

**CITY OF LINCOLN**

**TRANSPORTATION DEVELOPMENT ACT FUNDS**

Audited Financial Statements  
and Compliance Report

June 30, 2015

CITY OF LINCOLN

TRANSPORTATION DEVELOPMENT ACT FUNDS

Audited Financial Statements  
and Compliance Report

June 30, 2015

Audited Financial Statements

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Lincoln, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Transportation Development Act Funds (TDA Funds) allocated to the City of Lincoln, as of and for the year ended June 30, 2015, and the related notes to the financial statements, as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Transportation Development Act Funds (TDA Funds) allocated to the City of Lincoln as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the City Council  
City of Lincoln, California

**Emphasis-of-Matter**

As discussed in Note B, the financial statements present only the TDA Funds of the City of Lincoln and do not purport to, and do not, present fairly the financial position of the City of Lincoln as of June 30, 2015, the changes in financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note M to the basic financial statements, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the year ended June 30, 2015. Due to the implementation of these Statements, the City recognized deferred outflows of resources and a pension liability for its cost-sharing pension plans as of July 1, 2014. Our opinion is not modified with respect to this matter.

**Other Matters**

*Prior Year Comparative Information*

We have previously audited the TDA Fund financial statements dated March 27, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Required Supplementary Information*

Management has omitted management’s discussion and analysis and budgetary comparison information for the governmental fund that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2016 on our consideration of the City’s internal control over financial reporting related to the Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, including the Transportation Development Act Guidelines. 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.

*Richardson & Company, LLP*

January 29, 2016

CITY OF LINCOLN  
TRANSPORTATION DEVELOPMENT ACT FUNDS

BALANCE SHEETS  
STREET FUND

June 30, 2015  
(With Comparative Totals as of June 30, 2014)

	2015	2014
<b>ASSETS</b>		
Cash and investments	\$ 3,583,767	\$ 2,665,539
Interest receivable	202	
Due from other governments	181,856	
<b>TOTAL ASSETS</b>	<b>\$ 3,765,825</b>	<b>\$ 2,665,539</b>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>LIABILITIES</b>		
Accounts and retentions payable	\$ 529,752	\$ 75,895
Accrued salaries and benefits	3,190	6,112
Unearned revenue	118,646	368,933
<b>TOTAL LIABILITIES</b>	<b>651,588</b>	<b>450,940</b>
 <b>FUND BALANCE</b>		
Restricted for street projects	3,114,237	2,214,599
<b>TOTAL FUND BALANCE</b>	<b>3,114,237</b>	<b>2,214,599</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 3,765,825</b>	<b>\$ 2,665,539</b>

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

CITY OF LINCOLN  
TRANSPORTATION DEVELOPMENT ACT FUNDS

STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
STREET FUND

For the Year Ended June 30, 2015  
(With Comparative Totals for the Year Ended June 30, 2014)

	2015	2014
REVENUES		
Local Transportation Funds:		
Streets and roads	\$ 2,258,979	\$ 1,188,469
Pedestrian and bicycle		91,458
RSTP revenue	250,287	275,599
Reimbursements		30,378
Investment income	19,582	73,523
Other revenue	39,332	6,864
TOTAL REVENUES	2,568,180	1,666,291
EXPENDITURES		
Streets and roads	1,633,606	1,160,777
TOTAL EXPENDITURES	1,633,606	1,160,777
OTHER FINANCING USES		
Transfers out	(34,936)	(318,045)
CHANGES IN FUND BALANCE	899,638	187,469
Fund balance at beginning of year	2,214,599	2,027,130
FUND BALANCE AT END OF YEAR	\$ 3,114,237	\$ 2,214,599

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

CITY OF LINCOLN  
TRANSPORTATION DEVELOPMENT ACT FUNDS

STATEMENTS OF NET POSITION  
TRANSIT FUND

June 30, 2015  
(With Comparative Totals as of June 30, 2014)

