

**MERCED COUNTY ASSOCIATION
OF GOVERNMENTS**

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

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
JUNE 30, 2017**

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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, 2017, 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, 2017, 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

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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 36-42 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 December 14, 2017, 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 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 Association's internal control over financial reporting and compliance.

Price Pange & Company

Clovis, California
December 14, 2017

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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, 2017. 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, 2017 is \$12,028,870. This is a decrease of \$2,871,196 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, 2017 are \$7,233,233. This is a net increase from the prior year of \$3,489,707.
- ❖ Regional Transportation Impact Fee Fund (RTIF) 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 2016-2017, revenues were \$710,988, a decrease of \$486,270 from the prior year. Total expenditures were \$92,747, a decrease of \$730,141 from the previous year; previous year the expenditures were used for Atwater-Merced Expressway.
- ❖ During the 2016-2017 fiscal year, the Local Transportation Fund increased by \$727,372, leaving a fund balance of \$2,565,736. Expenditures were intentionally budgeted more than projected revenues to reduce the amount of the reserves in the fund.
- ❖ \$11,980,538 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, State Exchange Fund, State Transit Assistance Fund, SAFE, Measure V Fund, and Non-major Governmental Funds.

Overview of the Financial Statements

This discussion and analysis are 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, 2017**

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 seven Special Revenue Funds. The Special Revenue Funds include the Regional Transportation Impact Fee Fund (RTIF), the Local Transportation Fund (LTF), the State Exchange Fund, the State Transit Assistance Fund, the Service Authority for Freeway Emergencies Fund (SAFE), the Measure V 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, 2017**

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 \$12,028,870 for all funds, at the close of the fiscal year.

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

	Primary Government		Business-Type Component Unit		Total	
	2017	2016	2017	2016	2017	2016
Assets:						
Current Assets	\$ 18,411,418	\$ 12,982,451	\$ 245,230	\$ 241,855	\$ 18,656,648	\$ 13,224,306
Capital Assets (net)	605,455	434,105	-	-	605,455	434,105
<i>Total Assets</i>	19,016,873	12,609,051	245,230	241,855	19,262,103	13,658,411
Liabilities:						
Current Liabilities	7,228,687	4,494,263	4,546	1,908	7,233,233	4,496,171
Non-current Liabilities	-	4,567	-	-	-	4,567
<i>Total Liabilities</i>	7,228,687	4,498,830	4,546	1,908	7,233,233	4,500,738
Net Position:						
Net Investment in Capital Assets	600,888	409,158	-	-	600,888	409,158
Restricted Net Position	11,980,538	8,860,158	-	-	11,980,538	8,860,158
Unrestricted	(793,240)	(351,590)	240,684	239,947	(552,556)	(111,643)
<i>Total Net Position</i>	\$ 11,788,186	\$ 8,917,726	\$ 240,684	\$ 239,947	\$ 12,028,870	\$ 9,157,674

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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 percent of the restricted net position, or \$4,787,979, belongs to the Regional Transportation Impact Fee fund. Capital assets (e.g. land, improvements and equipment) reflect 5% of the net position. The remaining represents unrestricted net position.

There was an increase of \$737 in the net position of the business-type activities.

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

	Primary Government		Business-Type Component Unit		Total	
	2017	2016	2017	2016	2017	2016
Program Revenues:						
Federal Operating Revenue	\$ 1,041,453	\$ 555,604	\$ -	\$ -	\$ 1,041,453	\$ 555,604
State and Local Operating Revenue	17,413,837	13,217,588	-	-	17,413,837	13,217,588
Charges for Services	4,586,836	4,099,106	7,548	9,236	4,594,384	4,108,342
General Revenues:						
Interest and Investment Earnings	42,612	101,865	1,085	618	43,697	102,483
Total Revenues	23,084,738	17,974,163	8,633	9,854	23,093,371	17,984,017
Program Expenditures:						
General Administration	4,280,510	3,693,108	7,896	4,822	4,288,406	3,697,930
Transportation Planning	3,066,864	1,310,472	-	-	3,066,864	1,310,472
Other Planning	1,816,844	1,470,536	-	-	1,816,844	1,470,536
Transfers to Other Local Agencies	11,050,060	11,771,545	-	-	11,050,060	11,771,545
Total Expenditures	20,214,278	18,245,661	7,896	4,822	20,222,174	18,250,483
Change in Net Position	2,870,460	(271,498)	737	5,032	2,871,197	(266,465)
Net Position-Beginning	8,917,726	9,153,224	239,947	270,915	9,157,673	9,424,139
Prior Period Adjustment	-	36,000	-	(36,000)	-	-
Net Position-Ending	\$11,788,186	\$ 8,917,726	\$ 240,684	\$ 239,947	\$12,028,870	\$ 9,157,674

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Government Activities – Primary Government activities increase by \$2,870,460, during this fiscal year. This net result is mainly due to an increase of \$727,372 in the Local Transportation Fund, an increase of \$1,711,660 in the Measure V Fund.

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, 2017 are \$23,084,734. This is an increase of \$5,110,569 or 28.43%, from the prior fiscal year. The major changes were an increase in the General Fund revenue of \$1,092,760, an increase in the Measure V fund revenue of \$3,892,311, a decrease in Regional Transportation Impact Fee Fund revenue of \$486,270, and an increase in the Local Transportation Fund revenue of \$715,670.

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, 2017 are \$20,340,996. This is an increase of \$2,151,573 from the previous fiscal year. The major changes in expenditures were an increase in the General Fund expenditures of \$1,400,864, a decrease in Regional Transportation Impact Fee Fund expenditures of \$730,141, an increase in the Measure V fund by \$2,180,651.

