

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY**

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

**FOR THE YEAR ENDED  
JUNE 30, 2015**

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
JUNE 30, 2015**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Transit Joint Powers Authority for Merced County (the Authority) as of and for the year ended June 30, 2015, and the related notes to the financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Transit Joint Powers Authority for Merced County, as of June 30, 2015, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of insurance coverages is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the schedule of insurance coverages are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole. The schedule of insurance coverages has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Price Pange & Company*

Clovis, California  
December 7, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

Merced County Association of Governments (MCAG) is the administrative management of the Transit Joint Powers Authority for Merced County (TJPA), which is responsible for the county-wide transportation system known as The Bus. Management presents the following narrative overview and analysis of the financial activities of TJPA for the year ended June 30, 2015. The financial information presented here should be considered in conjunction with the financial statements presented in the following pages.

**FINANCIAL HIGHLIGHTS**

- ❖ The TJPA's total assets for the fiscal year ending June 30, 2015 are \$37,242,824. This is an increase of \$2,382,127 from the ending balance of the prior fiscal year. The significant changes were increase in grants receivables and capital assets, with offsets of increases in cash and equivalents and accounts receivable. The increase in cash and equivalents is due to the increase in Local Transportation Funds.
- ❖ Capital assets, net of accumulated depreciation, included in total assets, are \$13,400,498, which is a decrease of \$2,174,329 from the prior year. The decrease is due to disposal of buses and the annual depreciation expense exceeded capital outlays during the fiscal year.
- ❖ Total liabilities as shown on the Statement of Net Position for the fiscal year ending June 30, 2015 are \$9,144,278, which is this is an increase from the prior year of \$919,513. The decrease is due to fiscal year 2013/14 having liability of \$1.9 million for the purchase of buses.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

**Basic Financial Statements**

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

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

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how TJPA's net position changed during the fiscal year ended June 30, 2015. All changes in net position are reported as soon as the underlying event giving rise to the change occurs (such as the receipt of goods and services or submittal of claims for capital and operating revenue) regardless of the timing of related cash flows. Thus, the revenues and expenses are reported in these statements using the accrual basis of accounting which is more fully described in the accompanying *Notes to the Basic Financial Statements*.

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

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

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

**FINANCIAL ANALYSIS**

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

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

As noted earlier, net position may serve as a useful indicator of a government's financial position over time. In the case of TJPA, assets exceeded liabilities by \$28,098,546 and \$26,635,930 at June 30, 2015 and 2014, respectively.

<b>Transit Joint Powers Authority</b>			
<b>Statement of Net Position - Two Year Comparison</b>			
	<b>June 30, 2015</b>	<b>June 30, 2014</b>	<b>Change</b>
<b>Assets:</b>			
Current and Other Assets	23,842,326	19,285,868	4,546,458
Capital Assets (net)	13,400,498	15,574,827	(2,174,329)
<b>Total Assets</b>	<b>37,242,824</b>	<b>34,860,695</b>	<b>2,382,127</b>
<b>Liabilities:</b>			
Current Liabilities	9,144,278	8,224,765	919,513
Non-current Liabilities	-	-	-
<b>Total Liabilities</b>	<b>9,144,278</b>	<b>8,224,765</b>	<b>919,513</b>
<b>Net Position:</b>			
Invested in Fixed Assets (net / related debt)	13,400,498	15,574,827	(2,174,329)
Restricted Net Position			-
Unrestricted	14,698,048	11,061,103	3,636,944
<b>Total Net Assets</b>	<b>28,098,546</b>	<b>26,635,930</b>	<b>1,462,616</b>

TJPA's changes in net position for the years ended June 30, 2014 and 2015 are as follows:

<b>Transit Joint Powers Authority</b>			
<b>Changes in Net Position</b>			
	<b>June 30, 2015</b>	<b>June 30, 2014</b>	<b>% Change</b>
Operating Revenues	\$ 1,693,493	\$ 1,670,555	1.4%
Operating Expenses	13,738,759	12,849,920	6.9%
Operating income (loss)	(12,045,266)	(11,179,365)	7.7%
Non-Operating Revenues	13,507,881	13,528,536	-0.2%
Changes in net position	1,462,615	2,349,171	-37.7%
Net Position - beginning	26,635,931	19,659,328	35.5%
Prior period adjustment	-	4,627,431	-100.0%
Net Position - ending	<u>28,098,546</u>	<u>26,635,930</u>	<u>5.5%</u>

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

Transit Activities

- ❖ As shown on the Statement of Revenues, Expenditures, and Changes in Net Position for the fiscal year ending June 30, 2015, total operating expenses increased by \$888,839 over the prior year. The major change is due increase in hours of services which also increased professional service along with fuel and maintenances for buses.

