

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY**

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

**FOR THE YEAR ENDED
JUNE 30, 2017**

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
JUNE 30, 2017**

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INDEPENDENT AUDITOR'S REPORT

To the Governing Board of the
Transit Joint Powers Authority for
Merced County, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Transit Joint Powers Authority for Merced County (the Authority) as of and for the year ended June 30, 2017, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Transit Joint Powers Authority for Merced County, as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 on pages 5-8 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of insurance coverages is presented for purposes of additional analysis and is 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* (CFR) 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 and the schedule of insurance coverages are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The schedule of expenditures of federal awards 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 schedule of insurance coverages has 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Price Pange & Company

Clovis, California
December 26, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Merced County Association of Governments (MCAG) is the administrative management of the Transit Joint Powers Authority for Merced County (TJPA), which is responsible for the county-wide transportation system known as The Bus. Management presents the following narrative overview and analysis of the financial activities of TJPA for the year ended June 30, 2017. The financial information presented here should be considered in conjunction with the financial statements presented in the following pages.

FINANCIAL HIGHLIGHTS

- ❖ The TJPA's total assets for the fiscal year ended June 30, 2017 are \$39,876,416. This is a decrease of \$2,132,897 from the ending balance of the prior fiscal year. The significant changes were decrease in disposal of asset in the current fiscal year. TJPA disposed 13 CNG buses and CNG facility total reduction in asset of \$2,649,816 in book value.
- ❖ Capital assets, net of accumulated depreciation, included in total assets, are \$11,754,670, which is a decrease of \$4,424,705 from the prior year. The decrease is due to disposal of CNG buses and CNG facility.
- ❖ Total liabilities as shown on the Statement of Net Position for the fiscal year ended June 30, 2017 are \$6,128,964, which is a decrease from the prior year of \$173,554. The decrease is due reduction in contract services.

OVERVIEW OF FINANCIAL STATEMENTS

The Management's Discussion and Analysis is intended to serve as an introduction to TJPA's basic financial statements. Since TJPA's primary function is to provide transportation services to the region's citizens and recover costs through user fees and charges, the financial statements include business-type activities.

Basic Financial Statements

The financial statements are designed to provide readers with a broad overview of TJPA's finances in a manner similar to a private-sector business. The basic financial statements include the following:

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

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how TJPA's net position changed during the fiscal year ended June 30, 2017. All changes in net position are reported as soon as the underlying event giving rise to the change occurs (such as the receipt of goods and services or submittal of claims for capital and operating revenue) regardless of the timing of related cash flows. Thus, the revenues and expenses are reported in these statements using the accrual basis of accounting which is more fully described in the accompanying *Notes to the Basic Financial Statements*.

The *Statement of Cash Flows* presents the cash flow of events that occurred during the fiscal year in cash and cash equivalents.

The *Notes to the Basic Financial Statements* provide additional information that is essential to a full understanding of the financial data provided in the basic financial statements.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

FINANCIAL ANALYSIS

The financial statements provide both short-term and long-term information about TJPA's overall financial condition. This analysis addresses the financial statements of TJPA as a whole.

The financial statements include activity for all transit-related funds, including the General or Operating Fund, the Public Transportation Modernization Improvement and Service Enhancement Act (PTMISEA) Fund, the Local Transportation Fund or Transportation Development Act program, and the Cal-OES Fund.

As noted earlier, net position may serve as a useful indicator of a government's financial position over time. In the case of TJPA, assets exceeded liabilities by \$33,747,452 and \$36,906,795 at June 30, 2017 and 2016, respectively.

Statement of Net Position - Two-Year Comparison			
	June 30, 2017	June 30, 2016	Changes
Assets:			
Current Assets	\$ 28,121,746	\$ 25,829,938	\$ 2,291,808
Capital Assets (net)	11,754,670	16,179,375	(4,424,705)
Total Assets	39,876,416	42,009,313	(2,132,897)
Liabilities:			
Current Liabilities	6,128,964	6,302,518	(173,554)
Total Liabilities	6,128,964	6,302,518	(173,554)
Net Position:			
Net Investment in Capital Assets	11,754,670	16,179,375	(4,424,705)
Unrestricted	21,992,782	19,527,420	2,465,362
Prior Period Adjustment	-	1,200,000	(1,200,000)
Total Net Position	\$ 33,747,452	\$ 36,906,795	\$ (3,159,343)

