

**MERCED COUNTY ASSOCIATION
OF GOVERNMENTS**

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

**FOR THE YEAR ENDED
JUNE 30, 2010**

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
JUNE 30, 2010**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis.....	3
 <u>BASIC FINANCIAL STATEMENTS</u>	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities.....	16
Statement of Fund Net Assets – Component Unit – Proprietary Fund	17
Statement of Revenues, Expenditures, and Changes in Fund Net Assets Component Unit – Proprietary Fund.....	18
Statement of Cash Flows – Component Unit – Proprietary Fund	19
Statement of Fiduciary Net Assets – Fiduciary Funds	20
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	21
Notes to the Basic Financial Statements	22
 <u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Budgetary Data:	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	38
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Regional Transportation Impact Fee Fund	39
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Local Transportation Fund	40

REQUIRED SUPPLEMENTARY INFORMATION (continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – State Exchange Fund	41
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – State Transit Assistance Fund	42
Notes to the Required Supplementary Information	43

OTHER SUPPLEMENTARY INFORMATION

Balance Sheet – Nonmajor Governmental Fund.....	46
Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Fund	47
Schedule of Expenditures of Federal Awards	48
Notes to the Schedule of Expenditures of Federal Awards.....	49
Other Schedules:	
Summary of Resources and Expenditures by Work Element – Modified Cash Basis	50
Summary of Resources and Expenditures by Work Element – Modified Cash Basis Reconciliation to the Audited Financial Statements	54
Schedule of Regular Allocations and Disbursements by Purpose – Local Transportation Fund.....	55
Schedule of Regular Allocations and Disbursements by Purpose – State Transit Assistance Fund.....	56
Schedule of Regular Allocations and Disbursements by Purpose – Regional Surface Transportation Program Exchange Fund	57
Schedule of Regular Allocations and Disbursements by Purpose – Schedule of Regional Transportation Impact Fees by Jurisdiction.....	58
Schedule of Insurance Coverage	59
Schedule of Grant Receipts and Expenditures Claimed with Reconciliation of Indirect Costs to be Carried Forward into Future Years' Fixed Rate with Carryforward Provision – Modified Cash Basis	60
Schedule of Cost Allocation Plan Reconciliation and Fixed Rate Overhead Carryover	61
Report on Internal Control 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>	65
Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	67
Auditor's Report on Compliance with Rules and Regulations of the Transportation Development Act	69
Schedule of Findings and Questioned Costs	71
Summary Schedule of Prior Year Audit Findings	73



INDEPENDENT AUDITOR'S REPORT

To the Governing Board of the
Merced County Association of Governments

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information the Merced County Association of Governments, Merced, California, as of and for the year ended June 30, 2010, which collectively comprise the Association's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Merced County Association of Governments' management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Merced County Association of Governments, as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2010, on our consideration of the Merced County Association of Governments' 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* and should be considered in assessing the results of our audit.

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 through 8 and 38 through 43 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Merced County Association of Governments' financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying 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 financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Other Schedules as listed in the table of contents, except for those listed above, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Price Pange & Company

Clovis, California
December 16, 2010

MERCED COUNTY ASSOCIATION OF GOVERNMENTS
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

The management of Merced County Association of Governments (the Association) presents the following narrative overview and analysis of the financial statements for the year ended June 30, 2010. The financial information presented here should be considered in conjunction with the financial statements presented in the following pages.

Financial Highlights

- ❖ Association's Total Net Assets, as shown on the Statement of Net Assets, for all fund types for the fiscal year ending June 30, 2010 are \$8,897,368. This is an increase of \$2,151,710 from the ending balance of the prior fiscal year. The significant changes were increases in Regional Transportation Impact Fee of \$617,306 and an increase in the State Transit Assistance Fund of \$1,413,152, and a decrease in MCAG General Fund of \$209,006.
- ❖ Total liabilities as shown on the Statement of Net Assets for all fund types for the fiscal year ending June 30, 2010 are \$4,171,952. This is a net increase from the prior year of \$78,031.
- ❖ 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, 2010 are \$12,370,195. This is a decrease of \$1,805,499 from the prior fiscal year. The major changes were a decrease in MCAG General Fund of \$1,787,879 as a result of MCAG no longer administering the Blueprint Grant, a decrease in revenues for Regional Transportation Impact Fee Fund of \$562,848, a decrease in revenues collected for the Local Transportation Fund of \$194,755, and an increase in the State Transit Assistance Fund of \$868,262, which is a result of the State paying two years of revenue in the 09-10 fiscal year.
- ❖ As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental funds, total expenditures Governmental Funds for the fiscal year ending June 30, 2010 are \$10,562,205. This is a decrease of \$3,106,862 from the previous fiscal year. The major changes were a decrease in MCAG General of \$1,541,552 as a result of MCAG no longer administering the Blueprint Grant, a decrease in Regional Transportation Impact Fee expenditures of \$462,099, which is a result of the current project coming to a close, a decrease in Local Transportation Fund allocations of \$444,367 due to the decrease in revenue received, and an increase in the State Transit Assistance Fund of \$540,808, due to the revenue not being received until the end of June not allowing for authorization and distribution before the end of the fiscal year.

Overview of Annual Financial Report

This discussion and analysis are intended to serve as an introduction to the Association's basic financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of MCAG's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all of MCAG's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in new assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expense are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

MERCED COUNTY ASSOCIATION OF GOVERNMENTS
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Fund Financial Statements

A fund is a group of related accounts used to maintain control over resources segregated for specific activities. MCAG's funds are divided into three fund types: governmental funds, proprietary funds and fiduciary funds.

The various reports that make up the annual report in total are the Balance Sheets – Governmental Funds: the reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets: the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities: the Statement of Fund Net Assets – Component Unit Proprietary Fund: the Statement of Revenues, Expenses, and Changes in Fund Net Assets – Component Unit Proprietary Fund: the Statement of Cash Flows – Component Unit Proprietary Fund: the Statement of Fiduciary Net Assets – Fiduciary Funds: and the Statement of Changes in Fiduciary Net Assets. Notes to the Financial Statements follow the above statements. The financial statements and notes to the financial statements are preceded by the Independent Auditor's Report and followed by a budget vs. actual report on the General Fund, Regional Transportation Impact Fee, Local Transportation Fund, State Exchange Fund, and State Transit Assistance fund. Other required supplementary information includes this management discussion and analysis, additional combining financial statements that provide detail, reports on compliance and internal control, a schedule of findings and questioned costs, reports on expenditures, as well as a schedule of insurance coverage and information on the indirect costs to be carried forward.

Governmental funds track the basic activities of the governmental unit and include the General Fund and Special Revenue Funds. For MCAG the governmental funds include the General Fund and five Special Revenue Funds. The Special Revenue Funds include the Regional Transportation Impact Fee Fund (RTIF), the Local Transportation Fund (LTF), the State Exchange Fund, the State Transit Assistance Fund, and the Service Authority for Freeway Emergencies Fund (SAFE). The General Fund accounts for the primary planning activities of MCAG. The Special Revenue Funds account for activity for which the receipt of federal and state monies are designated for specific purposes. Governmental funds are used to account for essentially the same function reported as governmental activities in the government-wide financial statements. However, unlike 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 a government's near-term financing requirements. Governmental fund income is recorded when measurable and can be collected in the current period or soon after. Expenditures are recorded when the liability is incurred if measurable.

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 propriety fund, income is recorded when earned and expenses are recorded when incurred.

Fiduciary funds report assets that are held in trust for other people or business entities and cannot be used to support the government's own programs. For MCAG there are two Fiduciary funds - the Deferred Compensation Fund and the AFLAC Health Benefit Fund. Fiduciary fund income is recorded when measurable and can be collected in the current period or soon after. Expenditures are recorded when the liability is incurred if measurable.

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.

MERCED COUNTY ASSOCIATION OF GOVERNMENTS
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Condensed Financial Information

- ❖ As noted earlier, net assets may serve over time as a useful indicator of an organization's financial position. As shown in the Statement of Net Assets, all funds total assets exceeded total liabilities by \$8,897,368.
- ❖ Governmental Fund revenues were less than the budgeted due to estimated General, LTF and STA revenues not being realized, which in turn reduced General Fund expenditures, which are used to bill on an available and actual basis.
- ❖ Regional Transportation Impact Fee Fund was established for the collection of one-time fees from new development to mitigate their impact on the regional road network. The revenue sources for this fund are the incorporated cities within Merced County (with the exception of City of Livingston), and the County of Merced. For Fiscal-Year 2009-2010, revenues were \$674,231, a decrease of \$562,848 from the prior year. Total Expenditures were \$56,925, a decrease of \$462,099 from the previous year. The result of this activity was an increase to the fund balance of \$617,306.
- ❖ Approximately eighty-five percent (85%) of all Primary Government net assets represent resources that are subject to restrictions on how they may be used. The Restricted Governmental Funds include RTIF, LTF, State Exchange Funds, State Transit Assistance Fund and Non-major Governmental Funds. The total restricted amount in these funds is \$7,392,581.

Merced Data Special Services, Inc. (MDSS) is a component unit of the Association. For fiscal year 2009-2010, MDSS had operating revenues of \$64,268, which is a decrease of \$4,377 over the previous fiscal year activity. In addition, operating expenses were \$42,541, a decrease of \$4,433 from the previous fiscal year. As a result, this activity increased net assets by \$21,727.

