

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2019**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Transit Joint Powers Authority for Merced County (the Authority), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority'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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of June 30, 2019, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of insurance coverages is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The schedule of insurance coverages has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards* and the Transportation Development Act

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2020, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters as it relates to the Transportation Development Act Funds. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance as it relates to the Transportation Development Act Funds. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance as it relates to the Transportation Development Act Funds.

HUDSON HENDERSON & COMPANY, INC.

A handwritten signature in blue ink that reads "Hudson Henderson & Company, Inc." The signature is written in a cursive style.

Fresno, California
February 14, 2020

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

Merced County Association of Governments (MCAG) is the administrative management of the Transit Joint Powers Authority for Merced County (TJPA), which is responsible for the county-wide transportation system known as The Bus. Management presents the following narrative overview and analysis of the financial activities of the TJPA for the year ended June 30, 2019. The financial information presented here should be considered in conjunction with the financial statements presented in the following pages.

FINANCIAL HIGHLIGHTS

- The TJPA's total assets for the fiscal year ended June 30, 2019 are \$51,458,735. This is an increase of \$2,731,699 from the ending balance of the prior fiscal year. The significant changes were due to increases in construction in progress and depreciable assets and in due from other governments and agencies.
- Capital assets, net of accumulated depreciation, included in total assets, are \$19,605,994, which is an increase of \$2,206,313 from the prior year. The increase is due to acquisition of capital assets and construction in progress.
- Total liabilities as shown on the Statement of Net Position for the fiscal year ended June 30, 2019 are \$5,027,177, which is an increase from the prior year of \$394,643. The increase is due to an increase in due to other agencies.

OVERVIEW OF FINANCIAL STATEMENTS

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

Basic Financial Statements

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

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

The *Statement of Revenues, Expenses, and Changes in Net Position* presents information showing how TJPA's net position changed during the fiscal year ended June 30, 2019. All changes in net position are reported as soon as the underlying event giving rise to the change occurs (such as the receipt of goods and services or submittal of claims for capital and operating revenue) regardless of the timing of related cash flows. Thus, the revenues and expenses are reported in these statements using the accrual basis of accounting, which is more fully described in the accompany Notes to the Basic Financial Statements.

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

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS

As noted earlier, net position may serve as a useful indicator of a government's financial position over time. In the case of TJPA, assets exceeded liabilities by \$46,431,558 and \$44,094,502 at June 30, 2019 and 2018, respectively.

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

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

Statement of Net Position - Two Year Comparison

	June 30, 2019	(Restated) June 30, 2018	\$ Changes	% Changes
Assets				
Current Assests	\$ 31,852,741	\$ 31,327,355	\$ 525,386	1.7%
Capital Assets (net)	19,605,994	17,399,681	2,206,313	12.7%
Total Assests	<u>51,458,735</u>	<u>48,727,036</u>	<u>2,731,699</u>	<u>5.6%</u>
Liabilities				
Current Liabilities	5,027,177	4,632,534	394,643	8.5%
Total Liabilities	<u>5,027,177</u>	<u>4,632,534</u>	<u>394,643</u>	<u>8.5%</u>
Net Position				
Net Investment in Capital Assets	19,605,994	17,399,681	2,206,313	12.7%
Unrestricted	26,825,564	26,694,821	130,743	0.5%
Total Net Position	<u>\$ 46,431,558</u>	<u>\$ 44,094,502</u>	<u>\$ 2,337,056</u>	<u>5.3%</u>

TJPA's Changes in net position for the years ended June 30, 2019 and 2018 are as follows:

Changes in Net Position

	June 30, 2019	(Restated) June 30, 2018	\$ Changes	% Change
Operating Revenues	\$ 1,315,746	\$ 1,359,145	\$ (43,399)	(3.2)%
Operating Expenses	13,384,324	12,150,660	1,233,664	10.2 %
Operating Income (Loss)	<u>(12,068,578)</u>	<u>(10,791,515)</u>	<u>(1,277,063)</u>	<u>11.8 %</u>
Nonoperating Revenues	14,405,634	17,995,314	(3,589,680)	(19.9)%
Changes in Net Position	2,337,056	7,203,799	(4,866,743)	(67.6)%
Net Position- Beginning	<u>44,094,502</u>	<u>36,890,703</u>	<u>7,203,799</u>	<u>19.5 %</u>
Net Position- Ending	<u>\$ 46,431,558</u>	<u>\$ 44,094,502</u>	<u>\$ 2,337,056</u>	<u>5.3 %</u>

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2019**

Transit Activities

- As shown on the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ending June 30, 2019, total operating expenses increased by \$1,233,664 over the prior year. Nonoperating revenues decreased by \$3,589,680 from the prior year. The decrease is due to reduced funding from Sales Tax LTF Revenue (\$845,862), FTA (\$213,147), and PTMISEA Prob 1B Bond (\$4,136,495).

Capital Assets and Debt Administration

Capital Assets

The capital assets of the TJPA are those assets with a cost of at least \$5,000 and have more than one year of life that are used in the performance of transit operations and any related functions. At June 30, 2019, the TJPA had \$19,605,994 invested in capital assets including land, construction in progress, land improvements, buildings and improvements, and equipment, reduced by accumulated depreciation (see table below). This amount represents a net increase (including additions and dispositions) of \$2,206,313 or 12.7 percent from the prior year.

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2019</u>
Nondepreciable				
Land	\$ 633,666	\$ -	\$ -	\$ 633,666
Constructions in Progress	5,005,369	3,739,388	8,687,681	57,076
Total Nondepreciable Assets	<u>5,639,035</u>	<u>3,739,388</u>	<u>8,687,681</u>	<u>690,742</u>
Depreciable				
Land Improvements	108,445	-	-	108,445
Buildings and Improvements	2,834,493	8,730,694	-	11,565,187
Equipment	22,609,504	368,140	293,805	22,683,839
Total Depreciable Assets	<u>25,552,442</u>	<u>9,098,834</u>	<u>293,805</u>	<u>34,357,471</u>
Accumulated Depreciation				
Land Improvements	(94,341)	(10,815)	-	(105,156)
Buildings and Improvements	(902,528)	(92,227)	-	(994,755)
Equipment	(12,794,927)	(1,811,806)	264,425	(14,342,308)
Total Accumulated Depreciation	<u>(13,791,796)</u>	<u>(1,914,848)</u>	<u>264,425</u>	<u>(15,442,219)</u>
Total Depreciable Assets, Net	<u>11,760,646</u>	<u>7,183,986</u>	<u>558,230</u>	<u>18,915,252</u>
Net Capital Assets	<u>\$ 17,399,681</u>	<u>\$ 10,923,374</u>	<u>\$ 9,245,911</u>	<u>\$ 19,605,994</u>

This year's major acquisitions included:

- Construction in progress, \$3,739,388
- New transit facility, \$8,730,694
- 4 lifts, Chevrolet Traverse, video surveillance system, and miscellaneous equipment, \$368,140

Debt

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2019**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- ❖ Merced County's unemployment rate increased slightly from the prior year. As of June 2019, the Bureau of Labor Statistics reports the unemployment rates were 8.10% for Merced, 4.2% for California and 3.7% for the Nation. Most of the jurisdictions in Merced County have indicated that they have some increase in building permits issued. The State-mandated increases in minimum wage will have impacts on the operations costs for the 2019-20 fiscal years.
- ❖ Staff is working with local jurisdiction for authorization to install bus stops along the new routes as well as bus turn-outs along major roadways. The table below shows the budgeted capital projects for the 2019-20 fiscal year.
- ❖ In fiscal year 2019-20 TJPA will be entering into a Memorandum of Understanding with Merced College to subsidize fare for unlimited fixed route services for Merced College students who are currently enrolled.

