



City of Merced, California
Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

The Summer Playground Program at Rahilly Park

This eight-week program put on by the City of Merced's Parks and Community Services Department offers a summer of fun for kids ages K-6th in a great outdoor setting. Activities include arts and crafts, science projects, themed days, special events, guest appearances, mini field trips, and other fun. The family fun color run is one of our biggest events. It takes place on the Rascal Bike Path where volunteers are stationed with color powder and splash participants as they pass the quarter mile mark throughout the route.

The City of Merced Summer Playground Program is committed to a simple yet comprehensive philosophy focused on participant's wellbeing: be safe, build positive relationships and making it fun.

Photo courtesy of Lam Kindavong

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Annual Financial Report
For the year ended June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
of the City of Merced
Merced, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Merced, California (City) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City'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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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.

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.

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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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension plan information, and OPEB information on pages 5-13, and 92-106 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 Information

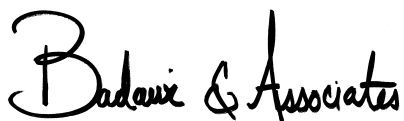
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The General Fund combining balance sheet and combining statement of revenues, expenditures, and changes in fund balance, and the University Capital Fund balance sheet and statement of revenues, expenses, and changes in fund balance are presented for purposes of additional analysis and are not a required part of the basic financial statements.

To the Honorable Mayor and Members of the City Council
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The General Fund combining balance sheet and combining statement of revenues, expenditures, and changes in fund balance, and the University Capital Fund balance sheet and statement of revenues, expenses, and changes in fund balance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 general fund combining balance sheet and combining statement of revenues, expenditures, and changes in fund balance, and the University Capital Fund balance sheet and statement of revenues, expenses, and changes in fund balance are 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 February 5, 2020, on our consideration of the City'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 City's internal control over financial reporting and compliance.



Badawi & Associates, CPAs
Berkeley, California
February 5, 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Merced (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2019.

FINANCIAL HIGHLIGHTS

The City's net position as shown on the Government-Wide Statement of Activities increased by \$17.9 million. The governmental net position increased by \$9 million and the business-type net position increased by \$8.9 million.

Government-wide:

- As shown on the Statement of Net Position, the assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$517 million.
- The net decrease to governmental activity long-term debt of \$1.2 million was due to scheduled principal payments. Additional information can be found in Note 8.
- The net decrease to business-type activity long-term debt of \$3.3 million was due to scheduled principal payments and amortization of related premiums.

Governmental Funds:

- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$14.9 million, or 63.5% of the General Fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Merced's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other required supplementary information.

Government-Wide Financial Statements - Government-wide financial statements are designed to provide readers with a broad overview of the City of Merced's finances, in a manner similar to a private-sector business.

The focus is on both the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by fund type) and the component units. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

OVERVIEW OF THE FINANCIAL STATEMENTS, Continued

The Statement of Net Position presents information on all City assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works and culture and recreation. The business-type activities of the City include an airport, water, wastewater and refuse services.

The Government-Wide Financial Statements include not only the City itself (known as the primary government), but also the following legally separate entities for which the City is financially accountable:

- The City of Merced Public Financing and Economic Development Authority (Authority)
- The Parking Authority of the City of Merced (Parking Authority)

The financial information for these component units is blended with the City and reported in the governmental activities of the government-wide financial statements and the fund financial statements.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

OVERVIEW OF THE FINANCIAL STATEMENTS, Continued

The City maintains thirty-two individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for General Fund, Housing Special Revenue Fund, Measure C Special Revenue Fund, Low and Moderate Income Housing Special Revenue Fund, and Streets and Signals Capital Projects Fund, which are considered major funds. Data from the other non-major governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for all its governmental funds. Budgetary comparison statements have been provided for the General Fund, Housing Special Revenue Fund, Measure C Special Revenue Fund, and the Low and Moderate Income Housing Special Revenue Fund as required supplementary information to demonstrate compliance with the budget.

Proprietary Funds - The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Information is presented separately in the proprietary statement of net position and the proprietary statement of revenues, expense and changes in net position for the Wastewater System, Water System and Refuse Collection System, which are considered major funds. The Airport Fund is the only non-major enterprise fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for workers' compensation, liability and unemployment insurance, employee benefits, fleet management and replacement, facility maintenance, support services, personal computer replacement, and public works administration. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Basic Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and postemployment health care benefits to its employees and budgetary comparison schedules for the General Fund and major special revenue funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a governments' financial position. In the case of the City, assets exceeded liabilities by \$517 million at the close of the most recent fiscal year.

Summary of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 128,724,625	\$ 111,318,939	\$ 145,932,823	\$ 131,304,270	\$ 274,657,448	\$ 242,623,209
Capital assets	271,137,168	278,868,261	141,617,038	150,201,848	412,754,206	429,070,109
Total assets	399,861,793	390,187,200	287,549,861	281,506,118	687,411,654	671,693,318
Deferred outflows related to pension	15,460,292	18,855,793	3,198,107	4,148,433	18,658,399	23,004,226
Deferred outflows related to OPEB	1,016,240	996,823	600,760	588,177	1,617,000	1,585,000
Total deferred outflows	16,476,532	19,852,616	3,798,867	4,736,610	20,275,399	24,589,226
Current liabilities	12,086,850	10,577,800	8,335,572	7,765,196	20,422,422	18,342,996
Noncurrent liabilities	101,567,661	103,721,029	63,585,676	67,384,232	165,153,337	171,105,261
Total liabilities	113,654,511	114,298,829	71,921,248	75,149,428	185,575,759	189,448,257
Deferred inflows related to pension	2,693,831	3,788,349	352,828	266,328	3,046,659	4,054,677
Deferred inflows related to OPEB	1,272,860	2,253,389	694,140	1,329,611	1,967,000	3,583,000
Total deferred inflows	3,966,691	6,041,738	1,046,968	1,595,939	5,013,659	7,637,677
Net position:						
Net investment in capital assets	269,588,893	277,162,254	109,823,198	115,383,992	379,412,091	392,546,246
Restricted	73,040,192	61,562,884	47,461,141	50,846,772	120,501,333	112,409,656
Unrestricted	(43,911,962)	(49,025,889)	61,096,173	43,266,597	17,184,211	(5,759,292)
Total net position	\$ 298,717,123	\$ 289,699,249	\$ 218,380,512	\$ 209,497,361	\$ 517,097,635	\$ 499,196,610

The largest portion of the City's net position \$379.4 million or 73.4%, reflects its net investment in capital assets (e.g., land and improvements, construction in progress, buildings and structures, machinery and equipment, and improvements other than buildings, structures and land improvements), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Of the City's \$517 million total net position, \$120.5 million, or 23.3% of these resources are subject to external restrictions on how they may be used. The total unrestricted net position is \$17.2 million. The business-type activities restricted and unrestricted net position is \$47.5 million and \$61.1 million, respectively.

The total business-type activities reported positive balances in all category of net position.

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Analysis of the City's Operations - The following table provides a summary of the changes in net position for governmental and business-type activities.

Statement of Activities

	Governmental Activities		Business-Type Activities		Total Government	
	2019	2018	2019	2018	2019	2018
Revenues						
Program revenues:						
Charges for services	\$ 18,870,605	\$ 15,360,930	\$ 55,840,451	\$ 51,832,345	\$ 74,711,056	\$ 67,193,275
Operating grants and contributions	6,298,340	3,880,027	358,909	64,682	6,657,249	3,944,709
Capital grants and contributions	2,964,663	3,541,623	-	412,329	2,964,663	3,953,952
General revenues and transfers:						
Property taxes	14,773,288	14,502,905	43,342	66,768	14,816,630	14,569,673
Sales taxes	22,143,028	19,925,100	-	-	22,143,028	19,925,100
Franchise taxes	1,631,738	1,667,391	-	-	1,631,738	1,667,391
Transient occupancy tax	2,008,081	1,744,005	-	-	2,008,081	1,744,005
Business license tax	1,510,991	1,343,507	-	-	1,510,991	1,343,507
Cost recovery impact study	1,000,076	807,026	-	-	1,000,076	807,026
Business improvement tax	92,498	84,738	-	-	92,498	84,738
Other	3,459,289	870,348	5,912,910	1,547,476	9,372,199	2,417,824
Total revenues	74,752,597	63,727,600	62,155,612	53,923,600	136,908,209	117,651,200
Expenses						
Governmental activities:						
General government	8,751,641	8,007,404	-	-	8,751,641	8,007,404
Public safety	36,957,795	37,734,422	-	-	36,957,795	37,734,422
Public works	20,411,480	20,810,146	-	-	20,411,480	20,810,146
Culture and recreation	2,725,571	2,518,326	-	-	2,725,571	2,518,326
Other	535,384	595,467	-	-	535,384	595,467
Business-type activities:						
Wastewater system	-	-	21,153,585	20,227,686	21,153,585	20,227,686
Water system	-	-	12,985,415	13,591,694	12,985,415	13,591,694
Refuse collection	-	-	14,451,612	13,414,323	14,451,612	13,414,323
Merced municipal airport	-	-	1,034,701	942,874	1,034,701	942,874
Total expenses	69,381,871	69,665,765	49,625,313	48,176,577	119,007,184	117,842,342
Increase (decrease) in net position before transfers and extraordinary item	5,370,726	(5,938,165)	12,530,299	5,747,023	17,901,025	(191,142)
Disposal of capital assets						
Transfers	3,647,148	(3,578)	(3,647,148)	3,578	-	-
Extraordinary item - RDA dissolution	-	-	-	-	-	-
Increase (decrease) in net position	9,017,874	(5,941,743)	8,883,151	5,750,601	17,901,025	(191,142)
Net position beginning of year, as restated (Note 18)	289,699,249	295,640,992	209,497,361	203,746,760	499,196,610	499,387,752
Net position ending of year	\$ 298,717,123	\$ 289,699,249	\$ 218,380,512	\$ 209,497,361	\$ 517,097,635	\$ 499,196,610

Governmental Activities - Governmental activities increased the City's net position by \$9 million. Taxes provided 57.8% of the revenue and charges for services provided 25.2% of the revenue, and operating and capital grants and contributions provided 12.4% of the revenue received during the year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

The following table shows the cost of each of the City's major programs and the net cost of the programs. Net cost is the total cost less fees and other direct revenue generated by the activities. The net cost reflects the financial burden that was placed on the City's taxpayers by each of the programs.

Net Cost of Governmental Activities For the Fiscal Year Ended June 30, 2019

	<u>Total Cost</u> <u>of Services</u>	<u>Net Cost</u> <u>of Services</u>
General government	\$ 8,751,641	\$ (382,072)
Public safety	36,957,795	(32,576,051)
Public works	20,411,480	(5,820,073)
Culture and recreation	2,725,571	(1,934,683)
Interest on long-term debt	535,384	(535,384)
Total	<u>\$ 69,381,871</u>	<u>\$ (41,248,263)</u>

The costs for all governmental activities during the year were \$69.4 million, which is 58.3% of total governmental and business-type activities expenses. These costs were paid for by \$28.1 million of program revenues, \$43.2 million of taxes, and \$3.5 million of investment earnings and other revenue. Transfer from City's governmental activities were \$3.6 million.

Business-type Activities - Business-type activities increased the City's net position by \$8.9 million. This increase consists of fees collected for future capital projects. The revenues from the business-type activities include program revenue, taxes, interest and investment earnings, other revenue and transfers of \$58.5 million. Expenses of business-type activities were \$49.6 million.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The City's governmental funds reported a combined fund balance at June 30, 2019 of \$101.5 million, an increase of \$14.9 million.

The General Fund is the chief operating fund of the City. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. At the end of the current fiscal year, the fund balance of the General Fund was \$23.5 million and the unassigned fund balance was \$14.9 million. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total expenditures. The unassigned fund balance represents 37.8% of total General Fund expenditures.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS, Continued

The General Fund balance increased by \$2.1 million during the fiscal year. Taxes are the primary revenue of the General Fund. Property tax increased by 1.8%, sales tax increased by 11.1% while transient occupancy tax increased by 15.1%.

Changes in fund balances of other major funds include the following:

Housing Fund-

- This special revenue fund increased by \$591,623 due to receipt of program income and repayments of principal and interest on loans.

Measure C Fund-

- This special revenue fund increased by \$814,878 due to unspent funding that will be used to cover encumbrances.

Low and Moderate Income Housing Fund-

- This special revenue fund increased by \$126,565 due to repayment of principal and interest on loans.

Streets and Signals Fund-

- This capital projects fund decreased by \$1,093,917 due to capital outlay expenditures covered by prior year carryover.

Proprietary Funds – The City's proprietary funds provide the same type of information found in the Government-Wide Financial Statements, but in more detail.

The unrestricted net position of the Governmental Activities Internal Service Funds was negative \$392,882. The unrestricted net position of the Enterprise Funds was \$61.1 million. The change in net position for the Governmental Activities Internal Service Funds is an increase of \$2.7 million and the Enterprise Funds is an increase of \$8.9 million. Other factors concerning the finances of the Proprietary funds have been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the City Council approved budgetary revisions for supplemental appropriations, which increased appropriations in individual funds and transfers between funds.

The difference between the General Fund original revenue budget and the final revenue budget was an increase of \$943,512, which includes taxes, grants, and other revenues. The difference between the General Fund original expenditure budget and the final expenditure budget was a decrease of \$824,149, which includes machinery and equipment, supplies and services, capital outlay and personnel related expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – The City of Merced's investment in capital assets for its governmental and business-type activities as of June 30, 2019, amounted to \$412.8 million. This investment in capital assets includes land and improvements, construction in progress, buildings and structures, machinery and equipment, and improvements other than buildings, structures, and land improvement. Additional information on the City of Merced's capital assets can be found in Note 6.

CAPITAL ASSET AND DEBT ADMINISTRATION, Continued

Capital Assets

	Governmental		Business-Type		Total	
	Activities		Activities			
	2019	2018	2019	2018	2019	2018
Non-depreciable Assets:						
Land and improvements	\$ 87,131,795	\$ 86,923,895	\$ 2,461,520	\$ 2,461,520	\$ 89,593,315	\$ 89,385,415
Construction in progress	12,977,317	7,857,702	13,535,261	12,008,407	26,512,578	19,866,109
Total non-depreciable assets	100,109,112	94,781,597	15,996,781	14,469,927	116,105,893	109,251,524
Depreciable Assets:						
Building and structures	23,225,281	23,225,281	9,324,573	9,324,573	32,549,854	32,549,854
Machinery and equipment	44,124,154	42,960,235	5,825,727	5,759,262	49,949,881	48,719,497
Improvements other than buildings, structures and land improvements	126,510,875	125,179,232	190,059,030	189,028,752	316,569,905	314,207,984
Infrastructure	373,827,526	373,627,644	42,172,024	42,062,326	415,999,550	415,689,970
Accumulated depreciation	(396,659,780)	(380,905,728)	(121,761,097)	(110,442,992)	(518,420,877)	(491,348,720)
Total depreciable assets, net	171,028,056	184,086,664	125,620,257	135,731,921	296,648,313	319,818,585
Total capital assets	\$ 271,137,168	\$ 278,868,261	\$ 141,617,038	\$ 150,201,848	\$ 412,754,206	\$ 429,070,109

Additions of capital assets exceeding \$1 million during this fiscal year included the following projects:

- Construction of Yosemite Ave to Highway 59 in the amount of \$1.1 million
- N St to 8th/Childs Ave Roadway/Water Main Replacement in the amount of \$1.2 million.

Long-term Debt – At the end of the current fiscal year, the City had \$47.3 million in outstanding debt consisting of pension obligation bonds, revenue bonds, capital lease and loans. All of the debt was secured or earmarked by specific revenue sources.

	Outstanding Debt June 30, 2019					
	Governmental		Business-type		Total	
	Activities		Activities			
	2019	2018	2019	2018	2019	2018
Pension obligation bonds	\$ 3,810,000	\$ 4,350,000	\$ -	\$ -	\$ 3,810,000	\$ 4,350,000
Loans payable	1,000,000	1,200,000	27,769,415	29,576,492	28,769,415	30,776,492
Capital lease	4,669,109	5,144,774	-	-	4,669,109	5,144,774
Revenue bonds payable	-	-	9,375,000	10,725,000	9,375,000	10,725,000
Unamortized premiums	-	-	701,634	818,574	701,634	818,574
Total	\$ 9,479,109	\$ 10,694,774	\$ 37,846,049	\$ 41,120,066	\$ 47,325,158	\$ 51,814,840

During the current fiscal year, the City's net debt decreased by \$4.5 million or 8.7%. The net decrease was due to scheduled principal payments and unamortized premium retirements. Additional information on the City of Merced's debt can be found in Note 8.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- Economic indicators show promise for growth in the local economy. Sales Tax and Property Tax are beginning to increase gradually and unemployment continues to decline. Residential development continues to increase.
- Measure Y, a Commercial Cannabis Business Tax for up to \$25 per square foot of cultivation space, or 10% of gross receipts, was passed by the voters in June 2018. Two cannabis dispensaries have opened in Merced.
- While optimistic of the future, the City remained conservative in developing the 2019-20 fiscal year budget. There were a few new positions added and a few removed, which created a zero net increase in positions. The City continues to set-aside funding annually for the Enterprise Resource Planning system which should begin implementation in 2020.
- In January 2019, the City Council approved establishing a Post-Employment Benefit Trust for the purpose of pre-funding pension obligations. There was an initial deposit into the trust of \$3.2 million. During the budget process for Fiscal Year 2019-20, an additional \$360,000 was allocated to the trust. The City Council has approved staff recommending additional allocations annually to be included with the budget process based on calculated savings from the prior year.
- A private developer in partnership with the City of Merced and the Central Valley Coalition for Affordable Housing will be constructing a 119-unit multi-family housing development, "Childs and B St. Transient Oriented Development Affordable Housing." The project will provide affordable housing as well as setting aside 30 units for permanent supportive housing for veterans.
- Enterprise Funds continue to maintain a stable financial position. The water rates, approved in fiscal year 2018-19, will increase by 2% per year beginning January 1, 2019, then every July through 2021. The proposed rates include a Drought Rate Schedule, which will be implemented only during times of significant drought. A Refuse Rate Study is pending approval by the City Council in 2020.

SUBSEQUENT EVENTS

On August 6, 2019, the City of Merced finalized a Settlement Agreement with the California Department of Finance. The litigation, which had begun on November 16, 2016, resolved was regarding the wind down of the Redevelopment Agency for the City of Merced (RDA) pursuant to Assembly Bill 26 and Assembly Bill 1484, collectively the "Dissolution Law". All parties agreed that the City of Merced will remit \$9,528,395.83 to the Merced Designated Local Authority based on the schedule outlined in note 17.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Merced's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Officer, City of Merced, 678 West 18th Street, Merced, CA 95340.

