

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY**

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

**FOR THE YEAR ENDED
JUNE 30, 2016**

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
JUNE 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Transit Joint Powers Authority for Merced County (the Authority) as of and for the year ended June 30, 2016, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Transit Joint Powers Authority for Merced County, as of June 30, 2016, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of insurance coverages is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2016, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Price Pange & Company

Clovis, California
December 6, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Merced County Association of Governments (MCAG) is the administrative management of the Transit Joint Powers Authority for Merced County (TJPA), which is responsible for the county-wide transportation system known as The Bus. Management presents the following narrative overview and analysis of the financial activities of TJPA for the year ended June 30, 2016. The financial information presented here should be considered in conjunction with the financial statements presented in the following pages.

FINANCIAL HIGHLIGHTS

- ❖ The TJPA's total assets for the fiscal year ending June 30, 2016 are \$42,009,313. This is an increase of \$4,766,7897 from the ending balance of the prior fiscal year. The significant changes were increase in grants receivables and capital assets, and a minor increase in cash and equivalents, with a small decrease in accounts receivable. The increase in cash and equivalents is due to the increase in the Local Transportation Fund.
- ❖ Capital assets, net of accumulated depreciation, included in total assets, are \$16,179,375, which is an increase of \$2,778,877 from the prior year. The increase is due to the purchase of buses and land exceeding the annual depreciation expense.
- ❖ Total liabilities as shown on the Statement of Net Position for the fiscal year ending June 30, 2016 are \$6,302,518, which is a decrease from the prior year of \$2,841,760. The decrease is due to using unearned revenues for purchase of buses and land.

OVERVIEW OF FINANCIAL STATEMENTS

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

Basic Financial Statements

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

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

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how TJPA's net position changed during the fiscal year ended June 30, 2016. All changes in net position are reported as soon as the underlying event giving rise to the change occurs (such as the receipt of goods and services or submittal of claims for capital and operating revenue) regardless of the timing of related cash flows. Thus, the revenues and expenses are reported in these statements using the accrual basis of accounting which is more fully described in the accompanying *Notes to the Basic Financial Statements*.

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

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

FINANCIAL ANALYSIS

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

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

As noted earlier, net position may serve as a useful indicator of a government's financial position over time. In the case of TJPA, assets exceeded liabilities by \$35,706,795 and \$28,098,546 at June 30, 2016 and 2015, respectively.

Statement of Net Position - Two Year Comparison			
	June 30, 2016	June 30, 2015	Change
Assets:			
Current	\$ 25,829,938	\$ 23,842,326	\$ 1,987,612
Capital Assets (net)	16,179,375	13,400,498	2,778,877
Total Assets	42,009,313	37,242,824	4,766,489
Liabilities:			
Current Liabilities	6,302,518	9,144,278	(2,841,760)
Total Liabilities	6,302,518	9,144,278	(2,841,760)
Net Position:			
Net Investment in Capital Assets	16,179,375	13,400,498	2,778,877
Unrestricted	19,527,420	14,698,048	4,829,372
Total Net Position	\$ 35,706,795	\$ 28,098,546	\$ 7,608,249

TJPA's changes in net position for the years ended June 30, 2016 and 2015 are as follows:

	June 30, 2016	June 30, 2015	% Change
Operating revenues	\$ 1,509,623	\$ 1,693,493	-10.9%
Operating expenses	12,818,882	13,738,759	-6.7%
Operating income (loss)	(11,309,259)	(12,045,266)	-6.1%
Nonoperating revenues	18,917,508	13,507,881	40.0%
Changes in net position	7,608,249	1,462,615	420.2%
Net position - beginning	28,098,546	26,635,931	5.5%
Net position - ending	<u>\$ 35,706,795</u>	<u>\$ 28,098,546</u>	<u>27.1%</u>

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Transit Activities

- ❖ As shown on the Statement of Revenues, Expenses and Changes in Net Position for the fiscal year ending June 30, 2016, total operating expenses decreased by \$919,877 over the prior year. The major change is due to change in vendor of the service provider and maintenance of the buses.
- ❖ Nonoperating revenues increased by \$5,409,627 over the prior year, the majority of which was used for fixed asset purchases as noted below.