	2015	2014
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 339,725	\$ 590,136
Interest receivable	21	
Due from other governments	131,839	154,687
<b>TOTAL CURRENT ASSETS</b>	<b>471,585</b>	<b>744,823</b>
<b>NONCURRENT ASSETS</b>		
Capital assets being depreciated, net	560,997	657,685
<b>TOTAL NONCURRENT ASSETS</b>	<b>560,997</b>	<b>657,685</b>
<b>TOTAL ASSETS</b>	<b>1,032,582</b>	<b>1,402,508</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pensions	30,011	
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 1,062,593</b>	<b>\$ 1,402,508</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 148,627	\$ 4,751
Accrued salaries and benefits	7,431	13,055
Compensated absences	11,951	17,700
Unearned revenue		481,273
<b>TOTAL CURRENT LIABILITIES</b>	<b>168,009</b>	<b>516,779</b>
<b>LONG-TERM LIABILITIES</b>		
Compensated absences	2,988	4,085
Other post-employment benefits (OPEB)	62,919	88,260
Net pension liability	235,965	
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>301,872</b>	<b>92,345</b>
<b>TOTAL LIABILITIES</b>	<b>469,881</b>	<b>609,124</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pensions	57,628	
<b>NET POSITION</b>		
Investment in capital assets	560,997	657,685
Restricted	(25,913)	135,699
<b>TOTAL NET POSITION</b>	<b>535,084</b>	<b>793,384</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 1,062,593</b>	<b>\$ 1,402,508</b>

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

CITY OF LINCOLN  
TRANSPORTATION DEVELOPMENT ACT FUNDS

STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
TRANSIT FUND

For the Year Ended June 30, 2015  
(With Comparative Totals for the Year Ended June 30, 2014)

	2015	2014
OPERATING REVENUES		
Passenger fares	\$ 39,452	\$ 47,819
OPERATING EXPENSES		
Salaries and benefits	394,529	399,690
Professional services	165,754	92,861
Maintenance	204,384	170,220
Insurance	10,473	17,520
Administration and overhead	148,589	120,395
Depreciation	56,859	59,276
TOTAL OPERATING EXPENSES	980,588	859,962
OPERATING LOSS	(941,136)	(812,143)
NONOPERATING REVENUES (EXPENSES)		
Local Transportation Fund	729,446	506,674
State Transit Assistance	162,789	158,200
Interest	3,448	8,477
Federal grant revenue	161,389	154,687
Other revenues	1,249	652
Loss on disposal of capital assets	(39,829)	
TOTAL NONOPERATING REVENUES (EXPENSES)	1,018,492	828,690
NET INCOME BEFORE TRANSFERS	77,356	16,547
OTHER FINANCING USES		
Transfers out	(74,893)	(75,823)
CHANGE IN NET POSITION	2,463	(59,276)
Net position at beginning of year, as previously reported	793,384	852,660
Change in accounting principles - Note M	(260,763)	
Net position at beginning of year, as restated	532,621	852,660
NET POSITION AT END OF YEAR	\$ 535,084	\$ 793,384

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



CITY OF LINCOLN  
TRANSPORTATION DEVELOPMENT ACT FUNDS

STATEMENTS OF CASH FLOWS  
TRANSIT FUND

For the Year Ended June 30, 2015  
(With Comparative Totals for the Year Ended June 30, 2014)

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 39,452	\$ 47,819
Payments to employees	(429,521)	(469,125)
Payments to suppliers	(385,324)	(401,388)
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<b>(775,393)</b>	<b>(822,694)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earnings on investments	3,427	8,511
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>3,427</b>	<b>8,511</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Operating grants and other revenues	596,448	969,839
Interfund borrowing and transfers	(74,893)	(70,265)
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b>521,555</b>	<b>899,574</b>
 <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(250,411)</b>	<b>85,391</b>
Cash and cash equivalents, beginning of year	590,136	504,745
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 339,725</b>	<b>\$ 590,136</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (941,136)	\$ (812,143)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation	56,859	59,276
Change in operating assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Deferred outflows/inflows	56,133	
Accounts and retentions payable	143,876	(392)
Accrued salaries and benefits	(5,624)	(188)
Compensated absences payable	(6,846)	(2,397)
Other post employment benefits (OPEB)	(25,341)	(66,850)
Net pension liability	(53,314)	
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (775,393)</b>	<b>\$ (822,694)</b>

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

CITY OF LINCOLN  
TRANSPORTATION DEVELOPMENT ACT FUNDS  
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A – ORGANIZATION

The City of Lincoln (the City) receives funds from the Placer County Transportation Planning Agency under the provisions of the Transportation Development Act (TDA) from the Placer County Local Transportation Fund (LTF) under Article 4, Section 99260(a) and Article 8, 99400(a) and State Transit Assistance Fund (STAF) under Article 4, Section 6730(a). The STAF funds are to be used for public transportation purposes only. The City's Article 4 LTF funds are for the support of public transportation systems as defined in the TDA.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements of the City TDA Funds have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity: The financial statements are intended to present the financial position, results of operations and cash flows of only transactions recorded in the Funds. The Funds are included in the financial statements of the City.

