

**MERCED COUNTY ASSOCIATION
OF GOVERNMENTS**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2018**

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
JUNE 30, 2018**

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INDEPENDENT AUDITOR'S REPORT

To the Governing Board of the
Merced County Association of Governments
Merced, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Merced County Association of Governments (the Association) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association'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 Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Merced County Association of Governments, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

677 Scott Avenue
Clovis, CA 93612
tel 559.299.9540
fax 559.299.2344

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-10 and 40-45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Association's basic financial statements. The Other Schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Other Schedules, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2019, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Association's 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 Association's internal control over financial reporting and compliance.

Price Page & Company

Clovis, California
March 7, 2019

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

The management of Merced County Association of Governments (MCAG) presents the following narrative overview and analysis of the financial statements for the year ended June 30, 2018. The financial information presented here should be considered in conjunction with the financial statements presented in the following pages.

Financial Highlights

- ❖ Association's Total Net Position, as shown on the Statement of Net Position, for all fund types for the fiscal year ending June 30, 2018 is \$19,982,423. This is an increase of \$7,953,553 from the ending balance of the prior fiscal year.
- ❖ Total liabilities as shown on the Statement of Net Position for all fund types for the fiscal year ending June 30, 2018 is \$4,775,498. This is a net decrease from the prior year of \$2,457,735.
- ❖ Regional Transportation Impact Fee (RTIF) Fund was established for the collection of one-time fees from new development to mitigate their impact on the regional road network. The revenue sources for this fund are the member agencies or the local jurisdictions within Merced County. For Fiscal Year 2017-2018, revenues were \$812,077, an increase of \$101,089 from the prior year. Total expenditures were \$49,819, a decrease of \$42,928 from the previous year; previous year expenditures were used for Atwater-Merced Expressway.
- ❖ During the 2017-2018 fiscal year, the Local Transportation Fund decreased by \$175,305. Also, there was a prior period adjustment of -\$776,537, leaving a fund balance of \$1,613,894. Expenditures were intentionally budgeted more than projected revenues to reduce the amount of the reserves in the fund.
- ❖ \$18,930,091 of all Primary Government net position represents resources that are subject to restrictions on how they may be used. The restricted governmental funds include General Fund, RTIF, LTF, SAFE, Measure V Fund, and Non-major Governmental Funds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to MCAG's basic financial statements. MCAG's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other required supplementary information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of MCAG's finances, in a manner similar to a private-sector business. These statements provide both long-term and short-term information about MCAG's overall status.

The focus is on both MCAG as a whole and the fund financial statements, including the major individual funds of the government and business-type categories, as well as fiduciary funds, and component units. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business types. In the government-wide statement of net position, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected, on a full accrual basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between agencies) to enhance the usefulness of the information.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Government-Wide Financial Statements (Continued)

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

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources segregated for specific activities or objectives. MCAG uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. MCAG's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

The Association's governmental funds include the General Fund and five Special Revenue Funds. The Special Revenue Funds include the Regional Transportation Impact Fee Fund (RTIF), the Local Transportation Fund (LTF), the Service Authority for Freeway Emergencies Fund (SAFE), the Measure V Regional Fund, and the Abandoned Vehicle Abatement Fund (AVA). The General Fund accounts for the primary planning activities of MCAG.

The **Special Revenue Funds** account for activity for which the receipts of federal, state and local monies are designated for specific purposes.

Proprietary Funds report activity financed and operated like a private entity either as an enterprise fund or as an internal service fund. For MCAG the proprietary fund is the component unit Merced Data Special Services, Inc. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. In the proprietary fund, income is recorded when earned and expenses are recorded when incurred.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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

Notes to the Basic Financial Statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a governments' financial position. In the case of MCAG, assets exceed liabilities by \$19,982,423 for all funds, at the close of the fiscal year.

**Merced County Association of Governments
Primary Government and Component Unit – Statement of Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets:						
Current Assets	\$ 24,129,075	\$ 18,411,418	\$ 244,125	\$ 245,230	\$ 24,373,200	\$ 18,656,648
Capital Assets (net)	384,721	605,455	-	-	384,721	605,455
<i>Total Assets</i>	<i>24,513,796</i>	<i>19,016,873</i>	<i>244,125</i>	<i>245,230</i>	<i>24,757,921</i>	<i>19,262,103</i>
Liabilities:						
Current Liabilities	4,773,317	7,228,687	2,181	4,546	4,775,498	7,233,233
Non-current Liabilities	-	-	-	-	-	-
<i>Total Liabilities</i>	<i>4,773,317</i>	<i>7,228,687</i>	<i>2,181</i>	<i>4,546</i>	<i>4,775,498</i>	<i>7,233,233</i>
Net Position:						
Net Investment in Capital Assets	384,721	600,888	-	-	384,721	600,888
Restricted Net Position	18,930,091	11,980,538	-	-	18,930,091	11,980,538
Unrestricted	425,667	(793,240)	241,944	240,684	667,611	(552,556)
<i>Total Net Position</i>	<i>\$ 19,740,479</i>	<i>\$ 11,788,186</i>	<i>\$ 241,944</i>	<i>\$ 240,684</i>	<i>\$ 19,982,423</i>	<i>\$ 12,028,870</i>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The largest portion of the Association's net position represents resources that are subject to external restrictions on how they may be used. Forty-eight percent of the restricted net position, or \$9,091,311, belongs to the Measure V Regional Fund. Capital assets (e.g. land, improvements and equipment) reflect 2% of the net position. The remaining represents unrestricted net position.

There was an increase of \$1,260 in the net position of the business-type activities.

**Merced County Association of Governments
Primary Government and Component Unit - Statement of Activities**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Program Revenues:						
Federal Operating Revenue	\$ 1,981,263	\$ 1,041,453	\$ -	\$ -	\$ 1,981,263	\$ 1,041,453
State and Local Operating Revenue	17,324,687	17,413,837	-	-	17,324,687	17,413,837
Charges for Services	5,323,470	4,586,836	3,213	7,548	5,326,683	4,594,384
General Revenues:						
Interest and Investment Earnings	76,445	42,612	247	1,085	76,692	43,697
Gain on Sale of Capital Assets	6,631	-	-	-	6,631	-
Total Revenues	24,712,496	23,084,738	3,460	8,633	24,715,956	23,093,371
Program Expenditures:						
General Administration	4,411,968	4,280,510	2,200	7,896	4,414,168	4,288,406
Transportation Planning	1,652,972	3,066,864	-	-	1,652,972	3,066,864
Other Planning	1,791,811	1,816,844	-	-	1,791,811	1,816,844
Transfers to Other Local Agencies	7,897,195	11,050,060	-	-	7,897,195	11,050,060
Total Expenditures	15,753,946	20,214,278	2,200	7,896	15,756,146	20,222,174
Change in Net Position	8,958,550	2,870,460	1,260	737	8,959,810	2,871,197
Net Position-Beginning	11,564,466	8,917,726	240,684	239,947	11,805,150	9,157,673
Prior Period Adjustment	(782,537)	-	-	-	(782,537)	-
Net Position-Ending	\$ 19,740,479	\$ 11,788,186	\$ 241,944	\$ 240,684	\$ 19,982,423	\$ 12,028,870

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Government Activities – Primary Government activities increased by \$8,959,810, during this fiscal year. This net result is mainly due to the receipt of a full year Measure V remittance, compared to just a quarter from the prior fiscal year. Reclassification of State Exchange Fund, State Transit Assistance fund, as well as Measure V's portion, pass through the different jurisdictions and TJPA, from governmental funds to fiduciary fund played a major role in the change of net position.

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds, total revenues for Governmental Funds for the fiscal year ending June 30, 2018 are \$24,909,827. This is an increase of \$1,825,093 or 7.91%, from the prior fiscal year. The major changes were an increase in the General Fund revenue of \$2,281,696, an increase in the Measure V Regional fund revenue of \$3,487,340, and a decrease in the Local Transportation Fund revenue of \$428,626.

Also shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds, total expenditures in Governmental Funds for the fiscal year ending June 30, 2018 are \$15,732,399. This is a decrease of \$4,608,597 from the previous fiscal year. The major change was due to the reclassification mentioned above.

Revenue sources include charges for services, allocations from state and federal sources, local jurisdictions and interest income.

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUND

As noted earlier, MCAG uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of MCAG's governmental funds is to provide information on near-term inflows and outflows, and balances of spendable resources. Such information is useful in assessing MCAG's financing requirements. In particular, the unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The Association's governmental funds reported a combined fund balance at June 30, 2018 of \$19,665,415, a net increase of \$8,171,171. This net increase was a result of increase in the General Fund, Measure V Regional Fund, Regional Transportation Impact Fee Fund, which were offset somewhat by decrease in the Local Transportation Fund.

The General Fund is the operating fund of the Association. At the end of the current fiscal year, the fund balance of the General Fund was \$737,526.

The General Fund net change in fund balance increase \$985,856 during the fiscal year. This increase was a result in the Indirect Cost Allocation Plan (ICAP) rate being approved by Caltrans for billing purposes for State and Federal reimbursements.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUND (Continued)

Other changes in fund balances include the following:

Regional Transportation Impact Fee:

- ❖ This major fund increased by \$762,258 due to revenues exceeding expenditures. Not only has Merced County experienced an uptick in housing and new business, but the remaining costs for the completed Atwater-Merced project are minimal.

Local Transportation Fund:

- ❖ The LTF fund decreased by \$951,842. \$776,537 of this decrease is because of a prior period adjustment in order to align and properly recognize revenue in its correct fiscal year. \$175,305 is due to LTF distribution exceeding revenues.