Major purchases budgeted for the 2019-20 fiscal years include the following:

Description	Estimated Cost	Funding Source
Bus Shelter/Pullout Installation	\$ 645,000	LTF
357 W. 18th St. Building Renovation	947,330	5339, SGR (as Local Match)
Farebox Collection System	374,026	LCTOP
Bus Purchase	500,000	Measure V
Bus Purchase	875,648	LTF Capital Carryover
Bus Purchase	566,396	STA SB-1
Bus Purchase	618,512	SGR
Bus Purchase	2,000,000	Low or No Emission Grant
Total	<u>\$ 6,526,912</u>	

Requests for information

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2019**

ASSETS

Current assets:

Cash and cash equivalents	\$ 22,016,141
Accounts receivable	9,302
Due from other governments	7,704,013
Due from other agencies	2,013,805
Prepaid expenses	69,729
Bus pass inventory	<u>39,751</u>

Total current assets 31,852,741

Noncurrents assets:

Capital assets:

Nondepreciable	690,742
Depreciable	34,357,471
Accumulated depreciation	<u>(15,442,219)</u>

Capital assets, net of accumulated depreciation 19,605,994

Total noncurrents assets 19,605,994

Total assets 51,458,735

LIABILITIES

Currents liabilities:

Accounts payable	1,076,423
Due to other governments	126,894
Unearned revenues	1,810,056
Due to other agencies	<u>2,013,804</u>

Total current liabilities 5,027,177

Total liabilities 5,027,177

NET POSITION

Net investment in capital assets	19,605,994
Unrestricted	<u>26,825,564</u>

Total net position \$ 46,431,558

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019**

Operating revenues:	
Passenger fares	\$ 1,303,217
Other operating revenue	<u>12,529</u>
Total operating revenues	<u>1,315,746</u>
Operating expenses:	
Professional services	6,954,631
Fuel, repairs and maintenance	3,533,809
General and administrative	746,869
Insurance	98,955
Special department expense	159
Utilities	37,685
Rents and leases	97,368
Depreciation	<u>1,914,848</u>
Total operating expenses	<u>13,384,324</u>
Operating income (loss)	<u>(12,068,578)</u>
Nonoperating revenues (expenses):	
Federal and state grants	5,719,904
Intergovernmental	8,074,155
Interest income	640,956
Loss on sale of assets	<u>(29,381)</u>
Total nonoperating revenues	<u>14,405,634</u>
Change in net position	2,337,056
Net position - beginning	43,622,590
Prior period adjustment	<u>471,912</u>
Net position - ending	<u>\$ 46,431,558</u>

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

Cash Flows from Operating Activities:	
Receipts from customers	\$ 1,004,762
Payments to supplies, contracted entities and others	<u>(10,800,349)</u>
Net cash provided by (used in) operating activities	<u>(9,795,587)</u>
Cash Flows from Noncapital Financing Activities:	
Federal, state and local operating assistance	6,654,271
Intergovernmental revenues	<u>6,574,578</u>
Net cash provided by (used in) noncapital financing activities	<u>13,228,849</u>
Cash Flows from Capital and Related Financing Activities:	
Payments for capital assets	<u>(4,150,542)</u>
Net cash provided by (used in) capital and related financing activities	<u>(4,150,542)</u>
Cash Flows from Investing Activities:	
Interest received	<u>640,956</u>
Net cash provided by (used in) investing activities	<u>640,956</u>
Net increase (decrease) in cash and cash equivalents	(76,324)
Cash and cash equivalents at beginning of year	<u>22,092,465</u>
Cash and cash equivalents at end of year	<u><u>\$ 22,016,141</u></u>
Reconciliation of Operating Income (Loss) to Net Cash	
Provided by (Used in) Operating Activities:	
Operating income (loss)	\$ (12,068,578)
Depreciation and amortization	1,914,848
Increase (decrease) in:	
Accounts receivable	19,451
Prepays	(55,951)
(Increase) decrease in:	
Accounts payable	(1,063,659)
Due to other governments	(225,067)
Unearned revenue	(330,435)
Due to other agencies	<u>2,013,804</u>
Net cash provided by (used in) operating activities	<u><u>\$ (9,795,587)</u></u>