MERCED COUNTY ASSOCIATION OF GOVERNMENTS
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Condensed Financial Information

Table 1

Merced County Association of Governments
Primary Government and Component Unit – Statements of Net Assets

	Primary Government		Component Unit		Total	
	2010	2009	2009	2009	2010	2009
Assets:						
Current Assets	12,194,320	9,940,721	250,910	219,552	12,445,230	109,445,64
Capital Assets (net)	618,942	671,584	5,148	7,722	624,090	679,306
	12,813,262	10,612,305	256,058	227,274	13,069,320	110,124,95
Liabilities:						
Current Liabilities	4,084,601	3,998,731	17,153	10,096	4,101,754	4,008,827
Non-current Liabilities	70,198	85,094	-	-	70,198	85,094
	4,154,799	4,083,825	17,153	10,096	4,171,952	4,093,921
Net Assets:						
Invested in Fixed Assets (net / related debt)	533,848	564,934	5,148	7,722	538,996	572,656
Restricted Net Assets	7,392,581	5,375,585	-	-	7,392,581	5,375,585
Unrestricted	732,034	587,961	233,757	209,456	965,791	797,417
Total Net Assets	8,658,463	6,528,480	238,905	217,178	8,897,368	6,745,658

MERCED COUNTY ASSOCIATION OF GOVERNMENTS
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Condensed Financial Information

Table 2

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

	Primary Government		Component Unit		Total	
	2010	2009	2010	2009	2010	2009
Program Revenues:						
Federal Operating Revenue	811,024	2,216,354	-	-	811,024	2,216,354
State and Local Operating Revenue	11,007,659	10,982,602	-	-	11,007,659	10,982,602
Charges for Services	693,519	779,831	64,268	68,645	757,787	848,476
General Revenues:						
Interest and Investment Earnings	104,025	196,907	-	-	104,025	196,907
Gain on Sale of Capital Assets	-	-	-	-	-	-
Total Revenues	12,616,227	14,175,694	64,268	68,645	12,680,495	14,244,339
Program Expenditures:						
General Administration	132,713	43,484	-	-	132,713	43,484
Transportation Planning	1,164,499	2,955,424	-	-	1,164,499	2,955,424
Other Planning	1,898,162	1,866,461	-	-	1,898,162	1,866,461
Transfers to Other Local Agencies	7,290,870	8,850,535	-	-	7,290,870	8,850,535
GIS and WEB Services	-	-	42,541	46,974	42,541	46,974
Total Expenditures	10,486,244	13,715,904	42,541	46,974	10,528,785	13,762,878
Change in Net Assets	2,129,983	459,790	21,727	21,671	2,151,710	481,461

MERCED COUNTY ASSOCIATION OF GOVERNMENTS
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Condensed Financial Information

Table 3

Merced County Association of Governments
Revenues and Expenditures – Individual Funds

	2010	2009	% Change
Revenues:			
General Fund	2,922,329	4,710,208	-37.96%
Regional Transportation Impact Fee Fund	674,231	1,237,079	-45.50%
Local Transportation Fund	5,278,597	5,473,352	-3.56%
State Exchange Fund	1,882,274	1,997,931	-5.79%
State Transit Assistance Fund	1,413,152	544,890	159.35%
Non-major Governmental Funds	199,612	212,234	-5.95%
Total Revenues	12,370,195	14,175,694	-12.74%
Expenditures:			
General Fund	3,131,335	4,672,887	-32.99%
Regional Transportation Impact Fee Fund	56,925	519,024	-89.03%
Local Transportation Fund	5,355,633	5,800,000	-7.66%
State Exchange Fund	1,878,312	1,990,705	-5.65%
State Transit Assistance Fund	-	540,808	-100.00%
Non-major Governmental Funds	140,000	145,643	-3.87%
Total Expenditures	10,562,205	13,669,067	-22.73%

BASIC FINANCIAL STATEMENTS

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**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Primary Government Governmental Activities	Merced Data Special Services, Inc.	Total
ASSETS			
Current assets:			
Cash and investments	\$ 1,126,025	\$ 246,258	\$ 1,372,283
Accounts receivable	22,494	4,652	27,146
Grants receivable	193,897	-	193,897
Due from other governments	592,208	-	592,208
Due from component unit	7,423	-	7,423
Restricted cash and cash equivalents	10,252,273	-	10,252,273
Noncurrent assets:			
Capital assets:			
Nondepreciable	75,000	-	75,000
Depreciable, net of accumulated depreciation	543,942	5,148	549,090
Total assets	12,813,262	256,058	13,069,320
LIABILITIES			
Current liabilities:			
Accounts payable	127,432	1,000	128,432
FSA payable	-	8,730	8,730
Accrued interest	2,322	-	2,322
Due to other local agencies	3,029,426	-	3,029,426
Due to primary government	-	7,423	7,423
Deferred revenue	838,589	-	838,589
Due within one year:			
Loan payable	7,016	-	7,016
Compensated absences	71,936	-	71,936
Capital leases	7,880	-	7,880
Noncurrent liabilities:			
Due in more than one year:			
Loan payable	52,935	-	52,935
Capital leases	17,263	-	17,263
Total liabilities	4,154,799	17,153	4,171,952
NET ASSETS			
Invested in capital assets, net of related debt	533,848	5,148	538,996
Restricted for:			
Legally restricted purposes	7,392,581	-	7,392,581
Unrestricted, unreserved	732,034	233,757	965,791
Total net assets	\$ 8,658,463	\$ 238,905	\$ 8,897,368

The notes to the financial statements are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Charges for Services	Federal Operating Revenue	State and Local Operating Revenue	Net (Expenses) Revenue and Changes in Net Assets		
					Primary Government Activities	Component Unit Business-Type Activities	Total
Primary government:							
Governmental activities:							
General administration	\$ 132,713	\$ 19,094	\$ -	\$ -	\$ (113,619)	\$ -	\$ (113,619)
Transportation planning	1,164,499	-	811,024	3,123,973	2,770,498	-	2,770,498
Other planning	1,898,162	674,425	-	125,760	(1,097,977)	-	(1,097,977)
Transfers to other local agencies	7,290,870	-	-	7,757,926	467,056	-	467,056
Total primary government - governmental activities	<u>10,486,244</u>	<u>693,519</u>	<u>811,024</u>	<u>11,007,659</u>	<u>2,025,958</u>	<u>-</u>	<u>2,025,958</u>
Component unit:							
Merced Data Special Services, Inc.	<u>42,541</u>	<u>64,268</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,727</u>	<u>21,727</u>
Total activities	<u>\$ 10,528,785</u>	<u>\$ 757,787</u>	<u>\$ 811,024</u>	<u>\$ 11,007,659</u>	2,025,958	21,727	2,047,685
General revenues:							
					104,025	-	104,025
					<u>104,025</u>	<u>-</u>	<u>104,025</u>
					2,129,983	21,727	2,151,710
					<u>6,528,480</u>	<u>217,178</u>	<u>6,745,658</u>
					<u>\$ 8,658,463</u>	<u>\$ 238,905</u>	<u>\$ 8,897,368</u>

The notes to the financial statements are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2010**

	General	Regional Transportation Impact Fee	Local Transportation Fund	State Exchange Fund	State Transit Assistance Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 1,126,025	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,126,025
Receivables:							
Accounts receivable	22,494	-	-	-	-	-	22,494
Grants receivable	193,897	-	-	-	-	-	193,897
Due from other governments	486,205	73,636	-	-	-	32,368	592,209
Due from other funds	43,880	56,631	-	-	-	-	100,511
Due from component unit	7,423	-	-	-	-	-	7,423
Cash and cash equivalents - restricted	-	4,725,362	1,147,501	1,973,360	1,499,904	906,146	10,252,273
Total assets	<u>\$ 1,879,924</u>	<u>\$ 4,855,629</u>	<u>\$ 1,147,501</u>	<u>\$ 1,973,360</u>	<u>\$ 1,499,904</u>	<u>\$ 938,514</u>	<u>\$ 12,294,832</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 127,433	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 127,433
Due to other funds	100,511	-	-	-	-	-	100,511
Due to other local agencies	7,099	-	1,144,014	1,878,313	-	-	3,029,426
Deferred revenue	1,084,621	-	-	-	-	-	1,084,621
Total liabilities	<u>1,319,664</u>	<u>-</u>	<u>1,144,014</u>	<u>1,878,313</u>	<u>-</u>	<u>-</u>	<u>4,341,991</u>
Fund balances:							
Reserved for:							
Legally restricted purposes	-	4,855,629	3,487	95,047	1,499,904	938,514	7,392,581
Unreserved, reported in:							
General fund	560,260	-	-	-	-	-	560,260
Total fund balances	<u>560,260</u>	<u>4,855,629</u>	<u>3,487</u>	<u>95,047</u>	<u>1,499,904</u>	<u>938,514</u>	<u>7,952,841</u>
Total liabilities and fund balances	<u>\$ 1,879,924</u>	<u>\$ 4,855,629</u>	<u>\$ 1,147,501</u>	<u>\$ 1,973,360</u>	<u>\$ 1,499,904</u>	<u>\$ 938,514</u>	<u>\$ 12,294,832</u>