Service Authority for Freeway Emergencies:

- ❖ DMV fee collections exceeded actual service expenditures, increasing the major fund balance by \$226,490.

Measure V Regional Fund:

- ❖ With the full year remittance of the Measure V sales tax, a net change of \$7,379,651 is recorded that will sustain different regional projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Association's general fund budget is prepared in which total revenue equals total expenditure. However, several key factors happened within the year that significantly affected the actual revenues and expenditures and ultimately the ending fund balance. One of these key factors is the ICAP percent rate applied in the budget. The final budget used 62% indirect cost rate across all programs, but the Association just got approved 45.31% indirect cost rate: This cause a decrease in the revenue projected for Management services as well as Federal revenues.

Another key factor on the variance on the general fund is in the State and Local Revenues. The Association still has some ongoing projects that have not been completed at the end of the year, and since these grants are operating on a reimbursement basis, the full revenue of the grants has not been received. These projects, however, will be carried forward to the next year and will be fully reimbursed as it gets completed.

The sale of the Association's property to Transit Joint Powers Authority is also another major factor in increasing the projected revenue for the year. At the time of creating the budget, management had not finalized a decision on the sale, so it was not included in the budget.

The Pavement Management Project of the Association also was not place in the budget. The Association made an agreement with the different jurisdictions to do cost sharing of the project. Some jurisdictions chose to pay in advance, and some wanted to be billed as the project progresses. Because of this reason, management decided not to incorporate it in the budget.

The Association's actual total expenditure had significant variances as well compared to its budget especially in the area of salaries and benefits. During the year, three top management positions where vacated. Two of these positions were not replaced until after several months and one position was combined with another position. A project manager and an assistant planner positions were not filled as well, resulting in a significant saving in the salaries and benefits.

The Association's supplies and services and capital outlay also show some variances due to projects that were not completed but will be carried forward to the next year.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The Association's net investment in capital assets for both governmental and business-type activities as of June 30, 2018, amounted to \$384,721. This investment in capital includes land, buildings and improvements, and furniture and equipment. Additional information on the Association's capital assets can be found in Note 5 – Capital Assets.

Capital Assets

	Governmental		Business-Type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Non-depreciable assets						
Land	\$ 75,000	\$ 75,000	\$ -	\$ -	\$ 75,000	\$ 75,000
Total non-depreciable assets	75,000	75,000	-	-	75,000	75,000
Depreciable assets						
Buildings and improvements	575,558	776,916	-	-	575,558	776,916
Furniture and equipment	512,186	590,085	71,232	71,232	583,418	661,317
Total depreciable assets	1,087,744	1,367,001	71,232	71,232	1,158,976	1,438,233
Accumulated depreciation						
Buildings and improvements	286,351	282,965	-	-	286,351	282,965
Furniture and equipment	491,672	553,581	71,232	71,232	562,904	624,813
Total accumulated depreciation	778,023	836,546	71,232	71,232	849,255	907,778
Total net depreciable assets	309,721	530,455	-	-	309,721	530,455
Total capital assets	\$ 384,721	\$ 605,455	\$ -	\$ -	\$ 384,721	\$ 605,455

Long-term debt – At the end of the fiscal year, the Association has no long-term debt. The last pay off amount of \$4,567 was made during the fiscal year. Additional information on the Association's debt can be found in Note 6 – Long Term Liabilities.

Outstanding Debt June 30, 2018

	Governmental		Business-Type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Loan payable-solar panels	\$ -	\$ 4,567	\$ -	\$ -	\$ -	\$ 4,567
Capital lease-copier	-	-	-	-	-	-
Total long-term debt	\$ -	\$ 4,567	\$ -	\$ -	\$ -	\$ 4,567

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- ❖ Merced County's unemployment rate remained unchanged from the prior year. As of July 2018, the Bureau of Labor Statistics reports the unemployment rates were 8% for Merced, 4.2% for California and 3.9% for the Nation. Most of the jurisdictions in Merced County have indicated that they have had some increase in building permits issued. Due to state-mandated increases in minimum wage MCAG will request a three percent cost of living increase to the salary schedule for the 2018-19 fiscal year.
- ❖ In the 2018-2019 Fiscal Year Budget, salary & benefits reflect a cost of living adjustment of three percent, and the additional administration services provided for the Transit Joint Powers Authority for Merced County, the Merced County Regional Waste Management Authority and the Yosemite Area Regional Transportation System.
- ❖ For the 2018-19 fiscal year, MCAG will upgrade the security of the front lobby.
- ❖ Measure V, the ½ cent sales tax for transportation has officially passed. MCAG has been receiving 1% of the total ½ cent sales tax generated and will continue to receive it over the 30 year life of the measure.

REQUEST FOR INFORMATION

This financial report is designated to provide a general overview of the Association's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Director, Merced County Association of Governments, 369 West 18th Street, Merced, CA 95340.

BASIC FINANCIAL STATEMENTS

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 19,794,550	\$ 189,459	\$ 19,984,009
Accounts receivable	-	1,170	1,170
Due from other governments	4,261,215	-	4,261,215
Prepays	126,806	-	126,806
Internal balances	(53,496)	53,496	-
Noncurrent assets:			
Capital assets:			
Nondepreciable	75,000	-	75,000
Depreciable, net of accumulated depreciation	309,721	-	309,721
Total assets	<u>24,513,796</u>	<u>244,125</u>	<u>24,757,921</u>
LIABILITIES			
Current liabilities:			
Accounts payable	302,904	1,909	304,813
Accrued payroll and related items	77,680	-	77,680
Retention payable	4,817	-	4,817
Due to other local agencies	3,800,296	272	3,800,568
Unearned revenue	277,963	-	277,963
Due within one year:			
Compensated absences	<u>309,657</u>	<u>-</u>	<u>309,657</u>
Total liabilities	<u>4,773,317</u>	<u>2,181</u>	<u>4,775,498</u>
NET POSITION			
Net investment in capital assets	384,721	-	384,721
Restricted for:			
Highways and streets	16,256,876	-	16,256,876
Other	2,673,215	-	2,673,215
Unrestricted	<u>425,667</u>	<u>241,944</u>	<u>667,611</u>
Total net position	<u>\$ 19,740,479</u>	<u>\$ 241,944</u>	<u>\$ 19,982,423</u>

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Federal Operating Revenues	State and Local Operating Revenues	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General administration	\$ 4,411,968	\$ 5,322,577	\$ -	\$ 424,264	\$ 1,334,873	\$ -	\$ 1,334,873
Transportation planning	1,652,972	-	1,981,263	9,052,805	9,381,096	-	9,381,096
Other planning	1,791,811	893	-	147,040	(1,643,878)	-	(1,643,878)
Transfers to other local agencies	7,897,195	-	-	7,700,578	(196,617)	-	(196,617)
Total primary government - governmental activities	<u>15,753,946</u>	<u>5,323,470</u>	<u>1,981,263</u>	<u>17,324,687</u>	<u>8,875,474</u>	<u>-</u>	<u>8,875,474</u>
Business-type activities:							
Merced Data Special Services, Inc.	<u>2,200</u>	<u>3,213</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,013</u>	<u>1,013</u>
Total activities	<u>\$ 15,756,146</u>	<u>\$ 5,326,683</u>	<u>\$ 1,981,263</u>	<u>\$ 17,324,687</u>	<u>8,875,474</u>	<u>1,013</u>	<u>8,876,487</u>
General Revenues:							
					76,445	247	76,692
					6,631	-	6,631
					<u>83,076</u>	<u>247</u>	<u>83,323</u>
					8,958,550	1,260	8,959,810
					11,564,466	240,684	11,805,150
					<u>(782,537)</u>	<u>-</u>	<u>(782,537)</u>
					<u>\$ 19,740,479</u>	<u>\$ 241,944</u>	<u>\$ 19,982,423</u>

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General Fund	Regional Transportation Impact Fee Fund	Local Transportation Fund	Service Authority for Freeway Emergencies Fund	Measure V Regional Fund	Nonmajor Governmental Fund	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 2,990	\$ 5,408,115	\$ 3,949,274	\$ 2,477,922	\$ 7,956,249	\$ -	\$ 19,794,550
Receivables:							
Due from other governments	1,667,492	146,939	1,214,841	39,367	1,135,062	57,514	4,261,215
Due from other funds	293	-	-	157,210	-	-	157,503
Prepaid expenses	126,806	-	-	-	-	-	126,806
Total assets	<u>\$ 1,797,581</u>	<u>\$ 5,555,054</u>	<u>\$ 5,164,115</u>	<u>\$ 2,674,499</u>	<u>\$ 9,091,311</u>	<u>\$ 57,514</u>	<u>\$ 24,340,074</u>
LIABILITIES							
Accounts payable	\$ 302,429	\$ -	\$ -	\$ -	\$ -	\$ 475	\$ 302,904
Accrued liabilities	77,680	-	-	-	-	-	77,680
Retention payable	-	4,817	-	-	-	-	4,817
Due to other funds	157,210	-	-	-	-	293	157,503
Due to other local agencies	191,277	-	3,550,221	1,284	-	57,514	3,800,296
Advances from other governments	53,496	-	-	-	-	-	53,496
Unearned revenue	277,963	-	-	-	-	-	277,963
Total liabilities	<u>1,060,055</u>	<u>4,817</u>	<u>3,550,221</u>	<u>1,284</u>	<u>-</u>	<u>58,282</u>	<u>4,674,659</u>
FUND BALANCES (DEFICIT)							
Nonspendable	126,806	-	-	-	-	-	126,806
Restricted for:							
Highways and streets	1,434	5,550,237	1,613,894	-	9,091,311	-	16,256,876
Other	-	-	-	2,673,215	-	-	2,673,215
Unassigned	609,286	-	-	-	-	(768)	608,518
Total fund balances (deficit)	<u>737,526</u>	<u>5,550,237</u>	<u>1,613,894</u>	<u>2,673,215</u>	<u>9,091,311</u>	<u>(768)</u>	<u>19,665,415</u>
Total liabilities and fund balances	<u>\$ 1,797,581</u>	<u>\$ 5,555,054</u>	<u>\$ 5,164,115</u>	<u>\$ 2,674,499</u>	<u>\$ 9,091,311</u>	<u>\$ 57,514</u>	<u>\$ 24,340,074</u>