Capital Assets and Debt Administration

Capital Assets

The capital assets of the TJPA are those assets with a cost of at least \$5,000 and have more than one year of life, that are used in the performance of transit operations and any related functions. At June 30, 2016, the TJPA had \$16,179,375 invested in capital assets including land, land improvements, buildings and improvements, and equipment (see table below). This amount represents a net increase (including additions and dispositions) of \$2,778,877 or twenty-one percent from the prior year.

	July 1, 2015	Additions	Dispositions	June 30, 2016
Nondepreciable:				
Land	\$ -	\$ 633,666	\$ -	\$ 633,666
Depreciable:				
Land Improvement	108,445	-	-	108,445
Buildings and Improvement	4,353,452	-	-	4,353,452
Equipment	22,081,362	4,930,239	(1,305,712)	25,705,889
Total Depreciable Assets	26,543,259	4,930,239	(1,305,712)	30,167,786
Accumulated Depreciation:				
Land Improvement	(58,226)	(12,038)	-	(70,264)
Building and Improvement	(1,302,085)	(153,919)	-	(1,456,004)
Equipment	(11,782,450)	(2,412,171)	1,098,812	(13,095,809)
Total Accumulated Depreciation	(13,142,761)	(2,578,128)	1,098,812	(14,622,077)
Net Capital Assets	\$ 13,400,498	\$ 2,985,777	\$ (206,900)	\$ 16,179,375

This year's major additions included:

- ❖ Purchase of land for the new facility with a cost of \$633,666, using PTMISEA funds.
- ❖ Purchase of 6 Gillig buses for \$2,665,215, using FTA funds and LTF funds for match.
- ❖ Purchase of 8 ARBOC buses for \$1,429,336 and 3 Braun Vans for \$148,887, with PTMISEA funds.

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Debt

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- ❖ Merced County's unemployment rate remained unchanged from the prior year. As of September 2016, the Bureau of Labor Statistics reports the unemployment rates were 8.2% for Merced, 5.5% for California and 5.0% for the Nation. Most of the jurisdictions in Merced County have indicated that they have had some increase in building permits issued. The State-mandated increases in minimum wage will have impacts on the operations costs for both the 2016-17 and 2017-18 fiscal years.
- ❖ In the 2016-17 TJPA will be going to bid for construction of the new maintenance facility. Construction on the new Facility is projected to start in the 2016-17 fiscal year.
- ❖ In 2016-17 TJPA will discontinue the expanded service due to the low rider usage during those times.
- ❖ Staff is working with local jurisdictions for authorization to install bus stops along the new routes as well as bus turn-outs along major roadways. The table below shows the budget capital projects for the 2016-2017 fiscal year.
- ❖ The City of Merced is discussing the possibility of turning over the Transpo Center to the Transit Joint Powers Authority of Merced County. If this happens, TJPA will be updating and remodeling the buildings and staff assigned to TJPA will be relocating to the Transpo Center.

Major purchases budgeted include the following:

Description	Estimated Cost	Funding Source
Transit facility	\$ 4,099,281	PTMISEA/LTF
Bus purchase	\$ 1,731,467	PTMISEA
Bush shelter/turn-outs	\$ 1,000,000	LTF
Fence, gate and lighting at new facility	\$ 421,920	CALOES
Total	\$ 7,252,668	

Requests for information

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

BASIC FINANCIAL STATEMENTS

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2016**

ASSETS

Current assets:

Cash and cash equivalents	\$ 23,758,413
Accounts receivable	38,788
Deposits	18,532
Due from other governments	1,974,454
Bus pass inventory	39,751
Total current assets	25,829,938

Noncurrent assets:

Capital assets:

Nondepreciable	633,666
Depreciable	30,167,786
Accumulated depreciation	(14,622,077)
Capital assets, net of accumulated depreciation	16,179,375

Total noncurrent assets 16,179,375

Total assets 42,009,313

LIABILITIES

Current liabilities:

Accounts payable	800,170
Due to other governments	104,600
Unearned revenues	5,397,748
Total current liabilities	6,302,518

Total liabilities 6,302,518

NET POSITION

Net investment in capital assets	16,179,375
Unrestricted	19,527,420

Total net position \$ 35,706,795

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

Operating revenues:	
Passenger fares	\$ 1,509,623
Total operating revenues	<u>1,509,623</u>
Operating expenses:	
Contracted services	4,504,963
Professional services	2,501,208
Fuel, repairs, and maintenance	2,744,346
General and administrative	238,685
Insurance	35,817
Special departmental expense	89,721
Utilities	19,702
Rents and leases	106,343
Depreciation	<u>2,578,128</u>
Total operating expenses	<u>12,818,913</u>
Operating income (loss)	<u>(11,309,290)</u>
Nonoperating revenues (expenses):	
Federal and state grants	7,444,241
Intergovernmental	11,405,620
Interest income	257,202
Loss on sale of assets	<u>(189,524)</u>
Total nonoperating revenues	<u>18,917,539</u>
Change in net position	7,608,249
Net position - beginning	<u>28,098,546</u>
Net position - ending	<u>\$ 35,706,795</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, 2016**

Cash Flows from Operating Activities:	
Receipts from customers	\$ 1,549,476
Payments to suppliers, contracted entities, and others	<u>(10,132,802)</u>
Net cash provided by (used in) operating activities	<u>(8,583,326)</u>
Cash Flows from Noncapital Financing Activities:	
Federal, state and local operating assistance	7,190,089
Intergovernmental revenues	<u>7,195,792</u>
Net cash provided by (used in) noncapital financing activities	<u>14,385,881</u>
Cash Flows from Capital and Related Financing Activities:	
Federal and state capital grants	59,824
Proceeds from capital asset disposals	17,500
Payments for capital assets	<u>(5,553,905)</u>
Net cash provided by (used in) capital and related financing activities	<u>(5,476,581)</u>
Cash Flows from Investing Activities:	
Interest received	<u>257,202</u>
Net cash provided by (used in) investing activities	<u>257,202</u>
Net increase (decrease) in cash and equivalents	583,176
Cash and equivalents at July 1, 2015	<u>23,175,237</u>
Cash and equivalents at June 30, 2016	<u>\$ 23,758,413</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating income (loss)	\$ (11,309,290)
Depreciation and amortization	2,578,128
Increase (decrease) in:	
Accounts receivable	39,853
Deposits	(18,532)
Bus pass inventory	2,094
(Increase) decrease in:	
Accounts payable	<u>124,421</u>
Net cash provided by (used in) operating activities	<u>\$ (8,583,326)</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, 2016**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

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

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

Basis of Accounting

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

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

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

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

Assets, Liabilities and Net Position

Cash and Cash Equivalents

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Assets, Liabilities and Net Position (Continued)

Accounts Receivable

Accounts receivable result from charges for goods and services. The “direct write-off” method for accounts receivable was applied for accounts that have been established as uncollectible. The “direct write-off” method is not in compliance with generally accepted accounting principles, but the result is immaterial to the financial statements taken as a whole. The Authority did not write off any accounts receivable during the fiscal year. There were no accounts deemed to be uncollectible at June 30, 2016.

Bus Pass Inventory

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

Accounts Payable/Due to Other Governments

Certain costs are incurred by the Authority during the current period but are not paid until after the beginning of the next fiscal year. These costs are reported as payables in the financial statements. The Authority’s current accounts payable and due to other governments’ balances of \$800,170 and \$104,600, respectively, as of June 30, 2016, are related to certain contract services and payments for utility fees.

Unearned Revenues

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

Capital Assets

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

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

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

Land improvements	10 – 40 years
Buildings and improvements	6 – 50 years
Equipment	3 – 15 years

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Assets, Liabilities and Net Position (Continued)

Net Position

Net position is reported in three categories as follows:

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

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

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

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

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.