Fund Accounting: The accounts of the Funds are organized on the basis of funds. A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The City utilizes the special revenue fund type of the governmental fund group to account for the activities of the Street Fund. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The City utilizes the enterprise fund type of the proprietary fund group to account for the Transit Fund. The following funds are used by the City to account for its TDA funds:

Street Fund: The Street Fund accounts for the expenditure of Local Transportation Funds that have been allocated for the purpose of pedestrian and bicycle facility improvements and street and road infrastructure improvements.

Transit Fund: The Transit Fund accounts for the operations of the City's transit services. The City provides fixed route and demand-response public transit services.

Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The special revenue fund is accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. Net position is segregated into the investment in capital assets, amounts restricted and amounts unrestricted. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position.

The modified accrual basis of accounting is used by special revenue funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which is generally 60 days. TDA revenues are recognized when all eligibility requirements have been met. Expenditures are recorded when the related fund liability is incurred.

CITY OF LINCOLN  
TRANSPORTATION DEVELOPMENT ACT FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. TDA and grant revenues are recorded when all eligibility requirements have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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.

When both restricted and unrestricted net position is available, unrestricted resources are used only after restricted resources are depleted.

Cash and Cash Equivalents: For the purposes of reporting cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "cash and investments" and consist of amounts held in the City's cash and investment pool, which are available on demand.

Capital Assets: Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available provided such costs exceed \$50,000 and the expected useful life of the asset is greater than one year. Contributed capital assets are valued at their estimated fair market value on the date of contribution. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets are as follows:

Buildings and Improvements	15 – 20 years
Transit Vehicles	5 – 10 years

The Transit Fund has acquired certain assets with funding provided by federal and state assistance from various grant programs. The Funds holds title to these assets; however, the federal government retains an interest in these assets should the assets no longer be used for transit purposes.

Compensated Absences: It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave. Unused vacation and compensatory time off benefits are paid to employees upon termination. For employees with over five years continuous employment, unused sick leave benefits are paid ratably in accordance with the length of service upon termination. In the proprietary funds the accrued compensated absences is recorded as an expense and related liability in the year earned. The City includes its share of social security and medicare taxes payable on behalf of the employees in the accrual for compensated absences.

Restricted Net Position: Restrictions of net position show amounts that are legally restricted for specific uses. The amount restricted for transit represents primarily unspent Local Transportation Fund revenues claimed for transit operations and are considered restricted in accordance with TDA requirements.

Interfund Transactions: Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that the statute or budget requires to expend them. During the year ended June 30, 2015, the transfers out consisted of transfers to the General Fund according to the City's indirect cost/overhead allocation plan.

Use of Estimates: The preparation of the financial statements in conformity with GAAP required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF LINCOLN  
TRANSPORTATION DEVELOPMENT ACT FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE C – CASH AND EQUIVALENTS

The Street and Transit Funds' cash is held in the City Treasury. The City maintains an investment pool and allocates interest to the various funds based upon the average daily cash balances. Investments held in the City's investment pool are available on demand to the TDA Fund and are stated at cost, which approximates fair value. The City's investment policy, interest rate risk, and credit risk may be found in the notes to the City's basic financial statements.

NOTE D – CAPITAL ASSETS

A summary of changes in capital assets in the Transit Fund during the year ended June 30, 2015, is as follows:

	Balance July 1, 2014	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2015
Capital assets being depreciated:					
Buildings and improvements	\$ 735,189				\$ 735,189
Transit vehicles	589,462		\$ (154,990)		434,472
Total capital assets being depreciated	1,324,651	-	(154,990)	-	1,169,661
Less accumulated depreciation for:					
Buildings and improvements	(145,705)	\$ (36,122)			(181,827)
Transit vehicles	(521,261)	(20,737)	115,161		(426,837)
Total accumulated depreciation	(666,966)	(56,859)	115,161		(608,664)
Total capital assets being depreciated, net	657,685	(56,859)	(39,829)	-	560,997
Capital assets, net	\$ 657,685	\$ (56,859)	\$ (39,829)	\$ -	\$ 560,997

