

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS**

---

**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITORS' REPORT**

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

**TABLE OF CONTENTS**

	<u>Page</u>
<b>Financial Section</b>	
Independent Auditors’ Report .....	1
Management’s Discussion and Analysis.....	3
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements:	
Statement of Net Position .....	10
Statement of Activities .....	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	12
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position .....	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds to the Statement of Activities .....	15
Proprietary Fund:	
Statement of Net Position - Proprietary Fund.....	16
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund.....	17
Statement of Cash Flows – Proprietary Fund .....	18
Fiduciary Funds:	
Statement of Fiduciary Net Position – Fiduciary Funds.....	19
Statement of Changes in Fiduciary Net Position – Fiduciary Funds .....	20
Notes to the Basic Financial Statements.....	21
<b>Required Supplementary Information</b>	
Statement of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual – General Fund .....	35
Statement of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual – Metropolitan Planning Organization .....	36
Statement of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual – Regional Transportation Impact Fee Fund .....	37

Statement of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual – Local Transportation Fund .....	38
Statement of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual – Service Authority for Freeway Emergencies Fund.....	39
Statement of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual – Measure V Regional Fund.....	40
Statement of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual – Passenger Rail Fund.....	41
Notes to the Required Supplementary Information .....	42
<b>Supplementary Information</b>	
Schedule of Expenditures of Federal Awards .....	43
Notes to the Schedule of Expenditures of Federal Awards .....	44
<b>Other Schedules</b>	
Summary of Resources and Expenditures by Work Element.....	45
Schedule of Regular Allocations and Disbursements by Purpose – Local Transportation Fund.....	47
Schedule of Regular Allocations and Disbursements by Purpose – State Transit Assistance Fund.....	48
Schedule of Regular Allocations and Disbursements by Purpose – State of Good Repair .....	49
Schedule of Regular Allocations and Disbursements by Purpose Regional Surface Transportation Program Exchange Fund .....	50
Schedule of Regional Transportation Impact Fees by Jurisdiction.....	51
Schedule of Insurance Coverages .....	52
<b>Other Auditors’ Reports</b>	
Independent Auditor’s Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	53
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.....	55
<b>Findings and Recommendations</b>	
Schedule of Findings and Questions Costs.....	57
Summary Schedule of Prior Audit Findings.....	59



## INDEPENDENT AUDITORS' REPORT

To the Governing Board of the  
Merced County Association of Governments

### 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, 2019, 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.

### 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 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 opinion.

### Opinion

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 Association, 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 and budgetary comparison information on pages 3-9 and 35-42 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 an opinion on the financial statements that collectively comprise the Association's basic financial statements. The other schedules, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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 January 8, 2020, 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.

HUDSON HENDERSON & COMPANY, INC.

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

Fresno, California  
January 8, 2020

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019**

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, 2019. The financial information presented here should be considered in conjunction with the financial statements presented in the following pages.

**Financial Highlights**

- The Association's Total Net Position, as shown on the Statement of Net Position, for all fund types for the fiscal year ending June 30, 2019 is \$24,374,710. This is an increase of \$4,392,287 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, 2019 is \$3,433,440. This is a net decrease from the prior year of \$1,288,562.
- During the 2018-2019 fiscal year, the Local Transportation Fund increased by \$536,972, leaving a fund balance of \$2,150,866. Expenditures were intentionally budgeted more than projected revenues to reduce the amount of the reserves in the fund.
- \$24,024,783 of all Primary Government net position represents resources that are subject to restrictions on how they may be used. The restricted governmental funds include the Metropolitan Planning Organization (MPO) Fund, Regional Transportation Impact Fee (RTIF) Fund, Local Transportation Fund, Service Authority for Freeway Emergencies (SAFE) Fund, Measure V Regional Fund, and the Passenger Rail Fund, and non-major governmental funds.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of MCAG's finances, in a matter 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  
FOR THE YEAR ENDED JUNE 30, 2019**

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 net 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 Metropolitan Planning Organization Fund (MPO), the Regional Transportation Impact Fee Fund (RTIF), the Local Transportation Fund (LTF), the Service Authority for Freeway Emergencies Fund (SAFE), the Measure V Regional Fund, the Passenger Rail 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  
FOR THE YEAR ENDED JUNE 30, 2019**

**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 government's financial position. In the case of MCAG, assets exceed liabilities by \$24,374,710 for all activities, at the close of the fiscal year.

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

	Governmental Activities		Business-Type Activities		Total	
		(restated)		(restated)		(restated)
	2019	2018	2019	2018	2019	2018
<b>ASSETS</b>						
Current assets	\$ 27,258,004	\$ 24,129,075	\$ 188,750	\$ 190,629	\$ 27,446,754	\$ 24,319,704
Capital assets, net	361,396	384,721	-	-	361,396	384,721
Total Assets	<u>27,619,400</u>	<u>24,513,796</u>	<u>188,750</u>	<u>190,629</u>	<u>27,808,150</u>	<u>24,704,425</u>
<b>LIABILITIES</b>						
Current liabilities	<u>3,431,531</u>	<u>4,719,821</u>	<u>1,909</u>	<u>2,181</u>	<u>3,433,440</u>	<u>4,722,002</u>
Total Liabilities	<u>3,431,531</u>	<u>4,719,821</u>	<u>1,909</u>	<u>2,181</u>	<u>3,433,440</u>	<u>4,722,002</u>
<b>NET POSITION</b>						
Net Investment in capital assets	361,396	384,721	-	-	361,396	384,721
Restricted Net Position	24,024,783	18,930,091	-	-	24,024,783	18,930,091
Unrestricted	(198,310)	479,163	186,841	188,448	(11,469)	667,611
Total Net Position	<u>\$ 24,187,869</u>	<u>\$ 19,793,975</u>	<u>\$ 186,841</u>	<u>\$ 188,448</u>	<u>\$ 24,374,710</u>	<u>\$ 19,982,423</u>

The largest portion of the Association's net position represents resources that are subject to external restrictions on how they may be used. Seventy-six percent of the restricted net position, or \$18,223,048, belongs to the Measure V Regional Fund. Capital assets (e.g. land, improvements and equipment) reflect 1.5% of the net position. The remaining represents unrestricted net position.

There was a decrease of \$1,607 in the net position of the business-type activities.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019**

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

	Governmental Activities		Business-Type Activities		Total	
	(restated)		(restated)		(restated)	
	2019	2018	2019	2018	2019	2018
<b>REVENUES</b>						
Program Revenues:						
Federal operating revenue	\$ 769,627	\$ 1,981,263	\$ -	\$ -	\$ 769,627	\$ 1,981,263
State and local operating revenue	18,834,591	17,324,687	-	-	18,834,591	17,324,687
Charges for services	5,556,689	5,323,470	1,963	3,213	5,558,652	5,326,683
General revenues:						
Interest and investment earnings	699,763	76,445	249	247	700,012	76,692
Other income	-	6,631	-	-	-	6,631
Total Revenues	<u>25,860,670</u>	<u>24,712,496</u>	<u>2,212</u>	<u>3,460</u>	<u>25,862,882</u>	<u>24,715,956</u>
<b>EXPENSES</b>						
Program Expenditures:						
General Administration	4,795,954	4,411,968	3,819	2,200	4,799,773	4,414,168
Transportation Planning	6,754,549	1,652,972	-	-	6,754,549	1,652,972
Other Planning	1,916,248	1,791,811	-	-	1,916,248	1,791,811
Transfers to Other Local Agencies	8,000,025	7,897,195	-	-	8,000,025	7,897,195
Total Expenditures	<u>21,466,776</u>	<u>15,753,946</u>	<u>3,819</u>	<u>2,200</u>	<u>21,470,595</u>	<u>15,756,146</u>
Change in Net Position	4,393,894	8,958,550	(1,607)	1,260	4,392,287	8,959,810
Net Position, Beginning of Year	<u>19,793,975</u>	<u>10,835,425</u>	<u>188,448</u>	<u>187,188</u>	<u>19,982,423</u>	<u>11,022,613</u>
Net Position, End of Year	<u>\$ 24,187,869</u>	<u>\$ 19,793,975</u>	<u>\$ 186,841</u>	<u>\$ 188,448</u>	<u>\$ 24,374,710</u>	<u>\$ 19,982,423</u>

**Government Activities** – Primary Government activities increased by \$4,393,894 during this fiscal year. This net result is mainly due to the receipt of Measure V remittances, State Transit Assistance funds, and Local Transportation funds which came from the governmental funds to the fiduciary funds and played a major role in the change of net position.