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2018**

Total fund balances - governmental funds		\$ 19,665,415
<p>Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.</p>		
Capital assets at historic cost	1,162,744	
Accumulated depreciation	<u>(778,023)</u>	
		384,721
<p>Long-term liabilities: In government funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities are reported. Long-term liabilities relating to governmental activities consist of:</p>		
Compensated absences payable	<u>(309,657)</u>	
		<u>(309,657)</u>
Net position of governmental activities		<u>\$ 19,740,479</u>

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund	Regional Transportation Impact Fee Fund	Local Transportation Fund	Service Authority for Freeway Emergencies Fund	Measure V Regional Fund	Nonmajor Governmental Fund	Total Governmental Funds
REVENUES							
Sales taxes	\$ 464,432	\$ -	\$ -	\$ -	\$ 7,379,840	\$ -	\$ 7,844,272
Local transportation fund	-	-	7,700,578	-	-	-	7,700,578
Charges for services	5,192,568	-	-	-	-	-	5,192,568
State and local revenues	337,250	773,127	-	221,214	-	220,353	1,551,944
Federal revenues	1,981,263	-	-	-	-	-	1,981,263
Investment earnings	4,642	38,950	19,118	13,924	(189)	-	76,445
Other income	562,757	-	-	-	-	-	562,757
Total revenues	<u>8,542,912</u>	<u>812,077</u>	<u>7,719,696</u>	<u>235,138</u>	<u>7,379,651</u>	<u>220,353</u>	<u>24,909,827</u>
EXPENDITURES							
Current:							
General government:							
Salaries and benefits	5,665,471	-	-	-	-	-	5,665,471
Supplies and services	1,883,060	2,195	-	8,648	-	221,875	2,115,778
Contributions to other local agencies	-	-	7,895,001	-	-	-	7,895,001
Highways and streets	900	47,624	-	-	-	-	48,524
Debt service:							
Interest	90	-	-	-	-	-	90
Capital outlay:							
General government	<u>7,535</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,535</u>
Total expenditures	<u>7,557,056</u>	<u>49,819</u>	<u>7,895,001</u>	<u>8,648</u>	<u>-</u>	<u>221,875</u>	<u>15,732,399</u>
Excess (deficiency) of revenues over (under) expenditures	<u>985,856</u>	<u>762,258</u>	<u>(175,305)</u>	<u>226,490</u>	<u>7,379,651</u>	<u>(1,522)</u>	<u>9,177,428</u>
Fund balances (deficit) - beginning	(248,330)	4,787,979	2,565,736	2,446,725	1,711,660	6,754	11,270,524
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(776,537)</u>	<u>-</u>	<u>-</u>	<u>(6,000)</u>	<u>(782,537)</u>
Fund balances (deficit) - ending	<u>\$ 737,526</u>	<u>\$ 5,550,237</u>	<u>\$ 1,613,894</u>	<u>\$ 2,673,215</u>	<u>\$ 9,091,311</u>	<u>\$ (768)</u>	<u>\$ 19,665,415</u>

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Net change in fund balances - total governmental funds	\$ 9,177,428
<p>Depreciation expense on capital assets is reported in the government-wide statement of activities, but does not require the use of current financial resources; therefore, depreciation expense is not reported as an expenditure in the governmental funds.</p>	(23,403)
<p>Disposal of capital assets reported in the statement of activities does not require the use of current financial resources; therefore, it is not reported as an expenditure in the governmental funds.</p>	(197,332)
<p>Repayment of long-term principal is an expenditure in governmental funds, but the repayment reduced long-term liabilities in the government-wide statement of net position.</p>	4,567
<p>Compensated absences expense reported in the statement of activities does not require the use of current financial resources; therefore, it is not reported as an expenditure in the governmental funds.</p>	<u>(2,710)</u>
Change in net position of government activities	<u><u>\$ 8,958,550</u></u>

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2018**

	Enterprise Fund
	MDSS, Inc.
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 189,459
Accounts receivable	1,170
Due from primary government	53,496
Total current assets	244,125
Noncurrent assets:	
Capital assets:	
Geographic information database	51,490
Yosemite.com website	19,742
Accumulated depreciation	(71,232)
Total capital assets	-
Total assets	244,125
LIABILITIES	
Current liabilities:	
Accounts payable	1,909
Due to other governments	272
Total liabilities	2,181
NET POSITION	
Unrestricted	241,944
Total net position	\$ 241,944

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Enterprise Fund <u>MDSS, Inc.</u>
OPERATING REVENUES	
Charges for services	<u>\$ 3,213</u>
Total operating revenues	<u>3,213</u>
OPERATING EXPENSES	
General administration	<u>2,200</u>
Total operating expenses	<u>2,200</u>
Operating income (loss)	<u>1,013</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	<u>247</u>
Total nonoperating revenues (expenses)	<u>247</u>
Change in net position	1,260
Total net position - beginning	<u>240,684</u>
Total net position - ending	<u>\$ 241,944</u>

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Enterprise Fund
	MDSS, Inc.
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 2,113
Payments to suppliers and service providers	(4,837)
Net cash provided (used) by operating activities	(2,724)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers from (to) other funds	272
Net cash provided (used) by noncapital financing activities	272
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	247
Net cash provided (used) by investing activities	247
Net increase (decrease) in cash and cash equivalents	(2,205)
Cash and cash equivalents at July 1, 2017	191,664
Cash and cash equivalents at June 30, 2018	\$ 189,459
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 1,013
Change in assets and liabilities:	
Decrease (increase) in receivables	(1,100)
Increase (decrease) in accounts payable	(2,637)
Net cash provided (used) by operating activities	\$ (2,724)

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018**

	<u>Measure V Trust Fund</u>	<u>State Transit Assistance Fund</u>	<u>State Exchange Fund</u>
ASSETS			
Cash and cash equivalents	\$ -	\$ 928,976	\$ 2,946,822
Receivables:			
Due from other governments	<u>1,418,828</u>	<u>721,191</u>	<u>-</u>
Total assets	<u>\$ 1,418,828</u>	<u>\$ 1,650,167</u>	<u>\$ 2,946,822</u>
LIABILITIES			
Liabilities:			
Due to other local agencies	<u>\$ 1,418,828</u>	<u>\$ 2,075,797</u>	<u>\$ 2,837,707</u>
Total liabilities	<u>1,418,828</u>	<u>2,075,797</u>	<u>2,837,707</u>
NET POSITION			
Held in trust for the benefit of others	<u>-</u>	<u>(425,630)</u>	<u>109,115</u>
Total liabilities and net position	<u>\$ 1,418,828</u>	<u>\$ 1,650,167</u>	<u>\$ 2,946,822</u>

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Measure V Trust Fund</u>	<u>State Transit Assistance Fund</u>	<u>State Exchange Fund</u>
ADDITIONS			
Sales taxes	\$ 9,224,800	\$ 1,861,425	\$ 2,837,707
State and local revenues	-	392,613	-
Investment earnings	-	(401)	1,030
Total revenues	<u>9,224,800</u>	<u>2,253,637</u>	<u>2,838,737</u>
DEDUCTIONS			
Contributions to other local agencies	<u>9,224,800</u>	<u>2,794,902</u>	<u>2,837,707</u>
Total deductions	<u>9,224,800</u>	<u>2,794,902</u>	<u>2,837,707</u>
Change in net position	-	(541,265)	1,030
Net position - beginning	<u>-</u>	<u>115,635</u>	<u>108,085</u>
Net position - ending	<u>\$ -</u>	<u>\$ (425,630)</u>	<u>\$ 109,115</u>

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

In 1967, the Merced County Association of Governments (the Association) was created through a Joint Powers Agreement adopted by the cities and the County of Merced. This agreement has been subsequently renewed, most recently in 2013, for a term of ten years.

On July 20, 1972, the Merced County Association of Governments was designated as the Regional Transportation Planning Agency for the County of Merced by the Secretary of Business and Transportation Agency of the State of California. The Association and the State of California Department of Transportation (CALTRANS) have formally agreed to a continuous transportation planning process by mutually executing a Memorandum of Understanding.

The Association's governing board is comprised of the five supervisors of the County of Merced and one representative from the cities of Merced, Atwater, Livingston, Dos Palos, Gustine, and Los Banos. The governing board exercises extensive control over the activities of the Association. These controls take the form of approvals, review of progress reports from the Association's staff, decision-making, and general administration.

Financial Reporting Entity

The Government Accounting Standards Board (GASB) establishes criteria for determining which organizations should be included in a governmental reporting entity. The focal point for preparing financial statements of a financial reporting entity is the *primary government*.

The identification of a financial reporting entity is built around the concept of financial accountability. That is, if a primary government is financially accountable for another entity, that entity's financial statements must be included in the financial statements of the reporting entity. Thus, the *financial reporting entity* consists of the *primary government* and its *component units*.