**Capital Assets and Debt Administration**

Capital Assets

The capital assets of the TJPA are those assets with a cost of at least \$5,000 and have more than one year of life, that are used in the performance of transit operations and any related functions. At June 30, 2015, the Transit Joint Powers Authority for Merced County (TJPA) had \$15,574,827 invested in capital assets including land improvements, buildings and improvements, and equipment. (See table below.) This amount represents a net increase (including additions and deductions) of \$41,642 or one percent from the prior year.

	July 1, 2014	Additions	Dispositions	July 1, 2015
Depreciable:				
Land Improvement	108,445	-	-	108,445
Buildings and Improvement	4,353,452	-	-	4,353,452
Equipment	23,768,272	447,700	(2,134,610)	22,081,362
<b>Total Depreciable Assets</b>	28,231,169	447,700	(2,134,610)	26,544,259
Accumulated Depreciation:				
Land Improvement	(47,382)	(10,844)	-	(58,226)
Building and Improvement	(1,146,972)	(155,113)	-	(1,302,085)
Equipment	(11,460,989)	(2,163,027)	1,841,566	(11,782,450)
<b>Total Accumulated Depreciation</b>	(12,655,343)	(2,328,984)	1,841,566	(13,142,761)
<b>Net Capital Assets</b>	15,575,826	(1,881,284)	(293,044)	13,400,498

This year's major additions included:

- ❖ Emergency Generator installed at the Dispatch office. The cost of the generator and installation was \$48,632.86, which was financed with Cal-EMA funds.
- ❖ All buses were wrapped, versus painting with new The Bus Logo and colors. Total Cost of the project was \$371,898. Authority used various funds to pay for the bus wrap.
- ❖ A Ford Transit was purchased for \$25,500 for staff's use. TJPA used Local Transportation Funds (LTF) to purchase the vehicle.

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

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

**Debt**

Transit Joint Powers Authority doesn't hold any debt.

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

- ❖ Merced County's unemployment rate dropped by two percent (2%) from the prior year. As of September 2015, the Bureau of Labor Statistics reports the unemployment rates were 8.2% for Merced, 5.9% for California and 5.1% for the Nation. Most of the jurisdictions have indicated that they have had some increase in building permits issued.
- ❖ In the 2015-16 fiscal year, there are new service providers for both daily operations of The Bus for both fixed and paratransit services, as well as for the maintenance of the buses.
- ❖ The 2015-16 year will be the third year for the demonstration project for expanded services. Staff will be determining if any of the expanded service is feasible to continue past the demonstration period.
- ❖ For the FY 2015-16 the adopted budget includes the extended operating hours and addition of Sunday service. As a result of the changes in the bus routes additional shelters being installed along the new routes at designated stops. Staff is working with local jurisdictions for authorization to install bus stops along the new routes as well as bus turn-outs along major roadways. The table below shows the budget capital projects for the 2015-2016 fiscal year.

Major purchases budgeted include the following:

Description	Estimated Cost	Funding Source
1 - 35' Gillig with remaining PTMISEA Funds	\$ 440,000	PTMISEA
4 - 26' ARBOC cutaways with remaining PTMISEA funds	\$ 680,000	PTMISEA
Camera Surveillance Equip. with police monitoring	\$ 31,000	Cal-EMA
Install Safety Glass at Transpo Cust Serv Counter	\$ 30,000	Cal-EMA
Video display monitors on Buses- Phase 1	\$ 145,289	Cal-EMA
Video display monitors on Buses- Phase 2	\$ 206,289	Cal-EMA
Lighted Crosswalks/Changeable Message Signs	\$ 206,289	Cal-EMA
Bus Stop Facilities installation (shelters/pullouts)	\$ 1,900,000	LTF
Total	\$ 3,638,867	