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds, total revenues for Governmental Funds for the fiscal year ending June 30, 2019 are \$25,860,670. This is an increase of \$1,148,174 or 4.65%, from the prior fiscal year. The major changes were an increase in the Local Transportation Fund revenue of \$817,276, an increase in the Measure V Regional Fund revenue of \$1,989,213, and a decrease in the General Fund and MPO Fund revenue of \$1,216,781.

Also shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds, total expenditures in Regional Transportation Impact Fee Funds for the fiscal year ending June 30, 2019 are \$5,582,110. This is an increase of \$5,532,291 from the previous fiscal year. This change is due to dissolution of the Regional Transportation Impact Fee fund by the jurisdictions.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019**

**FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUND**

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

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

The Association's governmental funds reported a combined fund balance at June 30, 2019 of \$24,055,725, a net increase of \$4,390,310. This net increase was a result of increases in the General Fund, Local Transportation Fund, Services Authority for Freeway Emergencies Fund, Measure V Regional Fund, and Passenger Rail Fund, which were offset somewhat by decreases in the MPO Fund, the Regional Transportation Impact Fee Fund, and the Nonmajor Governmental Fund.

The General Fund is the operating fund of the Association. At the end of the current fiscal year, the fund balance of the General Fund was \$18,034.

The General Fund net change in fund balance increase was \$18,034 during the fiscal year. This increase was a result of the Indirect Cost Allocation Plan (ICAP) rate being approved by Caltrans for billing purposes for State and Federal reimbursements.

Other changes in fund balances include the following:

Regional Transportation Impact Fee:

- This major fund decreased by \$5,466,476 due to expenditures exceeding revenues. The reason for the fund decreasing is due to the Regional Transportation Impact fee fund being dissolved by the jurisdiction. The funding got reallocated to the jurisdiction by a formula.

Local Transportation Fund:

- The LTF fund increased by \$536,972. The significant increase is due to LTF revenue exceeding the expenditures.

Service Authority for Freeway Emergencies:

- DMV fee collections exceeded actual service expenditures, increasing the major fund balance by \$279,727.

Measure V Regional Fund:

- With the full year remittance of the Measure V sales tax, a net change of \$9,131,737 is recorded that will sustain different regional projects.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Association's general fund budget is prepared in which total revenue equals total expenditure. However, several key factors happened within the year that significantly affected the actual revenues and expenditures and ultimately the ending fund balance. One of these key factors is the ICAP percent rate applied in the budget. The final budget used 77% indirect cost rate across all programs, but the Association got approved a 126.67% indirect cost rate. This caused an increase in the revenue projected for management services as well as federal revenues.

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019**

The Association's actual total expenditure had light variances as well compared to its budget especially in the area of salaries and benefits. During the year, the Association went without a Deputy Director, and partially without a Public Affairs Manager, and an Accounting Clerk.

The Association's supplies and services and capital outlay incurred some unexpected cost in legal services and building insurance.

**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, 2019, amounted to \$361,396. This investment in capital assets includes land, buildings and improvements, and furniture and equipment. Additional information on the Association's capital assets can be found in Note 5 – Capital Assets.

**Capital Assets**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2019	2018	2019	2018	2019	2018
<b>Non-Depreciable Assets</b>						
Land	\$ 75,000	\$ 75,000	\$ -	\$ -	\$ 75,000	\$ 75,000
<b>Total Non-Depreciable Assets</b>	<b>75,000</b>	<b>75,000</b>	<b>-</b>	<b>-</b>	<b>75,000</b>	<b>75,000</b>
<b>Depreciable Assets</b>						
Buildings and improvements	575,558	575,558	-	-	575,558	575,558
Furniture and equipment	512,186	512,186	71,232	71,232	583,418	583,418
<b>Total Depreciable Assets</b>	<b>1,087,744</b>	<b>1,087,744</b>	<b>71,232</b>	<b>71,232</b>	<b>1,158,976</b>	<b>1,158,976</b>
<b>Accumulated Depreciation</b>						
Buildings and improvements	(301,867)	(286,351)	-	-	(301,867)	(286,351)
Furniture and equipment	(499,481)	(491,672)	(71,232)	(71,232)	(570,713)	(562,904)
<b>Total Depreciable Assets, Net</b>	<b>286,396</b>	<b>309,721</b>	<b>-</b>	<b>-</b>	<b>286,396</b>	<b>309,721</b>
<b>Total Capital Assets</b>	<b>\$ 361,396</b>	<b>\$ 384,721</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 361,396</b>	<b>\$ 384,721</b>

**Long-term debt** – The Association has no long-term debt.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

- Merced County's unemployment rate remained unchanged from the prior year. As of July 2019, the Bureau of Labor Statistics reports the unemployment rates were 8.1% for Merced, 4.2% for California and 3.7% 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 2019-20 fiscal year.
- In the 2019-2020 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 2019-20 fiscal year, MCAG will upgrade the security of the front lobby.
- MCAG has been receiving 1% of the total ½ cent sales tax generated and will continue to receive it over the 30 year life of the measure.

**REQUEST FOR INFORMATION**

This financial report is designated to provide a general overview of the Association's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Nav Bagri, Finance Director, Merced County Association of Governments, 369 West 18th Street, Merced, CA 95340, or at [nav.bagri@mcagov.org](mailto:nav.bagri@mcagov.org).

## **BASIC FINANCIAL STATEMENTS**

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2019**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 23,251,047	\$ 187,580	\$ 23,438,627
Accounts receivable	1,584	1,170	2,754
Due from other governments	3,866,252	-	3,866,252
Prepaid expenses	139,121	-	139,121
Capital assets:			
Nondepreciable	75,000	-	75,000
Depreciable, net of accumulated depreciation	286,396	-	286,396
 Total Assets	 <u>27,619,400</u>	 <u>188,750</u>	 <u>27,808,150</u>
<b>LIABILITIES</b>			
Accounts payable	109,101	1,909	111,010
Accrued payroll and related items	71,598	-	71,598
Due to other local agencies	1,933,491	-	1,933,491
Unearned revenue	1,032,375	-	1,032,375
Bank overdrafts	2,218	-	2,218
Due within one year:			
Compensated absences	282,748	-	282,748
 Total Liabilities	 <u>3,431,531</u>	 <u>1,909</u>	 <u>3,433,440</u>
<b>NET POSITION</b>			
Net investment in capital assets	361,396	-	361,396
Restricted for:			
Highways and streets	20,457,633	-	20,457,633
Other	3,567,150	-	3,567,150
Unrestricted	<u>(198,310)</u>	<u>186,841</u>	<u>(11,469)</u>
 Total Net Position	 <u>\$ 24,187,869</u>	 <u>\$ 186,841</u>	 <u>\$ 24,374,710</u>