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Governing Board for the Authority is composed of the same members as the Governing Board of the Merced County Association of Governments, which consist of the five Supervisors of the County of Merced and one representative from the cities of Merced, Atwater, Livingston, Dos Palos, Gustine, and Los Banos.

The Authority contracts with Merced County Association of Governments for administrative and accounting support.

Basis of Accounting: The Authority uses an enterprise fund format to report its activities for financial statement purposes. Proprietary fund financial statements include a Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows.

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

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

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

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

Accounts Receivable: Accounts receivable results from charges from goods and services. The "direct write-off" method for accounts receivable was applied for accounts that have been established as uncollectible. The "direct write-off" method is not in compliance with generally accepted accounting principles, but the result is immaterial to the financial statements taken as a whole. The Authority did not write off any accounts receivable during the fiscal year ended June 30, 2019. There were no accounts deemed to be uncollectible at June 30, 2019.

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

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

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

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

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

Land improvements	15 years
Building and improvements	25 - 40 years
Equipment	3 - 20 years

Accounts Payable/Due to Other Governments/Agencies: Certain costs are incurred by the Authority during the current period but are not paid until after the beginning of the next fiscal year. These costs are reported as payables in the financial statements. The Authority's current accounts payable, due to other governments, and due to other agencies balances of \$1,076,423, \$126,894, and \$2,013,804, respectively, as of June 30, 2019, are related to certain contract services and payments for utility fees.

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

Fair Value of Financial Instruments: Financial instruments include cash and cash equivalents, accounts receivable, due from other governments, due from other agencies, prepaid expenses, bus pass inventory, accounts payable, due to other governments, unearned revenue, and due to other agencies, none of which are held for trading purposes. The fair values of all financial instruments do not differ materially from the aggregate carrying values of the financial instruments recorded in the accompanying Statement of Net Position.

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 of capital assets.
- *Restricted* – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- *Unrestricted* – This amount is all resources that do not meet the definition of “net investment in capital assets” or “restricted net position.”

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

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

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

Governmental Accounting Standards Update: During the year ending June 30, 2019, the Authority implemented the following standards with no financial impact on the financial statements:

GASB Statement No. 83 – *Certain Asset Retirement Obligations*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

Released GASB Statements to be implemented in future financial statements are as follows:

GASB Statement No. 84 – *Fiduciary Activities*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 90 – *Majority Equity Interests- an amendment of GASB Statements No. 14 and No 61*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 91 – *Conduit Debt Obligations*. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.

Subsequent Events: In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through February 14, 2020, which is the date the financial statements were available to be issued.

NOTE 2 – CASH AND INVESTMENTS

Cash in Banks

The Authority's cash is held in a financial banking institution. Cash balances in banks are insured up to \$250,000, per financial institution, by the Federal Depository Insurance Corporation (FDIC). Custodial credit risk is that in the event of a bank failure, the deposits will not be returned. The Authority has a collateralized agreement with Wells Fargo Bank that all government funds deposited are subject to Title 5, Division 2, Part 1, Chapter 4, Article 2 (commencing with Section 53630) of the Government Code of the State of California (the "Local Agency Deposit Security Law").

