

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY**

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

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
JUNE 30, 2010**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Transit Joint Powers Authority for Merced County (the Authority), as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of June 30, 2010, and the respective changes in financial position and cash flows 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 May 13, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be 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 an opinion on the financial statements taken as a whole. The accompanying financial information listed as other information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Authority. Except as noted above, such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Price Page & Company

Clovis, California
May 13, 2011

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

Effective July 1, 2010, the management of the Transit Joint Powers Authority for Merced County (the Authority), which is responsible for the county-wide transportation system known as The Bus, was transitioned to Merced County Association of Governments (MCAG). Although the financial transactions were controlled by Merced County for the fiscal year ended June 30, 2010, MCAG 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

- ❖ The Authority's total assets for the fiscal year ending June 30, 2010, are \$22,236,098. This is an increase of \$1,373,490 from the ending balance of the prior fiscal year. The significant change was an increase in grants receivable over the prior year.
- ❖ Capital assets, net of accumulated depreciation, included in total assets, are \$13,827,023, which is a decrease \$648,979 from the prior year. This decrease is due to annual depreciation of \$1,621,000 and net asset dispositions of \$341,489 exceeding capital asset additions of \$1,313,619.
- ❖ Total liabilities as shown on the Statement of Net Assets for the fiscal year ending June 30, 2010, are \$6,428,660. This is a net decrease from the prior year of \$298,638. The majority of this decrease is due to annual reduction of long-term debt.
- ❖ As shown on the Statement of Revenues, Expenditures, and Changes in Net Assets, total passenger fares for the year ending June 30, 2010, had an increase of \$148,446 or 11.3% over the prior year. Advertising revenues declined \$36,341 or 33.9% and other revenues declined \$18,630 or 77.6%.
- ❖ As shown on the Statement of Revenues, Expenditures, and Changes in Net Assets for the fiscal year ending June 30, 2010, total operating expenses increased \$40,703 over the prior year. The major changes that caused the net increase are: an increase in contracted services of \$108,024, an increase in depreciation expense of \$221,196 and a decrease in fuel, repairs and maintenance of \$326,221.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, which are comprised of the financial statements and the notes to the basic financial statements.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

Basic Financial statements

The financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all the Authority's assets and liabilities, with the difference between the two being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Authority's financial position is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the fiscal year ended June 30, 2010. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs (such as the receipt of goods and services or submittal of claims for capital and operating revenue) regardless of the timing of related cash flows. In other words, the Authority reports expenses and revenues on an accrual basis rather than a cash basis. Since the Authority's primary function is to provide transportation services to the region's citizens and recover costs through user fees and charges, the financial statements include business-type activities. The notes to the financial statements provide additional information that is essential to a full understanding of the financial data provided in the financial statements.

Analysis of the Financial Statements

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

As noted earlier, net assets may serve as a useful indicator of a government's financial position over time. In the case of the Authority, assets exceeded liabilities by \$15,807,438 and \$14,135,310 at June 30, 2010, and 2009, respectively.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

Transit Joint Powers Authority Net Assets – Two Year Comparison			
	June 30, 2010	June 30, 2009	Change
Assets:			
Current and Other Assets	8,409,075	6,386,606	2,022,469
Capital Assets (net)	13,827,023	14,476,002	(648,979)
Total Assets	22,236,098	20,862,608	1,373,490
Liabilities:			
Current Liabilities	5,895,772	5,903,527	(7,755)
Non-current Liabilities	532,888	823,771	(290,883)
Total Liabilities	6,428,660	6,727,298	(298,638)
Net Assets:			
Invested in Fixed Assets (net related debt)	13,046,388	13,459,304	(412,916)
Restricted Net Assets			-
Unrestricted	2,761,050	676,006	2,085,044
Total Net Assets	15,807,438	14,135,310	1,672,128

