



Artist's Conception

City of Merced, California

Basic Financial Statements
For the Fiscal Year Ended June 30, 2011



G Street Undercrossing Project

The conversion of the City's G Street at-grade railroad crossing to an undercrossing has been a long-term goal of the City of Merced. The Merced Vision 2015 General Plan describes how long freight trains have created significant traffic congestion and delays for vehicles waiting for them to pass, especially during peak hours, along the major north-south routes of G, M and R Streets.

The construction phase of the project began in July 2010 and is expected to be completed in December 2011. The undercrossing will eliminate the delay motorists and trucks experience, which will help save fuel and improve air quality by reducing greenhouse gas emissions.

City of Merced

Merced, California

Annual Financial Report

For the year ended June 30, 2011

City of Merced
Annual Financial Report
For the year ended June 30, 2011

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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

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 (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 of Merced, as of June 30, 2011, and the respective changes in financial positions and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued under separate cover our report dated March 30, 2012, on our consideration of the City of Merced's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Honorable Mayor and Members
of the City Council of the City of Merced
Merced, California
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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedules of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual and the Schedules of Funding Progress, as listed in the table of contents, 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.

Ballina LLP

Roseville, California
March 30, 2012

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, 2011. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, which can be found in the introductory section of this report, and the City's Financial Statements, which follows this discussion.

➤ IMPACT OF STATE LEGISLATION

- Governor Brown's January 10, 2011 release of Fiscal Year 2011-12 State of California budget proposal recommended disbanding redevelopment agencies as of July 1, 2011.
- As part of the 2011-12 State budget bill, the California Legislature enacted Assembly Bill X1 26 and Assembly Bill X1 27, which requires that each redevelopment agency be dissolved as of October 1, 2011 unless the community that created it enacts an ordinance committing to make certain payments. The California Redevelopment Association filed suit with the California Supreme Court on behalf of cities, counties and redevelopment agencies challenging the constitutionality of AB X1 26 and AB X1 27.
- On December 29, 2011, the Supreme Court upheld AB X1 26 which dissolves redevelopment agencies as of February 1, 2012. In the same ruling, AB X1 27 was overturned as unconstitutional.

➤ FINANCIAL HIGHLIGHTS

- The City's net assets as shown on the Statement of Activities decreased by \$17.7 million. The governmental net assets decreased by \$26.1 million and the business-type net assets increased by \$8.3 million.
- As shown on the Statement of Net Assets, the assets of the City exceeded its liabilities at the close of the fiscal year by \$579.3 million.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$6.8 million, or 44% percent of the General Fund fund balance.
- The net increase to governmental activity long-term debt was \$7.1 million. The net decrease to the business-type activity long-term debt was \$1.6 million. New debt issued during the year was a \$2.5 million Farmers and Merchants Bank of Central California loan for funding the restoration of the Merced Theatre. The City entered into a capital lease agreement for \$7.1 million to fund energy efficient facility upgrades.

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 of Merced'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.

OVERVIEW OF THE FINANCIAL STATEMENTS, Continued

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 assets, 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.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the fiscal year. All changes in net assets 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 absence).

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, parks, and capital outlay. 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 a legally separate Redevelopment Agency (Agency) and a legally separate Public Financing and Economic Development Authority (Authority) for which the City is financially accountable. 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.

OVERVIEW OF THE FINANCIAL STATEMENTS, Continued

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.

The City maintains thirty-nine 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 the General Fund, Housing Special Revenue Fund, Redevelopment Agency Debt Service Fund, Streets and Signals Capital Projects Fund and Redevelopment Agency Capital Projects Fund, which are considered to be major funds. Data from the other thirty-four governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for all its funds. A budgetary comparison has been provided for the General Fund and the Housing Special Revenue Fund in the 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. The City maintains five individual enterprise funds. Information is presented separately in the Proprietary Statement of Net Assets and the Proprietary Statement of Revenues, Expense and Changes in Fund Net Assets for the Wastewater System, Water System and Refuse Collection, which are considered major funds. Data from the other two proprietary funds are combined into a single, aggregated presentation. 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 Worker's Compensation, Liability Insurance, Unemployment, Employee Benefits, Fleet Management and Replacement, Facility Maintenance, Support Services, Personal Computer Maintenance 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 statement 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 assets may serve over time as a useful indicator of a governments' financial position. In the case of the City, assets exceeded liabilities by \$579.3 million at the close of the most recent fiscal year.

Summary of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 127,774,462	\$ 126,047,674	\$ 126,356,826	\$ 130,301,886	\$ 254,131,288	\$ 256,349,560
Capital assets	343,204,822	354,655,874	146,808,640	136,734,255	490,013,462	491,390,129
Total assets	<u>470,979,284</u>	<u>480,703,548</u>	<u>273,165,466</u>	<u>267,036,141</u>	<u>744,144,750</u>	<u>747,739,689</u>
Current liabilities	23,862,977	15,088,406	11,647,600	12,223,850	35,510,577	27,312,256
Noncurrent liabilities	62,046,082	54,414,347	67,243,491	68,911,361	129,289,573	123,325,708
Total liabilities	<u>85,909,059</u>	<u>69,502,753</u>	<u>78,891,091</u>	<u>81,135,211</u>	<u>164,800,150</u>	<u>150,637,964</u>
Net assets:						
Invested in capital assets, net of debt	300,226,422	324,084,333	80,020,736	81,107,174	380,247,158	405,191,507
Restricted	41,768,680	44,702,806	34,622,726	16,759,584	76,391,406	61,462,390
Unrestricted	43,075,123	42,413,656	79,630,913	88,034,172	122,706,036	130,447,828
Total net assets	<u>\$ 385,070,225</u>	<u>\$ 411,200,795</u>	<u>\$ 194,274,375</u>	<u>\$ 185,900,930</u>	<u>\$ 579,344,600</u>	<u>\$ 597,101,725</u>

The largest portion of the City's net assets, 65%, reflects its 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.

Thirteen percent of the City's net assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of \$122.7 million is the unrestricted net assets. The Governmental Activities unrestricted net assets of \$43 million include only \$4.5 million of funds that are unassigned. The Business-Type Activities restricted net assets of \$34.6 million include \$1.8 million of funds that are for specific projects and programs.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

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

Statement of Activities

	Governmental		Business-type		Total	
	Activities		Activities		Government	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues:						
Charges for services	\$ 14,335,029	\$ 19,517,624	\$ 43,566,056	\$ 41,383,059	\$ 57,901,085	\$ 60,900,683
Operating grants and contributions	8,473,837	8,410,891	1,772,760		10,246,597	8,410,891
Capital grants and contributions	10,256,032	3,802,900			10,256,032	3,802,900
General revenues and transfers:						
Property taxes	19,760,688	20,767,841	44,174		19,804,862	20,767,841
Sales taxes	11,442,904	11,206,239			11,442,904	11,206,239
Franchise taxes	1,555,272	1,574,193			1,555,272	1,574,193
Transient occupancy tax	717,508	745,071			717,508	745,071
Business license tax	1,067,420	1,167,393			1,067,420	1,167,393
Cost recovery impact study	14,487	11,001			14,487	11,001
Business improvement area	79,029	82,288			79,029	82,288
Other	430,086	1,103,069	855,953	1,301,053	1,286,039	2,404,122
Total revenues	68,132,292	68,388,510	46,238,943	42,684,112	114,371,235	111,072,622
Expenses						
Governmental activities:						
General government	22,593,791	32,272,561			22,593,791	32,272,561
Public Safety	27,605,798	27,080,093			27,605,798	27,080,093
Public Works	41,546,045	20,138,631			41,546,045	20,138,631
Parks	1,721,922	3,930,014			1,721,922	3,930,014
Other	2,000,680	2,015,366			2,000,680	2,015,366
Business-type activities:						
Wastewater system			12,304,995	11,497,313	12,304,995	11,497,313
Water system			10,895,212	9,833,245	10,895,212	9,833,245
Refuse collection			10,885,926	10,222,077	10,885,926	10,222,077
Merced municipal airport			877,123	907,444	877,123	907,444
Parks and Community Services			1,696,868		1,696,868	
Total expenses	95,468,236	85,436,665	36,660,124	32,460,079	132,128,360	117,896,744
Increase in net assets before transfers	(27,335,944)	(17,048,155)	9,578,819	10,224,033	(17,757,125)	(6,824,122)
Transfers	1,205,374	1,331,379	(1,205,374)	(1,331,379)		
Increase in net assets	(26,130,570)	(15,716,776)	8,373,445	8,892,654	(17,757,125)	(6,824,122)
Net assets beginning of year	411,200,795	426,917,571	185,900,930	177,008,276	597,101,725	603,925,847
Net assets ending of year	\$ 385,070,225	\$ 411,200,795	\$ 194,274,375	\$ 185,900,930	\$ 579,344,600	\$ 597,101,725

Governmental Activities- Governmental Activities decreased the City's net assets by \$26.1 million. Taxes provided 51% of the revenue and charges for services provided 21% of the revenue, and operating and capital grants and contributions provided 27% of the revenue received during the year.