Primary government is defined as a state, general purpose local or special purpose local government that has a separately elected governing body, is legally separate, and is fiscally independent of the other state or local governments.

Component units are defined as legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government is such that the exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Merced Data Special Services, Inc. (MDSS) is a nonprofit corporation organized to provide special planning services and products to governmental agencies and other organizations. The MDSS governing body is identical to the Association. MDSS utilizes the employees of the Association.

Based on these criteria and definitions, the Association is the primary government and MDSS is reported as a blended component unit. MDSS is presented as an enterprise fund-type within the accompanying financial statements of the Association.

Basis of Presentation

The Association's basic financial statements consist of government-wide statements, including a statement of net position, statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Management's Discussion and Analysis – GASB Statement No. 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the Association's financial activities in the form of "management discussion and analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of private sector organizations.

Government-Wide Financial Statements: The statement of net position and the statement of activities report information on all of the non-fiduciary activities of the Association and its component units. The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on charges and fees for support.

Statement of Activities: The statement of activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses include direct expenses which are clearly identifiable with a specific function and allocated indirect expenses. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from services provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items, which are not included among program revenues, are reported instead as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Association's funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All the remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Separate statements for each fund category – governmental and proprietary – are presented.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transaction or ancillary activities.

Major Governmental Funds

- ♦ *General Fund* – The General Fund is the general operating fund of the Association. It is used to account for the financial resources of the general government, except those required to be accounted for in another fund.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Major Governmental Funds (Continued)

- ♦ *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Association maintains four major special revenue funds:
 - ❖ *Regional Transportation Impact Fee Fund* – The Regional Transportation Impact Fee (RTIF) fund was organized in January 2005. The RTIF fund was established to provide a means to access and collect fees on new development throughout Merced County. The funds will be used to help collect \$91 million of the expected \$530 million necessary to maintain traffic at an acceptable level of service on the regional road system throughout the County through the year 2030.
 - ❖ *Local Transportation Fund* – The Local Transportation Fund accounts for revenues received and expenditures made for use on certain transportation and transit projects within Merced County. Financing is generated from a one-quarter percent state sales and use tax made pursuant to the California Transportation Development Act (TDA). Expenditures of these moneys must be made in accordance with TDA provisions.
 - ❖ *Service Authority for Freeway Emergencies Fund* – The Service Authority for Freeway Emergencies fund was organized in January 1995. The revenue to complete and maintain the system is derived from the \$1.00 per year, per vehicle registered in Merced County. The system is envisioned to consist of 130 call boxes installed on Interstate 5 and State Routes 99 and 152.
 - ❖ *Measure V Regional Fund* – Measure V is Merced County's 30-year ½ cent transportation sales tax that was passed by voters in November 2016. The measure is estimated to generate \$15 million in new revenue annually and \$450 million over the life of the measure. Expenditure plans allocate the estimated \$15 million in new annual revenue to the following funding categories: Regional Projects (east and west side shares), Local Projects and Alternative Modes Projects, Transit, and Administration.

Nonmajor Governmental Funds

The Association maintains one nonmajor special revenue fund:

- ♦ *Abandoned Vehicle Abatement Fund* – The Abandoned Vehicle Abatement Fund is used to account for fees placed on every vehicle registered in Merced County. Participating jurisdictions are able to use those fees for vehicle abatement according to vehicle codes.

Major Enterprise Fund

The Association reports the following major enterprise fund:

- ♦ *Merced Data Special Services, Inc.* – MDSS provides special planning services and products to governmental agencies and other organizations primarily within Central California. In addition, MDSS operates the www.yosemite.com website, which provides accurate, real-time information about Yosemite National Park and the surrounding region.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Fiduciary Funds

- ♦ *Measure V Trust Fund* – This is the portion of the Measure V activity that the Association receives and passes through to the Local Projects, Alternative Modes Projects, and Transit projects. The following is a list of funding recipients:
 - ♦ City of Atwater
 - ♦ City of Dos Palos
 - ♦ City of Gustine
 - ♦ City of Livingston
 - ♦ City of Los Banos
 - ♦ City of Merced
 - ♦ County of Merced
 - ♦ Transit (Transit Joint Powers Authority of Merced County)
- ♦ *State Transit Assistance Fund* – The State Transit Assistance Fund is used to account for public transportation monies derived from statewide sales taxes, and for the apportionment and disbursement of such funds to participating cities and Merced County according to approved claims.
- ♦ *State Exchange Fund* – The State Exchange Fund is used to account for the exchange of federal regional surface transportation program funds for nonfederal and state highway funds, and for the apportionment and disbursement of such funds to participating cities and Merced County in accordance with the approved claims.

Measurement Focus and Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Association considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred; however, principal and interest expenditures on long-term debt and compensated absences of government funds are recorded only when payment is due.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified basis of accounting. Under this method, revenues are recognized when measurable and available. The Association considers all revenues reported in the governmental funds to be available if the revenues are collected 90 days after year-end. Sales taxes, state and local revenues, federal revenues, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, as well as compensated absences, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are found in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The Association has elected not to follow subsequent private-sector guidance for its business-type activities and enterprise funds.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Association's proprietary fund are charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The major sources of revenue are federal operating revenue, state and local operating revenue, charges for services, sales taxes, investment earnings, and in-kind contributed services as described below:

1) Federal Operating Revenue

Federal operating revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods. The funds are expended for transportation planning purposes.

2) State and Local Operating Revenue

State and local operating revenue takes the form of appropriations for transportation and other planning purposes. The amounts are generally earned when program expenditures are incurred.

3) Charges for Services

The Association provides various services to the County of Merced and the cities within the County. The local agencies contract with the Association for these services. Revenue is received on a reimbursement basis.

4) Sales Taxes

The Association receives revenues derived from sales tax transactions and are earmarked for use on certain transportation and transit projects within Merced County.

5) Investment Earnings

Interest revenues are recognized when they are measurable and available from the County of Merced Treasurer's Office.

6) In-Kind – Contributed Services

Local contributions, which include services provided by local governments, are used to match federal and state administered funding in various grants. Contributed services are recorded as revenue and expenditures in the individual grants. The amounts of each of these services, if any, are recorded in the accompanying financial statements at their estimated fair market values at the date of service.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position/Fund Balance

Cash and Cash Equivalents

The Association’s cash and cash equivalents consist of cash on hand and short-term investments with original maturities of three months or less from the date of acquisition. Cash of all funds, excluding the component unit, is pooled in the treasury of Merced County. The County pools these funds with those of other entities of the County and invests the cash. These pooled funds are accounted for on a cost basis during the year and adjusted to fair value at year-end. Interest earned is deposited quarterly in the participating funds. Any investment losses are proportionately shared by all funds in the pool. The County is authorized to deposit cash and invest excess funds by *California Government Code* Sections 53601 et. seq., 53635 et. seq., and 53648 et. seq.

Merced Data Special Services, Inc. (MDSS), the component unit, holds its cash in a commercial bank checking account.

Interfund Transactions

During the course of operations, numerous transactions occur between individual funds involving goods provided or services rendered. There are also transfers of revenues from funds authorized to receive the revenue to funds authorized to expend it. Outstanding interfund balances, including internal financing balances, are reported as due to/from other funds. As a general rule, the effect of interfund activity is eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Association and the various transportation and service-related programs. Elimination of these charges would distort the direct costs and program revenues reported for the various programs concerned.

Accounts Receivable

Accounts receivable for MDSS result from charges for services. The “direct write-off” method for accounts receivable was applied for accounts that have been established as uncollectible. The “direct write-off” method is not in compliance with generally accepted accounting principles, but the result was deemed immaterial to the financial statements taken as a whole. MDSS did not write off any accounts receivable during the fiscal year. There were no accounts that were deemed to be uncollectible at June 30, 2018.

Capital Assets

Capital assets which include land, building and improvements, equipment, furniture, vehicles, database and website, are reported in the applicable governmental or business-type activities columns in the government-wide and proprietary fund financial statements. Capital assets are defined by the Association as assets with an initial, individual cost of more than \$5,000 and a useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Buildings, equipment, furniture, vehicles, database and website are depreciated over the straight-line method over the following useful lives:

<u>Asset Type</u>	<u>Useful Lives</u>
Buildings and improvements	20 to 50 years
Equipment and furniture	3 to 10 years
Vehicles	7 years
Database	20 years
Website	3 years

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position/Fund Balance (Continued)

Payables

Certain costs are incurred by the Association during the current period but are not paid until after the beginning of the next fiscal period. These costs are reported as payables in the financial statements.

Unearned Revenue/Unavailable Revenues

In the government-wide and fund financial statements, unearned revenue is recognized for transactions for which revenue has not yet been earned.

In the fund financial statements, unavailable revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrued basis of accounting. The Association records unearned revenue for transactions for which revenues have not been earned and records unavailable revenues when funds are not available to meet current financial obligations.

Compensated Absences

Full-time employees are eligible for leave. During the first 3 years of employment, a full-time employee accrues 10 days of vacation per year. During the next 6 years of employment, an employee accrues 15 days of vacation leave per year. After 9 years of employment, an employee accrues 20 days of vacation per year. Full-time employees may accrue a maximum of two times their annual vacation accrual. Employees may not receive payment for unused vacation hours except when employment is terminated. The liability recorded for compensated absences as of June 30, 2018 is \$309,657.

Regular full-time employees accrue 12 sick days per year. Salaried part-time employees working a minimum of 20 hours per week accrue sick leave in proportion to the regular work schedule. Accrual of sick leave is unlimited. Employees are not paid for unused sick days upon termination of employment.