TJPA's changes in net position for the years ended June 30, 2017 and 2016 are as follows:

Changes in Net Position			
	June 30, 2017	June 30, 2016	% Change
Operating Revenues	\$ 1,381,104	\$ 1,509,623	-8.5%
Operating Expenses	12,041,770	12,818,882	-6.1%
Operating Income (Loss)	(10,660,666)	(11,309,259)	-5.7%
Nonoperating Revenues	10,090,352	18,917,508	-46.7%
Special Item, Disposal of Capital Assets	(2,589,029)	-	0.0%
Changes in Net Position	(3,159,343)	7,608,249	-141.5%
Net Position - Beginning	35,706,795	28,098,546	27.1%
Prior Period Adjustment	1,200,000	-	0.0%
Net Position - Ending	\$ 33,747,452	\$ 35,706,795	-5.5%

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Transit Activities

- ❖ As shown on the Statement of Revenues, Expenses and Changes in Net Position for the fiscal year ending June 30, 2017, total operating expenses decreased by \$777,112 over the prior year. The major change is due to change in vendor of the service provider and maintenance of the buses.
- ❖ Nonoperating revenues decreased by \$8,827,156 over the prior year, much of the decrease in previous year TJPA received CMAQ grant of \$1,308,902 and FTA grant of \$ 2,448,564. Others decrease in LTF of \$2,945,364 and decrease in PTMISEA \$2,328,056.

Capital Assets and Debt Administration

Capital Assets

The capital assets of the TJPA are those assets with a cost of at least \$5,000 and have more than one year of life that are used in the performance of transit operations and any related functions. At June 30, 2017, the TJPA had \$11,754,670 invested in capital assets including land, land improvements, buildings and improvements, and equipment (see table below). This amount represents a net decrease (including additions and dispositions) of \$4,424,705 or thirty-eight percent from the prior year.

	July 1, 2016	Additons	Dispositions	July 1, 2017
Nondepreciable:				
Land	\$ 633,666	\$ -	\$ -	\$ 633,666
Construction in progress	-	139,660	-	139,660
Total Nondepreciable Assets	633,666	139,660	-	773,326
Depreciable:				
Land Improvements	108,445	-	-	108,445
Buildings and Improvements	4,353,452	-	(1,725,205)	2,628,247
Equipment	25,705,889	66,595	(5,532,544)	20,239,940
Total Depreciable Assets	30,167,786	66,595	(7,257,749)	22,976,632
Accumulated Depreciation:				
Land Improvements	(70,264)	(12,038)	-	(82,302)
Building and Improvements	(1,456,004)	(86,762)	709,185	(833,581)
Equipment	(13,095,809)	(1,882,344)	3,898,748	(11,079,405)
Total Accumulated Depreciation	(14,622,077)	(1,981,144)	4,607,933	(11,995,288)
Net Capital Assets	\$ 16,179,375	\$ (1,914,549)	\$ (2,649,816)	\$ 11,754,670

This year's major Disposals included:

- ❖ Disposal of 13 CNG buses book value of \$1,573,009.
- ❖ Disposal of CNG facility at the County Yard book value \$1,016,020
- ❖ Disposal of 6 Paratransit buses net book value of \$60,787

Future capital projects and equipment budgeted are funded with, federal and state grants, Prop. 1b funds (PTMISEA), and local transportation funds. More information about the capital assets can be found in Note 1 and Note 3 to the Financial Statements.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Debt

The Transit Joint Powers Authority for Merced County does not hold any debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- ❖ Merced County's unemployment rate remained unchanged from the prior year. As of September 2017, the Bureau of Labor Statistics reports the unemployment rates were 7.4% for Merced, 5.1% for California and 4.1% for the Nation. Most of the jurisdictions in Merced County have indicated that they have had some increase in building permits issued. The State-mandated increases in minimum wage will have impacts on the operations costs for both the 2017-18 and 2018-19 fiscal years.
- ❖ In the 2017-18 TJPA will begin construction of the new Operation and Maintenance Facility on Wardrobe Avenue in Merced.
- ❖ Staff is working with local jurisdictions for authorization to install bus stops along the new routes as well as bus turn-outs along major roadways. The table below shows the budget capital projects for the 2017-2018 fiscal year.
- ❖ In the 2017-18 TJPA will be offering free service on The Bus fixed route to veterans, seniors and ADA eligible passengers effective July 1, 2017. This new program is sponsored by Measure V, the transportation sales tax measure that was passed by Merced County voters last year.