**Requests for information**

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

## BASIC FINANCIAL STATEMENTS

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
STATEMENT OF NET POSITION  
JUNE 30, 2015**

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 23,175,237
Accounts receivable	78,641
Deposits	10,000
Due from other governments	536,603
Bus pass inventory	41,845
Total current assets	23,842,326

Noncurrent assets:

Capital assets:

Depreciable	26,543,259
Accumulated depreciation	(13,142,761)
Capital assets, net of accumulated depreciation	13,400,498

Total noncurrent assets 13,400,498

Total assets 37,242,824

**LIABILITIES**

Current liabilities:

Accounts payable	675,749
Due to other governments	836,150
Unearned revenues	7,632,379
Total current liabilities	9,144,278

Total liabilities 9,144,278

**NET POSITION**

Net investment in capital assets	13,400,498
Unrestricted net position	14,698,048

Total net position \$ 28,098,546

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

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2015**

Operating Revenues:	
Passenger fares	\$ 1,693,493
Total operating revenues	<u>1,693,493</u>
Operating Expenses:	
Contracted services	7,038,237
Fuel, repairs, and maintenance	4,110,351
General and administrative	151,040
Insurance	13,170
Special departmental expense	39,868
Utilities	10,279
Rents and leases	46,830
Depreciation	<u>2,328,984</u>
Total operating expenses	<u>13,738,759</u>
Operating income (loss)	<u>(12,045,266)</u>
Nonoperating Revenues (Expenses):	
Federal and state operating grants	4,985,106
Intergovernmental	8,325,621
Interest income	140,776
Loss on sale of assets	(261,522)
Unrealized gain (loss) on investments	<u>(53,998)</u>
Total nonoperating revenues	<u>13,135,983</u>
Income before capital contributions	1,090,717
Federal and state capital contributions	<u>371,898</u>
Change in net position	1,462,615
Net position - beginning	<u>26,635,931</u>
Net position - ending	<u>\$ 28,098,546</u>

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

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2015**

Cash Flows from Operating Activities:	
Receipts from customers	\$ 1,732,857
Payments to suppliers, contracted entities, and others	<u>(13,034,828)</u>
Net cash provided by (used in) operating activities	<u>(11,301,971)</u>
Cash Flows from Noncapital Financing Activities:	
Federal, state and local operating assistance	4,985,106
Intergovernmental revenues	<u>8,374,194</u>
Net cash provided by (used in) noncapital financing activities	<u>13,359,300</u>
Cash Flows from Capital and Related Financing Activities:	
Federal and state capital grants received	2,936,357
Proceeds from capital asset disposals	31,522
Payments for deposit on purchase of land	(10,000)
Payments for capital assets	<u>(447,700)</u>
Net cash provided by (used in) capital and related financing activities	<u>2,510,179</u>
Cash Flows from Investing Activities:	
Interest received	140,776
Unrealized gain (loss) on investments	<u>(53,998)</u>
Net cash provided by (used in) investing activities	<u>86,778</u>
Net increase (decrease) in cash and equivalents	4,654,286
Cash and equivalents at July 1, 2014	<u>18,520,951</u>
Cash and equivalents at June 30, 2015	<u>\$ 23,175,237</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating income (loss)	\$ (12,045,266)
Depreciation and amortization	2,328,984
Increase (decrease) in:	
Accounts receivable	39,364
Bus pass inventory	19,892
(Increase) decrease in:	
Accounts payable	(1,814,697)
Due to other government	<u>169,752</u>
Net cash provided by (used in) operating activities	<u>\$ (11,301,971)</u>
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:	
Increase (decrease) in fair value of investments	<u>\$ (53,998)</u>

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

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Reporting Entity**

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

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

**B. Basis of Accounting**

The Authority maintains its accounting records on the accrual basis of accounting. The Authority is accounted for as an enterprise fund. Revenues are recognized when earned and expenses are recognized when incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The Authority accounts for money received and spent under Article 4, Section 99250 (public transit) of the TDA. The Authority also receives federal funds through the Federal Transit Administration, and other state and local grants, in addition to operating revenues.

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

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

Enterprise funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included in the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

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

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities and Net Position**

**1. Cash and Cash Equivalents**

The Authority maintains a cash and investment pool that is available for use by all funds. This pool utilizes the investments authorized by the Government Code and is further defined by the approved investment policy.

