

**YOSEMITE AREA REGIONAL
TRANSPORTATION SYSTEM**

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

**FOR THE YEAR ENDED
JUNE 30, 2017**

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
JUNE 30, 2017**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the
Yosemite Area Regional Transportation System
Merced, California

Report on the Financial Statements

We have audited the accompanying financial statements of Yosemite Area Regional Transportation System (YARTS), a Joint Powers Authority, as of and for the year ended June 30, 2017, 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 YARTS'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 YARTS'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 Yosemite Area Regional Transportation System, as of June 30, 2017, 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.

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Clovis, CA 93612

tel 559.299.9540
fax 559.299.2344

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 3–8 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 an opinion on the financial statements that collectively comprise YARTS'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* (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 is the responsibility of management and was derived from and relates 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 12, 2018, on our consideration of YARTS'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 YARTS's internal control over financial reporting and compliance.

Price Page & Company

Clovis, California
January 12, 2018

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2017**

The management of Yosemite Area Regional Transportation System (YARTS) presents the following narrative overview and analysis of the financial statements for the year ended June 30, 2017. The financial information presented here should be considered in conjunction with the financial statements presented in the following pages.

FINANCIAL HIGHLIGHTS

- ❖ Total assets of YARTS for the fiscal year ending June 30, 2017 are \$7,785,145. This is a decrease of \$412,568 over the ending balance of the prior fiscal year. Although immaterial, the decrease is attributed to the depreciation expense exceeding the increase in fixed assets and receivables.
- ❖ Passenger fares for the fiscal year ending June 30, 2017 were \$644,880, an increase of 4% over the prior fiscal year.
- ❖ To determine the feasibility of the Fresno service, all revenues and expenditures are kept in separate accounts, which are incorporated into the totals of the financial statement. The Fresno service revenue included in the statements is \$953,137 less than the prior year. The Fresno service expenditures included in the statement are \$902,794.

OVERVIEW OF ANNUAL FINANCIAL REPORT

The Management's Discussion and Analysis is intended to serve as an introduction to YARTS's basic financial statements. YARTS's basic financial statements comprise of four components: statement of net position; statement of revenues, expenses and changes in net position; statement of cash flows; and notes to the basic financial statements.

Basic Financial Statements

The statements of net position present information on YARTS's assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of YARTS is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information on revenues, expenses, capital contributions, and how YARTS's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues, expenses, and capital contributions are reported in the statements for some items that will only result in cash flows in future fiscal periods. The increase or decrease in net position may serve as an indicator of the effect of YARTS's current year operations on its financial position.

The statement of cash flows summarizes YARTS's cash flows into four categories: cash flow from operating activities; cash flows from noncapital financing activities; cash flows from capital and related financial activities; and cash flow from investing activities. The statement of cash flows, along with related notes and information on other financial statements, can be used to assess YARTS's ability to generate positive future cash flows and operating income (loss); and the effect of cash and noncash investing, capital, and financing activities on YARTS's financial position.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the statement of net position; statement of revenues, expenses and changes in net position; and statement of cash flows.

The financial statements provide information on all functions of YARTS as business-type activities. The activities of YARTS are supported by fare collections from passengers and federal, state, and local financial assistance.

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2017**

FINANCIAL ANALYSIS

Total assets of YARTS exceeded total liabilities by \$7,269,771. A condensed summary of YARTS's net position at June 30, 2017 is shown below:

**Table 1
Yosemite Area Regional Transportation System
Statements of Net Position**

	2017	2016	% Change
Assets:			
Current Assets	1,699,513	1,584,044	7.29%
Capital Assets (net)	6,085,632	6,613,669	-7.98%
Total Assets	7,785,145	8,197,713	-5.03%
Liabilities:			
Current Liabilities	515,374	747,984	-31.10%
Total Liabilities	515,374	747,984	-31.10%
Net Position:			
Net Investment in Capital Assets	6,085,632	6,613,669	-7.98%
Unrestricted	1,184,139	836,060	41.63%
Total Net Position	7,269,771	7,449,729	-2.42%

Total revenue of YARTS for the fiscal year ended June 30, 2017, including operating revenue and nonoperating revenue, was \$3,539,683. This was a decrease over the prior fiscal year by \$1,152,435. This decrease was brought about by the reduction of the Fresno Service and a decrease in other income.