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

**Net Cost of Governmental Activities
For the Fiscal Year Ended June 30, 2011**

	Total Cost of Services	Net Cost of Services
General Government	\$ 22,593,791	\$ (11,521,859)
Public Safety	27,605,798	(24,422,995)
Public Works	41,546,045	(25,531,105)
Parks	1,721,922	1,073,301
Other	2,000,680	(2,000,680)
Total	\$ 95,468,236	\$ (62,403,338)

The costs for all governmental activities during the year were \$95.4 million, which is 72% of total expenses. The City’s taxpayers paid for \$34.6 million of these costs. Fees, grants and contributions funded the balance of the cost.

➤ **Business-type Activities**-Business-type activities increased the City’s net assets by \$8.3 million. This increase consists of fees collected for future capital projects. The revenues from the business-type activities total \$46.2 million. Program revenues of the City’s business-type activities total \$45.3 million. Expenses of business-type activities were \$36.6 million. Transfers from the City’s business-type activities were \$1.2 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, 2011 of \$62 million, a decrease of \$8.6 million. The net decrease was due to use of reserves or accumulated funds to maintain operations and finance capital projects.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$15.6 million and the unassigned fund balance was \$6.8 million. As a measure of the General Fund’s liquidity, it may be useful to compare unreserved fund balance to total expenditures. The unassigned fund balance represents 21% of total General Fund expenditures.

The General Fund balance decreased by \$1.6 million during the fiscal year. Sales tax and property tax are the primary revenues of the General Fund. Property tax decreased 6% while Sales tax increased by 2.1%. Due to the continued decline in revenues caused by the economic downturn, the City continues to follow a five year financial plan which was implemented in fiscal year 2009-10 that reduced expenditures and utilized General Fund reserves in order to maintain core services.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS, Continued

Other changes in fund balances include the following:

Housing Special Revenue Fund-

- This major fund increased by \$499,574 due to receipt of grant funds for activities benefiting low and moderate income citizens.

Redevelopment Agency Debt Service Fund-

- This major fund decreased by \$3.7 million due the receipt of a prepayment on a 55 year ground lease on the Merced Theatre which was used to repay a 2 day loan on the Merced Theatre construction project. Also, the State's shifting of tax increment from the Agency to the Supplemental Educational Revenue Augmentation Funds (SERAF) in the amount of \$577,894 decreased the Agency's fund balance.

Streets & Signals Capital Projects Fund-

- This major fund decreased by \$2.3 million due to the use of accumulated funds for capital outlay.

Redevelopment Agency Capital Projects Fund-

- This major fund decreased by \$14.1 million due to the conveyance of certain assets, existing projects in process, and associated liability to the PFEDA in the amount of \$14.2 million on January 31, 2011.

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 assets of the Governmental Activities Internal Service Funds were \$13.3 million. The unrestricted net assets of the enterprise funds were \$79.6 million. The total change in net assets for the Governmental Activities Internal Service Funds and the Enterprise Funds were (\$3.8) million and \$8.4 million, respectively. 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 budget and the final budget was an increase of \$2 million, which includes interfund transactions, machinery and equipment, professional services, utilities and personnel related expenditures. The actual expenditures were under budget by \$2.4 million.

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, 2011, amounted to \$490 million. This investment in capital assets includes land and improvements, construction in progress, buildings and structures, machinery and equipment, 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 Assets.

CAPITAL ASSET AND DEBT ADMINISTRATION, Continued

	Governmental		Business-type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Non-depreciable Assets:						
Land and improvements	\$ 70,604,091	\$ 69,025,623	\$ 258,681	\$ 258,681	\$ 70,862,772	\$ 69,284,304
Construction in progress	32,775,969	37,966,773	59,200,465	48,610,547	91,976,434	86,577,320
Total non-depreciable assets	103,380,060	106,992,396	59,459,146	48,869,228	162,839,206	155,861,624
Depreciable Assets:						
Building and structures	20,848,739	20,848,739	4,287,506	2,705,525	25,136,245	23,554,264
Machinery and equipment	39,092,958	37,822,363	3,946,444	3,950,996	43,039,402	41,773,359
Improvements other than buildings, structures and land improvements	91,118,560	81,680,916	94,788,581	91,712,501	185,907,141	173,393,417
Infrastructure	371,570,534	375,065,051	36,878,107	35,963,639	408,448,641	411,028,690
Accumulated depreciation	(282,806,029)	(267,753,591)	(52,551,144)	(46,467,634)	(335,357,173)	(314,221,225)
Total depreciable assets, net	239,824,762	247,663,478	87,349,494	87,865,027	327,174,256	335,528,505
Total capital assets	\$ 343,204,822	\$ 354,655,874	\$ 146,808,640	\$ 136,734,255	\$ 490,013,462	\$ 491,390,129

The change to capital assets during the current fiscal year included the following:

- Infrastructure was added in the amount of \$2.5 million.
- The Wastewater Treatment Plant upgrade and expansion had \$8.7 million in construction costs.
- Wastewater Treatment Plant Phase 5 solids handling construction costs of \$2.8 million.
- Construction costs of \$7 million for the G Grade BNSF Railroad Separation
- Improvement costs of \$1.2 million for Central Merced Street Reconstruction on 16th and 18th Streets.
- Improvement costs of \$1.0 million for the Airport apron expansion project.
- Improvement costs of \$928,000 for Safe Routes to School Project

Long-term debt - At the end of the current fiscal year, the City had \$119.2 million in outstanding debt consisting of tax allocation bonds, pension obligation bonds, revenue bonds, improvement bonds, participation and development agreements, loans payable and loan guarantees payable. All of the debt was secured or earmarked by specific revenue sources. Additional information on the City of Merced's debt can be found in Note 10. Long-Term Debt.

	Outstanding Debt June 30, 2011					
	Governmental		Business-type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Tax allocation bonds payable	\$ 32,372,825	\$ 34,327,825			\$ 32,372,825	\$ 34,327,825
Pension obligation bonds	6,690,000	6,860,000			6,690,000	6,860,000
Loan payable	5,350,000	3,067,271			5,350,000	3,067,271
Loan guarantee	554,869	690,142			554,869	690,142
Revenue bonds payable			23,748,115	24,931,445	23,748,115	24,931,445
Loan payable			46,279,926	42,852,087	46,279,926	42,852,087
Improvement bonds payable			645,000	940,000	645,000	940,000
Lease agreement	7,157,493				7,157,493	
Total	\$ 52,125,187	\$ 44,945,238	\$ 70,673,041	\$ 68,723,532	\$ 122,798,228	\$ 113,668,770

During the current fiscal year, the City's net debt increased by \$5.5 million or 4.8%. The overall increase in outstanding debt was a result of a new facilities lease agreement for an energy efficiency project and a new loan payable for a development project.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The City developed an Organizational Sustainability Plan to assist the City in reaching financial sustainability through establishing new revenues, reassessing processes, practices and procedures for efficiency and effectiveness.
- The fiscal year 2011-12 budget reflects the City Council's policy to emphasize public safety with other services to maintain the City's quality of life standards which utilizes \$2.2 million of the General Fund reserves.
- In order to address the structural deficit, the fiscal year 2011-12 departmental budgets were reduced 3% to 15%. The reductions include the elimination of 53 positions.
- The City and two of the six employee bargaining units reached agreement on employee concessions in the area of health and welfare benefits and CalPERS contributions.

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 Assets
June 30, 2011

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current assets:			
Cash, cash equivalents and investments	\$ 64,324,694	\$ 106,268,224	\$ 170,592,918
Restricted cash held by fiscal agents	9,146,788	285,138	9,431,926
Receivables	20,384,789	18,097,728	38,482,517
Due from external parties	956,474		956,474
Internal balances	(1,200,000)	1,200,000	
Prepaid items	4,230		4,230
Inventory	102,422	158,821	261,243
Total current assets	93,719,397	126,009,911	219,729,308
Noncurrent assets:			
Land held for resale	6,190,817		6,190,817
Loan guarantee receivable	561,079		561,079
Notes receivable	27,303,169	11,920	27,315,089
Deferred charges		334,995	334,995
Capital assets:			
Non-depreciable	103,380,060	59,459,146	162,839,206
Depreciable, net of accumulated depreciation	239,824,762	87,349,494	327,174,256
Total noncurrent assets	377,259,887	147,155,555	524,415,442
Total assets	470,979,284	273,165,466	744,144,750
LIABILITIES			
Current liabilities:			
Accounts payable	3,191,909	4,976,354	8,168,263
Payroll liabilities	2,320,853	502,301	2,823,154
Deposits and other liabilities	5,143,856	994,779	6,138,635
Unearned revenue	5,153,548	3,031,250	8,184,798
Accrued interest payable	540,630	415,874	956,504
Claims liability, due within one year	1,919,425		1,919,425
Compensated absences, due within one year	522,483	30,602	553,085
Long-term debt, due within one year	5,070,273	1,696,440	6,766,713
Total current liabilities	23,862,977	11,647,600	35,510,577
Noncurrent liabilities:			
Claims liability, due in more than one year	1,968,881		1,968,881
Compensated absences, due in more than one year	2,720,914	567,262	3,288,176
Long-term debt, due in more than one year	47,054,914	65,376,602	112,431,516
Net other postemployment benefits obligation	10,301,373	1,299,627	11,601,000
Total noncurrent liabilities	62,046,082	67,243,491	129,289,573
Total liabilities	85,909,059	78,891,091	164,800,150
NET ASSETS			
Invested in capital assets, net of related debt	300,226,422	80,020,736	380,247,158
Restricted for:			
Streets and street lights	2,439,034		2,439,034
Community development	14,266,848		14,266,848
Housing	3,557,981		3,557,981
Public safety	37,968		37,968
Special districts	1,846,772		1,846,772
Other special projects and programs	716,271	1,840,301	2,556,572
Debt service	2,638,527	570,418	3,208,945
Capital projects	16,265,279	32,212,007	48,477,286
Unrestricted	43,075,123	79,630,913	122,706,036
Total net assets	\$ 385,070,225	\$ 194,274,375	\$ 579,344,600