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

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

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, 2017 of \$11,494,244, a net increase of \$2,743,738. This net decrease was a result of decreases in the General Fund, Local Transportation Fund, and the Non-major Governmental Fund, which were offset somewhat by increases in the Regional Transportation Impact Fee Fund and the Service Authority for Freeway Emergencies.

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 \$(248,330). Of that amount, \$85,630 is un-spendable, \$237,964 is restricted to Highways and Streets and \$(571,924) is unreserved and unassigned. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS (Continued)

The General Fund net change in fund balance decreased \$491,022 during the fiscal year. This decrease was a result in the Indirect Cost Allocation Plan (ICAP) rate not being approved by Caltrans for billing purposes for State and Federal reimbursements. Also in this current year, instead of applying for ICAP agency decided to use LTF to cover the indirect costs.

Other changes in fund balances include the following:

Regional Transportation Impact Fee:

- ❖ This major fund increased by \$618,241 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 increased by \$727,372 due to not used as much of the LTF.

Service Authority for Freeway Emergencies:

- ❖ DMV fee collections exceeded actual service expenditures, increasing the major fund balance by \$175,506.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, there was no budgetary highlights.

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, 2017, amounted to \$600,888. 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.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Capital Assets

	Governmental		Business-Type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
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	776,916	575,559	-	-	776,916	575,559
Furniture and equipment	590,085	572,920	71,232	71,232	661,317	644,152
Total depreciable assets	1,367,001	1,148,479	71,232	71,232	1,438,233	1,219,711
Accumulated depreciation						
Buildings and improvements	282,965	255,331	-	-	282,965	255,331
Furniture and equipment	553,581	534,043	71,232	71,232	624,813	605,275
Total accumulated depreciation	836,546	789,374	71,232	71,232	907,778	860,606
Total net depreciable assets	530,455	359,105	-	-	530,455	359,105
Total capital assets	\$ 605,455	\$ 434,105	\$ -	\$ -	\$ 605,455	\$ 434,105

CAPITAL ASSETS AND DEBT ADMINISTRATION

Long-term debt – At the end of the fiscal year, the Association had \$4,567 in long-term debt, which consisted of loans for solar panels.

Outstanding Debt June 30, 2017

	Governmental		Business-Type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Loan payable-solar panels	\$ 4,567	\$ 13,438	\$ -	\$ -	\$ 4,567	\$ 13,438
Capital lease-copier	-	11,509	-	-	-	11,509
Total long-term debt	\$ 4,567	\$ 24,947	\$ -	\$ -	\$ 4,567	\$ 24,947

During the fiscal year, the Association's total debt decreased by \$20,380. This was the result of payments made on the debt. Additional information on the Association's debt can be found in Note 6 - Long-Term Liabilities.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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 8.2% for Merced, 5.5% for California and 5.0% 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 2017-18 fiscal year.
- ❖ In the 2017-2018 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 2016-17 fiscal year, MCAG purchased the building next door to the main office. MCAG will be selling the building to Transit Joint Powers Authority of Merced County in the fiscal year 17/18. Sale of the proceeds will go toward renovation of the existing building for the expansion of the conference room and adding more offices.
- ❖ Measure V, the ½ cent sales tax for transportation has officially passed. MCAG will receive 1% of the total ½ cent sales tax generated over the next 30 years. MCAG will start receiving the ½ cent sales taxes in the 17/18 fiscal year.

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, 2017**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Current assets:			
Cash and investments	\$ 11,719,273	\$ 191,664	\$ 11,910,937
Accounts receivable	136,638	70	136,708
Prepays	85,630	-	85,630
Internal balances	(53,496)	53,496	-
Due from other governments	6,523,373	-	6,523,373
Noncurrent assets:			
Capital assets:			
Nondepreciable	75,000	-	75,000
Depreciable, net of accumulated depreciation	530,455	-	530,455
Total assets	<u>19,016,873</u>	<u>245,230</u>	<u>19,262,103</u>
LIABILITIES			
Current liabilities:			
Accounts payable	107,899	4,546	112,445
Accrued payroll and related items	68,044	-	68,044
Due to other local agencies	6,491,230	-	6,491,230
Unearned revenue	250,000	-	250,000
Due within one year:			
Loan payable	4,567	-	4,567
Compensated absences	306,947	-	306,947
Total liabilities	<u>7,228,687</u>	<u>4,546</u>	<u>7,233,233</u>
NET POSITION			
Net investment in capital assets	600,888	-	600,888
Restricted for:			
Highways and streets	7,815,399	-	7,815,399
Other	4,165,139	-	4,165,139
Unrestricted	<u>(793,240)</u>	<u>240,684</u>	<u>(552,556)</u>
Total net position	<u>\$ 11,788,186</u>	<u>\$ 240,684</u>	<u>\$ 12,028,870</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, 2017**

Functions/Programs	Expenses	Net (Expenses) Revenues and Changes in Net Position					
		Primary Government					
		Charges for Services	Federal Operating Revenues	State and Local Operating Revenues	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General administration	\$ 4,280,510	\$ 4,549,142	\$ -	\$ 216,950	\$ 485,582	\$ -	\$ 485,582
Transportation planning	3,066,864	-	1,041,453	5,625,316	3,599,905	-	3,599,905
Other planning	1,816,844	37,694	-	95,200	(1,683,950)	-	(1,683,950)
Transfers to other local agencies	11,050,060	-	-	11,476,371	426,311	-	426,311
Total primary government - governmental activities	<u>20,214,278</u>	<u>4,586,836</u>	<u>1,041,453</u>	<u>17,413,837</u>	<u>2,827,848</u>	<u>-</u>	<u>2,827,848</u>
Business-type activities:							
Merced Data Special Services, Inc.	<u>7,896</u>	<u>7,548</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(348)</u>	<u>(348)</u>
Total activities	<u>\$ 20,222,174</u>	<u>\$ 4,594,384</u>	<u>\$ 1,041,453</u>	<u>\$ 17,413,837</u>	2,827,848	(348)	2,827,500
General Revenues:							
Interest and investment earnings					<u>42,612</u>	<u>1,085</u>	<u>43,697</u>
Changes in net position					2,870,460	737	2,871,197
Net position - beginning					<u>8,917,726</u>	<u>239,947</u>	<u>9,157,673</u>
Net position - ending					<u>\$ 11,788,186</u>	<u>\$ 240,684</u>	<u>\$ 12,028,870</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, 2017**