Total expenses of YARTS for the fiscal year ended June 30, 2017 were \$3,719,641. This was a decrease of \$1,021,580 over the previous fiscal year. The majority of the decrease is attributed to the Fresno service. Change in net position for YARTS for the fiscal year ended June 30, 2017, was a decrease of \$179,958.

A condensed summary of Statement of Revenues, Expenses and Changes in Net Position at June 30, 2017 is shown below:

**Table 2
Yosemite Area Regional Transportation System
Statements of Revenues, Expenses and Changes in Net Position**

	2017	2016	% Change
Operating Revenues	1,241,970	2,170,000	-42.77%
Operating Expenses	3,719,641	4,741,221	-21.55%
Operating Income (Loss)	(2,477,671)	(2,571,221)	-3.64%
Nonoperating Revenues	2,297,713	2,522,118	-8.90%
Change in Net Position	(179,958)	(49,103)	266.49%
Net Position, Beginning	7,449,729	7,498,832	-0.65%
Net Position, Ending	7,269,771	7,449,729	-2.42%

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Capital Assets

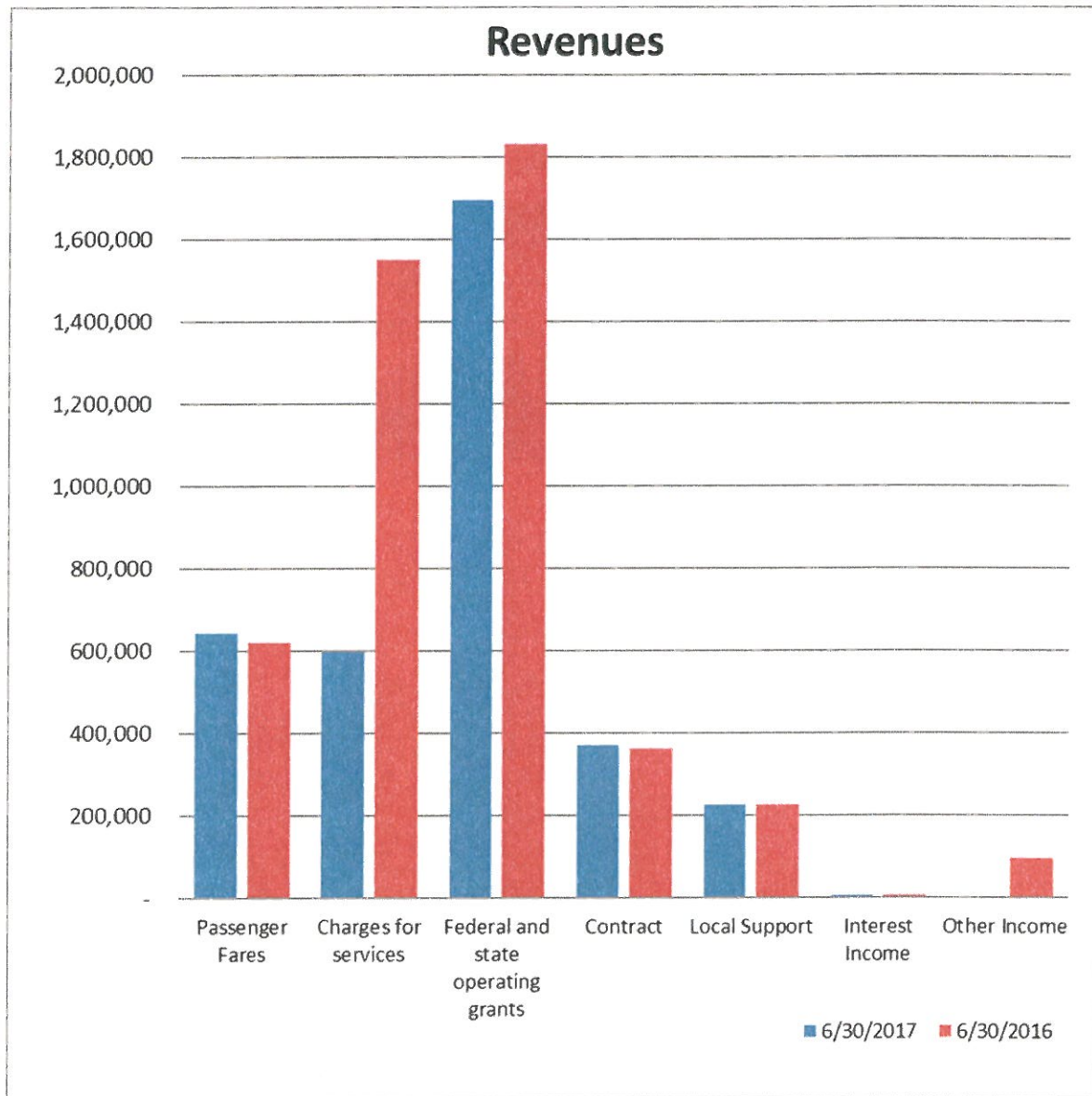
YARTS's net investment in capital assets as of June 30, 2017, was \$6,085,632 compared to \$6,613,669 in the fiscal year ended June 30, 2016. Investment in capital assets include: real property, the Mariposa Park & Ride project and ten buses. The decrease in capital assets was the net effect of depreciation expense exceeding the new addition in the amount of \$528,037. There were no new additions to the fixed assets.