Net Position

Net position is reported in three categories as follows:

- ◆ *Net investment in capital assets* – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition.
- ◆ *Restricted* – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- ◆ *Unrestricted* – This amount is all resources that do not meet the definition of “net investment in capital assets” or “restricted net position.”

Indirect Costs

The negotiated Indirect Cost Allocation Plan (ICAP) rate is adjusted to reflect the actual indirect costs incurred by the Association on a revolving two-year basis. For the fiscal year 2017-2018, the Association's ICAP rate has been approved at 45.31% by the Audits and Investigation of Caltrans. This rate has been applied across all programs and were billed at a lump sum at the end of the fiscal year.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position/Fund Balance (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. As such, actual results could differ from those estimates.

Use of Restricted and Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the Association's policy is to apply restricted net position first.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Association is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- ♦ Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- ♦ Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- ♦ Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Governing Board. These amounts cannot be used for any other purpose unless the Governing Board removes or changes the specific use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- ♦ Assigned – This classification includes amounts that are constrained by the Association's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Governing Board or through the Governing Board delegating the responsibility to the Executive Director through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- ♦ Unassigned – This classification includes any negative residual amounts that may exist as a result of expenditures incurred for specific purposes in excess of amounts restricted, committed, or assigned to those purposes.

In circumstances when expenditures are made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 – CASH AND INVESTMENTS

Cash in Banks

The Association pools cash resources from all governmental funds, as well as other governmental entities, in order to facilitate the management of cash and achieve the goal of obtaining the highest yield with the greatest safety and least risk. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms. The Association has a collateralized agreement with Wells Fargo Bank that all government funds deposited are subject to Title 5, Division 2, Part 1, Chapter 4, Article 2 (commencing with Section 53630) of the Government Code of the State of California (the "Local Agency Deposit Security Law").

Cash and cash equivalents held in the proprietary fund consist only of cash held in financial banking institutions. Cash balances in banks are insured up to \$250,000, per financial institution, by the Federal Depository Insurance Corporation (FDIC). Custodial credit risk is that in the event of a bank failure, the fund's deposits will not be returned to it.

Investments in Merced County Treasury

The Association's cash and investments in the governmental funds consist of cash in the Merced County Treasury as part of the common investment pool. These pooled funds are carried at cost during the year and adjusted to fair value at year-end. Interest is paid quarterly into the participating funds. Any investment losses are proportionately shared by all funds in the pool. The fair market value of this pool, as of June 30, 2018, was provided by the pool sponsor.

The County is authorized to deposit cash and invest excess funds by the *California Government Code* Sections 53601 et. seq., 53635 et. seq., and 53648 et. seq. The County is restricted by *California Government Code* Section 53635, pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The investment policy for the Merced County Treasury prohibits reverse repurchase agreements and investments in foreign investments.

Cash and investments are comprised of the following at June 30, 2018:

	Cost	Fair Market Value
<u>DEPOSITS</u>		
Unrestricted cash and investments:		
Governmental funds- Investments in Merced County Treasury	\$ 17,824,485	\$ 17,688,043
Fiduciary funds - Investments in Merced County Treasury	1,046,353	1,038,091
Cash in Bank	5,133,673	5,133,673
 Total cash and investments	 \$ 24,004,511	 \$ 23,859,807

Cash and investments are classified in the financials as shown below at June 30, 2018.

	Cost	Fair Market Value
Governmental funds	\$ 19,930,992	\$ 19,794,550
Proprietary funds	189,459	189,459
Fiduciary funds	3,884,060	3,875,798
 Total cash and investments	 \$ 24,004,511	 \$ 23,859,807

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investments in Merced County Treasury (Continued)

Investments in investment pools are considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book entry form. Investments in investment pools and other pooled investments are excluded from the concentration of credit risk disclosure under GASB Statement No. 40.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rate. As of June 30, 2018, the weighted average maturity of the investments contained in the Merced County Treasury investment pool was approximately 438 days.

Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The County of Merced issues a financial report that includes custodial risk disclosures for the Cash in County Treasury. The report may be obtained by writing the Merced County Treasurer, 2222 M Street, Merced, California 95340.

Investment in Treasure Valuation

The Association categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Fair value measurements of the Association's investments are as follows at June 30, 2018:

- ♦ Cash in County of Merced Treasurer's Investment Pool: valued at \$13,632,967, the County of Merced Treasurer's investment Pool is accounted for on a cost basis during the year and adjusted to fair value at year-end, the fair market value of this pool as of June 30, 2018 was provided by the Merced County Treasury. The County of Merced Treasurer's invests in numerous types of investments ranging all levels in the fair value hierarchy. Accordingly, it is not an investment type that can be categorized in any particular level in the fair value hierarchy.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3 – INTERFUND RECEIVABLES AND PAYABLES

The composition of internal balances at June 30, 2018 is as follows:

	<u>Due From</u>	<u>Due To</u>	<u>Explanation</u>
General Fund	\$ 293	\$ 157,210	Operational
Service Authority for Freeway Emergencies Fund	157,210	-	Operational
Abandoned Vehicle Abatement	-	293	Operational
	<u>\$ 157,503</u>	<u>\$ 157,503</u>	

The composition of due from and to between the primary government and component unit at June 30, 2018 is as follows:

	<u>Due From</u>	<u>Due To</u>	<u>Explanation</u>
General Fund	\$ -	\$ 53,496	Operational
Merced Data Special Services, Inc.	53,496	-	Operational
	<u>\$ 53,496</u>	<u>\$ 53,496</u>	

NOTE 4 – DUE TO/FROM OTHER LOCAL AGENCIES AND GOVERNMENTS

Amounts due to/from other local agencies and governments as of June 30, 2018 are as follows:

Other Governments

<u>Receivable Fund</u>	<u>Payable From</u>	<u>Amount</u>	<u>Explanation</u>
General Fund	Other Government	1,667,492	Local
Local Transportation Fund	State of California	1,214,841	LTF Allocation
Regional Transportation Impact Fee	Other Government	146,939	Local
Service Authority for Freeway Emergencies	State of California	39,367	SAFE Allocation
Measure V Regional Fund	State of California	1,135,062	Measure V Regional Allocation
Nonmajor fund	State of California	57,514	AVA Fees
Total		<u>\$ 4,261,215</u>	

Other Local Agencies

<u>Payable Fund</u>	<u>Payable To</u>	<u>Amount</u>	<u>Explanation</u>
General Fund	Various local agencies	191,277	Various services
Local Transportation Fund	Various local governments, agencies	3,550,221	LTF Disbursement
Service Authority for Freeway Emergencies	California Highway Patrol	1,284	Call box
Nonmajor fund	Various local governments, agencies	57,514	AVA Disbursements
Total		<u>\$ 3,800,296</u>	

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 – CAPITAL ASSETS

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

	<u>Balances July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances June 30, 2018</u>
Government activities:				
Capital assets not being depreciated:				
Land	\$ 75,000	\$ -	\$ -	\$ 75,000
Capital assets being depreciated:				
Buildings and improvements	776,916	(201,358)	-	575,558
Furniture and equipment	<u>590,085</u>	<u>(77,899)</u>	<u>-</u>	<u>512,186</u>
Total capital assets being depreciated	<u>1,367,001</u>	<u>(279,257)</u>	<u>-</u>	<u>1,087,744</u>
Less accumulated depreciation for:				
Buildings and improvements	(282,965)	(7,413)	4,027	(286,351)
Furniture and equipment	<u>(553,581)</u>	<u>(15,990)</u>	<u>77,899</u>	<u>(491,672)</u>
Total accumulated depreciation	<u>(836,546)</u>	<u>(23,403)</u>	<u>81,926</u>	<u>(778,023)</u>
Total capital assets being depreciated, net	<u>530,455</u>	<u>(302,660)</u>	<u>81,926</u>	<u>309,721</u>
Governmental activities capital assets, net	<u>\$ 605,455</u>	<u>\$ (302,660)</u>	<u>\$ 81,926</u>	<u>\$ 384,721</u>
Business-type activities:				
Capital assets being depreciated:				
GIS system	\$ 51,490	\$ -	\$ -	\$ 51,490
Yosemite.com website	<u>19,742</u>	<u>-</u>	<u>-</u>	<u>19,742</u>
Total capital assets being depreciated	<u>71,232</u>	<u>-</u>	<u>-</u>	<u>71,232</u>
Less accumulated depreciation for:				
GIS system	(51,490)	-	-	(51,490)
Yosemite.com website	<u>(19,742)</u>	<u>-</u>	<u>-</u>	<u>(19,742)</u>
Total accumulated depreciation	<u>(71,232)</u>	<u>-</u>	<u>-</u>	<u>(71,232)</u>
Business-type activities capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense of \$23,403 was charged to general administration in the statement of activities.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 – LONG-TERM LIABILITIES

Long-term liabilities were fully matured as of June 30, 2018.

Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2018 was as follows:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2018</u>	<u>Due Within One Year</u>
Governmental activities:					
Loan payable - solar panels	\$ 4,567	\$ -	\$ (4,567)	\$ -	\$ -
Total	<u>\$ 4,567</u>	<u>\$ -</u>	<u>\$ (4,567)</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 7 – LEASES

Operating Leases

The Association entered into a lease agreement for certain office equipment under a non-cancelable operating lease expiring in January 2021.

Total operating lease costs (including usage charges) were \$17,421 for the year ended June 30, 2018.

