

**CITY OF LINCOLN,
CALIFORNIA**



**SINGLE AUDIT ACT
REPORTS AND SCHEDULES
FOR THE YEAR ENDED
JUNE 30, 2015**

**CITY OF LINCOLN
Single Audit Act
For the Year Ended June 30, 2015**

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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

To the Honorable Mayor and
Members of the City Council
City of Lincoln, 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 Lincoln, California, (City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 7, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying *Schedule of Findings and Questioned Costs*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying *Schedule of Findings and Questioned Costs* to be material weaknesses (2015-001 and 2015-002).

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies (2015-003 through 2015-004).

Compliance and Other Matters

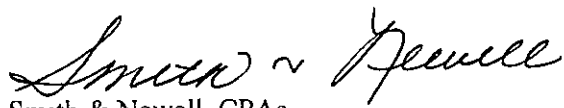
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.


Smith & Newell, CPAs
Yuba City, California
January 7, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Lincoln, California's (City) compliance with the types of compliance requirements described in the OMB Circular A-133 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, 2015. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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.

Opinion on Each Major Federal Program

In our opinion, the City 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, 2015.

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

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 OMB Circular A-133, 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 the 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 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.

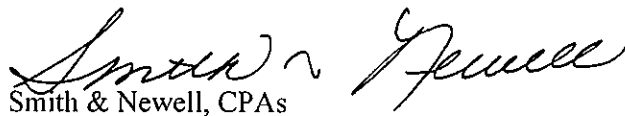
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, California, (City) as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 7, 2016, which contained unmodified opinions on the governmental activities, business-type activities and proprietary funds of the City and the respective changes in financial position and cash flows. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.


Smith & Newell, CPAs
Yuba City, California
January 7, 2016

CITY OF LINCOLN
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Number</u>	<u>Federal Expenditures</u>
U S Department of Housing and Urban Development			
Passed through State Department of Housing and Community Development			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14 228	Loans Outstanding	\$ 596,243
Home Investment Partnerships Program	14 239	Loans Outstanding	<u>2,177,326</u>
Total U S Department of Housing and Urban Development			<u>2,773,569</u>
U S Department of Transportation			
Passed through State Department of Transportation			
Highway Planning and Construction	20 205	BRSL-5089(017)	4,099,035
Highway Planning and Construction	20 205	BRSL-5089(021)	129,861
Highway Planning and Construction	20 205	CML-5089(016)	951,317
Highway Planning and Construction	20 205	CML-5089(023)	45,351
Highway Planning and Construction	20 205	HSIPL-5089(020)	34,673
Highway Planning and Construction	20 205	SRTSL-5089(018)	<u>4,648</u>
Subtotal 20 205			<u>5,264,885</u>
Total U S Department of Transportation			<u>5,264,885</u>
Total			<u><u>\$ 8,038,454</u></u>

See the accompanying Notes to Schedule of Expenditures of Federal Awards

CITY OF LINCOLN
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

1 REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Lincoln (City). The City reporting entity is defined in Note 1 to the City's basic financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the Schedule of Expenditures of Federal Awards.

2 BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. The accompanying Schedule of Expenditures of Federal Awards, is presented using the modified accrual basis of accounting for grants accounted for in the governmental fund types and the accrual basis of accounting for grants accounted for in the proprietary fund types, as described in the notes to the City financial statements. In addition, the outstanding balance of prior years' loans that have significant continuing compliance requirements have been included in total federal expenditures.

3 RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree or can be reconciled with amounts reported in the related federal financial assistance reports.

4 RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree or can be reconciled with amounts reported in the City's basic financial statements.

5 PASS -THROUGH ENTITIES' IDENTIFYING NUMBER

When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the City determined that no identifying number is assigned for the program or the City was unable to obtain an identifying number from the pass-through entity.

6. LOANS WITH CONTINUING COMPLIANCE REQUIREMENTS

The City participates in certain federal award programs that sponsor revolving loan programs, which are administered by the City. These programs require servicing arrangements with the City. The funds are returned to the programs upon repayment of the principal and interest. In accordance with Subpart B, Section 205 of the U.S. Office of Management and Budget Circular A-133, the City has reported the outstanding balance of loans from previous years that have significant continuing compliance requirements as of June 30, 2015, along with the value of total outstanding and new loans made during the current year.

