

FRESNO COUNTY RURAL TRANSIT AGENCY

ANNUAL FINANCIAL REPORTS

FOR THE YEARS ENDED
JUNE 30, 2017 AND 2016

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Fresno County Rural Transit Agency
Fresno, California

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Fresno County Rural Transit Agency, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Fresno County Rural Transit Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibility (Continued)

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 entity'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 entity'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 opinions.

Opinions

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 Fresno County Rural Transit Agency, as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years 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 management's discussion and analysis 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Matters (Continued)

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fresno County Rural Transit Agency's 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 Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2018, on our consideration of the Fresno County Rural Transit Agency'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 Fresno County Rural Transit Agency's internal control over financial reporting and compliance.

Dedekian, George, Small & Markarian

Dedekian, George, Small & Markarian
Accountancy Corporation
January 30, 2018

FRESNO COUNTY RURAL TRANSIT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016

The following discussion and analysis of the financial performance and activity of the Fresno County Rural Transit Agency Basic Financial Statements provides an introduction and understanding of the basic financial statements of the Fresno County Rural Transit Agency (FCRTA). This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

FCRTA is a voluntary association of the County of Fresno and 13 incorporated cities in Fresno County established on September 27, 1979, under a joint exercise of power agreement to provide public transit service for the rural areas consistent with the Regional Transportation Plan for Fresno County.

FCRTA currently operates an active fixed route and demand responsive bus fleet of ninety. FCRTA has no direct employees and contracts for all management and transit operations functions. FCRTA also reimburses various member agencies for expenditures incurred providing transit service. FCRTA receives funds primarily from the Transportation Development Act (TDA), which is a ¼ cent sales tax administered by the Fresno Council of Governments, State Transit Assistance (STA), transit fares and federal, state and local grants.

The Financial Statements

FCRTA's basic financial statements include (1) the Statement of Net Position, (2) the Statement of Revenues, Expenses, and Changes in Net Position, (3) the Statement of Cash Flows and (4) the Notes to the Financial Statements. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

The Statement of Net Position reports assets, liabilities, and the difference between the two as net position. The entire equity section is combined to report total net position and is displayed in three components - invested in capital assets, net of related debt; restricted net position; and unrestricted net position.

The net position component *invested in capital assets, net of related debt*, consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings attributable to the acquisition, construction, or improvements of those assets.

Restricted net position consists of assets where constraints on their use are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position that do not meet the definition of restricted or invested in capital assets, net of related debt.

FRESNO COUNTY RURAL TRANSIT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2017 AND 2016

The Financial Statements (Continued)

The Statement of Revenues, Expenses, and Changes in Net Position is reported using the accrual basis of accounting. Under this method, revenues are reported when earned and expenses are reported when incurred, regardless of when cash is received or paid. Revenues and expenses are categorized as either operating or non-operating based upon definitions provided by the Governmental Accounting Standards Board.

Financial Highlights

- Total net position of FCRTA was \$10,521,206 and consisted of capital assets, net of related debt, of \$9,962,404; and unrestricted net position of \$558,802.

Net position decreased \$739,143 during fiscal year 2017. The net position from business-type activities was unchanged.

- Total capital assets, net of accumulated depreciation, was \$9,962,404 at June 30, 2017, representing a decrease of \$739,143 from June 30, 2016. The decrease in capital assets was primarily the result of the excess of depreciation expense over assets purchased during the year.

Statement of Net Position

The Statement of Net Position provides a measure of the financial health of an entity at a specific date in time (i.e., year-end). A summary of FCRTA's Statement of Net Position for Business-Type Activities as of June 30, 2017, with comparative totals as of June 30, 2016 is as follows:

Statements of Net Position		
Business-Type Activities		
As of June 30, 2017 and 2016		
	2017	2016
Assets:		
Current and Other Assets	\$ 14,239,568	\$ 13,911,093
Capital Assets (Net of Depreciation)	9,962,404	10,701,547
Total Assets	24,201,972	24,612,640
Liabilities:		
Current and Other Liabilities	13,680,766	13,352,291
Net Position:		
Invested in Capital Assets, Net of Related Debt	9,962,404	10,701,547
Unrestricted	558,802	558,802
Total Net Position	\$ 10,521,206	\$ 11,260,349

FRESNO COUNTY RURAL TRANSIT AGENCY
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2017 AND 2016

Statement of Net Position (Continued)

Business-type activities include FCRTA’s Enterprise Fund operations. These operations are highly capital intensive, devoting a significant portion of their financial resources to the maintenance and replacement of major capital equipment and facilities. This is evidenced by the higher proportion of capital assets to total assets. In fact, of the \$24,201,972 in total assets as of June 30, 2017, \$9,962,404 (41%) relate to capital assets.

