

CITY OF LINCOLN
TRANSPORTATION DEVELOPMENT ACT FUNDS

Audited Financial Statements
and Compliance Report

June 30, 2017

CITY OF LINCOLN

TRANSPORTATION DEVELOPMENT ACT FUNDS

Audited Financial Statements
and Compliance Report

June 30, 2017

Audited Financial Statements

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Compliance Report

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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, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2017, 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, 2017, 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.

Other Matters

Prior Year Comparative Information

We have previously audited the TDA Fund financial statements dated August 29, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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 March 30, 2018 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

March 30, 2018

CITY OF LINCOLN
TRANSPORTATION DEVELOPMENT ACT FUNDS

BALANCE SHEETS
STREET FUND

June 30, 2017
(With Comparative Totals as of June 30, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investments	\$ 2,218,119	\$ 1,849,505
Interest receivable	451	509
Due from other governments	<u>1,985,670</u>	<u>2,243,910</u>
TOTAL ASSETS	<u><u>\$ 4,204,240</u></u>	<u><u>\$ 4,093,924</u></u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts and retentions payable	\$ 603,590	\$ 114,873
Accrued salaries and benefits	3,079	6,942
Unearned revenue	<u>118,646</u>	<u>118,646</u>
TOTAL LIABILITIES	<u><u>725,315</u></u>	<u><u>240,461</u></u>
 DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	1,985,533	2,162,022
 FUND BALANCE		
Restricted for street projects	<u>1,493,392</u>	<u>1,691,441</u>
TOTAL FUND BALANCE	<u><u>1,493,392</u></u>	<u><u>1,691,441</u></u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 4,204,240</u></u>	<u><u>\$ 4,093,924</u></u>

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, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	2017	2016
REVENUES		
Local Transportation Funds:		
Streets and roads	\$ 2,483,290	
Pedestrian and bicycle		\$ 73,696
Investment income	(1,452)	43,471
Other revenue	9,908	34,379
TOTAL REVENUES	2,491,746	151,546
EXPENDITURES		
Streets and roads	2,654,026	1,722,558
Administration	7,995	
TOTAL EXPENDITURES	2,662,021	1,722,558
OTHER FINANCING USES		
Transfers in		279,948
Transfers out	(27,774)	(131,732)
TOTAL OTHER FINANCING USES	(27,774)	148,216
CHANGES IN FUND BALANCE	(198,049)	(1,422,796)
Fund balance at beginning of year	1,691,441	3,114,237
FUND BALANCE AT END OF YEAR	\$ 1,493,392	\$ 1,691,441

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, 2017
(With Comparative Totals as of June 30, 2016)

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 758,135	\$ 163,854
Interest receivable	108	52
Due from other governments	1,782	620,440
Due from other funds		768,936
TOTAL CURRENT ASSETS	760,025	1,553,282
NONCURRENT ASSETS		
Capital assets being depreciated, net	522,994	517,244
TOTAL NONCURRENT ASSETS	522,994	517,244
TOTAL ASSETS	1,283,019	2,070,526
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	92,463	29,944
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,375,482	\$ 2,100,470
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 1,890	\$ 59
Due to other agencies	405,686	431,806
Accrued salaries and benefits	2,470	7,464
Compensated absences	25,132	23,208
Unearned revenue	342,902	795,598
TOTAL CURRENT LIABILITIES	778,080	1,258,135
LONG-TERM LIABILITIES		
Compensated absences	4,458	5,596
Other post-employment benefits (OPEB)	28,870	50,529
Net pension liability	324,075	273,771
TOTAL LONG-TERM LIABILITIES	357,403	329,896
TOTAL LIABILITIES	1,135,483	1,588,031
DEFERRED INFLOWS OF RESOURCES		
Pensions	31,865	54,244
NET POSITION		
Investment in capital assets	522,994	517,244
Unrestricted	(314,860)	(59,049)
TOTAL NET POSITION	208,134	458,195
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 1,375,482	\$ 2,100,470