	General Fund	Regional Transportation Impact Fee Fund	Local Transportation Fund	State Exchange Fund	State Transit Assistance Fund	Service Authority for Freeway Emergencies Fund	Measure V Fund	Nonmajor Governmental Fund	Total Governmental Funds
ASSETS									
Cash and cash equivalents	\$ 0.0	\$ 4,785,150	\$ 2,565,736	\$ 2,306,626	\$ 383,904	\$ 1,443,102	\$ 228,001	\$ 6,754	\$ 11,719,273
Receivables:									
Accounts receivable	60,013	-	-	-	-	20,020	-	56,605	136,638
Due from other governments	1,559,036	3,224	1,855,238	-	272,596	19,748	2,813,531	-	6,523,373
Due from other funds	-	-	-	451,941	-	966,622	-	-	1,418,563
Prepaid expenses	85,630	-	-	-	-	-	-	-	85,630
Total assets	<u>\$ 1,704,679</u>	<u>\$ 4,788,374</u>	<u>\$ 4,420,974</u>	<u>\$ 2,758,567</u>	<u>\$ 656,500</u>	<u>\$ 2,449,492</u>	<u>\$ 3,041,532</u>	<u>\$ 63,359</u>	<u>\$ 19,883,477</u>
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	\$ 47,985	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 56,605	\$ 104,590
Accrued liabilities	68,191	-	-	-	-	-	-	-	68,191
Retention payable	-	395	-	-	-	-	-	-	395
Due to other funds	1,418,563	-	-	-	-	-	-	-	1,418,563
Due to other local agencies	114,774	-	1,855,238	2,650,482	540,865	2,767	1,329,872	-	6,493,998
Advance from component unit	53,496	-	-	-	-	-	-	-	53,496
Unearned revenue	250,000	-	-	-	-	-	-	-	250,000
Total liabilities	<u>1,953,009</u>	<u>395</u>	<u>1,855,238</u>	<u>2,650,482</u>	<u>540,865</u>	<u>2,767</u>	<u>1,329,872</u>	<u>56,605</u>	<u>8,389,233</u>
Fund balances (deficit):									
Nonspendable	85,630	-	-	-	-	-	-	-	85,630
Restricted for:									
Highways and streets	237,964	4,787,979	2,565,736	108,085	115,635	-	-	-	7,815,399
Other	-	-	-	-	-	2,446,725	1,711,660	6,754	4,165,139
Unassigned	(571,924)	-	-	-	-	-	-	-	(571,924)
Total fund balances (deficit)	<u>(248,330)</u>	<u>4,787,979</u>	<u>2,565,736</u>	<u>108,085</u>	<u>115,635</u>	<u>2,446,725</u>	<u>1,711,660</u>	<u>6,754</u>	<u>11,494,244</u>
Total liabilities and fund balances	<u>\$ 1,704,679</u>	<u>\$ 4,788,374</u>	<u>\$ 4,420,974</u>	<u>\$ 2,758,567</u>	<u>\$ 656,500</u>	<u>\$ 2,449,492</u>	<u>\$ 3,041,532</u>	<u>\$ 63,359</u>	<u>\$ 19,883,477</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, 2017**

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

Total fund balances - governmental funds		\$ 11,494,244
<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	1,442,001	
Accumulated depreciation	(836,546)	
		605,455
<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	(306,947)	
Loan payable	(4,566)	
		(311,513)
Net position of governmental activities		\$ 11,788,186

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, 2017**

	General Fund	Regional Transportation Impact Fee Fund	Local Transportation Fund	State Exchange Fund	State Transit Assistance Fund	Service Authority for Freeway Emergencies Fund	Measure V Fund	Nonmajor Governmental Fund	Total Governmental Funds
REVENUES									
Sales taxes	\$ 514,740	\$ -	\$ -	\$ -	\$ 978,511	\$ -	\$ 3,894,021	\$ -	\$ 5,387,272
Local transportation fund	-	-	8,131,917	-	-	-	-	-	8,131,917
Charges for services	4,528,501	693,972	-	-	-	-	-	-	5,222,473
State and local revenues	156,253	-	-	2,650,482	-	218,283	-	216,950	3,241,968
Federal revenues	1,041,452	-	-	-	-	-	-	-	1,041,452
Investment earnings	1,517	17,016	16,405	478	803	6,390	(1,710)	-	40,899
Other income	18,753	-	-	-	-	-	-	-	18,753
Total revenues	<u>6,261,216</u>	<u>710,988</u>	<u>8,148,322</u>	<u>2,650,960</u>	<u>979,314</u>	<u>224,673</u>	<u>3,892,311</u>	<u>216,950</u>	<u>23,084,734</u>
EXPENDITURES									
Current:									
General government:									
Salaries and benefits	5,364,628	-	-	-	-	-	-	-	5,364,628
Supplies and services	1,147,206	112	-	-	-	49,167	2,180,651	216,250	3,593,386
Contributions to other local agencies	-	-	7,420,950	2,650,482	978,511	-	-	-	11,049,943
Highways and streets	-	92,635	-	-	-	-	-	-	92,635
Debt service:									
Principal	20,380	-	-	-	-	-	-	-	20,380
Interest	1,501	-	-	-	-	-	-	-	1,501
Capital outlay:									
General government	<u>218,523</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>218,523</u>
Total expenditures	<u>6,752,238</u>	<u>92,747</u>	<u>7,420,950</u>	<u>2,650,482</u>	<u>978,511</u>	<u>49,167</u>	<u>2,180,651</u>	<u>216,250</u>	<u>20,340,996</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(491,022)</u>	<u>618,241</u>	<u>727,372</u>	<u>478</u>	<u>803</u>	<u>175,506</u>	<u>1,711,660</u>	<u>700</u>	<u>2,743,738</u>
Net change in fund balances	(491,022)	618,241	727,372	478	803	175,506	1,711,660	700	2,743,738
Fund balances - beginning	<u>242,692</u>	<u>4,169,738</u>	<u>1,838,364</u>	<u>107,607</u>	<u>114,832</u>	<u>2,271,219</u>	<u>-</u>	<u>6,054</u>	<u>8,750,506</u>
Fund balances (deficit) - ending	<u>\$ (248,330)</u>	<u>\$ 4,787,979</u>	<u>\$ 2,565,736</u>	<u>\$ 108,085</u>	<u>\$ 115,635</u>	<u>\$ 2,446,725</u>	<u>\$ 1,711,660</u>	<u>\$ 6,754</u>	<u>\$ 11,494,244</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, EXPENSES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 2,743,738
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.	(47,172)
Governmental funds report capitals outlay as expenditures; however, in the statement of activities, the cost of those assets is capitalized. This is the amount of capital assets recorded during the year.	218,523
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.	20,380
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.	(65,362)
Unmatured interest on long-term debt. In governmental funds, interest on long-term debt is recognized in the period that it is incurred.	<u>353</u>
Change in net position of government activities	<u>\$ 2,870,460</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, 2017**