NOTE 2 – CASH AND EQUIVALENTS

Cash and equivalents as of June 30, 2016 consisted of the following:

Cash in Merced County Treasury	\$ 17,521,446
Cash in Local Agency Investment Fund	1,514,971
Cash in Wells Fargo checking account	4,721,846
Petty cash	<u>150</u>
Total cash and equivalents	<u>\$ 23,758,413</u>

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

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 – CASH AND EQUIVALENTS (Continued)

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

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rate. As of June 30, 2016, the weighted average maturity of the investments contained in the Merced County Treasury investment pool was approximately 468 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.

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

The Authority's investments allocated at fair value are in the state treasurer's LAIF and in the County of Merced Treasurer's Investment Pool. These invest in numerous types of investments ranging all levels in the fair value hierarchy. Accordingly, they are not investment types that can be categorized in any particular level in the fair value hierarchy.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016 was as follows:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2016</u>
Nondepreciable:				
Land	\$ -	\$ 633,666	\$ -	\$ 633,666
Total nondepreciable	-	633,666	-	633,666
Depreciable:				
Land improvements	108,445	-	-	108,445
Buildings and improvements	4,353,452	-	-	4,353,452
Equipment	<u>22,081,362</u>	<u>4,930,239</u>	<u>(1,305,712)</u>	<u>25,705,889</u>
Total depreciable assets	26,543,259	4,930,239	(1,305,712)	30,167,786
Accumulated depreciation:				
Land improvements	(58,226)	(12,038)	-	(70,264)
Buildings and improvements	(1,302,085)	(153,919)	-	(1,456,004)
Equipment	<u>(11,782,450)</u>	<u>(2,412,171)</u>	<u>1,098,812</u>	<u>(13,095,809)</u>
Total accumulated depreciation	<u>(13,142,761)</u>	<u>(2,578,128)</u>	<u>1,098,812</u>	<u>(14,622,077)</u>
Net capital assets	<u>\$ 13,400,498</u>	<u>\$ 2,985,777</u>	<u>\$ (206,900)</u>	<u>\$ 16,179,375</u>

The amount recorded for depreciation was \$2,578,128 for the year ending June 30, 2016.

NOTE 4 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS

Section 6633

Pursuant to Section 6633.2 and 6633.5 of the California Administrative Code, the Authority is required to meet a passenger fare revenue recovery ratio of 20% for urban fixed services, 10% for rural fixed services and 10% for the elderly and handicapped (Dial-A-Ride Paratransit).

The Authority's passenger fare recovery ratios for the urban and rural services with Fixed Route and Dial-A-Ride shown separately are as follows at June 30, 2016:

	<u>Fixed Routes</u>		<u>Dial-A-Ride Paratransit</u>
	<u>Urban</u>	<u>Rural</u>	
Passenger fare revenue	\$ 748,362	\$ 172,132	\$ 215,900
CMAQ expanded transit service demo	794,634	190,606	214,760
Local subsidy from other sector of operations	<u>373,228</u>	<u>-</u>	<u>-</u>
Adjusted revenues	<u>\$ 1,916,224</u>	<u>\$ 362,738</u>	<u>\$ 430,660</u>
Operating costs	<u>\$ 6,621,781</u>	<u>\$ 1,588,348</u>	<u>\$ 1,789,622</u>
Adjusted operating costs	<u>\$ 6,621,781</u>	<u>\$ 1,588,348</u>	<u>\$ 1,789,622</u>
Revenue recovery ratio	28.9%	22.8%	24.1%

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 – COMMITMENTS AND CONTINGENCIES

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

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

NOTE 6 – RENTAL AGREEMENTS

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

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

<u>June 30,</u>	<u>Amount</u>
2017	\$ 51,486
2018	40,225
2019	40,324
2020	40,425
2021	<u>40,527</u>
Total	<u>\$ 212,987</u>

NOTE 7 – CONTRACTUAL AGREEMENTS

Merced County Association of Governments

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

Merced Transportation Company

On August 10, 2010, the Authority entered into an operating agreement with Merced Transportation Company (MTC) to provide complete transit services. The agreement was effective beginning October 1, 2010 and expired on June 30, 2015, and was extended until August 31, 2015 to allow for the conversion to National Express Transit Corporation. The Authority incurred \$964,249 in operating services provided by MTC for the year ended June 30, 2016.