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

CITY OF MERCED
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 22,593,791	\$ 7,222,750	\$ 3,696,690	\$ 152,492	\$ 11,071,932
Public safety	27,605,798	1,386,138	1,796,665		3,182,803
Public works	41,546,045	5,513,221	2,980,482	7,521,237	16,014,940
Parks	1,721,922	212,920		2,582,303	2,795,223
Interest on long-term debt	2,000,680				
Total governmental activities	95,468,236	14,335,029	8,473,837	10,256,032	33,064,898
Business-Type activities:					
Wastewater system	12,304,995	18,672,092	649,693		19,321,785
Water system	10,895,212	12,669,217	10,180		12,679,397
Refuse collection system	10,885,926	11,324,034	36,169		11,360,203
Merced municipal airport	877,123	420,656	1,076,718		1,497,374
Recreation and parks	1,696,868	480,057			480,057
Total business-type activities	36,660,124	43,566,056	1,772,760		45,338,816
Total government	\$ 132,128,360	\$ 57,901,085	\$ 10,246,597	\$ 10,256,032	\$ 78,403,714

General Revenues:

Taxes:

Property

Sales

Franchise taxes

Transient occupancy taxes

Business license tax

Business improvement tax

Cost recovery impact study

Total taxes

Interest and investment earnings

Transfers

Total general revenues and transfers

Change in net assets

Net Assets:

Beginning of year

End of year

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

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (11,521,859)	\$	\$ (11,521,859)
(24,422,995)		(24,422,995)
(25,531,105)		(25,531,105)
1,073,301		1,073,301
(2,000,680)		(2,000,680)
<u>(62,403,338)</u>		<u>(62,403,338)</u>
	7,016,790	7,016,790
	1,784,185	1,784,185
	474,277	474,277
	620,251	620,251
	<u>(1,216,811)</u>	<u>(1,216,811)</u>
	<u>8,678,692</u>	<u>8,678,692</u>
<u>(62,403,338)</u>	<u>8,678,692</u>	<u>(53,724,646)</u>
19,760,688	44,174	19,804,862
11,442,904		11,442,904
1,555,272		1,555,272
717,508		717,508
1,067,420		1,067,420
79,029		79,029
14,487		14,487
<u>34,637,308</u>	<u>44,174</u>	<u>34,681,482</u>
430,086	855,953	1,286,039
1,205,374	(1,205,374)	
<u>36,272,768</u>	<u>(305,247)</u>	<u>35,967,521</u>
(26,130,570)	8,373,445	(17,757,125)
411,200,795	185,900,930	597,101,725
<u>\$ 385,070,225</u>	<u>\$ 194,274,375</u>	<u>\$ 579,344,600</u>

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund - This fund is used to account for financial resources applicable to the General Governmental Operations of the City of Merced which are not required to be accounted for in another 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 such as Community Police.

Redevelopment Agency Debt Service Fund - This fund is used to account for tax increment revenue and for payment of debt service, project costs, administration, and 20% Housing Set-A-Side.

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

Redevelopment Agency Capital Projects Fund - This fund is used to account for projects carried out within the Redevelopment Agency Area.

CITY OF MERCED

Balance Sheet

Governmental Funds

June 30, 2011

	General Fund	Housing Special Revenue	Redevelopment Agency Debt Service
ASSETS			
Cash, cash equivalents and investments	\$ 12,579,568	\$ 238,294	\$ 1,988,378
Restricted cash held by fiscal agents	47		3,397,763
Receivables:			
Accounts	547,297	388	1,570,690
Due from other governments	2,364,684	253,586	678,484
Interest	7,352	304,813	689,541
Due from other funds	31,975		956,474
Inventory	41,371		
Land held for resale		1,365,522	413,172
Notes receivable		16,953,093	4,000,000
Loan guarantee receivable			561,079
Advances to other funds	1,710,991		
Total assets	\$ 17,283,285	\$ 19,115,696	\$ 14,255,581
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 93,268	\$ 1,524	\$ 317,310
Payroll liabilities	1,471,935	17,677	
Deferred revenue	120,730	17,339,780	9,550,876
Due to other funds			135,696
Advances from other funds			1,200,000
Other liabilities	26,992	2,961	
Total liabilities	1,712,925	17,361,942	11,203,882
Fund balances:			
Nonspendable	1,752,362	1,365,522	413,172
Restricted	4,000,000	388,232	2,638,527
Committed			
Assigned	2,984,645		
Unassigned	6,833,353		
Total fund balances	15,570,360	1,753,754	3,051,699
Total liabilities and fund balances	\$ 17,283,285	\$ 19,115,696	\$ 14,255,581

Streets & Signals Capital Projects	Redevelopment Agency Capital Projects	Non-Major Governmental Funds	Total
\$	\$ 66,271	\$ 30,026,099	\$ 44,898,610
			3,397,810
807,729		2,450,341	5,376,445
5,450,241	19,687	4,712,230	13,478,912
	38	155,109	1,156,853
		3,566,227	4,554,676
			41,371
		4,412,123	6,190,817
		6,294,641	27,247,734
			561,079
		2,260,594	3,971,585
<u>\$ 6,257,970</u>	<u>\$ 85,996</u>	<u>\$ 53,877,364</u>	<u>\$ 110,875,892</u>
\$ 1,113,004	\$	\$ 637,451	\$ 2,162,557
		613,746	2,103,358
		3,727,372	30,738,758
3,276,046		191,708	3,603,450
		3,971,585	5,171,585
		5,076,751	5,106,704
<u>4,389,050</u>	<u></u>	<u>14,218,613</u>	<u>48,886,412</u>
		4,412,123	7,943,179
1,868,920	85,996	36,786,998	45,768,673
		753,502	753,502
			2,984,645
		(2,293,872)	4,539,481
<u>1,868,920</u>	<u>85,996</u>	<u>39,658,751</u>	<u>61,989,480</u>
<u>\$ 6,257,970</u>	<u>\$ 85,996</u>	<u>\$ 53,877,364</u>	<u>\$ 110,875,892</u>

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CITY OF MERCED
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2011

Total Fund Balances - Total Governmental Funds \$ 61,989,480

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

Capital assets used in governmental activities are not financial resources and,
therefore, are not reported in the governmental funds.

Non-depreciable, net of Internal Service Fund assets of \$162,001	\$ 103,218,059	
Depreciable, net of accumulated depreciation and net of Internal Service Fund assets of \$6,106,152	<u>233,718,609</u>	336,936,668

Long-term liabilities are not due and payable in the current period, and therefore are
not reported in the governmental funds.

Long-term debt due within one year	(5,070,273)	
Long-term debt due in more than one year	(39,897,421)	
Net other postemployment health care benefits obligation, net of Internal Service Fund obligation of \$898,117	(9,403,256)	
Compensated absences, net of Internal Service Fund liability of \$342,655	<u>(2,900,742)</u>	(57,271,692)

Deferred revenues recorded in the governmental funds resulting from activities in which revenues were earned but funds were not available are reclassified as revenues in the Government-Wide Financial Statements.	25,739,590
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Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the governmental funds.	(440,063)
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Internal service funds are used by management to charge the costs of certain activities to individual funds. This amount represents the net assets of the Internal Service Funds.	<u>18,116,242</u>
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Net assets of governmental activities	<u><u>\$ 385,070,225</u></u>
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CITY OF MERCED

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2011

	General Fund	Housing Special Revenue	Redevelopment Agency Debt Service
REVENUES:			
Taxes	\$ 22,380,172	\$	\$ 7,388,837
Intergovernmental	1,604,415	3,163,875	
Licenses and permits	31,749		
Use of money and property	140,571	3,037	108,669
Service charges	6,316,027	311,797	211,554
Fines, forfeitures and penalties	552,596		
Other	469,443	1,000	1,723,178
Total revenues	<u>31,494,973</u>	<u>3,479,709</u>	<u>9,432,238</u>
EXPENDITURES:			
Current operating:			
General government	5,453,533	2,646,174	1,965,007
Public safety	24,785,579		
Public works	1,949,481		
Parks			
Total current operating	<u>32,188,593</u>	<u>2,646,174</u>	<u>1,965,007</u>
Capital outlay		(511,930)	
Debt Service:			
Principal	170,000		2,277,852
Interest	396,310		1,610,455
Total expenditures	<u>32,754,903</u>	<u>2,134,244</u>	<u>5,853,314</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,259,930)</u>	<u>1,345,465</u>	<u>3,578,924</u>
OTHER FINANCING SOURCES (USES):			
Debt issuance			2,500,000
Sale of capital assets	14,101		
Transfers in	1,865,777		581,201
Transfers out	(2,245,106)	(845,891)	(10,396,080)
Total other financing sources (uses)	<u>(365,228)</u>	<u>(845,891)</u>	<u>(7,314,879)</u>
NET CHANGE IN FUND BALANCES	(1,625,158)	499,574	(3,735,955)
FUND BALANCES:			
Beginning of year	17,195,518	1,254,180	6,787,654
End of year	<u>\$ 15,570,360</u>	<u>\$ 1,753,754</u>	<u>\$ 3,051,699</u>