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Federal Operating Revenues	State and Local Operating Revenues	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 4,795,954	\$ 5,556,689	\$ -	\$ 498,040	\$ 1,258,775	\$ -	\$ 1,258,775
Transportation planning	6,754,549	-	769,627	9,780,235	3,795,313	-	3,795,313
Other planning	1,916,248	-	-	132,800	(1,783,448)	-	(1,783,448)
Transfers to other local agencies	8,000,025	-	-	8,423,516	423,491	-	423,491
Total primary government - governmental activities	<u>21,466,776</u>	<u>5,556,689</u>	<u>769,627</u>	<u>18,834,591</u>	<u>3,694,131</u>	<u>-</u>	<u>3,694,131</u>
Business-type activities:							
Merced Data Special Services, Inc.	<u>3,819</u>	<u>1,963</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,856)</u>	<u>(1,856)</u>
Totals	<u>\$ 21,470,595</u>	<u>\$ 5,558,652</u>	<u>\$ 769,627</u>	<u>\$ 18,834,591</u>	<u>3,694,131</u>	<u>(1,856)</u>	<u>3,692,275</u>
General Revenues:							
Interest and investment earnings					<u>699,763</u>	<u>249</u>	<u>700,012</u>
Total General Revenues					<u>699,763</u>	<u>249</u>	<u>700,012</u>
Change in Net Position					<u>4,393,894</u>	<u>(1,607)</u>	<u>4,392,287</u>
Net Position, Beginning of Year					<u>19,740,479</u>	<u>241,944</u>	<u>19,982,423</u>
Prior Period Adjustment					<u>53,496</u>	<u>(53,496)</u>	<u>-</u>
Net Position, End of Year					<u>\$ 24,187,869</u>	<u>\$ 186,841</u>	<u>\$ 24,374,710</u>

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



**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2019**

	General Fund	MPO Fund	Regional Transportation Impact Fee Fund	Local Transportation Fund	Service Authority for Freeway Emergencies Fund	Measure V Regional Fund	Passenger Rail Fund	Nonmajor Governmental Fund	Total Governmental Funds
<b>ASSETS</b>									
Cash and investments	\$ -	\$ 890,482	\$ 83,719	\$ 2,367,729	\$ 2,912,774	\$16,694,011	\$ 302,332	\$ -	\$23,251,047
Receivables:									
Accounts receivable	-	1,584	-	-	-	-	-	-	1,584
Due from other governments	-	647,181	-	1,515,815	40,336	1,603,189	-	59,731	3,866,252
Prepaid expenses	123,995	15,084	42	-	-	-	-	-	139,121
<b>Total Assets</b>	<b>\$ 123,995</b>	<b>\$ 1,554,331</b>	<b>\$ 83,761</b>	<b>\$ 3,883,544</b>	<b>\$ 2,953,110</b>	<b>\$18,297,200</b>	<b>\$ 302,332</b>	<b>\$ 59,731</b>	<b>\$27,258,004</b>
<b>LIABILITIES</b>									
Accounts payable	\$ 47,011	\$ 61,922	\$ -	\$ -	\$ 168	\$ -	\$ -	\$ -	\$ 109,101
Accrued liabilities	31,183	40,415	-	-	-	-	-	-	71,598
Due to other local agencies	27,767	39,163	-	1,732,678	-	74,152	-	59,731	1,933,491
Due to other funds	-	53,496	-	-	-	-	-	-	53,496
Unearned revenue	-	732,375	-	-	-	-	300,000	-	1,032,375
Bank overdrafts	-	-	-	-	-	-	-	2,218	2,218
<b>Total Liabilities</b>	<b>105,961</b>	<b>927,371</b>	<b>-</b>	<b>1,732,678</b>	<b>168</b>	<b>74,152</b>	<b>300,000</b>	<b>61,949</b>	<b>3,202,279</b>
<b>FUND BALANCES (DEFICIT)</b>									
Nonspendable	123,995	15,084	42	-	-	-	-	-	139,121
Restricted for:									
Highways and streets	-	-	83,719	2,150,866	-	18,223,048	-	-	20,457,633
Other	-	611,876	-	-	2,952,942	-	2,332	-	3,567,150
Unassigned	(105,961)	-	-	-	-	-	-	(2,218)	(108,179)
<b>Total Fund Balances (Deficit)</b>	<b>18,034</b>	<b>626,960</b>	<b>83,761</b>	<b>2,150,866</b>	<b>2,952,942</b>	<b>18,223,048</b>	<b>2,332</b>	<b>(2,218)</b>	<b>24,055,725</b>
<b>Total Liabilities and Fund Balances (Deficit)</b>	<b>\$ 123,995</b>	<b>\$ 1,554,331</b>	<b>\$ 83,761</b>	<b>\$ 3,883,544</b>	<b>\$ 2,953,110</b>	<b>\$18,297,200</b>	<b>\$ 302,332</b>	<b>\$ 59,731</b>	<b>\$27,258,004</b>

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES  
JUNE 30, 2019**

Reconciliation of the Balance Sheet of the Governmental Funds to  
the Statement of Net Position:

Total Fund Balances - Governmental Funds		\$ 24,055,725
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Total capital assets	\$ 1,162,744	
Accumulated depreciation	<u>(801,348)</u>	
		361,396
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:		
Compensated absences		(282,748)
To eliminate interfund activities		<u>53,496</u>
Total Net Position - Governmental Activities		<u><u>\$ 24,187,869</u></u>

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	General Fund	MPO Fund	Regional Transportation Impact Fee Fund	Local Transportation Fund	Service Authority for Freeway Emergencies Fund	Measure V Regional Fund	Passenger Rail Fund	Nonmajor Governmental Fund	Total Governmental Funds
<b>REVENUES</b>									
Sales taxes	\$ -	\$ 250,640	\$ -	\$ -	\$ -	\$ 8,937,071	\$ -	\$ -	\$ 9,187,711
Local transportation fund	-	-	-	8,423,516	-	-	-	-	8,423,516
Charges for services	4,380,191	1,176,498	-	-	-	-	-	-	5,556,689
State and local revenues	-	585,514	31,173	-	228,713	-	-	228,092	1,073,492
Federal revenues	-	769,627	-	-	-	-	-	-	769,627
Investment earnings	-	13,789	84,461	113,456	53,932	431,793	2,332	-	699,763
Other income	-	149,872	-	-	-	-	-	-	149,872
Total Revenues	<u>4,380,191</u>	<u>2,945,940</u>	<u>115,634</u>	<u>8,536,972</u>	<u>282,645</u>	<u>9,368,864</u>	<u>2,332</u>	<u>228,092</u>	<u>25,860,670</u>
<b>EXPENDITURES</b>									
General government:									
Salaries and benefits	4,171,198	1,939,222	-	-	-	-	-	-	6,110,420
Supplies and services	190,959	1,109,435	25	-	2,918	-	-	229,542	1,532,879
Contributions to other local agencies	-	-	-	8,000,000	-	-	-	-	8,000,000
Highways and streets	-	7,849	5,582,085	-	-	237,127	-	-	5,827,061
Total Expenditures	<u>4,362,157</u>	<u>3,056,506</u>	<u>5,582,110</u>	<u>8,000,000</u>	<u>2,918</u>	<u>237,127</u>	<u>-</u>	<u>229,542</u>	<u>21,470,360</u>
Net Change in Fund Balances	18,034	(110,566)	(5,466,476)	536,972	279,727	9,131,737	2,332	(1,450)	4,390,310
Net Position (Deficit), Beginning of Year	-	737,526	5,550,237	1,613,894	2,673,215	9,091,311	-	(768)	19,665,415
Net Position (Deficit), End of Year	<u>\$ 18,034</u>	<u>\$ 626,960</u>	<u>\$ 83,761</u>	<u>\$ 2,150,866</u>	<u>\$ 2,952,942</u>	<u>\$ 18,223,048</u>	<u>\$ 2,332</u>	<u>\$ (2,218)</u>	<u>\$ 24,055,725</u>

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019**

Reconciliation of the Statement of Revenues, Expenditures, and Changes in  
Fund Balance of the Governmental Funds to the Statement of Activities:

Total Net Change in Fund Balances - Governmental Funds	\$ 4,390,310
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Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period:

(23,325)

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the Statement of Activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and those earned was:

26,909

Total Net Position - Governmental Activities

\$ 4,393,894

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2019**

	Enterprise Fund MDSS, Inc.
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 187,580
Accounts receivable	1,170
Due from other funds	53,496
Total current assets	242,246
Noncurrent assets:	
Capital assets:	
Depreciable capital assets	71,232
Accumulated depreciation	(71,232)
Capital assets, net:	-
Total noncurrent assets	-
Total Assets	242,246
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	1,909
Total current liabilities	1,909
Total Liabilities	1,909
<b>NET POSITION</b>	
Unrestricted	240,337
Total Net Position	\$ 240,337

Reconciliation of the Statement of Net Position of the Proprietary Fund to  
the Statement of Net Position of the Governmental Activities:

Total Net Position - Fiduciary Funds	\$ 240,337
To eliminate interfund activities	(53,496)
Total Net Position - Governmental Activities	\$ 186,841

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2019**

	Enterprise Fund <u>MDSS, Inc.</u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 1,963
Total Operating Revenues	<u>1,963</u>
<b>OPERATING EXPENSES</b>	
General administration	<u>3,819</u>
Total Operating Expenses	<u>3,819</u>
Operating Income (Loss)	<u>(1,856)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment earnings	<u>249</u>
Total Nonoperating Revenues (Expenses)	<u>249</u>
Change in Net Position	(1,607)
Net Position, Beginning of Year	<u>241,944</u>
Net Position, End of Year	<u><u>\$ 240,337</u></u>

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
STATEMENT OF CASH FLOWS –  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2019**

	Enterprise Fund <u>MDSS, Inc.</u>
<b>Cash Flows from Operating Activities:</b>	
Receipts from customers	\$ 1,963
Payments to suppliers and service providers	<u>(3,819)</u>
Net Cash Provided (Used) by Operating Revenues	<u>(1,856)</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>	
Transfers from (to) other funds	<u>(272)</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(272)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest income	<u>249</u>
Net cash Provided (Used) by Investing Activities	<u>249</u>
Net increase (decrease) in cash and investments	(1,879)
Cash and investments at beginning of year	<u>189,459</u>
Cash and investments at end of year	<u><u>\$ 187,580</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	<u>\$ (1,856)</u>
Net cash provided (used) by operating activities	<u><u>\$ (1,856)</u></u>

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2019**

	Measure V Trust Fund	State Transit Assistance Fund	State Exchange Fund
<b>ASSETS</b>			
Cash and investments	\$ -	\$ 886,956	\$ 2,726,052
Receivables:			
Due from other governments	1,959,454	725,039	27,671
Total Assets	1,959,454	1,611,995	2,753,723
<b>LIABILITIES</b>			
Due to other local agencies	1,959,454	725,039	2,640,569
Total Liabilities	1,959,454	725,039	2,640,569
<b>NET POSITION</b>			
Held in trust for the benefit of others	-	886,956	113,154
Total Net Position	\$ -	\$ 886,956	\$ 113,154

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



**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019**

	Measure V Trust Fund	State Transit Assistance Fund	State Exchange Fund
<b>ADDITIONS</b>			
Sales taxes	\$ 10,923,088	\$ 2,873,350	\$ 2,993,211
State and local revenues	-	65,214	-
Investment earnings	-	23,729	4,039
Total Revenues	<u>10,923,088</u>	<u>2,962,293</u>	<u>2,997,250</u>
<b>DEDUCTIONS</b>			
Contributions to other local agencies	<u>10,923,088</u>	<u>2,190,572</u>	<u>2,993,211</u>
Total Deductions	<u>10,923,088</u>	<u>2,190,572</u>	<u>2,993,211</u>
Changes in Net Position	-	771,721	4,039
Net Position, Beginning of Year	-	(425,630)	109,115
Prior Period Adjustment	-	540,865	-
Net Position, End of Year	<u><u>\$ -</u></u>	<u><u>\$ 886,956</u></u>	<u><u>\$ 113,154</u></u>

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

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

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

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

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

Basis of Presentation: The Association's basic financial statements consist of government-wide statements, including a Statement of Net Position, Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

*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's Discussion and Analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of private sector organizations.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

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

Basis of Presentation (continued):

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

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

*Fund Financial Statements:* The fund financial statements provide information about the Association's funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All the remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Separate statements for each fund category – governmental and proprietary – are presented. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transaction or ancillary activities.

Major Funds: GASB Statement No. 34 defines major funds and requires that the Association's major governmental funds be identified and presented separately in the fund financial statements.

Major funds are defined as funds that have either assets, liabilities, revenues, or expenditures equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The Association may also select other funds it believes should be presented as major funds.

The **General Fund** is the Association's primary operating fund. It accounts for all financial resources of the Association, except those required to be accounted for in another fund.

The **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 six major special revenue funds:

- The **Metropolitan Planning Organization (MPO) Fund** accounts for revenues received and expenditures made in carrying out the metropolitan transportation planning process.
- 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. However, during the fiscal year 2018-19, jurisdictions finalized the termination of the program as they deemed the program to be no longer practical or appropriate.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

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

Major Funds (continued):

- 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.
- 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 charge, 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.
- The **Measure V Regional Fund** is Merced County's 30-year ½ cent transportation sales tax that was passed by voters in November 2016. The measure is estimated to generate \$15 million in new revenue annually and \$450 million over the life of the measure. Expenditure plans allocate the estimated \$15 million in new annual revenue to the following funding categories: Regional Projects (east and west side shares), Local Projects and Alternative Modes Projects, Transit, and Administration.
- The **Passenger Rail Fund** was organized in 2018. The revenues received by this fund must be used for passenger rail expenditures.

Nonmajor Governmental Fund:

The Association maintains one nonmajor special revenue fund:

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

Major Enterprise Funds:

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](http://www.yosemite.com) website, which provides accurate, real-time information about Yosemite National Park and the surrounding region.

Fiduciary Funds:

**The Measure V Trust Fund** is the portion of the Measure V activity that the Association receives and passes through to the Local Projects, Alternative Modes Projects, and Transit projects. The following is a list of funding recipients:

- City of Atwater
- City of Dos Palos
- City of Gustine
- City of Livingston
- City of Los Banos
- City of Merced
- County of Merced
- Transit (Transit Joint Powers Authority of Merced County)

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

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

Fiduciary Funds (continued):

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.

The **State Exchange Fund** is used to account for the exchange of federal regional surface transportation program funds for nonfederal and state highway funds, and for the apportionment and disbursement of such funds to participating cities and Merced County in accordance with the approved claims.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation: 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 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.

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:

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.

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.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued):

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.

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.

Investment Earnings

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

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.

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

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

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

Accounts Receivable: Accounts receivable results 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. The Association did not write off any accounts receivable during the fiscal year ended June 30, 2019. There were no accounts that were deemed to be uncollectible at June 30, 2019.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

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

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

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

<u>Asset Type</u>	<u>Useful lives</u>
Buildings and improvements	20 to 50 years
Furniture and equipment	3 to 10 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 the next fiscal period. These costs are reported as payables in the financial statements.

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

In the fund financial statements, unearned or 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.

Net Position: Net position represents the residual interest in the Association’s assets after liabilities are deducted. In accordance with GASB Statement No. 63, the fund equity section on the Statement of Net Position was combined to report total net position and present it in three broad components:

- Net investment in capital assets – Amount consists of capital assets, including infrastructure, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted – Amount consists of net position restricted by external creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabled legislature.
- Unrestricted – Amount consists of all net position that does not meet the definition “net investment in capital assets” or “restricted” net position.