National Express Transit Corporation

On September 1, 2015, the Authority entered into an operating agreement with National Express Transit Corporation to provide transit operational services. On October 1, 2015, the Authority entered into a second operating agreement with National Express to provide transit maintenance services. These agreements are set to expire on August 31, 2020. The Authority incurred \$5,433,916 in operating services provided by National Express Transit Corporation for the year ended June 30, 2016.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8 – RISK MANAGEMENT

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

NOTE 9 – PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE ENHANCEMENT ACCOUNT

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

During the fiscal year ended June 30, 2016, the Authority received proceeds totaling \$59,824 from the State's PTMISEA account. As of June 30, 2016, PTMISEA funds received and expended were verified in the course of our audit as follows:

	Balance July 1, 2015	Interest Income	Reclassifications and Allocations	Amount Expended	Balance June 30, 2016
Mobile Data Computers	\$ 15,392	\$ 21	\$ -	\$ (15,413)	\$ -
Bus Purchase - 5 Gilling 40'	298,229	-	(298,229)	-	-
Bus Purchase - 8 Gilling	849,080	2,569	-	(314,282)	537,367
Bus Purchase - 13 DAR	1,402,686	2,003	59,824	(1,464,513)	-
Bus Purchase - 6 DAR	663,974	2,654	-	-	666,628
10 DAR buses	1,166,760	4,663	-	-	1,171,423
AVL Projects	-	408	298,229	(298,637)	-
30001 - Transit Facility	<u>2,728,258</u>	<u>9,230</u>	<u>-</u>	<u>(638,183)</u>	<u>2,099,305</u>
	<u>\$ 7,124,379</u>	<u>\$ 21,548</u>	<u>\$ 59,824</u>	<u>\$ (2,731,028)</u>	<u>\$ 4,474,723</u>

NOTE 10 – PRONOUNCEMENTS

(1) New Accounting Pronouncements Adopted

Governmental Accounting Standards Board Statement No. 72

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this statement were implemented by the Authority during the current fiscal year.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 – PRONOUNCEMENTS (Continued)

(1) New Accounting Pronouncements Adopted (Continued)

Governmental Accounting Standards Board Statement No. 76

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

Governmental Accounting Standards Board Statement No. 79

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this statement. The requirements of this statement were considered but had no effect on the Authority’s current fiscal year.

(2) New Accounting Pronouncements Not Yet Adopted

Governmental Accounting Standards Board Statement No. 77

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government’s current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government’s financial resources come from and how it uses them, and (4) a government’s financial position and economic condition and how they have changed over time. The requirements of this statement are effective for the Authority’s fiscal year ending June 30, 2017.

Governmental Accounting Standards Board Statement No. 80

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an Amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The requirements of this statement are effective for the Authority’s fiscal year ending June 30, 2017.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 – PRONOUNCEMENTS (Continued)

(2) New Accounting Pronouncements Not Yet Adopted (Continued)

Governmental Accounting Standards Board Statement No. 81

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement are effective for the Authority's fiscal year ending June 30, 2018, and should be applied retroactively.

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OVERALL COMPLIANCE, INTERNAL CONTROL,
AND FEDERAL AWARDS SECTION

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

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

We have audited the financial statements of the Transit Joint Powers Authority for Merced County, California (the Authority) for the year ended June 30, 2016, and have issued our report thereon dated December 6, 2016.

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

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

In our opinion, with respect to the items tested, the results of our tests indicated that the Authority complied in all material respects with the provisions referred to above. Additionally, during the fiscal year ended June 30, 2016, we verified that the Authority received \$59,824 in new funding and expended \$2,731,028 of total PTMISEA proceeds available.