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, 2017
(With Comparative Totals for the Year Ended June 30, 2015)

	2017	2016
OPERATING REVENUES		
Passenger fares	\$ 1,926	\$ 2,589
OPERATING EXPENSES		
Salaries and benefits	154,528	232,570
Professional services	936,115	432,599
Maintenance	852	2,191
Insurance	2,395	16,451
Administration and overhead	79,745	75,489
Depreciation	35,189	43,753
TOTAL OPERATING EXPENSES	1,208,824	803,053
OPERATING LOSS	(1,206,898)	(800,464)
NONOPERATING REVENUES (EXPENSES)		
Local Transportation Fund	375,108	454,913
State Transit Assistance	113,980	165,527
Interest	(817)	2,943
Federal grant revenue		171,058
Other revenues	526,659	5,116
TOTAL NONOPERATING REVENUES (EXPENSES)	1,014,930	799,557
NET (LOSS) INCOME BEFORE TRANSFERS	(191,968)	(907)
OTHER FINANCING USES		
Transfers out	(58,093)	(75,982)
CHANGE IN NET POSITION	(250,061)	(76,889)
Net position at beginning of year	458,195	535,084
NET POSITION AT END OF YEAR	\$ 208,134	\$ 458,195

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, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 1,926	\$ 2,589
Payments to employees	(192,610)	(196,573)
Payments to suppliers	(1,449,082)	(243,512)
NET CASH USED FOR OPERATING ACTIVITIES	(1,639,766)	(437,496)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings on investments	(873)	2,912
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	(873)	2,912
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Operating grants and other revenues	1,181,709	1,103,631
Interfund borrowing and transfers	710,843	(844,918)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	1,892,552	258,713
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of property and equipment	(40,939)	
NET CASH USED BY INVESTING ACTIVITIES	(40,939)	
NET DECREASE INCREASE IN CASH AND CASH EQUIVALENTS	210,974	(175,871)
Cash and cash equivalents, beginning of year	163,854	339,725
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 374,828	\$ 163,854
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating loss	\$ (1,206,898)	\$ (800,464)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation	35,189	43,753
Change in operating assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Deferred outflows/inflows	(62,519)	(3,317)
Due to other governments	(431,806)	431,806
Accounts and retentions payable	1,831	(148,588)
Accrued salaries and benefits	(4,994)	33
Compensated absences payable	786	13,865
Other post employment benefits (OPEB)	(21,659)	(12,390)
Net pension liability	50,304	37,806
NET CASH USED BY OPERATING ACTIVITIES	\$ (1,639,766)	\$ (437,496)

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

CITY OF LINCOLN
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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 is used to account for the payments to Placer County to provide transit services within the City's jurisdiction.

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. Revenues that do not meet this availability period are recorded as deferred inflows of resources. Expenditures are recorded when the related fund liability is incurred.

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

June 30, 2017

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.

Deferred Inflows/Outflows of Resources: In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an expense/expenditure until then. In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Pensions: For purposes of measuring the net pension liability and deferred inflows/outflows of resources related to pensions, and pensions expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plans and additions to /deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are at fair value.

Restricted Fund Balance/Net Position: Restrictions of fund balance/net position show amounts that are legally restricted for specific uses in accordance with TDA requirements.

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

June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-term Interfund Payables: During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These payables are classified as “due from other funds” on the balance sheet.

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, 2017, the transfers out in the Street Fund consisted of transfers to the General Fund according to the City’s indirect cost/overhead allocation plan and transfers to reimburse the Gas Tax Fund for eligible street related costs. The \$58,093 transfers out in the Transit Fund are to cover the Fund’s share of the debt service payments on certain City facilities.

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.