The notes to the financial statements are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total fund balances - governmental funds \$ 7,952,841

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

Capital assets: In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historic cost	1,242,876	
Accumulated depreciation	<u>(623,934)</u>	618,942

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, long-term debt is recognized in the period that it is incurred. (2,322)

Other long-term assets are not available to pay for current period expenditures; therefore, they are deferred in the governmental funds. 246,032

Long-term liabilities: In government funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities are reported. Long-term liabilities relating to governmental activities consist of:

Compensated absences payable	(71,936)	
Capital lease payable	(25,143)	
Loan payable	<u>(59,951)</u>	<u>(157,030)</u>

Net assets of governmental activities \$ 8,658,463

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	General	Regional Transportation Impact Fee	Local Transportation Fund	State Exchange Fund	State Transit Assistance Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES							
Sales taxes	\$ 107,950	\$ -	\$ 5,267,776	\$ -	\$ 1,411,853	\$ -	\$ 6,787,579
Charges for services	-	611,329	-	-	-	-	611,329
State and local revenues	2,058,102	-	-	1,878,821	-	188,798	4,125,721
Federal revenues	741,541	-	-	-	-	-	741,541
Intergovernmental							
Interest income	14,736	62,902	10,821	3,453	1,299	10,814	104,025
Total revenues	<u>2,922,329</u>	<u>674,231</u>	<u>5,278,597</u>	<u>1,882,274</u>	<u>1,413,152</u>	<u>199,612</u>	<u>12,370,195</u>
EXPENDITURES							
Current:							
General government:							
Salaries and benefits	1,901,581	-	-	-	-	-	1,901,581
Supplies and services	1,083,421	56,925	-	-	-	140,000	1,280,346
Contributions to other local agencies	-	-	5,355,633	1,878,312	-	-	7,233,945
Debt service:							
Principal	124,216	-	-	-	-	-	124,216
Interest	2,569	-	-	-	-	-	2,569
Capital outlay:							
General government	19,548	-	-	-	-	-	19,548
Total expenditures	<u>3,131,335</u>	<u>56,925</u>	<u>5,355,633</u>	<u>1,878,312</u>	<u>-</u>	<u>140,000</u>	<u>10,562,205</u>
Excess (deficiency) of revenues over (under) expenditures	(209,006)	617,306	(77,036)	3,962	1,413,152	59,612	1,807,990
Fund balances - beginning	769,266	4,238,323	80,523	91,085	86,752	878,902	6,144,851
Fund balances - ending	<u>\$ 560,260</u>	<u>\$ 4,855,629</u>	<u>\$ 3,487</u>	<u>\$ 95,047</u>	<u>\$ 1,499,904</u>	<u>\$ 938,514</u>	<u>\$ 7,952,841</u>

The notes to the financial statements are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

Net change in fund balances - total governmental funds		\$ 1,807,990
<p>Depreciation expense on capital assets is reported in the government-wide statement of activities, but does not require the use of current financial resources; therefore, depreciation expense is not reported as expenditures in the governmental funds.</p>		
Depreciation expense		(72,190)
Expenditures for capital outlay		19,548
<p>Repayment of long-term principal is an expenditure in governmental funds, but the repayment reduced long-term liabilities in the government-wide statement of net assets.</p>		
		124,216
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		246,032
<p>Compensated absences expense reported in the statement of activities do not require the use of current financial resources; therefore, they are not reported as an expenditure in the governmental funds.</p>		
		3,419
<p>Unmatured interest on long-term debt. In governmental funds, interest on long-term debt is recognized in the period that it is incurred.</p>		
		968
Change in net assets of governmental funds		\$ 2,129,983

The notes to the financial statements are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF FUND NET ASSETS
COMPONENT UNIT – PROPRIETARY FUND
JUNE 30, 2010**

	Enterprise Fund <hr/> Component Unit MDSS, Inc. <hr/>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 246,258
Accounts receivable	<u>4,652</u>
Total current assets	<u>250,910</u>
Noncurrent assets:	
Capital assets:	
Geographic Information Database	51,490
<u>Yosemite.com</u> website	19,742
Accumulated depreciation	<u>(66,084)</u>
Total capital assets	<u>5,148</u>
Total assets	<u>256,058</u>
LIABILITIES	
Current liabilities:	
Accounts payable	1,000
FSA payable	8,730
Due to primary government	<u>7,423</u>
Total liabilities	<u>17,153</u>
NET ASSETS	
Invested in capital assets	5,148
Unrestricted	<u>233,757</u>
Total net assets	<u>\$ 238,905</u>

The notes to the financial statements are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET ASSETS
COMPONENT UNIT – PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	Enterprise Fund
	Component Unit MDSS, Inc.
OPERATING REVENUES	
Charges for services	\$ 64,268
Total operating revenues	64,268
OPERATING EXPENSES	
General administration	38,967
Depreciation	2,574
Bad debt	1,000
Total operating expenses	42,541
Operating income (loss)	21,727
Changes in net assets	21,727
Total net assets - beginning	217,178
Total net assets - ending	\$ 238,905

The notes to the financial statements are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF CASH FLOWS
COMPONENT UNIT – PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	Enterprise Fund <u>Component Unit MDSS, Inc.</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 68,484
Other payments	(749)
Payments to suppliers and service providers	<u>(32,161)</u>
Net cash provided (used) by operating activities	<u>35,574</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Principal payment	<u>102,660</u>
Net cash provided (used) by investing activities	<u>102,660</u>
Net increase (decrease) in cash and cash equivalents	138,234
Balances - beginning of year	<u>108,024</u>
Balances - end of year	<u>\$ 246,258</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 21,727
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	2,574
Increase (decrease) in net assets and liabilities:	
Accounts receivable	4,216
FSA payable	6,806
Accounts payable	1,000
Due to primary government	<u>(749)</u>
Net cash provided (used) by operating activities	<u>\$ 35,574</u>

The notes to the financial statements are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010**

	<u>Deferred Compensation Trust Fund</u>	<u>AFLAC Health Trust Fund</u>
ASSETS		
Cash and cash equivalents	\$ 3,165	\$ 7,124
Total assets	<u>3,165</u>	<u>7,124</u>
NET ASSETS		
Held in trust for the benefit of others	<u>\$ 3,165</u>	<u>\$ 7,124</u>

The notes to the financial statements are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Deferred Compensation Trust Fund</u>	<u>AFLAC Health Trust Fund</u>
ADDITIONS		
Contributions:		
Employer	\$ 66,252	\$ -
Plan members	<u>-</u>	<u>48,810</u>
Total additions	<u>66,252</u>	<u>48,810</u>
DEDUCTIONS		
Benefits	<u>65,922</u>	<u>45,656</u>
Total deductions	<u>65,922</u>	<u>45,656</u>
Change in net assets	330	3,154
Net assets - beginning of year	<u>2,835</u>	<u>3,970</u>
Net assets - end of year	<u>\$ 3,165</u>	<u>\$ 7,124</u>

The notes to the financial statements are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

In 1967, the Merced County Association of Governments (the Association) was created through a Joint Powers Agreement adopted by the cities and the County of Merced. This agreement has been subsequently renewed, most recently in 2007, for a term of ten years.

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

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

Financial Reporting Entity

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

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

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

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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

Basis of Presentation (Continued)

Management's Discussion and Analysis – GASB Statement No. 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the Association's financial activities in the form of "management discussion and analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of private sector organizations.

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

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

Fund Financial Statements: The fund financial statements provide information about the Association's funds, including its fiduciary funds, though the latter are excluded from the government-wide financial statements. 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, proprietary, and fiduciary – 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. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transaction or ancillary activities.

Major Governmental Funds:

- ◆ *General Fund* – The General Fund is the general operating fund of the Association. It is used to account for the financial resources of the general government, except those required to be accounted for in another fund.
- ◆ *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Association maintains four major special revenue funds:
 - ❖ *Regional Transportation Impact Fee* – The Regional Transportation Impact Fee (RTIF) fund was organized in January 2005. The RTIF fund was established to provide a means to access and collect fees on new development throughout Merced County. The funds will be used to help collect \$91 million of the expected \$530 million necessary to maintain traffic at an acceptable level of service on the regional road system throughout the County through the year 2030.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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

- ❖ *Local Transportation Fund* – The Local Transportation Fund accounts for revenues received and expenditures made for use on certain transportation and transit projects within Merced County. Financing is generated from a one-quarter percent state sales and use tax made pursuant to the California Transportation Development Act (TDA). Expenditures of these moneys must be made in accordance with TDA provisions.
- ❖ *State Exchange Fund* – The State Exchange Fund is used to account for the exchange of federal regional surface transportation program funds for nonfederal and state highway funds, and for the apportionment and disbursement of such funds to participating cities and Merced County in accordance with the approved claims.
- ❖ *State Transit Assistance Fund* – The State Transit Assistance Fund is used to account for public transportation monies derived from statewide sales taxes and for the apportionment and disbursement of such funds to participating cities and Merced County according to approved claims.

Major Enterprise Fund:

The Association reports the following major enterprise fund:

- ♦ *Merced Data Special Services, Inc.* – MDSS provides special planning services and products to governmental agencies and other organizations primarily within Central California. In addition, MDSS operates the www.yosemite.com website which provides accurate, real-time information about Yosemite National Park and the surrounding region.