	June 30, 2016	Additions	Deletions	June 30, 2017
Nondepreciable Assets:				
Land	595,178	-	-	595,178
Total Nondepreciable Assets	595,178	-	-	595,178
Depreciable Assets:				
Buildings and Equipment	8,574,915	-	-	8,574,915
Less Accumulated Depreciation	(2,556,424)	(528,037)	-	(3,084,461)
Total Depreciable Assets	6,018,491	(528,037)	-	5,490,454
Total Capital Assets	6,613,669	(528,037)	-	6,085,632

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2017**

YARTS Activities

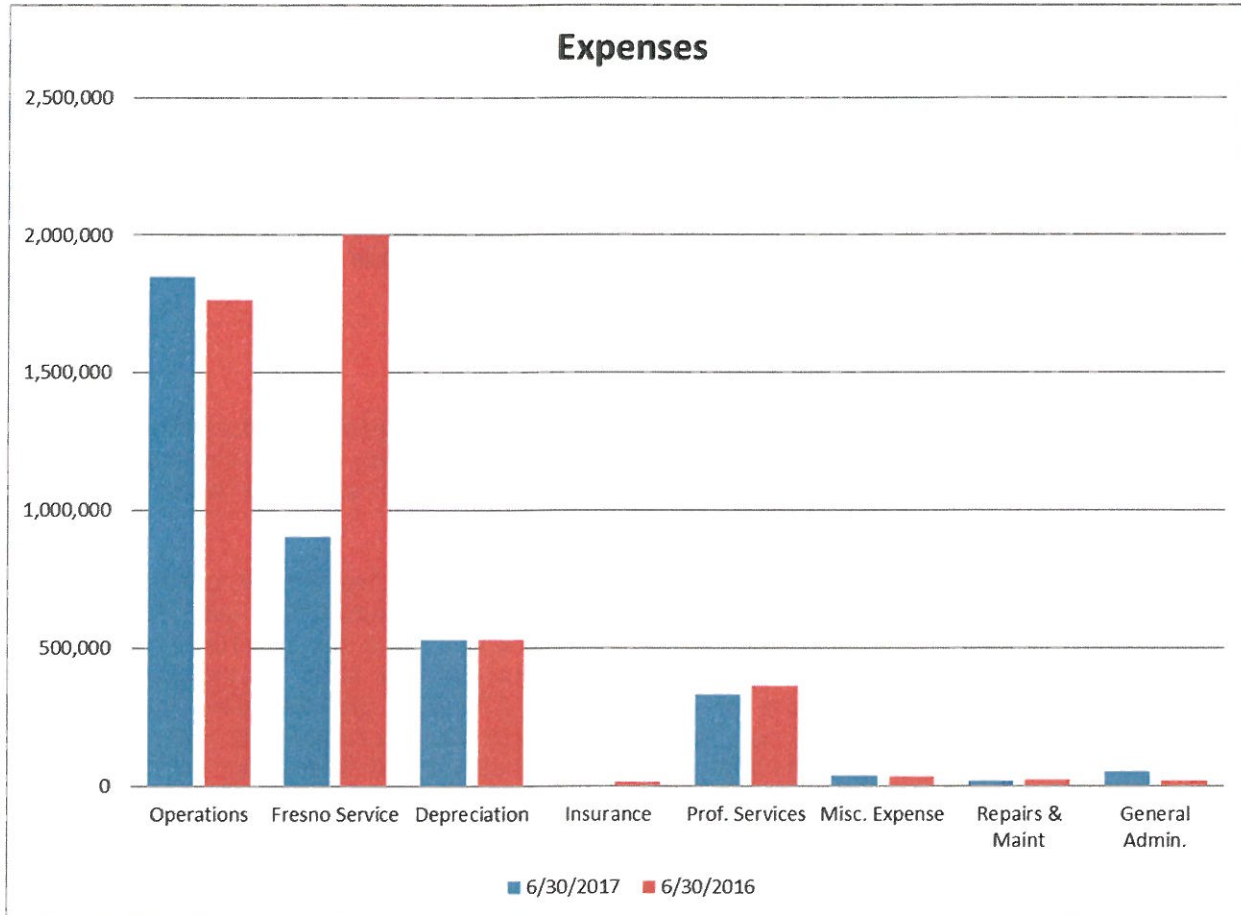
The following chart shows revenue for the fiscal years ended June 30, 2017 and 2016:



**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2017**

In fiscal year ended June 30, 2017, total expenditures were \$3,719,641, a decrease of \$1,021,580 from the prior fiscal year. This decrease is mainly attributed to a reduction in service for the Fresno Services.

The following chart shows expenses for the fiscal years ended June 30, 2017 and 2016:



**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Factors Bearing on YARTS' Future

Trying to estimate what the future holds for YARTS and park visitation is problematic. There are several unknown factors: proposed increased gate fees at Yosemite National Park during the peak visitation period (May through October); limited funding for YARTS and rising operational costs; capital repair and replacement costs; and a need to expand the existing fleet.

The YARTS Short Range Transit Plan (SRTP) is currently in the Request for Proposals process and a consultant will be selected by the Board of Directors at the quarterly meeting in January. The plan will outline the direction YARTS should take for the next five years and possibly beyond.

The YARTS Operations, Fuel and Maintenance contract with the current provider will expire in October 2018. This too is currently in the RFP process and a contractor will be selected by July of 2018. The difference in this contract versus all other YARTS operations contracts is this will be a two-year contract versus the traditional five-year contracts that YARTS has always employed.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The last quarter showed almost an 11 percent (11%) increase in ridership. A healthy portion of the increase can be attributed to rising gasoline prices, an overall improvement in the economy and the continued increase in park visitation. In addition, Amtrak ridership continues to increase, while NPS employee ridership continues to decrease.