	Enterprise Fund
	MDSS, Inc.
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 191,664
Accounts receivable	70
Due from primary government	53,496
Total current assets	245,230
Noncurrent assets:	
Capital assets:	
Geographic information database	51,490
<u>Yosemite.com</u> website	19,742
Accumulated depreciation	(71,232)
Total capital assets	-
Total assets	245,230
LIABILITIES	
Current liabilities:	
Accounts payable	4,546
Total liabilities	4,546
NET POSITION	
Unrestricted	240,684
Total net position	\$ 240,684

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, 2017**

	Enterprise Fund <u>MDSS, Inc.</u>
OPERATING REVENUES	
Charges for services	<u>\$ 7,548</u>
Total operating revenues	<u>7,548</u>
OPERATING EXPENSES	
General administration	<u>7,896</u>
Total operating expenses	<u>7,896</u>
Operating income (loss)	<u>(348)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	<u>1,085</u>
Total nonoperating revenues (expenses)	<u>1,085</u>
Change in net position	737
Total net position - beginning	<u>239,947</u>
Total net position - ending	<u>\$ 240,684</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, 2017**

	Enterprise Fund
	MDSS, Inc.
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 7,613
Payments from primary government	(1,057)
Payments to suppliers and service providers	(5,257)
Net cash provided (used) by operating activities	1,299
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	1,082
Net cash provided (used) by investing activities	1,082
Net increase (decrease) in cash and cash equivalents	2,381
Cash balances - beginning of year	189,283
Cash balances - end of year	\$ 191,664
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (348)
Adjustments to reconcile operating income (loss) to	
Increase (decrease) in assets and liabilities:	
Accounts receivable	66
Accounts payable	2,638
Due from primary government	(1,057)
Net cash provided (used) by operating activities	\$ 1,299

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, 2017**

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 2007, 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, 2017**

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 properly 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.
- ♦ *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 five 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.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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

Basis of Presentation (Continued)

Major Governmental Funds: (Continued)

- ❖ *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.
- ❖ *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.
- ❖ *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.
- ❖ *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 Fund* – Measure V is Merced County's 30-year 1/2 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.

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.

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.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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

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.

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.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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

Measurement Focus and Basis of Accounting (Continued)

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.

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 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.

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, 2017.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
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/Fund Balance (Continued)

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 \$1,000 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

Payables

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

Unearned Revenue/Unavailable Revenues

In the government-wide 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, 2017 is \$306,947.

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.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
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/Fund Balance (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 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 2016-2017 the Association’s ICAP rate has not been negotiated for billing and reimbursement purposes. This rate is subject to audit at a future date.

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. The Association has no nonspendable fund balances.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
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/Fund Balance (Continued)

Fund Balance Classification (Continued)

- ◆ 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.

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.

Cash in County Treasury

Cash and cash equivalents 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, 2017, was provided by the pool sponsor.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Cash in County Treasury (Continued)

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, 2017:

	Cost	FMV
<u>DEPOSITS</u>		
<i>Unrestricted cash and investments:</i>		
Cash in County Treasury	\$ 8,803,628	\$ 8,773,357
Cash in banks	3,137,580	3,137,580
Total cash and investments	\$ 11,941,208	\$ 11,910,937

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 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 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, 2017:

- Cash in County of Merced Treasurer’s Investment Pool: valued at \$8,773,357, 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.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 – INTERFUND RECEIVABLES AND PAYABLES

The composition of internal balances at June 30, 2017 is as follows:

	<u>Due From</u>	<u>Due To</u>	<u>Explanation</u>
General Fund	\$ -	\$ 1,418,563	Operational
State Exchange Fund	451,941	-	Operational
Service Authority for Freeway Emergencies Fund	<u>966,622</u>	-	Operational
	<u>\$ 1,418,563</u>	<u>\$ 1,418,563</u>	

The composition of due from and to between the primary government and component unit at June 30, 2017 is as follows:

	<u>Due From</u>	<u>Due To</u>	<u>Explanation</u>
General Fund	\$ -	\$ 53,496	Operational
Merced Data Special Services, Inc.	<u>53,496</u>	-	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, 2017 are as follows:

Other Governments

<u>Receivable Fund</u>	<u>Payable From</u>	<u>Amount</u>	<u>Explanation</u>
General Fund	Other Government	\$ 1,559,036	Local
Local Transportation Fund	State of California	1,855,238	LTF Allocation
Regional Transportation Impact Fee	Other Government	3,224	Local
Service Authority for Freeway Emergencies	State of California	19,748	SAFE Allocation
State Transit Assistance Fund	State of California	272,596	STA Allocation
Measure V Fund	State of California	<u>2,813,531</u>	Measure V Allocation
Total		<u>\$ 6,523,373</u>	

Other Local Agencies

<u>Payable Fund</u>	<u>Payable To</u>	<u>Amount</u>	<u>Explanation</u>
General Fund	Various local agencies	\$ 114,775	Various services
Local Transportation Fund	Various local governments, agencies	1,855,238	LTF Disbursement
State Exchange Fund	Various local governments, agencies	2,650,482	RSTP Disbursement
Service Authority for Freeway Emergencies	California Highway Patrol	2,767	Call box
State Transit Assistance Fund	Transit Joint Powers Authority	540,864	STA 4TH Qtr Distribution
Measure V Fund	Various local governments, agencies	<u>1,329,872</u>	Measure V Disbursement
Total		<u>\$ 6,493,998</u>	

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 – CAPITAL ASSETS

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

	<u>Balances July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances June 30, 2017</u>
Government activities:				
Capital assets not being depreciated:				
Land	\$ 75,000	\$ -	\$ -	\$ 75,000
Capital assets being depreciated:				
Buildings and improvements	575,559	201,357	-	776,916
Furniture and equipment	<u>572,920</u>	<u>17,165</u>	<u>-</u>	<u>590,085</u>
Total assets being depreciated	<u>1,148,479</u>	<u>218,522</u>	<u>-</u>	<u>1,367,001</u>
Less accumulated depreciation for:				
Buildings and improvements	(255,331)	(27,634)	-	(282,965)
Furniture and equipment	<u>(534,043)</u>	<u>(19,538)</u>	<u>-</u>	<u>(553,581)</u>
Total accumulated depreciation	<u>(789,374)</u>	<u>(47,172)</u>	<u>-</u>	<u>(836,546)</u>
Total capital assets being depreciated, net	<u>359,105</u>	<u>171,350</u>	<u>-</u>	<u>530,455</u>
Governmental activities capital assets, net	<u>\$ 434,105</u>	<u>\$ 171,350</u>	<u>\$ -</u>	<u>\$ 605,455</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 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 \$47,172 was charged to general administration in the statement of activities.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 – LONG-TERM LIABILITIES

Long-term liabilities are comprised of the following at June 30, 2017:

	Due Within One Year	Due in More Than One Year	Total
<u>Loan Payable and Capital Leases</u>			
On March 29, 2004, the Association obtained financing in the amount of \$93,210 at 3.95% to construct a solar panel project. The loan is unsecured.	\$ 4,567	\$ -	\$ 4,567
Total long-term liabilities	\$ 4,567	\$ -	\$ 4,567

Annual debt service to maturity for long-term liabilities is as follows:

Year Ending June 30	Principal	Total
2018	\$ 4,567	\$ 4,567
	\$ 4,567	\$ 4,567

Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
Governmental activities:					
Loan payable - solar panels	\$ 13,438	\$ -	\$ (8,871)	\$ 4,567	\$ 4,567
Capital lease - copier	11,509	-	(11,509)	-	-
Total	\$ 24,947	\$ -	\$ (20,380)	\$ 4,567	\$ 4,567

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 – LEASES

Capital Leases

The Association entered into lease agreements for lease terms in excess of one year. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

Total lease costs (including usage charges) were \$11,509 for the year ended June 30, 2017.

The assets acquired through capital leases are included in total depreciable assets presented above, and are as follows:

<u>Year Ending June 30, 2017</u>	<u>Governmental Activities</u>
Copiers	\$ 77,899
Total capitalized cost	77,899
Accumulated depreciation	<u>(77,899)</u>
Total	<u>\$ -</u>

These leases expired as of June 30, 2017; therefore, there are no future minimum lease obligations. The Association entered into a month-to-month lease agreement with the equipment lessor in order to bridge a future capital agreement.

NOTE 8 – TRANSACTIONS WITH COMPONENT UNIT

The Association provided professional services in the amount of \$693 to Merced Data Special Services, Inc. for the year ending June 30, 2017.

NOTE 9 – 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% 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, 2017 was \$3,412,326. The Association's contributions were calculated using the base salary amount of \$3,412,326. The Association made the required contribution amounting to \$507,801. There were no forfeitures for the fiscal year ended June 30, 2017.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 – 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 Chief Financial Officer, 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 Chief Financial Officer, 369 West 18th Street, Merced, California 95340.