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

Changes in Net Assets

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>% Change</u>
Operating Revenues:			
Passenger fares	\$ 1,463,175	\$ 1,314,729	11.3%
Advertising revenues	71,042	107,473	-33.9%
Other revenues	<u>5,364</u>	<u>23,994</u>	<u>-77.6%</u>
Total operating revenues	<u>1,539,581</u>	<u>1,446,196</u>	<u>6.5%</u>
Operating Expenses:			
Professional services	451,967	469,147 *	-3.7%
Insurance	1,762	4,588	-61.6%
Contracted services	4,495,973	4,387,949	2.5%
Special departmental expense	102,065	63,178	61.6%
General and administrative	100,297	99,226	1.1%
Fuel, repairs, and maintenance	2,618,335	2,944,556	-11.1%
Rents and leases	39,206	38,750	1.2%
Utilities	37,127	19,831	87.2%
Depreciation	<u>1,621,000</u>	<u>1,399,804</u>	<u>15.8%</u>
Total operating expenses	<u>9,467,732</u>	<u>9,427,029</u>	<u>0.4%</u>
Operating income (loss)	<u>(7,928,151)</u>	<u>(7,980,833)</u>	<u>-0.7%</u>
Non-Operating Revenues (Expenses):			
Interest income	36,627	82,146	-55.4%
Federal and state operating grants	8,592,017	6,511,589	31.9%
Debt issuance	(2,500)	(2,500)	0.0%
Gain (loss) on sale of fixed assets	(71,455)	-	0.0%
Interest expense	(44,027)	(61,384)	-28.3%
Capital grants	<u>1,089,617</u>	<u>2,984,685</u>	<u>-63.5%</u>
Total non-operating revenues	<u>9,600,279</u>	<u>9,514,536</u>	<u>0.9%</u>
Change in net assets	1,672,128	1,533,703	9.0%
Net assets - beginning	14,135,310	12,623,787	12.0%
Prior period adjustments	<u>-</u>	<u>(22,180)</u>	<u>-100.0%</u>
Net assets - ending	<u>\$ 15,807,438</u>	<u>\$ 14,135,310</u>	<u>11.8%</u>

*Amounts have been reclassified from those presented in the prior year to conform to the current year's presentation.

BASIC FINANCIAL STATEMENTS

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2010**

ASSETS

Current assets:

Cash and equivalents	\$ 3,528,477
Accounts receivable	116,985
Grants receivable	4,641,129
Bus pass inventory	<u>114,984</u>
Total current assets	<u>8,401,575</u>

Noncurrent assets:

Capital assets:

Nondepreciable	118,527
Depreciable	21,297,324
Accumulated depreciation	<u>(7,588,828)</u>
Capital assets, net of accumulated depreciation	13,827,023

Deferred charges	<u>7,500</u>
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Total noncurrent assets	<u>13,834,523</u>
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Total assets	<u>22,236,098</u>
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LIABILITIES

Current liabilities:

Accounts payable	654,518
Accrued expenses	46,492
Accrued interest	9,272
Deferred operating revenue	4,937,743
Current portion of loan payable	<u>247,747</u>
Total current liabilities	<u>5,895,772</u>

Noncurrent liabilities:

Loan payable	<u>532,888</u>
Total noncurrent liabilities	<u>532,888</u>

Total liabilities	<u>6,428,660</u>
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Net assets:

Invested in capital assets, net of related debt	13,046,388
Unrestricted net assets	<u>2,761,050</u>

Total net assets	<u>\$ 15,807,438</u>
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The accompanying notes are an integral part of these financial statements.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

Operating Revenues:	
Passenger fares	\$ 1,463,175
Advertising revenues	71,042
Other revenues	<u>5,364</u>
Total operating revenues	<u>1,539,581</u>
Operating Expenses:	
Professional services	451,967
Insurance	1,762
Contracted services	4,495,973
Special departmental expense	102,065
General and administrative	100,297
Fuel, repairs, and maintenance	2,618,335
Rents and leases	39,206
Utilities	37,127
Depreciation	<u>1,621,000</u>
Total operating expenses	<u>9,467,732</u>
Operating income (loss)	<u>(7,928,151)</u>
Non-Operating Revenues (Expenses):	
Interest income	36,627
Federal and state operating grants	8,592,017
Debt issuance	(2,500)
Gain (loss) on sale of fixed assets	(71,455)
Interest expense	(44,027)
Capital grants	<u>1,089,617</u>
Total non-operating revenues	<u>9,600,279</u>
Change in net assets	1,672,128
Net assets - beginning	<u>14,135,310</u>
Net assets - ending	<u>\$ 15,807,438</u>