Non-Major Governmental Funds:

The Association maintains one non-major special revenue fund:

- ♦ *Service Authority for Freeway Emergencies* – The Service Authority for Freeway Emergencies fund was organized in January 1995. The revenue to complete and maintain the system is derived from the \$1.00 per year, per vehicle registered in Merced County. The system is envisioned to consist of 130 call boxes installed on Interstate 5 and State Routes 99 and 152.

Fiduciary Funds are used to account for assets of others for which the Association acts as a fiduciary. The Association maintains two fiduciary funds:

- ♦ *Deferred Compensation Trust Fund* – The Deferred Compensation Trust Fund is used to account for monies deferred from employees' current wages that are held in trust prior to transfers to the third party administrator.
- ♦ *AFLAC Health Trust Fund* – The AFLAC Health Trust Fund is used to account for employee paid supplemental health and life insurance.

Measurement Focus and Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: The government-wide and proprietary and fiduciary 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.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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

Measurement Focus and Basis of Accounting (Continued)

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified basis of accounting. Under this method, revenues are recognized with measurable and available. The Association considers all revenues reported in the governmental funds to be available if the revenues are collected 180 days after year-end. Sales taxes, state and local revenues, federal revenues, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, as well as compensated absences, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are following in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The Association has elected not to follow subsequent private-sector guidance for its business-type activities and enterprise funds.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

The major sources of revenue are federal operating revenue, state and local operating revenue, charges for services, and investment earnings as described below:

1) Federal Operating Revenue

Federal operating revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods. The funds are expended for transportation planning purposes.

2) State and Local Operating Revenue

State and local operating revenue takes the form of appropriations for transportation and other planning purposes. The amounts are earned when program expenditures are incurred.

3) Charges for Services

The Association provides various services to the County of Merced and the cities within the County. The local agencies contract with the Association for these services. Revenue is received on reimbursement basis.

4) Investment Earnings

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

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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

Measurement Focus and Basis of Accounting (Continued)

5) 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 are recorded in the accompanying financial statements at their estimated fair market values at the date of service.

Assets, Liabilities and Equity

Cash and Cash Equivalents

The Association's cash and cash equivalents are considered to be cash on hand and short-term investment with original maturities of three months or less from the date of acquisition. Cash of all funds, excluding the component unit, is pooled in the treasury of Merced County. The County pools these funds with those of other entities of the County and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly in the participating funds. Any investment losses are proportionately shared by all funds in the pool. The County is authorized to deposit cash and invest excess funds by *California Government Code* Sections 53601 et. seq., 53635 et. seq., and 53648 et. seq.

Merced Data Special Services, Inc., the component unit, holds its cash in a commercial bank checking account. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured.

Restricted Assets

Restricted assets represent monies or other resources, the use of which is restricted by legal or contractual requirements. Restricted cash is considered a cash equivalent for cash flow reporting purposes.

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, including those for MDSS result from charges for services. The "direct write-off" method for accounts receivable was applied for accounts that have been established as uncollectible. The "direct write-off" method is not in compliance with generally accepted accounting principle, 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. MDSS wrote off \$1,000 during the year. There were no accounts that were deemed to be uncollectible at June 30, 2010.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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

Assets, Liabilities and Equity

Capital Assets

Capital assets which include: land, building and improvements, equipment, furniture, vehicles, database and website, are reported in the applicable governmental or business-type activities columns in the government-wide and proprietary fund financial statements. Capital assets are defined by the Association as assets with an initial, individual cost of more than \$1,000 and a useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

<u>Asset Type</u>	<u>Useful Life</u>
Buildings and improvements	20 to 50 years
Equipment and furniture	3 to 10 years
Vehicles	7 years
Database	20 years
Website	3 years

Payables

Certain costs are incurred by the Association during the current period but are not paid until after the beginning of next fiscal period. These costs are reported as payables in the financial statements. The Association's current accounts payable balance of \$127,432 as of June 30, 2010, is related to certain contract services and payments for utility fees.

Deferred Revenue

In the government-wide financial statement, deferred revenue is recognized for transaction for which revenue has not yet been earned.

In the fund financial statements, deferred revenue is recorded when transaction have not yet met the revenue recognition criteria based on the modified accrued basis of accounting. The Association records deferred revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. A typical transaction for which deferred revenue is recorded is grants received but not yet earned or available.

Compensated Absences

Full-time employees are eligible for leave. During the first 3 years of employment, a full-time employee accrues 10 days of vacation per year. During the next 6 years of employment, an employee accrues 15 days of vacation leave per year. After 9 years of employment, an employee accrues 20 days of vacation per year. Full-time employees may accrue a maximum of two times their annual vacation accrual. Employees may not receive payment for unused vacation hours except when employment is terminated. The liability recorded for compensated absences as of June 30, 2010, is \$71,936.

Regular full-time employees accrue 12 sick days per year. Salaried part-time employees working a minimum of 20 hours per week accrue sick leave in proportion to the regular work schedule. Accrual of sick leave is unlimited. Employees are not paid for unused sick days upon termination of employment.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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

Assets, Liabilities and Equity

Net Assets

Net assets are reported in three categories as follows:

- ◆ Invested in capital assets, net of related debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition.
- ◆ Restricted – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- ◆ Unrestricted – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

Fund Equity

In the financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose.

Indirect Costs

The Association has an Indirect Cost Negotiation Agreement in effect to charge indirect costs to programs. The costs are applied using a 33% indirect cost rate to direct salary and fringe for June 30, 2010. Actual costs are compared against the negotiated rate. The negotiated rate is adjusted to reflect the actual indirect costs incurred by the Association on a revolving two-year basis.

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 the 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.

Use of Restricted and Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Association’s policy is to apply restricted net assets first.

Cash in Banks

Cash and cash equivalents held in the proprietary fund consists 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. No cash balances held in financial banking institutions exceeded FDIC insurance amounts as of June 30, 2010.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 2 – CASH AND INVESTMENTS

Cash in County Treasury

Cash and cash equivalents in the governmental funds consist of cash in the Merced County Treasury as part of the common investment pool. These pooled funds are carried at cost, which approximates market value. Interest is paid quarterly into the participating funds. Any investment losses are proportionately shared by all funds in the pool. The fair market value of this pool as of June 30, 2010, 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 are comprised of the following at June 30, 2010:

	<u>Cost</u>	<u>FMV</u>
<u>DEPOSITS</u>		
<i>Unrestricted cash and investments:</i>		
Governmental funds - cash in county treasury	\$ 1,126,025	\$ 1,131,494
Proprietary funds - cash in banks	246,258	247,454
Fiduciary funds - cash in county treasury	10,289	10,339
<i>Restricted cash and investments:</i>		
Governmental funds - cash in county treasury	<u>10,252,273</u>	<u>10,302,068</u>
Total cash and investments	<u>\$ 11,634,845</u>	<u>\$ 11,691,355</u>

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

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rate. As of June 30, 2010, the weighted average maturity of the investments contained in the County Treasury investment pool was approximately eighteen months.

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.

Restricted cash is carried on the balance sheet in the Service Authority for Freeway Emergency Fund, the Local Transportation Fund, the State Exchange Fund, the State Transit Assistance Fund, and the Regional Transportation Impact Fee Fund. The amounts are restricted to the purchasing and installation of emergency roadside phone boxes within the County of Merced, transportation planning, transit services provided by other agencies, and road improvements by other agencies.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 – INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances at June 30, 2010, is as follows:

	<u>Due From</u>	<u>Due To</u>	<u>Explanation</u>
General Fund	\$ -	\$ 100,511	Project Costs
Regional Transportation Impact Fee	56,631	-	Project Costs
General Fund	<u>43,880</u>	<u>-</u>	Project Costs
	<u>\$ 100,511</u>	<u>\$ 100,511</u>	

The composition of due from and to between the primary government and component unit at June 30, 2010, is as follows:

	<u>Due From</u>	<u>Due To</u>	<u>Explanation</u>
General Fund	\$ 7,423	\$ -	Staff services
Merced Data Special Services, Inc.	<u>-</u>	<u>7,423</u>	Staff services
	<u>\$ 7,423</u>	<u>\$ 7,423</u>	

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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

Amounts due to/from other local agencies and governments as of June 30, 2010, are as follows:

Other Governments

Receivable Fund	Payable From	Amount	Explanation
Regional Transportation Impact Fee	Local Jurisdictions	\$ 73,635	RTIF Fees
General Fund	Other Government	486,205	Local
Service Authority for Freeway Emergencies	State of California	<u>32,368</u>	SAFE Allocation
Total		<u>\$ 592,208</u>	