Streets & Signals Capital Projects	Redevelopment Agency Capital Projects	Non-Major Governmental Funds	Total
\$	\$	\$	\$
5,813,173	152,492	4,868,299	34,637,308
		5,517,850	16,251,805
		350,422	382,171
(2,057)	28,694	522,673	801,587
		8,233,440	15,072,818
		111,554	664,150
807,729	675	1,559,089	4,561,114
6,618,845	181,861	21,163,327	\$ 72,370,953
	29,217	10,868,565	20,962,496
		1,567,970	26,353,549
		6,492,286	8,441,767
		572,742	572,742
	29,217	19,501,563	56,330,554
10,201,714	9,335,954	3,983,247	23,008,985
	10,862		2,458,714
	517	15,000	2,022,282
10,201,714	9,376,550	23,499,810	83,820,535
(3,582,869)	(9,194,689)	(2,336,483)	(11,449,582)
			2,500,000
		513	14,614
1,281,653	9,328,309	29,949,506	43,006,446
	(14,313,467)	(14,962,049)	(42,762,593)
1,281,653	(4,985,158)	14,987,970	2,758,467
(2,301,216)	(14,179,847)	12,651,487	(8,691,115)
4,170,136	14,265,843	27,007,264	70,680,595
\$ 1,868,920	\$ 85,996	\$ 39,658,751	\$ 61,989,480

CITY OF MERCED

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Government-Wide Statement of Activities and Changes in Net Assets For the Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ (8,691,115)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report acquisition of capital assets as part of capital outlay expenditures. However in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	11,530,300
Developer contributions that were made during the year in the form of capital asset dedication and donations did not constitute revenues that were available and were not recorded in the governmental funds. They were recorded in the Government-Wide Statement of Activities and Changes in Net Assets as program revenues.	1,708,064
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the governmental funds. This amount is net of internal service fund depreciation expense of \$2,319,088	(14,412,380)
Loss on disposal of capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, the loss was not reported as expenditures in the governmental funds.	(9,606,640)
Revenue in the Government-Wide Statement of Activities and Changes in Net Assets which do not require the use of current financial resources are not reported as revenue in the governmental funds. These revenues are reported as loans receivable and deferred revenues in the governmental funds.	(131,129)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets. The issuance of long-term debt provides current financial resources to governmental funds but does not have any effect on the Government-Wide Statement of Activities and Changes in Net Assets.	
Principal payment	2,477,544
Issuance of long-term debt	(2,500,000)
The liability for compensated absences does not require the use of current financial resources. As a result, these costs were not recorded in the governmental funds. This amount represents the current year's costs which were recorded in the Government-Wide Statement of Activities and Changes in Net Assets.	220,263
Some expenses reported in the Government-Wide Statement of Activities and Changes in Net Assets do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(2,954,738)
Change in net other postemployment health care benefits obligation, net of Internal Service Fund obligation expense of \$898,117	
Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources. Therefore, accrued interest expense is not reported as expenditures in the governmental funds. The following amount represents the change in accrued interest from the prior year.	2,772
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in Net Assets of the internal service funds is reported with governmental activities.	(3,773,511)
Change in Net Assets of Governmental Activities	\$ (26,130,570)

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

PROPRIETARY FUND FINANCIAL STATEMENTS

Wastewater System - This fund is used to account for the City's wastewater utility, which provides wastewater collection and treatment 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 waste for industrial, commercial and residential 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 Assets
Proprietary Funds
June 30, 2011

	Business-type Activities Major Enterprise Funds		
	Wastewater System	Water System	Refuse Collection System
ASSETS			
Current assets:			
Cash, cash equivalents and investments	\$ 54,206,153	\$ 45,848,692	\$ 5,846,855
Cash held by fiscal agents	250,508	34,630	
Accounts receivable, net	2,308,813	1,152,372	914,638
Due from other governments	9,768,191	3,809,288	36,175
Interest receivable	30,725	25,966	3,311
Prepaid items			
Due from other funds			
Inventory		158,821	
Total current assets	<u>66,564,390</u>	<u>51,029,769</u>	<u>6,800,979</u>
Noncurrent assets:			
Notes receivable-private parties	11,920		
Advances to other funds		1,525,589	
Deferred charges	231,154	103,841	
Capital assets:			
Non-depreciable	54,154,219	4,951,865	39,052
Depreciable, net of accumulated depreciation	30,811,482	34,264,736	15,390,671
Total noncurrent assets	<u>85,208,775</u>	<u>40,846,031</u>	<u>15,429,723</u>
Total assets	<u>151,773,165</u>	<u>91,875,800</u>	<u>22,230,702</u>
LIABILITIES			
Current liabilities:			
Accounts payable	4,453,796	274,614	199,363
Payroll payable	162,775	123,516	158,409
Unearned revenue	1,219,652	905,799	905,799
Accrued interest payable	275,690	140,184	
Deposits and other liabilities	373,390	383,552	202,703
Compensated absences, due within one year	14,943	5,254	9,492
Claims payable, due within one year			
Long-term debt, due within one year	1,259,963	436,477	
Total current liabilities	<u>7,760,209</u>	<u>2,269,396</u>	<u>1,475,766</u>
Noncurrent liabilities:			
Advances from other funds			
Compensated absences, due in more than one year	188,728	193,610	176,036
Claims payable, due in more than one year			
Long-term debt, due in more than one year	54,915,562	10,461,040	
Net other postemployment benefits obligation	425,097	387,377	405,814
Total noncurrent liabilities	<u>55,529,387</u>	<u>11,042,027</u>	<u>581,850</u>
Total liabilities	<u>63,289,596</u>	<u>13,311,423</u>	<u>2,057,616</u>
NET ASSETS			
Invested in capital assets, net of related debt	29,040,684	28,353,714	15,429,723
Restricted:			
Other special projects and programs	1,089,062	491,802	154,720
Debt service	516,474		
Capital projects	30,558,981	852,856	800,170
Unrestricted	27,278,368	48,866,005	3,788,473
Total net assets	<u>\$ 88,483,569</u>	<u>\$ 78,564,377</u>	<u>\$ 20,173,086</u>

Business-type Activities	Total Enterprise Funds	Governmental Activities Internal Service Funds
\$ 366,524	\$ 106,268,224	\$ 19,426,084
	285,138	5,748,978
11,696	4,387,519	20,941
36,465	13,650,119	340,583
88	60,090	11,055
		4,230
		5,248
	158,821	61,051
<u>414,773</u>	<u>124,809,911</u>	<u>25,618,170</u>
	11,920	55,435
	1,525,589	
	334,995	
314,010	59,459,146	162,001
<u>6,882,605</u>	<u>87,349,494</u>	<u>6,106,153</u>
<u>7,196,615</u>	<u>148,681,144</u>	<u>6,323,589</u>
<u>7,611,388</u>	<u>273,491,055</u>	<u>31,941,759</u>
48,581	4,976,354	1,029,352
57,601	502,301	217,495
	3,031,250	154,380
	415,874	100,567
35,134	994,779	37,152
913	30,602	9,027
		1,919,425
	1,696,440	
<u>142,229</u>	<u>11,647,600</u>	<u>3,467,398</u>
325,589	325,589	
8,888	567,262	898,117
		333,628
	65,376,602	7,157,493
81,339	1,299,627	1,968,881
<u>415,816</u>	<u>67,569,080</u>	<u>10,358,119</u>
<u>558,045</u>	<u>79,216,680</u>	<u>13,825,517</u>
7,196,615	80,020,736	4,859,638
104,717	1,840,301	
53,944	570,418	
	32,212,007	
(301,933)	79,630,913	13,256,604
<u>\$ 7,053,343</u>	<u>\$ 194,274,375</u>	<u>\$ 18,116,242</u>

CITY OF MERCED

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

For the Year Ended June 30, 2011

	Business-type Activities Major Enterprise Funds		
	Wastewater System	Water System	Refuse Collection System
OPERATING REVENUES			
Charges for services	\$ 18,509,422	\$ 12,627,202	\$ 11,307,069
Other revenues	141,337	23,346	16,965
Total operating revenues	<u>18,650,759</u>	<u>12,650,548</u>	<u>11,324,034</u>
OPERATING EXPENSES			
Personnel services	3,110,411	2,523,548	3,120,594
Materials, supplies and other services	6,183,131	5,683,714	6,830,080
Depreciation	1,999,519	2,215,662	937,004
Total operating expenses	<u>11,293,061</u>	<u>10,422,924</u>	<u>10,887,678</u>
OPERATING INCOME (LOSS)	<u>7,357,698</u>	<u>2,227,624</u>	<u>436,356</u>
NONOPERATING REVENUES (EXPENSES):			
Property taxes			
Intergovernmental revenues	649,693	10,180	36,169
Interest and investment earnings	465,027	382,306	47,504
Sale of capital assets	2,711	9,708	1,752
Interest and related expenses	(1,014,645)	(481,996)	
Total nonoperating revenues (expenses)	<u>102,786</u>	<u>(79,802)</u>	<u>85,425</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>7,460,484</u>	<u>2,147,822</u>	<u>521,781</u>
TRANSFERS			
Transfers in		250,992	
Transfers out	(1,590,717)	(308,200)	(1,056,707)
Total transfers	<u>(1,590,717)</u>	<u>(57,208)</u>	<u>(1,056,707)</u>
CHANGE IN NET ASSETS	5,869,767	2,090,614	(534,926)
NET ASSETS:			
Beginning of year	82,613,802	76,473,763	20,708,012
End of year	<u>\$ 88,483,569</u>	<u>\$ 78,564,377</u>	<u>\$ 20,173,086</u>