CITY OF LINCOLN
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

6 LOANS WITH CONTINUING COMPLIANCE REQUIREMENTS (CONTINUED)

The program listed below had the following aggregate, federally funded loans outstanding at June 30, 2015

<u>Federal CFDA</u>	<u>Program Title</u>	<u>Amount Outstanding</u>	
		<u>July 1, 2014</u>	<u>June 30, 2015</u>
14 228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	\$ 596,243	\$ 536,541
14 239	Home Investment Partnerships Program	<u>2,177,326</u>	<u>2,171,305</u>
	Total Loans Outstanding	<u>\$ 2,773,569</u>	<u>\$ 2,707,846</u>

CITY OF LINCOLN
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements	<u>Status</u>
1 Type of auditor's report issued	Unqualified
2 Internal controls over financial reporting	
a Material weaknesses identified?	Yes
b Significant deficiencies identified not considered to be material weaknesses?	Yes
3 Noncompliance material to financial statements noted?	No

Federal Awards

1 Internal control over major programs	
a Material weaknesses identified?	No
b Significant deficiencies identified not considered to be material weaknesses?	No
2 Type of auditor's report issued on compliance for major programs	Unqualified
3 Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 Section 510(a)?	No
4 Identification of major programs	
20 205 Highway Planning and Construction	
5 Dollar threshold used to distinguish between Type A and Type B programs?	\$ 300,000
6 Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530?	No

SECTION II - FINANCIAL STATEMENT FINDINGS

Prior Period Adjustments	2015-001
Year-End Closing Process	2015-002
Interfund Borrowing	2015-003
Cost Allocation Plan	2015-004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None

CITY OF LINCOLN
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

2015-001 Prior Period Adjustments (Material Weakness)

Condition

During our audit we noted the City made material prior period adjustments to reclassify agency funds to capital project funds

Cause

There were errors in the prior year financial records resulting in a prior period adjustment of \$18,897,709

Criteria

Generally accepted accounting principles require that material errors in the prior year ending balances be corrected by a prior period adjustment to beginning fund balance

Effect of Condition

Beginning fund balance was misstated and required adjustment

Recommendation

We recommend that the City properly account for the classification of funds

Corrective Action Plan

The City agrees with this finding and with this one-time correction presents the proper classification of these funds

2015-002 Year-End Closing Process (Material Weakness)

Condition

At the time of our audit, we noted the financial statements as presented to us contained misstatements that required adjustments. We noted multiple balance sheet accounts that had not been reconciled and adjusted prior to the time of fieldwork. Many of these adjustments were noted as a part of the audit process. This is a repeat of a prior year finding.

Cause

The City did not review all accounts prior to the audit fieldwork. The process to close the City's accounting records and produce the annual financial report is labor intensive and the reports produced by the accounting system can require additional analysis and reconciliation.

CITY OF LINCOLN
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

2015-002 Year-End Closing Process (Material Weakness) (Continued)

Criteria

Government Auditing Standards require independent auditors to evaluate all unadjusted misstatements of financial statements. Also, producing timely audited financial statements is more difficult when adjustments are not recorded prior to the start of the annual audit.

Effect of Condition

The financial statements as presented to us for audit contained material misstatements and required adjustment.

Recommendation

We recommend that the City strive to record all adjustments in a timely manner so that required adjustments can be recorded prior to the start of the annual audit.

Corrective Action Plan

The City agrees with this finding and will continue to improve the year-end closing process.

2015-003 Interfund Borrowing (Significant Deficiency)

Condition

The City has significant interfund borrowings in the form of due to and due from other funds. At June 30, 2015 the more significant of the due to other funds was \$9,106,801 in the Public Facility Element (PFE) special revenue fund and \$5,214,393 in the Airport enterprise fund. Neither of these funds have demonstrated the ability to repay these interfund borrowings within the subsequent fiscal year. This is a repeat of a prior year finding.

Cause

There were insufficient revenue sources to pay for expenditures incurred for projects in past years which has resulted in long term interfund borrowing.