Other Local Agencies

Payable Fund	Payable To	Amount	Explanation
General Fund	City of Los Banos	\$ 93	Citizen Participation
General Fund	Council of Fresno	2,962	Blue Print project
General Fund	San Joaquin COG	3,871	SJ Valley Trans Coord
General Fund	City of Merced	174	Water/Sewer/Garbage
Local Transportation Fund	City of Atwater	11,070	LTF Disbursement
Local Transportation Fund	City of Dos Palos	4,062	LTF Disbursement
Local Transportation Fund	City of Gustine	4,116	LTF Disbursement
Local Transportation Fund	City of Livingston	6,788	LTF Disbursement
Local Transportation Fund	City of Los Banos	13,706	LTF Disbursement
Local Transportation Fund	City of Merced	27,554	LTF Disbursement
Local Transportation Fund	Transit JPA	1,076,719	LTF Disbursement
State Exchange Fund	City of Atwater	223,717	RSTP Disbursement
State Exchange Fund	City of Dos Palos	40,878	RSTP Disbursement
State Exchange Fund	City of Gustine	43,073	RSTP Disbursement
State Exchange Fund	City of Livingston	111,074	RSTP Disbursement
State Exchange Fund	City of Los Banos	289,173	RSTP Disbursement
State Exchange Fund	City of Merced	647,011	RSTP Disbursement
State Exchange Fund	Merced County	<u>523,385</u>	RSTP Disbursement
Total		<u>\$ 3,029,426</u>	

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010, was as follows:

	<u>Balances</u> <u>July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u> <u>June 30, 2010</u>
Government activities:				
Capital assets not being depreciated:				
Land	\$ 75,000	\$ -	\$ -	\$ 75,000
Capital assets being depreciated:				
Buildings and improvements	569,509	6,050	-	575,559
Furniture and equipment	578,819	13,498	-	592,317
Total assets being depreciated	<u>1,148,328</u>	<u>19,548</u>	<u>-</u>	<u>1,167,876</u>
Less accumulated depreciation for:				
Buildings and improvements	(146,799)	(15,461)	-	(162,260)
Furniture and equipment	(404,945)	(56,729)	-	(461,674)
Total accumulated depreciation	<u>(551,744)</u>	<u>(72,190)</u>	<u>-</u>	<u>(623,934)</u>
Total capital assets being depreciated, net	<u>596,584</u>	<u>(52,642)</u>	<u>-</u>	<u>543,942</u>
Governmental activities capital assets, net	<u>\$ 671,584</u>	<u>\$ (52,642)</u>	<u>\$ -</u>	<u>\$ 618,942</u>
Business-type activities:				
Capital assets being depreciated:				
GIS system	\$ 51,490	\$ -	\$ -	\$ 51,490
Yosemite.com website	19,742	-	-	19,742
Total assets being depreciated	<u>71,232</u>	<u>-</u>	<u>-</u>	<u>71,232</u>
Less accumulated depreciation for:				
GIS system	(43,768)	(2,574)	-	(46,342)
Yosemite.com website	(19,742)	-	-	(19,742)
Total accumulated depreciation	<u>(63,510)</u>	<u>(2,574)</u>	<u>-</u>	<u>(66,084)</u>
Business-type activities capital assets, net	<u>\$ 7,722</u>	<u>\$ (2,574)</u>	<u>\$ -</u>	<u>\$ 5,148</u>

Depreciation expense of \$72,190 was charged to general government in the statement of activities. Depreciation in the amount of \$2,574 was recorded in the business-type activities fund.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 – LONG-TERM LIABILITIES

Long-term liabilities are comprised of the following at June 30, 2010:

	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>	<u>Total</u>
<u>Loan Payable and Capital Leases</u>			
On March 29, 2004, the Association obtained financing in the amount of \$93,210 at 3.95% to construct a solar panel project. The loan is unsecured.	\$ 7,016	\$ 52,935	\$ 59,951
In August 2005, the Association obtained capital lease financing in the amount of \$34,515 at 11.714% to purchase computers.	1,503	-	1,503
In May 2008, the Association obtained interest-free capital lease financing in the amount of \$36,871 to purchase a van.	<u>6,377</u>	<u>17,263</u>	<u>23,640</u>
Total long-term liabilities	<u>\$ 14,896</u>	<u>\$ 70,198</u>	<u>\$ 85,094</u>

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

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 14,896	\$ 2,322	\$ 17,218
2012	13,608	2,025	15,633
2013	13,904	1,729	15,633
2014	12,521	1,426	13,947
2015	8,203	1,112	9,315
Thereafter	<u>21,962</u>	<u>1,321</u>	<u>23,283</u>
	<u>\$ 85,094</u>	<u>\$ 9,935</u>	<u>\$ 95,029</u>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 – LONG-TERM LIABILITIES (Continued)

Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due Within One Year
Governmental activities:					
Note payable - solar panels	\$ 66,697	\$ -	\$ (6,746)	\$ 59,951	\$ 7,016
Due to other fund - advance from MDSS, Inc.	102,660	-	(102,660)	-	-
Capital lease - computers	9,936	-	(8,433)	1,503	1,503
Capital lease - van	30,017	-	(6,377)	23,640	6,377
Compensated absences	<u>75,355</u>	-	<u>(3,419)</u>	<u>71,936</u>	<u>-</u>
Total	<u>\$ 284,665</u>	<u>\$ -</u>	<u>\$ (127,635)</u>	<u>\$ 157,030</u>	<u>\$ 14,896</u>

NOTE 7 – LEASES

Operating Leases

The Association has entered into various operating leases for equipment with lease terms in excess of one year. Some contain purchase options. Some agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the Association will cancel any such agreements prior to the expiration date. The Association also leases office equipment under non-cancellable operating leases. The Association will receive no sublease rental revenues, nor pay any contingent rentals for this equipment.

The future minimum lease payments for these leases are as follows:

<u>Year ending June 30,</u>	
2011	\$ 14,885
2012	12,585
2013	12,584
2014	<u>2,097</u>
Total	<u>\$ 42,151</u>

Total operating lease costs (including usage charges) were \$15,652 for the year ended June 30, 2010.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 7 – LEASES (Continued)

Capital Leases

As discussed above, the Association entered into lease agreements as lessee for financing the acquisitions of computer equipment and a van. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

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

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
Computer equipment	\$ 34,515
2008 Chrysler van	<u>36,870</u>
Total capitalized cost	71,385
Accumulated depreciation	<u>(45,927)</u>
Total	<u>\$ 25,458</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010, were as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2011	\$ 7,903
2012	6,318
2013	6,318
2014	<u>4,632</u>
Total minimum lease payments	25,171
Less amount representing interest	<u>(22)</u>
Present value of minimum lease payments	<u>\$ 25,149</u>

NOTE 8 – TRANSACTIONS WITH COMPONENT UNIT

The Association provided personnel services in the amount of \$34,346 to Merced Data Special Services, Inc. (MDSS) for the year ending June 30, 2010. The Association paid \$720 to MDSS to reimburse amounts paid by the Association for the Association's expenses.

NOTE 9 – CONCENTRATIONS OF CREDIT RISK

The Association expects to collect receivables from various governmental agencies ranging from federal, state, and local governmental sources. The component unit has various customers ranging from governmental entities to private companies. These customers are located primarily throughout the State of California.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 10 – 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 one year of service. Under the terms of the plan, the employer contributes 15% of the employees' monthly wages. The contributions are 100% vested to all employees covered by the plan.

The Association's total payroll eligible for pension benefits for the year ending June 30, 2010, was \$1,355,050. The Association's contributions were calculated using the base salary amount of \$1,355,050. The Association made the required 15% contribution amounting to \$203,257. The Association's total cash payroll for the year ending June 30, 2010, was 1,463,665.

NOTE 11 – SOLID WASTE POLICY BOARD

The Association's Governing Board also services 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 (Authority) and the Merced County Solid Waste Enterprise (Enterprise). A separate audit is performed for the Authority and financial information of the Authority can be viewed in that Independent Auditor's Report and Financial Statements. The audit report may be viewed on the Merced County Association of Governments website at <http://mcagov.org/publications/Swaste.html> or obtained in writing to MCAG Administrative Services Manager, 369 W. 18th Street, Merced, California 95340.

REQUIRED SUPPLEMENTARY INFORMATION

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Sales taxes	\$ 212,460	\$ 207,460	\$ 107,950	\$ (99,510)
State and local revenues	2,555,352	3,046,708	2,058,102	(988,606)
Federal revenues	1,844,650	1,868,480	741,541	(1,126,939)
Interest income	-	-	14,736	14,736
Miscellaneous	<u>67,500</u>	<u>79,500</u>	<u>-</u>	<u>(79,500)</u>
Total revenues	<u>4,679,962</u>	<u>5,202,148</u>	<u>2,922,329</u>	<u>(2,279,819)</u>
EXPENDITURES				
Current:				
Salaries and benefits	2,017,700	2,060,990	1,901,581	159,409
Supplies and services	1,320,835	2,553,687	1,083,421	1,470,266
Debt service:				
Principal	22,216	124,216	124,216	-
Interest	2,569	2,569	2,569	-
Capital outlay	<u>-</u>	<u>19,548</u>	<u>19,548</u>	<u>-</u>
Total expenditures	<u>3,363,320</u>	<u>4,761,010</u>	<u>3,131,335</u>	<u>1,629,675</u>
Net change in fund balances	1,316,642	441,138	(209,006)	(650,144)
Fund balances - beginning	<u>769,266</u>	<u>769,266</u>	<u>769,266</u>	<u>-</u>
Fund balances - ending	<u>\$ 2,085,908</u>	<u>\$ 1,210,404</u>	<u>\$ 560,260</u>	<u>\$ (650,144)</u>

