  
Exeter, California

Page 2 of 2

### ***Opinion on Each Major Federal Program***

In our opinion, City of Exeter, California, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in the internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Infinity Accountancy Group, LLP*

Arroyo Grande, California  
March 20, 2017

**CITY OF EXETER, CALIFORNIA**  
**Schedule of Expenditures of Federal Awards**

**For the Year Ended June 30, 2016**

<u>Federal Grantor/pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development:</b>				
Passed through the State of California:				
Community Development Block Grant	14.228	12 CDBG 8386	\$ 168,052	
HOME Investment Partnership	14.239	12 HOME 8560		<u>5,624</u>
<i>Total Department of Housing and Urban Development</i>				<u>173,676</u>
<b>U.S. Department of Transportation:</b>				
Passed through the State of California:				
Bus and Bus Facilities Formula Program	*20.526	5195 (016)	\$ 739,670	739,670
Highway Safety Improvement Project	20.205	5195 (015)		<u>95,415</u>
<i>Total Department of Transportation</i>			<u>739,670</u>	<u>835,085</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 739,670</u>	<u>\$ 1,008,761</u>

\* Designates a major program

The accompanying notes are an integral part of this schedule.

**CITY OF EXETER**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2016**

**Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the City of Exeter under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

**Note 2: Summary of Significant Accounting Policies**

- Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.
- Pass-through entity identifying numbers are presented where available.

**Note 3: Loans Outstanding**

The City had the following loan balance outstanding at June 30, 2016. The portion of the loan balance expended for the project is included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
USDA - Sewer loan	10.706	\$ 3,808,311
USDA - Water loan	10.706	2,530,000
USDA - Water well loan	10.706	<u>2,474,716</u>
		<u><u>\$ 8,813,027</u></u>

**Note 4: Subrecipient**

During the fiscal year ended June 30, 2016, the City disbursed federal funds to the following subrecipient:

	<u>Amount Disbursed</u>
Exeter Unified School District	\$ 739,670

**CITY OF EXETER**  
**Schedule of Findings and Questioned Costs**

**For the Year Ended June 30, 2016**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported

Noncompliance material to financial statements noted?

yes  no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported

Type of auditor's report issued on compliance for major federal programs [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes  no

Identification of major programs:

**CFDA #(s)**

**Name of Federal Program or Cluster**

20.526 U.S. Department of Transportation - Bus & Bus Facilities Formula Program

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee?

yes  no

**CITY OF EXETER**  
**Schedule of Findings and Questioned Costs**

**For the Year Ended June 30, 2016**

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**Section II – Financial Statement Findings**

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**No finding noted during current period**

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**Section III – Federal Award Findings and Questioned Costs**

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**No finding noted during current period**

**CITY OF EXETER**  
**Status of Prior Audit Year Findings**  
**For the Year Ended June 30, 2016**

**Finding: 15-01 Material Weakness**

Reporting Requirement:  
Year-end closing

**Criteria:** A strong system of internal controls and management review requires that general ledger account balances be properly reconciled to a subsidiary ledger or other adequate supporting documentation on a periodic basis, as well as during the year-end financial close process. Management is responsible for maintaining its accounting records in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

**Recommendation:** We recommend that the City create a year-end financial closing checklist which includes the necessary steps, in detail, that should be undertaken at year-end to ensure proper reconciliation and reporting of all significant account balances.

**Views of responsible officials and planned corrective action:** The City will revise their current year end financial closing check list to insure proper reconciliation and reporting of all significant account balances.

**Status:** Finding cleared.

**Finding: 15-02 Material Weakness**

Reporting Requirement:  
Grant accounting

**Criteria:** In accordance with *Government Auditing Standards* and accounting principles generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial performance reporting, or compliance with applicable laws and regulations.

**Recommendation:** We recommend management establish monthly and/or routine reconciliation policies and procedures for grant accounting, and review that they are completed for monthly activity and year end reporting.

**Views of responsible officials and planned corrective actions:** Management agrees with this finding and has since taken corrective action to provide more accurate accounting by funding the rehabilitation projects after completion.

Management relied on the 3<sup>rd</sup> party contract service to follow and understand State grant guidelines and procedures to ensure the City was adequately funding for each participant in addition to requesting reimbursement in a timely manner. Changes in participant funding sources, after funds had been disbursed, created inaccurate recording in general ledger accounts. State guidelines required program income funds to be spent first before grant reimbursements could be issued. Rehabilitation loans previously were funded by the City as soon as the project was approved. Rehabilitation projects take 4-6 months to complete. Reimbursement requests could be submitted after completion and if program income funds were spent. At this time, program income funds may be available so this would change the funding source of the previously funded project to spend program income funds first.

**Status:** Finding cleared.