Major purchases budgeted include the following:

Description	Estimated Cost	Funding Source
Transit facility	4,099,281	PTMISEA/LTF
Bus purchase	1,731,467	PTMISEA
Bus shelter/turn-outs	1,000,000	LTF
Fence, gate and lighting, new facility	421,920	CALOES
Total	\$ 7,252,668	

Requests for information

The basic financial statements are designed to provide a general overview of TJPA's finances. Questions concerning any information provided in the report or requests for additional financial information should be addressed to Nav Bagri, Finance Director, Merced County Association of Governments, 369 W. 18th Street, Merced, CA 95340, or at nav.bagri@mcagov.org.

BASIC FINANCIAL STATEMENTS

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**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2017**

ASSETS

Current assets:

Cash and cash equivalents	\$ 26,350,503
Accounts receivable	227,511
Due from other governments	947,206
Due from other agencies	540,864
Prepays	15,911
Bus pass inventory	39,751
Total current assets	28,121,746

Noncurrent assets:

Capital assets:

Nondepreciable	773,326
Depreciable	22,976,632
Accumulated depreciation	(11,995,288)
Capital assets, net of accumulated depreciation	11,754,670

Total noncurrent assets 11,754,670

Total assets 39,876,416

LIABILITIES

Current liabilities:

Accounts payable	696,862
Due to other governments	254,964
Unearned revenues	5,177,138
Total current liabilities	6,128,964

Total liabilities 6,128,964

NET POSITION

Net investment in capital assets	11,754,670
Unrestricted	21,992,782

Total net position \$ 33,747,452

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017**

Operating revenues:	
Passenger fares	\$ 1,381,104
Total operating revenues	<u>1,381,104</u>
Operating expenses:	
Contracted services	5,454,058
Professional services	1,351,268
Fuel, repairs and maintenance	2,794,473
General and administrative	193,508
Insurance	38,373
Special departmental expense	76,682
Utilities	17,832
Rents and leases	134,432
Depreciation	<u>1,981,144</u>
Total operating expenses	<u>12,041,770</u>
Operating income (loss)	<u>(10,660,666)</u>
Nonoperating revenues (expenses):	
Federal and state grants	3,809,360
Intergovernmental	6,071,882
Interest income	46,130
Loss on sale of assets	(50,787)
Other income	<u>213,767</u>
Total nonoperating revenues	<u>10,090,352</u>
Income before special item	(570,314)
Loss on disposal of capital assets	<u>(2,589,029)</u>
Change in net position	(3,159,343)
Net position - beginning	35,706,795
Prior period adjustment	<u>1,200,000</u>
Net position - ending	<u>\$ 33,747,452</u>

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

Cash Flows from Operating Activities:	
Receipts from customers	\$ 1,192,381
Payments to suppliers, contracted entities, and others	<u>(10,010,949)</u>
Net cash provided by (used in) operating activities	<u>(8,818,568)</u>
Cash Flows from Noncapital Financing Activities:	
Federal, state and local operating assistance	4,788,750
Intergovernmental revenues	6,558,266
Other revenues	<u>213,767</u>
Net cash provided by (used in) noncapital financing activities	<u>11,560,783</u>
Cash Flows from Capital and Related Financing Activities:	
Proceeds from capital asset disposals	10,000
Payments for capital assets	<u>(206,255)</u>
Net cash provided by (used in) capital and related financing activities	<u>(196,255)</u>
Cash Flows from Investing Activities:	
Interest received	<u>46,130</u>
Net cash provided by (used in) investing activities	<u>46,130</u>
Net increase (decrease) in cash and equivalents	2,592,090
Cash and equivalents at July 1, 2016	<u>23,758,413</u>
Cash and equivalents at June 30, 2017	<u>\$ 26,350,503</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating income (loss)	\$ (10,660,666)
Depreciation and amortization	1,981,144
Increase (decrease) in:	
Accounts receivable	(188,723)
Prepays	2,621
(Increase) decrease in:	
Accounts payable	(103,308)
Due to other governments	<u>150,364</u>
Net cash provided by (used in) operating activities	<u>\$ (8,818,568)</u>