The Authority's investments are stated at fair value, and the increase or decrease of fair value of investments is included as a component of interest income.

Authorized investments include deposits in the State of California administered Local Agency Investment Fund, insured certificates of deposit, collateralized certificates of deposits, commercial paper, bankers acceptances, medium term notes, money market mutual funds and securities backed by the U.S. Government. All investments are stated at fair value.

Interest income earned as a result of pooling is distributed to the appropriate funds based on month end cash balances in each fund. Interest income from cash and investments with fiscal agents and deferred compensation is credited directly to the related fund.

For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

The Authority invests its cash principally with Merced County. Investments with Merced County are available for withdrawal on demand.

**2. Accounts Receivable/Due from Other Governments**

Accounts receivable and due from other governments result from charges for goods and services. The "direct write-off" method for accounts receivable was applied for accounts that have been established as uncollectible. The "direct write-off" method is not in compliance with generally accepted accounting principles, but the result is immaterial to the financial statements taken as a whole. The Authority did not write off any accounts receivable during the fiscal year. There were no accounts deemed to be uncollectible at June 30, 2015.

**3. Bus Pass Inventory**

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

**4. Accounts Payable/Due to Other Governments**

Certain costs are incurred by the Authority during the current period but are not paid until after the beginning of the next fiscal year. These costs are reported as payables in the financial statements. The Authority's current accounts payable and due to other governments' balances of \$675,749 and \$836,150, respectively, as of June 30, 2015, are related to certain contract services and payments for utility fees.

**5. Unearned Revenues**

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

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities and Net Position (Continued)**

**6. Capital Assets**

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

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

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

Land improvements	10 – 40 years
Buildings and improvements	6 – 50 years
Equipment	5 – 30 years

**7. Net Position**

Net position is reported in three categories as follows:

*Net investment in capital assets* – This amount consists of capital assets net of accumulated depreciation.

*Restricted* – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

*Unrestricted* – This amount is all resources that do not meet the definition of “net investment in capital assets” or “restricted net position.”

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

**8. 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. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Pronouncements**

**1. New Accounting Pronouncements Adopted**

**Governmental Accounting Standards Board Statement No. 68**

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The requirements of this Statement were implemented for the Authority's fiscal year ending June 30, 2015. As of July 1, 2014, the Authority adopted this standard, which did not have a significant impact on its financial statements.

**Governmental Accounting Standards Board Statement No. 69**

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. The statement requires disclosure to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this statement are effective for the Authority's fiscal year ending June 30, 2015. As of July 1, 2014, the Authority adopted this standard, which did not have an impact on its financial statements.

**Governmental Accounting Standards Board Statement No. 71**

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this statement are effective for the Authority's fiscal year ending June 30, 2017. As of July 1, 2014, the Authority adopted this standard, which did not have an impact on its financial statements.

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Pronouncements**

**1. New Accounting Pronouncements Adopted**

Governmental Accounting Standards Board Statement No. 72

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements for this provision are effective for the Authority's fiscal year ending June 30, 2015. As of July 1, 2014, the Authority adopted this standard, which did not have a significant impact on its financial statements.

**2. New Accounting Pronouncement Not Yet Adopted**

Governmental Accounting Standards Board Statement No. 73

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and accessing accountability. This statement results from comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this statement are effective for the Authority's fiscal year ending June 30, 2018.

Governmental Accounting Standards Board Statement No. 74

On June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. The requirements of this statement are effective for the Authority's fiscal year ending June 30, 2018.

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Pronouncements**

**New Accounting Pronouncement Not Yet Adopted**

Governmental Accounting Standards Board Statement No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The requirements of this statement are effective for the Authority's fiscal year ending June 30, 2019.

Governmental Accounting Standards Board Statement No. 76

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements for this statement are effective for the Authority's fiscal year ending June 30, 2017.

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 2 – CASH AND EQUIVALENTS**

Cash and equivalents as of June 30, 2015 consisted of the following:

Merced County Treasury common pool	\$ 17,373,240
Local Agency Investment Fund	1,508,556
Wells Fargo checking account	4,293,291
Petty cash	<u>150</u>
Total cash and equivalents	<u>\$ 23,175,237</u>

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

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 until the maturity of an investment, the greater is the sensitivity of its fair value to changes in market interest rate. As of year-end, the weighted average maturity of the investments contained in the Merced County Treasury Common Pool was approximately 20 months.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Authority’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies.