Criteria

Governmental Accounting Standards define the current portion of interfund loans as due to and due from other funds and the non-current portion of interfund loans as advance to and from other funds.

Effect of Condition

The City has had significant interfund borrowings in previous fiscal years. The funds involved have not demonstrated the ability to repay these interfund borrowings within the subsequent fiscal year. By classifying these amounts as due to and due from other funds the City is misstating these amounts as current interfund loans, rather than long term interfund loans.

CITY OF LINCOLN
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

2015-003 Interfund Borrowing (Significant Deficiency) (Continued)

Recommendation

We recommend that the City Council review the items classified as due to and due from other funds (current interfund loans) to determine if they should be reclassified as advances to and from other funds (long term interfund loans)

Corrective Action Plan

The City agrees that the interfund borrowing related to the Public Facilities Element (PFE) funds has decreased, however, they have not been repaid within the subsequent fiscal year. The PFE funds and the Airport enterprise fund shall be presented to the City Council for proper classification as long-term loans.

2015-004 Cost Allocation Plan (Significant Deficiency)

Condition

During our audit we noted that the City had developed a cost allocation plan, however, we noted that the basis used for allocating supporting services was not documented in accordance with OMB A-102. This is a repeat of a prior year finding.

Cause

The City developed an indirect cost plan for the allocation of supporting services, however, it is not A-87 compliant.

Criteria

OMB A-87 states that indirect costs should be allocated based on an equitable and consistent distribution methodology.

Effect of Condition

The City's cost allocation plan is not consistent with Attachment A of OMB Circular A-87 and is not documented in accordance with OMB A-102. As a result, several of the City's funds are being allocated indirect costs based on a plan that does not have documentation supporting the rationale to distribute indirect costs on an equitable basis.

Recommendation

We recommend that the City develop and formally document an indirect cost allocation plan that identifies costs of supporting services and allocates them to benefitting departments and funds on an equitable basis that is consistent with Attachment A of OMB A-87 and documented in accordance with OMB A-102.

CITY OF LINCOLN
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

2015-004 Cost Allocation Plan (Significant Deficiency) (Continued)

Corrective Action Plan

The City agrees with this finding and has contracted with an independent consulting firm to assist the City in developing a cost allocation plan that is consistent with OMB A-87 and documented in accordance with OMB A-102

CITY OF LINCOLN
Schedule of Prior Year Findings and Questioned Costs
For the Year Ended June 30, 2014

<u>Audit Reference</u>	<u>Status of Prior Year Audit Recommendation</u>
2014-001	<p>Prior Period Adjustments</p> <p>Recommendation</p> <p>We recommend that the City continue to improve its internal control system and its policies and procedures in reviewing detail general ledger accounts for accuracy</p> <p>Status</p> <p>Not Implemented</p>
2014-002	<p>Year-End Closing Process</p> <p>Recommendation</p> <p>We recommend that the City strive to record all adjustments in a timely manner so that required adjustments can be recorded prior to the start of the annual audit</p> <p>Status</p> <p>Not Implemented</p>
2014-003	<p>Interfund Borrowing</p> <p>Recommendation</p> <p>We recommend that the since the City Council review the items classified as due to and due from other funds (current interfund loans) to determine if they should be reclassified as advances to and from other funds (long term interfund loans)</p> <p>Status</p> <p>Not Implemented</p>

CITY OF LINCOLN
Schedule of Prior Year Findings and Questioned Costs
For the Year Ended June 30, 2014

<u>Audit Reference</u>	<u>Status of Prior Year Audit Recommendation</u>
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2014-004	Cost Allocation Plan
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Recommendation

We recommend that the City develop and formally document an indirect cost allocation plan that identifies cost of supporting services and allocates them to benefitting departments and funds on an equitable basis that is consistent with *Attachment A of OMB A-87 and documented in accordance with OMB A-102*

Status

Not Implemented

2014-005	Utility Billing Receivables
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Recommendation

We recommend that the City continue to identify the differences and make the adjustments necessary so that the supporting reports from the UB module agree to what is recorded on the general ledger

Status

Implemented