The notes to the required supplementary information are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
REGIONAL TRANSPORTATION IMPACT FEE FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State and local revenues	\$ 73,400	\$ 73,400	\$ 611,329	\$ 537,929
Interest income	-	-	<u>62,902</u>	<u>62,902</u>
Total revenues	<u>73,400</u>	<u>73,400</u>	<u>674,231</u>	<u>600,831</u>
EXPENDITURES				
Current:				
Salaries and benefits	9,500	9,500	-	9,500
Supplies and services	<u>31,956</u>	<u>31,956</u>	<u>56,925</u>	<u>(24,969)</u>
Total expenditures	<u>41,456</u>	<u>41,456</u>	<u>56,925</u>	<u>(15,469)</u>
Net change in fund balances	31,944	31,944	617,306	585,362
Fund balances - beginning	<u>4,238,323</u>	<u>4,238,323</u>	<u>4,238,323</u>	-
Fund balances - ending	<u>\$ 4,270,267</u>	<u>\$ 4,270,267</u>	<u>\$ 4,855,629</u>	<u>\$ 585,362</u>

The notes to the required supplementary information are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
LOCAL TRANSPORTATION FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Sales taxes	\$ 5,510,000	\$ 5,510,000	\$ 5,267,776	\$ (242,224)
Interest income	<u>-</u>	<u>-</u>	<u>10,821</u>	<u>10,821</u>
Total revenues	<u>5,510,000</u>	<u>5,510,000</u>	<u>5,278,597</u>	<u>(231,403)</u>
EXPENDITURES				
Current:				
Contributions to other local agencies	<u>5,510,000</u>	<u>5,510,000</u>	<u>5,355,633</u>	<u>154,367</u>
Total expenditures	<u>5,510,000</u>	<u>5,510,000</u>	<u>5,355,633</u>	<u>154,367</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	(77,036)	(77,036)
Fund balances - beginning	<u>80,523</u>	<u>80,523</u>	<u>80,523</u>	<u>-</u>
Fund balances - ending	<u>\$ 80,523</u>	<u>\$ 80,523</u>	<u>\$ 3,487</u>	<u>\$ (77,036)</u>

The notes to the required supplementary information are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
STATE EXCHANGE FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State and local revenues	\$ 1,878,821	\$ 1,878,821	\$ 1,878,821	\$ -
Interest income	<u>-</u>	<u>-</u>	<u>3,453</u>	<u>3,453</u>
Total revenues	<u>1,878,821</u>	<u>1,878,821</u>	<u>1,882,274</u>	<u>3,453</u>
EXPENDITURES				
Current:				
Contributions to other local agencies	<u>1,878,313</u>	<u>1,878,313</u>	<u>1,878,312</u>	<u>1</u>
Total expenditures	<u>1,878,313</u>	<u>1,878,313</u>	<u>1,878,312</u>	<u>1</u>
Excess (deficiency) of revenues over (under) expenditures	<u>508</u>	<u>508</u>	<u>3,962</u>	<u>3,454</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	508	508	3,962	3,454
Fund balances - beginning	<u>91,085</u>	<u>91,085</u>	<u>91,085</u>	<u>-</u>
Fund balances - ending	<u>\$ 91,593</u>	<u>\$ 91,593</u>	<u>\$ 95,047</u>	<u>\$ 3,454</u>

The notes to the required supplementary information are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
STATE TRANSIT ASSISTANCE FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
REVENUES				
State and local revenues	\$ 1,412,286	\$ 1,412,286	\$ 1,411,853	\$ (433)
Interest income	<u>-</u>	<u>-</u>	<u>1,299</u>	<u>1,299</u>
Total revenues	<u>1,412,286</u>	<u>1,412,286</u>	<u>1,413,152</u>	<u>866</u>
EXPENDITURES				
Current:				
Contributions to other local agencies	<u>1,412,286</u>	<u>1,412,286</u>	<u>-</u>	<u>1,412,286</u>
Total expenditures	<u>1,412,286</u>	<u>1,412,286</u>	<u>-</u>	<u>1,412,286</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	1,413,152	1,413,152
Fund balances - beginning	<u>82,670</u>	<u>82,670</u>	<u>86,752</u>	<u>4,082</u>
Fund balances - ending	<u>\$ 82,670</u>	<u>\$ 82,670</u>	<u>\$ 1,499,904</u>	<u>\$ 1,417,234</u>

The notes to the required supplementary information are an integral part of this statement.

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OTHER SUPPLEMENTARY INFORMATION

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND
JUNE 30, 2010**

	<u>Special Revenue Fund</u>
	Service Authority for Freeway Emergencies
ASSETS	
Due from other governments	\$ 32,368
Cash and cash equivalents - restricted	906,146
Total assets	\$ 938,514
LIABILITIES AND FUND BALANCES	
Liabilities:	
Due to other funds	\$ -
Total liabilities	-
Fund balances:	
Reserved for:	
Legally restricted purposes	-
Unreserved	938,514
Total fund balances	938,514
Total liabilities and fund balances	\$ 938,514

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Special Revenue Fund</u>
	<u>Service Authority for Freeway Emergencies</u>
REVENUES	
State and local revenue	\$ 188,798
Interest income	<u>10,814</u>
Total revenues	<u>199,612</u>
EXPENDITURES	
Current:	
Supplies and services	<u>140,000</u>
Total expenditures	<u>140,000</u>
Excess of (deficiency) revenue over (under) expenditures	<u>59,612</u>
Net change in fund balances	59,612
Fund balances - beginning	<u>878,902</u>
Fund balances - ending	<u>\$ 938,514</u>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the State of California Department of Transportation:			
Federal Highway Administration Planning	20.205	74A0126 - 09OWPMERC	\$ 622,045
CALTRANS SP&R	20.205	74A0126 - 09OWPMERC	592
FTA Section 5303	20.505	74A0126 - 09OWPMERC	65,688
CMAQ	20.205	10-4A1464	<u>48,537</u>
 Total Department of Transportation			 <u>\$ 736,862</u>

The notes the schedule of expenditures of federal awards are an integral part of this statement.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes federal grant activities and is presented on the modified accrual basis of accounting. The information in this schedule is prepared in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

NOTE 2 – SUBRECIPIENTS

The Association did not provide any federal awards to subrecipients in the current year.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SUMMARY OF RESOURCES AND EXPENDITURES BY WORK ELEMENT– MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2010**

	Total	FHWA PL	FTA Sec. 5303	TDA Admin.	Special Services, Inc.	SAFE
Resources:						
Interest	\$ 14,736	\$ -	\$ -	\$ -	\$ -	\$ -
Other	164,888	-	-	-	-	-
Transportation Development Act Planning	133,360	-	-	-	133,360	-
FHWA/PL	622,045	622,045	-	-	-	-
RIP	794,767	-	-	-	-	-
SAFE	140,000	-	-	-	-	140,000
LTF Administration	62,100	-	-	62,100	-	-
Merced/Atwater Highway Study	54,385	-	-	-	-	-
Regional Transit Impact Fee	8,248	-	-	-	-	-
CA Department of Conservation	10,798	-	-	-	-	-
TEA III: Highway 165 Study	97,405	-	-	-	-	-
SP&R TPA	592	-	-	-	-	-
CMAQ	48,536	-	-	-	-	-
Blueprint	48,925	-	-	-	-	-
One Voice	125,760	-	-	-	-	-
FTA Sec. 5303	65,688	-	65,688	-	-	-
Contributions from members	82,200	-	-	-	-	-
SWPB/SWAB Ed/Grant	172,700	-	-	-	-	-
Merced County Transit JPA	133,284	-	-	-	-	-
Local Contracts	53,657	-	-	-	-	-
City of Atwater	97,767	-	-	-	-	-
City of Gustine	19,040	-	-	-	-	-
City of Los Banos	147,954	-	-	-	-	-
MDSS, Inc.	35,066	-	-	-	-	-
YARTS JPA	156,053	-	-	-	-	-
Carryforward	42,048	-	-	-	-	-
Total Resources	3,332,002	622,045	65,688	62,100	133,360	140,000

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SUMMARY OF RESOURCES AND EXPENDITURES BY WORK ELEMENT– MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2010**

Blueprint Caltrans SP&R	RIP	TEA II	CMAQ	RTIF	DOC	City of Los Banos	City of Atwater	City of Gustine	MCAG Other
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,736
-	-	-	-	-	-	-	-	-	164,888
-	-	-	-	-	-	-	-	-	-
-	794,767	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	54,385	-	-	-	-	-
-	-	-	-	8,248	-	-	-	-	-
-	-	-	-	-	10,798	-	-	-	-
-	-	97,405	-	-	-	-	-	-	-
592	-	-	-	-	-	-	-	-	-
-	-	-	48,536	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	48,925
-	-	-	-	-	-	-	-	-	125,760
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	82,200
-	-	-	-	-	-	-	-	-	172,700
-	-	-	-	-	-	-	-	-	133,284
-	-	-	-	-	-	-	-	-	53,657
-	-	-	-	-	-	-	97,767	-	-
-	-	-	-	-	-	-	-	19,040	-
-	-	-	-	-	-	126,202	-	-	21,752
-	-	-	-	-	-	-	-	-	35,066
-	-	-	-	-	-	-	-	-	156,053
-	-	-	-	-	-	-	-	-	42,048
<u>592</u>	<u>794,767</u>	<u>97,405</u>	<u>48,536</u>	<u>62,633</u>	<u>10,798</u>	<u>126,202</u>	<u>97,767</u>	<u>19,040</u>	<u>1,051,069</u>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SUMMARY OF RESOURCES AND EXPENDITURES BY WORK ELEMENT– MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2010**