Business-type Activities	Total	Governmental
Nonmajor Enterprise Funds	Enterprise Funds	Activities Internal Service Funds
\$ 729,152	\$ 43,172,845	\$ 22,525,529
171,561	353,209	158,188
<u>900,713</u>	<u>43,526,054</u>	<u>22,683,717</u>
1,484,754	10,239,307	5,082,136
786,143	19,483,068	20,448,528
283,238	5,435,423	2,319,088
<u>2,554,135</u>	<u>35,157,798</u>	<u>27,849,752</u>
<u>(1,653,422)</u>	<u>8,368,256</u>	<u>(5,166,035)</u>
44,174	44,174	
1,076,718	1,772,760	220,005
1,118	895,955	257,631
1,471	15,642	53,934
(21,327)	(1,517,968)	(100,567)
<u>1,102,154</u>	<u>1,210,563</u>	<u>431,003</u>
<u>(551,268)</u>	<u>9,578,819</u>	<u>(4,735,032)</u>
1,509,884	1,760,876	2,199,136
(10,626)	(2,966,250)	(1,237,615)
<u>1,499,258</u>	<u>(1,205,374)</u>	<u>961,521</u>
947,990	8,373,445	(3,773,511)
6,105,353	185,900,930	21,889,753
<u>\$ 7,053,343</u>	<u>\$ 194,274,375</u>	<u>\$ 18,116,242</u>

CITY OF MERCED
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011

	Business-type Activities		
	Major Enterprise Funds		
	Wastewater System	Water System	Refuse Collection System
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers, including cash deposits	\$ 17,887,241	\$ 12,396,225	\$ 11,335,740
Cash paid to suppliers	(7,019,199)	(5,585,576)	(6,848,111)
Cash paid to employees	(3,145,706)	(2,429,288)	(3,130,811)
Net cash provided (used) by operating activities	<u>7,722,336</u>	<u>4,381,361</u>	<u>1,356,818</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Advances to other funds			
Advances from other funds		32,617	
Due from other funds			
Tax proceeds not attributable to capital			
Transfers from other funds		250,992	
Transfers to other funds	(1,590,717)	(308,200)	(1,056,707)
Net cash provided (used) by noncapital financing activities	<u>(1,590,717)</u>	<u>(24,591)</u>	<u>(1,056,707)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(13,713,006)	(1,607,795)	(116,540)
Transfers received for capital purposes	678,580	708,122	
Transfers to other funds for capital purposes			(347,462)
Proceeds of capital contributions		(49,525)	(6)
Proceeds from issuance of long-term debt	15,998,778		
Payment of long-term debt	(1,179,295)	(432,865)	
Interest payments	(1,016,840)	(483,568)	
Proceeds from disposal of equipment	2,987	9,708	1,752
Net cash provided (used) by capital and related financing activities	<u>771,204</u>	<u>(1,855,923)</u>	<u>(462,256)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
INVESTING ACTIVITIES:			
Investment earnings	547,116	460,050	58,798
Net cash provided (used) by investing activities	<u>547,116</u>	<u>460,050</u>	<u>58,798</u>
Net Increase (decrease) in Cash and Cash Equivalents	<u>7,449,939</u>	<u>2,960,897</u>	<u>(103,347)</u>
Cash and cash equivalents at beginning of year	<u>47,006,722</u>	<u>42,922,425</u>	<u>5,950,202</u>
Cash and cash equivalents at end of year	<u>\$ 54,456,661</u>	<u>\$ 45,883,322</u>	<u>\$ 5,846,855</u>

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

Business-type Activities	Total	Governmental
Nonmajor Enterprise Funds	Enterprise Funds	Activities Internal Service Funds
\$ 904,647	\$ 42,523,853	\$ 23,053,690
(792,917)	(20,245,803)	(19,262,304)
(1,484,379)	(10,190,184)	(4,810,646)
(1,372,649)	12,087,866	(1,019,260)
(32,617)	(32,617)	
	32,617	
2,482	2,482	(5,248)
44,174	44,174	
1,393,044	1,644,036	2,000,668
(10,626)	(2,966,250)	(1,237,615)
1,396,457	(1,275,558)	757,805
(1,130,737)	(16,568,078)	(1,657,682)
18,754	1,405,456	8,985
	(347,462)	
1,176,896	1,127,365	(99,267)
	15,998,778	
	(1,612,160)	7,157,493
(21,327)	(1,521,735)	
1,471	15,918	53,934
45,057	(1,501,918)	5,463,463
1,189	1,067,153	299,405
1,189	1,067,153	299,405
70,054	10,377,543	5,501,413
296,470	96,175,819	19,673,649
\$ 366,524	\$ 106,553,362	\$ 25,175,062

CITY OF MERCED
Statement of Cash Flows (continued)
Proprietary Funds
For the Year Ended June 30, 2011

	Business-type Activities		
	Major Enterprise Funds		
	Wastewater System	Water System	Refuse Collection System
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 7,357,698	\$ 2,227,624	\$ 436,356
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	1,999,519	2,215,662	937,004
Receivables	(819,636)	(151,695)	(90,913)
Notes receivable	180		
Prepaid item			
Inventory	1,540	(1,918)	
Accounts payable	(837,608)	100,056	(18,031)
Payroll liabilities	22,479	8,969	13,657
Deposits	33,589	(60,264)	26,462
Unearned revenues	22,349	(42,364)	76,157
Other liabilities			
Insurance claims			
Compensated absences	11,244	48,132	38,733
Net other postemployment benefits obligation	(69,018)	37,159	(62,607)
Total adjustments	364,638	2,153,737	920,462
Net Cash Provided (used) by operating activities	\$ 7,722,336	\$ 4,381,361	\$ 1,356,818

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

Business-type Activities	Total Enterprise Funds	Governmental Activities Internal Service Funds
\$ (1,653,422)	\$ 8,368,256	\$ (5,166,035)
283,238	5,435,423	2,319,088
6,886	(1,055,358)	2,692
	180	192,066
		4,907
	(378)	(23,571)
(6,774)	(762,357)	759,751
(27,137)	17,968	(11,790)
(2,952)	(3,165)	20,835
	56,142	154,380
		445,137
(4,223)	93,886	9,289
31,735	(62,731)	273,991
280,773	3,719,610	4,146,775
<u>\$ (1,372,649)</u>	<u>\$ 12,087,866</u>	<u>\$ (1,019,260)</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 Assets
Fiduciary Funds
June 30, 2011

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash, cash equivalents and investments	\$ 229,241	\$ 2,667,998
Restricted cash held by fiscal agent		2,939,309
Receivables	322,796	2,210,755
Deposits		87,014
Total assets	552,037	7,905,076
LIABILITIES		
Accounts payable	4,446	989,145
Deferred revenue	38,414	
Deposits		1,485,851
Due to other funds		956,474
Other liabilities		203,376
Due to bondholders		4,270,230
Total liabilities	42,860	\$ 7,905,076
NET ASSETS		
Held in trust for other purposes	509,177	
Total net assets	\$ 509,177	

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

CITY OF MERCED
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds - Private Purpose Trust Funds
For the Year Ended June 30, 2011

	Private Purpose Trust Funds
ADDITIONS:	
Investment earnings	\$ 21,549
Miscellaneous	461,921
Total Additions	<u>483,470</u>
 DEDUCTIONS:	
General government	<u>165,941</u>
 Net Change	 317,529
 NET ASSETS HELD IN TRUST FOR OTHER PURPOSES:	
Beginning of year	<u>191,648</u>
 End of year	 <u>\$ 509,177</u>

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

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City of Merced
Notes to Basic Financial Statements
For the year ended June 30, 2011

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 was incorporated April 1, 1889. 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 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 financial reporting entity, as defined by GASB, consists of the primary government, the City, 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.

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

As a result, these organizations are considered component units of the City and are included within the financial statements of the City using the blended method. Separate financial statements for the Agency and the Authority can be obtained from the City's Finance Department located at the City of Merced Civic Center.

The Agency of the City was established pursuant to the State of California Health and Safety Code Section 33000, entitled Community Redevelopment Law. Its purpose is to prepare and carry out plans for the improvement, rehabilitation and redevelopment of project areas within the territorial limits of the City.