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**BASIC
FINANCIAL STATEMENTS**

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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City of Merced
Statement of Net Position
June 30, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 78,851,564	\$ 134,239,552	\$ 213,091,116
Restricted cash held by fiscal agents	3,336,739	288	3,337,027
Receivables	12,199,194	11,426,619	23,625,813
Prepaid items	9,414	-	9,414
Inventory	192,639	219,220	411,859
Total current assets	94,589,550	145,885,679	240,475,229
Noncurrent assets:			
Land held for resale	1,337,320	-	1,337,320
Notes receivable	32,797,755	47,144	32,844,899
Capital assets:			
Non-depreciable	100,109,112	15,996,781	116,105,893
Depreciable, net	171,028,056	125,620,257	296,648,313
Total capital assets	271,137,168	141,617,038	412,754,206
Total noncurrent assets	305,272,243	141,664,182	446,936,425
Total assets	399,861,793	287,549,861	687,411,654
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	15,460,292	3,198,107	18,658,399
Deferred outflows related to OPEB	1,016,240	600,760	1,617,000
Total deferred outflows of resources	16,476,532	3,798,867	20,275,399
LIABILITIES			
Current liabilities:			
Accounts payable	1,628,152	1,456,125	3,084,277
Payroll liabilities	1,518,989	448,354	1,967,343
Deposits and other liabilities	96,830	1,746,869	1,843,699
Unearned revenue	3,305,998	943,510	4,249,508
Accrued interest payable	105,837	343,524	449,361
Claims liability, due within one year	3,473,393	-	3,473,393
Compensated absences, due within one year	624,692	144,542	769,234
Long-term debt, due within one year	1,332,959	3,252,648	4,585,607
Total current liabilities	12,086,850	8,335,572	20,422,422
Noncurrent liabilities:			
Claims liability, due in more than one year	2,899,362	-	2,899,362
Compensated absences, due in more than one year	3,092,217	964,209	4,056,426
Long term debt, due in more than one year	8,146,150	34,593,401	42,739,551
Net other postemployment benefits liability	19,695,649	11,582,351	31,278,000
Net pension liability	67,734,283	16,445,715	84,179,998
Total noncurrent liabilities	101,567,661	63,585,676	165,153,337
Total liabilities	113,654,511	71,921,248	185,575,759
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	2,693,831	352,828	3,046,659
Deferred inflows related to OPEB	1,272,860	694,140	1,967,000
Total deferred inflows of resources	3,966,691	1,046,968	5,013,659
NET POSITION			
Net investment in capital assets	269,588,893	109,823,198	379,412,091
Restricted for:			
Streets and street lights	7,816,361	-	7,816,361
Trust 115 - Pension	3,320,688	-	3,320,688
Community development	17,937,787	-	17,937,787
Housing	32,460,887	-	32,460,887
Public safety	237,199	-	237,199
Special districts	4,110,720	-	4,110,720
Other special projects and programs	4,418,170	1,889,511	6,307,681
Debt service	-	1,980,308	1,980,308
Capital projects	2,738,380	43,591,322	46,329,702
Unrestricted	(43,911,962)	61,096,173	17,184,211
Total net position	\$ 298,717,123	\$ 218,380,512	\$ 517,097,635

See accompanying Notes to Basic Financial Statements.

City of Merced
Statement of Activities
For the year ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental activities:					
General government	\$ 8,751,641	\$ 5,513,335	\$ 2,270,149	\$ 586,085	\$ 8,369,569
Public safety	36,957,795	3,608,291	773,453	-	4,381,744
Public works	20,411,480	8,958,091	3,254,738	2,378,578	14,591,407
Culture and recreation	2,725,571	790,888	-	-	790,888
Interest on long-term debt	535,384	-	-	-	-
Total governmental activities	69,381,871	18,870,605	6,298,340	2,964,663	28,133,608
Business-type activities:					
Wastewater system	21,153,585	23,902,161	-	-	23,902,161
Water system	12,985,415	16,778,681	-	-	16,778,681
Refuse collection system	14,451,612	14,738,052	358,909	-	15,096,961
Merced municipal airport	1,034,701	421,557	-	-	421,557
Total business-type activities	49,625,313	55,840,451	358,909	-	56,199,360
Total primary government	\$ 119,007,184	\$ 74,711,056	\$ 6,657,249	\$ 2,964,663	\$ 84,332,968
General Revenues:					
Taxes:					
Property					
Sales					
Franchise					
Transient lodging					
Business license					
Business improvement					
Cost recovery impact study					
Total taxes					
Investment earnings					
Transfers					
Total general revenues and transfers					
Change in net position					
Net position - beginning of year					
Net position - end of year					

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (382,072)	\$ -	\$ (382,072)
(32,576,051)	-	(32,576,051)
(5,820,073)	-	(5,820,073)
(1,934,683)	-	(1,934,683)
(535,384)	-	(535,384)
(41,248,263)	-	(41,248,263)
-	2,748,576	2,748,576
-	3,793,266	3,793,266
-	645,349	645,349
-	(613,144)	(613,144)
-	6,574,047	6,574,047
(41,248,263)	6,574,047	(34,674,216)
14,773,288	43,342	14,816,630
22,143,028	-	22,143,028
1,631,738	-	1,631,738
2,008,081	-	2,008,081
1,510,991	-	1,510,991
92,498	-	92,498
1,000,076	-	1,000,076
43,159,700	43,342	43,203,042
3,459,289	5,912,910	9,372,199
3,647,148	(3,647,148)	-
50,266,137	2,309,104	52,575,241
9,017,874	8,883,151	17,901,025
289,699,249	209,497,361	499,196,610
\$ 298,717,123	\$ 218,380,512	\$ 517,097,635

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FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund - This fund is used to account for financial resources applicable to the general government operations of the City of Merced. In compliance with Governmental Accounting Standards Board Statement No. 54, the Parks and Community Services, the Revenue Stabilization, Economic Development Opportunity, and the Substandard Housing Funds have been reported with the General Fund because a substantial portion of the inflows are not derived from restricted or committed revenue sources and do not meet the definition of a Special Revenue Fund.

Housing Special Revenue Fund - This fund is used to account for programs and activities aimed at benefiting low and moderate income persons. The Block Grant is used for providing loans to low and moderate income persons for rehabilitation of dwelling units, and support to other funds which provide grant-eligible services.

Measure C Special Revenue Fund - This fund is used to account for the one-half cent transactions and use tax that was approved by area voters and became effective April 1, 2006.

Low and Moderate Income Housing Special Revenue Fund - This fund is used to account for low and moderate income housing activities. On January 12, 2012, the City Council adopted Resolution 2012-5, assuming all rights, powers, assets, liabilities, duties, and obligations associated with the housing activities of the former Redevelopment Agency.

Streets and Signals Capital Projects Fund - This fund is used to account for the projects which are funded by State and Federal sources and Public Facilities Impact fees.

City of Merced
Balance Sheet
Governmental Funds
June 30, 2019

	General Fund	Housing Special Revenue Fund	Measure C Special Revenue Fund	Low and Moderate Income Housing Special Revenue Fund
ASSETS				
Cash, cash equivalents and investments	\$ 19,514,554	\$ 1,106,586	\$ 1,515,402	\$ 1,285,897
Restricted cash held by fiscal agents	16,051	-	-	-
Receivables:				
Accounts	1,246,763	-	-	-
Due from other government	3,076,804	268,864	1,177,370	-
Interest	93,341	2,878	6,738	7,591
Due from other funds	25,779	-	-	-
Inventory	46,929	-	-	-
Land held for resale	-	-	-	645,617
Notes receivable	-	20,579,594	-	7,939,403
Advances to other funds	1,710,992	-	-	-
Total assets	\$ 25,731,213	\$ 21,957,922	\$ 2,699,510	\$ 9,878,508
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 197,703	\$ 135,019	\$ 105,714	\$ -
Payroll liabilities	1,005,404	13,018	168,788	-
Unearned revenues	992,121	54,989	-	-
Due to other funds	-	-	-	-
Advances from other funds	-	-	-	-
Other liabilities	9,720	38,540	-	-
Total liabilities	2,204,948	241,566	274,502	-
Fund Balances:				
Nonspendable	1,757,921	-	-	-
Restricted	4,000,000	21,716,356	-	9,878,508
Committed	31,718	-	2,425,008	-
Assigned	2,790,163	-	-	-
Unassigned	14,946,463	-	-	-
Total fund balances	23,526,265	21,716,356	2,425,008	9,878,508
Total liabilities and fund balances	\$ 25,731,213	\$ 21,957,922	\$ 2,699,510	\$ 9,878,508

Streets and Signals Capital Projects Fund	Non-Major Governmental Funds	Total
\$ 981,262	\$ 33,766,994	\$ 58,170,695
-	3,320,688	3,336,739
-	2,363,814	3,610,577
1,326,392	2,294,135	8,143,565
5,002	187,802	303,352
-	121,813	147,592
-	-	46,929
-	691,703	1,337,320
-	4,278,758	32,797,755
-	-	1,710,992
<u>\$ 2,312,656</u>	<u>\$ 47,025,707</u>	<u>\$ 109,605,516</u>

\$ 611,187	\$ 436,382	\$ 1,486,005
-	171,538	1,358,748
-	2,258,888	3,305,998
-	147,592	147,592
-	1,710,992	1,710,992
-	44,939	93,199
<u>611,187</u>	<u>4,770,331</u>	<u>8,102,534</u>

-	-	1,757,921
1,701,469	35,743,864	73,040,197
-	6,511,512	8,968,238
-	-	2,790,163
-	-	14,946,463
<u>1,701,469</u>	<u>42,255,376</u>	<u>101,502,982</u>
<u>\$ 2,312,656</u>	<u>\$ 47,025,707</u>	<u>\$ 109,605,516</u>

City of Merced
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2019

Total Fund Balances - Total Governmental Funds \$ 101,502,982

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources. Therefore, they are not reported in the Governmental Funds Balance Sheet. Except for the internal service funds reported below, the capital assets are adjusted as follows:

	Government- Wide Statement of Net Position	Internal Service Funds	
Non-depreciable	\$ 100,109,112	\$ (281,269)	99,827,843
Depreciable, net	171,028,056	(8,266,010)	162,762,046
Total capital assets	\$ 271,137,168	\$ (8,547,279)	262,589,889

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable is not reported as a liability in Governmental Funds Balance Sheet. (40,775)

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Government-Wide Statement of Net Position. 6,606,120

Employer contributions for pension are recorded as expenditures in the governmental funds. However, in the Government-Wide Financial Statement these contributions are deferred. 6,169,037

In the Government-Wide Financial Statements certain differences between actuarial estimates and actual results for pension are deferred and amortized over a period of time, however in the governmental funds no transactions are recorded. 5,554,603

Employer contributions for OPEB are recorded as expenditures in the governmental funds. However, in the Government-Wide Financial Statement these contributions are deferred. 780,934

In the Government-Wide Financial Statements certain differences between actuarial estimates and actual results for OPEB are deferred and amortized over a period of time, however in the governmental funds no transactions are recorded. (1,017,533)

Long-term liabilities are not due and payable in the current period. Therefore, they are not reported in the Governmental Funds Balance Sheet.

	Government- Wide Statement of Net Position	Internal Service Funds	Total
Compensated absences, due within one year	\$ (624,692)	\$ 53,276	\$ (571,416)
Long term debt, due within one year	(1,332,959)	522,959	(810,000)
Compensated absences, due in more than one year	(3,092,217)	343,878	(2,748,339)
Long term debt, due in more than one year	(8,146,150)	4,146,150	(4,000,000)
Net other postemployment benefits liability	(19,695,649)	4,519,336	(15,176,313)
Net pension liability	(67,734,283)	7,612,217	(60,122,066)
Total long-term liabilities	\$ (100,625,950)	\$ 17,197,816	(83,428,134)

Net Position of Governmental Activities \$ 298,717,123

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City of Merced
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2019

	General Fund	Housing Special Revenue Fund	Measure C Special Revenue Fund	Low and Moderate Income Housing Special Revenue Fund
REVENUES:				
Taxes	\$ 33,594,657	\$ -	\$ 6,853,092	\$ -
Intergovernmental	450,791	2,029,924	211,853	-
Licenses and permits	20,726	-	-	-
Use of money and property	788,323	44,381	60,837	321,668
Service charges	7,082,441	578,702	202,518	-
Fines, forfeitures and penalties	295,296	-	-	-
Other revenues	932,013	1,000	212	-
Total revenues	43,164,247	2,654,007	7,328,512	321,668
EXPENDITURES:				
Current:				
General government	6,337,143	1,605,164	-	195,103
Public safety	28,960,694	-	6,343,951	-
Public works	1,785,835	-	53	-
Culture and recreation	1,701,022	-	-	-
Total current operating	38,784,694	1,605,164	6,344,004	195,103
Capital outlay	11,288	-	-	-
Debt service:				
Principal	540,000	-	-	-
Interest and fiscal charges	259,629	-	-	-
Total expenditures	39,595,611	1,605,164	6,344,004	195,103
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	3,568,636	1,048,843	984,508	126,565
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of assets	16,075	-	-	-
Transfers in	755,279	-	540	-
Transfers out	(2,203,722)	(457,220)	(170,173)	-
Total other financing sources (uses)	(1,432,368)	(457,220)	(169,633)	-
Net change in fund balances	2,136,268	591,623	814,875	126,565
FUND BALANCES:				
Beginning of year	21,389,997	21,124,733	1,610,133	9,751,943
End of year	\$ 23,526,265	\$ 21,716,356	\$ 2,425,008	\$ 9,878,508

Streets and Signals Capital Projects Fund	Non-Major Governmental Funds	Total
\$ -	\$ 2,711,951	\$ 43,159,700
1,666,831	4,826,165	9,185,564
-	2,355,525	2,376,251
53,657	1,666,591	2,935,457
-	10,942,402	18,806,063
-	10,503	305,799
-	2,139,212	3,072,437
<u>1,720,488</u>	<u>24,652,349</u>	<u>79,841,271</u>
-	3,358,450	11,495,860
-	1,536,123	36,840,768
-	6,016,033	7,801,921
-	2,981	1,704,003
-	10,913,587	57,842,552
5,005,693	1,743,986	6,760,967
-	200,000	740,000
-	61,200	320,829
<u>5,005,693</u>	<u>12,918,773</u>	<u>65,664,348</u>
<u>(3,285,205)</u>	<u>11,733,576</u>	<u>14,176,923</u>
-	17	16,092
2,337,499	3,759,838	6,853,156
(146,211)	(3,207,363)	(6,184,689)
2,191,288	552,492	684,559
(1,093,917)	12,286,068	14,861,482
<u>2,795,386</u>	<u>29,969,308</u>	<u>86,641,500</u>
<u>\$ 1,701,469</u>	<u>\$ 42,255,376</u>	<u>\$ 101,502,982</u>

City of Merced

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities For the year ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds	\$ 14,861,482
Amounts reported for governmental activities in the Statement of Activities are different because:	
Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period, net of internal service funds of \$2,320,223.	7,068,450
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds. This amount is net of internal service funds of \$2,265,326.	(14,839,301)
In the Statement of Activities, only the gain or (loss) on the sale of capital assets is reported, whereas in the governmental funds proceeds from sales increases financial resources. This represents the difference between proceeds and the loss on disposal of capital assets.	(15,141)
Accrued compensated leave payable is an expenditure in governmental funds, but the accrued payable increased compensated leave liabilities in the Government-Wide Statement of Net Position.	(389,325)
OPEB expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	440,232
Bond proceeds provided current financial resources to governmental funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Position. Repayment of bond principal is an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position.	
Long-term debt repayments	740,000
Interest expense on long-term debt is reported on the accrual basis on the Government-Wide Statements, but expenditures on long-term debt in the governmental funds statements are recorded when paid. The following amount represents the change in accrued interest from the prior year.	6,951
Current year employer OPEB contributions are recorded as expenditures in the governmental funds, however these amounts are reported as a deferred outflow of resources in the Government-Wide Statement of Net Position.	780,934
Current year employer pension contributions are recorded as expenditures in the governmental funds, however these amounts are reported as a deferred outflow of resources in the Government-Wide Statement of Net Position.	6,169,037
Pension expense is recorded as incurred in the Government-Wide Statement of Activities, however pension expense is not recognized in the governmental funds.	(8,541,192)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The net expense of the internal service funds is reported with governmental activities.	2,735,747
Change in Net Position of Governmental Activities	<u>\$ 9,017,874</u>

PROPRIETARY FUND FINANCIAL STATEMENTS

Wastewater System - This fund is used to account for the City's wastewater utility, which provides wastewater collection and treatment, and storm drainage collection services to the residents of the City and some residents of the County.

Water System - This fund is used to account for the City's water utility, which provides water delivery services to the residents of the City and some residents of the County.

Refuse Collection System - This fund is used to account for the collection and disposal of municipal solid, green waste and recycling materials, as well as street sweeping and leaf pickup for benefit of City customers.

Internal Service Funds - These funds were used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City and to other governmental units, on a cost-reimbursement basis.