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The cities of Atwater, Dos Palos, Gustine, Livingston, Los Banos, Merced, and the County of Merced, have entered in a joint powers agreement in 1995 to acquire, develop, maintain, and operate transportation services and related transit facilities. The Transit Joint Powers Authority of Merced County (the "Authority") both administers the operations subject to the terms and conditions provided in accordance with such agreements and the authority set forth in California Government Code Section 6508.

The Governing Board for the Authority is composed of the same members as the Governing Board of Merced County Association of Governments, which consist 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 Authority contracts with Merced County Association of Governments for administrative and accounting support.

Basis of Accounting

The Authority uses an enterprise fund format to report its activities for financial statement purposes. Proprietary Fund Financial Statements include a Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the costs and expenses of providing goods or services to its consumers be financed or recovered primarily through users charges; or where the governing body has decided that periodic determination of revenue earned, expenses incurred, and net income is appropriated for capital maintenances, public policy, management control, accountability, or other purposes.

Enterprise funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included in the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

Assets, Liabilities and Net Position

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand and short-term investments with original maturities of three months or less from the date of acquisition. The Authority maintains cash in a financial institution, the treasury of Merced County and the Local Agency Investment Fund (LAIF). The County pools funds with those of other entities of the County and invests the cash. These pooled funds are carried at cost, which approximates market value. 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.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Assets, Liabilities and Net Position (Continued)

Accounts Receivable

Accounts receivable result from charges for goods and 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 is immaterial to the financial statements taken as a whole. The Authority did not write off any accounts receivable during the fiscal year. There were no accounts deemed to be uncollectible at June 30, 2017.

Bus Pass Inventory

Inventory of bus passes on hand at year-end is valued at cost.

Capital Assets

Capital assets are recorded at cost or estimated cost where costs are not available. Assets acquired through gifts or contributions are recorded at fair value at the time received. Self-constructed assets are capitalized at cost plus ancillary charges, including interest. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

The Authority capitalizes equipment with a cost of at least \$5,000 and an estimated useful life in excess of one year; and land, buildings and improvements with a cost of at least \$10,000 and an estimated useful life in excess of one year. All capitalized assets are depreciated or amortized (assets under capital leases) using the straight-line method over their estimated useful lives. The estimated economic lives used to determine annual rates of depreciation or amortization are subject to periodic review and revision to assure that the costs of the respective assets will be written off over their economic lives.

The estimated useful lives for the various types of assets are as follows:

Land improvements	10 – 40 years
Buildings and improvements	6 – 50 years
Equipment	3 – 15 years

Accounts Payable/Due to Other Governments

Certain costs are incurred by the Authority during the current period but are not paid until after the beginning of the next fiscal year. These costs are reported as payables in the financial statements. The Authority’s current accounts payable and due to other governments’ balances of \$696,862 and \$254,964, respectively, as of June 30, 2017, are related to certain contract services and payments for utility fees.

Unearned Revenues

The Authority records unearned revenue for transactions for which revenues have not been earned and have not yet met the revenue recognition criteria based on the accrual basis of accounting.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Assets, Liabilities and Net Position (Continued)

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.

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.”

When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, then unrestricted resources as needed.

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 at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. As such, actual results could differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

Cash in Bank

The Authority’s cash is held in a financial banking institution. 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 deposits will not be returned. The Authority 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 in Merced County Treasury and Local Agency Investment Fund

The Authority’s cash and cash equivalents consist of cash in the Merced County Treasury and the Local Agency Investment Fund as part of common investment pools. 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, 2017, was provided by the pool sponsor.

The Authority 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 *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 securities and foreign investments.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Cash and investments as of June 30, 2017 consisted of the following:

	Cost	FMV
Cash in Merced County Treasury	\$ 17,605,822	\$ 17,551,766
Cash in Local Agency Investment Fund	1,528,991	1,523,929
Cash in Wells Fargo checking account	7,274,658	7,274,658
Petty cash	<u>150</u>	<u>150</u>
Total cash and investments	<u>\$ 26,409,621</u>	<u>\$ 26,350,503</u>

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, 2017, the weighted average maturity of the investments contained in the Merced County Treasury investment pool was approximately 527 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.