YARTS staff secured the Federal Lands Access Program grant to provide free service to Yosemite and the surrounding communities on all NPS fee waived gates days through September 2020. Also approved was a FEMA/CalOES grant in the amount of \$339,000 for the repair of a sinkhole at the YARTS-owned park & ride facility in Mariposa. YARTS reservations have surpassed first-year expected sales. At the time of this report those sales included over 17,500 reservations with a revenue over \$157,000. Staff anticipated that the first-year of the system would see 5,000 reservations. An additional \$100,000 in Local Transportation Funds from Merced County was authorized, bringing the total to \$300,000 annually. Staff recently applied for the Caltrans Sustainable Communities grant to develop a fixed-route transit feasibility study on State Route 49 South from Mariposa to Oakhurst. The request for funds was \$85,000. YARTS was designated an eligible transit provider and will now receive State Transportation Assistance (STA) and State of Good Repair (SGR) funding. While the amounts are yet to be determined, they are additional revenue to a limited budget. The contract with the Fresno Council of Governments (FCOG) continues as summer-only, but there is no cost to YARTS to provide the service so any changes to that contract will not have any effect on YARTS's financial stability.

This financial report is designed to provide member jurisdictions, customers, investors and creditors with a general overview of YARTS's finances. If you have questions concerning any of the information provided in this report, or need additional information, direct inquiries to: ***Finance Director, Yosemite Area Regional Transportation System, 369 W. 18th Street, Merced, CA 95340.***

BASIC FINANCIAL STATEMENTS

YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS

Current assets:

Cash and investments	\$ 1,128,603
Accounts receivable	89,326
Due from other agencies	125,714
Grants receivable	338,864
Prepaid expenses	<u>17,006</u>

Total current assets 1,699,513

Noncurrent assets:

Capital assets:

Nondepreciable	595,178
Depreciable	8,574,915
Accumulated depreciation	<u>(3,084,461)</u>
Capital assets, net of accumulated depreciation	<u>6,085,632</u>

Total noncurrent assets 6,085,632

Total assets 7,785,145

LIABILITIES

Current liabilities:

Accounts payable	514,400
Unearned revenue	<u>974</u>

Total current liabilities 515,374

NET POSITION

Net investment in capital assets	6,085,632
Unrestricted	<u>1,184,139</u>

Total net position \$ 7,269,771

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

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017**

Operating revenue:	
Passenger fares	\$ 644,880
Charges for services	<u>597,090</u>
Total operating revenue	<u>1,241,970</u>
Operating expenses:	
Contracted services	1,848,285
Depreciation	528,037
Insurance	1,612
Professional services	1,232,220
Miscellaneous expense	38,347
Repairs and maintenance	18,660
General administration	<u>52,480</u>
Total operating expenses	<u>3,719,641</u>
Operating income (loss)	<u>(2,477,671)</u>
Nonoperating revenues:	
Federal and state grants	1,696,798
Contract revenue	369,696
Local support	226,000
Interest income	4,461
Other income	<u>758</u>
Total nonoperating revenues	<u>2,297,713</u>
Change in net position	(179,958)
Net position - beginning	<u>7,449,729</u>
Net position - ending	<u>\$ 7,269,771</u>

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

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

Cash flows from operating activities:	
Cash received from passengers	\$ 690,681
Other operating cash receipts	695,432
Cash payments to suppliers for goods and services	<u>(3,394,444)</u>
Net cash provided (used) by operating activities	<u>(2,008,331)</u>
Cash flows from noncapital and related financing activities:	
Federal, state and local operating assistance	<u>2,453,223</u>
Net cash provided (used) by noncapital and related financing activities	<u>2,453,223</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest received	<u>4,461</u>
Net cash provided (used) by investing activities	<u>4,461</u>
Net increase in cash and cash equivalents	449,353
Cash and cash equivalents at beginning of year	<u>679,250</u>
Cash and cash equivalents at end of year	<u>\$ 1,128,603</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (2,477,671)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	528,037
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	144,143
(Increase) decrease in prepaid expenses	(17,006)
Increase (decrease) in accounts payable	<u>(185,834)</u>
Net cash provided (used) by operating activities	<u>\$ (2,008,331)</u>

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

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The Counties of Mariposa, Merced, and Mono entered into a joint powers agreement on September 21, 1999, to establish the Yosemite Area Regional Transportation System (YARTS). YARTS was established to undertake a demonstration project instituting passenger bus service to serve the geographic jurisdictions of the three counties and within Yosemite National Park. The project was established to:

- (1) accommodate the increasing demand for visitation to Yosemite National Park through an increasing number of transportation options for visitors and employees;
- (2) develop transportation alternatives in ways that do not degrade the visitor experience or the natural resources in the region; and
- (3) undertake coordinated political and administrative efforts necessary to resolve issues, obtain funding from outside sources, and to keep projects and programs on schedule.