City of Merced
Statement of Net Position
Proprietary Funds
June 30, 2019

	Business - Type Activities - Enterprise Funds			
	Wastewater System	Water System	Refuse Collection System	Non-Major Enterprise Funds
ASSETS				
Current assets:				
Cash, cash equivalent and investments	\$ 56,611,059	\$ 69,060,055	\$ 8,512,267	\$ 56,171
Restricted cash and investments	205	83	-	-
Accounts receivable, net	2,315,703	1,852,142	214,584	76,979
Due from other government	3,126,900	3,004,277	42,793	1,060
Interest receivable	333,757	408,096	50,328	-
Prepaid items	-	-	-	-
Inventory	-	219,220	-	-
Total current assets	<u>62,387,624</u>	<u>74,543,873</u>	<u>8,819,972</u>	<u>134,210</u>
Noncurrent assets:				
Notes receivable - private parties	20,600	26,544	-	-
Advances to other funds	-	-	-	-
Capital assets:				
Non-depreciable	8,038,191	7,805,629	135,163	17,798
Depreciable, net	95,684,301	25,029,074	614,753	4,292,129
Total capital assets	<u>103,722,492</u>	<u>32,834,703</u>	<u>749,916</u>	<u>4,309,927</u>
Total noncurrent assets	<u>103,743,092</u>	<u>32,861,247</u>	<u>749,916</u>	<u>4,309,927</u>
Total assets	<u>166,130,716</u>	<u>107,405,120</u>	<u>9,569,888</u>	<u>4,444,137</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pension	1,233,972	773,683	1,134,285	56,167
Deferred outflows related to OPEB	182,075	145,816	272,869	-
Total deferred outflows of resources	<u>1,416,047</u>	<u>919,499</u>	<u>1,407,154</u>	<u>56,167</u>
LIABILITIES				
Current liabilities:				
Accounts payable	797,320	358,725	299,852	228
Payroll payable	157,975	109,506	171,191	9,682
Unearned revenue	861,971	72,479	9,060	-
Accrued interest payable	278,223	65,301	-	-
Deposits and other liabilities	414,962	890,839	408,488	32,580
Compensated absences, due within one year	65,659	33,860	36,203	8,820
Claims payable, due within one year	-	-	-	-
Long-term debt, due within one year	2,687,898	564,750	-	-
Total current liabilities	<u>5,264,008</u>	<u>2,095,460</u>	<u>924,794</u>	<u>51,310</u>
Noncurrent liabilities:				
Advances from other funds	-	-	-	-
Compensated absences, due in more than one year	367,504	236,946	333,058	26,701
Claims payable, due in more than one year	-	-	-	-
Long-term debt, due in more than one year	29,152,757	5,440,644	-	-
Net other postemployment benefits liability	3,504,620	2,789,012	5,288,719	-
Net pension liability	6,189,438	4,104,098	5,671,758	480,421
Total noncurrent liabilities	<u>39,214,319</u>	<u>12,570,700</u>	<u>11,293,535</u>	<u>507,122</u>
Total liabilities	<u>44,478,327</u>	<u>14,666,160</u>	<u>12,218,329</u>	<u>558,432</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pension	132,830	88,028	121,718	10,252
Deferred inflows related to OPEB	204,929	147,182	342,029	-
Total deferred inflows of resources	<u>337,759</u>	<u>235,210</u>	<u>463,747</u>	<u>10,252</u>
NET POSITION				
Net investment in capital assets	74,968,462	29,794,893	749,916	4,309,927
Restricted:				
Other special projects and programs	718,793	805,667	350,527	14,524
Debt service	1,959,063	21,245	-	-
Capital projects	6,836,618	36,220,682	534,022	-
Unrestricted	<u>38,247,741</u>	<u>26,580,762</u>	<u>(3,339,499)</u>	<u>(392,831)</u>
Total net position	<u>\$ 122,730,677</u>	<u>\$ 93,423,249</u>	<u>\$ (1,705,034)</u>	<u>\$ 3,931,620</u>

Total	Governmental Activities Internal Service Funds
\$ 134,239,552	\$ 20,680,869
288	-
4,459,408	29,519
6,175,030	1,796
792,181	110,385
-	9,415
219,220	145,710
<u>145,885,679</u>	<u>20,977,694</u>
47,144	-
-	-
15,996,781	281,269
<u>125,620,257</u>	<u>8,266,010</u>
<u>141,617,038</u>	<u>8,547,279</u>
<u>141,664,182</u>	<u>8,547,279</u>
<u>287,549,861</u>	<u>29,524,973</u>
3,198,107	1,206,127
<u>600,760</u>	<u>235,306</u>
<u>3,798,867</u>	<u>1,441,433</u>
1,456,125	142,146
448,354	160,243
943,510	-
343,524	65,062
1,746,869	3,631
144,542	53,276
-	3,473,393
<u>3,252,648</u>	<u>522,959</u>
<u>8,335,572</u>	<u>4,420,710</u>
964,209	343,878
-	2,899,362
34,593,401	4,146,150
11,582,351	4,519,336
<u>16,445,715</u>	<u>7,612,217</u>
<u>63,585,676</u>	<u>19,520,943</u>
<u>71,921,248</u>	<u>23,941,653</u>
352,828	163,306
<u>694,140</u>	<u>255,327</u>
<u>1,046,968</u>	<u>418,633</u>
109,823,198	6,999,002
1,889,511	-
1,980,308	-
43,591,322	-
<u>61,096,173</u>	<u>(392,882)</u>
<u>\$ 218,380,512</u>	<u>\$ 6,606,120</u>

City of Merced
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the year ended June 30, 2019

	Business - Type Activities - Enterprise Funds			
	Wastewater System	Water System	Refuse Collection System	Non-Major Enterprise Funds
OPERATING REVENUES:				
Charges for services	\$ 23,142,308	\$ 16,683,633	\$ 14,710,774	\$ 418,926
Other revenues	759,853	95,048	27,278	2,631
Total operating revenues	23,902,161	16,778,681	14,738,052	421,557
OPERATING EXPENSES:				
Personnel services	4,661,060	3,140,212	5,026,827	341,912
Materials, supplies and other services	7,574,507	7,098,741	9,274,026	243,356
Depreciation	8,274,526	2,530,315	150,759	448,792
Total operating expenses	20,510,093	12,769,268	14,451,612	1,034,060
OPERATING INCOME (LOSS):	3,392,068	4,009,413	286,440	(612,503)
NONOPERATING REVENUES (EXPENSES):				
Property taxes	-	-	-	43,342
Intergovernmental revenues	-	-	358,909	-
Interest and investment earnings	2,485,914	3,052,346	373,468	1,182
Gain (loss) on disposition of capital assets	3,904	1,637	-	-
Interest and related expenses	(647,396)	(217,784)	-	(641)
Total nonoperating revenues (expenses)	1,842,422	2,836,199	732,377	43,883
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	5,234,490	6,845,612	1,018,817	(568,620)
Transfers in	-	-	44,739	64,747
Transfers out	(2,142,063)	(1,448,198)	(149,596)	(16,777)
Total transfers and capital contributions	(2,142,063)	(1,448,198)	(104,857)	47,970
Change in net position	3,092,427	5,397,414	913,960	(520,650)
NET POSITION:				
Beginning of year	119,638,250	88,025,835	(2,618,994)	4,452,270
End of year	<u>\$ 122,730,677</u>	<u>\$ 93,423,249</u>	<u>\$ (1,705,034)</u>	<u>\$ 3,931,620</u>

Total	Governmental Activities Internal Service Funds
\$ 54,955,641	\$ 26,362,017
884,810	218,827
<u>55,840,451</u>	<u>26,580,844</u>
13,170,011	4,625,844
24,190,630	20,610,481
<u>11,404,392</u>	<u>2,265,326</u>
<u>48,765,033</u>	<u>27,501,651</u>
<u>7,075,418</u>	<u>(920,807)</u>
43,342	-
358,909	3,788
5,912,910	838,687
5,541	56,904
<u>(865,821)</u>	<u>(221,506)</u>
<u>5,454,881</u>	<u>677,873</u>
<u>12,530,299</u>	<u>(242,934)</u>
109,486	2,978,681
<u>(3,756,634)</u>	<u>-</u>
<u>(3,647,148)</u>	<u>2,978,681</u>
8,883,151	2,735,747
<u>209,497,361</u>	<u>3,870,373</u>
<u>\$ 218,380,512</u>	<u>\$ 6,606,120</u>

City of Merced
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2019

	Business - Type Activities - Enterprise Funds		
	Wastewater System	Water System	Refuse Collection System
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 23,904,117	\$ 17,311,265	\$ 14,685,646
Payments to suppliers and users	(7,487,158)	(6,862,613)	(9,134,446)
Payments to employees	(4,553,914)	(3,143,066)	(5,133,607)
Net cash provided by (used in) operating activities	11,863,045	7,305,586	417,593
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Tax proceeds not attributable to capital	-	-	-
Cash receipts from other funds	-	30,827	44,739
Cash payments to other funds	(2,142,063)	(1,448,198)	(149,596)
Net cash provided by (used in) noncapital financing activities	(2,142,063)	(1,417,371)	(104,857)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of capital assets	(1,633,801)	(1,000,004)	(185,777)
Proceeds from sale of capital assets	3,904	1,637	-
Capital grants and cash contributions received	-	-	358,909
Interest paid	(752,755)	(257,551)	-
Principal payments - long-term debt	(2,624,578)	(532,499)	-
Net cash provided by (used in) capital and related financing activities	(5,007,230)	(1,788,417)	173,132
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	2,390,396	2,943,672	359,153
Net cash provided by investing activities	2,390,396	2,943,672	359,153
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,104,148	7,043,470	845,021
CASH AND CASH EQUIVALENTS:			
Beginning of year	49,507,116	62,016,668	7,667,246
End of year	<u>\$ 56,611,264</u>	<u>\$ 69,060,138</u>	<u>\$ 8,512,267</u>
FINANCIAL STATEMENT PRESENTATION:			
Cash and investments	\$ 56,611,059	\$ 69,060,055	\$ 8,512,267
Restricted cash and investments	205	83	-
Total	<u>\$ 56,611,264</u>	<u>\$ 69,060,138</u>	<u>\$ 8,512,267</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	\$ 3,392,068	\$ 4,009,413	\$ 286,440
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	8,274,526	2,530,315	150,759
Changes in assets and liabilities:			
Receivables	10,931	532,643	(52,399)
Inventory	-	19,489	-
Prepaid expenses	-	-	-
Accounts payable	52,545	39,884	89,686
Payroll liabilities	20,558	15,823	4,844
Unearned revenue	(8,975)	(59)	(7)
Other liabilities	34,804	176,755	49,894
Claims payable	-	-	-
Compensated absences	52,176	32,565	(3,652)
Net other postemployment benefits and related items	(337,473)	(297,925)	(448,756)
Net pension liability and related items	371,885	246,683	340,784
Total adjustments	8,470,977	3,296,173	131,153
Net cash provided by (used in) operating activities	\$ 11,863,045	\$ 7,305,586	\$ 417,593

See accompanying Notes to Basic Financial Statements.

Non-Major Enterprise Funds		Total	Governmental Activities Internal Service Funds
\$ 386,758	\$ 56,287,786	\$ 26,614,740	
(246,471)	(23,730,688)	(21,335,404)	
(308,041)	(13,138,628)	(4,571,660)	
<u>(167,754)</u>	<u>19,418,470</u>	<u>707,676</u>	
43,342	43,342	-	
33,920	109,486	2,978,681	
<u>(16,777)</u>	<u>(3,756,634)</u>	<u>-</u>	
<u>60,485</u>	<u>(3,603,806)</u>	<u>2,978,681</u>	
-	(2,819,582)	(2,320,223)	
-	5,541	56,905	
-	358,909	3,788	
(640)	(1,010,946)	(228,134)	
-	(3,157,077)	(475,664)	
<u>(640)</u>	<u>(6,623,155)</u>	<u>(2,963,328)</u>	
1,182	5,694,403	808,944	
<u>1,182</u>	<u>5,694,403</u>	<u>808,944</u>	
(106,727)	14,885,912	1,531,973	
162,898	119,353,928	19,148,896	
<u>\$ 56,171</u>	<u>\$ 134,239,840</u>	<u>\$ 20,680,869</u>	
\$ 56,171	\$ 134,239,552	\$ 20,680,869	
-	288	-	
<u>\$ 56,171</u>	<u>\$ 134,239,840</u>	<u>\$ 20,680,869</u>	
\$ (612,503)	\$ 7,075,418	\$ (920,807)	
448,792	11,404,392	2,265,326	
(34,799)	456,376	33,896	
-	19,489	26,236	
-	-	(949)	
(450)	181,665	(126,602)	
(56)	41,169	6,356	
-	(9,041)	-	
(2,665)	258,788	(16)	
-	-	(623,592)	
4,952	86,041	42,026	
-	(1,084,154)	(451,680)	
28,975	988,327	457,482	
<u>444,749</u>	<u>12,343,052</u>	<u>1,628,483</u>	
<u>\$ (167,754)</u>	<u>\$ 19,418,470</u>	<u>\$ 707,676</u>	

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FIDUCIARY FUND FINANCIAL STATEMENTS

Private Purpose Trust Funds - These funds are used to account for assets held by the government in a trustee capacity.

Agency Funds - These funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments and/or other funds.

City of Merced
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2019

	Private Purpose Trust Funds	Agency Funds
	<u>Trust Funds</u>	<u>Funds</u>
ASSETS		
Cash, cash equivalents and investments	\$ 182,150	\$ 2,491,960
Restricted cash held by fiscal agent	-	2,829,100
Receivables	-	890,187
Deposits	-	-
Total assets	<u>182,150</u>	<u>6,211,247</u>
LIABILITIES		
Deposits	-	1,736,797
Other liabilities	-	201,232
Due to other agencies	-	872,146
Due to bondholders	-	3,401,072
Total liabilities	<u>-</u>	<u>\$ 6,211,247</u>
NET POSITION		
Held in trust for other purposes	<u>182,150</u>	
Total net position	<u>\$ 182,150</u>	

City of Merced
Statement of Changes in Fiduciary Net Position
Fiduciary Funds - Private Purpose Trust Funds
For the year ended June 30, 2019

	Private Purpose Trust Funds
ADDITIONS:	
Investment income	\$ 7,361
Miscellaneous	928
Total additions	<u>8,289</u>
DEDUCTIONS:	
Administration	<u>2,018</u>
Total deductions	<u>2,018</u>
Change in net position	6,271
NET POSITION:	
Beginning of year	<u>175,879</u>
End of year	<u>\$ 182,150</u>

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City of Merced
Notes to Basic Financial Statements
For the year ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Merced, California, (City) have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City operates under a Council-Manager form of government and provides the following services: safety (police and fire), highways and streets, wastewater, water, refuse, parks and recreation, planning and zoning, airport and general administrative services. The City was incorporated April 1, 1889 while the current Charter for the City's government was ratified by electors on April 12, 1949, and approved by the legislature of the State of California on May 11 and May 12, 1949.

The financial reporting entity, as defined by GASB, consists of the primary government, the City, and organizations for which the primary government is financially accountable and any other organization for which the nature and significance of their relationship with the primary government are such that exclusion would cause the City's financial statements to be misleading or incomplete. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, the blended component units are appropriately presented as funds of the primary government.

The City Council acts as the governing body and is able to impose its will on the following organizations, establishing financial accountability:

- The City of Merced Public Financing and Economic Development Authority (Authority)
- The Parking Authority of the City of Merced (Parking Authority)

The Authority is a separate public entity and provides for the financing of costs and expenses of acquisition, construction and installation of authorized public capital improvements for the members through any financing procedures legally available to the members. All powers are vested in the governing board. The Authority was originally created in August 1987 but had expired by its terms. The Authority was re-created on January 1, 2003, by City and former City of Merced Redevelopment Agency (Agency). The Parking Authority became a member of the Authority on April 18, 2011. On January 30, 2012, the Agency was removed as a member from the Authority. Separately issued financial statements for the Authority are not prepared.

The Parking Authority is a separate public entity and is a specialized governmental agency focusing on parking issues and how to alleviate parking problems. All powers are vested in the governing board. The Parking Authority was created on April 18, 2011, by City and Authority Resolutions. Separately issued financial statements for the Parking Authority are not prepared.

All entities included in this financial statement maintain June 30 as their fiscal year-end.

The City provides accounting and investing services for the Merced Area Gang and Narcotic Enforcement Team (MAGNET), whose funds are included in the City's pooled cash for investing purposes only. The City does not have the ability to exercise influence over MAGNET, therefore this entity is reported in the accompanying financial statements as Agency Funds in the Fiduciary Fund Financial Statements.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation

Government-Wide Fund Financial Statements

The Statement of Net Position and the Statement of Activities report information on all of the activities of the government, except for fiduciary activities. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Fund Financial Statements

Separate financial statements are provided for Governmental Funds, Proprietary Funds, and Fiduciary Funds, even though the latter are excluded from the Government-Wide Financial Statements. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the Fund Financial Statements.

Major funds are funds whose revenues, expenditures or expenses, assets, or liabilities are at least ten percent of the corresponding totals for all Governmental or Enterprise Funds and at least five percent of the aggregate amount for all Governmental and Enterprise Funds for the same type. The General Fund is always a major fund and any other governmental or enterprise fund may be reported as a major fund if the City believes that fund is particularly important to financial statement users. The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government. In compliance with Governmental Accounting Standards Board Statement No. 54, the Parks and Community Services, Revenue Stabilization, Economic Development Opportunity and Substandard Housing Funds have been reported with the General Fund because a substantial portion of the inflows are not derived from restricted or committed revenue sources and do not meet the definition of a Special Revenue Fund.

The Housing Special Revenue Fund is used to account for programs and activities aimed at benefiting low and moderate income persons. The majority of the fund's revenue is derived from grants that are restricted for these programs and activities.

The Measure C Special Revenue Fund is used to account for the one-half cent transaction and use tax that was approved by area voters and became effective April 1, 2006. The funds are committed for public safety, transportation, and other vital municipal improvements.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation, Continued

The Low and Moderate Income Housing Special Revenue Fund is used to account for housing activities. On January 12, 2012, City Council adopted Resolution 2012-5 assuming all rights, powers, assets, liabilities, duties, and obligations associated with the housing activities of the former Redevelopment Agency. The funds are restricted for Low and Moderate Income Housing projects.

The Streets and Signals Capital Projects Fund is used to account for projects which are funded by state and federal sources and public facilities impact fees. These funds are accounted for in Special Revenue Funds and then transferred to the Streets and Signals Capital Projects Fund when the project expenditures have been incurred. The funds are restricted for public capital improvement projects.

The City reports the following proprietary funds as major:

The Wastewater System Fund is used to account for treatment of industrial and domestic wastewater. The fund collects user fees and disburses all expenditures for this purpose. The fund also collects fees resulting from new growth. These funds will be used in the future to expand capacity of the wastewater treatment plant due to growth. The Wastewater System Fund consists of the Wastewater Operation, Wastewater Improvement, Wastewater Revolving and University Capital Charge Wastewater Funds.

The Water System Fund is used to account for operation and maintenance of a water system consisting of well sites, deep well pumps, fluoridation facilities, distribution pipelines and elevated storage tanks. The Water System Fund consists of the Water Operation, Restricted Water Wells, Restricted Water Mains and University Capital Charge Water Funds.

The Refuse Collection System Fund is used to account for collection and disposal of municipal solid waste from industrial, commercial and residential customers. In addition, the fund provides for a green waste and recycling program which was created to divert waste from the landfill. The Refuse Collection Fund consists of the Refuse Collection and Refuse Capital Equipment Funds.

Additionally, the government reports the following fund types:

The Internal Service Funds are used to account for services provided to other departments of the City on a cost reimbursement basis. The City has Internal Service Funds for workers' compensation, liability and unemployment insurance, employee benefits, fleet management and replacement, facility maintenance, support services, personal computer replacement, and public works administration.

The Private Purpose Trust Funds are used to account for resources legally held in trust for the Youth Programs Endowment and Wahneta Hall Trust.