When both restricted and unrestricted net position are available, restricted resources are depleted first before unrestricted resources are used.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

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

Fund Balance: In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the Authority is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed fund balance* - amounts that can only be used for specific purposes determined by formal action of the Association's highest level of decision-making authority (the Governing Board) and that remain binding unless removed in the same manner. Committed fund balances do not lapse at year-end. The formal action must occur prior to the end of the reporting period. However, the amount which will be subject to the constraint may be determined in the subsequent period. The formal action required to commit fund balance shall be Governing Board resolution.
- *Assigned fund balance* - amounts that are constrained by the Association's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making authority, or by a body or an official designated for that purpose. Assigned funds cannot cause a deficit in unassigned fund balance.
- *Unassigned fund balance* - the residual classification for the Association's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

When both restricted and unrestricted resources are available for use, it is the Association's policy to use restricted resources first, followed by the unrestricted committed, assigned, and unassigned resources as they are needed.

In prior fiscal years the MPO fund was combined with the General Fund. During the 2019 fiscal year, the Association separated the two funds into their own respective funds. Due to the two funds being comingled for many years, the beginning balance for the General Fund was deemed undeterminable and given a beginning fund balance of \$0 as it is the expectation of the Association that all general fund revenues are collected and expended annually with little to no rollover to the following fiscal year.

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 ended June 30, 2019, the Association's ICAP rate has been approved at 126.69% by the Audits and Investigation department of Caltrans. This rate has been applied across all programs and were billed at a lump sum at the end of the fiscal year.

Fair Value of Financial Instruments: Financial instruments include cash, accounts receivable, due from other governments, prepaid expenses, accounts payable, accrued payroll and related items, due to other local agencies, advances from other governments, unearned revenue, and bank overdrafts, 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.

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 assets and 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.



**MERCED COUNTY ASSOCIATION OF GOVERNMENTS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

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

Compensated Absences: Full-time employees are eligible for paid 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, 2019 is \$282,748.

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.

Governmental Accounting Standards Update: During the year ending June 30, 2019, the Association implemented the following standards 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 January 8, 2020, which is the date the financial statements were available to be issued.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**NOTE 2 – CASH AND INVESTMENTS**

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

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

Investments in Merced County Treasury: The Association's cash and investments in the governmental funds consist of cash in the Merced County Treasury as part of the common investment pool. These pooled funds are carried at cost during the year and adjusted to fair value at year-end. Interest is paid quarterly into the participating funds. Any investment 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.

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, including bank overdrafts, are comprised of the following at June 30, 2019:

	Cost	Fair Market Value
<b><u>DEPOSITS</u></b>		
Governmental funds - investments in Merced County Treasury	\$ 21,525,272	\$ 21,687,448
Fiduciary funds - investments in Merced County Treasury	992,395	1,000,110
Cash in bank	4,361,859	4,361,859
Total cash and investments	\$ 26,879,526	\$ 27,049,417

Cash and investments, including bank overdrafts, are classified in the financials as shown below at June 30, 2019.

	Cost	Fair Market Value
Governmental funds	\$ 23,086,653	\$ 23,248,829
Proprietary funds	187,580	187,580
Fiduciary funds	3,605,293	3,613,008
Total cash and investments	\$ 26,879,526	\$ 27,049,417

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**NOTE 2 – CASH AND INVESTMENTS (continued)**

Investments in Merced County Treasury (continued):

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

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rate. As of June 30, 2019, the weighted average maturity of the investments contained in the Merced County Treasury investment pool was approximately 487 days.

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

Investment in Merced County 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, 2019:

- Cash in County of Merced Treasurer’s Investment Pool: valued at \$22,687,558, 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.

**NOTE 3 – INTERFUND RECEIVABLES AND PAYABLES**

The composition of due from and due to between Association’s funds at June 30, 2019, is as follows:

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

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

Amounts due to/from other local agencies and governments as of June 30, 2019 are as follows:

*Other Governments:*

Receivable Fund	Payable From	Amount	Explanation
MPO Fund	State of California	\$ 647,181	Admin reimbursements
Local Transportation Fund	State of California	1,515,815	LTF allocation
Service Authority for Freeway Emergencies	State of California	40,336	SAFE allocation
Measure V Regional Fund	State of California	1,603,189	Measure V regional allocation
Nonmajor Fund	State of California	59,731	AVA fees
Total		<u>\$ 3,866,252</u>	

*Other Local Agencies:*

Payable Fund	Payable To	Amount	Explanation
General Fund	Various local agencies	\$ 27,767	Various services
MPO Fund	Various local agencies	39,163	Various services
Local Transportation Fund	Various local agencies	1,732,678	LTF disbursement
Measure V Regional Fund	Various local agencies	74,152	Measure V admin & various
Nonmajor fund	Various local agencies	59,731	AVA disbursements
Total		<u>\$ 1,933,491</u>	

**NOTE 5 – CAPITAL ASSETS**

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

	Balances July 1, 2018	Increases	Decreases	Balances June 30, 2019
Capital assets not being depreciated:				
Land	\$ 75,000	\$ -	\$ -	\$ 75,000
Capital assets being depreciated:				
Buildings and improvements	575,558	-	-	575,558
Furniture and equipment	512,186	-	-	512,186
Total capital assets being depreciated	<u>1,087,744</u>	<u>-</u>	<u>-</u>	<u>1,087,744</u>
Less accumulated depreciation for:				
Buildings and improvements	(286,351)	(15,516)	-	(301,867)
Furniture and equipment	(491,672)	(7,809)	-	(499,481)
Total accumulated depreciation	<u>(778,023)</u>	<u>(23,325)</u>	<u>-</u>	<u>(801,348)</u>
Total capital assets being depreciated, net	<u>309,721</u>	<u>(23,325)</u>	<u>-</u>	<u>286,396</u>
Governmental activities capital assets, net	<u>\$ 384,721</u>	<u>\$ (23,325)</u>	<u>\$ -</u>	<u>\$ 361,396</u>

Depreciation expense of \$23,325 was charged to general administration in the Statement of Activities for the year ended June 30, 2019.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**NOTE 5 – CAPITAL ASSETS (continued)**

Capital assets activity for the business-type activities for year ended June 30, 2019 was as follows:

	Balances July 1, 2018	Increases	Decreases	Balances June 30, 2019
Capital assets being depreciated:				
GIS system	\$ 51,490	\$ -	\$ -	\$ 51,490
Yosemite.com website	19,742	-	-	19,742
Total capital assets being depreciated	71,232	-	-	71,232
Less accumulated depreciation				
GIS system	(51,490)	-	-	(51,490)
Yosemite.com website	(19,742)	-	-	(19,742)
Total accumulated depreciation	(71,232)	-	-	(71,232)
Business-type activities capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense for the business-type activities was \$0 for the year ended June 30, 2019.

**NOTE 6 – CHANGES IN LONG-TERM LIABILITIES**

Long-term liabilities activity for the year ended June 30, 2019 was as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Due Within One Year
Governmental Activities					
Compensated absences	\$ 309,657	\$ 102,035	\$ (128,944)	\$ 282,748	\$ 282,748
Total Governmental Activities	<u>\$ 309,657</u>	<u>\$ 102,035</u>	<u>\$ (128,944)</u>	<u>\$ 282,748</u>	<u>\$ 282,748</u>

**NOTE 7 – LEASES**

The Association is committed to various operating leases for business equipment. Operating leases do not give rise to property rights or lease obligations and, therefore, the results of the lease agreements are not reflected in the Association's accounts. The Association entered into a lease agreement for certain office equipment under a non-cancelable operating lease expiring in January 2021.

Total operating lease costs (including usage charges) were \$14,923 for the year ended June 30, 2019.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**NOTE 7 – LEASES (continued)**

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

Year Ending June 30,		
2020	\$	14,423
2021		<u>8,413</u>
Total	\$	<u><u>22,836</u></u>

**NOTE 8 – MEASURE V REGIONAL FUND REVENUE**

Measure V Revenues are derived from a ½ cent transportation sales tax that was passed by voters in November 2016. Per GASB Statement No. 33 “Accounting and Financial Reporting for Nonexchange Transactions,” sales tax falls under the definition of a derived tax revenue, which is the result from assessments imposed on exchange transactions. As such, the funds received for the Measure V Regional Fund are classified as Sales Tax Revenues. For the year ended June 30, 2019, total Measure V Regional Fund Sales Tax Revenues totaled \$8,937,071.