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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Sales taxes	\$ 398,400	\$ 398,400	\$ 514,740	\$ 116,340
State and local revenues	927,500	927,500	175,005	(752,495)
Management services revenue	5,721,100	5,721,100	4,528,501	(1,192,599)
Federal revenues	959,800	959,800	1,041,453	81,653
Investment earnings	<u>-</u>	<u>-</u>	<u>1,517</u>	<u>1,517</u>
Total revenues	<u>8,006,800</u>	<u>8,006,800</u>	<u>6,261,216</u>	<u>(1,745,584)</u>
EXPENDITURES				
Current:				
General government:				
Salaries and benefits	6,261,900	6,261,900	5,364,628	897,272
Supplies and services	1,454,900	1,454,900	1,147,206	307,694
Debt service:				
Principal	-	-	20,380	(20,380)
Interest	-	-	1,501	(1,501)
Capital outlay	<u>290,000</u>	<u>290,000</u>	<u>218,523</u>	<u>71,477</u>
Total expenditures	<u>8,006,800</u>	<u>8,006,800</u>	<u>6,752,238</u>	<u>1,254,562</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(491,022)</u>	<u>(491,022)</u>
Net change in fund balances	-	-	(491,022)	(491,022)
Fund balances - beginning	<u>242,692</u>	<u>242,692</u>	<u>242,692</u>	<u>-</u>
Fund balances (deficit) - ending	<u>\$ 242,692</u>	<u>\$ 242,692</u>	<u>\$ (248,330)</u>	<u>\$ (491,022)</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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State and local revenues	\$ 500,000	\$ 500,000	\$ 693,972	\$ 193,972
Investment earnings	<u>13,000</u>	<u>13,000</u>	<u>17,016</u>	<u>4,016</u>
Total revenues	<u>513,000</u>	<u>513,000</u>	<u>710,988</u>	<u>197,988</u>
EXPENDITURES				
Current:				
General government:				
Supplies and services	9,200	9,200	112	9,088
Highways and streets	<u>3,000,000</u>	<u>-</u>	<u>92,635</u>	<u>(92,635)</u>
Total expenditures	<u>3,009,200</u>	<u>9,200</u>	<u>92,747</u>	<u>(83,547)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,496,200)</u>	<u>503,800</u>	<u>618,241</u>	<u>281,535</u>
Net change in fund balances	(2,496,200)	503,800	618,241	114,441
Fund balances - beginning	<u>4,169,738</u>	<u>4,169,738</u>	<u>4,169,738</u>	<u>-</u>
Fund balances - ending	<u>\$ 1,673,538</u>	<u>\$ 4,673,538</u>	<u>\$ 4,787,979</u>	<u>\$ 114,441</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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local transportation fund	\$ 8,100,000	\$ 8,100,000	\$ 8,131,917	\$ 31,917
Investment earnings	<u>12,000</u>	<u>12,000</u>	<u>16,405</u>	<u>4,405</u>
Total revenues	<u>8,112,000</u>	<u>8,112,000</u>	<u>8,148,322</u>	<u>36,322</u>
EXPENDITURES				
Current:				
Contributions to other local agencies	<u>8,100,000</u>	<u>8,100,000</u>	<u>7,420,950</u>	<u>679,050</u>
Total expenditures	<u>8,100,000</u>	<u>8,100,000</u>	<u>7,420,950</u>	<u>679,050</u>
Net change in fund balances	12,000	12,000	727,372	715,372
Fund balances - beginning	<u>1,838,364</u>	<u>1,838,364</u>	<u>1,838,364</u>	<u>-</u>
Fund balances - ending	<u>\$ 1,850,364</u>	<u>\$ 1,850,364</u>	<u>\$ 2,565,736</u>	<u>\$ 715,372</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
STATE EXCHANGE FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State and local revenues	\$ 2,600,000	\$ 2,600,000	\$ 2,650,482	\$ 50,482
Investment earnings	<u>900</u>	<u>900</u>	<u>478</u>	<u>(422)</u>
Total revenues	<u>2,600,900</u>	<u>2,600,900</u>	<u>2,650,960</u>	<u>50,060</u>
EXPENDITURES				
Current:				
Contributions to other local agencies	<u>2,600,900</u>	<u>2,600,900</u>	<u>2,650,482</u>	<u>(49,582)</u>
Total expenditures	<u>2,600,900</u>	<u>2,600,900</u>	<u>2,650,482</u>	<u>(49,582)</u>
Net change in fund balances	-	-	478	478
Fund balances - beginning	<u>107,607</u>	<u>107,607</u>	<u>107,607</u>	<u>-</u>
Fund balances - ending	<u>\$ 107,607</u>	<u>\$ 107,607</u>	<u>\$ 108,085</u>	<u>\$ 478</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
STATE TRANSIT ASSISTANCE FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
State and local revenues	\$ 1,161,600	\$ 1,161,600	\$ 978,511	\$ (183,089)
Investment earnings	<u>900</u>	<u>900</u>	<u>803</u>	<u>(97)</u>
Total revenues	<u>1,162,500</u>	<u>1,162,500</u>	<u>979,314</u>	<u>(183,186)</u>
EXPENDITURES				
Current:				
Contributions to other local agencies	<u>1,161,900</u>	<u>1,161,600</u>	<u>978,511</u>	<u>183,089</u>
Total expenditures	<u>1,161,900</u>	<u>1,161,600</u>	<u>978,511</u>	<u>183,089</u>
Net change in fund balances	600	900	803	(97)
Fund balances - beginning	<u>114,832</u>	<u>114,832</u>	<u>114,832</u>	<u>-</u>
Fund balances - ending	<u>\$ 115,432</u>	<u>\$ 115,732</u>	<u>\$ 115,635</u>	<u>\$ (97)</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, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
State and local revenues	\$ 195,000	\$ 195,000	\$ 218,283	\$ 23,283
Investment earnings	<u>10,000</u>	<u>10,000</u>	<u>6,390</u>	<u>(3,610)</u>
Total revenues	<u>205,000</u>	<u>205,000</u>	<u>224,673</u>	<u>19,673</u>
EXPENDITURES				
Current:				
Supplies and services	<u>47,000</u>	<u>47,000</u>	<u>49,167</u>	<u>(2,167)</u>
Total expenditures	<u>47,000</u>	<u>47,000</u>	<u>49,167</u>	<u>(2,167)</u>
Net change in fund balances	158,000	158,000	175,506	17,506
Fund balances - beginning	<u>2,271,219</u>	<u>2,271,219</u>	<u>2,271,219</u>	<u>-</u>
Fund balances - ending	<u>\$ 2,429,219</u>	<u>\$ 2,429,219</u>	<u>\$ 2,446,725</u>	<u>\$ 17,506</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, 2017**