Cash in Merced County Treasury and Local Agency Investment Fund

The Authority's cash and cash equivalents consist of cash in the Merced County Treasury and the Local Agency Investment Fund as part of common investment pools. These pooled funds are carried at cost during the year and adjusted to fair value at year-end. Interest is paid quarterly into the participating funds. Any investment gains or losses are proportionately shared by all funds in the pool. The fair market value of this pool, as of June 30, 2019, was provided by the pool sponsor.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

NOTE 2 – CASH AND INVESTMENTS (continued)

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

Cash and cash equivalents as of June 30, 2019 consisted of the following:

	Cost	FMV
Investment in Merced County Treasury	\$ 14,688,171	\$ 14,814,705
Investment in Local Agency Investment Fund	1,578,518	1,588,605
Cash in Wells Fargo checking account	5,612,681	5,612,681
Petty cash	150	150
Total cash and cash equivalents	\$ 21,879,520	\$ 22,016,141

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, 2019, the weighted average maturity of investments contained in the Merced County Treasury investment pool was approximately 438 days.

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

Cash in Treasury and Local Agency Investment Fund Valuation

The Authority categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Fair value measurements of the Authority’s investments are as follows at June 30, 2019:

- Cash in County of Merced Treasurer’s Investment Pool: valued at \$14,814,705, 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, 2019 was provided by the Merced County Treasury. The County of Merced Treasurer invests in numerous types of investments ranging all levels in the fair value hierarchy. Accordingly, it is not an investment type that can be categorized in any particular level in the fair value hierarchy.
- Cash in Local Agency Investment Fund: valued at \$1,588,605, the Local Agency Investment Fund is accounted for on a cost basis during the year and adjusted to fair value at year-end. The fair market value of this pool as of June 30, 2019 was provided by the Local Agency Investment Fund. The Local Agency Investment Fund invests in numerous types of investments ranging all levels in the fair value hierarchy. Accordingly, it is not an investment type that can be categorized in any particular level in the fair value hierarchy.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019 was as follows:

	<u>July 01, 2018</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2019</u>
Nondepreciable:				
Land	\$ 633,666	\$ -	\$ -	\$ 633,666
Construction in progress	<u>5,005,369</u>	<u>3,739,388</u>	<u>(8,687,681)</u>	<u>57,076</u>
Total nondepreciable	<u>5,639,035</u>	<u>3,739,388</u>	<u>(8,687,681)</u>	<u>690,742</u>
Depreciable				
Land improvements	108,445	-	-	108,445
Buildings and improvements	2,834,493	8,730,694	-	11,565,187
Equipment	<u>22,609,504</u>	<u>368,140</u>	<u>(293,805)</u>	<u>22,683,839</u>
Total depreciable assets	<u>25,552,442</u>	<u>9,098,834</u>	<u>(293,805)</u>	<u>34,357,471</u>
Accumulated depreciation:				
Land improvements	(94,341)	(10,815)	-	(105,156)
Buildings and improvements	(902,528)	(92,227)	-	(994,755)
Equipment	<u>(12,794,927)</u>	<u>(1,811,806)</u>	<u>264,425</u>	<u>(14,342,308)</u>
Total accumulated depreciation	<u>(13,791,796)</u>	<u>(1,914,848)</u>	<u>264,425</u>	<u>(15,442,219)</u>
Total depreciable assets, net	<u>11,760,646</u>	<u>7,183,986</u>	<u>(29,380)</u>	<u>18,915,252</u>
Net capital assets	<u>\$ 17,399,681</u>	<u>\$ 10,923,374</u>	<u>\$ (8,717,061)</u>	<u>\$ 19,605,994</u>

The amount recorded for depreciation was \$1,914,848 for the year ended June 30, 2019.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

NOTE 4 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS

Section 6633

Pursuant to Section 6633.2 and 6633.5 of the California Administrative Code, the Authority is required to meet a passenger fare revenue recovery ratio of 15% for urban fixed services, 10% for rural fixed services, and 10% for the elderly and handicapped (Dial-A-Ride Paratransit). The ratios for the fiscal year ended June 30, 2019, were 19.7%, 14.3%, and 5.9%, respectively, for urban fixed services, rural fixed services, and Dial-A-Ride Paratransit. Since the ratio for Dial-A-Ride Paratransit is below the 10% requirement, the Authority is not in compliance under PUC Section 99268.4.