YARTS is a public entity separate and distinct from its member entities. YARTS functions as the regional representative, within the combined territory of the members of the Joint Powers Authority, for transit and alternative transportation, as well as for supplemental and related matters to carry out the stated functions and purposes of this agreement.

Basis of Accounting

YARTS 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.

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.

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Assets, Liabilities and Net Position

Cash and Investments

YARTS'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. YARTS maintains cash in a financial institution and the treasury of Merced County. 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.

Accounts Receivable

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. YARTS did not write-off any accounts receivable during the fiscal year. There were no accounts that were deemed to be uncollectible at June 30, 2017.

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.

YARTS capitalizes equipment with a cost of at least \$5,000 and an estimated useful life in excess of one year. All capitalized assets are depreciated using the straight-line method over their estimated useful lives. The estimated economic lives used to determine annual rates of depreciation are subject to periodic review and revision to assure that the costs of the respective assets will be written off over their economic lives.

Accounts Payable

Certain costs are incurred by YARTS during the current period but are not paid until after the beginning of the next fiscal period. These costs are reported as payables in the financial statements. YARTS's current accounts payable balance of \$514,400 as of June 30, 2017, is related to certain contract services.

Unearned Revenues

YARTS 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.

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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 consists of net position restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

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

When both restricted and unrestricted resources are available, it is YARTS’s policy to deplete restricted resources first before unrestricted resources are used.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that 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 those estimates.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2017 consisted of the following:

	<u>Cost</u>	<u>FMV</u>
Cash in Wells Fargo Bank	\$ 526,871	\$ 526,871
Cash in Merced County Treasury	<u>601,732</u>	<u>599,740</u>
Total cash and investments	<u>\$ 1,128,603</u>	<u>\$ 1,126,611</u>

YARTS’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 Depositary 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”).

YARTS 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.

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.

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – CASH AND INVESTMENTS (Continued)

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, 2017, the weighted average maturity of the investments contained in the Merced County Treasury investment pool was approximately 538 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.

YARTS 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.

YARTS's only investments, which are allocated at fair value, are in the County of Merced Treasurer's Investment Pool. The County invests in numerous types of investments ranging all levels in the fair value hierarchy. Accordingly, it is not an investment type that can be categorized in any particular level in the fair value hierarchy.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017 was as follows:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2017</u>
Nondepreciable:				
Land	\$ 595,178	\$ -	\$ -	\$ 595,178
Total nondepreciable	<u>595,178</u>	<u>-</u>	<u>-</u>	<u>595,178</u>
Depreciable:				
Buildings and equipment	8,574,915	-	-	8,574,915
Less accumulated depreciation	<u>(2,556,424)</u>	<u>(528,037)</u>	<u>-</u>	<u>(3,084,461)</u>
Total depreciable, net	<u>6,018,491</u>	<u>(528,037)</u>	<u>-</u>	<u>5,490,454</u>
Net capital assets	<u>\$ 6,613,669</u>	<u>\$ (528,037)</u>	<u>\$ -</u>	<u>\$ 6,085,632</u>

Buildings and equipment include the costs associated with planning and constructing the park and ride facility, buses, bus stops and staging areas.

The amount recorded for depreciation was \$528,037 for the year ended June 30, 2017.