The Agency Funds are used to account for resources held by the City in a purely custodial capacity. Included in the agency funds are deposits from external organizations, the handling of assessment district activity and special purpose accounts for City community groups.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation, Continued

Certain eliminations have been made as prescribed by GASB Statement No. 34 for interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between governmental activities and business-type activities, which are presented as internal balances and eliminated in the total governmental column. In the Statement of Activities, internal service fund transactions have been eliminated. However, transactions between governmental and business-type activities have not been eliminated.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Basis of Accounting

The Government-Wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the Proprietary Fund Financial Statements.

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. Property taxes are recognized as revenues in the year for which they are levied. Property taxes attach as an enforceable lien on property. Secured and unsecured property taxes are levied on July 1. The unsecured and secured property tax lien date is January 1. Unsecured property taxes become delinquent on August 31. Secured property taxes are payable in two installments, on November 1 and February 1 of each year, and become delinquent on December 10 and April 10, respectively. The County of Merced, California (County) bills and collects the property taxes and remits them to the City according to a payment schedule established by the County. City property tax revenues are recognized when received in cash except at year-end when they are accrued pursuant to the modified accrual basis of accounting. The County is permitted by State law to levy property taxes at 1% of property's assessed value and can increase property assessed value no more than 2% per year, except when property changes ownership or new construction occurs.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers all revenues, except sales and use tax, to be available if collected within 60 days. Sales and Use Tax is considered available if collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded in the accounting period in which the related liability is incurred.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents consist of cash on hand and demand deposits and are stated at cost. All other investments are stated at fair value.

The City pools cash resources from all funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments.

The City participates in the Local Agency Investment Fund (LAIF), an investment pool managed by the State of California. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments.

E. Receivables

All receivables are shown net of an allowance for doubtful accounts. Service charge revenues for water, sewer and refuse collection are recorded when billed to customers on a cyclical basis. All utility customers are billed monthly. Amounts unbilled at June 30 are recorded as a receivable and recognized as revenue.

F. Interfund Balances/Internal Balances

Advances to and advances from other funds represent interfund loans in the fund financial statements. Advances between funds are offset by a non-spendable fund balance classification in the applicable governmental funds to indicate that they are not available financial resources.

All other outstanding balances between funds are reported as due to and due from other funds. These are generally repaid within the following fiscal year.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the Government-Wide Financial Statements as "internal balances."

G. Inventory

Inventory is valued at average cost, which approximates cost as determined on a first-in-first-out basis. Inventory in the General Fund consists of expendable supplies held for consumption by all departments of the City. The cost is recorded as an expenditure or expense in the appropriate fund at the time individual inventory items are withdrawn for use (consumption method). The General Fund inventory amount is offset by a non-spendable fund balance classification, which indicates that it does not constitute available financial resources. Inventories in the proprietary funds are recorded at cost, which approximates market.

H. Land Held for Resale

Land held for resale consists of land and project costs relating to property acquired or constructed which will be sold under terms of disposition and development agreements between the City (or its component units) and developers. The land held for resale is recorded at the lower of cost or estimated net realizable value.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Capital Assets

Capital assets, which include land and improvements, buildings and structures, improvements other than buildings, structures, and land improvements, machinery and equipment, construction in progress and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated. City policy has set the capitalization thresholds for reporting capital assets as the following:

General capital assets	\$ 5,000
Infrastructure capital assets	\$ 5,000

Depreciation is recorded on a straight-line basis over the following useful lives:

	Years
Infrastructure	10-40
Buildings and structures	15-20
Improvements other than buildings	15
Machinery and equipment	5

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include streets, water and sewer systems, park land, and other similar items. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, landscaping and land. These subsystems are not delineated in the basic financial statements.

Interest accrued during capital assets construction, if any, is capitalized as part of the asset cost for the business-type and proprietary funds.

The City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City commissioned an appraisal of City owned infrastructure and property as of June 30, 2002. This appraisal determined the original cost, which is defined as historical cost or estimated historical cost if actual cost was not available. The accumulated depreciation was calculated from the date of construction/acquisition to the current date on a straight-line basis. The book value can be computed by deducting the accumulated depreciation from the original cost.

J. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources until then.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. *Deferred Outflows/Inflows of Resources, Continued*

In addition to liabilities, the Statement of Net Position will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

K. *Compensated Absences*

The City accounts for compensated absences in accordance with GAAP. In the Government-Wide Financial Statements and Proprietary Fund Financial Statements, which use the accrual basis of accounting, accrued compensated absences benefits are recorded as liabilities as vested and earned.

L. *Unearned Revenue*

In the Government-Wide Financial Statements and Fund Financial Statements, unearned revenue is recorded for transactions for which revenues have not been earned.

M. *Long-Term Liabilities*

In the Government-Wide Financial Statements and Proprietary Fund Financial Statements, long-term debt and other financed obligations are reported as liabilities in the appropriate activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount.

In the Fund Financial Statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as expenditures.

N. *Net Position and Fund Equity*

Government-Wide Financial Statements

In the Government-Wide Financial Statements, net position is classified in the following categories:

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

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

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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

N. Net Position and Fund Equity, Continued

Fund Financial Statements

In the Fund Financial Statements, the following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance – This includes amounts that cannot be spent because they are either not spendable in form or legally or contractually required to remain intact.

Restricted fund balance – This includes amounts with constraints placed on their use by those external to the City, including creditors, grantors, contributors or laws and regulations of other governments. It also includes constraints imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – This includes amounts that can only be used for specific purposes determined by formal action of the City Council and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

Assigned fund balance – This includes amounts that are constrained by the City's intent to be used for specific purposes. The intent can be established at either the highest level of decision making or by a body or an official designated for that purpose. The City Council has not delegated the authority to assign fund balance.

Unassigned fund balance – This is the residual classification that includes amounts not contained in the other classifications.

The City Council establishes, modifies or rescinds fund balance commitments and assignments by action, which includes passage of a resolution adopting the budget and appropriating revenue for the fiscal year. Detailed classifications of the City's fund balances are presented in Note 10.

O. Net Position and Fund Equity Flow Assumptions

Government-Wide Financial Statements

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the City's policy is to apply restricted net position first.

Fund Financial Statements

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City's policy is to apply restricted funds first. Committed, assigned, and unassigned fund balances are considered unrestricted. When an expenditure is incurred, if committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

P. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates and assumptions.

Q. Pension

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	June 30, 2017 to June 30, 2018

R. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the plan's (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	June 30, 2017 to June 30, 2018

S. New Accounting Pronouncements

In 2019, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations* - The objective of this statement is to provide financial statement users with information about asset retirement obligations (AROs) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. The requirements of this statement did not apply to the City for the current fiscal year.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

S. New Accounting Pronouncements, Continued

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* - The objective of this statement is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt.

2. CASH AND INVESTMENTS

A. Summary of Cash and Investments

The following is a summary of pooled cash and investments, including restricted cash and investments at June 30, 2019:

	Government-Wide Statement of Net Position			Fund Financials	
	Governmental Activities	Business-Type Activities	Total	Fiduciary Funds Statement of Net Position	Total
Cash and investments	\$ 78,851,564	\$ 134,239,552	\$ 213,091,116	\$ 2,674,110	\$ 215,765,226
Restricted cash held by fiscal agent	3,336,739	288	3,337,027	2,829,100	6,166,127
Total Cash and Investments	\$ 82,188,303	\$ 134,239,840	\$ 216,428,143	\$ 5,503,210	\$ 221,931,353

Cash and investments as of June 30, 2019, consist of the following:

Cash on Hand	\$ 4,723
Deposits with financial institutions	538,675
Restricted Cash held by fiscal agent	6,166,127
Investments	215,221,828
Total Cash and Investments	\$ 221,931,353

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds, which the Finance Officer invests to enhance interest earnings. The interest earned is allocated to the funds based on monthly cash and investment balances in these funds.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

2. CASH AND INVESTMENTS, Continued

B. Fair Value of Investments

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires that the City's investments to be carried at fair market value instead of cost. If material, the City adjusts the carrying value of its investments to reflect their fair value at each fiscal year-end and the effects of these adjustments are included in income for that fiscal year. The fair market value adjustment for the fiscal year ended June 30, 2019 was \$4,239,961.

Investments (except for money market accounts, time deposits, and commercial paper) are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value. Inputs are assumptions that market participants use when pricing an asset or liability. 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. Investment fair value measurements at June 30, 2019 are described below.

Investment Type	Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Asset-backed Securities	\$ 17,025,747	\$ -	\$ 17,025,747	\$ -
Federal Agency Securities	53,337,626	-	53,337,626	-
Commercial Paper	16,472,769	-	16,472,769	-
Foreign Corporate Securities	7,137,949	-	7,137,949	-
Municipal Securities	3,930,000	-	3,930,000	-
Supranational Securities	9,035,358	-	9,035,358	-
U.S. Corporate Securities	42,726,830	-	42,726,830	-
U.S. Treasury Securities	32,229,306	-	32,229,306	-
Total investments subject to leveling	181,895,585	\$ -	\$ 181,895,585	\$ -
Investments not subject to leveling:				
Local Agency Investment Fund	30,679,211			
Money Market Funds	2,647,032			
Total Investments	\$ 215,221,828			

Asset-backed Securities, Federal Agency Securities, Commercial Paper, Municipal Securities, Supranational Securities, U.S. Corporate Securities, Foreign Corporate Securities and U.S. Treasury Securities categorized as Level 2 are valued based on matrix pricing techniques. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Investments included in restricted cash and investments included money market accounts and guaranteed investment contracts that are not subject to fair value measurement.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

2. CASH AND INVESTMENTS, Continued

C. Investments

The City is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by the California Government Code with oversight by the Treasurer of the State of California. At June 30, 2019, LAIF included the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2019, the City had \$30,679,211 invested in LAIF, which had invested 1.77% of the pooled investment funds in Medium-term and Short-term Structured Notes and Asset-Backed Securities as compared to 2.67% in the previous year. The LAIF fair value factor of 1.001711790 was used to calculate the fair value of the investments in LAIF.

The City is authorized by State statutes and in accordance with the City's Investment Policy (the Policy) to invest in the following:

- * Municipal Securities
- * U.S. Treasury Securities
- * U.S. Corporate Securities
- * Federal Agency Securities
- * Federally Insured Time Deposits
- * Collateralized Time Deposits
- * Negotiable Certificates of Deposit
- * Local Agency Investment Fund
- * Collateralized Bank Deposits
- * Bankers' Acceptances
- * Commercial Paper
- * Medium-Term Notes
- * Repurchase Agreements
- * Mutual Funds and Money Market Mutual Funds
- * Asset-backed Securities
- * Foreign Corporate Securities
- * Supranational Securities

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

2. CASH AND INVESTMENTS, Continued

D. Risks

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, an investment with a longer maturity date has a greater sensitivity of its fair value to be subject to changes in market interest rates. In accordance with the City's investment policy, exposure to interest rate risk is mitigated by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Cash and investments, including cash with fiscal agents, held in the City by maturity date at June 30, 2019 are shown below:

Cash and Investments	Fair Value	Investment Maturities (in years)		
		Less than 1 year	1-3 years	3-5 years
Cash:				
Cash Deposits	\$ 538,675	\$ 538,675	\$ -	\$ -
Petty Cash	4,723	4,723	-	-
Total cash	543,398	543,398	-	-
Investments:				
Money Market Funds	2,647,032	2,647,032	-	-
Federal Agency Securities	53,337,626	-	25,701,271	27,636,355
U.S. Corporate Securities	42,726,830	1,000,027	12,123,944	29,602,859
U.S. Treasury Securities	32,229,306	12,489,698	2,476,563	17,263,045
Asset-backed Securities	17,025,747	-	8,293,948	8,731,799
Commercial Paper	16,472,769	-	5,752,274	10,720,495
Supranational Securities	9,035,358	-	6,039,792	2,995,566
Foreign Corporate Securities	7,137,949	-	2,259,556	4,878,393
Municipal Securities	3,930,000	3,930,000	-	-
Local Agency Investment Fund (LAIF)	30,679,211	30,679,211	-	-
Total investments	215,221,828	50,745,968	62,647,348	101,828,512
Total cash and investments	\$ 215,765,226	\$ 51,289,366	\$ 62,647,348	\$ 101,828,512
Restricted Cash with Fiscal Agents:				
Public Investment Money Market Fund	\$ 1,356,101	\$ 1,356,101	\$ -	\$ -
IRS Section 115 Trust- PARS Mutual Fund	3,320,688	3,320,688	-	-
Commercial Paper	1,472,999	1,472,999	-	-
Money Market Funds	16,339	16,339	-	-
Total restricted cash with fiscal agents	\$ 6,166,127	\$ 6,166,127	\$ -	\$ -

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

2. CASH AND INVESTMENTS, Continued

D. Risks, Continued

Credit Risk: 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 June 30, 2019 rating which meets the minimum rating required by (where applicable) the California Government Code, the City's Investment Policy, or debt agreements:

	<u>Credit Quality Ratings</u>
Investments:	
Asset-backed Securities	Aaa
Federal Agency Securities	Aaa
Commercial Paper	Aaa
Foreign Corporate Securities	A1
Municipal Securities	Aa2
Supranational Securities	Aaa
U.S. Corporate Securities	A1
U.S. Treasury Securities	Aaa
Fiscal Agents:	
Local Agency Investment Fund	Not rated
Money Market Funds	AAA

Concentration of Credit Risk: The investment policy of the City of Merced contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City's investments are as follows:

<u>Issuer</u>	<u>Fair Value</u>	<u>Percent of Total Investments</u>
Federal National Mortgage Assn	\$ 16,557,485	8.79%
Federal Home Loan Mtg Corp	20,096,652	10.67%
U.S. Treasury Bill and Notes	32,229,306	17.11%
Federal Home Loan Bank	33,156,258	17.60%

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counter party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's Investment Policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits:

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

2. CASH AND INVESTMENTS, Continued

D. Risks, Continued

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the City). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name. The City's cash deposit was fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The remaining amount was collateralized with securities held by the pledging financial institutions in the City's name.

At June 30, 2019, the carrying amount of the City's cash (excluding cash equivalents) is \$177,815, which includes the general checking account and petty cash of \$4,723. The bank balance in the City's general checking was \$278,573, fully insured and collateralized with securities held by the pledging financial institutions in the City's name as discussed below. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. The remainder of the cash balance is cash held in an account used solely for the collection of interest and the value of matured investments.

E. Cash and Investments with Fiscal Agents

Funds deposited with fiscal agents can be held in cash or invested in various securities. The fiscal agents can invest in securities as outlined in trust agreements, provided the investments are within the limits imposed by state statutes. These investments include federal securities, investment agreements, interest-bearing demand or time deposits, commercial paper rated "AA-" or better by Moody's, and money market mutual funds which are rated in the highest category by Moody's. At June 30, 2019, cash and investments with fiscal agents totaled \$6,166,127.

3. RECEIVABLES

A. Government-Wide Financial Statements

At June 30, 2019, the Government-Wide Financial Statements reported the following receivables net of allowances for uncollectible amounts:

	Governmental Activities	Business-Type Activities	Total
Accounts receivable	\$ 3,640,096	\$ 4,459,408	\$ 8,099,504
Due from other governments	8,145,361	6,175,030	14,320,391
Interest receivable	413,737	792,181	1,205,918
Total	\$ 12,199,194	\$ 11,426,619	\$ 23,625,813

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

3. RECEIVABLES, Continued

B. Fund Financial Statements

At June 30, 2019, the fund financial statements show the following receivables:

	Governmental Funds	Enterprise Funds	Internal Service Funds	Total
Accounts receivable	\$ 3,610,577	\$ 4,459,408	\$ 29,519	\$ 8,099,504
Due from other governments	8,143,565	6,175,030	1,796	14,320,391
Interest receivable	303,352	792,181	110,385	1,205,918
Total	\$ 12,057,494	\$ 11,426,619	\$ 141,700	\$ 23,625,813

Accounts Receivable

Accounts receivable consists of amounts accrued in the ordinary course of operations. The accounts receivable as of June 30, 2019 was as follows:

	Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
Governmental Funds:			
General Fund	\$ 2,921,636	\$ (1,674,873)	\$ 1,246,763
Non-Major Funds	2,390,458	(26,644)	2,363,814
Total governmental funds	5,312,094	(1,701,517)	3,610,577
Enterprise Funds:			
Wastewater System	2,377,543	(61,840)	2,315,703
Water System	1,922,455	(70,313)	1,852,142
Refuse Collection System	275,040	(60,456)	214,584
Non-Major Funds	80,673	(3,694)	76,979
Total enterprise funds	4,655,711	(196,303)	4,459,408
Internal Service Funds	200,979	(171,460)	29,519
Total	\$ 10,168,784	\$ (2,069,280)	\$ 8,099,504

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

3. RECEIVABLES, Continued

B. Fund Financial Statements, Continued

Due from other Governments

Due from other governments consists of amounts due from other governmental entities. The due from other governments as of June 30, 2019 was as follows:

Governmental Funds:	
General Fund	\$ 3,076,804
Housing	268,864
Measure C	1,177,370
Streets and Signals	1,326,392
Non-Major Funds	<u>2,294,135</u>
Total governmental funds	<u>8,143,565</u>
Enterprise Funds:	
Wastewater System	3,126,900
Water System	3,004,277
Refuse Collection System	42,793
Non-Major Funds	<u>1,060</u>
Total enterprise funds	<u>6,175,030</u>
Internal Service Funds	<u>1,796</u>
Total	<u><u>\$ 14,320,391</u></u>

Interest Receivable

Interest receivable consisted of interest income from notes and investments pooled by the City as well as interest income to be received by fiscal agents from investments in their possession. Interest income is allocated to the funds at the end of the accounting period. The interest receivable as of June 30, 2019, was as follows:

Governmental Funds:	
General Fund	\$ 93,341
Housing	2,878
Measure C	6,738
Low and Moderate Income Housing	7,591
Streets and Signals	5,002
Non-Major Funds	<u>187,802</u>
Total governmental funds	<u>303,352</u>
Enterprise Funds:	
Wastewater System	333,757
Water System	408,096
Refuse Collection System	<u>50,328</u>
Total enterprise funds	<u>792,181</u>
Internal Services Fund	<u>110,385</u>
Total	<u><u>\$ 1,205,918</u></u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

4. UNEARNED REVENUE

A. Government-Wide Financial Statements

Unearned revenues in the Government-Wide Financial Statements represent amounts for which revenues have not been earned. At June 30, 2019, unearned revenues in the Government-Wide Financial Statements were as follows:

	Governmental Activities	Business-Type Activities	Total
Prepaid business license fees	\$ 1,048,138	\$ -	\$ 1,048,138
Grants	54,989	-	54,989
Service charges received in advance	-	113,249	113,249
Developer credits	2,202,871	830,261	3,033,132
Total	\$ 3,305,998	\$ 943,510	\$ 4,249,508

B. Fund Financial Statements

At June 30, 2019, the following unearned revenues were recorded in the Fund Financial Statements because the revenues had not been earned:

<i>Governmental Funds:</i>	General	Housing	Non-Major Funds	Total
Prepaid business license fees	\$ 992,121	\$ -	\$ 56,017	\$ 1,048,138
Grants	-	54,989	-	54,989
Developer Credits	-	-	2,202,871	2,202,871
Total	\$ 992,121	\$ 54,989	\$ 2,258,888	\$ 3,305,998

<i>Enterprise Funds:</i>	Wastewater System	Water System	Refuse Collection System	Total
Service charges received in advance	\$ 31,710	\$ 72,479	\$ 9,060	\$ 113,249
Developer credits	830,261	-	-	830,261
Total	\$ 861,971	\$ 72,479	\$ 9,060	\$ 943,510

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

5. INTERFUND TRANSACTIONS

A. Fund Financial Statements

Due To, Due From

At June 30, 2019, the City had the following short-term interfund receivables and payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Governmental Activities</u>
General Fund	Non-Major Governmental Funds	\$ 25,779
Non-Major Governmental Funds	Non-Major Governmental Funds	121,813
Total		<u><u>\$ 147,592</u></u>

Amounts shown as due to and from other funds represent interfund balances that arise in the normal course of operation and are expected to be repaid shortly after the end of the fiscal year.