As of June 30, 2015, the carrying amount of the Authority’s bank deposits was \$4,293,291 and the respective bank balances totaled \$4,299,872. Of the total bank balance, \$250,000 was insured through the Federal Depository Insurance Company (FDIC). The remaining \$4,049,872 was collateralized with securities held by the financial institution. These securities are held in the name of the financial institution and not that of the Authority.

**Local Agency Investment Fund**

The Authority participates in an external investment pool, as defined by the Government Accounting Standards Board (GASB) Statement No. 31, by way of its funds on deposit in the Local Agency Investment Fund (LAIF) managed by the State of California Treasurer and is not registered with the Securities and Exchange Commission. These funds are pooled with those of other agencies in the State and invested in accordance with State guidelines. The value of the Authority’s shares in the LAIF that may be withdrawn is determined on an amortized costs basis, which may be different from the fair value of the Authority’s position in the pool. The Authority’s portion of the June 30, 2015 balance was \$1,508,556.

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 3 – CHANGES IN FIXED ASSETS**

The following schedule summarizes changes in fixed assets for the year ended June 30, 2015:

	<u>July 1, 2014</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2015</u>
Depreciable:				
Land improvements	\$ 108,445	\$ -	\$ -	\$ 108,445
Buildings and improvements	4,353,452	-	-	4,353,452
Equipment	<u>23,768,272</u>	<u>447,700</u>	<u>(2,134,610)</u>	<u>22,081,362</u>
Total depreciable assets	28,230,169	447,700	(2,134,610)	26,543,259
Accumulated depreciation:				
Land improvements	(47,382)	(10,844)	-	(58,226)
Buildings and improvements	(1,146,972)	(155,113)	-	(1,302,085)
Equipment	<u>(11,460,989)</u>	<u>(2,163,027)</u>	<u>1,841,566</u>	<u>(11,782,450)</u>
Total accumulated depreciation	<u>(12,655,343)</u>	<u>(2,328,984)</u>	<u>1,841,566</u>	<u>(13,142,761)</u>
Net capital assets	<u>\$ 15,574,826</u>	<u>\$ (1,881,284)</u>	<u>\$ (293,044)</u>	<u>\$ 13,400,498</u>

The amount recorded for depreciation was \$2,328,984 for the year ending June 30, 2015.

**NOTE 4 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS**

**Section 6633**

Pursuant to Section 6633.2 and 6633.5 of the California Administrative Code, the Authority is required to meet a passenger fare revenue recovery ratio of 20% for urban fixed services, 10% for rural fixed services and 10% for the elderly and handicapped (Dial-A-Ride Paratransit). The Authority's passenger fare recovery ratios for the urban and rural services with Fixed Route and Dial-A-Ride shown separately are as follows at June 30, 2015:

	<u>Fixed Routes</u>		<u>Dial-A-Ride Paratransit</u>
	<u>Urban</u>	<u>Rural</u>	
Passenger fare revenue	\$ 881,419	\$ 214,192	\$ 250,319
CMAQ expanded transit service demo	710,438	172,642	316,920
Local subsidy from other sector of operations	<u>347,031</u>	<u>-</u>	<u>-</u>
Adjusted revenues	<u>\$ 1,938,888</u>	<u>\$ 386,834</u>	<u>\$ 567,239</u>
Operating costs	<u>\$ 6,957,105</u>	<u>\$ 1,213,224</u>	<u>\$ 2,941,091</u>
Adjusted operating costs	<u>\$ 6,957,105</u>	<u>\$ 1,213,224</u>	<u>\$ 2,941,091</u>
Revenue recovery ratio	27.9%	31.9%	19.3%

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 5 – COMMITMENTS AND CONTINGENCIES**

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

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

**NOTE 6 – RENTAL AGREEMENTS**

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

The minimum rental payments required under these agreements is as follows at June 30:

<u>June 30,</u>	<u>Amount</u>
2016	\$ 9,782
2017	9,879
2018	9,978
2019	10,078
2020	10,179
Thereafter	<u>10,280</u>
Total	<u>\$ 60,176</u>

**NOTE 7 – CONTRACTUAL AGREEMENTS**

Merced County Association of Governments

The Authority has an on-going administrative agreement with Merced County Association of Governments (MCAG) to provide administrative services, including transit service management and marketing, financial and grant administration and transportation planning services. The most current agreement consist of a one year term effective July 1, 2014, and allows for automatic annual extensions through June 30, 2019. Payment of MCAG's services is based on a monthly cost reimbursements basis.