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 – CONTRACTUAL AGREEMENTS

National Park Service

YARTS entered into a cooperative agreement with the National Park Service which detailed the National Park Service's commitment to, and funding obligations for, the operations of YARTS and the transit system to be planned, established, managed, and evaluated by YARTS and the National Park Service. The agreement stipulated the National Park Service would:

- (1) provide monetary support to YARTS as an operational subsidy for the Demonstration Project;
- (2) promote regional transit service;
- (3) consider and incorporate the needs of YARTS in the National Park Service planning process, land use decisions, circulation changes, and operational changes within the boundaries of Yosemite National Park;
- (4) assist YARTS by providing oversight and comment on the Request for Proposals processes; and
- (5) assist in the marketing of the regional transit service.

Merced County Association of Governments

YARTS has had 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 consists 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 reimbursement basis.

Amtrak

YARTS entered into an Amtrak Thruway agreement on June 1, 2007, which allows Amtrak passengers to purchase tickets to locations within Yosemite National Park not served by rail lines. From the Merced Amtrak Station, passengers transfer to a YARTS serviced shuttle van or luxury motor coach. When purchasing Amtrak tickets to Yosemite, the transportation and admission to the park are included. YARTS receives a monthly payment from Amtrak for these services. This agreement has subsequently been amended to terminate at June 30, 2020.

VIA Adventures

On October 1, 2012, YARTS entered into an operating agreement with VIA Adventures, Inc. to provide transportation services and equipment for the period October 1, 2012 through October 31, 2017. The agreement contains termination clauses providing for cancellation after a specified number of days written notice. YARTS will receive no sublease rental revenues nor pay any contingent rentals for the transportation equipment. YARTS incurred \$1,848,285 in transportation and equipment services provided by VIA Adventures for the year ended June 30, 2017. This agreement has subsequently been amended to terminate at October 31, 2018.

Fresno Council of Governments (FCOG)

On November 26, 2014, YARTS entered into a two-year contract to provide public transit service from Fresno to Yosemite National Park effective May 23, 2015 through June 30, 2017. The contract can be extended with mutual written agreement. YARTS services are not provided to FCOG with an income generating purpose. All amounts billed to FCOG for services rendered are actual allocated costs incurred associated with providing the transit service from Fresno to Yosemite National Park. Revenues relating to this service are presented as charges for services; expenses are presented as operating expenses in the Statement of Revenues, Expenses and Changes in Net Position. This agreement has been amended to terminate at July 30, 2018.

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 – COMMITMENTS AND CONTINGENCIES

YARTS has received federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material. The current economic climate may impact future funding levels from governmental sources. However, we are not aware of any current funding decreases that would be subject to disclosure.

OTHER AUDITOR'S REPORTS

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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 Board of Commissioners of
Yosemite Area Regional Transportation System
Merced, 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 Yosemite Area Regional Transportation System (YARTS) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise YARTS's basic financial statements, and have issued our report thereon dated January 12, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered YARTS'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 YARTS's internal control. Accordingly, we do not express an opinion on the effectiveness of YARTS'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 YARTS'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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether YARTS'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*.

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YARTS's Response to Findings

YARTS's response to the findings identified in our audit is described in the management's response following the schedule of findings and questioned costs. YARTS's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 YARTS's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering YARTS's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Price Pange & Company

Clovis, California
January 12, 2018



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

To the Board of Commissioners of
Yosemite Area Regional Transportation System
Merced, California

Report on Compliance for Each Major Federal Program

We have audited the Yosemite Area Regional Transportation System's (YARTS) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of YARTS's major federal programs for the year ended June 30, 2017. YARTS'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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of YARTS'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 YARTS'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 YARTS's compliance.

Opinion on Each Major Federal Program

In our opinion the Yosemite Area Regional Transportation System 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.

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Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-002. Our opinion on each major federal program is not modified with respect to this matter.