The Authority's passenger fare recovery ratios for the urban and rural services with Fixed Route and Dial-A-Ride shown separately are as follows at June 30, 2019:

	<u>Fixed Routes</u>		<u>Dial-A-Ride Paratransit</u>
	<u>Urban</u>	<u>Rural</u>	
Passenger fare revenue	\$ 1,107,105	\$ 148,401	\$ 130,209
Subsidy from other sector of operations	423,115	-	-
Adjusted revenues	<u>\$ 1,530,220</u>	<u>\$ 148,401</u>	<u>\$ 130,209</u>
Operating costs	<u>\$ 7,773,286</u>	<u>\$ 1,039,394</u>	<u>\$ 2,203,950</u>
Adjusted operating costs	<u>\$ 7,773,286</u>	<u>\$ 1,039,394</u>	<u>\$ 2,203,950</u>
Revenue recovery ratio	19.7%	14.3%	5.9%

During the fiscal year ended June 30, 2019, the Authority provided Dial-A-Ride services in the Los Banos area at a fixed route fare. Dial-A-Ride services have higher costs than the fixed route services. The effects of these changes were a decrease in farebox revenue and an overall increase to total operational costs.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

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

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

NOTE 6 – OPERATING LEASES

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

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

For the years ending June 30,	Amount
2020	\$ 41,030
2021	41,132
Total	<u>\$ 82,162</u>

NOTE 7 – CONTRACTUAL AGREEMENTS

Merced County Association of Governments (Related Party)

The Authority has an on-going administrative agreement with the Merced County Association of Governments (MCAG), an affiliated organization, to provide administrative services, including transit service management and marketing, financial and grant administration, and transportation planning services. The most current agreement consists of a one-year term effective July 1, 2014, and allows for automatic annual extensions through June 30, 2019. Payment of MCAG’s services is based on a monthly cost reimbursement basis. The Authority incurred \$1,554,417 in administrative services provided by MCAG for the year ended June 30, 2019.

National Express Transit Corporation

On September 1, 2015, the Authority entered into an operating agreement with National Express Transit Corporation to provide transit operational services. On October 1, 2015, the Authority entered into a second operating agreement with national express to provide transit maintenance services. These agreements are set to expire on August 31, 2020. The Authority incurred \$5,065,404 in operating services provided by National Express Transit Corporation for the year ended June 30, 2019.

NOTE 8 – RISK MANAGEMENT

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

NOTE 9 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to the beginning balance of the Authority’s net position for the current fiscal year ending June 30, 2019 for \$35,429. The adjustment is to properly record and accrue an unearned revenue liability account that was incorrectly recorded as fund balance in the prior fiscal year.

A prior period adjustment was made to the beginning balance of the Authority’s net position for the current fiscal year ending June 30, 2019 for \$507,341. The adjustment is to record and accrue revenue that was earned but not received in the prior fiscal year that was incorrectly recorded as revenue in the current fiscal year.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
SCHEDULE OF INSURANCE COVERAGES
JUNE 30, 2019**

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

Type of Coverage	Amount of Coverage	Effective Dates
General Liability	\$2,000,000	07/01/19 to 07/01/20
Automobile Liability	\$1,000,000	07/01/19 to 07/01/20
Commercial Package	90% value w/ \$500 deductible	07/01/19 to 07/01/20
Professional Liability	\$2,000,000	07/01/19 to 07/01/20

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

General Liability	\$2,000,000	07/01/19 to 07/01/20
Excess General Liability	\$5,000,000	07/01/19 to 07/01/20
Workers Compensation	\$1,000,000	07/01/19 to 07/01/20
Automobile Liability	\$2,000,000	07/01/19 to 07/01/20
Automobile Physical Damage	Replacement value	07/01/19 to 07/01/20
Auto Excess Liability	\$3,000,000	07/01/19 to 07/01/20