The following is a schedule of future minimum operating lease payments:

<u>Year Ending June 30</u>	
2019	\$ 14,423
2020	14,423
2021	<u>8,413</u>
	<u>\$ 37,259</u>

NOTE 8 – MEASURE V REGIONAL FUND REVENUE

Measure V Revenues are derived from a ½ cent transportation sales tax that was passed by voters in November 2016. Per GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions," sales tax falls under the definition of a derived tax revenue, which is the result from assessments imposed on exchange transactions. As such, the funds received for the Measure V Regional Fund are classified as Sales Tax Revenues even though there were no underlying expenditures incurred for said revenues. For the year ended June 30, 2018, total Measure V Regional Fund Sales Tax Revenues totaled \$7,379,840.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 – TRANSACTIONS WITH COMPONENT UNIT

The Association provided professional services in the amount of \$601 to Merced Data Special Services, Inc. for the year ended June 30, 2018.

NOTE 10 – DEFINED CONTRIBUTION PLAN

The Association provides pension benefits for all of its full-time employees through a defined contribution plan. The plan is administered by the ICMA Retirement Corporation. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate in the plan from the date of employment and are 100% vested after 364 days of employment. Under the terms of the plan, the employer contributes 15% and 18.5% of the qualified payroll for all eligible employees and the Executive Director, respectively. The contributions are 100% vested to all employees covered by the plan. As this is an employer only contribution plan, any employee terminating employment before being vested will forfeit all contributions. The employer may use those funds to pay for any future contributions. Any changes to the rates are approved by the Governing Board.

The Association's total payroll eligible for pension benefits for the year ending June 30, 2018 was \$3,704,131. The Association's contributions were calculated using the base salary amount of \$3,704,131. The Association made the required contribution amounting to \$551,524. There were no forfeitures for the fiscal year ended June 30, 2018.

NOTE 11 – AFFILIATED ORGANIZATIONS

The Association's Governing Board serves as the Solid Waste Policy Board (SWPB) for Merced County. The SWPB is a separate Joint Powers Authority responsible for the Merced County Regional Waste Management Authority (the Authority) and the Merced County Solid Waste Enterprise. A separate audit is performed for the Authority and financial information of the Authority can be obtained by writing to the Association's Finance Director, 369 West 18th Street, Merced, California 95340.

The Association's Governing Board also presides over the Merced County Transit Joint Powers Authority (TJPA). A separate audit is performed for the TJPA and financial information of TJPA can be obtained by writing to the Association's Finance Director, 369 West 18th Street, Merced, California 95340.

NOTE 12 – DEFICIT FUND BALANCES/NET POSITIONS

The following fund had a deficit fund equity at June 30, 2018:

Nonmajor Governmental Fund:
Abandoned Vehicle Abatement Fund \$ 768

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 13 – PRIOR PERIOD ADJUSTMENTS

Beginning net position of the Governmental Activities has been restated to record prior period adjustments as presented in the chart below:

	<u>Governmental Activities</u>	<u>Local Transportation Fund</u>	<u>Nonmajor Governmental Fund</u>
Overstatement of revenues	\$ (776,537)	\$ (776,537)	\$ -
Understatement of expenses	<u>(6,000)</u>	<u>-</u>	<u>(6,000)</u>
Total prior period adjustments	<u>\$ (782,537)</u>	<u>\$ (776,537)</u>	<u>\$ (6,000)</u>

NOTE 14 – RECLASSIFICATION OF SPECIAL REVENUE FUNDS TO FIDUCIARY FUNDS

During the current fiscal year, management determined that the Funds identified below would be more accurately presented as fiduciary funds as opposed to special revenue funds as they had been in prior years. This decision was made due to the nature of the activity of these funds and the Association’s fiduciary role.

- ♦ *State Transit Assistance Fund – The Association acts as a pass-through entity for these funds and does not have discretion over how they are used.*
- ♦ *State Exchange Fund – The Association acts as a pass-through entity for these funds and does not have discretion over how they are used.*
- ♦ *Measure V Trust Fund – The portion of Measure V Funding that the Association does not have complete discretionary use over, are identified and maintained in this Trust Fund.*

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REQUIRED SUPPLEMENTARY INFORMATION

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Sales taxes	\$ 432,201	\$ 432,201	\$ 464,432	\$ 32,231
State and local revenues	522,336	522,336	337,250	(185,086)
Management services revenue	5,974,757	5,974,757	5,192,568	(782,189)
Federal revenues	2,185,361	2,185,361	1,981,263	(204,098)
Investment earnings	-	-	4,642	4,642
Miscellaneous	<u>242,205</u>	<u>242,205</u>	<u>562,757</u>	<u>320,552</u>
Total revenues	<u>9,356,860</u>	<u>9,356,860</u>	<u>8,542,912</u>	<u>(813,948)</u>
EXPENDITURES				
Current:				
General government:				
Salaries and benefits	6,863,126	6,863,126	5,665,471	1,197,655
Supplies and services	2,262,632	2,262,632	1,883,060	379,572
Highways and streets	-	-	900	(900)
Debt service:				
Interest	-	-	90	(90)
Capital outlay	<u>231,100</u>	<u>231,100</u>	<u>7,535</u>	<u>223,565</u>
Total expenditures	<u>9,356,858</u>	<u>9,356,858</u>	<u>7,557,056</u>	<u>1,799,802</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2</u>	<u>2</u>	<u>985,856</u>	<u>985,854</u>
Fund balances (deficit) - beginning	<u>(248,330)</u>	<u>(248,330)</u>	<u>(248,330)</u>	<u>-</u>
Fund balances (deficit) - ending	<u>\$ (248,328)</u>	<u>\$ (248,328)</u>	<u>\$ 737,526</u>	<u>\$ 985,854</u>

The notes to the required supplementary information are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
REGIONAL TRANSPORTATION IMPACT FEE FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State and local revenues	\$ -	\$ -	\$ 773,127	\$ 773,127
Investment earnings	<u>10,000</u>	<u>10,000</u>	<u>38,950</u>	<u>28,950</u>
Total revenues	<u>10,000</u>	<u>10,000</u>	<u>812,077</u>	<u>802,077</u>
EXPENDITURES				
Current:				
General government:				
Supplies and services	5,200	5,200	2,195	3,005
Highways and streets	<u>3,000,000</u>	<u>3,000,000</u>	<u>47,624</u>	<u>2,952,376</u>
Total expenditures	<u>3,005,200</u>	<u>3,005,200</u>	<u>49,819</u>	<u>2,955,381</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,995,200)</u>	<u>(2,995,200)</u>	<u>762,258</u>	<u>3,757,458</u>
Fund balances - beginning	<u>4,578,655</u>	<u>4,578,655</u>	<u>4,787,979</u>	<u>209,324</u>
Fund balances - ending	<u>\$ 1,583,455</u>	<u>\$ 1,583,455</u>	<u>\$ 5,550,237</u>	<u>\$ 3,966,782</u>

The notes to the required supplementary information are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
LOCAL TRANSPORTATION FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local transportation fund	\$ 7,895,000	\$ 7,895,000	\$ 7,700,578	\$ (194,422)
Investment earnings	<u>12,000</u>	<u>12,000</u>	<u>19,118</u>	<u>7,118</u>
Total revenues	<u>7,907,000</u>	<u>7,907,000</u>	<u>7,719,696</u>	<u>(187,304)</u>
EXPENDITURES				
Current:				
Contributions to other local agencies	<u>7,895,000</u>	<u>7,895,000</u>	<u>7,895,001</u>	<u>(1)</u>
Total expenditures	<u>7,895,000</u>	<u>7,895,000</u>	<u>7,895,001</u>	<u>(1)</u>
Net change in fund balances	12,000	12,000	(175,305)	(187,305)
Fund balances - beginning	871,649	871,649	2,565,736	1,694,087
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(776,537)</u>	<u>(776,537)</u>
Fund balances - ending	<u>\$ 883,649</u>	<u>\$ 883,649</u>	<u>\$ 1,613,894</u>	<u>\$ 730,245</u>

The notes to the required supplementary information are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
SERVICE AUTHORITY FOR FREEWAY EMERGENCIES FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State and local revenues	\$ 205,000	\$ 205,000	\$ 221,214	\$ 16,214
Investment earnings	<u>10,000</u>	<u>10,000</u>	<u>13,924</u>	<u>3,924</u>
Total revenues	<u>215,000</u>	<u>215,000</u>	<u>235,138</u>	<u>20,138</u>
EXPENDITURES				
Current:				
Supplies and services	<u>37,500</u>	<u>37,500</u>	<u>8,648</u>	<u>28,852</u>
Total expenditures	<u>37,500</u>	<u>37,500</u>	<u>8,648</u>	<u>28,852</u>
Net change in fund balances	177,500	177,500	226,490	48,990
Fund balances - beginning	<u>2,425,781</u>	<u>2,425,781</u>	<u>2,446,725</u>	<u>20,944</u>
Fund balances - ending	<u>\$ 2,603,281</u>	<u>\$ 2,603,281</u>	<u>\$ 2,673,215</u>	<u>\$ 69,934</u>

The notes to the required supplementary information are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
MEASURE V REGIONAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Sales taxes	\$ 15,000,000	\$ 15,000,000	\$ 7,379,840	\$ (7,620,160)
Investment earnings	<u>-</u>	<u>-</u>	<u>(189)</u>	<u>(189)</u>
Total revenues	<u>15,000,000</u>	<u>15,000,000</u>	<u>7,379,651</u>	<u>(7,620,349)</u>
EXPENDITURES				
Current:				
Supplies and services	<u>8,400,000</u>	<u>8,400,000</u>	<u>-</u>	<u>8,400,000</u>
Total expenditures	<u>8,400,000</u>	<u>8,400,000</u>	<u>-</u>	<u>8,400,000</u>
Net change in fund balances	6,600,000	6,600,000	7,379,651	779,651
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>1,711,660</u>	<u>1,711,660</u>
Fund balances - ending	<u>\$ 6,600,000</u>	<u>\$ 6,600,000</u>	<u>\$ 9,091,311</u>	<u>\$ 2,491,311</u>

The notes to the required supplementary information are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 – BUDGETARY INFORMATION

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. The Association's budget is a management tool that assists its users in analyzing financial activity for its fiscal year June 30. The Association's primary funding sources are federal, state, and local grants, which may have grant periods that may or may not coincide with the Association's fiscal year. These grants normally are awarded for a twelve-month period; however, they can be awarded for periods shorter or longer than twelve months.