All categories of net position have a positive balance, which means that, as a whole, the individual fund comprising the business-type activities has sufficient current assets to satisfy current liabilities and still have assets remaining for discretionary spending. In short, the business-type activities are in excellent financial condition.

The make-up of net position, however, changed significantly from the prior year. Net position invested in capital assets decreased by \$739,143 while unrestricted net position remains unchanged. The enterprise fund invested \$1,347,559 in capital assets during the year. However, though the enterprise fund invested \$1,347,559, depreciation expense of \$2,086,702 caused a decrease in net position invested in capital to be \$739,143.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position provide details of how net position changed from the beginning of the year to the end of the year, and whether net position increased or decreased. Thus, it indicates whether FCRTA as a whole is better off at June 30, 2017 than it was at June 30, 2016.

A summary of FCRTA’s Statements of Revenues, Expenses, and Changes in Net Position for fiscal year ended June 30, 2017, with comparative totals for the year ended June 30, 2016 is as follows:

Statements of Revenues, Expenses, and Changes in Net Position		
Business-Type Activities		
Fiscal Years Ended June 30, 2017 and 2016		
	2017	2016
Revenues:		
Program Revenues	\$ 6,090,722	\$ 8,728,149
General Revenues	157,851	158,752
Total Revenues	<u>6,248,573</u>	<u>8,886,901</u>
Expenses:		
Program Expenses	6,987,716	6,449,236
Changes in Net Position	(739,143)	2,437,665
Net Position – Beginning	<u>11,260,349</u>	<u>8,822,684</u>
Net Position – Ending	<u>\$ 10,521,206</u>	<u>\$ 11,260,349</u>

FRESNO COUNTY RURAL TRANSIT AGENCY
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 JUNE 30, 2017 AND 2016

Statement of Revenues, Expenses, and Changes in Net Position (Continued)

The largest revenue categories listed on the Statements of Revenues, Expenses, and Changes in Net Position are state and local operating assistance derived from Transportation Development Act and Measure "C" revenues, and federal operating assistance derived from Federal Transportation Administration operating grants.

The largest operating expense category is contractual purchased transportation service (31%). Maintenance and repair constitute 8% of FCRTA's operating expense and salary and benefit reimbursement to members for providing transit service make up another 11%. The remaining operating expenses include administrative reimbursements, fuel, utilities, insurance, depreciation and miscellaneous.

Statement of Cash Flows

The Statement of Cash Flows provides detailed information about the cash received in the fiscal year and the uses of the cash received. This is the only cash-basis financial statement presented and it reconciles cash receipts and cash expenditures to the beginning and ending cash on hand.

Most of the cash received by FCRTA during the fiscal year was from capital and operating grants; most of the cash expenses were for operating expenses.

Capital Assets

FCRTA's capital assets by class and by type of activity are summarized below:

Schedules of Capital Assets		
Business Type Activities		
(Net of Accumulated Depreciation)		
June 30, 2017 and 2016		
	2017	2016
Capital Grant Funded	\$ 9,962,404	\$ 10,701,547

It is important to note that the capital assets are reported at historical cost, net of accumulated depreciation. These amounts do not represent the market value or replacement cost of FCRTA assets, which would be significantly higher. Historical cost is used, pursuant to accounting standards, to provide an objective basis for reporting capital assets.

Additional information on FCRTA's capital assets can be found in Note 4 of notes to the financial statements.

FRESNO COUNTY RURAL TRANSIT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2017 AND 2016

Economic Factors and Next Year's Budget/Program

FCRTA's main source of operating funds comes from the Local Transportation Fund and Measure "C", both of which are derived from local sales tax. FCRTA also receives Section 5311 federal operating assistance from the Federal Transit Administration. The federal funds did not significantly decrease during the recent economic downturn, and local sales taxes appear to have bottomed out and are now increasing. FCRTA has adequate reserves set aside to continue operations and replace rolling stock.

Contacting FCRTA's Financial Management

The FCRTA Basic Financial Statements are designed to provide FCRTA's Board of Directors, management, creditors, legislative and oversight agencies, citizens and customers with an overview of FCRTA's finances and to demonstrate its accountability for funds received. For additional information about this report, please contact Les Beshears, Finance Director, Fresno County Rural Transit Agency, 2035 Tulare Street, Suite 201, Fresno, California 93721.