Long-Term Advances

At June 30, 2019, the City had the following interfund long-term advances:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Governmental Activities</u>
General Fund	Non-Major Governmental Funds	<u><u>\$ 1,710,992</u></u>

Advance from the General Fund to the Community Facility Districts Funds (non-major governmental funds) has an interest rate equal to the rate earned on the City’s investment portfolio from the date of disbursements. Advance is to be repaid as funds become available from amounts received by the annual special tax.

Advance from the Restricted Water Mains Enterprise Fund to the Merced Municipal Airport Capital Improvement Project Fund (a non-major Enterprise fund) of \$400,000 for the purchase of general aviation hangars was approved by the City Council on November 17, 2008. As of January 2, 2019, this advance has been paid off.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

5. INTERFUND TRANSACTIONS, Continued

A. Fund Financial Statements, Continued

Interfund Transfers

The composition of interfund transfers for the year ended June 30, 2019 is as follows:

Transfers Out:	Transfers In							Total
	Governmental Funds				Proprietary Funds			
	General Fund	Measure C	Streets and Signals	Non-Major Governmental Funds	Refuse Collection System	Non-Major Enterprise Funds	Internal Service	
Governmental Funds:								
General Fund	\$ -	\$ -	\$ -	\$ 211,688	\$ -	\$ 44,699	\$ 1,947,335	\$ 2,203,722
Housing	236	-	456,984	-	-	-	-	457,220
Measure C	-	-	-	100,000	-	-	70,173	170,173
Streets and Signals	-	-	-	146,211	-	-	-	146,211
Non-Major Governmental Funds	755,043	540	1,880,515	-	44,739	20,048	506,478	3,207,363
Enterprise Funds:								
Wastewater System	-	-	-	2,000,000	-	-	142,063	2,142,063
Water System	-	-	-	1,301,939	-	-	146,259	1,448,198
Refuse Collection System	-	-	-	-	-	-	149,596	149,596
Non-Major Enterprise Funds	-	-	-	-	-	-	16,777	16,777
Total	\$ 755,279	\$ 540	\$ 2,337,499	\$ 3,759,838	\$ 44,739	\$ 64,747	\$ 2,978,681	\$ 9,941,323

Transfers represent funding of various City operations, funding for capital projects, lease payments or debt service, and intrafund transfers of specific departmental operations.

Furthermore, during the fiscal year ended June 30, 2019, the City made the following one-time transfers:

- 1) A transfer of \$11,918,327 from Water System to Wastewater System represents the reclassification of capital assets of the Storm Drain Department moving its operation from the Water System to Wastewater System.
- 2) A transfer of \$2,000,000 from the Wastewater System and a transfer of \$1,300,000 from the Water System to Non-Major Governmental Funds to set aside monies for employer required pension contributions.
- 3) A transfer of \$225,000 from General Fund to Internal Service Funds for additional workers' compensation claims paid during the fiscal year.
- 4) A transfer of \$891,756 from General Fund to Internal Service Funds represents the RDA residual set aside for future RDA payments.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

6. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2019, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
<i>Non-depreciable Assets:</i>			
Land and improvements	\$ 87,131,795	\$ 2,461,520	\$ 89,593,315
Construction in process	12,977,317	13,535,261	26,512,578
Total non-depreciable assets	100,109,112	15,996,781	116,105,893
<i>Depreciable Assets:</i>			
Buildings and structures	23,225,281	9,324,573	32,549,854
Machinery and equipment	44,124,154	5,825,727	49,949,881
Improvements other than buildings, structures, and land improvements	126,510,875	190,059,030	316,569,905
Infrastructure	373,827,526	42,172,024	415,999,550
Total depreciable assets	567,687,836	247,381,354	815,069,190
Total accumulated depreciation	(396,659,780)	(121,761,097)	(518,420,877)
Total depreciable assets, net	171,028,056	125,620,257	296,648,313
Total	\$ 271,137,168	\$ 141,617,038	\$ 412,754,206

The following is a summary of capital assets for governmental activities:

	Balance July 1, 2018	Additions	Deletions	Reclassification	Balance June 30, 2019
<i>Non-depreciable Assets:</i>					
Land and improvements	\$ 86,923,895	\$ 207,900	\$ -	\$ -	\$ 87,131,795
Construction in progress	7,857,702	6,459,703	(15,141)	(1,324,947)	12,977,317
Total non-depreciable assets	94,781,597	6,667,603	(15,141)	(1,324,947)	100,109,112
<i>Depreciable Assets:</i>					
Buildings and structures	23,225,281	-	-	-	23,225,281
Machinery and equipment	42,960,235	2,514,494	(1,350,575)	-	44,124,154
Improvements other than buildings, structures, and land improvements	125,179,232	6,696	-	1,324,947	126,510,875
Infrastructure	373,627,644	199,882	-	-	373,827,526
Total depreciable assets	564,992,392	2,721,072	(1,350,575)	1,324,947	567,687,836
<i>Accumulated depreciation:</i>					
Buildings and structures	(10,649,471)	(649,080)	-	-	(11,298,551)
Machinery and equipment	(34,553,916)	(2,309,334)	1,350,575	-	(35,512,675)
Improvements other than buildings, structures, and land improvements	(73,450,131)	(4,901,799)	-	-	(78,351,930)
Infrastructure	(262,252,210)	(9,244,414)	-	-	(271,496,624)
Total accumulated depreciation	(380,905,728)	(17,104,627)	1,350,575	-	(396,659,780)
Total depreciable assets, net	184,086,664	(14,383,555)	-	1,324,947	171,028,056
Total governmental activities, net	\$ 278,868,261	\$ (7,715,952)	\$ (15,141)	\$ -	\$ 271,137,168

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Governmental activities depreciation expense for capital assets for the year ended June 30, 2019 was as follows:

General government	\$ 1,386,452
Public safety	691,797
Public works	14,099,898
Culture and recreation	926,480
Total depreciation expense	<u>\$ 17,104,627</u>

The following is a summary of capital assets for business-type activities:

	Balance July 1, 2018	Additions	Deletions	Reclassification	Balance June 30, 2019
<i>Non-depreciable Assets:</i>					
Land and improvements	\$ 2,461,520	\$ -	\$ -	\$ -	\$ 2,461,520
Construction in progress	12,008,407	2,557,132	-	(1,030,278)	13,535,261
Total non-depreciable assets	<u>14,469,927</u>	<u>2,557,132</u>	<u>-</u>	<u>(1,030,278)</u>	<u>15,996,781</u>
<i>Depreciable Assets:</i>					
Buildings and structures	9,324,573	-	-	-	9,324,573
Machinery and equipment	5,759,262	152,752	(86,287)	-	5,825,727
Improvements other than buildings, structures, and land improvements	189,028,752	-	-	1,030,278	190,059,030
Infrastructure	42,062,326	109,698	-	-	42,172,024
Total depreciable assets	<u>246,174,913</u>	<u>262,450</u>	<u>(86,287)</u>	<u>1,030,278</u>	<u>247,381,354</u>
<i>Accumulated depreciation:</i>					
Buildings and structures	(3,197,755)	(344,272)	-	-	(3,542,027)
Machinery and equipment	(4,259,143)	(512,677)	86,287	-	(4,685,533)
Improvements other than buildings, structures, and land improvements	(88,026,620)	(9,339,198)	-	-	(97,365,818)
Infrastructure	(14,959,474)	(1,208,245)	-	-	(16,167,719)
Total accumulated depreciation	<u>(110,442,992)</u>	<u>(11,404,392)</u>	<u>86,287</u>	<u>-</u>	<u>(121,761,097)</u>
Total depreciable assets, net	<u>135,731,921</u>	<u>(11,141,942)</u>	<u>-</u>	<u>1,030,278</u>	<u>125,620,257</u>
Total business-type activities, net	<u>\$ 150,201,848</u>	<u>\$ (8,584,810)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 141,617,038</u>

Business-type activities depreciation expense for capital assets for the year ended June 30, 2019 was as follows:

Wastewater System Fund	\$ 8,274,526
Water System Fund	2,530,316
Refuse Collection System	150,758
Merced Municipal Airport	448,792
Total depreciation expense	<u>\$ 11,404,392</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

6. CAPITAL ASSETS, Continued

B. Fund Financial Statements

The Fund Financial Statements do not present general government capital assets. Consequently, capital assets are shown as a reconciling item in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

The capital assets of the enterprise funds in the Proprietary Fund Financial Statements are the same as those shown in the business-type activities of the Government-Wide Financial Statements. Internal Service Funds' capital assets are combined with governmental activities.

7. DEPOSITS AND OTHER LIABILITIES

Deposits and other liabilities consist of amounts accrued in the ordinary course of operations. The other liabilities as of June 30, 2019, were as follows:

A. Government-Wide Financial Statements

	Governmental Activities	Business-Type Activities	Total
Deposits	\$ -	\$ 1,726,934	\$ 1,726,934
Miscellaneous liabilities	96,830	19,935	116,765
Total	\$ 96,830	\$ 1,746,869	\$ 1,843,699

B. Fund Financial Statements

	Deposits	Other Liabilities	Total Deposits and Other Liabilities
<i>Governmental Funds:</i>			
General Fund	\$ -	\$ 9,720	\$ 9,720
Housing	-	38,540	38,540
Non-Major Funds	-	44,939	44,939
Total governmental funds	-	93,199	93,199
<i>Business-Type Activities:</i>			
Wastewater System	414,288	674	414,962
Water System	887,991	2,848	890,839
Refuse Collection System	408,488	-	408,488
Non-Major Funds	16,167	16,413	32,580
Total business-type activities	1,726,934	19,935	1,746,869
<i>Internal Service Funds</i>	-	3,631	3,631
Total	\$ 1,726,934	\$ 116,765	\$ 1,843,699

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

8. LONG-TERM DEBT

A. Government-Wide Financial Statements

Governmental Activities

Following is a summary of governmental activity long-term debt transactions during the fiscal year ended June 30, 2019:

	Balance July 1, 2018	Additions	Retirements	Balance June 30, 2019	Due Within One Year	Due in More than One Year
Pension obligation bonds	\$ 4,350,000	\$ -	\$ (540,000)	\$ 3,810,000	\$ 610,000	\$ 3,200,000
Loans payable	1,200,000	-	(200,000)	1,000,000	200,000	800,000
Capital lease	5,144,774	-	(475,665)	4,669,109	522,959	4,146,150
Total	\$ 10,694,774	\$ -	\$ (1,215,665)	\$ 9,479,109	\$ 1,332,959	\$ 8,146,150

Pension Obligation Bonds

California Statewide Communities Development Authority Taxable Pension Obligation Bonds

On June 29, 2004, the California Statewide Communities Development Authority (CSCDA) issued bonds pursuant to the terms of a Trust Agreement dated June 29, 2004, by and between the CSCDA and Wells Fargo Bank (Trustee) as trustee to purchase taxable pension obligation bonds of participating counties and cities (Local Agencies). The obligations of each Local Agency are imposed by law. The total amount of the bonds issued was \$197,084,195. The City's obligation amounted to \$7,355,000.

The bond proceeds in the amount of \$7,138,378 were used by the City to prepay a portion of the unfunded actuarial accrued liability to the California Public Employees' Retirement System. The bonds are an unconditional obligation of the City payable from legally available funds.

Principal payments are due on June 1 of each year and interest payments ranging from 2.65% to 5.58% are due on June 1 and December 1 of each year. Local Agencies are obligated to deposit with the Trustee an amount equal to the annual debt service by August 1 of each year.

The annual debt service requirements for the pension obligation bonds are as follows:

Year Ending June 30	Principal	Interest	Total
2020	\$ 610,000	\$ 224,637	\$ 834,637
2021	680,000	188,672	868,672
2022	755,000	148,579	903,579
2023	840,000	104,065	944,065
2024	925,000	54,538	979,538
Total	\$ 3,810,000	\$ 720,491	\$ 4,530,491

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Loans Payable

2003 \$4,000,000 Loan Payable

The 2003 \$4,000,000 Loan Payable was for loan guarantee assistance under Section 108 of the Housing and Community Development Act of 1974, principal payments are \$200,000 annually. Interest is 2.0% to 6.5%, payable semi-annually.

The annual debt service requirements for the 2003 \$4,000,000 loan payable are as follows:

Year Ending June 30	Principal	Interest	Total
2020	\$ 200,000	\$ 50,360	\$ 250,360
2021	200,000	39,370	239,370
2022	200,000	28,250	228,250
2023	200,000	17,020	217,020
2024	200,000	5,690	205,690
Total	\$ 1,000,000	\$ 140,690	\$ 1,140,690

Capital Lease

On March 9, 2011, the City entered into a capital lease agreement with Bank of America to fund certain energy efficient, cost saving facility improvement measures and facility upgrades under which the related facility will become the property of the City when all terms of the lease agreement are met. The capital lease agreement of \$7,157,493 funded energy efficiency retrofitting of \$4,783,916 and capital improvements of \$2,373,577. As of June 30, 2019, the accumulated depreciation on the capital assets is \$721,962.

The capital lease agreement balance as of June 30, 2019:

	Stated Interest Rate	Present Value of Remaining Payments as of June 30, 2019
Governmental Activities: Facilities	4.50%	\$ 4,669,109

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

As of June 30, 2019, future minimum lease payments under capital leases are as follows:

	Year Ending June 30	Governmental Activities
	2020	\$ 728,977
	2021	755,035
	2022	782,005
	2023	621,135
	2024	643,420
	2025-2027	2,071,899
Total future minimum lease payments		5,602,471
Less: interest		(933,362)
Present value of minimum lease payments		<u>\$ 4,669,109</u>

Business-Type Activities

	Balance July 1, 2018	Additions	Retirements	Balance June 30, 2019	Due Within One Year	Due in More than One Year
Revenue bonds payable	\$ 10,725,000	\$ -	\$ (1,350,000)	\$ 9,375,000	\$ 1,405,000	\$ 7,970,000
Unamortized premiums	818,574	-	(116,940)	701,634	-	701,634
Loans payable	29,576,492	-	(1,807,077)	27,769,415	1,847,648	25,921,767
Total	<u>\$ 41,120,066</u>	<u>\$ -</u>	<u>\$ (3,274,017)</u>	<u>\$ 37,846,049</u>	<u>\$ 3,252,648</u>	<u>\$ 34,593,401</u>

Revenue Bonds Payable

Revenue bonds payable at June 30, 2019, consisted of the following:

	Bonds Payable	Unamortized Premiums
Water Revenue Bonds	\$ 2,835,000	\$ 204,811
Wastewater Revenue Bonds	6,540,000	496,823
Total	<u>\$ 9,375,000</u>	<u>\$ 701,634</u>

2012 Series Water and Wastewater Revenue Bonds

On June 19, 2012, the City issued 2012 Series in the amount of \$17,995,000 with an average interest rate of 3.665% to advance refund \$22,270,000 of outstanding 2005 CSCDA Water and Wastewater Bonds, \$6,555,000 and \$15,715,000 respectively, with an average interest rate of 5.223%.

The debt issuance resulted in an unamortized premium of \$1,808,425 that will be amortized over the life of the bonds. The unamortized premium balance at June 30, 2019 totals \$701,634.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Revenue Bonds Payable, Continued

2012 Series Water and Wastewater Revenue Bonds, Continued

The bonds were secured by pledges of the Water and Wastewater Fund net revenues under the respective installment purchase agreements for each individual program participant. The indentures prescribe that the City will collect charges and fees for the use of Water and Wastewater which are reasonably fair and nondiscriminatory and which are estimated in each fiscal year to be at least sufficient to yield net revenues during such fiscal year equal to 125% of debt services for such fiscal year plus the amount necessary to restore the Reserve Fund, if any, to the respective amounts required to be on deposit therein in such fiscal year. For 2018-19 fiscal year, the debt coverage is 7.26 and 7.30 for the Water Fund and Wastewater Fund, respectively.

The City's obligation at issuance was \$5,455,000 for the Water Fund and \$12,540,000 for the Wastewater Fund. Principal payments are due on October 1 of each year and interest payments ranging from 2.0% to 5.0% are due on April 1 and October 1 of each year.

The annual debt service requirements for the Water Revenue Bonds are as follows:

Year Ending June 30	Principal	Interest	Total
2020	\$ 430,000	\$ 99,600	\$ 529,600
2021	445,000	82,100	527,100
2022	460,000	64,000	524,000
2023	480,000	45,200	525,200
2024	500,000	25,600	525,600
2025	520,000	7,800	527,800
Total	<u>\$ 2,835,000</u>	<u>\$ 324,300</u>	<u>\$ 3,159,300</u>

The annual debt service requirements for the Wastewater Revenue Bonds are as follows:

Year Ending June 30	Principal	Interest	Total
2020	\$ 975,000	\$ 287,600	\$ 1,262,600
2021	1,015,000	247,800	1,262,800
2022	1,055,000	201,125	1,256,125
2023	1,110,000	147,000	1,257,000
2024	1,165,000	90,125	1,255,125
2025	1,220,000	30,500	1,250,500
Total	<u>\$ 6,540,000</u>	<u>\$ 1,004,150</u>	<u>\$ 7,544,150</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Loans Payable

Loans payable at June 30, 2019 consisted of the following:

California Infrastructure and Economic Development Bank (CIEDB)	
Enterprise Fund Installment Sales Agreement	\$ 6,052,209
California State Water Resources Control Board	
Clean Water State Revolving Fund	21,717,206
Total	<u>\$ 27,769,415</u>

California Infrastructure and Economic Development Bank Enterprise Fund Installment Sales Agreement

On October 1, 2003, the City entered into an Enterprise Fund Installment Sales Agreement with California Infrastructure and Economic Development Bank for the purchase of water and sewer improvements for the University of California Merced Campus. The principal balance of the agreement was \$8,262,208 and bears interest of 3.17%.