NOTE E – LONG-TERM LIABILITIES

Changes in long-term liabilities consisted of the following for the year ended June 30, 2015:

	Restated Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015	Due Within One Year
Compensated absences	\$ 21,785	\$ 8,019	\$ (14,865)	\$ 14,939	\$ 11,951
Other post-employment benefits (OPEB)	88,260		(25,341)	62,919	
Net pension liability	289,279		(53,314)	235,965	
	\$ 399,324	\$ 8,019	\$ (93,520)	\$ 313,823	\$ 11,951

CITY OF LINCOLN  
TRANSPORTATION DEVELOPMENT ACT FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE F – FARE REVENUE RATIO

The City is required under the Transportation Development Act to maintain a fare revenue to operating expenses ratio of 10%. The calculation of the fare revenue ratio for the year ending June 30, 2015, is as follows:

Passenger fare revenues	\$	<u>39,452</u>
Operating expenses	\$	980,588
Transfers out to cover administrative costs		74,893
Allowable exclusions:		
Depreciation		<u>(56,859)</u>
Total	\$	<u>998,622</u>
Fare revenue ratio		<u>3.95%</u>

The Transit Fund was not in compliance with this requirement for the fiscal year ended June 30, 2015. As a result, the Transit Fund’s eligibility is reduced by \$60,410, as determined below, when it files its claim for Local Transportation Fund allocation for the fiscal year ending June 30, 2016. In accordance with Section 6633.9 of the Transportation Development Act regulations, the claimant’s reduced eligibility to receive TDA funds is applied as follows:

1. In the fiscal year that the claimant fails to maintain the required ratio, which is the non-compliance year, there is no change in eligibility.
2. In the subsequent fiscal year (determination year), there is no change in eligibility; however the difference between the required and actual fare revenue is determined and reported based on information from the preceding fiscal year.
3. In the third year (penalty year), eligibility to receive TDA funds is reduced by the amount of the penalty.

The penalty applicable to noncompliance with the minimum farebox ratios for the year ended June 30, 2015 was determined as follows:

	FY 2014/15
	<u>Penalty</u>
Determination year	2016
Penalty year	2017
Adjusted operating costs	<u>\$ 998,622</u>
Required fare revenues at 10%	\$ 99,862
Actual fare revenues	<u>(39,452)</u>
Penalty	<u>\$ 60,410</u>

As the penalty is not susceptible to accrual, the liability was not included as of June 30, 2015. In addition, the Transit Fund has been assessed a penalty of \$39,832 for fiscal year 2014. Penalties of \$313,695 for years prior to fiscal year 2014 were paid out in fiscal year 2014/15. Beginning in fiscal year 2016 the City will be required to maintain a fare revenue ratio of 15%.

CITY OF LINCOLN  
 TRANSPORTATION DEVELOPMENT ACT FUNDS  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE G – UNEARNED REVENUE

The Local Transportation Fund (LTF) allocates monies to the transit system to support operations. LTF allocations are considered eligible when they are properly spent for operations by the transit system. Allocations in excess of this amount are recorded as unearned revenue. At June 30, 2015, eligibility of the LTF allocations in the Transit Fund were determined as follows:

LTF Allocations available for operating costs		\$ 116,334
Maximum amount allowed		
Operating expenses	\$ 980,588	
Adjustments		
Transfer out to cover administrative costs	74,893	
Fare revenues	(39,452)	
Depreciation	(56,859)	
FTA revenue	(161,389)	
STA revenue	(162,789)	
Interest revenues	(3,488)	
Other revenues	<u>(1,249)</u>	
Maximum Amount Allowed for Operating		630,255
Unearned LTF allocations at July 1, 2014		<u>481,273</u>
Unearned LTF allocations as of June 30, 2015		<u><u>\$ -</u></u>

NOTE H – PENSION PLAN LIABILITY

GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which require certain information to be disclosed for pension plans. The City has two cost-sharing defined benefit pension plans, a Safety Plan (Police and Fire) and a Miscellaneous Plan for all other City employees. Information is available about the City’s pension plans in the City’s Comprehensive Annual Financial Report. The Transit Fund employees are included in the Miscellaneous Plan. However, the actuarial valuation for the City’s Miscellaneous Plan received from CalPERS does not separately disclose information that is required to be reported under GASB 68 and 71 for the Transit Fund. The pension liability reported in the Transit Fund represents a proportional share of the pension liability of the City’s Miscellaneous Plan as a whole based on a proportional share of cash basis employer contributions paid on behalf of the Transit Fund employees compared to all non-Safety City employees. The deferred outflows of resources, net pension liability, deferred inflows of resources and pension expense related to the Transit Fund were \$30,011, \$235,965, \$57,628 and \$27,379, respectively, as of and for the year ended June 30, 2015. Pension expense was reported as part of operations expenses for bus services.