Merced Transportation Company

On August 10, 2010, the Authority entered into an operating agreement with Merced Transportation Company (MTC) to provide complete transit services. The agreement was effective beginning October 1, 2010 and expired on June 30, 2015. The Authority incurred \$5,867,624 in operating services provided by MTC for the year ended June 30, 2015.

National Express

On September 1, 2015, the Authority entered into an operating agreement with National Express to provide transit operational services. On October 1, 2015, the Authority entered into a second operating agreement with National Express to provide transit maintenance services. These agreements are set to expire on August 31, 2020.

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 8 – RISK MANAGEMENT**

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

**NOTE 9 – PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE ENHANCEMENT ACCOUNT**

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

During the fiscal year ended June 30, 2015, the Authority received proceeds totaling \$2,726,163 from the State's PTMISEA account. As of June 30, 2015, PTMISEA funds received and expended were verified in the course of our audit as follows:

	Balance July 1, 2014	Interest Income	Additional Allocations	Amount Expended	Balance June 30, 2015
Mobile Data Computers	\$ 78,040	\$ 241	\$ -	\$ (62,889)	\$ 15,392
Bus Purchase - 5 Gilling 40'	297,312	917	-	-	298,229
Bus Purchase - 8 Gilling	846,470	2,610	-	-	849,080
Bus Purchase - 13 DAR	1,398,375	4,311	-	-	1,402,686
Bus Purchase - 6 DAR	661,933	2,041	-	-	663,974
10 DAR buses	1,163,174	3,586	-	-	1,166,760
30001 - Transit Facility	-	2,095	2,726,163	-	2,728,258
	<u>\$ 4,445,304</u>	<u>\$ 15,801</u>	<u>\$ 2,726,163</u>	<u>\$ (62,889)</u>	<u>\$ 7,124,379</u>

OVERALL COMPLIANCE, INTERNAL CONTROL,  
AND FEDERAL AWARDS SECTION

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

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

We have audited the financial statements of the Transit Joint Powers Authority for Merced County, California (the Authority) for the year ended June 30, 2015, and have issued our report thereon dated December 7, 2015.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards* issued by the Comptroller General of the United States; and also to determine compliance with rules and regulations of the California Transportation Development Act (including Public Utility Code 99245); the rules and regulations of the Merced County Association of Governments; and the California Administrative Code.

Among the items considered were determination of the Authority's ability to receive funds allocated to it, the propriety of expenditures in accordance with the California Transportation Development Act, and compliance with provisions of the Public Transportation Modernization Improvement and Service Enhance Account (PTMISEA).

In our opinion, with respect to the items tested, the results of our tests indicated that the Authority complied in all material respects with the provisions referred to above. Additionally, during the fiscal year ended June 30, 2015, we verified that the Authority received \$2,726,163 in new funding and expended \$62,881 of total PTMISEA proceeds available.

This report is intended solely for the information and use of the Governing Board and management of the Transit Joint Powers Authority for Merced County, the California State Controller's Office, the California Department of Transportation, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Price Paige & Company*

Clovis, California  
December 7, 2015

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Transit Joint Powers Authority for Merced County (the Authority), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 7, 2015.

#### **Internal Control over Financial Reporting**

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

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

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

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Price Pange & Company*

Clovis, California  
December 7, 2015



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

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

We have audited the Transit Joint Powers Authority for Merced County's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2015. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

**Opinion on Each Major Federal Program**

In our opinion, the Transit Joint Powers Authority for Merced County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

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## Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Price Pange & Company*

Clovis, California  
December 7, 2015

INDEPENDENT AUDITOR'S COMPLIANCE REPORT

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

We have audited the compliance of the Transit Joint Powers Authority (the Authority) for Merced County Transportation Development Act Article III Funds (TDA Funds) with the types of compliance requirements described in Section 6666 of the Rules and Regulations of the California Administrative Code in the Transportation Development Act Statutes and Administrative Code for 1987 (the Act) and the allocation instructions and resolutions of the Authority's compliance with the requirements of laws, regulations, contracts, and grants applicable to the TDA Funds is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