		Total	FHWA PL	FTA Sec. 5303	TDA Admin.	TDA Planning	SAFE
Expenditures:							
<u>Work Element</u>							
1200	Citizen Part. and Coord	353,935	311,042	2,214	-	679	-
1460	Regional Transportation Plan	165,253	15,000	-	-	16,638	-
1470	Air Quality Planning	27,977	-	21,688	-	289	-
1520	FTIP	143,000	-	-	-	8,850	-
1530	Traffic Model	35,776	30,851	-	-	4,925	-
1538	High Speed Rail Coordination	25,227	-	5,046	-	1,081	-
1548	PMS	6,056	5,361	-	-	695	-
1560	SJ Valley Trans Coord	134,837	-	34,938	-	13,758	-
1560a	SJV Website	2,389	-	1,802	-	-	-
1563	San Joaquin Valley Express	740	-	-	-	-	-
1565	One Voice Education	27,084	-	-	-	1,686	-
1610	GIS Maintenance	324,310	221,355	-	-	23,769	-
1630	GIS Web Page/Internet	43,417	38,437	-	-	-	-
1645	SJV Regional Blueprint Project	83,420	-	-	-	-	-
1655	RTIF	8,248	-	-	-	-	-
1665	RTIP	83,959	-	-	-	7,091	-
1670	Alternative Modes Program	57,876	-	-	-	7,056	-
1685	TDA Administration	21,242	-	-	21,242	-	-
1810	Grant Development	49,212	-	-	-	-	-
1815	Grant Management	116	-	-	-	-	-
1824	Continuim of Care	43,132	-	-	-	-	-
1953	Los Banos NSP	122,975	-	-	-	-	-
1955	Los Banos 05-EDBG	2,386	-	-	-	-	-
1961	Los Banos HOME 07	16,996	-	-	-	-	-
1962	Los Banos Program Income	2,867	-	-	-	-	-
1963	Los Banos	359	-	-	-	-	-
1965	Dos Palos CDBG Housing 04	149,490	-	-	-	-	-
1970	GIS Mapping	3,787	-	-	-	-	-
1975	AVA	85	-	-	-	-	-
1980	SAFE	58,953	-	-	-	-	58,953
1984	Highway 165/99 Project	120,298	-	-	-	-	-
1986	Merced/Atwater Expressway	254,065	-	-	-	-	-
1987	SR 99/ Atwater Freeway PSR	101,499	-	-	-	192	-
1990	One Voice Legislative Program	123,524	-	-	-	-	-
2100	SWPB	21,677	-	-	-	-	-
2200	SWAB Public Education	88,365	-	-	-	-	-
2210	CRV Recycling	13,431	-	-	-	-	-
3100	Transit JPA FTA Admin	133,284	-	-	-	-	-
4100	MDSS, Inc.	35,066	-	-	-	-	-
6100	YARTS JPA	156,053	-	-	-	-	-
9000	MCAG Administration	151,556	-	-	-	-	-
7000	Solar Project	9,315	-	-	-	-	-
	Total expenditures	3,203,237	622,046	65,688	21,242	86,709	58,953
	Carryover from previous year	-	-	-	-	-	-
	Carryover to subsequent year	-	-	-	-	-	-
	Excess of revenues over (under) expenditures	<u>\$ 128,765</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ 40,858</u>	<u>\$ 46,651</u>	<u>\$ 81,047</u>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SUMMARY OF RESOURCES AND EXPENDITURES BY WORK ELEMENT- MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2010**

Blueprint Caltrans SP&R	RIP	TEA II	CMAQ	RTIF	DOC	City of Los Banos	City of Atwater	City of Gustine	MCAG Other
-	40,000	-	-	-	-	-	-	-	-
-	133,615	-	-	-	-	-	-	-	-
-	6,000	-	-	-	-	-	-	-	-
-	134,150	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	19,100	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	56,775	-	-	-	-	-	-	-	29,366
-	587	-	-	-	-	-	-	-	-
592	148	-	-	-	-	-	-	-	-
-	25,398	-	-	-	-	-	-	-	-
-	78,686	-	-	-	-	-	-	-	500
-	4,980	-	-	-	-	-	-	-	-
71,879	11,441	-	-	-	-	-	-	-	100
-	-	-	-	8,248	-	-	-	-	-
-	76,868	-	-	-	-	-	-	-	-
-	-	-	50,820	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	49,212
-	-	-	-	-	-	-	-	-	116
-	-	-	-	-	-	-	-	-	43,132
-	-	-	-	-	-	122,975	-	-	-
-	-	-	-	-	-	-	-	-	2,386
-	-	-	-	-	-	-	-	-	16,996
-	-	-	-	-	-	2,867	-	-	-
-	-	-	-	-	-	359	-	-	-
-	-	-	-	-	-	-	-	-	149,490
-	-	-	-	-	-	-	-	-	3,787
-	-	-	-	-	-	-	-	-	85
-	-	-	-	-	-	-	-	-	-
-	22,893	97,405	-	-	-	-	-	-	-
-	180,586	-	-	54,385	-	-	-	-	19,094
-	3,540	-	-	-	-	-	97,767	-	-
-	-	-	-	-	-	-	-	-	123,524
-	-	-	-	-	-	-	-	-	21,677
-	-	-	-	-	-	-	-	-	88,365
-	-	-	-	-	13,431	-	-	-	-
-	-	-	-	-	-	-	-	-	133,284
-	-	-	-	-	-	-	-	-	35,066
-	-	-	-	-	-	-	-	-	156,053
-	-	-	-	-	-	-	-	-	151,556
-	-	-	-	-	-	-	-	-	9,315
72,471	794,767	97,405	50,820	62,633	13,431	126,201	97,767	-	1,033,104
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
<u>\$ (71,879)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,284)</u>	<u>\$ -</u>	<u>\$ (2,633)</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 19,040</u>	<u>\$ 17,965</u>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SUMMARY OF RESOURCES AND EXPENDITURES BY WORK ELEMENT
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2010**

RECONCILIATION TO THE AUDITED FINANCIAL STATEMENTS

REVENUES:

Summary of Resources and Expenditures by Work Element - Modified Cash Basis	\$ 3,332,001
Differences between Summary of Resources and Expenditures by Work Element - Modified Cash Basis and Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds - General Fund	
(Increase) decrease in deferred revenues	(409,673)
Rounding	<u>1</u>
Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds - General Fund	<u>\$ 2,922,329</u>

EXPENDITURES:

Summary of Resources and Expenditures by Work Element - Modified Cash Basis	\$ 3,203,237
Adjustments to accrual basis:	
Compensated absences	(71,936)
Adjustment for immaterial prior year utility expense	<u>34</u>
Audit - June 30, 2010	<u>\$ 3,131,335</u>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SCHEDULE OF REGULAR ALLOCATIONS AND DISBURSEMENTS BY PURPOSE –
LOCAL TRANSPORTATION FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Administration</u>	<u>PUC 99402 Planning</u>	<u>PUC 99260(a)</u>	<u>PUC 99400(a)</u>	<u>Total</u>
<u>Allocations</u>					
City of Atwater	\$ -	\$ 14,404	\$ -	\$ 44,278	\$ 58,682
City of Dos Palos	-	2,625	-	16,246	18,871
City of Gustine	-	2,716	-	16,464	19,180
City of Livingston	-	7,207	-	27,151	34,358
City of Los Banos	-	18,836	-	54,822	73,658
City of Merced	-	42,116	-	110,217	152,333
County of Merced	-	45,456	4,682,123	118,165	4,845,744
Merced County Association of Governments	62,100	-	-	-	62,100
Merced County Auditor	2,850	-	-	-	2,850
	<u>\$ 64,950</u>	<u>\$ 133,360</u>	<u>\$ 4,682,123</u>	<u>\$ 387,343</u>	<u>\$ 5,267,776</u>

Disbursements

City of Atwater	\$ -	\$ 14,404	\$ -	\$ 44,278	\$ 58,682
City of Dos Palos	-	2,625	-	16,246	18,871
City of Gustine	-	2,716	-	16,464	19,180
City of Livingston	-	7,207	-	27,151	34,358
City of Los Banos	-	18,836	-	54,822	73,658
City of Merced	-	42,116	-	110,217	152,333
County of Merced	-	45,456	4,769,980	118,165	4,933,601
Merced County Association of Governments	62,100	-	-	-	62,100
Merced County Auditor	2,850	-	-	-	2,850
	<u>\$ 64,950</u>	<u>\$ 133,360</u>	<u>\$ 4,769,980</u>	<u>\$ 387,343</u>	<u>\$ 5,355,633</u>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
 SCHEDULE OF REGULAR ALLOCATIONS AND DISBURSEMENTS BY PURPOSE
 STATE TRANSIT ASSISTANCE FUND
 FOR THE YEAR ENDED JUNE 30, 2010**