Principal payments are due on August 1 of each year and interest payments are due on February 1 and August 1 of each year.

The annual debt service requirements for the Enterprise Fund Installment Sales Agreement are as follows:

Year Ending	Principal	Interest	Total
June 30			
2020	\$ 275,000	\$ 187,496	\$ 462,496
2021	300,000	178,383	478,383
2022	325,000	168,476	493,476
2023	325,000	158,174	483,174
2024	350,000	147,475	497,475
2025-2029	2,050,000	554,308	2,604,308
2030-2034	2,427,209	198,044	2,625,253
Total	<u>\$ 6,052,209</u>	<u>\$ 1,592,356</u>	<u>\$ 7,644,565</u>

California State Water Resources Control Board Clean Water State Revolving Fund Loan

On October 1, 2008, the City entered into an agreement with California State Water Resources Control Board for a Wastewater Treatment Plant Expansion Project funded by Clean Water State Revolving Fund (CWSRF) loan. The project consists of upgrading and expanding existing facilities. The loan amount was \$32,315,970 with an interest rate of 1.0% per annum, after the American Recovery and Reinvestment Act (ARRA) principal forgiveness grant of \$2,000,000.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Loans Payable, Continued

Principal and interest payments are due on September 30 of each year beginning 2012 and ending September 30, 2031.

The annual debt service requirements for the Clean Water State Revolving Fund Loan are as follows:

Year Ending June 30	Principal	Interest	Total
2020	\$ 1,572,648	\$ 217,172	\$ 1,789,820
2021	1,588,374	201,446	1,789,820
2022	1,604,258	185,562	1,789,820
2023	1,620,300	169,519	1,789,820
2024	1,636,503	153,316	1,789,820
2025-2029	8,431,290	517,808	8,949,098
2030-2032	5,263,833	105,626	5,369,459
Total	<u>\$ 21,717,206</u>	<u>\$ 1,550,449</u>	<u>\$ 23,267,655</u>

B. Fund Financial Statements

The Governmental Fund Financial Statements do not present general government long-term debt. Consequently, long-term debt is shown as a reconciling item in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

C. Debt with No City Commitment

The long-term debt of the enterprise funds in the Proprietary Fund Financial Statements are the same as those shown in the business-type activities of the Government-Wide Financial Statements. Internal Service Funds' long-term debt is combined with governmental activities.

The following bond issues are not reported in the City's financial statements, because the City acts solely as an agent for the bondholders in collecting and forwarding the special assessments. Accordingly, no liability for these bonds has been recorded in the City's general purpose financial statements.

The City has issued bonds under the "Mello-Roos Community Facilities Act of 1982." These bonds are secured by real property within the district boundaries. Special taxes levied on these properties are used to pay the bonds.

	Outstanding June 30, 2019
Fahrens Park Refunding Assessment District	\$ 1,205,000
Bellevue Ranch East CFD	8,200,000
Bellevue Ranch West CFD	5,975,000
Moraga CFD	4,065,000
Total	<u>\$ 19,445,000</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

9. COMPENSATED ABSENCES

The City's compensated absences consist of accrued vacation pay and floating holiday pay for all permanent full-time employees. Some employees also accrue compensatory time. The total amount of the accrued liability is recorded in the Government-Wide Financial Statements and charges for compensated absences expense is charged to the General Fund, Development Services Fund, Housing Fund, Streets and Street Light Maintenance Fund, Parks and Community Service Fund, Measure C Fund, Maintenance Districts Fund, and the Community Facilities Districts Services Fund.

A summary of changes in compensated absences for the year ended June 30, 2019 is as follows:

	Balance July 1, 2018	Additions	Retirements	Balance June 30, 2019	Due Within One Year	Due in More than One Year
Governmental activities	\$ 3,285,558	\$ 951,422	\$ (520,071)	\$ 3,716,909	\$ 624,692	\$ 3,092,217
Business-type activities	1,022,710	149,446	(63,405)	1,108,751	144,542	964,209
Total	\$ 4,308,268	\$ 1,100,868	\$ (583,476)	\$ 4,825,660	\$ 769,234	\$ 4,056,426

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

10. CLASSIFICATION OF FUND BALANCE

In governmental funds, nonspendable, restricted, committed, assigned and unassigned are presented as components of fund balance as follows:

	Major Governmental Funds					Non Major Government Funds	Total Government
	General	Housing Special Revenue	Measure C Special Revenue	Low & Moderate Income Housing Special Revenue	Streets and Signals Capital Projects		
Nonspendable:							
Inventory	\$ 46,929	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,929
Advances receivable	1,710,992	-	-	-	-	-	1,710,992
Total nonspendable	1,757,921	-	-	-	-	-	1,757,921
Restricted for:							
Street and street lights	-	-	-	-	-	7,816,361	7,816,361
Trust 115 - Pension	-	-	-	-	-	3,320,688	3,320,688
Community development	-	-	-	-	-	17,937,787	17,937,787
Housing	-	21,716,356	-	9,878,508	-	866,025	32,460,889
Public safety	-	-	-	-	-	237,199	237,199
Special districts	-	-	-	-	-	4,110,720	4,110,720
Capital projects	-	-	-	-	1,701,469	1,036,911	2,738,380
Other special projects and programs:							
Cash basis fund	4,000,000	-	-	-	-	-	4,000,000
Other	-	-	-	-	-	418,173	418,173
Total restricted	4,000,000	21,716,356	-	9,878,508	1,701,469	35,743,864	73,040,197
Committed to:							
Substandard Housing	31,718	-	-	-	-	-	31,718
Street and street lights	-	-	-	-	-	8,139	8,139
Community development	-	-	-	-	-	2,329,912	2,329,912
Public safety	-	-	2,425,008	-	-	-	2,425,008
Housing	-	-	-	-	-	4,173,461	4,173,461
Total committed	31,718	-	2,425,008	-	-	6,511,512	8,968,238
Assigned to:							
Appropriations in subsequent year	1,820,087	-	-	-	-	-	1,820,087
Encumbrances:							
General government	696,328	-	-	-	-	-	696,328
Public safety	222,172	-	-	-	-	-	222,172
Public works	30,640	-	-	-	-	-	30,640
Parks and recreation	20,936	-	-	-	-	-	20,936
Total assigned	2,790,163	-	-	-	-	-	2,790,163
Unassigned	14,946,463	-	-	-	-	-	14,946,463
Total Fund Balances	\$ 23,526,265	\$ 21,716,356	\$ 2,425,008	\$ 9,878,508	\$ 1,701,469	\$ 42,255,376	\$ 101,502,982

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

11. OTHER FUND DISCLOSURES

A. Deficit Balances

At June 30, 2019, the funds below had the following deficit fund balance or net position:

Enterprise Funds:

<u>Refuse Fund</u>	\$ (1,705,033)
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The deficit net position was caused by the adjustments established through implementation of Governmental Accounting Standards Board Statement No. 68 and 75, which requires the net pension liability and net OPEB liability to be reported on the Statement of Net Position. The deficit will be eliminated by future charges for services.

Internal Service Funds:

<u>Workers' Compensation Insurance Fund</u>	\$ (5,161,823)
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The deficit net position was caused by recording a liability according to the Governmental Accounting Standards Board Statement No. 10 that requires an accrual of claims liabilities based on estimates of the ultimate cost of claims, including future claim adjustment expenditures, that have been reported but not settled, and of claims that have been incurred but not yet reported (IBNR).

<u>Fleet Management Fund</u>	\$ (817,054)
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The deficit net position was caused by the adjustments established through implementation of Governmental Accounting Standards Board Statement No. 68, which requires net pension liability to be reported on the Statement of Net Position. The deficit will be eliminated by future charges for services.

<u>Facility Maintenance Fund</u>	\$ (3,843,973)
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The deficit net position was caused by recording other postemployment benefits liability through the implementation of Governmental Accounting Standards Board Statement No. 75 and net pension liability. In addition, the City's capital lease agreement to fund certain energy cost saving facility improvement measures and facility upgrades cause a reduction in fund balance. The related facility will become property of the City when all terms of the lease agreement are met. The deficit balance will be eliminated by future charges for services and debt service payments related to the capital lease agreement.

<u>Support Services Fund</u>	\$ (3,415,202)
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The deficit net position was caused by the recording of other postemployment benefits liability through the implementation of Governmental Accounting Standards Board Statement No. 75 and the net pension liability. The deficit balance will be eliminated by future charges for services.

<u>Public Works Administration Fund</u>	\$ (2,755,486)
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The deficit net position was caused by the recording of other postemployment benefits liability through the implementation of Governmental Accounting Standards Board Statement No. 75 and the net pension liability. The deficit will be eliminated by future charges for services.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

12. RISK MANAGEMENT

The City maintains internal service funds to account for the City's general liability and workers' compensation insurance. All unpaid claims that were probable liabilities that occurred prior to year-end and that were estimated based on actuarial studies or historical data were recorded in accordance with GASB Statement No. 10. As of June 30, 2019, claims for general liability and workers' compensation were \$1,231,505 and \$5,141,250 respectively.

The Liability Insurance Fund is used to account for all general liability claims against the City. The City is a member of the Central San Joaquin Valley Risk Management Authority (CSJVRMA), with a self-insured retention of \$100,000 for general liability and errors and omissions. The CSJVRMA retains the first \$1,000,000 of coverage above the \$100,000 self-insured retention. The CSJVRMA pays each claim from first dollar and then allocates the amount the city is responsible for and the amount which is shared by the pooled layers through the retrospective adjustment process. The CSJVRMA is a member of California Affiliated Risk Management Authorities (CARMA) for excess coverage over \$1 million up to \$29 million.

The Workers' Compensation Insurance Fund is used to account for all workers' compensation claims against the City. The fund provides for a maximum of \$350,000 for each claim. Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX) covers the layer above the member's retained limit up to \$5 million. LAWCX is a member of the California State Association of Counties Excess Insurance Authority (CSAC EIA) who provides the excess coverage over the \$5 million.

The changes in balance of claims liabilities during the past two years are as follows:

	General Liability	Workers' Compensation
Liability - June 30, 2017	\$ 478,762	\$ 5,636,361
Claims incurred	839,937	1,966,698
Claims payments	(241,531)	(1,927,907)
Changes to prior year estimates	-	244,027
Liability - June 30, 2018	1,077,168	5,919,179
Claims incurred	423,967	1,127,093
Claims payments	(269,630)	(2,300,525)
Changes to prior year estimates	-	395,504
Liability - June 30, 2019	<u>\$ 1,231,505</u>	<u>\$ 5,141,250</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

13. PENSION PLANS

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the City’s Safety (Fire and Police) and Miscellaneous Plans, agent multiple-employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions under the Plans are established by State statute and City Resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding number of employees covered, benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of service are eligible to retire at the retirement age with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The basic death benefit is offered to all members. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

Summary of the Plans’ reported financial statement balances are as follows:

	Defined-Benefit Pension Plans		
	Miscellaneous Plan	Safety Plan	Total Plans
Deferred Outflows - Pension	\$ 8,129,302	\$ 10,529,097	\$ 18,658,399
Net Pension Liability	44,233,359	39,946,639	84,179,998
Deferred Inflows - Pension	949,015	2,097,644	3,046,659
Pension Expense	6,554,705	5,549,673	12,104,378

The Plans’ provisions and benefits in effect at June 30, 2019 are summarized as follows:

	Miscellaneous Plan		
	Existing plan members hired before	Existing plan members hired after	New plan members hired after
Hire date	December 10, 2012	December 10, 2012	January 1, 2013
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	22.476%	22.476%	22.476%

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

13. PENSION PLANS, Continued

A. General Information about the Pension Plans, Continued

	Safety Plan		
	Existing plan members hired before	Existing plan members hired after	New plan members hired after
Hire date - Fire	October 7, 2011	October 7, 2011	January 1, 2013
Hire date - Police	December 10, 2012	December 10, 2012	January 1, 2013
Benefit formula	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 55	50 - 57
Monthly benefits, as a % of eligible compensation	3.0%	2.4% - 3.0%	2.0% to 2.7%
Required employee contribution rates	9%	9%	11.75%
Required employer contribution rates	33.131%	33.131%	33.131%

Employees Covered – As of the measurement date, the following employees were covered by the benefit terms for each Plan:

	Miscellaneous Plan	Safety Plan
Inactive employees or beneficiaries currently receiving benefits	364	181
Inactive employees entitled to but not yet receiving benefits	204	103
Active employees	278	150
Total	<u>846</u>	<u>434</u>

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

B. Net Pension Liability

The City’s net pension liability for each Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown on the following page.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

13. PENSION PLANS, Continued

B. Net Pension Liability, Continued

Actuarial Assumptions – The June 30, 2017 valuation was rolled forward to determine the June 30, 2018 total pension liability, based on the following actuarial methods and assumptions:

	<u>Miscellaneous and Safety Plans</u>
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

(1) The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

13. PENSION PLANS, Continued

B. Net Pension Liability, Continued

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The expected real rates of return by asset class are as followed:

Asset Class (a)	Assumed asset allocation	Real Return Years 1 -10 (b)	Real Return Years 11+ (c)
Global equity	50.0%	4.80%	5.98%
Fixed income	28.0%	1.00%	2.62%
Inflation assets	0.0%	0.77%	1.81%
Private equity	8.0%	6.30%	7.23%
Real assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	100.0%		

- (a) In the System's CAFR, Fixed Income is included in Global Debt Securities;
 Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.
- (b) An expected inflation of 2.0% used for this period.
- (c) An expected inflation of 2.92% used for this period.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

13. PENSION PLANS, Continued

C. Changes in the Net Pension Liability

The following table shows the changes in the net pension liability recognized over the measurement period.

Miscellaneous Plan:	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Pension	Net Pension Liability (Asset)
	(a)	(b)	(c) = (a) - (b)
Beginning balance	\$ 145,841,888	\$ 101,478,084	\$ 44,363,804
Change in the year:			
Service cost	2,637,968	-	2,637,968
Interest on the total pension liability	10,244,849	-	10,244,849
Changes in assumptions	(1,271,983)	-	(1,271,983)
Differences between actual and expected experience	1,040,612	-	1,040,612
Net Plan to Plan Resource Movement	-	(249)	249
Contribution - employer	-	3,336,076	(3,336,076)
Contribution - employee	-	1,325,496	(1,325,496)
Net Investment income	-	8,578,992	(8,578,992)
Administrative expenses	-	(158,131)	158,131
Benefit payments, including refunds of employee contribution	(7,289,789)	(7,289,789)	-
Other Miscellaneous Income/ (Expense)	-	(300,293)	300,293
Net changes	5,361,657	5,492,102	(130,445)
Ending at June 30, 2018	\$ 151,203,545	\$ 106,970,186	\$ 44,233,359
Safety Plan:			
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Pension	Net Pension Liability (Asset)
	(a)	(b)	(c) = (a) - (b)
Beginning balance	\$ 152,797,316	\$ 113,458,281	\$ 39,336,035
Change in the year:			
Service cost	3,543,500	-	3,543,500
Interest on the total pension liability	10,821,482	-	10,821,482
Changes in assumptions	(689,001)	-	(689,001)
Differences between actual and expected experience	982,138	-	982,138
Net Plan to Plan Resource Movement	-	(280)	280
Contribution - employer	-	3,784,726	(3,784,726)
Contribution - employee	-	1,210,467	(1,210,467)
Net Investment income	-	9,565,146	(9,565,146)
Administrative expenses	-	(176,799)	176,799
Benefit payments, including refunds of employee contribution	(7,019,603)	(7,019,603)	-
Other Miscellaneous Income/ (Expense)	-	(335,745)	335,745
Net changes	7,638,516	7,027,912	610,604
Ending at June 30, 2018	\$ 160,435,832	\$ 120,486,193	\$ 39,946,639

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

13. PENSION PLANS, Continued

C. Changes in the Net Pension Liability, Continued

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of each Plan as of the measurement date, calculated using the discount rate of 7.15% for each Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage point-higher than the current rate:

	Miscellaneous Plan	Safety Plan	Total Plans
1% decrease	6.15%	6.15%	6.15%
Net pension liability	\$ 64,392,535	\$ 62,433,378	\$ 126,825,913
Current discount rate	7.15%	7.15%	7.15%
Net pension liability	\$ 44,233,359	\$ 39,946,639	\$ 84,179,998
1% increase	8.15%	8.15%	8.15%
Net pension liability	\$ 27,547,831	\$ 21,482,437	\$ 49,030,268

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

D. Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2019, the City recognized pension expense of \$12,104,378 (\$6,554,705 and \$5,549,673 for Miscellaneous and Safety Plans, respectfully). At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous Plan		Safety Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,896,647	\$ -	\$ 4,391,776	\$ -
Expected and actual experience	987,062	(51,145)	753,734	(1,401,551)
Change in assumptions	3,059,011	(897,870)	5,021,785	(696,093)
Net differences between projected and actual earnings on pension plan investments	186,582	-	361,802	-
Total	<u>\$ 8,129,302</u>	<u>\$ (949,015)</u>	<u>\$ 10,529,097</u>	<u>\$ (2,097,644)</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

13. PENSION PLANS, Continued

D. Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

For Miscellaneous and Safety Plans, \$3,896,647 and \$4,391,776, respectfully, is reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30	Miscellaneous Plan	Safety Plan
	Deferred Outflows/(Inflows) of Resources	Deferred Outflows/(Inflows) of Resources
2019	\$ 3,908,274	\$ 2,424,518
2020	751,578	1,962,154
2021	(1,087,278)	(57,725)
2022	(288,934)	(289,270)

14. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS (OPEB)

A. General Information about the OPEB Plan

Plan Description - The City of Merced Retiree Healthcare Plan (“Plan”) is an agent multiple-employer defined benefit healthcare plan. Benefit provisions are established and may be amended through agreements and Memorandums of Understanding (MOU) between the City, its management employees, and the unions representing City employees. The City’s Retiree Healthcare Plan does not issue a stand-alone financial report.

The City has \$2,180,312 in the California Employers’ Retiree Benefit Trust (CERBT) at the end of the fiscal year ending June 30, 2019. CERBT is a tax-qualified irrevocable trust administered by the California Public Employees’ Retirement System (CalPERS) and organized under Internal Revenue Code Section 115 to pre-fund retiree healthcare and other postemployment benefits. Copies of CalPERS’ financial report may be obtained from the CalPERS website at www.calpers.ca.gov or from CalPERS Headquarters at 400 Q Street, Sacramento, California, 95811.