BASIC FINANCIAL STATEMENTS

FRESNO COUNTY RURAL TRANSIT AGENCY
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016

	2017	2016
Assets:		
Current assets:		
Cash	\$ 11,800,465	\$ 10,889,011
Receivables:		
Intergovernmental	1,574,262	2,170,671
Interest	43,431	34,975
Other	467,934	439,398
Prepaid insurance	353,476	377,038
Total current assets	14,239,568	13,911,093
Non-Current assets:		
Capital assets	21,112,293	19,764,734
Accumulated depreciation	(11,149,889)	(9,063,187)
Total non-current assets	9,962,404	10,701,547
Total assets	24,201,972	24,612,640
Liabilities:		
Accounts payable	943,022	744,631
Due to members and other governmental entities	147,598	472,763
Deferred revenues	12,590,146	12,134,897
Total liabilities	13,680,766	13,352,291
Net position:		
Invested in capital assets, net of related debt	9,962,404	10,701,547
Unrestricted	558,802	558,802
Total net position	\$ 10,521,206	\$ 11,260,349

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

FRESNO COUNTY RURAL TRANSIT AGENCY
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating revenue:		
Fare revenues	\$ 572,675	\$ 574,987
Other revenues	-	27,459
	<u>572,675</u>	<u>602,446</u>
Total operating revenues		
Operating expenses:		
Salaries and employee benefits reimbursements	798,676	715,578
Administrative services reimbursements	462,317	462,310
Fuel and lubricants	389,913	329,525
Maintenance and repairs	565,099	582,252
Utilities	82,979	74,716
Purchased transportation	2,176,524	2,247,476
Casualty and liability insurance	401,557	347,271
Miscellaneous expenses	23,949	50,985
Depreciation	2,086,702	1,639,123
	<u>6,987,716</u>	<u>6,449,236</u>
Total operating expenses		
Operating loss	<u>(6,415,041)</u>	<u>(5,846,790)</u>
Non-operating revenues:		
Interest revenue	157,851	158,752
State and local operating assistance	2,545,705	2,310,507
Federal operating assistance	1,624,783	1,765,867
	<u>4,328,339</u>	<u>4,235,126</u>
Total non-operating revenues		
Capital contributions	<u>1,347,559</u>	<u>4,049,329</u>
Changes in net position	(739,143)	2,437,665
Total net position, beginning	<u>11,260,349</u>	<u>8,822,684</u>
Total net position, ending	<u>\$ 10,521,206</u>	<u>\$ 11,260,349</u>

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

FRESNO COUNTY RURAL TRANSIT AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Receipts from customers and users	\$ 544,139	\$ 577,377
Payments to suppliers	(4,205,550)	(3,892,288)
Payments to employees	(798,676)	(715,578)
Net cash used in operating activities	(4,460,087)	(4,030,489)
Cash flows from noncapital financing activities:		
Operating grants received	4,398,651	4,439,792
Net cash provided by noncapital financing activities	4,398,651	4,439,792
Cash flows from investing activities:		
Interest received	149,395	158,402
Net cash provided by investing activities	149,395	158,402
Cash flows from capital and related financing activities:		
Grant funds received for property and equipment acquisition	2,171,054	4,488,250
Acquisitions of property and equipment	(1,347,559)	(4,049,329)
Net cash provided by capital and related financing activities	823,495	438,921
Net increase in cash	911,454	1,006,626
Cash at beginning of year	10,889,011	9,882,385
Cash at end of year	\$ 11,800,465	\$ 10,889,011
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (6,415,041)	\$ (5,846,790)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	2,086,702	1,639,123
Changes in operating assets and liabilities:		
Increase in other receivables	(28,536)	(25,069)
Decrease (increase) in prepaid expenses	23,562	(78,026)
Increase in accounts payable	198,391	22,672
Increase (decrease) in due to members and other governmental entities	(325,165)	257,601
Total adjustments	1,954,954	1,816,301
Net cash used in operating activities	\$ (4,460,087)	\$ (4,030,489)

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

FRESNO COUNTY RURAL TRANSIT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Scope of Financial Reporting Entity

The Fresno County Rural Transit Agency (“FCRTA”) is a voluntary association of local governments formed on September 27, 1979 by the County of Fresno and 13 rural area incorporated cities within the County. The purpose of the organization is to provide a “Joint Powers Agency” to own, operate, and maintain a coordinated public transportation system within the County of Fresno. Each member agency provides for the operation of a public transportation system within its jurisdiction.

b. Basis of Accounting Presentation

FCRTA is accounted for as a Business-Type Activity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – Management’s Discussion & Analysis – for State and Local Governments* and its financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

c. Implementation of New Pronouncements

Government Accounting Standards Board Statement No. 74

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

FRESNO COUNTY RURAL TRANSIT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Implementation of New Pronouncements (Continued)

Government 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 were considered but had no effect on FCRTA's current fiscal year.

Government Accounting Standards Board Statement No. 78

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this statement were considered but had no effect on FCRTA's current fiscal year.