	Allocations			Disbursements
	PUC 93313	PUC 93314	Total	
County of Merced	\$ 1,339,367	\$ 72,919	\$ 1,412,286	\$ -

**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, 2010**

	Section 182.6	
	Allocations	Disbursements
City of Atwater	\$ 223,717	\$ 233,717
City of Dos Palos	40,878	40,878
City of Gustine	43,076	43,073
City of Livingston	111,074	111,074
City of Los Banos	289,173	289,173
City of Merced	647,019	647,011
County of Merced	523,387	523,387
	\$ 1,878,324	\$ 1,888,313

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SCHEDULE OF REGIONAL TRANSPORTATION IMPACT FEES BY JURISDICTION
FOR THE YEAR ENDED JUNE 30, 2010**

City of Los Banos	\$ 182,435
City of Merced	145,026
County of Merced	<u>116,274</u>
	<u>\$ 443,735</u>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SCHEDULE OF INSURANCE COVERAGE
JUNE 30, 2010**

Type of Coverage	Amount of Coverage	Effective Date
Building	\$ 1,248,000	2/12/10-2/12/11
Business Property	\$ 270,400	2/12/10-2/12/11
Business Income/Extra Expense	\$ 500,000	2/12/10-2/12/11
General Aggregate	\$ 2,000,000	2/12/10-2/12/11
Products and Completed Operations Aggregate	\$ 2,000,000	2/12/10-2/12/11
Personal and Advertising Injury	\$ 1,000,000 (each occurrence)	2/12/10-2/12/11
Damage to Rental Premises	\$ 100,000 (each occurrence)	2/12/10-2/12/11
Medical Expense	\$ 5,000 (any one person)	2/12/10-2/12/11
Employee Benefits	\$ 1,000,000	2/12/10-2/12/11
Automobile - Liability	\$ 1,000,000 (collision)	2/12/10-2/12/11
Automobile - Medical Payments	\$ 5,000 (each person)	2/12/10-2/12/11
Automobile - Uninsured Motorist	\$ 1,000,000 (collision)	2/12/10-2/12/11

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SCHEDULE OF GRANT RECEIPTS AND EXPENDITURES CLAIMED WITH
RECONCILIATION OF INDIRECT COSTS TO BE CARRIED FORWARD INTO
FUTURE YEARS' FIXED RATE WITH CARRYFORWARD PROVISION –
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2010**

	Federal Highway Administration Planning	FTA Section 5303	CMAQ	All Other Programs	Total
Direct salary and wages (as charged)	\$ 289,379	\$ 33,941	\$ 6,787	\$ 783,657	\$ 1,113,764
Fringe benefits	117,788	11,055	1,617	201,664	332,124
Other direct expenses	27,422	-	36,263	876,361	940,046
Indirect expenses (as charged)	<u>187,457</u>	<u>20,693</u>	<u>3,870</u>	<u>453,727</u>	<u>665,747</u>
 Total expenses	 <u>\$ 622,046</u>	 <u>\$ 65,689</u>	 <u>\$ 48,537</u>	 <u>\$ 2,315,409</u>	 <u>\$ 3,051,681</u>

Actual indirect factor	46%	46%	46%	46%	46%
------------------------	-----	-----	-----	-----	-----

Reconciliation to Audited Financial Statements

Total expenses charged to programs per above	\$ 3,051,681
Difference between actual allocated indirect v. negotiated indirect costs	-
Difference between actual indirect costs and allowable indirect costs:	
MCAG admin costs	151,556
Compensated absences	(71,936)
Miscellaneous immaterial adjustment	<u>34</u>
 Audited General Fund statements	 <u>\$ 3,131,335</u>

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SCHEDULE OF COST ALLOCATION PLAN RECONCILIATION AND FIXED RATE OVERHEAD CARRYOVER
FOR THE YEAR ENDED JUNE 30, 2010**

The following is a reconciliation of the Association expenses per the basic financial statements to the expenses per the Association's cost allocation plan for the year ended June 30, 2010:

Budget Item	Total Expenses	Eligible Depreciation	Allocated to Other Programs	Direct Expense	9000-Indirect Expense
Salaries and Benefits:					
Direct	\$ 700,842	\$ -	\$ -	\$ 700,842	\$ -
Indirect	1,200,739	-	-	-	1,200,739
Total Salaries and Benefits	1,901,581	-	-	700,842	1,200,739
Expenditures:					
Communications	9,874	-	-	7,568	2,306
Janitorial	8,100	-	-	-	8,100
Insurance Other	13,971	-	-	-	13,971
Maintenance Equipment Auto	97	-	-	-	97
Maintenance Structure	2,658	-	-	-	2,658
Membership	8,475	-	-	-	8,475
Office Expense - General	17,346	-	-	6,370	10,976
Professional Services	807,442	-	-	772,629	34,813
Professional Services - Audit	28,791	-	-	10,328	18,463
Publications	1,288	-	-	1,288	-
Rents and Leases - Equipment	29,776	-	-	4,353	25,423
Rent and Leases - Structure	1,111	-	-	-	1,111
Special Dept Expense	96,540	-	-	95,940	600
Transportation and Travel	54,569	-	-	51,944	2,625
Utilities	3,384	-	-	-	3,384
Total Expense	1,083,422	-	-	950,420	133,002
Total Costs	\$ 2,985,003	\$ -	\$ -	\$ 1,651,262	\$ 1,333,741

Direct Expenses - at June 30, 2010	\$ 1,651,262
Approved indirect cost rate for June 30, 2010	46%
Total allocable indirect expenses - at June 30, 2010	<u>\$ 759,581</u>
Actual indirect expenses - at June 30, 2010	\$ 1,333,741
Under recovery of indirect expenses - at June 30, 2010	<u>191,926</u>
Net eligible indirect expenses - at June 30, 2010	<u>\$ 1,525,667</u>
Over recovery of indirect expenses - at June 30, 2010	<u>\$ 766,086</u>
Under recovery of indirect expenses - at June 30, 2010	<u>\$ 330,819</u>

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

To the Governing Board of the
Merced County Association of Governments

We have audited the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Merced County Association of Governments, Merced, California, as of and for the year ended June 30, 2010, which collectively comprise the Merced County Association of Governments' basic financial statements and have issued our report thereon dated December 16, 2010. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Merced County Association of Governments is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Merced County Association of Governments' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Merced County Association of Governments' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Merced County Association of Governments' internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Merced County Association of Governments' financial statements are free of 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*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the Governing Board, and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than those specified parties.

Price Waterhouse & Company

Clovis, California
December 16, 2010



REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Governing Board of the
Merced County Association of Governments

Compliance

We have audited Merced County Association of Governments' 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 Merced County Association of Governments' major federal programs for the year ended June 30, 2010. Merced County Association of Governments' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Merced County Association of Governments' management. Our responsibility is to express an opinion on Merced County Association of Governments' compliance based on our audit.

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 Merced County Association of Governments' 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 Merced County Association of Governments' compliance with those requirements.

In our opinion, Merced County Association of Governments complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

Management of Merced County Association of Governments is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Merced County Association of Governments' internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the

auditing procedures for the purpose of expressing our opinion on compliance 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 Merced County Association of Governments' 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the Governing Board, and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than those specified parties.

Price Pange & Company

Clovis, California
December 16, 2010



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

To the Governing Board of the
Merced County Association of Governments

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Merced County Association of Governments, Merced, California, as of and for the year ended June 30, 2010, which collectively comprise the Merced County Association of Governments' basic financial statements and have issued our report thereon dated December 16, 2010. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and was further made to determine compliance with the Transportation Development Act, the California Administrative Code, and the rules and regulations of the Merced County Association of Governments.

Compliance

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

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

This report is intended solely for the information and use of the audit committee, management, others within the Organization, the Governing Board, 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 16, 2010

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**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

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: Unqualified

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>
20.205	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? _____ yes X no

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

FINANCIAL STATEMENT FINDING

Finding 09-01 – Internal Control

Criteria: The Association is required to maintain a system of controls over the preparation of financial statements in accordance generally accepted accounting principles (GAAP). The Association's internal controls over GAAP reporting should include personnel with the knowledge and expertise to prepare and/or thoroughly review GAAP-based financial statements to ensure that they are free of material misstatements and include all disclosures required by Governmental Accounting Standards Board (GASB).

Condition: While the Association maintains controls over the processing of accounting transactions, there are not sufficient controls over the preparation of the GAAP-based financial statements sufficient for management or employees in the normal course of performing their assigned functions to prevent and detect financial statement misstatements and disclosure omissions in a timely manner.

Effect: Management or employees in the normal course of performing their assigned functions may not prevent or detect financial statement misstatements and disclosure omissions in a timely manner.

Cause: Due to a change of audit procedures dictated by Statement of Auditing Standards No. 112, issued by the American Institute of Certified Public Accounting Standards Board, a long-standing practice of contracting with the audit firm to produce financial statements has come under additional scrutiny.

Recommendation: As part of its internal control over the preparation of its financial statements, including disclosures, the Association should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such procedures should be performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the Association's activities and operations.

Response:

Merced County Association of Governments has created a new position of Administrative Services Manager. The person selected for this position has the education and experience to review the financial statements including disclosures for accuracy and completeness, prior to submitting to the Board of Directors for approval.

Current Status:

Implemented