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA No.</u>	<u>Contract or Program Number</u>	<u>Pass-Through to Sub-recipients</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF TRANSPORTATION				
Pass-through California State				
Department of Transportation:				
Federal Transit Cluster				
Federal Transit Formula Grants	20.507	5731-2019-1	\$ -	\$ 4,045,482
Total Federal Transit Cluster			-	4,045,482
Highway Planning and Construction	20.205	CML-6308(018)	-	19,110
Highway Planning and Construction	20.205	CML-6308(020)	-	67,598
Total U.S. Department of Transportation			-	4,132,190
Total Expenditures of Federal Awards			\$ -	\$ 4,132,190

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents all the activity of all the federal award programs of the Transit Joint Powers Authority for Merced County (the Authority) for the year ended June 30, 2019. The Authority reporting entity is defined in Note 1 to the Authority's basic financial statements. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule.

NOTE 2 – BASIS OF ACCOUNTING & PRESENTATION

Consistent with the Authority's method of filing federal financial reports, the accompanying Schedule of Expenditures of Federal Awards is prepared using the accrual basis method of accounting. The information in this schedule 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). Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the Authority's financial statements.

NOTE 3 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related periodic federal financial reports.

NOTE 4 – CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA)

The CFDA numbers included in the accompanying Schedule of Expenditures of Federal Awards were determined based on the program name, review of the grant or contract information and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

NOTE 5 – PASS-THROUGH ENTITY IDENTIFYING NUMBERS

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

NOTE 6 – INDIRECT COST RATE LIMITATION

The Authority does not use the 10 percent de minimis indirect cost rate.



**INDEPENDENT AUDITORS' 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 AND THE TRANSPORTATION DEVELOPMENT ACT**

To the Governing Board of the
Transit Joint Powers Authority for Merced County
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 Transit Joint Powers Authority for Merced County (the Authority), as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 14, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the applicable statutes, rules and regulations of the Transportation Development Act, including Public Utilities Code Section 99245 as enacted and amended by statute through June 30, 2019, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. As a result of our tests, as disclosed in Note 4 to the financial statements, since the current year fare revenue ratio for Dial-A-Ride Paratransit is below the 10% requirement, the Authority is not in compliance under PUC Section 99268.4. Our tests disclosed no other instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Transportation Development Act.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the Transportation Development Act in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HUDSON HENDERSON & COMPANY, INC.

A handwritten signature in blue ink that reads "Hudson Henderson & Company, Inc." in a cursive script.

Fresno, California
February 14, 2020



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

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

Report on Compliance for Each Major Federal Program

We have audited the Transit Joint Powers Authority for Merced County's (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2019. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion the Authority 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, 2019.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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.

Purpose of Report

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.

HUDSON HENDERSON & COMPANY, INC.

A handwritten signature in blue ink that reads "Hudson Henderson & Company, Inc." in a cursive script.

Fresno, California
February 14, 2020

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued Unmodified

Internal control over financial reporting:
 Material weaknesses identified _____ Yes X No

Significant deficiencies identified that are
 Not considered to be material weaknesses? _____ Yes X No

Noncompliance material to financial
 Statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:
 Material weaknesses identified? _____ Yes X No

Significant deficiencies identified that are
 not considered to be material weaknesses? _____ Yes X No

Type of auditors’ report issued on compliance
 for major programs: Unmodified

Any audit findings disclosed that are required to be
 reported in accordance with 2CFR section 200.516(a)? _____ Yes X No

Identification of Major Programs

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

SECTION II – FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported in accordance with *Government Auditing Standards*.

SECTION III – FEDERAL AWARD FINDINGS

There are no federal award findings to be reported in accordance with the Uniform Guidance.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENT FINDINGS

There were no financial statement findings to be reported in accordance with *Government Auditing Standards*.

FEDERAL AWARD FINDINGS

There were no federal award findings to be reported in accordance with the Uniform Guidance.