The Association's annual revenue estimates are based upon the best available information as to potential sources of funding. The Association's annual budget differs from that of most local governments due to the dependency upon federal, state and local grants, and the uncertain nature of those grant awards. The resultant annual budget is subject to change within the fiscal year due to (1) increases/decreases in actual grant awards from those estimated; (2) changes in grant periods; (3) unanticipated grant awards not included in the initial budget; and (4) expected grant awards which fail to materialize.

The budget is known as the Overall Work Program. Management emphasis is given to complying with the grant budget, terms and conditions on a grant-by-grant basis. These terms and conditions usually specify the period during which costs may be incurred and outline budget restrictions or allowances. The Association follows the following procedures in establishing the general fund budget reflected in the general-purpose financial statements:

- ◆ In February, the Executive Director submits the Overall Work Program to the Technical Review Board, the Association's Governing Board, and State and Federal agencies for the input on the operating budget for the fiscal year commencing the following July 1.
- ◆ The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles.
- ◆ Appropriations for the general fund lapse at the end of the fiscal year.
- ◆ Revisions to the budget, which increase total expenditures, must be approved by the Governing Board.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations

The following funds incurred expenditures in excess of appropriations in the following amounts for the year ended June 30, 2018:

General Fund:	
Current:	
Highway and streets	\$ 900
Debt service:	
Interest	90

The excess expenditures were covered by available surpluses in other accounts or available fund balance in the funds.

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SUPPLEMENTARY INFORMATION

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2018**

<u>Federal Grantor Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Transportation</u>			
Passed through the State of California Department of Transportation:			
Highway Planning and Construction	20.205	74A0813	\$ <u>1,981,262</u>
Total Department of Transportation			\$ <u>1,981,262</u>

The notes to the schedule of expenditures of federal awards are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

GENERAL

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the Merced County Association of Governments (the Association). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies are included in the schedule. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

BASIS OF ACCOUNTING

The accompanying SEFA is presented using the modified accrual basis of accounting, which is described in Note 1 of the Association's basic financial statements.

RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal award expenditures agree or can be reconciled with the amounts reported in the Association's basic financial statements.

INDIRECT COST RATE

The Association has elected not to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

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OTHER SCHEDULES

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SUMMARY OF RESOURCES AND EXPENDITURES BY WORK ELEMENT- MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2018**

	Total	FHWA PL	FTA Sec. 5303	FTA Sec. 5304	CMAQ	RIP/PPM	TDA Admin	RTIF	SAFE	AVA	Contributions from Members	MCAG Admin & Other
Resources:												
FHWA/PL	\$ 1,239,118	\$ 1,239,118	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FHWA PL 15/16 ICAP	207,885	207,885	-	-	-	-	-	-	-	-	-	-
FHWA PL 17/18 ICAP	251,177	251,177	-	-	-	-	-	-	-	-	-	-
FTA Section 5303	41,844	-	41,844	-	-	-	-	-	-	-	-	-
FTA 5303 15/16 ICAP	2,000	-	2,000	-	-	-	-	-	-	-	-	-
FTA 5303 17/18 ICAP	18,959	-	18,959	-	-	-	-	-	-	-	-	-
FTA Section 5304	220,278	-	-	220,278	-	-	-	-	-	-	-	-
CMAQ	19,206	-	-	-	19,206	-	-	-	-	-	-	-
RIP	202,825	-	-	-	-	202,825	-	-	-	-	-	-
LTF Planning	387,298	-	-	-	-	-	-	-	-	-	-	387,298
LTF Admin	94,010	-	-	-	-	-	94,010	-	-	-	-	-
RTIF	7,939	-	-	-	-	-	-	7,939	-	-	-	-
SAFE	3,427	-	-	-	-	-	-	-	3,427	-	-	-
AVA	13,525	-	-	-	-	-	-	-	-	13,525	-	-
One Voice	89,435	-	-	-	-	-	-	-	-	-	74,595	14,840
Contributions from members	57,605	-	-	-	-	-	-	-	-	-	57,605	-
Local Contracts (PMS)	97,745	-	-	-	-	-	-	-	-	-	-	97,745
MDSS, Inc.	893	-	-	-	-	-	-	-	-	-	-	893
YARTS JPA	374,410	-	-	-	-	-	-	-	-	-	-	374,410
TJPA	1,454,545	-	-	-	-	-	-	-	-	-	-	1,454,545
RWMA	3,363,612	-	-	-	-	-	-	-	-	-	-	3,363,612
Measure V	167,724	-	-	-	-	-	-	-	-	-	-	167,724
Interest	4,642	-	-	-	-	-	-	-	-	-	-	4,642
Other	18,737	-	-	-	-	-	-	-	-	-	-	18,737
Sale of assets	203,962	-	-	-	-	-	-	-	-	-	-	203,962
Total Resources	8,542,801	1,698,180	62,803	220,278	19,206	202,825	94,010	7,939	3,427	13,525	132,200	6,088,408

MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SUMMARY OF RESOURCES AND EXPENDITURES BY WORK ELEMENT- MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)

	Total	FHWA PL	FTA Sec. 5303	FTA Sec. 5304	QMAQ	RIP	TDA Admin	RTIF	SAFE	AVA	Contributions from Members	MCAG Admin & Other
Expenditures:												
Citizen Part. & Coord.	202,383	160,469	41,844	-	-	-	-	-	-	-	-	70
Regional Transportation Plan (RTP)	932,628	715,731	-	-	-	119,152	-	-	-	-	-	97,745
Perform Measure & Monitoring	19,595	19,595	-	-	-	-	-	-	-	-	-	-
Alternative Modes Planning	115,831	32,158	-	-	-	83,673	-	-	-	-	-	-
Air Quality Planning	27,090	27,090	-	-	-	-	-	-	-	-	-	-
Short Range Transit Plan	3,083	-	-	2,729	-	-	-	-	-	-	-	354
Short Range Transit Plan-Rural												
Trans Alternative	224,150	-	-	217,549	-	-	-	-	-	-	-	6,601
SJ Valley Trans Coord.	42,855	42,812	-	-	-	-	-	-	-	-	-	43
FTIP	42,350	42,350	-	-	-	-	-	-	-	-	-	-
RTIP	36,286	36,286	-	-	-	-	-	-	-	-	-	-
Traffic Model	11,426	11,426	-	-	-	-	-	-	-	-	-	-
GIS Maintenance	33,459	33,459	-	-	-	-	-	-	-	-	-	-
RTIF	5,744	-	-	-	-	-	-	5,744	-	-	-	-
Trans Expenditure Program	162,089	-	-	-	-	-	-	-	-	-	-	162,089
TDM	19,206	-	-	-	19,206	-	-	-	-	-	-	-
TDA Administration	36,629	-	-	-	-	-	36,629	-	-	-	-	-
Overall Work Program	74,544	71,065	-	-	-	-	-	-	-	-	-	3,479
One Voice	67,162	-	-	-	-	-	-	-	-	-	67,162	-
YARTS JPA	234,706	-	-	-	-	-	-	-	-	-	-	234,706
Transit JPA FTA Admin	774,333	-	-	-	-	-	-	-	-	-	-	774,333
MDSS, Inc.	621	-	-	-	-	-	-	-	-	-	-	621
SWPB	3,311,346	-	-	-	-	-	-	-	-	-	-	3,311,346
SAFE	2,359	-	-	-	-	-	-	2,359	-	-	-	-
AVA	1,049	-	-	-	-	-	-	-	1,049	-	-	-
MCAG Administration	1,145,273	-	-	-	-	-	-	-	-	-	-	1,145,273
MCAG Administration - Unallowed	30,855	-	-	-	-	-	-	-	-	-	30,855	-
Total expenditures	7,557,052	1,192,441	41,844	220,278	19,206	202,825	36,629	5,744	2,359	1,049	98,017	5,736,660
Excess of revenues over (under) expenditures	\$ 985,749	\$ 505,739	\$ 20,959	\$ -	\$ -	\$ -	\$ 57,381	\$ 2,195	\$ 1,068	\$ 12,476	\$ 34,183	\$ 351,748