**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 18.5% of the qualified payroll for all eligible employees and the Executive Director, respectively. The contributions are 100% vested to all employees covered by the plan. As this is an employer only contribution plan, any employee terminating employment before being vested will forfeit all contributions. The employer may use those funds to pay for any future contributions. Any changes to the rates are approved by the Governing Board.

The Association’s total payroll eligible for pension benefits for the year ending June 30, 2019 was \$1,395,051. The Association’s contributions were calculated using the base salary amount of \$1,395,051. The Association made the required contribution amounting to \$212,606. There were no forfeitures for the fiscal year ended June 30, 2019.

**NOTE 10 – TRANSACTIONS WITH COMPONENT UNIT**

The Association provided professional services in the amount of \$17 to Merced Data Special Services, Inc. for the year ended June 30, 2019.

**NOTE 11 – AFFILIATED ORGANIZATIONS**

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**NOTE 11 – AFFILIATED ORGANIZATIONS (continued)**

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

**NOTE 12 – DEFICIT FUND BALANCES/NET POSITIONS**

The following fund had a deficit fund equity at June 30, 2019:

Nonmajor Governmental Fund:

Abandoned Vehicle Abatement Fund      \$ (2,218)

**NOTE 13 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The following funds incurred expenditures in excess of appropriations in the following amounts for the year ended June 30, 2019:

General Fund:		
Supplies and services	\$	190,959
MPO Fund:		
Salaries and benefits		367,246
Supplies and services		167,304
Highways and streets		7,849
Regional Transportation Impact Fee:		
Supplies and services		25

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

**NOTE 14 – PRIOR PERIOD ADJUSTMENT**

Beginning net position of the State Transit Assistance Fund, a fiduciary fund, has been restated to record a prior period adjustment for an understatement of revenues in the prior fiscal year that should have been recorded as a due from other governments balance at June 30, 2018. The adjustment resulted in an increase to beginning net position of the State Transit Assistance Fund of \$540,865.

A prior period adjustment was made to the beginning net position balances of the governmental activities and business-type activities in the amount \$53,496 to eliminate interfund activity improperly recorded in the government-wide financial statements in the prior fiscal year related to a due to balance in the MPO governmental fund and a due from balance in the MDSS proprietary fund.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS**

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**REQUIRED SUPPLEMENTARY INFORMATION**



**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES – BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Charges for services	\$ 4,822,999	\$ 4,794,396	\$ 4,380,191	\$ (414,205)
Total Revenues	<u>4,822,999</u>	<u>4,794,396</u>	<u>4,380,191</u>	<u>(414,205)</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Salaries and benefits	4,822,999	4,794,396	4,171,198	623,198
Supplies and services	<u>-</u>	<u>-</u>	<u>190,959</u>	<u>(190,959)</u>
Total expenditures	<u>4,822,999</u>	<u>4,794,396</u>	<u>4,362,157</u>	<u>432,239</u>
Net Change in Fund Balance	<u>-</u>	<u>-</u>	18,034	<u>18,034</u>
Fund Balance (Deficit), Beginning of Year			<u>-</u>	
Fund Balance (Deficit), End of Year			<u>\$ 18,034</u>	

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES – BUDGET AND ACTUAL  
METROPOLITAN PLANNING ORGANIZATION FUND  
FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Sales taxes	\$ 202,038	\$ 175,061	\$ 250,640	\$ 75,579
Charges for services	1,277,406	1,216,341	1,176,498	(39,843)
State and local revenues	404,111	236,545	585,514	348,969
Federal revenues	1,057,778	845,128	769,627	(75,501)
Investment earnings	-	-	13,789	13,789
Other Income	121,567	125,011	149,872	24,861
	<u>3,062,900</u>	<u>2,598,086</u>	<u>2,945,940</u>	<u>347,854</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Salaries and benefits	1,840,831	1,571,976	1,939,222	(367,246)
Supplies and services	1,149,512	942,131	1,109,435	(167,304)
Highways and streets	-	-	7,849	(7,849)
Capital outlay	72,557	83,979	-	83,979
	<u>3,062,900</u>	<u>2,598,086</u>	<u>3,056,506</u>	<u>(458,420)</u>
Net Change in Fund Balance	<u>-</u>	<u>-</u>	(110,566)	<u>(110,566)</u>
Fund Balance (Deficit), Beginning of Year			<u>737,526</u>	
Fund Balance (Deficit), End of Year			<u>\$ 626,960</u>	

**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, 2019**

	Budgeted Amounts		Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
State and local revenues	\$ -	\$ -	\$ 31,173	\$ 31,173
Investment earnings	-	-	84,461	84,461
 Total Revenues	 -	 -	 115,634	 115,634
<b>EXPENDITURES</b>				
Current:				
General government:				
Supplies and services	-	-	25	(25)
Highways and streets	-	5,582,085	5,582,085	-
 Total expenditures	 -	 5,582,085	 5,582,110	 (25)
 Net Change in Fund Balance	 -	 (5,582,085)	 (5,466,476)	 115,609
 Fund Balance (Deficit), Beginning of Year			 5,550,237	
 Fund Balance (Deficit), End of Year			 \$ 83,761	

**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, 2019**

	<u>Budgeted Amounts</u>		<u>Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local Transportation Fund	\$ 7,700,578	\$ 8,000,000	\$ 8,423,516	\$ 423,516
Investment earnings	-	-	113,456	113,456
Total Revenues	<u>7,700,578</u>	<u>8,000,000</u>	<u>8,536,972</u>	<u>536,972</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Contributions to other local agencies	<u>7,700,578</u>	<u>8,000,000</u>	<u>8,000,000</u>	<u>-</u>
Total expenditures	<u>7,700,578</u>	<u>8,000,000</u>	<u>8,000,000</u>	<u>-</u>
Net Change in Fund Balance	<u>-</u>	<u>-</u>	536,972	<u>536,972</u>
Fund Balance (Deficit), Beginning of Year			<u>1,613,894</u>	
Fund Balance (Deficit), End of Year			<u>\$ 2,150,866</u>	

**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, 2019**

	<u>Budgeted Amounts</u>		<u>Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
State and local revenues	\$ 221,214	\$ 221,214	\$ 228,713	\$ 7,499
Investment earnings	-	-	53,932	53,932
 Total Revenues	<u>221,214</u>	<u>221,214</u>	<u>282,645</u>	<u>61,431</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Supplies and services	<u>221,214</u>	<u>221,214</u>	<u>2,918</u>	<u>218,296</u>
 Total expenditures	<u>221,214</u>	<u>221,214</u>	<u>2,918</u>	<u>218,296</u>
 Net Change in Fund Balance	<u>-</u>	<u>-</u>	279,727	<u>279,727</u>
 Fund Balance (Deficit), Beginning of Year			<u>2,673,215</u>	
 Fund Balance (Deficit), End of Year			<u>\$ 2,952,942</u>	

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES – BUDGET AND ACTUAL  
MEASURE V REGIONAL FUND  
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
<b>REVENUES</b>				
Sales taxes	\$ 7,379,840	\$ 7,379,840	\$ 8,937,071	\$ 1,557,231
Investment earnings	-	-	431,793	431,793
 Total Revenues	<u>7,379,840</u>	<u>7,379,840</u>	<u>9,368,864</u>	<u>1,989,024</u>
 <b>EXPENDITURES</b>				
Current:				
Highways and streets	<u>7,379,840</u>	<u>7,379,840</u>	<u>237,127</u>	<u>7,142,713</u>
 Total expenditures	<u>7,379,840</u>	<u>7,379,840</u>	<u>237,127</u>	<u>7,142,713</u>
 Net Change in Fund Balance	<u>-</u>	<u>-</u>	9,131,737	<u>9,131,737</u>
 Fund Balance (Deficit), Beginning of Year			<u>9,091,311</u>	
 Fund Balance (Deficit), End of Year			<u>\$ 18,223,048</u>	