Cash In Treasury and Local Agency Investment Fund Valuation

The Authority 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 Authority's investments are as follows at June 30, 2017:

- Cash in County of Merced Treasurer's Investment Pool: valued at \$17,551,766, 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, 2017 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.
- Cash in Local Agency Investment Fund: valued at \$1,523,929, the Local Agency Investment Fund 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, 2017 was provided by the Local Agency Investment Fund. The Local Agency Investment Fund 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.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017 was as follows:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2017</u>
Nondepreciable:				
Land	\$ 633,666	\$ -	\$ -	\$ 633,666
Construction in progress	-	139,660	-	139,660
Total nondepreciable	633,666	139,660	-	773,326
Depreciable:				
Land improvements	108,445	-	-	108,445
Buildings and improvements	4,353,452	-	(1,725,205)	2,628,247
Equipment	25,705,889	66,595	(5,532,544)	20,239,940
Total depreciable assets	30,167,786	66,595	(7,257,749)	22,976,632
Accumulated depreciation:				
Land improvements	(70,264)	(12,038)	-	(82,302)
Buildings and improvements	(1,456,004)	(86,762)	709,185	(833,581)
Equipment	(13,095,809)	(1,882,344)	3,898,748	(11,079,405)
Total accumulated depreciation	(14,622,077)	(1,981,144)	4,607,933	(11,995,288)
Net capital assets	<u>\$ 16,179,375</u>	<u>\$ (1,774,889)</u>	<u>\$ (2,649,816)</u>	<u>\$ 11,754,670</u>

The amount recorded for depreciation was \$1,981,144 for the year ended June 30, 2017.

NOTE 4 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS

Section 6633

Pursuant to Section 6633.2 and 6633.5 of the California Administrative Code, the Authority is required to meet a passenger fare revenue recovery ratio of 20% for urban fixed services, 10% for rural fixed services and 10% for the elderly and handicapped (Dial-A-Ride Paratransit).

The Authority's passenger fare recovery ratios for the urban and rural services with Fixed Route and Dial-A-Ride shown separately are as follows at June 30, 2017:

	<u>Fixed Routes</u>		<u>Dial-A-Ride Paratransit</u>
	<u>Urban</u>	<u>Rural</u>	
Passenger fare revenue	\$ 842,652	\$ 143,252	\$ 184,223
Local subsidy from other sector of operations	381,366	-	-
Adjusted revenues	<u>\$ 1,224,018</u>	<u>\$ 143,252</u>	<u>\$ 184,223</u>
Operating costs	<u>\$ 6,666,271</u>	<u>\$ 1,133,274</u>	<u>\$ 2,017,848</u>
Adjusted operating costs	<u>\$ 6,666,271</u>	<u>\$ 1,133,274</u>	<u>\$ 2,017,848</u>
Revenue recovery ratio	18.4%	12.6%	9.1%

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS (Continued)

During fiscal year 2017, the Authority discontinued extended service hours and increased revenue miles by increasing the frequency of major routes and commuter routes. The effects of these changes were a decrease in farebox revenue and an overall increase to total operational costs.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Grants have been received by the Authority for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursement for cost disallowed under the terms of the grants. The amount, if any, of costs that may be disallowed by the granting agencies cannot be determined at this time. The Authority expects such amounts, if any, to be immaterial.

Commitments and contingencies, undeterminable in amount, include normal recurring pending claims and litigation. In the opinion of management, based upon discussion with legal counsel, there is no pending litigation, which is likely to have a material adverse effect on the financial position of the Authority.

NOTE 6 – OPERATING LEASES

The Authority has entered into an operating lease agreement with the City of Merced whereby the Authority leases office and counter space at the Merced Transportation Center through June 2021.