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010**

Cash Flows from Operating Activities:	
Receipts from customers	\$ 1,516,665
Payments to suppliers, contracted entities, and others	<u>(8,475,591)</u>
Net cash provided by (used in) operating activities	<u>(6,958,926)</u>
Cash Flows from Non-Capital Financing Activities:	
Federal, state and local operating assistance	7,968,765
Payments on loan from County of Merced	<u>(725,000)</u>
Net cash provided by (used in) non-capital financing activities	<u>7,243,765</u>
Cash Flows from Capital and Related Financing Activities:	
Payments for capital assets	(1,064,115)
Capital contributions	1,475,086
Interest paid on debt	(50,074)
Principal payments on debt	<u>(236,063)</u>
Net cash provided by (used in) capital and related financing activities	<u>124,834</u>
Cash Flows from Investing Activities:	
Interest received	37,879
Unrealized gain (loss) on investments	<u>(1,253)</u>
Net cash provided by (used in) investing activities	<u>36,626</u>
Net increase (decrease) in cash and equivalents	<u>446,299</u>
Cash and equivalents at July 1:	
Cash and equivalents	3,081,920
Restricted cash	<u>258</u>
	<u>3,082,178</u>
Cash and equivalents at June 30:	
Cash and equivalents	3,528,477
Restricted cash	<u>-</u>
	<u>\$ 3,528,477</u>

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Reconciliation of Operating Income (Loss) to Net Cash

Provided by (Used in) Operating Activities:

Operating income (loss)	\$ (7,928,151)
Depreciation and amortization	1,621,000
CIP categorized as expenses	40,811
Increase (decrease) in:	
Accounts receivable	(57,203)
Due from other funds	32,156
Bus pass inventory	(8,083)
(Increase) decrease in:	
Accounts payable	(54,043)
Accrued expenses	(16,667)
Due to County of Merced	<u>(588,746)</u>

Net cash provided by (used in) operating activities \$ (6,958,926)

Noncash Investing, Capital, and Financing Activities:

Increase (decrease) in fair value of investments	<u>\$ (1,253)</u>
Capital contributions	<u>\$ 23,300</u>
Disposal of fixed assets	<u>\$ 73,153</u>

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The cities of Atwater, Dos Palos, Gustine, Livingston, Los Banos, and Merced entered into a joint powers agreement with the County of Merced in 1995 to acquire, develop, maintain, and operate transportation services and related transit facilities. The Transit Joint Powers Authority for Merced County (the Authority) administers the operations subject to the terms and conditions provided in accordance with such agreements and the authority set forth in California Government Code Section 6508. The Authority has designated the County of Merced, Public Works Division as the “Operator” of the transportation services and related facilities. In its capacity as “Operator”, subject to policy direction by the Authority Board, the County of Merced manages, operates, and administers the facilities and executes the Transit responsibilities associated therewith.

B. Basis of Accounting

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

Pursuant to Governmental Accounting Standards Board (GASB) Standard No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that uses Proprietary Fund Accounting*, all Financial Accounting Standards Board (FASB) statement and authoritative pronouncements issued before November 30, 1989, are applied to proprietary operations unless they conflict with GASB pronouncements. The Authority has elected not to apply FASB statements issued subsequent to November 30, 1989.

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

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

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

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

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Authority's cash is held by the County of Merced. The County of Merced allocates interest to the Authority's ending cash balances in the County of Merced Treasury.

2. Grants Receivable/Deferred Revenues

Grants awarded to enterprise funds are recorded as receivables and non-operating revenues when they are earned and are measurable. Deferred revenues consist of grant funds received in excess of qualified expenditures. Grant revenue is recognized in the period of qualified expenditures.

3. Accounts Payable

Certain costs are incurred by the Authority during the current period but are not paid until after the beginning of the next fiscal period. These costs are reported as payables in the financial statements. The Authority's current accounts payable balance of \$654,518 as of June 30, 2010, is related to certain contract services and payments for utility fees.

4. Bus Pass Inventory

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

5. Capital Assets

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

The Authority capitalizes equipment with a cost of at least \$2,500 and an estimated useful life in excess of one year; and land, buildings and improvements with a cost of at least \$10,000 and an estimated useful life in excess of one year. All capitalized assets are depreciated or amortized (assets under capital leases) using the straight-line method over their estimated useful lives. The estimated economic lives used to determine annual rates of depreciation or amortization are subject to periodic review and revision to assure that the costs of the respective assets will be written off over their economic lives.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Net Assets (Continued)

6. Property, Plant and Equipment (Continued)

The following analysis details the estimated useful lives for the various types of assets.