The Authority was re-created on January 1, 2003, by a City and Redevelopment Resolution. The Authority had originally been created in August 1987 but had expired by its terms. The Authority is a separate public entity and is to provide 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 Parking Authority was created on April 18, 2011, by City and Parking Authority Resolutions. The 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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Reporting Entity, Continued

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 Mariposa Narcotics Task Force and Merced Somoto Sister City, 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 them, therefore these entities are reported in the accompanying financial statements as Agency Funds in the Fiduciary Fund Financial Statements.

B. Government-Wide Fund Financial Statements

The basic financial statements include both Government-Wide (based on the City as a whole) and Fund Financial Statements. While the previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or major individual funds (within 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 Government-Wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Activities and Changes in Net Assets) report information on all of the nonfiduciary activities of the government. 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.

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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. *Measurement Focus, Basis of Accounting and Financial Statement Presentation*

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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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 revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded in the accounting period in which the related liability is incurred.

Property taxes, special assessments, sales taxes, licenses, intergovernmental revenues, investment earnings, charges for services and fines and penalties associated with the current fiscal year are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal year. 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 properties assessed value and can increase property assessed value no more than 2% per year.

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, except those required to be accounted for in another fund.

The Housing Special Revenue Fund is used to account for programs and activities aimed at benefiting low and moderate income persons.

The Redevelopment Agency Debt Service Fund is used to account for the collection of tax increment and disburse funds for payment of debt service, project costs, administration, and 20% Housing Set-A-Side.

The Streets & 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 Street and Signals CIP fund when the project expenditures have been incurred.

The Redevelopment Agency Capital Project Fund is used to account for projects carried out within the Agency.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation, Continued

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 Fund, Wastewater Improvement Fund, Wastewater Revolving Fund and University Capital Charge Wastewater Fund.

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, a distribution pipeline and elevated storage tanks. The Water System Fund consists of the Water Operation Fund, Restricted Water Wells Fund, Restricted Water Mains Fund and University Capital Charge Water Fund.

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 were created to divert waste from the landfill. The Refuse Collection Fund consists of the Refuse Collection Fund and Refuse Capital Equipment Fund.

Additionally, the government reports the following fund types:

Internal Service Funds are used to account for services provided to other departments of the City, or to other governments, on a cost reimbursement basis. The City has Internal Service Funds for Workers' Compensation Insurance, Liability Insurance, Unemployment Insurance, Employee Benefits, Fleet Management, Fleet 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 Task Force Trust, Youth Programs Endowment, Wahneta Hall Trust, Missing Children Trust and Regional Transportation 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.

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 Assets 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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation, Continued

Amounts reported as program revenues include 1) charges to customers for services, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 nonoperating revenues and expenses.

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the business type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

D. Use of Restricted and Unrestricted Net Assets

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

E. Cash, Cash Equivalents, and Investments

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 for varying terms.

For purposes of the statement of cash flows of the proprietary fund types, cash and cash equivalents include all investments, as the City operates an internal cash management pool which maintains the general characteristics of a demand deposit account.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Cash, Cash Equivalents, and Investments, Continued

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to change in interest rates.

F. Receivables

All receivables are shown net of an allowance for doubtful accounts. Service charges revenues (water, sewer and refuse collection) are recorded as 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.

G. 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 nonspendable 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."

H. 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 nonspendable 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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. 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. Reported amounts are offset by a nonspendable fund balance classification, which indicates that they do not constitute available resources.

J. 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 at the following:

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

Depreciation has been provided on a straight-line basis over the following useful lives:

	<u>Years</u>
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 were 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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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. Deferred Revenue/Unearned Revenue

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

In the Fund Financial Statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records deferred revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations.

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 Assets and Fund Equity

Government-Wide Financial Statements

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – 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 Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

N. Net Assets 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.

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 restrictions, commitments and assignments by Council 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 12.

O. 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.

P. New Pronouncements

In 2011, the City adopted new accounting standards in order to conform to the following GASB Statement:

- Governmental Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of this statement are effective for financial statement periods beginning after June 15, 2010. GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied,

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

P. New Pronouncements, Continued

and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications are described in the Fund Financial Statement section of this footnote.

2. CASH AND INVESTMENTS

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 pooled interest earned is allocated to the funds based on daily cash and investment balances in these funds.

A. Cash Deposits

At June 30, 2011, the carrying amount of the City's cash and cash equivalents were comprised of the general checking account which had a balance of (\$1,383,317) and petty cash of \$3,123. Bank balances in the City's general checking accounts were \$57,074 and were 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 California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. 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 fair value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City waived collateral requirements for cash deposits, because it is fully insured up to \$250,000 by the Federal Deposit Insurance Corporation.

B. Investments

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

- U.S. Treasury and U.S. Agency Issues
- Non-Negotiable Certificates of Deposit
- California Local Agency Investment Fund (LAIF)
- Government Bonds and Notes
- Passbook Savings
- Bankers Acceptances
- Commercial Paper (Corporations)
- Medium-Term Corporate Notes
- Repurchase Agreements
- Mutual Funds

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS, Continued

C. Summary of Cash and Investments

The following is a summary of pooled cash and investments, including restricted cash and investments at June 30, 2011:

	Government-Wide Statement of Net Assets			Fund Financials	
	Governmental Activities	Business-Type Activities	Total	Fiduciary Funds Statement of Net Assets	Total
Cash and Investments	\$ 64,324,694	\$ 106,268,224	\$ 170,592,918	\$ 2,897,239	\$ 173,490,157
Restricted Cash held by fiscal agent	\$ 9,146,788	\$ 285,138	\$ 9,431,926	\$ 2,939,309	\$ 12,371,235

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.

Pooled cash and investments, including cash with fiscal agents, held in the City by maturity date at June 30, 2011 are shown below:

Investment Type	Fair Value	Investment Maturities (in years)	
		Less than 1 year	5 years or less
Cash:			
Cash Deposits (Overdrafts)	\$ (1,383,317)	\$ (1,383,317)	
Petty Cash	3,123	3,123	
Certificate of Deposit	1,500,000	1,500,000	
Total cash:	119,806	119,806	
Investments:			
Money Market Fund	3,678,589	3,678,589	
Public Investment Money Market Fund	50,026,368	50,026,368	
U.S. Government Agency Securities	19,979,700		19,979,700
Local Agency Investment Fund (LAIF)	99,685,694	99,685,694	
Total investments	173,370,351	153,390,651	19,979,700
Total cash and investments	\$ 173,490,157	\$ 153,510,457	\$ 19,979,700
Restricted Cash with Fiscal Agents:			
Commercial Paper	\$ 1,771,688	\$ 1,771,688	
Public Investment Money Market Fund	5,748,978	5,748,978	
Local Agency Investment Fund	2,708,049	2,708,049	
Money Market Funds	71,520	71,520	
U.S. Government Agency Securities	2,071,000	2,071,000	
Total restricted cash with fiscal agents	\$ 12,371,235	\$ 12,371,235	\$

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

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, 2011 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:	
Money Market Fund	AAA
Public Investment Money Market Fund	A-1+
U.S. Government Agency Securities	AAA
Local Agency Investment Fund	Not rated
Fiscal Agents:	
Commercial Paper	A-1+
Public Investment Money Market Fund	A-1+
Local Agency Investment Fund	Not rated
Money Market Funds	AAA
U.S. Government Agency Securities	AAA

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: 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.

E. 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 be carried at fair market value instead of cost. Accordingly, 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. Changes in value in the fiscal year ended June 30, 2011 from June 30, 2010 amounted to an unrealized gain of \$136,603.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS, Continued

F. Investments in Local Agency Investment Fund

The City's investments with LAIF at June 30, 2011, included a portion of the pooled funds invested in Structured Notes and Asset-Backed Securities. These investments 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, 2011, the City had \$102,393,743 invested in LAIF, which had invested 5.01% of the pooled investment funds in Structured Notes and Asset-Backed Securities as compared to 5.42% in the previous year. The LAIF fair value factor of 1.00157647 was used to calculate the fair value of the investments in LAIF.

G. 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 "A" or better by Moody's, and money market mutual funds which are rated in the highest category by Moody's. At June 30, 2011, cash and investments with fiscal agents totaling \$12,371,235 were recorded at fair value.