Employees hired after December 31, 2002 in the Public Safety Bargaining Unit, December 31, 2003 in the AFSCME Bargaining Unit, December 31, 2004 in the MACE Bargaining Unit, and July 4, 2006 for Unrepresented Management Employees are not eligible for retirement healthcare benefits.

Eligible employees can participate in the City’s Retiree Healthcare Plan if they retire directly from the City with at least 10 years of City service. There is no minimum service requirement if retirement is due to a service-connected disability. The City pays the retiree-only premium for medical coverage, up to a capped amount that varies by bargaining unit. Spouse and dependent coverage is available only until the retiree is deceased, and at their own expense. Medical coverage is with United Health Care. Dental and vision benefits are available to retirees, but at their own expense.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

14. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS (OPEB), Continued

A. General Information about the OPEB Plan, Continued

Employees Covered – At June 30, 2018, the measurement date, the following number of participants were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	263
Inactive employees entitled to but not yet receiving benefits	5
Active employees	136
Total	<u>404</u>

Contributions - The contribution requirements of the Plan participants and City are established by and may be amended by the City pursuant to agreements with its management employees and the unions representing City employees. The plan is currently funded on a pay-as-you-go basis. No additional pre-funding is currently planned.

B. Net OPEB Liability

The City’s net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

Actuarial Assumptions - The total OPEB liability at the June 30, 2018 measurement date was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	Based on Municipal Bond Rate 3.87%, Bond Buyer 20
Inflation	2.75%
Expected Long-Term Investment Rate of Return	3.87% at 6/30/18
Salary Increases	Aggregate - 3% annually Merit - CalPERS 1997-2011 Experience Study
Mortality, Disability, Termination, Retirement	CalPERS 1997-2011 Experience Study
Mortality Improvement Scale	Post-retirement mortality projected fully generational with Scale MP-2016
Trend	Non-Medicare - 7.5% for 2019, decreasing to an ultimate rate of 4.00% in 2076 Medicare - 6.5% for 2019, decreasing to an ultimate rate of 4.00% in 2076
Healthcare Participation for Future Retirees	Medical coverage: 100% Spouse coverage: 100% for those with more than single coverage Assumptions based on study of recent retiree experience

The actuarial assumptions at the June 30, 2018 measurement date were based on the results of an actuarial experience study for the period 1997 to 2011.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

14. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS (OPEB), Continued

B. Net OPEB Liability, Continued

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation CERBT-Strategy 1	Long-term expected real rate of return
Global equity	57.0%	4.82%
Fixed income	27.0%	1.47%
TIPS	5.0%	1.29%
Commodities	3.0%	0.84%
REITS	8.0%	3.76%
Total	100.0%	

Discount Rate – The discount rate used to measure the total OPEB liability was 3.87%. The projection of cash flows used to determine the discount rate assumed that the City contributions would be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

14. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS (OPEB), Continued

C. Change in the Net OPEB Liability

The changes in the net OPEB liability for the Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Beginning balance	\$ 34,293,000	\$ 1,906,000	\$ 32,387,000
Change in the year:			
Service cost	506,000	-	506,000
Interest on the total OPEB liability	1,218,000	-	1,218,000
Changes of benefit terms	-	-	-
Changes in Assumptions	(1,100,000)	-	(1,100,000)
Differences between expected and actual experience	-	-	-
Contribution - employer	-	1,585,000	(1,585,000)
Contribution - employee	-	-	-
Net Investment income	-	152,000	(152,000)
Benefit payments, including refunds	(1,585,000)	(1,585,000)	-
Administrative expenses	-	(4,000)	4,000
Net Changes	(961,000)	148,000	(1,109,000)
Ending at June 30, 2019 (measurement date June, 30, 2018)	\$ 33,332,000	\$ 2,054,000	\$ 31,278,000

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - the following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current discount rate:

	Discount Rate -1% (2.87%)	Current Discount Rate (3.87%)	Discount Rate +1% (4.87%)
Net OPEB Liability/(Asset)	\$ 35,318,000	\$ 31,278,000	\$ 27,889,000

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates - the following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Discount Rate -1% (6.50% decreasing to 3.00%)	Healthcare Cost Trend Rates (7.50% decreasing to 4.00%)	Discount Rate +1% (8.50% decreasing to 5.00%)
Net OPEB Liability/(Asset)	\$ 29,329,000	\$ 31,278,000	\$ 33,568,000

OPEB Plan Fiduciary Net Position - detailed information about the OPEB plan's fiduciary net position is available in the separately issued plan financial report.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

14. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS (OPEB), Continued

D. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2019, the City recognized OPEB expense of \$(1,140,000). At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (589,000)
Change in assumptions	-	(1,320,000)
Net differences between projected and actual earnings on OPEB plan investments	-	(58,000)
Employer contributions made subsequent to the measurement date	1,617,000	-
Total	\$ 1,617,000	\$ (1,967,000)

The \$1,617,000 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2018 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Measurement Period Ended June 30	Deferred Outflows/(Inflows) of Resources
2020	\$ (1,561,000)
2021	(384,000)
2022	(19,000)
2023	(3,000)

15. COMMITMENTS AND CONTINGENT LIABILITIES

Project Commitments

As of June 30, 2019, the City had the following outstanding commitments that exceeded \$500,000:

Vendor Name	Outstanding Amount
Hobbs Construction	\$ 2,364,753
Merced Gateway Investors II, LP	801,244
Merced County Department of Public Works	625,236
Rolfe Construction, Inc	591,240
Total	\$ 4,382,473

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2019

16. POLLUTION REMEDIATION OBLIGATIONS

The City of Merced is aware of various contaminated sites throughout the City, which contain certain gasoline chemicals and other contaminants such as pesticides and solvents.

The State of California Regional Water Quality Control Board requires the City to expend \$250,000 annually on perchloroethylene (PCE) remediation efforts at certain dry cleaner sites. Costs for these activities are offset by insurance recoveries, and therefore no liability is reported on the City's Statement of Net Position.

17. SUBSEQUENT EVENT

On August 6, 2019, the City of Merced finalized a Settlement Agreement with the California Department of Finance. The litigation, which had begun November 16, 2016, resolved regarding the wind down of the Redevelopment Agency for the City of Merced (RDA) pursuant to Assembly Bill 26 and Assembly Bill 1484, collectively the "Dissolution Law."

The parties agreed that the City of Merced will remit \$9,528,395.83 to the Merced Designated Local Authority based on the following schedule:

- \$2,000,000 by no later than October 1, 2019
- \$2,000,000 by no later than July 1, 2020
- \$1,250,000 by no later than July 1, 2021
- \$1,250,000 by no later than July 1, 2022
- \$1,250,000 by no later than July 1, 2023
- \$1,250,000 by no later than July 1, 2024, and
- \$528,395.38 by no later than July 1, 2025

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REQUIRED SUPPLEMENTARY INFORMATION

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City of Merced
Required Supplementary Information
For the year ended June 30, 2019

1. BUDGETARY CONTROL AND ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The annual budget adopted by the City Council provides for the general operation of the City and is adopted by resolution in June of each year for all funds. The resolution sets a combined appropriation of the funds for the operation of the City.
2. The City Manager is authorized to transfer budgeted amounts between departments and line items to assure adequate and proper standards of service. Budgetary revisions, including supplemental appropriations, which increase appropriations in individual funds and transfers between funds, must be approved by the City Council. The budgetary level of control is at the fund level. The budgeted figures used in the financial statements are the final amended amounts.
3. The budget is formally integrated into the accounting system and employed as a management control device during the year for all funds.
4. Budgets for the governmental fund types are adopted and recorded on the modified basis of accounting on a basis consistent with GAAP. Budget appropriations lapse at the end of the fiscal year. Supplemental appropriations were adopted by the City Council and have been included in the schedules of revenues, expenditures, and changes in fund balance - budget to actual.

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations, and if certain proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or refunded to the taxpayers through revised tax rates or revised fee schedules. For the fiscal year ended June 30, 2019, proceeds of taxes did not exceed allowable appropriations.

The accompanying Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual for the General Fund and major special revenue funds present comparisons of the legally adopted budget with actual data on a basis consistent with GAAP.

Encumbrances

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of the formal budgetary process. Encumbrances outstanding at year-end are reported in the various categories of fund balance since they represent commitments, which will be honored during the subsequent year. Encumbrances do not represent expenditures or liabilities.

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2019

1. BUDGETARY CONTROL AND ACCOUNTING, Continued

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual-General Fund

	Budget		Actual	Variance with
	Original	Final		Final Budget
REVENUES:				
Taxes:				
Property tax:				
Secured	\$ 7,009,186	\$ 7,009,186	\$ 7,384,279	\$ 375,093
Unsecured	477,750	477,750	472,770	(4,980)
Supplemental roll:				
Prior year - unsecured	6,242	6,242	21,011	14,769
Prior year - supplemental roll	125,000	125,000	234,660	109,660
Sales and use	12,458,414	12,458,414	12,807,354	348,940
Transient occupancy tax	1,695,000	1,695,000	2,008,081	313,081
Franchise	1,687,000	1,687,000	1,631,738	(55,262)
Business license	1,350,000	1,350,000	1,480,700	130,700
Cost revenue impact study fee	536,900	536,900	1,000,076	463,176
Real property transfer	195,595	195,595	266,671	71,076
Vehicle in lieu backfill	6,134,000	6,134,000	6,287,317	153,317
Total taxes	<u>31,675,087</u>	<u>31,675,087</u>	<u>33,594,657</u>	<u>1,919,570</u>
Intergovernmental:				
Motor vehicle in lieu tax	40,000	40,000	41,641	1,641
Homeowners property tax relief	63,000	63,000	61,064	(1,936)
Police standards and training	-	-	62,766	62,766
Other state grants	-	279,888	193,203	(86,685)
Other federal grants	54,693	248,679	24,905	(223,774)
Office BJA - bulletproof vest grant	-	4,615	7,131	2,516
State mandated cost reimbursement	56,106	56,106	60,081	3,975
Total intergovernmental	<u>213,799</u>	<u>692,288</u>	<u>450,791</u>	<u>(241,497)</u>
Licenses and permits:				
Animal licenses	10,000	10,000	11,971	1,971
Bicycle licenses	180	180	110	(70)
Other licenses and permits	8,200	8,200	8,645	445
Total licenses and permits	<u>18,380</u>	<u>18,380</u>	<u>20,726</u>	<u>2,346</u>
Use of money and property				
Investment Earnings	186,000	186,000	569,009	383,009
Rents and concessions (other than recreation)	40,065	40,065	43,258	3,193
Total use of money and property	<u>226,065</u>	<u>226,065</u>	<u>612,267</u>	<u>386,202</u>

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2019

1. BUDGETARY CONTROL AND ACCOUNTING, Continued

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual- General Fund (continued)

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES, Continued:				
Service charges:				
Accident and police reports	\$ 9,000	\$ 9,000	\$ 10,108	\$ 1,108
Fire department special services	28,555	415,406	417,941	2,535
Fire prevention	195,000	195,000	256,444	61,444
Weed and lot cleaning	-	-	4,512	4,512
Administrative citations	115,000	115,000	227,869	112,869
Administrative Fines	-	-	4,100	4,100
Cost recovery	134,225	172,364	120,581	(51,783)
Release fees class I	60,000	60,000	68,208	8,208
Administrative	3,817,196	3,817,187	3,817,187	-
Interdepartmental charges	1,882,312	1,882,310	1,882,310	-
Other current service charges	380	380	1,873	1,493
Total service charges	6,241,668	6,666,647	6,811,133	144,486
Fines, forfeitures and penalties:				
Criminal fines	70,000	70,000	105,756	35,756
Parking fines	200,000	200,000	189,540	(10,460)
Total fines, forfeitures and penalties	270,000	270,000	295,296	25,296
Other:				
Animal control services	9,000	9,000	17,295	8,295
School police officer	510,277	510,277	503,676	(6,601)
Valley High School police officer	122,321	122,321	-	(122,321)
Merced Community College captain	220,554	220,554	213,589	(6,965)
Merchandise and brochure revenue	34,200	34,200	25,414	(8,786)
Cash overages (shortages)	100	100	(41)	(141)
Donations and contributions	3,450	6,750	8,727	1,977
S.M.I.P. fees	2,800	2,800	-	(2,800)
Miscellaneous	18,845	55,589	76,581	20,992
Total other	921,547	961,591	845,241	(116,350)
Total revenues	39,566,546	40,510,058	42,630,111	2,120,053

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2019

1. BUDGETARY CONTROL AND ACCOUNTING, Continued

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual- General Fund (continued)

	Budget		Actual	Variance with Final Budget
	Original	Final		
EXPENDITURES:				
Current operating:				
General government:				
City council	\$ 250,431	\$ 288,260	\$ 228,406	\$ 59,854
Youth council	13,380	15,956	13,067	2,889
City manager	1,100,927	1,431,920	987,855	444,065
City clerk	548,228	495,626	470,763	24,863
City attorney	1,024,363	1,034,981	979,182	55,799
Finance	2,957,229	2,864,695	2,752,465	112,230
Purchasing	234,457	226,678	231,341	(4,663)
Economic development	520,683	571,574	472,504	99,070
Visitor's services	174,669	170,161	152,798	17,363
Total general government	6,824,367	7,099,851	6,288,381	811,470
Public safety:				
Police protection	20,624,696	19,409,137	18,994,890	414,247
Fire protection and weed abatement	10,051,409	10,023,728	9,965,807	57,921
Total public safety	30,676,105	29,432,865	28,960,697	472,168
Public works	1,896,591	1,873,256	1,785,835	87,421
Total current operating	39,397,063	38,405,972	37,034,913	1,371,059
Capital outlay				
	11,517	178,459	11,288	167,171
Debt service:				
Principal	540,000	540,000	540,000	-
Interest	259,776	259,776	259,629	147
Total debt service	799,776	799,776	799,629	147
Total expenditures	40,208,356	39,384,207	37,845,830	1,538,377
EXCESS(DEFICIENCY) OF REVENUE				
OVER (UNDER) EXPENDITURES	(641,810)	1,125,851	4,784,281	3,658,430
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of assets	360	360	11,604	11,244
Transfers in	777,708	821,379	689,047	(132,332)
Transfers out	(2,260,361)	(4,023,067)	(3,918,982)	104,085
Total other financing sources (uses)	(1,482,293)	(3,201,328)	(3,218,331)	(17,003)
Net change in fund balance	\$ (2,124,103)	\$ (2,075,477)	1,565,950	\$ 3,641,427
FUND BALANCE:				
Beginning of year			16,280,219	
End of year			<u>17,846,169</u>	

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2019

1. BUDGETARY CONTROL AND ACCOUNTING, Continued

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual General Fund (continued)

Reconciliation of General Fund Budgetary Schedule to generally accepted accounting principles information presented in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance- General Fund.

The Parks and Community Services Fund has been combined with the General Fund for reporting purposes in compliance with GASB 54, since it no longer meets the definition of a Special Revenue Fund, due to lack of substantial inflows from restricted or committed revenue sources.

	General Fund - Budgetary Schedule - Actual	Parks and Community Services Fund	Revenue Stabilization Fund	Economic Development Opportunity Fund	Substandard Housing Fund	General Fund - Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
Total revenues	\$ 42,630,111	\$ 317,857	\$ 70,333	\$ 102,020	\$ 43,930	\$ 43,164,251
Total expenditures	37,845,830	1,701,021	-	3,358	45,406	39,595,615
Excess (deficiency) of revenues over (under) expenditures	4,784,281	(1,383,164)	70,333	98,662	(1,476)	3,568,636
Total other financing sources (uses)	(3,218,331)	1,381,713	288,750	115,500	-	(1,432,368)
Net change in fund balance	1,565,950	(1,451)	359,083	214,162	(1,476)	2,136,268
Beginning of year	16,280,219	22,844	2,917,095	2,136,644	33,195	21,389,997
End of year	\$ 17,846,169	\$ 21,393	\$ 3,276,178	\$ 2,350,806	\$ 31,719	\$ 23,526,265

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2019

1. BUDGETARY CONTROL AND ACCOUNTING, Continued

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual- Housing Special Revenue Fund

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 1,765,410	\$ 4,373,133	\$ 2,029,924	\$ (2,343,209)
Use of money and property	365,028	365,028	44,381	(320,647)
Service charges	650,696	961,051	578,702	(382,349)
Other revenues	-	-	1,000	1,000
Total revenues	<u>2,781,134</u>	<u>5,699,212</u>	<u>2,654,007</u>	<u>(3,045,205)</u>
EXPENDITURES:				
Current operating:				
General government	3,770,774	5,974,458	1,605,165	4,369,293
Total current operating	<u>3,770,774</u>	<u>5,974,458</u>	<u>1,605,165</u>	<u>4,369,293</u>
Capital outlay	-	-	-	-
Total expenditures	<u>3,770,774</u>	<u>5,974,458</u>	<u>1,605,165</u>	<u>4,369,293</u>
EXCESS(DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES				
	<u>(989,640)</u>	<u>(275,246)</u>	<u>1,048,842</u>	<u>1,324,088</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	-
Transfers out	(62,838)	(515,322)	(457,220)	58,102
Total other financing sources (uses)	<u>(62,838)</u>	<u>(515,322)</u>	<u>(457,220)</u>	<u>58,102</u>
Net change in fund balances	<u>\$ (1,052,478)</u>	<u>\$ (790,568)</u>	591,622	<u>\$ 1,382,190</u>
FUND BALANCE:				
Beginning of Year			21,124,733	
End of Year			<u>21,716,355</u>	

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2019

1. BUDGETARY CONTROL AND ACCOUNTING, Continued

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual- Measure C Special Revenue Fund

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 6,415,000	\$ 6,415,000	\$ 6,853,092	\$ 438,092
Intergovernmental	199,469	207,393	211,853	4,460
Use of money and property	2,500	2,500	60,837	58,337
Service charges	110,194	198,649	202,518	-
Other Revenue	-	-	215	215
Total revenues	<u>6,727,163</u>	<u>6,823,542</u>	<u>7,328,515</u>	<u>501,104</u>
EXPENDITURES:				
Current operating:				
Public safety	7,102,818	6,992,332	6,343,951	648,381
Public works	27	2,739	53	2,686
Total current operating	<u>7,102,845</u>	<u>6,995,071</u>	<u>6,344,004</u>	<u>651,067</u>
Capital outlay	-	-	-	-
Total expenditures	<u>7,102,845</u>	<u>6,995,071</u>	<u>6,344,004</u>	<u>651,067</u>
EXCESS(DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES				
	<u>(375,682)</u>	<u>(171,529)</u>	<u>984,511</u>	<u>1,152,171</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of assets	-	-	-	-
Transfers in	-	-	540	540
Transfers out	<u>(170,173)</u>	<u>(170,173)</u>	<u>(170,173)</u>	-
Total other financing sources (uses)	<u>(170,173)</u>	<u>(170,173)</u>	<u>(169,633)</u>	<u>540</u>
Net change in fund balances	<u>\$ (545,855)</u>	<u>\$ (341,702)</u>	814,878	<u>\$ 1,152,711</u>
FUND BALANCE:				
Beginning of Year			<u>1,610,133</u>	
End of Year			<u>\$ 2,425,011</u>	