FRESNO COUNTY RURAL TRANSIT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Implementation of New Pronouncements (Continued)

Government 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 FCRTA's current fiscal year.

Government 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 were considered but had no effect on FCRTA's current fiscal year.

Government Accounting Standards Board Statement No. 82

In March 2016, GASB issued Statement No. 82, *Pension Issues – an Amendment of GASB Statements NO. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this statement were considered but had no effect on FCRTA's current fiscal year.

FRESNO COUNTY RURAL TRANSIT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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 those estimates.

e. Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The financial statements distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations. The principal operating revenues of FCRTA are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and the depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Intergovernmental revenues (primarily grants), which are received as reimbursement for specific purposes or projects, are recognized based upon the expenditures recorded. Intergovernmental revenues, which are usually unrestricted as to use and are revocable only for failure to meet prescribed compliance requirements, are reflected as revenues at the time of receipt or earlier, if they meet the availability criterion.

FRESNO COUNTY RURAL TRANSIT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Basis of Accounting (Continued)

FCRTA receives grants from the Federal Transit Administration (FTA) and other agencies of the U.S. Department of Transportation, state, and local transportation funds for the acquisition of transit-related equipment and improvements. Prior to July 1, 2001, capital grants were recognized as donated capital to the extent that project costs under the grant had been incurred. Capital grant funds earned, less amortization equal to accumulated depreciation of the related assets, were included in contributed capital. As required by GASB No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, as amended by GASB No. 36, *Recipient Reporting for Certain Shared Non-exchange Revenues*, FCRTA changed its method of accounting for capital grants from capital contributions to reserved non-operating revenues. In accordance with GASB No. 33 and 36, capital grants are required to be included in the determination of net income resulting in a decrease in net revenue of \$1,347,559 for the fiscal year ended June 30, 2017.

When both restricted and unrestricted net assets are available, unrestricted resources are used only after the restricted resources are depleted.

f. Cash

In accordance with the Joint Powers Agreement, under which FCRTA is governed, all cash is deposited with the Fresno County Auditor-Controller/Treasurer. FCRTA's cash is held within Fresno County's cash and investment pool, which is managed by the Auditor-Controller/Treasurer as authorized by the County's investment policy.

For purposes of the Statement of Cash Flows, FCRTA considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All cash and investments are pooled with FCRTA's pooled cash and investments.

g. Capital Assets

Purchases of capital assets, consisting of transit vehicles and related equipment, are capitalized at cost at the time of the purchase. Capital assets purchased with federal or state capital grants are recorded as additions to capital assets, with the offset recorded as additions to contributed capital. Capital assets are defined by FCRTA as assets with an estimated useful life in excess of one year and an initial individual cost of \$1,000 or more.

FRESNO COUNTY RURAL TRANSIT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Depreciation

Depreciation is allowed as an expense on non-grant acquired assets. Depreciation expense on contributed capital assets is amortized against related contributed capital. Depreciation expense is calculated using the straight-line method over the estimated useful life of the asset, ranging from 3 to 10 years.

i. Operating Expenses

FCRTA, in fulfilling its purpose of providing rural public transportation service, incurs three basic types of expenses: (1) reimbursement of rural public transportation expenses, which typically include salaries, wages, operating supplies, services and insurance, incurred by three member cities (the cities of Coalinga, Kerman, and Reedley) who provide partial rural transportation services; (2) purchased transportation costs in which FCRTA contracts with subcontractors to provide their own rural transportation services; and (3) reimbursement of administrative expenses incurred by the Fresno Council of Governments for the benefit of FCRTA, such as salaries and benefits, administration, legal and audit fees, and insurance.

j. Funding Sources

The following is a summary of the funding sources for transit projects:

Federal Grants

FTA The Federal Transit Administration (FTA) revenues provide funding for transit related programs in a variety of areas. FTA funds generally require a match from state or local funds. These funds provide revenue for eligible planning, acquisition, construction, cost-effective lease, improvement, maintenance of equipment and facilities, capital, operating expenses, and paratransit activities, needed to provide efficient and coordinated public transportation service in both urbanized and non-urbanized areas.

State Grants

TDA The Transportation Development Act (TDA) provides two major sources of funding for public transportation: the Local Transportation Fund (LTF) and the State Transit Assistance Fund (STA). These funds are for the development and support of public transportation needs that exist in California and are allocated to areas of each county based on population, taxable sales and transit performance.