3. RECEIVABLES

A. Government Wide Financial Statements

At June 30, 2011, the Government-Wide Financial Statements reported the following receivables net of allowances for uncollectible amounts:

	Governmental Activities	Business-Type Activities	Total
Accounts receivable	\$ 5,397,386	\$ 4,387,519	\$ 9,784,905
Due from other governments	13,819,495	13,650,119	27,469,614
Interest receivable	1,167,908	60,090	1,227,998
Total	\$ 20,384,789	\$ 18,097,728	\$ 38,482,517

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

3. RECEIVABLES, Continued

B. Fund Financial Statements

At June 30, 2011, the fund financial statements show the following receivables:

	Governmental Funds	Enterprise Funds	Internal Service Funds	Total
Accounts receivable	\$ 5,376,445	\$ 4,387,519	\$ 20,941	\$ 9,784,905
Due from other governments	13,478,912	13,650,119	340,583	27,469,614
Interest receivable	1,156,853	60,090	11,055	1,227,998
Total	\$ 20,012,210	\$ 18,097,728	\$ 372,579	\$ 38,482,517

Accounts Receivable

Accounts receivable consists of amounts accrued in the ordinary course of operations. The accounts receivable as of June 30, 2011, was as follows:

	Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
<i>Governmental Funds:</i>			
General Fund	\$ 2,888,244	\$ (2,340,947)	\$ 547,297
Redevelopment Agency Debt Service Fund	1,570,690		1,570,690
Housing Special Revenue Fund	1,638	(1,250)	388
Streets & Signals Capital Project Fund	807,729		807,729
Non-major Funds	2,462,516	(12,175)	2,450,341
Total governmental funds	7,730,817	(2,354,372)	5,376,445
<i>Enterprise Funds:</i>			
Wastewater System	2,427,934	(119,121)	2,308,813
Water System	1,273,819	(121,447)	1,152,372
Refuse Collection System	1,021,334	(106,696)	914,638
Non-major Funds	16,090	(4,394)	11,696
Total enterprise funds	4,739,177	(351,658)	4,387,519
<i>Internal Service Funds</i>	190,930	(169,989)	20,941
Total Accounts Receivable	\$ 12,660,924	\$ (2,876,019)	\$ 9,784,905

Notes Receivable

On December, 10, 2010, the City through a long-term lease transferred the Merced Theatre to the Merced Theatre Landlord, a limited liability company. At the same time, the Agency entered into a development agreement with the Merced Theatre Landlord which included a loan of \$11,024,911 to the Merced Investment Fund, LLC, an entity related to Merced Theatre Landlord, for the purpose of funding reconstruction and rehabilitation costs of the theatre. Merced Theatre Landlord has the option but is not obligated to provide for repayment of the loan described above by the transfer of all or a portion of promissory notes evidencing the Merced Theatre improvements. Because repayment of the loan is uncertain as of June 30, 2011, an allowance equal to the face amount of the loan was recorded at June 30, 2011.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

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, 2011, was as follows:

<i>Governmental Funds:</i>	
General Fund	\$ 2,364,684
Redevelopment Agency Debt Service Fund	678,484
Housing - Special Revenue Fund	253,586
Streets & Signals Capital Project Fund	5,450,241
Redevelopment Agency Capital Project Fund	19,687
Non-major Funds	<u>4,712,230</u>
Total governmental funds	<u>13,478,912</u>
<i>Enterprise Funds:</i>	
Wastewater System	9,768,191
Water System	3,809,288
Refuse Collection System	36,175
Non-major Funds	<u>36,465</u>
Total enterprise funds	<u>13,650,119</u>
<i>Internal Service Funds</i>	<u>340,583</u>
Total Accounts Receivable	<u><u>\$ 27,469,614</u></u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

3. RECEIVABLES, Continued

B. Fund Financial Statements, Continued

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, 2011, was as follows:

	City Pooled Investments	Fiscal Agent Investments	Total
<i>Governmental Funds:</i>			
General Fund	\$ 7,352	\$	\$ 7,352
Housing Special Revenue Fund	304,813		304,813
Redevelopment Agency Debt Service Fund	671,377	18,164	689,541
Redevelopment Agency Capital Projects Fund	38		38
Non-major Governmental Funds	148,743	6,366	155,109
Total governmental funds	<u>1,132,323</u>	<u>24,530</u>	<u>1,156,853</u>
<i>Enterprise Funds:</i>			
Wastewater System	30,725		30,725
Water System	25,966		25,966
Refuse Collection System	3,311		3,311
Non-major Enterprise Funds	88		88
Total enterprise funds	<u>60,090</u>		<u>60,090</u>
<i>Internal Service Funds:</i>	<u>11,055</u>		<u>11,055</u>
Total interest receivable	<u>\$ 1,203,468</u>	<u>\$ 24,530</u>	<u>\$ 1,227,998</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

4. DEFERRED REVENUE/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, 2011, unearned revenues in the Government-Wide Financial Statements were as follows:

	Governmental Activities	Business-Type Activities	Total
Prepaid business license fees	\$ 129,016	\$	\$ 129,016
Developer fees	738,225		738,225
Long-term lease	4,131,927		4,131,927
Grants	154,380		154,380
Service charges received in advance		3,031,250	3,031,250
	<u>\$ 5,153,548</u>	<u>\$ 3,031,250</u>	<u>\$ 8,184,798</u>

B. Fund Financial Statements

At June 30, 2011, the following deferred revenues were recorded in the Fund Financial Statements because either the revenues had not been earned or the funds were not available to finance expenditures of the current period:

Governmental Funds:

	General Fund	Housing Revenue	Redevelopment Agency Debt Service	Non-major Funds	Total
Prepaid business license fees	\$ 120,730	\$	\$	\$ 8,286	\$ 129,016
Developer fees			738,225		738,225
Long-term lease			4,131,927		4,131,927
Long-term loans receivable		17,339,780	4,680,724	3,719,086	25,739,590
Total	<u>\$ 120,730</u>	<u>\$ 17,339,780</u>	<u>\$ 9,550,876</u>	<u>\$ 3,727,372</u>	<u>\$ 30,738,758</u>

Proprietary Funds:

	Wastewater System	Water System	Refuse Collection System	Internal Service Funds	Total
Grants	\$	\$	\$	\$ 154,380	\$ 154,380
Service charges received in advance	1,219,652	905,799	905,799		3,031,250
Total	<u>\$ 1,219,652</u>	<u>\$ 905,799</u>	<u>\$ 905,799</u>	<u>\$ 154,380</u>	<u>\$ 3,185,630</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

5. INTERFUND TRANSACTIONS

A. Fund Financial Statements

Due To, Due From

At June 30, 2011, the City had the following short-term interfund receivables and payables:

Due To	Due From				Total
	General	Redevelopment Agency Debt Service	Non-Major Funds	Internal Service Funds	
<i>Governmental Activities:</i>					
Redevelopment Agency Debt Service	\$	\$	\$ 135,696	\$	\$ 135,696
Streets and Signals Capital Project			3,276,046		3,276,046
Non-Major Funds	31,975	956,474	154,485	5,248	1,148,182
Totals	\$ 31,975	\$ 956,474	\$ 3,566,227	\$ 5,248	\$ 4,559,924

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, 2011, the City had the following interfund long-term advances:

	Advances to Other Funds			
	Governmental Activities		Business-Type Activities	
	General	Non-Major Funds	Water System	Total
<i>Governmental Activities:</i>				
Redevelopment Agency Debt Service	\$	\$	\$ 1,200,000	\$ 1,200,000
Non-Major funds	1,710,992	2,260,594		3,971,586
<i>Business-type Activities:</i>				
Non-Major funds			325,589	325,589
Total	\$ 1,710,992	\$ 2,260,594	\$ 1,525,589	\$ 5,497,175

Advance to the Community Facility Districts Fund (a non-major fund) represents an advance from the General Fund. Interest rate is equal to the rate earned on the City's investment portfolio from the date of disbursements. Advance is to be repaid from funds received by annual special tax apportioned among the parcels within the district. Advance balance as of June 30, 2011 is \$1,710,991.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

5. INTERFUND TRANSACTIONS, Continued

A. Fund Financial Statements, Continued

Long-Term Advances, Continued

Advance to the Redevelopment Agency Debt Service Fund represents an advance from the Restricted Water Well for \$1,200,000. Advance to be repaid with interest of 2.14% on or before June 30, 2012.

Advance to the Merced Theatre Restoration Capital Project Fund (a non-major fund) represents an advance from the City of Merced Public Finance and Economic Development Authority for \$2,260,594. Advance to be repaid from grant funding and pledges related to the Merced Theatre reconstruction.

Advance to the Merced Municipal Airport Capital Improvement Project Fund (a non-major fund) represents an advance from the Restricted Water Mains Enterprise Fund of \$400,000 per City Council action November 17, 2008. The advance is to increase funding to purchase general aviation hangars. Advance to be repaid back over ten years at a rate of 6.210% with monthly payments of \$4,495. Advance balance as of June 30, 2011 is \$325,589.

Transfers

At June 30, 2011, the City had the following transfers:

	Governmental Activities					
	Transfers In					
	General	Redevelopment Agency Debt Service	Streets & Signals Capital Projects	Redevelopment Agency Capital Projects	Nonmajor Funds	Total Government
Transfers Out						
<i>Governmental Activities:</i>						
General	\$	\$	\$	\$	\$ 1,074,565	\$ 1,074,565
Housing Special Revenue	208,500	168,029	187		469,175	845,891
RDA Debt Service				8,061,156	2,334,924	10,396,080
RDA Capital Projects			70		14,313,397	14,313,467
Non-major Funds	484,553	413,172	1,281,396	1,267,153	10,987,964	14,434,238
<i>Business-type Activities:</i>						
Wastewater System					28,693	28,693
Refuse					675,647	675,647
Water System					28,730	28,730
Non-major Funds	335				10,291	10,626
<i>Internal Service Funds</i>	1,172,389				26,120	1,198,509
Total	\$ 1,865,777	\$ 581,201	\$ 1,281,653	\$ 9,328,309	\$ 29,949,506	\$ 43,006,446

(continued)

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

5. INTERFUND TRANSACTIONS, Continued

A. Fund Financial Statements, Continued

Transfers, Continued

	Business Activities					
	Transfers In					
			Total Business Activities Funds	Internal Services Funds Revenue	Total Government	Total All Funds
Transfers Out	Water System	Non-Major Funds				
<i>Governmental Activities:</i>						
General	\$	\$ 1,170,541	\$ 1,170,541	\$	\$ 1,074,565	\$ 2,245,106
Housing Special Revenue					845,891	845,891
RDA Debt Service					10,396,080	10,396,080
RDA Capital Projects Nonmajor Funds		319,343	319,343	208,468	14,313,467	14,313,467
<i>Business-type Activities:</i>						
Wastewater System	250,992		250,992	1,311,032	28,693	1,590,717
Refuse				381,060	675,647	1,056,707
Water System Non-Major Funds				279,470	28,730	308,200
					10,626	10,626
<i>Internal Service Funds</i>						
		20,000	20,000	19,106	1,198,509	1,237,615
Total	\$ 250,992	\$ 1,509,884	\$ 1,760,876	\$ 2,199,136	\$ 43,006,446	\$ 46,966,458

Transfers represent funding of various City operations, funding for capital projects, lease payments or debt service, and the closing of specific funds.