<u>Type of Asset</u>	<u>Estimated Useful Life in Years</u>
Land improvements	10 – 40
Building and building improvements	6 – 50
Leasehold improvements	5 – 40
Equipment	5 – 30

7. 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.”

8. Management’s Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 2 – ANNUAL FINANCIAL STATEMENTS

The financial statements are intended to reflect the financial position, changes in financial position, cash flows, and compliance with the Transportation Development Act for the Authority only.

In addition to the Transportation Development Act program, the Authority participates in a number of federally assisted grant programs. These programs are subject to a Single Audit in accordance with OMB Circular A-133. The Single Audit may identify compliance exceptions related only to those grants. Such compliance exceptions, if any, are not expected to have an impact on the Authority.

NOTE 3 – CASH AND EQUIVALENTS

Cash and equivalents consists of petty cash and cash in the Merced County Treasury as part of the common investment pool. The fair market value of this pool, as provided by the pool sponsor, was \$3,528,327 as of June 30, 2010.

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

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

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer until the maturity of an investment, the greater is the sensitivity of its fair value to changes in market interest rate. As of year-end, the weighted average maturity of the investments contained in the County Treasury Investment Pool was approximately 20 months.

Custodial 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 credit risk disclosures for the Cash in the County Treasury. Copies of the County's financial statements may be obtained from their website www.co.merced.ca.us or by writing to the Merced County Auditor-Controller, 2222 M Street, Merced, California 95340.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 – CHANGES IN FIXED ASSETS

The following schedules summarize changes in fixed assets for the year ending June 30, 2010:

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2010</u>
Nondepreciable:				
Land improvements	\$ -	\$ 108,445	\$ -	\$ 108,445
Construction in progress	<u>23,165</u>	<u>255,353</u>	<u>(268,436)</u>	<u>10,082</u>
Total nondepreciable	23,165	363,798	(268,436)	118,527
Depreciable:				
Equipment	16,907,386	789,821	(735,425)	16,961,782
Buildings and improvements	<u>4,175,551</u>	<u>159,991</u>	<u>-</u>	<u>4,335,542</u>
Total depreciable assets	21,082,937	949,812	(735,425)	21,297,324
Accumulated depreciation:				
Land improvements	-	(3,615)	-	(3,615)
Equipment	(6,237,547)	(1,467,733)	662,272	(7,043,008)
Buildings and improvements	<u>(392,553)</u>	<u>(149,652)</u>	<u>-</u>	<u>(542,205)</u>
Total accumulated depreciation	<u>(6,630,100)</u>	<u>(1,621,000)</u>	<u>662,272</u>	<u>(7,588,828)</u>
Net capital assets	<u>\$ 14,476,002</u>	<u>\$ (307,390)</u>	<u>\$ (341,589)</u>	<u>\$ 13,827,023</u>

The amount recorded for depreciation was \$1,621,000 for the year ending June 30, 2010.

NOTE 5 – CHANGES IN LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2010, is shown below:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2010</u>	<u>Due Within One Year</u>
Loan payable	<u>\$ 1,016,698</u>	<u>\$ -</u>	<u>\$ (236,063)</u>	<u>\$ 780,635</u>	<u>\$ 247,747</u>
Totals	<u>\$ 1,016,698</u>	<u>\$ -</u>	<u>\$ (236,063)</u>	<u>\$ 780,635</u>	<u>\$ 247,747</u>

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 5 – CHANGES IN LONG-TERM DEBT (Continued)

Loan Payable

Merced County and the Authority entered into an agreement with BNY Western Trust Company to finance and construct transit facilities to house transit administration personnel and provide for cleaning of transit vehicles. Pursuant to the trust agreement, the trustee executed and delivered certificates of participation in the amount of \$2,216,817. The certificates are to be paid by the Authority in accordance with the sale agreement. The obligation of the Authority to make payments is a special obligation of the Authority payable solely from transit revenues. As such, it does not constitute indebtedness or pledge of the faith and credit of the Authority. The certificates are reported as liabilities in the accompanying financial statements. The Authority granted a lien on transit revenues. The terms of the agreement call for semi-annual payments on October 1 and April 1 of each year, beginning October 1, 2002. The debt matures October 1, 2012. The interest rate is 4.83%.