FRESNO COUNTY RURAL TRANSIT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Funding Sources (Continued)

State Grants (Continued)

- Prop. 1B** Proposition 1B (The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006), includes the creation of the Public Transportation Modernization, Improvements, and Service Enhancement Account (PTMISEA). Capital projects eligible for funding by PTMISEA include rehabilitation, safety or modernization improvements; capital service enhancements or expansion; bus rapid transit improvements; and rolling stock procurement, rehabilitation or replacement.
- CTAF** The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 includes the creation of the California Transit Assistance Fund (CTAF). Capital projects eligible for funding by CTAF provide increased protection against security or safety threat.
- LCTOP** The Low Carbon Transit Operations Program (LCTOP) is one of several programs that are part of the Transit, Affordable Housing, and Sustainable Communities Program established by the California Legislature in 2014 by Senate Bill 862. The LCTOP was created to provide operating and capital assistance for transit agencies to reduce greenhouse gas emissions and improve mobility, with a priority on serving disadvantaged communities. Approved projects in LCTOP will support new or expanded bus or rail services, expand intermodal transit facilities, and may include equipment acquisition, fueling, maintenance and other costs to operate those services or facilities, with each project required to reduce greenhouse gas emissions.
- SJVAPCD** The San Joaquin Valley Air District is a public health agency that sets control measures in areas where pollution exceeds standards. The District receives Federal and State grants annually from the California Air Resources Board and the United States Environmental Protection Agency. Other funding sources are DMV Fees, Stationary sources and Permit Fees.

FRESNO COUNTY RURAL TRANSIT AGENCY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Funding Sources (Continued)

Local

Measure “C” Measure “C” is a ½ cent sales tax approved by the voters of Fresno County to fund local transportation projects.

2. CASH AND INVESTMENTS

Investments Authorized by the California Government Code and FCRTA’s Investment Policy

The table below identifies the investment types that are authorized for FCRTA by the California Government Code (or FCRTA’s Investment Policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or FCRTA’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Bills, Notes and Bonds	5 Years	None	None
U.S. Government Agency Obligations	5 Years	None	None
Banker’s Acceptances	180 Days	None	None
Commercial Paper	270 Days	None	None
Negotiable Certificates of Deposit	13 Months	None	None
Non-negotiable Certificates of Deposit	13 Months	None	None
Repurchase Agreements	Overnight	None	None
Local Agency Investment Fund (LAIF)	5 Years	None	None
Medium-Term Notes	5 Years	None	None
Mutual Funds	5 Years	None	None
Mortgage-Backed Securities	5 Years	None	None

Disclosures Relating to Interest Rate Risk

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 rates.

FRESNO COUNTY RURAL TRANSIT AGENCY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2017 AND 2016

2. CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk (Continued)

Information about the sensitivity of the fair values of FCRTA's investments to market interest rate fluctuations is provided by the following table that shows the distribution of FCRTA's investments by maturity:

Investment Type	Amount	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
County Investment Pool	\$11,800,465	\$ 11,800,465	\$ -	\$ -	\$ -
Total	\$11,800,465	\$ 11,800,465	\$ -	\$ -	\$ -

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, FCRTA's investment policy, and the actual rating as of year-end for each investment type. The column marked "exempt from disclosure" identifies those investment types for which GASB No. 40 does not require disclosure as to credit risk:

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End	
				AAA	Not Rated
County Investment Pool	\$ 11,800,465	N/A	\$ 11,800,465	\$ -	\$ 11,800,465
Total	\$ 11,800,465	N/A	\$ 11,800,465	\$ -	\$ 11,800,465

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 Fresno issues a financial report that includes custodial credit risk disclosures for the County Investment Pool. The report may be obtained by writing to the Office of the Auditor-Controller/Treasurer-Tax Collector, 2281 Tulare Street, Fresno, California 93721.

FRESNO COUNTY RURAL TRANSIT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016

3. INTERGOVERNMENTAL RECEIVABLES

Individual receivables from governmental entities related to grants as of June 30, 2017 and 2016 consist of the following:

	2017	2016
Fresno Council of Governments - LTF	\$ 86,152	\$ 618,305
Fresno Council of Governments - STA	-	-
Caltrans - FTA Section 18	1,488,110	1,552,366
	\$ 1,574,262	\$ 2,170,671

4. CAPITAL ASSETS AND DEPRECIATION

Capital assets net of accumulated depreciation as of June 30, 2017 are as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets being depreciated:				
Capital grant funded	\$ 19,737,961	\$ 1,347,559	\$ -	\$ 21,085,520
Non-capital grant funded	26,773	-	-	26,773
Total capital assets being depreciated	19,764,734	1,347,559	-	21,112,293
Less accumulated depreciation for:				
Capital grant funded	9,036,414	2,086,702	-	11,123,116
Non-capital grant funded	26,773	-	-	26,773
Total accumulated depreciation	9,063,187	2,086,702	-	11,149,889
Total capital assets being depreciated, net	10,701,547	\$ (739,143)		9,962,404
Capital assets, net	\$ 10,701,547	\$ (739,143)		\$ 9,962,404

The fixed assets of FCRTA are comprised of transit vehicles and related equipment.