NOTE I – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft or damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City participates in a joint powers agency which provides a shared risk layer of coverage above the self-insured retention amount for liability and workers’ compensation. Information regarding the City’s risk management programs is available in the City of Lincoln’s financial statements.

CITY OF LINCOLN  
TRANSPORTATION DEVELOPMENT ACT FUNDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE J – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The Transit Fund's employees are employees of the City and receive all of the benefits of being City employees. The City offers post-employment health benefits to eligible employees. Details about the plan can be found in the City's financial statements. The net OPEB obligation of the Transit Fund at June 30, 2015 was \$62,919.

NOTE K – CONCENTRATIONS

The Fund receives a substantial amount of its support from a statewide retail sales tax from the Local Transportation Fund and State Transit Assistance Fund created by the TDA. A significant reduction in the level of this support, if this was to occur, may have a significant impact on the Fund's activities.

NOTE L – CONTINGENCIES

The City receives funding from the Federal Transit Administration and the State of California that are subject to review and audit. Such audits could result in a request for reimbursement for expenses disallowed under the terms and conditions of the contracts. It is the opinion of management that no material liabilities will result from such potential audits.

NOTE M – CHANGE IN ACCOUNTING PRINCIPLES

During the year ended June 30, 2015, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. These Statements required the City to recognize the proportional share of the net pension liability, deferred outflows of resources and deferred inflows of resources related to the City's Miscellaneous agent multiple-employer pension plan. These Statements also required contributions made after the June 30, 2014 measurement date used in the actuarial valuation for the pension plan to be reported as deferred outflows of resources.

Due to the implementation of these Statements, deferred outflows of resources of \$30,011, a net pension liability of \$235,965 and deferred inflows of resources of \$57,628 were recorded in the Fund's financial statements as of June 30, 2015 and net position as of July 1, 2014 decreased by \$260,763.



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* AND THE  
TRANSPORTATION DEVELOPMENT ACT

To the City Council  
City of Lincoln, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Transportation Development Act Funds (the Funds) of the City of Lincoln (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Fund's financial statements, and have issued our report thereon dated January 29, 2016.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 have not been identified.

**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. Our audit was further made to determine that Transportation Development Act (TDA) Funds allocated and received by the City were expended in conformance with the applicable statutes, rules and regulations of the TDA and Sections 6666 and 6667 of the California Code of Regulations. The results of performing these tasks disclosed an instance of noncompliance with the applicable statutes, rules and regulations of the Transportation



To the City Council  
City of Lincoln, California

Development Act, which is described as finding 2013/14-1 in the accompanying schedule of findings. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and the TDA.

**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* and the TDA in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

*Richardson & Company, LLP*

January 29, 2016

CITY OF LINCOLN  
TRANSPORTATION DEVELOPMENT ACT FUNDS  
SCHEDULE OF FINDINGS

June 30, 2015

COMPLIANCE

CURRENT AND PRIOR YEAR FINDINGS

FINDING 2013/14

Criteria: Under Section 6633 of the California Code of Regulations, the City is required to maintain a minimum fare revenue to operating expense ratio of 10% for its transit services.

Condition: The City did not meet the minimum required fare revenue to operating expense ratio for the fiscal year ended June 30, 2015.

Effect: The City's TDA allocation will be reduced under Section 6633.9 of the California Code of Regulations.

Cause: The City's fares from bus operations were 6% of operating expenses from those services for the year ended June 30, 2014 and 4% for the year ended June 30, 2015. This level of fares and local support was not sufficient to meet the minimum required fare revenue ratio.

Recommendation: We recommend the City take steps needed to meet the minimum required fare revenue to operating expense ratio. The minimum ratio may be met with any combination of increased fares, local support and reduced operating expenses.

Management Response: The City is currently evaluating the situation and will take steps needed to ensure the minimum required fare revenue to operating expense ratio is met.