The annual debt service requirements to maturity for the conduit debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 247,747	\$ 31,722	\$ 279,469
2012	260,009	19,459	279,468
2013	<u>272,879</u>	<u>6,590</u>	<u>279,469</u>
	<u>\$ 780,635</u>	<u>\$ 57,771</u>	<u>\$ 838,406</u>

NOTE 6 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS

Section 6634

Pursuant to Section 6634, a transit claimant is precluded from receiving monies from the Local Transportation Fund and the State Transit Assistance Fund in an amount which exceeds the claimant's capital and operating costs less the required fares, federal, state, and local support and the amount received during the year from a city or county to which the operator has provided service beyond its boundaries. Net excess at June 30, 2010, is as follows:

	Operating Funds	Capital Funds	Total
Beginning TDA/STA deferred excess	\$ 3,395,177	\$ -	\$ 3,395,177
Current amounts received or accrued:			
Article 4	2,373,929	307,500	2,681,429
State transit assistance	1,412,286	100,000	1,512,286
Federal assistance	2,717,251	658,817	3,376,068
Passenger fares	1,463,175	-	1,463,175
Interest income	36,627	-	36,627
Other revenues and transfers out	<u>76,406</u>	<u>1,542,566</u>	<u>1,618,972</u>
Total available	11,474,851	2,608,883	14,083,734
Less capital outlays and operating cost, net of depreciation	<u>(8,079,675)</u>	<u>(1,066,316)</u>	<u>(9,145,991)</u>
Ending TDA/STA deferred excess	<u>\$ 3,395,176</u>	<u>\$ 1,542,567</u>	<u>\$ 4,937,743</u>

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS (Continued)

Section 6633

Pursuant to Section 6633.2 and 6633.5 of the California Administrative Code, the Authority is required to meet a passenger fare revenue recovery ratio of 20% for urban fixed services, 10% for rural fixed services and 10% for the elderly and handicapped (Dial-A-Ride Paratransit). The Authority's passenger fare recovery ratios for the urban and rural services with Fixed Route and Dial-A-Ride shown separately are as follows at June 30, 2010:

	Fixed Routes		Dial-A-Ride Paratransit
	Urban	Rural	
Passenger fare revenue	\$ 793,773	\$ 211,892	\$ 225,822
Local subsidy from other sector of operations	36,310	8,542	11,364
Adjusted revenues	\$ 830,083	\$ 220,434	\$ 237,186
Operating costs	\$ 3,264,809	\$ 1,675,723	\$ 2,685,970
Adjusted operating costs	\$ 3,264,809	\$ 1,675,723	\$ 2,685,970
Revenue recovery ratio	25%	13%	9%

NOTE 7 – COMMITMENTS AND CONTINGENCIES

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

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

NOTE 8 – RENTAL AGREEMENTS

Rental agreements exist between the County of Merced and the City of Merced whereby the Authority leases office and counter space at the Merced Transportation Center. The agreements encompass the time period July 1, 2005 through October 31, 2010, renewable through October 31, 2015. The agreements specify rental payments as follows:

June 30,	Amount
2011	\$ 8,977
2012	9,156
2013	9,339
2014	9,526
2015	9,717
2016	3,260
Total	\$ 49,975

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 9 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disaster. The Authority provides coverage for these losses through commercial insurance policies and/or through participation in the County of Merced's Self-Insurance Program. Refer to the County of Merced CAFR for additional information.

NOTE 10 – PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE ENHANCEMENT ACCOUNT

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

During the fiscal year ended June 30, 2010, the Authority applied for and received proceeds of \$1,415,409 including interest earned of \$4,601 from the State's PTMISEA account for the following projects:

1) compressed natural gas buses, 2) compressed natural gas fueling facility, 3) Los Banos Transit Center, 4) Paratransit buses, and 5) purchase and installation of bus shelter. As of June 30, 2010, no expenditures were incurred. Qualifying expenditures must be encumbered within three years from the date of the allocation and expended within three years from due date of encumbrance.