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.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017:

General Fund:	
Debt service:	
Principal	\$ 20,380
Interest	1,501
Regional Transportation Impact Fund:	
Current:	
Highways and streets	92,635
State Exchange Fund:	
Current:	
Contributions to other local agencies	49,582
State Authority for Freeway Emergencies Fund:	
Current:	
Contributions to other local agencies	2,167

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, 2017**

<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>1,041,452</u>
Total Department of Transportation			\$ <u>1,041,452</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, 2017**

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, 2017**

	Total	FHWA PL	FTA Sec. 5303	TDA Planning	TDA Admin.	RTIF	SAFE	AVA	Contributions from Members	MCAG Admin & Other
Resources:										
Interest	\$ 1,517	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,517
Other	18,760	-	-	-	-	-	-	-	-	18,760
LTF Planning	398,400	-	-	398,400	-	-	-	-	-	-
FHWA/PL	574,309	574,309	-	-	-	-	-	-	-	-
SAFE	3,121	-	-	-	-	-	3,121	-	-	-
LTF Administration	77,400	-	-	-	77,400	-	-	-	-	-
AVA	1,888	-	-	-	-	-	-	1,888	-	-
One Voice	69,200	-	-	-	-	-	-	-	69,200	-
FTA Sec. 5303	71,475	-	71,475	-	-	-	-	-	-	-
FTA Sec. 5304	395,668	-	-	-	-	-	-	-	-	395,668
Contributions from members	63,000	-	-	-	-	-	-	-	63,000	-
TJPA Funding	1,003,943	-	-	-	-	-	-	-	-	1,003,943
RTIF	18,348	-	-	-	-	18,348	-	-	-	-
Measure V	38,940	-	-	-	-	-	-	-	-	38,940
MDSS, Inc.	693	-	-	-	-	-	-	-	-	693
YARTS JPA	296,381	-	-	-	-	-	-	-	-	296,381
RWMA	3,228,174	-	-	-	-	-	-	-	-	3,228,174
Total Resources	6,261,216	574,309	71,475	398,400	77,400	18,348	3,121	1,888	132,200	4,984,076

MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SUMMARY OF RESOURCES AND EXPENDITURES BY WORK ELEMENT- MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

	Total	FHWA PL	FTA Sec. 5303	TDA Planning	TDA Admin.	RTIF	SAFE	AVA	Contributions from Members	MCAG Other
Expenditures:										
Citizen Part. and Coord.	223,225	223,225	-	-	-	-	-	-	-	-
Regional Transportation Plan	162,831	-	162,831	-	-	-	-	-	-	-
Performance Measure & Monitoring	761	761	-	-	-	-	-	-	-	-
Alternative Modes Program	12,933	12,933	-	-	-	-	-	-	-	-
Air Quality Planning	7,737	7,737	-	-	-	-	-	-	-	-
Short Range Transit Plan	130,847	-	-	18,000	-	-	-	-	-	112,847
Short Range Transit Plan-Rural Trans Alternative	225,849	-	-	7,000	-	-	-	-	-	218,849
SJ Valley Trans. Coord.	41,234	41,234	-	-	-	-	-	-	-	-
FTIP	66,124	66,124	-	-	-	-	-	-	-	-
RTIP	27,499	27,499	-	-	-	-	-	-	-	-
Traffic Model	12,926	12,926	-	-	-	-	-	-	-	-
GIS Maintenance	62,317	62,317	-	-	-	-	-	-	-	-
RTIF	18,348	-	-	-	-	18,348	-	-	-	-
Trans Expenditure Program	39,930	-	-	39,930	-	-	-	-	-	-
Measure V Admin	6,648	-	-	-	-	-	-	-	-	6,648
TDA Administration	40,411	-	-	-	40,411	-	-	-	-	-
Overall Work Program	73,818	73,818	-	-	-	-	-	-	-	-
One Voice	49,561	-	-	-	-	-	-	-	49,561	-
YARTS JPA	224,549	-	-	-	-	-	-	-	-	224,549
Transit JPA FTA Admin	782,213	-	-	-	-	-	-	-	-	782,213
MDSS, Inc.	530	-	-	-	-	-	-	-	-	530
SWPB	3,211,265	-	-	-	-	-	-	-	-	3,211,265
SAFE	2,416	-	-	-	-	-	2,416	-	-	-
AVA	1,432	-	-	-	-	-	-	1,432	-	-
MCAG Administration	1,326,836	-	-	250,000	-	-	-	-	26,000	1,050,836
Total expenditures	6,752,238	528,574	162,831	314,930	40,411	18,348	2,416	1,432	75,561	5,607,735
Excess of revenues over (under) expenditures	\$ (491,022)	\$ 45,735	\$ (91,356)	\$ 83,470	\$ 36,989	\$ -	\$ 706	\$ 456	\$ 56,639	\$ (623,660)

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SCHEDULE OF REGULAR ALLOCATIONS AND DISBURSEMENTS BY PURPOSE –
LOCAL TRANSPORTATION FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Administration</u>	<u>PUC 99233.2 Planning</u>	<u>PUC 99260(a)</u>	<u>Total</u>
<u>Allocations</u>				
Transit Joint Powers Authority	\$ -	\$ -	\$ 4,732,536	\$ 4,732,536
Yosemite Area Rural Transit Services	-	-	200,000	200,000
County of Merced	3,250	-	-	3,250
Merced County Association of Governments	<u>77,400</u>	<u>398,400</u>	<u>-</u>	<u>475,800</u>
	<u>\$ 80,650</u>	<u>\$ 398,400</u>	<u>\$ 4,932,536</u>	<u>\$ 5,411,586</u>
<u>Disbursements</u>				
Transit Joint Powers Authority	\$ -	\$ -	\$ 4,732,536	\$ 4,732,536
County of Merced	3,250	-	-	3,250
Yosemite Area Rural Transit Services	-	-	200,000	200,000
Merced County Association of Governments	<u>77,400</u>	<u>398,400</u>	<u>-</u>	<u>475,800</u>
	<u>\$ 80,650</u>	<u>\$ 398,400</u>	<u>\$ 4,932,536</u>	<u>\$ 5,411,586</u>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
 SCHEDULE OF REGULAR ALLOCATIONS AND DISBURSEMENTS BY PURPOSE
 STATE TRANSIT ASSISTANCE FUND
 FOR THE YEAR ENDED JUNE 30, 2017**