As part of the audit, we performed testing of the following program:

**Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA)**

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

During the fiscal year ended June 30, 2015, the Authority received \$2,726,163 in new funding from the State's PTMISEA account. As of June 30, 2015, PTMISEA funds received and expended were verified in the course of our audit as follows:

	Balance July 1, 2014	Interest Income	Additional Allocations	Amount Expended	Balance June 30, 2015
Mobile Data Computers	\$ 78,040	\$ 241	\$ -	\$ (62,889)	\$ 15,392
Bus Purchase - 5 Gilling 40'	297,312	917	-	-	298,229
Bus Purchase - 8 Gilling	846,470	2,610	-	-	849,080
Bus Purchase - 13 DAR	1,398,375	4,311	-	-	1,402,686
Bus Purchase - 6 DAR	661,933	2,041	-	-	663,974
10 DAR buses	1,163,174	3,586	-	-	1,166,760
30001 - Transit Facility	-	2,095	2,726,163	-	2,728,258
	<u>\$ 4,445,304</u>	<u>\$ 15,801</u>	<u>\$ 2,726,163</u>	<u>\$ (62,889)</u>	<u>\$ 7,124,379</u>

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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. Those standards 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 direct and material effect on the TDA funds. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion the TDA funds allocated to and received by the Authority pursuant to the Act were expended in conformance with the applicable statutes, rules and regulations of the Act and the allocation instructions and resolutions of the Merced County Association of Governments.

This report is intended solely for the information and use of management, the Governing Board, others within the entity, the California State Controller's Office, and the California Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.

*Price Pange & Company*

Clovis, California  
December 7, 2015

## SUPPLEMENTARY INFORMATION

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**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
SCHEDULE OF INSURANCE COVERAGES  
JUNE 30, 2015**

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

<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Effective Dates</u>
General Liability	\$2,000,000	07/01/15 to 07/10/16
Workers Compensation	\$1,000,000	07/01/15 to 07/10/16
Automobile Liability	\$1,000,000	07/01/15 to 07/10/16
Commercial Package	90% value w/ \$500 deductible	07/01/15 to 07/10/16
Professional Liability	\$2,000,000	12/12/14 to 12/12/15

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

General Liability	\$7,000,000	06/01/15 to 06/01/16
Workers Compensation	\$1,000,000	06/01/15 to 06/01/16
Automobile Liability	\$5,000,000	06/01/15 to 06/01/16
Automobile Physical Damage	Replacement value	06/01/15 to 06/01/16

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2015**

<b>Federal Grantor/Pass-through the State of California</b>	<b>Federal CFDA No.</b>	<b>Contract or Program Number</b>	<b>Federal Expenditures</b>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Passthrough California State Department of Transportation:			
Federal Transit Formula Grants	20.507	CA-90-Z289-00	\$ 2,888,911
Federal Transit Formula Grants - CMAQ	20.507	CA 95-X267-00	<u>1,200,000</u>
			4,088,911
Formula Grants for Other Than Urbanized Area	20.509	CA-18-X069	529,248
Highway Planning and Construction	20.205	CML-6308(013)	371,898
Highway Planning and Construction	20.205	CML-6308(014)	<u>46,790</u>
Total U.S. Department of Transportation			<u>\$ 5,036,847</u>

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2015**

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audit of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:  
 Material weakness(es) identified? \_\_\_\_\_ yes      X   no

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

Noncompliance material to financial statements noted? \_\_\_\_\_ yes      X   no

**Federal Awards**

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

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ yes      X   no

**Identification of Major Programs**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.507	Federal Transit Formula Grants
20.509	Formula Grants for Other Than Urbanized
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as a low-risk auditee?   X   yes    \_\_\_\_\_ no

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

**SECTION III – TRANSPORTATION DEVELOPMENT ACT AND FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

**TRANSIT JOINT POWERS AUTHORITY  
FOR MERCED COUNTY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015**

**FINANCIAL STATEMENT FINDINGS**

None reported.

**COMPLIANCE AUDIT FINDINGS**

None reported.