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SCHEDULE OF REGULAR ALLOCATIONS AND DISBURSEMENTS BY PURPOSE –
LOCAL TRANSPORTATION FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Administration</u>	<u>PUC 99402 Planning</u>	<u>PUC 99260(a)</u>	<u>Total</u>
<u>Allocations</u>				
Transit Joint Powers Authority	\$ -	\$ -	\$ 6,345,862	\$ 6,345,862
Yosemite Area Rural Transit Services	-	-	300,000	300,000
County of Merced	3,250	-	-	3,250
Merced County Association of Governments	94,010	-	-	94,010
Merced County Association of Governments	<u>-</u>	<u>397,298</u>	<u>-</u>	<u>397,298</u>
	<u>\$ 97,260</u>	<u>\$ 397,298</u>	<u>\$ 6,645,862</u>	<u>\$ 7,140,420</u>
<u>Disbursements</u>				
Transit Joint Powers Authority	\$ -	\$ -	\$ 6,345,862	\$ 6,345,862
Yosemite Area Rural Transit Services	-	-	300,000	300,000
Merced County Auditor	3,250	-	-	3,250
Merced County Association of Governments	94,010	-	-	94,010
Merced County Association of Governments	<u>-</u>	<u>397,298</u>	<u>-</u>	<u>397,298</u>
	<u>\$ 97,260</u>	<u>\$ 397,298</u>	<u>\$ 6,645,862</u>	<u>\$ 7,140,420</u>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
 SCHEDULE OF REGULAR ALLOCATIONS AND DISBURSEMENTS BY PURPOSE –
 STATE TRANSIT ASSISTANCE FUND
 FOR THE YEAR ENDED JUNE 30, 2018**

	Allocations			Disbursements
	PUC 93313	PUC 93314	Total	
Transit Joint Powers Authority	\$ 1,737,657	\$ 123,768	\$ 1,861,425	\$ 1,861,425

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
 SCHEDULE OF REGULAR ALLOCATIONS AND DISBURSEMENTS BY PURPOSE –
 STATE OF GOOD REPAIR
 FOR THE YEAR ENDED JUNE 30, 2018**

	Allocations			<u>Disbursements</u>
	<u>PUC 93313</u>	<u>PUCH 93314</u>	<u>Total</u>	
Transit Joint Powers Authority	<u>\$ 366,590</u>	<u>\$ 26,023</u>	<u>\$ 392,613</u>	<u>\$ 392,613</u>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
 SCHEDULE OF REGULAR ALLOCATIONS AND DISBURSEMENTS BY PURPOSE –
 REGIONAL SURFACE TRANSPORTATION PROGRAM EXCHANGE FUND
 FOR THE YEAR ENDED JUNE 30, 2018**

	Section 182.6	
	Allocations	Disbursements
City of Atwater	\$ 338,116	\$ 338,116
City of Dos Palos	61,476	61,476
City of Gustine	64,255	64,255
City of Livingston	155,328	155,328
City of Los Banos	437,595	437,595
City of Merced	843,081	843,081
County of Merced	937,856	937,856
	\$ 2,837,707	\$ 2,837,707

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SCHEDULE OF REGIONAL TRANSPORTATION IMPACT FEES BY JURISDICTION
FOR THE YEAR ENDED JUNE 30, 2018**

City of Atwater	\$ 423,276
County of Merced	<u>241,600</u>
	<u>\$ 664,876</u>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SCHEDULE OF INSURANCE COVERAGES
JUNE 30, 2018**

Type of Coverage	Amount of Coverage	Effective Date
Building	\$ 1,297,900	2/12/18-2/12/19
Business Property	\$ 281,200	2/12/18-2/12/19
Business Income/Extra Expense	\$ 100,000	2/12/18-2/12/19
General Aggregate	\$ 2,000,000	2/12/18-2/12/19
Products and Completed Operations Aggregate	\$ 2,000,000	2/12/18-2/12/19
Personal and Advertising Injury	\$ 1,000,000	2/12/18-2/12/19
Damage to Rental Premises	\$ 100,000 (each occurrence)	2/12/18-2/12/19
Medical Expense	\$ 5,000 (any one person)	2/12/18-2/12/19
Employee Benefits	\$ 1,000,000	2/12/18-2/12/19
Automobile - Liability	\$ 1,000,000 (each accident)	2/12/18-2/12/19
Automobile - Medical Payments	\$ 5,000 (each insured)	2/12/18-2/12/19
Automobile - Uninsured Motorist	\$ 1,000,000 (each accident)	2/12/18-2/12/19

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OTHER AUDITOR'S REPORTS

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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 Governing Board of the
Merced County Association of Governments
Merced, 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 Merced County Association of Governments (the Association), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated March 7, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association'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 Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Association'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 have not identified. We did identify certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a material weakness.

677 Scott Avenue
Clovis, CA 93612

tel 559.299.9540
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association'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. Our audit was further made to determine that allocations made and expended by the Association were made in accordance with the Transportation Development Act as required by Sections 6661, 6662, and 6751 of the California Code of Regulations. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Price Pange & Company

Clovis, California
March 7, 2019



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Governing Board of the
Merced County Association of Governments
Merced, California

Report on Compliance for Each Major Federal Program

We have audited the Merced County Association of Government's (the Association) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended June 30, 2018. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Association'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association'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 Association's compliance.

Opinion on Each Major Federal Program

In our opinion, the Merced County Association of Governments, 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, 2018.

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Report on Internal Control Over Compliance

Management of the Association 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 Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Price Pange & Company

Clovis, California
March 7, 2019

FINDINGS AND QUESTIONED COSTS

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**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
 Material weaknesses identified? X yes no

Significant deficiencies identified that are not
 considered to be material weaknesses? yes X none reported

Noncompliance material to financial
 statements noted? yes X no

Federal Awards

Internal control over major programs:
 Material weaknesses identified? yes X no

Significant deficiencies identified that are not
 considered to be material weaknesses? yes X none reported

Type of auditor's report issued on compliance
 for major programs: Unmodified

Any audit findings disclosed that are required
 to be reported in accordance with 2CRF section
 200.516(a)? yes X no

Identification of Major Programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	<u> </u> yes <u> X </u> no

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION II – FINANCIAL STATEMENT FINDINGS

FINANCIAL STATEMENT FINDINGS

Finding 2018-001 Bank Reconciliation (Material Weakness)

Condition:

The Association improperly recorded a deposit in transit at year-end. The Association recorded the deposit as a receivable instead of recording it as cash. Our audit procedures identified this error and proposed the necessary accounting entry to correct the balances of these accounts. The Association's management agreed with our adjustment.

Criteria:

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

Cause:

A lack of understanding by the accountant regarding how to account for the deposit in transit resulted in the error.

Effect:

As a result of this condition, receivables and cash were initially misstated by \$545,794. This entry had no impact on the statement of revenues, expenditures and changes in fund balance.

Recommendation:

We recommend that the Association enhance their year-end financial closing procedures over the bank reconciliation process to ensure balances on the bank reconciliation agree to the general ledger.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION III – FEDERAL AWARDS FINDINGS

None reported.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

Finding 2017-001 Financial Close and Reporting Process (Material Weakness)

Condition:

The Association did not properly record all payables, receivables and related expenditures and revenues during the year-end closing process. During our audit we identified these errors and proposed the necessary accounting entries to correct the balances of these accounts. The Association's management agreed with our adjustments and posted the entries.

Criteria:

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

Cause:

Internal controls over the year-end financial reporting process were not properly designed and were not placed in operation.

Effect:

As a result of this condition, payables, receivables, expenditures and revenues were initially materially misstated.

- Due from Other Governments, Revenues were understated by \$1,073,066 (Measure V)
- Due to Other Governments/Expenditures were overstated by \$535,186 (STA)
- Due to Other Governments/Expenditures were overstated by \$1,855,238; Due from Other Governments/Revenues were understated by \$1,855,238 (LTF)

Recommendation:

We recommend that the Association enhance their year-end financial closing procedures to include the additional steps, in detail, that should be undertaken at year-end to ensure proper reconciliation and reporting of all significant account balances.

Response:

Management has corrected this finding by putting in place closing procedures, which include a check list of closing procedures and review of transactions/events subsequent to year end. Management will also add additional staff to further prevent any findings in the future.

Status: Implemented.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

FEDERAL AWARD FINDINGS

Finding 2017-002 Schedule of Expenditures of Federal Awards (SEFA)

Condition:

The Association did not initially prepare a complete and accurate Schedule of Expenditures of Federal Awards (SEFA). Once we made the Association aware of the requirement, we were able to assist Association personnel with the preparation of a complete and accurate schedule.

Criteria:

2 CFR Part 200, Subpart F (Uniform Guidance) Section 200.502 states, "The auditee shall prepare a Schedule of Expenditure of Federal Awards for the period covered by the auditee's financial statements".

Questioned Cost:

Not applicable

Cause:

Internal controls over preparation of an accurate Schedule of Expenditures of Federal Awards (SEFA) were not properly designed and were not placed in operation.

Effect:

An incomplete SEFA is not in compliance with Federal regulations. This noncompliance could impact the Association's eligibility to receive federal awards.

Recommendation:

We recommend that the Association develop and implement a more robust system for the preparation of the SEFA for financial reporting purposes and compliance with auditee requirements identified in the Uniform Guidance. The process should include a secondary review of the schedule by somebody other than the preparer.

Response:

Management has corrected this finding by putting in place the following procedures: a reconciliation of recorded federal expenditures and reported federal expenditures will be performed, the schedule of expenditures of federal awards will be prepared based on this reconciliation, and a review of the completed SEFA will be performed by the Finance Director to verify accuracy.

Status: Implemented.

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**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
 CORRECTIVE ACTION PLAN
 6/30/18**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	Management takes full responsibility and fully understands that there was a minor gap in our internal control processes which caused the material deficiencies in our financials. We are fully committed to be compliant to U.S. GAAP. Due to the commitment, the minor gap in our internal control has been addressed as of today, 02/08/2019 and appropriate actions are being taken to prevent this in the future.	2/8/2019	Nav Bagri 209-723-3153 Ext 154



Nav Bagri
Finance Director