	Allocations			Disbursements
	PUC 93313	PUC 93314	Total	
Transit Joint Powers Authority	<u>\$ 930,700</u>	<u>\$ 47,811</u>	<u>\$ 978,511</u>	<u>\$ 1,513,697</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, 2017**

	Section 182.6	
	Allocations	Disbursements
City of Atwater	\$ 253,970	\$ 253,970
City of Dos Palos	45,029	45,029
City of Gustine	49,164	49,164
City of Livingston	116,494	116,494
City of Los Banos	334,047	334,047
City of Merced	705,497	705,497
County of Merced	789,976	789,976
	\$ 2,294,177	\$ 2,294,177

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SCHEDULE OF REGIONAL TRANSPORTATION IMPACT FEES BY JURISDICTION
FOR THE YEAR ENDED JUNE 30, 2017**

City of Atwater	\$ 231,882
City of Los Banos	1,375
County of Merced	<u>460,715</u>
	<u>\$ 693,972</u>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SCHEDULE OF INSURANCE COVERAGES
JUNE 30, 2017**

Type of Coverage	Amount of Coverage	Effective Date
Building	\$ 1,297,900	2/13/16-2/13/17
	\$ 1,297,900	2/13/17-2/13/18
Business Property	\$ 281,200	2/13/16-2/13/17
	\$ 281,200	2/13/17-2/13/18
Business Income/Extra Expense	\$ 500,000	2/13/16-2/13/17
	\$ 500,000	2/13/17-2/13/18
General Aggregate	\$ 2,000,000	2/13/16-2/13/17
	\$ 2,000,000	2/13/17-2/13/18
Products and Completed Operations Aggregate	\$ 2,000,000	2/13/16-2/13/17
	\$ 2,000,000	2/13/17-2/13/18
Personal and Advertising Injury	\$ 1,000,000 (each occurrence)	2/13/16-2/13/17
	\$ 1,000,000 (each occurrence)	2/13/17-2/13/18
Damage to Rental Premises	\$ 100,000 (each occurrence)	2/13/16-2/13/17
	\$ 100,000 (each occurrence)	2/13/17-2/13/18
Medical Expense	\$ 5,000 (any one person)	2/13/16-2/13/17
	\$ 5,000 (any one person)	2/13/17-2/13/18
Employee Benefits	\$ 1,000,000	2/13/16-2/13/17
	\$ 1,000,000	2/13/17-2/13/18
Automobile - Liability	\$ 1,000,000 (collision)	2/13/16-2/13/17
	\$ 1,000,000 (collision)	2/13/17-2/13/18
Automobile - Medical Payments	\$ 5,000 (each person)	2/13/16-2/13/17
	\$ 5,000 (each person)	2/13/17-2/13/18
Automobile - Uninsured Motorist	\$ 1,000,000 (collision)	2/13/16-2/13/17
	\$ 1,000,000 (collision)	2/13/17-2/13/18
Employee Theft	\$ 500,000 (per loss)	2/21/16-2/21/17
	\$ 500,000 (per loss)	2/21/17-2/21/18
Deposit Forgery or Alteration	\$ 100,000	2/21/16-2/21/17
	\$ 100,000	2/21/17-2/21/18

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, 2017, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated December 14, 2017.

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 were not identified. We did identify a certain 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 weakness.

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

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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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2017-002.

Association's Response to Findings

The Association's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Association's response was not subjected 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 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
December 14, 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
Merced County Association of Governments
Merced, California

Report on Compliance for Each Major Federal Program

We have audited the Merced County Association of Governments' (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, 2017. 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, 2017.

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Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-002. Our opinion on each major federal program is not modified with respect to this matter.

The Association's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Association's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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
December 14, 2017



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

To the Governing Board of the
Merced County Association of Governments

We have audited the 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, 2017, which collectively comprise the Association's basic financial statements and have issued our report thereon dated December 14, 2017. We conducted our audit 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, and was further made to determine compliance with the Transportation Development Act, the California Administrative Code, and the rules and regulations of the Association.

Compliance

As part of obtaining reasonable assurance about whether the Association'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 Association'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 Association.

In our opinion, our evaluation of compliance factors disclosed that the funds received by the Association 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 Association.

This report is intended solely for the information and use of the Governing Board and management of the Merced County Association of Governments, 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 14, 2017

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FINDINGS AND QUESTIONED COSTS

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
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?	<u> X </u> yes <u> </u> no
Significant deficiencies identified that are not considered to be material weaknesses?	<u> </u> yes <u> X </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes <u> X </u> no

Federal Awards

Internal control over major programs: Material weaknesses identified?	<u> </u> yes <u> X </u> no
Significant deficiencies identified that are not considered to be material weaknesses?	<u> </u> yes <u> X </u> 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)?	<u> X </u> yes <u> </u> 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, 2017**

SECTION II – FINANCIAL STATEMENT FINDINGS

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.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION III – FEDERAL AWARDS 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.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENT FINDINGS

None reported.

FEDERAL AWARD FINDINGS

None reported.