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES – BUDGET AND ACTUAL  
PASSENGER RAIL FUND  
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Investment earnings	\$ -	\$ -	\$ 2,332	\$ 2,332
Total Revenues	<u>-</u>	<u>-</u>	<u>2,332</u>	<u>2,332</u>
<b>EXPENDITURES</b>				
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>-</u>	<u>-</u>	2,332	<u>2,332</u>
Fund Balance (Deficit), Beginning of Year			<u>-</u>	
Fund Balance (Deficit), End of Year			<u>\$ 2,332</u>	

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (continued)  
FOR THE YEAR ENDED JUNE 30, 2019**

**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 ending 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.



**SUPPLEMENTARY INFORMATION**

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2019**

<b>Federal Grantor/ Pass-through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Contract or Program Number</b>	<b>Pass-Through to Sub-recipients</b>	<b>Federal Expenditures</b>
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>				
Passed through the State of California Department of Transportation:				
Federal Highway Administration Planning	20.205	74A0126	\$ -	\$ 704,423
FTA Section 5303	20.205	74A0126	-	65,203
Congestion Mitigation Air Quality	20.205	CMLNI-6095(077)	-	4,914
Congestion Mitigation Air Quality	20.205	CML-6095(074)	-	63,794
<b>Total U.S. Department of Transportation</b>			-	838,334
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ -</b>	<b>\$ 838,334</b>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE 1 – BASIS OF PRESENTATION**

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).

**NOTE 2 – 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.

**NOTE 3 – INDIRECT COST RATE**

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

**NOTE 4 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

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

**NOTE 5 – 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 Management and Budget's Catalog of Federal Domestic Assistance.

**NOTE 6 – PASS-THROUGH ENTITY IDENTIFYING NUMBERS**

When Federal awards were received from 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 Association has either determined that no identifying number is assigned for the program or the Association was unable to obtain an identifying number from the pass-through entity.

## **OTHER SCHEDULES**

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
SUMMARY OF RESOURCES AND EXPENDITURES BY WORK ELEMENT  
FOR THE YEAR ENDED JUNE 30, 2019**

	Total	FHWA PL	FTA Sec. 5303	CMAQ	RIP/PPM	TDA Admin	SAFE	AVA	Contributions from Members	MCAG Admin & Other
Resources:										
FHWA/PL	\$ 704,424	\$ 704,424	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FTA Section 5303	65,203	-	65,203	-	-	-	-	-	-	-
CMAQ	68,708	-	-	68,708	-	-	-	-	-	-
RIP	383,536	-	-	-	383,536	-	-	-	-	-
LTF Admin	52,038	-	-	-	-	52,038	-	-	-	-
SAFE	1,764	-	-	-	-	-	1,764	-	-	-
AVA	6,000	-	-	-	-	-	-	6,000	-	-
One Voice	600	-	-	-	-	-	-	-	600	-
Contributions from members	132,200	-	-	-	-	-	-	-	132,200	-
Local Contracts (PMS)	126,130	-	-	-	-	-	-	-	126,130	-
YARTS JPA	243,846	-	-	-	-	-	-	-	-	243,846
TJPA	1,668,484	-	-	-	-	-	-	-	-	1,668,484
RWMA	3,643,514	-	-	-	-	-	-	-	-	3,643,514
Measure V	198,602	-	-	-	-	-	-	-	-	198,602
Interest	13,789	-	-	-	-	-	-	-	-	13,789
Other	17,292	-	-	-	-	-	-	-	-	17,292
<b>Total Resources</b>	<b>7,326,130</b>	<b>704,424</b>	<b>65,203</b>	<b>68,708</b>	<b>383,536</b>	<b>52,038</b>	<b>1,764</b>	<b>6,000</b>	<b>258,930</b>	<b>5,785,527</b>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS**  
**SUMMARY OF RESOURCES AND EXPENDITURES BY WORK ELEMENT (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	Total	FHWA PL	FTA Sec. 5303	CMAQ	RIP/PPM	TDA Admin	SAFE	AVA	Contributions from Members	MCAG Admin & Other
Expenditures:										
Citizen Part. & Coord.	\$ 163,263	\$ 157,798	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,465
Regional Transportation Plan (RTP)	528,056	110,945	-	-	275,632	-	-	-	126,130	15,349
Perform Measure & Monitoring	19,719	16,689	-	-	2,288	-	-	-	-	742
Alternative Modes Planning	33,917	12,973	-	-	18,947	-	-	-	-	1,997
Air Quality Planning	30,653	25,133	-	-	5,520	-	-	-	-	-
SJ Valley Trans Coord.	49,360	38,767	-	-	7,180	-	-	-	-	3,413
Passenger Rail	483	483	-	-	-	-	-	-	-	-
FTIP	61,556	33,737	9,827	-	17,469	-	-	-	-	523
RTIP	9,395	8,443	-	-	768	-	-	-	-	184
Traffic Model	4,680	4,563	-	-	-	-	-	-	-	117
GIS Maintenance	53,238	52,988	-	-	-	-	-	-	-	250
State Data Center Affiliate	1,138	1,138	-	-	-	-	-	-	-	-
AME	7,849	-	-	-	-	-	-	-	-	7,849
RTIF	469	-	-	-	-	-	-	-	-	469
Trans Expenditure Program	195,322	-	-	-	-	-	-	-	-	195,322
TDM	70,769	-	-	68,708	-	-	-	-	-	2,061
TDA Administration	57,621	-	-	-	-	57,621	-	-	-	-
Overall Work Program	22,118	21,462	-	-	-	-	-	-	-	656
One Voice	69,792	-	-	-	-	-	-	-	69,792	-
YARTS JPA	242,620	-	-	-	-	-	-	-	-	242,620
Transit JPA FTA Admin	1,073,545	-	-	-	-	-	-	-	-	1,073,545
MDSS, Inc.	17	-	-	-	-	-	-	-	-	17
SWPB	3,576,886	-	-	-	-	-	-	-	-	3,576,886
SAFE	3,342	-	-	-	-	-	3,342	-	-	-
AVA	2,840	-	-	-	-	-	-	2,840	-	-
Public Information Request	600	-	-	-	-	-	-	-	-	600
MCAG Administration	1,064,513	219,305	55,376	-	55,732	-	-	-	-	734,100
MCAG Administration - Unallowed	75,924	-	-	-	-	-	-	-	75,924	-
<b>Total Expenditures</b>	<b>7,419,685</b>	<b>704,424</b>	<b>65,203</b>	<b>68,708</b>	<b>383,536</b>	<b>57,621</b>	<b>3,342</b>	<b>2,840</b>	<b>271,846</b>	<b>5,862,165</b>
Excess of revenues over (under) expenditures	\$ (93,555)	\$ -	\$ -	\$ -	\$ -	\$ (5,583)	\$ (1,578)	\$ 3,160	\$ (12,916)	\$ (76,638)

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
SCHEDULE OF REGULAR ALLOCATIONS AND DISBURSEMENTS BY PURPOSE –  
LOCAL TRANSPORTATION FUND  
FOR THE YEAR ENDED JUNE 30, 2019**