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2019

1. BUDGETARY CONTROL AND ACCOUNTING, Continued

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual- Low and Moderate Income Housing Special Revenue Fund

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental				
Use of money and property	\$ 49,351	\$ 49,351	\$ 321,669	\$ 272,318
Other Revenue	-	-	-	-
Total revenues	<u>49,351</u>	<u>49,351</u>	<u>321,669</u>	<u>272,318</u>
EXPENDITURES:				
Current operating:				
General government	1,280,168	1,280,174	195,104	1,085,070
Total current operating	<u>1,280,168</u>	<u>1,280,174</u>	<u>195,104</u>	<u>1,085,070</u>
Total expenditures	<u>1,280,168</u>	<u>1,280,174</u>	<u>195,104</u>	<u>1,085,070</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>(1,230,817)</u>	<u>(1,230,823)</u>	<u>126,565</u>	<u>1,357,388</u>
Net change in fund balances	<u>\$ (1,230,817)</u>	<u>\$ (1,230,823)</u>	<u>126,565</u>	<u>\$ 1,357,388</u>
FUND BALANCE:				
Beginning of Year			<u>9,751,943</u>	
End of Year			<u>\$ 9,878,508</u>	

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2019

2. SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) - *Miscellaneous Plan*

Measurement Period (1)	2017-18	2016-17	2015-16	2014-15	2013-14
TOTAL PENSION LIABILITY					
Service Cost	\$ 2,637,968	\$ 2,693,011	\$ 2,380,009	\$ 2,478,640	\$ 2,627,256
Interest on Total Pension Liability	10,244,849	9,858,159	9,435,717	9,059,272	8,695,697
Changes of Assumptions	(1,271,983)	8,157,365	-	(2,210,035)	-
Difference between Expected and Actual Experience	1,040,612	673,366	(818,329)	(1,270,597)	-
Benefit Payments, Including Refunds of Employee Contributions	(7,289,789)	(6,478,220)	(6,060,443)	(5,438,406)	(5,139,153)
Net Change in Total Pension Liability	5,361,657	14,903,681	4,936,954	2,618,874	6,183,800
Total Pension Liability - Beginning	145,841,888	130,938,207	126,001,253	123,382,379	117,198,579
Total Pension Liability - Ending (a)	\$ 151,203,545	\$ 145,841,888	\$ 130,938,207	\$ 126,001,253	\$ 123,382,379
PLAN FIDUCIARY NET POSITION					
Contributions - Employer	\$ 3,336,076	\$ 2,989,612	\$ 2,847,440	\$ 2,585,409	\$ 2,247,444
Contributions - Employee	1,325,496	1,224,690	1,235,668	1,311,171	1,253,749
Net Investment Income	8,420,861	10,300,142	473,484	2,039,373	14,172,466
Benefit Payments, Including Refunds of Employee Contributions	(7,289,789)	(6,478,220)	(6,060,443)	(5,438,406)	(5,139,153)
Other Changes in Fiduciary Net Position	(300,542)	-	-	-	-
Net Change in Fiduciary Net Position	5,492,102	8,036,224	(1,503,851)	497,547	12,534,506
Plan Fiduciary Net Position - Beginning	101,478,084	93,441,860	94,945,711	94,448,164	81,913,658
Plan Fiduciary Net Position - Ending (b)	\$ 106,970,186	\$ 101,478,084	\$ 93,441,860	\$ 94,945,711	\$ 94,448,164
Plan Net Position Liability/(Asset) - Ending (a) - (b)	\$ 44,233,359	\$ 44,363,804	\$ 37,496,347	\$ 31,055,542	\$ 28,934,215
Plan Fiduciary Net Position as a Percentage of the					
Total Pension Liability	70.75%	69.58%	71.36%	75.35%	76.55%
Covered Payroll	\$ 16,559,749	\$ 16,516,474	\$ 15,970,003	\$ 16,286,485	\$ 16,471,824
Plan Net Pension Liability/(Asset) as					
a Percentage of Covered Payroll	267.11%	268.60%	234.79%	190.68%	175.66%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Net of administrative expenses.

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes that occurred after the June 20, 2017 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was reduced from 7.65% to 7.15%. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5% (net of administrative expense) to 7.65% (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5% discount rate.

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2019

2. SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS, Continued

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) – *Safety Plan*

Measurement Period (1)	2017-18	2016-17	2015-16	2014-15	2013-14
TOTAL PENSION LIABILITY					
Service Cost	\$ 3,543,500	\$ 3,431,918	\$ 2,918,262	\$ 2,915,019	\$ 3,121,317
Interest on Total Pension Liability	10,821,482	10,305,955	9,919,699	9,584,428	9,243,496
Changes of Assumptions	(689,001)	8,884,695	-	(2,398,329)	-
Difference between Expected and Actual Experience	982,138	(1,074,802)	(2,152,774)	(2,052,784)	-
Benefit Payments, Including Refunds of Employee Contributions	(7,019,603)	(6,733,626)	(6,135,867)	(5,795,426)	(5,745,669)
Net Change in Total Pension Liability	7,638,516	14,814,140	4,549,320	2,252,908	6,619,144
Total Pension Liability - Beginning	152,794,316	137,980,176	133,430,856	131,177,948	124,558,804
Total Pension Liability - Ending (a)	\$ 160,432,832	\$ 152,794,316	\$ 137,980,176	\$ 133,430,856	\$ 131,177,948
PLAN FIDUCIARY NET POSITION					
Contributions - Employer	\$ 3,784,726	\$ 3,498,832	\$ 3,149,784	\$ 2,907,155	\$ 2,615,979
Contributions - Employee	1,210,467	1,163,431	1,111,386	1,068,553	1,106,201
Net Investment Income (2)	9,388,347	11,381,967	474,720	2,226,669	15,776,487
Benefit Payments, Including Refunds of Employee Contributions	(7,019,603)	(6,733,626)	(6,135,867)	(5,795,426)	(5,745,669)
Other Changes in Fiduciary Net Position	(336,025)	-	-	-	-
Net Change in Fiduciary Net Position	7,027,912	9,310,604	(1,399,977)	406,951	13,752,998
Plan Fiduciary Net Position - Beginning	113,458,281	104,147,677	105,547,654	105,140,703	91,387,705
Plan Fiduciary Net Position - Ending (b)	\$ 120,486,193	\$ 113,458,281	\$ 104,147,677	\$ 105,547,654	\$ 105,140,703
Plan Net Position Liability/(Asset) - Ending (a) - (b)	\$ 39,946,639	\$ 39,336,035	\$ 33,832,499	\$ 27,883,202	\$ 26,037,245
Plan Fiduciary Net Position as a Percentage of the					
Total Pension Liability	75.10%	74.26%	75.48%	79.10%	80.15%
Covered Payroll	\$ 12,872,349	\$ 12,534,855	\$ 11,867,192	\$ 11,774,523	\$ 12,061,197
Plan Net Pension Liability/(Asset) as					
a Percentage of Covered Payroll	310.33%	313.81%	285.09%	236.81%	215.88%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Net of administrative expenses.

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes that occurred after the June 20, 2017 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was reduced from 7.65% to 7.15%. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5% (net of administrative expense) to 7.65% (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5% discount rate.

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2019

3. SCHEDULE OF PLAN CONTRIBUTIONS

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) - *Miscellaneous Plan*

	2019	2018	2017	2016	2015 (1)
Actuarially determined contribution	\$ 3,896,647	\$ 3,336,076	\$ 2,989,612	\$ 2,847,440	\$ 2,585,409
Contributions in relation to the actuarially determined contributions	(3,896,647)	(3,336,076)	(2,989,612)	(2,847,440)	(2,585,409)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll (2)	\$18,986,096	\$16,559,749	\$16,516,474	\$15,970,003	\$ 16,286,485
Contributions as a percentage of covered payroll	20.52%	20.15%	18.10%	17.83%	15.87%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Includes one year's payroll growth using 2.75 percent payroll assumption for fiscal year ended June 30, 2018; 3.00 percent payroll assumption for fiscal years ended June 30, 2015-2017

Notes to schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2017-18 were from the June 30, 2015 funding valuation report:

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	See June 30, 2015 Funding Valuation report
Asset Valuation Method	Market value of assets
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2019

3. SCHEDULE OF PLAN CONTRIBUTIONS, Continued

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) - *Safety Plan*

	2019	2018	2017	2016	2015 ⁽¹⁾
Actuarially determined contribution	\$ 4,391,776	\$ 3,784,726	\$ 3,498,832	\$ 3,149,784	\$ 2,907,155
Contributions in relation to the actuarially determined contributions	(4,391,776)	(3,784,726)	(3,498,832)	(3,149,784)	(2,907,155)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll (2)	\$12,847,136	\$12,872,349	\$12,534,855	\$11,867,192	\$ 11,774,532
Contributions as a percentage of covered payroll	34.18%	29.40%	27.91%	26.54%	24.69%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Includes one year's payroll growth using 2.75 percent payroll assumption for fiscal year ended June 30, 2018; 3.00 percent payroll assumption for fiscal years ended June 30, 2015-2017

Notes to schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2017-18 were from the June 30, 2015 funding valuation report:

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	See June 30, 2015 Funding Valuation report
Asset Valuation Method	Market value of assets
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2019

4. SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

Measurement Period (1)	2018	2017
Total OPEB liability		
Service cost	\$ 506,000	\$ 877,000
Interest on total pension liability	1,218,000	1,133,000
Changes in assumptions	(1,100,000)	(2,937,000)
Differences between expected and actual experience	-	(2,947,000)
Benefit payments, including refunds of employee contributions	(1,585,000)	(1,427,000)
Net change in total OPEB liability	(961,000)	(5,301,000)
Total OPEB liability - beginning	34,293,000	39,594,000
Total OPEB liability - ending (a)	\$33,332,000	\$34,293,000
Plan fiduciary net position		
Contributions - employer	\$ 1,585,000	\$ 1,427,000
Contributions - employee	-	-
Net investment income (2)	148,000	181,000
Benefit payments, including refunds of employee contributions	(1,585,000)	(1,427,000)
Net change in plan fiduciary net position	148,000	181,000
Plan fiduciary net position - beginning	1,906,000	1,725,000
Plan fiduciary net position - ending (b)	\$ 2,054,000	\$ 1,906,000
Net OPEB liability - ending (a) - (b)	\$31,278,000	\$32,387,000
Plan fiduciary net position as a percentage of the total OPEB liability	6.16%	5.56%
Covered - employee payroll	\$11,909,000	\$12,558,000
Net OPEB liability/(asset) as a percentage of covered-employee payroll	262.64%	257.90%

(1) Historical information is required only for measurement periods for which GASB 75 is applicable.

(2) Net of administrative expenses.

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2019

5. SCHEDULE OF CONTRIBUTIONS - OPEB

	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 2,431,000	\$ 2,370,000
Contributions in relation to the actuarially determined contribution	<u>(1,617,000)</u>	<u>(1,585,000)</u>
Contribution deficiency/ (excess)	<u>814,000</u>	<u>785,000</u>
Covered-employee payroll	<u>\$11,970,000</u>	<u>\$ 11,909,000</u>
Contributions as a percentage of covered-employee payroll	13.51%	13.31%

Fiscal year 2018 was the 1st year of implementation.

Notes to schedule:

Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2019 were as of the June 30, 2018 measurement date.

Methods and assumptions used to determine contributions:

Valuation date	June 30, 2017
Actuarial cost method	Entry age, level percentage of payroll
Amortization method	Level dollar, closed period. 30 years for initial UAL and 15 years for subsequent changes.
Remaining amortization period	Average remaining period 25.8 years
Asset valuation method	Investment gains and losses spread over 5-year rolling period
Discount rate	3.75%
General inflation	2.75%
Medical Trend	Non-Medicare - 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 Medicare - 6.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076
Mortality	CalPERS 1997-2011 experience study
Mortality Improvement	Post-retirement mortality projected fully generational with Scale MP-2016

SUPPLEMENTARY INFORMATION

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City of Merced
Supplementary Information
General Fund Combining Balance Sheet
June 30, 2019

	General	Parks and Community Services Fund	Revenue Stabilization Fund	Economic Development Opportunity Fund	Substandard Housing Fund	General Fund Combined
ASSETS						
Cash, cash equivalents and investments	\$ 13,795,321	\$ 82,473	\$ 3,276,178	\$ 2,337,010	\$ 23,572	\$ 19,514,554
Restricted cash held by fiscal agents	16,051	-	-	-	-	16,051
Receivables:						
Accounts	1,222,475	16,142	-	-	8,146	1,246,763
Due from other government	3,076,804	-	-	-	-	3,076,804
Interest	79,545	-	-	13,796	-	93,341
Due from other funds	25,779	-	-	-	-	25,779
Inventory	46,929	-	-	-	-	46,929
Advances to other funds	1,710,992	-	-	-	-	1,710,992
Total assets	\$ 19,973,896	\$ 98,615	\$ 3,276,178	\$ 2,350,806	\$ 31,718	\$ 25,731,213
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 172,112	\$ 25,591	\$ -	\$ -	\$ -	\$ 197,703
Payroll liabilities	953,773	51,631	-	-	-	1,005,404
Deferred inflows	992,121	-	-	-	-	992,121
Other liabilities	9,720	-	-	-	-	9,720
Total liabilities	2,127,726	77,222	-	-	-	2,204,948
Fund Balances:						
Nonspendable	1,757,921	-	-	-	-	1,757,921
Restricted	4,000,000	-	-	-	-	4,000,000
Committed	-	-	-	-	31,718	31,718
Assigned	2,688,460	21,156	-	80,547	-	2,790,163
Unassigned	9,399,789	237	3,276,178	2,270,259	-	14,946,463
Total fund balances	17,846,170	21,393	3,276,178	2,350,806	31,718	23,526,265
Total liabilities, deferred inflows of resources and fund balances	\$ 19,973,896	\$ 98,615	\$ 3,276,178	\$ 2,350,806	\$ 31,718	\$ 25,731,213

City of Merced
Supplementary Information
General Fund Combining Statement of Revenues, Expenditures
And changes in Fund Balance
For the year ended June 30, 2019

	General Fund	Parks and Community Services Fund	Revenue Stabilization Fund	Economic Development Opportunity Fund	Substandard Housing Fund	General Fund Combined
REVENUES:						
Taxes	\$ 33,594,657	\$ -	\$ -	\$ -	\$ -	\$ 33,594,657
Intergovernmental	450,791	-	-	-	-	450,791
Licenses and permits	20,726	-	-	-	-	20,726
Use of money and property	612,267	3,433	70,333	102,020	270	788,323
Service charges	6,811,133	227,648	-	-	43,660	7,082,441
Fines, forfeitures and penalties	295,296	-	-	-	-	295,296
Other revenues	845,241	86,772	-	-	-	932,013
Total revenues	42,630,111	317,853	70,333	102,020	43,930	43,164,247
EXPENDITURES:						
Current operating:						
General government	6,288,378	-	-	3,358	45,407	6,337,143
Public safety	28,960,694	-	-	-	-	28,960,694
Public works	1,785,835	-	-	-	-	1,785,835
Culture and recreation	-	1,701,022	-	-	-	1,701,022
Total current operating	37,034,907	1,701,022	-	3,358	45,407	38,784,694
Capital outlay	11,288	-	-	-	-	11,288
Debt service:						
Principal	540,000	-	-	-	-	540,000
Interest and fiscal charges	259,629	-	-	-	-	259,629
Total expenditures	37,845,824	1,701,022	-	3,358	45,407	39,595,611
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,784,287	(1,383,169)	70,333	98,662	(1,477)	3,568,636
OTHER FINANCING SOURCES (USES):						
Proceeds from sale of asset	11,604	4,471	-	-	-	16,075
Transfers in	689,047	66,232	-	-	-	755,279
Transfers out	(2,194,421)	(9,301)	-	-	-	(2,203,722)
Intrafund transfers	(1,724,566)	1,320,316	288,750	115,500	-	-
Total other financing sources (uses)	(3,218,336)	1,381,718	288,750	115,500	-	(1,432,368)
NET CHANGE IN FUND BALANCES	1,565,951	(1,451)	359,083	214,162	(1,477)	2,136,268
FUND BALANCES:						
Beginning of year	16,280,219	22,844	2,917,095	2,136,644	33,195	21,389,997
End of year	\$ 17,846,170	\$ 21,393	\$ 3,276,178	\$ 2,350,806	\$ 31,718	\$ 23,526,265

City of Merced
Supplementary Information
University Capital Fund Balance Sheet
For the year ended June 30, 2019

	Total University Charge	University Capital Charge Wastewater System	University Capital Charge Water System
ASSETS			
Intergovernmental receivable	\$ 6,131,177	\$ 3,126,900	\$ 3,004,277
Total assets	6,131,177	3,126,900	3,004,277
LIABILITIES AND FUND BALANCES			
Accrued interest payable	78,968	40,274	38,694
Bonds payable current	275,000	140,250	134,750
Bonds payable noncurrent	5,777,209	2,946,377	2,830,832
Total liabilities	6,131,177	3,126,901	3,004,276
Total fund balances	-	-	-
Total liabilities and fund balances	\$ 6,131,177	\$ 3,126,901	\$ 3,004,276

City of Merced
Supplementary Information
University Capital Fund Statement of Revenues, Expenses
And Changes in Fund Balance
For the year ended June 30, 2019

	Total University Charge	University Capital Charge Wastewater System	University Capital Charge Water System
OPERATING REVENUES:			
Sewer facility fee	\$ 211,462	107,846	103,616
Total operating revenues	<u>211,462</u>	<u>107,846</u>	<u>103,616</u>
NONOPERATING REVENUE (EXPENSES):			
Interest and fiscal agent fees	211,462	107,846	103,616
Total nonoperating (expenses)	<u>211,462</u>	<u>107,846</u>	<u>103,616</u>
Net Income (Loss)	-	-	-
FUND BALANCES:			
Beginning of year	-	-	-
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>