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, 2017, is as follows:

	Balance July 1, 2016	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2017
Capital assets being depreciated:					
Buildings and improvements	\$ 735,189	\$ 40,938			\$ 776,127
Transit vehicles	231,050				231,050
Total capital assets being depreciated	<u>966,239</u>	<u>40,938</u>	<u>-</u>	<u>-</u>	<u>1,007,177</u>
Less accumulated depreciation for:					
Buildings and improvements	(217,945)	(35,188)			(253,133)
Transit vehicles	(231,050)				(231,050)
Total accumulated depreciation	<u>(448,995)</u>	<u>(35,188)</u>	<u>-</u>		<u>(484,183)</u>
Total capital assets being depreciated, net	<u>517,244</u>	<u>5,750</u>	<u>-</u>	<u>-</u>	<u>522,994</u>
Capital assets, net	<u>\$ 517,244</u>	<u>\$ 5,750</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 522,994</u>

CITY OF LINCOLN
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE E – LONG-TERM LIABILITIES

Changes in long-term liabilities consisted of the following for the year ended June 30, 2017:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Compensated absences	\$ 28,804	\$ 10,614	\$ (9,828)	\$ 29,590	\$ 25,132
Other post-employment benefits (OPEB)	50,529			28,870	
Net pension liability	<u>273,771</u>			<u>273,771</u>	
	<u>\$ 353,104</u>	<u>\$ 10,614</u>	<u>\$ (9,828)</u>	<u>\$ 332,231</u>	<u>\$ 25,132</u>

NOTE F – FARE REVENUE RATIO

Transit operators are required to maintain a fare revenue to operating expenses ratio in order to be eligible for TDA funding. Since the City contracts with Placer County Transit for its transit services, no fare revenues are recorded in the City of Lincoln’s Transit Fund financial statements. A fare revenue ratio is calculated for Placer County in the Placer County Transit audited financial statements.

NOTE G – PENSION PLAN LIABILITY

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 \$92,463, \$324,075, \$31,865 and \$(4,854), respectively, as of and for the year ended June 30, 2017. Pension expense was reported as part of operations expenses for bus services.

NOTE H – 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, 2017 was \$28,870.

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, 2017

NOTE J – TRANSIT SYSTEM SAFETY, SECURITY & DISASTER RESPONSE ACCOUNT (TSSSDRA)

As approved by the voters in the November 2006 general elections, Proposition 1B enacts the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 to authorize \$19.925 billion of state general obligation bonds for specified purposes, including grants for transit system safety, security and disaster response projects. CalOES has been charged with administering the Prop 1B Transit System Safety, Security & Disaster Response Account (TSSSDRA).

As of June 30, 2017, TSSDRA funds received and expended are as follows:

Activity for fiscal year ended June 30, 2017:	
Cal OES funds received	\$ 26,662
Interest earned	<u>185</u>
Unexpended proceeds, June 30, 2017	<u><u>\$ 26,847</u></u>

NOTE K – PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE ENHANCEMENT ACCOUNT (PTMISEA)

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

As of June 30, 2017, funds received and expended were verified in the course of the audit as follows:

Unspent proceeds at June 30, 2016	\$ 768,936
PTMISEA revenue received	67,702
Interest earned	5,849
Expenditures:	
Bus purchase	(518,452)
GPS equipment	<u>(7,890)</u>
Unspent proceeds at June 30, 2017	<u><u>\$ 316,145</u></u>

NOTE L – 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 M – 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.

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*, THE TRANSPORTATION
DEVELOPMENT ACT AND THE PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND
SERVICE ENHANCEMENT ACCOUNT (PTMISEA) AND TRANSIT SYSTEM SAFETY, SECURITY AND
DISASTER RESPONSE ACCOUNT (TSSSDRA) GUIDELINES

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, 2017, and the related notes to the financial statements, which collectively comprise the Fund's financial statements, and have issued our report thereon dated March 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 (including PTMISEA and TSSSDRA)

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. We also tested the receipt and appropriate expenditures of bond funds, as presented in Note F and Note G of the financial statements, in

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accordance with the PTMISEA and TSSSDRA statutes and guidelines. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, the TDA or the PTMISEA and TSSSDRA.

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

Richardson & Company, LLP

March 30, 2018