During the fiscal year ended June 30, 2010, the Authority applied for and received proceeds of \$1,415,409 from the State's PTMISEA account for partial payments toward the following projects: 1) compressed natural gas buses, 2) compressed natural gas fueling facility, 3) Los Banos Transit Center, 4) Paratransit buses, and 5) purchase and installation of bus shelters for the Authority's route transit system. As of June 30, 2010, PTMISEA funds received and expended were verified in the course of our audit as follows:

Proceeds received:	
PTMISEA	\$ 1,415,409
Expenditures incurred:	
Compressed natural gas buses	-
Compressed natural gas fueling facility	-
Los Banos Transit Center	-
Paratransit buses	-
Purchase and installation of bus shelters	-
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Unexpended proceeds at June 30, 2010	<u>\$ 1,415,409</u>

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SUPPLEMENTARY INFORMATION

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
SCHEDULE OF INSURANCE COVERAGE
JUNE 30, 2010**

<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Effective Dates</u>
General Liability	\$10,000,000	09/01/10 to 09/01/11
Automobile Liability	\$10,000,000	09/01/10 to 09/01/11
Workers Compensation	\$5,000,000	09/01/10 to 09/01/11
Umbrella Form	\$10,000,000	09/01/10 to 09/01/11

The Authority requires the transit service operators to maintain the above policies.

OVERALL COMPLIANCE, INTERNAL CONTROL,
AND FEDERAL AWARDS SECTION

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

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

We have audited the financial statements of the Transit Joint Powers Authority for Merced County, California (the Authority) for the year ended June 30, 2010, and have issued our report thereon dated May 13, 2011.

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

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

In our opinion, with respect to the items tested, the results of our test indicated that the Authority complied in all material respects with the provisions referred to above. Additionally, during the fiscal year ended June 30, 2010, we verified that the Authority received \$1,415,409 and did not expend any of the PTMISEA proceeds

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

Price Paige & Company

Clovis, California
May 13, 2011

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

We have audited the accompanying financial statements of the Transit Joint Powers Authority for Merced County, California (the Authority), as of and for the year ended June 30, 2010, and have issued our report thereon dated May 13, 2011. 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

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's 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 the Authority's 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 is required to be reported under *Government Auditing Standards*.

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

Price Page & Company

Clovis, California
May 13, 2011



INDEPENDENT AUDITOR'S COMPLIANCE REPORT

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

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

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

Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA)

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

During the fiscal year ended June 30, 2010, the Authority applied for and received \$1,415,409 from the State's PTMISEA account for the following projects: 1) compressed natural gas buses, 2) compressed natural gas fueling facility, 3) Los Banos Transit Center, 4) paratransit buses, and 5) purchase and installation of bus shelter. As of June 30, 2010, PTMISEA funds received and expended were verified in the course of our audit as follows:

Proceeds received:	
PTMISEA	\$ 1,415,409
Expenditures incurred:	
Compressed natural gas buses	-
Compressed natural gas fueling facility	-
Los Banos Transit Center	-
Paratransit buses	-
Purchase and installation of bus shelters	-
	<hr/>
Unexpended proceeds at June 30, 2010	<u>\$ 1,415,409</u>

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have direct and material effect on the TDA funds. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

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

This report is intended for the information of the Board of Directors, managements, and the Merced County Association of Governments. However, this report is a matter of public record and its distribution is not limited.

Price Pange & Company

Clovis, California
May 13, 2011

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
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 <u> X </u> no
Significant deficiencies identified that are not considered to be material weaknesses?	_____ yes <u> X </u> none reported
Noncompliance material to financial statements noted?	_____ yes <u> X </u> no

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – TRANSPORTATION DEVELOPMENT ACT FINDINGS AND QUESTIONED COSTS

None reported.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
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 Authority is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The Authority's internal controls over GAAP reporting should include personnel with 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 Authority maintains controls over the processing of accounting transactions, there are not adequate 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 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 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 Authority should implement a comprehensive preparation and/or review procedure to ensure that financial statements, including disclosures, are complete and accurate. Such procedures should be performed by an individual possessing a thorough understanding of applicable general accepted accounting principles, GASB pronouncements, and knowledge of the Authority's activities and operations.

Response: For many years Authority has contracted with an audit firm who completed the financial statements for Transit. The firm had a very in-depth knowledge and understanding of our operations and worked in conjunction with Transit management and personnel to complete these reports. As of this year that firm no longer does our audits or financial statements.

In addition, the Transit Manager and Assistant Manager both retired in recent months. Both of them had many years of experience and a great deal of knowledge and understanding of all aspects of Transit operations, reporting requirements and financial statements. New management staff has been hired and Transit operations will transition to the Merced County Association of Government for oversight effective July 1, 2010. New policies and procedures are being developed and will include the area of oversight of all financial areas including financial statements.

Status: Implemented