The minimum rental payments required under these agreements is as follows:

For the years ending June 30,	Amount
2018	\$ 40,830
2019	40,929
2020	41,030
2021	41,132
Total	<u>\$ 163,921</u>

NOTE 7 – CONTRACTUAL AGREEMENTS

Merced County Association of Governments (Related Party)

The Authority has an on-going administrative agreement with Merced County Association of Governments (MCAG), an affiliated organization, to provide administrative services, including transit service management and marketing, financial and grant administration, and transportation planning services. The most current agreement consists of a one-year term effective July 1, 2014, and allows for automatic annual extensions through June 30, 2019. Payment of MCAG’s services is based on a monthly cost reimbursements basis. The Authority incurred \$309,654 in administrative services provided by MCAG for the year ended June 30, 2017.

National Express Transit Corporation

On September 1, 2015, the Authority entered into an operating agreement with National Express Transit Corporation to provide transit operational services. On October 1, 2015, the Authority entered into a second operating agreement with National Express to provide transit maintenance services. These agreements are set to expire on August 31, 2020. The Authority incurred \$5,454,058 in operating services provided by National Express Transit Corporation for the year ended June 30, 2017.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disaster. The Authority provides coverage for these losses through commercial insurance policies.

NOTE 9 – PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE ENHANCEMENT ACCOUNT

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

During the fiscal year ended June 30, 2017, the Authority received proceeds totaling \$22,625 of interest from the State's PTMISEA account. As of June 30, 2017, PTMISEA funds received and expended were verified in the course of our audit as follows:

	Balance July 1, 2016	Interest Income	Reclassifications and Allocations	Amount Expended	Balance June 30, 2017
Bus Purchase - 8 Gilling	\$ 537,367	\$ 1,437	\$ (538,804)	\$ -	\$ -
Bus Purchase - 6 DAR	666,628	2,807	-	(156,531)	512,904
10 DAR buses	1,171,423	6,736	130,125	-	1,308,284
30001 - Transit Facility	2,099,305	10,516	-	(204,304)	1,905,517
3010 - Purchase of 9 ADA accessible vans	-	1,129	408,679	-	409,808
	<u>\$ 4,474,723</u>	<u>\$ 22,625</u>	<u>\$ -</u>	<u>\$ (360,835)</u>	<u>\$ 4,136,513</u>

NOTE 10 – SPECIAL ITEM, DISPOSAL OF CAPITAL ASSETS

In the fiscal year 15/16, the Authority ended its contract with Merced County for bus maintenance services; ceasing access to the maintenance facility located on Thornton Road in Merced. As a result, in fiscal year 16/17, the Authority disposed of a compressed natural gas (CNG) maintenance facility located on the Merced County property on Thornton Road. Federal interest for the CNG maintenance facility will be transferred to the Authority's new operation and maintenance facility, which is expected to be completed by the end of fiscal year 18/19. Additionally, thirteen CNG Orion VII buses were also disposed. The Authority transferred the federal interest of the buses to the following agencies:

- Five CNG Orion VII buses to City of Elk Grove
- Six CNG Orion VII buses to City of Visalia
- Two CNG Orion VII buses to City of Turlock

The cost of these capital assets at the time of transfer was \$6,649,881 and related accumulated depreciation was \$4,060,852. The loss on disposition of \$2,589,029 has been reflected in the Statement of Revenues, Expenses and Changes in Net Position.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11 – PRIOR PERIOD ADJUSTMENT

In a prior year, the Authority understated federal operating grant revenues received from a multi-year grant. The multi-year grant from CMAQ was for general operating purposes and the Authority recorded the initial payment for the grant in fiscal year 2015, but should have recorded in fiscal year 2014. As a result, a prior period adjustment has been recorded and beginning net position has been increased by \$1,200,000.

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OVERALL COMPLIANCE, INTERNAL CONTROL,
AND FEDERAL AWARDS SECTION

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REPORT ON COMPLIANCE WITH RULES AND REGULATIONS OF
THE TRANSPORTATION DEVELOPMENT ACT

To the Governing Board of the
Transit Joint Powers Authority for
Merced County, California

We have audited the financial statements of the business-type activities of Transit Joint Powers Authority for Merced County, California (the Authority) as of and for the year ended June 30, 2017, and have issued our report thereon dated December 26, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards* issued by the Comptroller General of the United States; and was further made to determine compliance with the Transportation Development Act, the California Administrative Code, and the rules and regulations of the Authority.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Among the other items considered was determination of the Authority's ability to receive funds allocated to it, and propriety of expenditures made in accordance with the Transportation Development Act and the regulations of the Authority.