Depreciation expense for the years ended June 30, 2017 and 2016 was \$2,086,702 and \$1,639,123 respectively.

FRESNO COUNTY RURAL TRANSIT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016

5. DUE TO MEMBERS AND OTHER GOVERNMENTAL ENTITIES

Individual payables to members and other governmental entities as of June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Fresno Council of Governments - Administration	\$ 42,241	\$ 66,606
Fresno Council of Governments - LTF	-	116,261
City of Coalinga	20,899	239,753
City of Kerman	9,511	8,895
City of Reedley	74,947	41,248
Total	<u>\$ 147,598</u>	<u>\$ 472,763</u>

6. DEFERRED REVENUE

The TDA, Proposition 1B (PTMISEA), and Measure “C” allocate funds to FCRTA to fund transit operations and capital purchases. Allocations are considered earned when they are properly spent for operations or capital acquisitions. Allocations received but not earned are recorded as deferred revenues. Changes in the deferred revenue account for the year ended June 30, 2017 are summarized as follows:

	TDA	Prop 1B (PTMISEA)	CTAF	LCTOP	Measure “C”	SJVAPCD	Total
Deferred revenue, beginning year	\$ 3,452,080	\$ 1,743,666	\$ 434,756	\$ 279,252	\$ 6,225,143	-	\$ 12,134,897
Capital grants received	-	-	155,377	-	1,857,677	158,000	2,171,054
Capital grants allowed	-	(765,951)	(95,918)	(275,936)	(51,754)	(158,000)	(1,347,559)
Operating funds received	385,328	-	-	-	912,472	-	1,297,800
Operating funds allowed	(879,264)	-	-	-	(912,472)	-	(1,791,736)
Interest received	33,781	13,101	4,564	1,282	72,962	-	125,690
Deferred revenue, end of year	<u>\$ 2,991,925</u>	<u>\$ 990,816</u>	<u>\$ 498,779</u>	<u>\$ 4,598</u>	<u>\$ 8,104,028</u>	<u>-</u>	<u>\$ 12,590,146</u>

FRESNO COUNTY RURAL TRANSIT AGENCY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2017 AND 2016

7. FARE REVENUE RATIO

FCRTA is required to maintain a minimum fare revenue to operating expenses ratio of 10% in accordance with the Transportation Development Act. The calculation of the fare revenue ratio for the years ended June 30, 2017 and 2016 is as follows:

	2017	2016
Fare revenues	\$ 572,675	\$ 574,987
Operating expenses	\$ 6,987,716	\$ 6,449,236
Allowable TDA adjustments:		
Depreciation	(2,086,702)	(1,639,123)
Net operating expenses	\$ 4,901,014	\$ 4,810,113
Fare revenue ratio	11.68%	11.95%

8. PROPOSITION 1B (PTMISEA FUNDING)

FCRTA receives Proposition 1B (PTMISEA) funding for approved capital projects. During the fiscal year ended June 30, 2017, FCRTA did not receive additional Proposition 1B funds. These funds are held in an interest bearing account and have earned interest in the amount of \$13,100 for the year ended June 30, 2017. As of June 30, 2017, FCRTA has spent \$9,163,633 for capital projects. The remaining funds have been recorded as deferred revenue as of June 30, 2017 (Note 6).

9. LOW CARBON TRANSIT OPERATION PROGRAM (LCTOP FUNDING)

FCRTA receives Low Carbon Transit Operation Program (LCTOP) funding for approved capital projects. During the fiscal year ended June 30, 2017, FCRTA did not receive Low Carbon Transit Operation Program funds. These funds are held in an interest bearing account and have earned interest in the amount of \$1,282 for the year ended June 30, 2017. As of June 30, 2017, FCRTA has spent \$275,936 for capital projects. The remaining funds have been recorded as deferred revenue as of June 30, 2017 (Note 6).