YARTS' response to the noncompliance finding identified in our audit is described in the Management's Response section following the schedule of findings and questioned costs. The response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

Price Paege & Company

Clovis, California
January 12, 2018

SUPPLEMENTARY INFORMATION

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract or Program Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Transportation</u>			
Passed through California Department of Transportation:			
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205	CML-6305(010)	\$ 27,113
Highway Planning and Construction	20.205	CML-6305(011)	28,088
Highway Planning and Construction	20.205	CML-6305(012)	<u>8,010</u>
Total Highway Planning and Construction Cluster			63,211
Formula Grants for Rural Areas	20.509	64CO17-00460	<u>300,000</u>
Total U.S. Department of Transportation			<u>363,211</u>
<u>U.S. Department of Interior</u>			
Direct Program:			
Natural Resource Stewardship	15.944	CO-OP#PA15AC01314	<u>1,133,587</u>
Total U.S. Department of Interior			<u>1,133,587</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,496,798</u>

See notes to the schedule of expenditures of federal awards.

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

GENERAL

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the Yosemite Area Regional Transportation System (YARTS). 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 YARTS's basic financial statements.

RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

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

INDIRECT COST RATE

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

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FINDINGS AND QUESTIONED COSTS

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

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? X Yes _____ 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) X Yes _____ No

Identification of Major Programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.944	Natural Resource Stewardship
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

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2017-001 Financial Close and Reporting Process (Significant Deficiency)

Condition:

Management of YARTS did not properly record or adjust all deferred revenues, receivables and revenues during the year-end closing process. During our audit we identified these errors and proposed the necessary accounting entries to correct the balances of these accounts. Management agreed with our adjustments and posted the entries.

Criteria:

A strong system of internal controls and management review requires that general ledger account balances be properly reconciled to a subsidiary ledger or other adequate supporting documentation on a periodic basis, as well as during the year-end financial close process. Management is responsible for maintaining its accounting records in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Cause:

Internal controls over the year-end financial reporting process were not properly designed and were not placed in operation.

Effect:

As a result of this condition, deferred revenues, receivables and revenues were initially materially misstated.

- Deferred Revenues were overstated by \$245,786; Revenues were understated by \$245,786 (LTF and NPS)
- Grants Receivable/Revenues were understated by \$75,600 (5311(f) Capital)

Recommendation:

We recommend that management enhance their year-end financial close procedures to include the additional steps, in detail, that should be undertaken at year-end to ensure proper reconciliation and reporting of all significant account balances.

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2017-002 Schedule of Expenditures of Federal Awards (SEFA)

Condition:

Management of YARTS provided an incorrect Schedule of Expenditures of Federal Awards (SEFA). The SEFA provided had incorrect amounts reported. After the errors were identified, the Schedule was adjusted to accurately report total federal awards expended.

Criteria:

2 CFR Part 200, Subpart F (Uniform Guidance) Section 200.502 states, "The auditee should prepare a Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements."

Questioned Cost:

Not applicable

Cause:

Internal controls over preparation of an accurate Schedule of Expenditure of Federal Awards (SEFA) were not properly designed and were not placed in operation.

Effect:

Total Federal expenditures reported on the SEFA were overstated. An improperly prepared SEFA can result in noncompliance with Uniform Guidance.

Recommendation:

We recommend that management develop and implement a more robust system for the preparation of the SEFA for financial reporting purposes and compliance with auditee requirements identified in the Uniform Guidance. The process should include a secondary review of the schedule by somebody other than the preparer.

**YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENT FINDINGS

None reported.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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YOSEMITE AREA REGIONAL TRANSPORTATION SYSTEM

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Response to Finding 2017-001 Financial Close and Reporting Process (Significant Deficiency)

Management agrees with this finding and is taking action to address it. Management has put in place closing procedures, which includes a checklist of closing procedures and a review of transactions and events subsequent to year-end. Management will also add additional staff to further prevent any findings in the future.

Response to Finding 2017-002 Schedule of Expenditures of Federal Awards (SEFA)

Management agrees with this finding and has corrected this finding by putting in place the following procedures: a reconciliation of federal expenditures will be performed; the schedule of expenditures of federal awards will be prepared based on this reconciliation; and a review of the completed SEFA will be performed by the Finance Director to ensure its accuracy.