In our opinion, our evaluation of compliance factors disclosed that the funds received by the Authority under the Transportation Development Act were allocated and disbursed in conformance with the Transportation Development Act, the California Administrative Code, and the rules and regulations of the Authority.

This report is intended solely for the information and use of the Governing Board and management of the Transit Joint Powers Authority for Merced County, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Price Paige & Company

Clovis, California
December 26, 2017

677 Scott Avenue
Clovis, CA 93612

tel 559.299.9540
fax 559.299.2344

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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
Transit Joint Powers Authority for
Merced County, 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 business-type activities of Transit Joint Powers Authority for Merced County (the Authority), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 26, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a material weaknesses.

Compliance and Other Matters

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

677 Scott Avenue
Clovis, CA 93612

tel 559.299.9540
fax 559.299.2344

Authority’s Response to Findings

The Authority’s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority’s response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Authority’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 Authority’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Price Pange & Company

Clovis, California
December 26, 2017



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
Transit Joint Powers Authority for
Merced County, California

Report on Compliance for Each Major Federal Program

We have audited the Transit Joint Powers Authority for Merced County's (the Authority) 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 Authority's major federal programs for the year ended June 30, 2017. The Authority'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 Authority'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 Authority'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 Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Transit Joint Powers Authority for Merced County 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, 2017.

677 Scott Avenue
Clovis, CA 93612

tel 559.299.9540

fax 559.299.2344

Report on Internal Control Over Compliance

Management of the Authority 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 Authority'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 Authority'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
December 26, 2017

677 Scott Avenue
Clovis, CA 93612
tel 559.299.9540
fax 559.299.2344

SUPPLEMENTARY INFORMATION

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**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
SCHEDULE OF INSURANCE COVERAGES
JUNE 30, 2017**

The schedule below provides a list of the insurance coverages for the Transit Joint Powers Authority:

<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Effective Dates</u>
General Liability	\$2,000,000	07/01/16 to 07/10/17
Automobile Liability	\$1,000,000	07/01/16 to 07/10/17
Commercial Package	90% value w/ \$500 deductible	07/01/16 to 07/10/17
Professional Liability	\$2,000,000	07/01/16 to 07/10/17

The schedule below provides a list of the insurance coverages for the Transit Service Operator:

General Liability	\$2,000,000	07/01/16 to 07/10/17
Excess General Liability	\$5,000,000	07/01/16 to 07/10/17
Workers Compensation	\$1,000,000	07/01/16 to 07/10/17
Automobile Liability	\$2,000,000	07/01/16 to 07/10/17
Automobile Physical Damage	Replacement value	07/01/16 to 07/10/17
Auto Excess Liability	\$3,000,000	07/01/16 to 07/10/17

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA No.</u>	<u>Contract or Program Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-through California State Department of Transportation:			
Federal Transit Formula Grants	20.507	5731-2017-1	\$ 3,178,680
Formula Grants for Other Than Urbanized Area	20.509	64BO17-00436	507,341
Highway Planning and Construction	20.205	CML-6308(016)	41,437
Highway Planning and Construction	20.205	CML-6308(018)	<u>46,065</u>
Total U.S. Department of Transportation			<u>3,773,523</u>
Total Expenditures of Federal Awards			<u>\$ 3,773,523</u>

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017**

GENERAL

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the Transit Joint Powers Authority for Merced County (the Authority). 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 accrual basis of accounting, which is described in Note 1 of the Authority's basic financial statements.

RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

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

INDIRECT COST RATE

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

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FINDINGS AND QUESTIONED COSTS

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

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 2CFR section 200.516(a)? Yes X No

Identification of Major Programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.507	Federal Transit Formula Grants
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	<u> X </u> Yes <u> </u> No

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION II – FINANCIAL STATEMENT FINDINGS

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

Condition:

The Authority did not properly record all receivables and related 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 Authority'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, receivables and revenues were initially materially misstated.

Recommendation:

We recommend that the Authority 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 checklist 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.

SECTION III – FEDERAL AWARD FINDINGS

None reported.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENT FINDINGS

None reported.

FEDERAL AWARD FINDINGS

None reported.