FRESNO COUNTY RURAL TRANSIT AGENCY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2017 AND 2016

10. RISK MANAGEMENT LIABILITY

FCRTA is exposed to various risks of loss related to torts; theft of, or damage to and destruction of assets; errors and omissions; and natural disasters. FCRTA is insured with commercial carriers. FCRTA’s schedule of insurance coverage is as follows;

FRESNO COUNTY RURAL TRANSIT AGENCY
 SCHEDULE OF INSURANCE COVERAGE
 JUNE 30, 2017

<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Effective Dates</u>
General Liability	\$2,000,000 Agg/\$1,000,000 Occ	7/10/16 – 7/1/17
Commercial Automobile	\$5,000,000 CSL	6/10/16 – 7/1/17
Automobile Excess Liability	\$5,000,000	6/10/16 – 7/1/17

FCRTA requires the operator, Fresno County Economic Opportunities Commission (FCEOC), to maintain the following policies:

FRESNO COUNTY ECONOMIC OPPORTUNITIES COMMISSION
 SCHEDULE OF INSURANCE COVERAGE
 JUNE 30, 2017

<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Effective Dates</u>
Worker’s Compensation	\$1,000,000	1/1/17 -1/1/18
Commercial General Liability	\$1,000,000 + 10,000,000 umb.	7/1/16 – 7/1/17
Commercial Automobile Liability	\$1,000,000 + \$10,000,000 umb.	7/1/16 – 7/1/17
Automobile Collision & Comprehensive	\$1,000,000 + \$10,000,000 umb.	7/1/16 – 7/1/17

11. CONTINGENT LIABILITIES

Grants have been received by FCRTA for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursement for costs 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. Management expects such amounts, if any, to be immaterial.

SUPPLEMENTARY SCHEDULES AND OTHER REPORTS SECTION

FRESNO COUNTY RURAL TRANSIT AGENCY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grantor's Number	Grant Disbursements/ Expenditures
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
<u>Federal Transit Administration</u>			
Pass-through California Department of Transportation Public Transportation for Nonurbanized Areas Section 5311 Operating Grant	20.509	64B017-00541	<u>\$ 1,488,110</u>
Pass-through Fresno Council of Governments FTA 5307 - Federal Transit Formula Grant	20.507	CA-90-Y794-00	<u>136,673</u> <u>136,673</u>
Total Federal Transit Administration			<u>1,624,783</u>
Total Federal Financial Assistance			<u><u>\$ 1,624,783</u></u>

FRESNO COUNTY RURAL TRANSIT AGENCY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Fresno County Rural Transit Agency and is presented on the accrual basis of accounting. The information in this schedule 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). Because the Schedule presents only a selected portion of the operations of Fresno County Rural Transit Agency, it is not intended to and does not present the financial position, changes in net position, or cash flows of Fresno County Rural Transit Agency.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments of credits made in the normal course of business to amounts reported as expenditures in prior years. Fresno County Rural Transit Agency has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH RULES
AND REGULATIONS OF THE CALIFORNIA TRANSPORTATION
DEVELOPMENT ACT AND THE PUBLIC TRANSPORTATION
MODERNIZATION IMPROVEMENT AND SERVICES ENHANCEMENT
ACCOUNT (PTMISEA) GUIDELINES, AND THE LOW CARBON TRANSIT
OPERATIONS PROGRAM (LCTOP) GUIDELINES

The Board of Directors
Fresno County Rural Transit Agency
Fresno, California

We have audited the financial statements of the Fresno County Rural Transit Agency for the year ended June 30, 2017, and have issued our report thereon dated January 30, 2018.

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; and was further made to determine compliance with the rules and regulations of the California Transportation Development Act, the PTMISEA statutes and guidelines, the LCTOP guidelines, the rules and regulations of the Fresno Council of Governments and the California Administrative Code.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fresno County Rural Transit Agency'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 Fresno County Rural Transit Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fresno County Rural Transit Agency's internal control.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH RULES
AND REGULATIONS OF THE CALIFORNIA TRANSPORTATION DEVELOPMENT ACT
AND THE PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND
SERVICES ENHANCEMENT ACCOUNT (PTMISEA) GUIDELINES, AND THE LOW
CARBON TRANSIT OPERATION PROGRAM (LCTOP) GUIDELINES
(CONTINUED)

Internal Control Over Financial Reporting (Continued)

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fresno County Rural Transit Agency'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. Our procedures included the applicable audit procedures contained in Section 6667 of the California Code of Regulations, and tests of compliance with the applicable statutes, rules, and regulations of the Transportation Development Act. 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*.

Among the items considered were determination of the Fresno County Rural Transit Agency'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 following program:

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH RULES
AND REGULATIONS OF THE CALIFORNIA TRANSPORTATION DEVELOPMENT ACT
AND THE PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND
SERVICES ENHANCEMENT ACCOUNT (PTMISEA) GUIDELINES, AND THE LOW
CARBON TRANSIT OPERATION PROGRAM (LCTOP) GUIDELINES
(CONTINUED)

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 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, 2017, we verified that the Fresno County Rural Transit Agency did not receive PTMISEA funds. As of June 30, 2017, we verified that the Fresno County Rural Transit Agency had spent \$9,163,633 for the purchase of new CNG buses, new paratransit buses, mobile data terminals, transit facility improvements, bus stop amenities, and charging stations; and had unexpended PTMISEA proceeds, including interest earned, of \$990,816.