	PUC 99402			Total
	Administration	Planning	PUC 99260(a)	
<u>Allocations</u>				
Transit Joint Powers Authority	\$ -	\$ -	\$ 5,500,000	\$ 5,500,000
Yosemite Area Rural Transit Services	-	-	300,000	300,000
Passenger Rail Reserve	-	-	400,000	400,000
City of Atwater	-	-	114,102	114,102
City of Dos Palos	-	-	20,230	20,230
City of Gustine	-	-	22,088	22,088
City of Livingston	-	-	52,338	52,338
City of Los Banos	-	-	150,078	150,078
City of Merced	-	-	316,961	316,961
Merced County	-	-	354,914	354,914
Merced County Auditor	3,400	-	-	3,400
Merced County Association of Governments	52,038	-	-	52,038
Merced County Association of Governments	-	713,851	-	713,851
	<u>\$ 55,438</u>	<u>\$ 713,851</u>	<u>\$ 7,230,711</u>	<u>\$ 8,000,000</u>

<u>Disbursements</u>				
Transit Joint Powers Authority	\$ -	\$ -	\$ 5,500,000	\$ 5,500,000
Yosemite Area Rural Transit Services	-	-	300,000	300,000
Passenger Rail	-	-	400,000	400,000
City of Atwater	-	-	114,102	114,102
City of Dos Palos	-	-	20,230	20,230
City of Gustine	-	-	22,088	22,088
City of Livingston	-	-	52,338	52,338
City of Los Banos	-	-	150,078	150,078
City of Merced	-	-	316,961	316,961
Merced County	-	-	354,914	354,914
Merced County Auditor	3,400	-	-	3,400
Merced County Association of Governments	52,038	-	-	52,038
Merced County Association of Governments	-	713,851	-	713,851
	<u>\$ 55,438</u>	<u>\$ 713,851</u>	<u>\$ 7,230,711</u>	<u>\$ 8,000,000</u>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
SCHEDULE OF REGULAR ALLOCATIONS AND DISBURSEMENTS BY PURPOSE –  
STATE TRANSIT ASSISTANCE FUND  
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Allocations</u>		<u>Total</u>	<u>Disbursements</u>
	<u>PUC 93313</u>	<u>PUC 93314</u>		
Yosemite Area Regional Transportation System	\$ -	\$ 139,887	\$ 139,887	\$ 139,887
Transit Joint Powers Authority	\$ 2,342,179	\$ -	\$ 2,342,179	\$ 2,342,179



**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
 SCHEDULE OF REGULAR ALLOCATIONS AND DISBURSEMENTS BY PURPOSE –  
 STATE OF GOOD REPAIR  
 FOR THE YEAR ENDED JUNE 30, 2019**

	Allocations		Total	Disbursements
	PUC 93313	PUC 93314		
Yosemite Area Regional Transportation System	\$ -	\$ 22,058	\$ 22,058	\$ 22,058
Transit Joint Powers Authority	\$ 369,226	\$ -	\$ 369,226	\$ 369,226

**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, 2019**

	Section 182.6	
	Allocations	Disbursements
City of Atwater	\$ 354,586	\$ 354,586
City of Dos Palos	62,787	62,787
City of Gustine	67,034	67,034
City of Livingston	166,380	166,380
City of Los Banos	464,833	464,833
City of Merced	980,871	980,871
County of Merced	896,720	896,720
	\$ 2,993,211	\$ 2,993,211

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
SCHEDULE OF REGIONAL TRANSPORTATION IMPACT FEES BY JURISDICTION  
FOR THE YEAR ENDED JUNE 30, 2019**

City of Atwater	\$ 27,949
County of Merced	<u>3,224</u>
	<u>\$ 31,173</u>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
SCHEDULE OF INSURANCE COVERAGES  
FOR THE YEAR ENDED JUNE 30, 2019**

Type of Coverage	Amount of Coverage		Effective Date
Building	\$ 1,297,900		2/12/19-2/12/20
Business Property	\$ 281,200		2/12/19-2/12/20
Business Income/Extra Expense	\$ 500,000		2/12/19-2/12/20
General Aggregate	\$ 2,000,000		2/12/19-2/12/20
Products and Completed Operations Aggregate	\$ 2,000,000		2/12/19-2/12/20
Personal and Advertising Injury	\$ 1,000,000		2/12/19-2/12/20
Damage to Rental Premises	\$ 100,000	(each occurrence)	2/12/19-2/12/20
Medical Expense	\$ 5,000	(any one person)	2/12/19-2/12/20
Employee Benefits	\$ 1,000,000		2/12/19-2/12/20
Automobile - Liability	\$ 1,000,000	(each accident)	2/12/19-2/12/20
Automobile - Medical Payments	\$ 5,000	(each insured)	2/12/19-2/12/20
Automobile - Uninsured Motorist	\$ 1,000,000	(each accident)	2/12/19-2/12/20

**OTHER AUDITORS' REPORTS**



**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**

To the Governing Board  
Merced County Association of Governments

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Merced County Association of Governments (the Association), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated January 8, 2020.

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

**Purpose of this Report**

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

HUDSON HENDERSON & COMPANY, INC.

*Hudson Henderson & Company, Inc.*

Fresno, California  
January 8, 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  
Merced County Association of Governments

**Report on Compliance for Each Major Federal Program**

We have audited the Merced County Association of Government's (the Association) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended June 30, 2019. The Association's major federal programs are identified in the summary of auditors' 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 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 Association 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 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 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 this 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.

*Hudson Henderson & Company, Inc.*

Fresno, California  
January 8, 2020

## **FINDINGS AND RECOMMENDATIONS**

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
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 weakness identified? \_\_\_X\_\_\_ Yes \_\_\_\_\_ 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 federal programs:

- Material weakness identified? \_\_\_\_\_ Yes \_\_\_X\_\_\_ No
- Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes \_\_\_X\_\_\_ No

Noncompliance material to federal awards? \_\_\_\_\_ Yes \_\_\_X\_\_\_ No

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

Any audit findings disclosed that are required to be reported in accordance with 2CRF section 200.516(a)? \_\_\_\_\_ Yes \_\_\_X\_\_\_ No

***Identification of Major Programs***

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.205	Federal Highway Administration Planning
The dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	_____ Yes ___X___ No

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)  
FOR THE YEAR ENDED JUNE 30, 2019**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 2019-001 – Material Weakness  
Financial Close and Reporting Process**

Criteria:

In accordance with accounting principles generally accepted in the United States of America, adequate internal controls should be implemented to ensure that all accruals for payables, receivables, related expenses and revenues are recorded during the year-end closing process.

Condition:

Per audit procedures performed over payables and expenditures, receivables and revenues, and fund balance we noted the following conditions:

1. During our testing procedures over accounts receivable, due from other governments accounts, accounts payables, due to accounts, and deferred revenue, we noted several accounts that had balances that needed final year-end material adjustments or reclassification.
2. During our testing over fund balances, we needed to make several material adjustments to reconcile the balances to their correct amounts.
3. During our testing procedures over payroll and related administrative service revenues, we had to make a material adjustment to reduce payroll expenditures and administrative service revenues that were overstated.

Cause of Condition:

The Association lacked a properly implemented cut-off financial closing procedure that identified all payables and receivables that should be recorded back in the current fiscal year. The Association's internal controls over the year-end financial reporting process were not properly designed and in operation.

Effect of Condition:

This resulted in revenues and expenditures not being accrued accurately or in the correct account and thus materially misstating the financial statements of the Association.

Recommendation:

We recommend the Association enhance their year-end closing procedures to ensure that all accruals are reported accurately, as well as review subsequent receipts and disbursements in order to identify those that were earned/incurred in the previous fiscal year.

Management Response:

Management agrees with the recommendations and acknowledges that there was a lapse in the financial close procedures during the fiscal year due to personnel being utilized in different areas due to the loss of employees during the financial close timeframe. Management will work to implement a stronger financial close process, including ensuring all year end balances are properly reconciled and classified at year end.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2019**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 2018-001 – Material Weakness  
Bank Reconciliations**

Condition:

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

Criteria:

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

Cause of Condition:

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

Effect of Condition:

As a result of this condition, receivables and cash were initially misstated by \$545,794. This entry had no impact on the Statement of Revenues, Expenditures and Changes in Fund Balance.

Recommendation:

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

Current Year Status:

Implemented