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

Price Paige & Company

Clovis, California
December 6, 2016

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Transit Joint Powers Authority for Merced County (the Authority), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 6, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Price Pange & Company

Clovis, California
December 6, 2016

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

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

Report on Compliance for Each Major Federal Program

We have audited the Transit Joint Powers Authority for Merced County's (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2016. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Transit Joint Powers Authority for Merced County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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

Price Pange & Company

Clovis, California
December 6, 2016

INDEPENDENT AUDITOR'S COMPLIANCE REPORT

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

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

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

Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA)

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

During the fiscal year ended June 30, 2016, the Authority received \$59,824 in new funding from the State's PTMISEA account. As of June 30, 2016, PTMISEA funds received and expended were verified in the course of our audit as follows:

	Balance July 1, 2015	Interest Income	Reclassifications and Allocations	Amount Expended	Balance June 30, 2016
Mobile Data Computers	\$ 15,392	\$ 21	\$ -	\$ (15,413)	\$ -
Bus Purchase - 5 Gilling 40'	298,229	-	(298,229)	-	-
Bus Purchase - 8 Gilling	849,080	2,569	-	(314,282)	537,367
Bus Purchase - 13 DAR	1,402,686	2,003	59,824	(1,464,513)	-
Bus Purchase - 6 DAR	663,974	2,654	-	-	666,628
10 DAR buses	1,166,760	4,663	-	-	1,171,423
AVL Projects	-	408	298,229	(298,637)	-
30001 - Transit Facility	<u>2,728,258</u>	<u>9,230</u>	<u>-</u>	<u>(638,183)</u>	<u>2,099,305</u>
	<u>\$ 7,124,379</u>	<u>\$ 21,548</u>	<u>\$ 59,824</u>	<u>\$ (2,731,028)</u>	<u>\$ 4,474,723</u>

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

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

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

Price Pange & Company

Clovis, California
December 6, 2016

SUPPLEMENTARY INFORMATION

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**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
SCHEDULE OF INSURANCE COVERAGES
JUNE 30, 2016**

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

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

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

General Liability	\$7,000,000	06/01/16 to 06/01/17
Excess General Liability	\$5,000,000	06/01/16 to 06/01/17
Workers Compensation	\$1,000,000	06/01/16 to 06/01/17
Automobile Liability	\$5,000,000	06/01/16 to 06/01/17
Automobile Physical Damage	Replacement value	06/01/16 to 06/01/17
Auto Excess Liability	\$3,000,000	06/01/16 to 06/01/17

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016**

Federal Grantor/Pass-through the State of California	Federal CFDA No.	Contract or Program Number	Federal Expenditures
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-through California State Department of Transportation:			
Federal Transit Formula Grants	20.507	CA-2016-139-00	\$ 3,127,636
Federal Transit Formula Grants - CMAQ	20.507	CA-2016-043-00	<u>1,200,000</u>
			4,327,636
Formula Grants for Other Than Urbanized Area	20.509	64BO15-00309	502,309
Highway Planning and Construction	20.205	CML-6308(016)	55,692
Highway Planning and Construction	20.205	CML-6308(014)	<u>53,210</u>
Total U.S. Department of Transportation			<u>4,938,847</u>
Total Expenditures of Federal Awards			<u>\$ 4,938,847</u>

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016**

GENERAL

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the Transit Joint Powers Authority for Merced County (the Authority). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies are included in the schedule. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

BASIS OF ACCOUNTING

The accompanying SEFA is presented using the accrual basis of accounting, which is described in Note 1 of the Authority's basic financial statements.

RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal award expenditures agree or can be reconciled with the amounts reported in the Authority's basic financial statements.

INDIRECT COST RATE

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

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

Significant deficiencies identified that are not
 considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial
 statements noted? _____ Yes X No

Federal Awards

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

Significant deficiencies identified that are not
 considered to be material weaknesses? _____ Yes X None reported

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

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

Identification of Major Programs

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

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS

None reported.

**TRANSIT JOINT POWERS AUTHORITY
FOR MERCED COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENT FINDINGS

None reported.

FEDERAL AWARD FINDINGS

None reported.