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*.

Low Carbon Transit Operations Program (LCTOP)

The Low Carbon Transit Operations Program (LCTOP) is one of several programs that are part of the Transit, Affordable Housing, and Sustainable Communities Program established by the California Legislature in 2014 by Senate Bill 862. The LCTOP was created to provide operating and capital assistance for transit agencies to reduce greenhouse gas emissions and improve mobility, with a priority on serving disadvantaged communities. Approved projects in LCTOP will support new or expanded bus or rail services, expand intermodal transit facilities, and may include equipment acquisition, fueling, maintenance and other costs to operate those services or facilities, with each project required to reduce greenhouse gas emissions.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH RULES
AND REGULATIONS OF THE CALIFORNIA TRANSPORTATION DEVELOPMENT ACT
AND THE PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND
SERVICES ENHANCEMENT ACCOUNT (PTMISEA) GUIDELINES, AND THE LOW
CARBON TRANSIT OPERATION PROGRAM (LCTOP) GUIDELINES
(CONTINUED)

Low Carbon Transit Operations Program (LCTOP) (Continued)

During the fiscal year ended June 30, 2017, we verified that the Fresno County Rural Transit Agency did not receive LCTOP funds. As of June 30, 2017, we verified that the Fresno County Rural Transit Agency has spent \$275,936 for the purchase of 4 Electric Shuttle Vans and had unexpected LCTOP proceeds, including interest earned, of \$4,599.

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 Fresno County Rural Transit Agency'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 Fresno County Rural Transit Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dedekian, George, Small & Markarian

Dedekian, George, Small & Markarian
Accountancy Corporation
January 30, 2018

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

The Board of Directors
Fresno County Rural Transit Agency
Fresno, 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 Fresno County Rural Transit Agency, as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated January 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fresno County Rural Transit Agency'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 Fresno County Rural Transit Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fresno County Rural Transit Agency's internal control.

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

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH "GOVERNMENT
AUDITING STANDARDS"
(CONTINUED)

Internal Control Over Financial Reporting (Continued)

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 Fresno County Rural Transit Agency'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 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dedekian, George, Small & Markarian

Dedekian, George, Small & Markarian
Accountancy Corporation
January 30, 2018

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

The Board of Directors
Fresno County Rural Transit Agency
Fresno, California

Report on Compliance for Each Major Federal Program

We have audited Fresno County Rural Transit Agency's 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 Fresno County Rural Transit Agency's major federal programs for the year ended June 30, 2017. The Fresno County Rural Transit Agency'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Fresno County Rural Transit Agency'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 Fresno County Rural Transit Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE (CONTINUED)

Auditors' Responsibility (Continued)

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 Fresno County Rural Transit Agency's compliance.

Opinion on Each Major Program

In our opinion, the Fresno County Rural Transit Agency 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, 2017.

Report on Internal Control Over Compliance

Management of the Fresno County Rural Transit Agency 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 Fresno County Rural Transit Agency'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 Fresno County Rural Transit Agency'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 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.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE (CONTINUED)

Report on Internal Control Over Compliance (Continued)

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 requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dedekian, George, Small & Markarian

Dedekian, George, Small & Markarian
Accountancy Corporation
January 30, 2018

FINDINGS AND RECOMMENDATIONS SECTION

FRESNO COUNTY RURAL TRANSIT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017

Part I – Summary of Auditor’s Results

1. The “Independent auditors’ report” expresses an unmodified opinion on the financial statements of the Fresno County Rural Transit Agency.
2. No significant deficiencies relating to the audit of the financial statements are reported in the “Independent auditors’ report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.” No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the Fresno County Rural Transit Agency, which would be required to be reported in accordance with “Government Auditing Standards,” were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the “Independent auditors’ report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.” No material weaknesses are reported.
5. The Independent Auditors’ Report on compliance for the major federal award program for the Fresno County Rural Transit Agency expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance are reported in this Schedule.
7. The programs tested as major programs included:

Name	CFDA Number
Federal Operating Assistance	20.509
8. The threshold used for distinguishing between Type A and Type B programs was \$750,000.
9. Fresno County Rural Transit Agency was determined to be a low-risk auditee.

FRESNO COUNTY RURAL TRANSIT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2017

Part II – Financial Statement Findings

None.

Part III – Findings and Questioned Costs for Major Federal Award Programs

None.

FRESNO COUNTY RURAL TRANSIT AGENCY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017

There were no reportable audit findings for the fiscal year ended June 30, 2016.