The following are explanations for the transfers in and out for the major funds:

- I. Transfers from the Housing Special Revenue Fund to the General Fund were for police officers and community aides.
- II. Transfers from the Housing Special Revenue Fund to the Redevelopment Agency Debt Service Fund were for HUD 108 loan debt service.
- III. Transfers from the Housing Special Revenue Fund to the Streets and Signals Capital Projects Fund were for capital outlay projects.
- IV. Transfers from the Redevelopment Agency Special Revenue Fund to the Redevelopment Agency Capital Projects Fund were for capital outlay projects.
- V. Transfers from the Redevelopment Agency Debt Service Funds to the Redevelopment Agency Capital Projects Funds were for capital outlay projects.
- VI. Transfers from the Redevelopment Agency Capital Projects Funds to the Streets and Signals Capital Projects Fund were for capital outlay projects.
- VII. Transfers from the Wastewater System to the Water System were for capital outlay projects.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

5. INTERFUND TRANSACTIONS, Continued

A. Fund Financial Statements, Continued

Transfers, Continued

Due to the implementation of GASB 54 the following funds no longer qualified as special revenue funds and were transferred accordingly:

- The Public Works Administration Fund was transferred and reclassified as an internal service fund. Beginning fund balance of \$198,468 was transferred during the year. The Public Works Administration fund was presented as a special revenue fund in the prior year.
- The Recreation and Parks Fund was transferred and reclassified as an enterprise fund. Beginning fund balance of \$116,840 was transferred during the year. The Recreation and Parks fund was presented as a special revenue fund in the prior year.

6. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2011, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
<i>Non-depreciable Assets:</i>			
Land and improvements	\$ 70,604,091	\$ 258,681	\$ 70,862,772
Construction in process	32,775,969	59,200,465	91,976,434
Total non-depreciable assets	<u>103,380,060</u>	<u>59,459,146</u>	<u>162,839,206</u>
<i>Depreciable Assets:</i>			
Buildings and structures	20,848,739	4,287,506	25,136,245
Machinery and equipment	39,092,958	3,946,444	43,039,402
Improvements other than buildings, structures, and land improvements	91,118,560	94,788,581	185,907,141
Infrastructure	371,570,534	36,878,107	408,448,641
Total depreciable Assets:	<u>522,630,791</u>	<u>139,900,638</u>	<u>662,531,429</u>
Less accumulated depreciation	<u>(282,806,029)</u>	<u>(52,551,144)</u>	<u>(335,357,173)</u>
Total depreciable assets, net	<u>239,824,762</u>	<u>87,349,494</u>	<u>327,174,256</u>
Total Capital Assets	<u>\$ 343,204,822</u>	<u>\$ 146,808,640</u>	<u>\$ 490,013,462</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

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

	Balance July 1, 2010	Additions	Deletions	Reclassification	Balance June 30, 2011
<i>Non-depreciable Assets:</i>					
Land and improvements	\$ 69,025,623	\$ 136,069	\$	\$ 1,442,399	\$ 70,604,091
Construction in progress	37,966,773	10,778,088	(3,610,561)	(12,358,331)	32,775,969
Total non-depreciable assets	<u>106,992,396</u>	<u>10,914,157</u>	<u>(3,610,561)</u>	<u>(10,915,932)</u>	<u>103,380,060</u>
<i>Depreciable Assets:</i>					
Buildings and structures	20,848,739				20,848,739
Machinery and equipment	37,822,363	1,599,883	(821,508)	492,220	39,092,958
Improvements other than buildings, structures, and land improvements	81,680,916	673,944	(654,275)	9,417,975	91,118,560
Infrastructure	375,065,051	1,708,064	(5,202,581)		371,570,534
Total depreciable assets	<u>515,417,069</u>	<u>3,981,891</u>	<u>(6,678,364)</u>	<u>9,910,195</u>	<u>522,630,791</u>
<i>Accumulated depreciation:</i>					
Buildings and structures	(5,885,699)	(750,280)			(6,635,979)
Machinery and equipment	(31,084,504)	(2,767,792)	807,390		(33,044,906)
Improvements other buildings, than buildings, structures, and land improvements	(43,446,388)	(3,830,212)	72,463	658,274	(46,545,863)
Infrastructure	(187,337,000)	(9,383,184)	140,903		(196,579,281)
Total accumulated depreciation	<u>(267,753,591)</u>	<u>(16,731,468)</u>	<u>1,020,756</u>	<u>658,274</u>	<u>(282,806,029)</u>
Total depreciable assets, net	<u>247,663,478</u>	<u>(12,749,577)</u>	<u>(5,657,608)</u>	<u>10,568,469</u>	<u>239,824,762</u>
Total governmental activities, net	<u>\$ 354,655,874</u>	<u>\$ (1,835,420)</u>	<u>\$ (9,268,169)</u>	<u>\$ (347,463)</u>	<u>\$ 343,204,822</u>

Certain capital assets have been reclassified from governmental activities to business-type actives.

Governmental activities depreciation expense for capital assets for the year ended June 30, 2011 was as follows:

General Government	\$ 3,284,844
Public Safety	776,108
Public Works	11,771,204
Parks	899,312
Total depreciation expense	<u>\$ 16,731,468</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

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

	Balance July 1, 2010	Additions	Deletions	Reclassification	Balance June 30, 2011
<i>Non-depreciable Assets:</i>					
Land and improvements	\$ 258,681	\$	\$	\$	\$ 258,681
Construction in progress	48,610,547	14,416,043	(878,109)	(2,948,016)	59,200,465
Total non-depreciable assets	48,869,228	14,416,043		(2,948,016)	59,459,146
<i>Depreciable Assets:</i>					
Buildings and structures	2,705,525	135		1,581,846	4,287,506
Machinery and equipment	3,950,996	5,911	(10,463)		3,946,444
Improvements other than buildings, structures, and land improvements	91,712,501	1,282,339		1,793,741	94,788,581
Infrastructure	35,963,639	336,302		578,166	36,878,107
Total depreciable assets	134,332,661	1,624,687	(10,463)	3,953,753	139,900,638
<i>Accumulated depreciation:</i>					
Buildings and structures	(2,420,030)	(29,847)			(2,449,877)
Machinery and equipment	(3,358,086)	(281,387)	10,187		(3,629,286)
Improvements other than buildings, structures, and land improvements	(34,751,707)	(4,068,757)		(658,274)	(39,478,738)
Infrastructure	(5,937,811)	(1,055,432)			(6,993,243)
Total accumulated depreciation	(46,467,634)	(5,435,423)	10,187	(658,274)	(52,551,144)
Total depreciable assets, net	87,865,027	(3,810,736)	(276)	3,295,479	87,349,494
Total business-type activities	\$ 136,734,255	\$ 10,605,307	\$ (878,385)	\$ 347,463	\$ 146,808,640

Certain capital assets have been reclassified from governmental activities to business-type actives.

Business-type activities depreciation expense for capital assets for the year ended June 30, 2011 was as follows:

Wastewater System Fund	\$ 1,999,519
Water System Fund	2,215,662
Refuse Collection System	937,004
Non-Major Funds	283,238
Total depreciation expense	\$ 5,435,423

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

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 Assets.

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. DEFERRED CHARGES

At June 30, 2011, the City had the following deferred charges:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
CSCDA Wastewater Revenue Bond	\$ 254,014	\$	\$ (30,290)	\$ 223,724
CSCDA Water Revenue Bonds	117,898		(14,057)	103,841
Improvement Bonds Payable	16,434		(9,004)	7,430
Total	\$ 388,346	\$	\$ (53,351)	\$ 334,995

These deferred charges represent bond issuance costs, which are being amortized over the life of the related bonds using the straight-line method. Amortization expense for the year ended June 30, 2011 was \$53,351.

8. OTHER LIABILITIES

Other liabilities consist of amounts accrued in the ordinary course of operations. The other liabilities as of June 30, 2011, were as follows:

A. Government-Wide Financial Statements

	Governmental Activities	Business-Type Activities	Total
Developers credits	\$ 5,076,301	\$ 121,669	\$ 5,197,970
Deposits	450	856,702	857,152
Miscellaneous liabilities	67,105	16,408	83,513
Total	\$ 5,143,856	\$ 994,779	\$ 6,138,635

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

8. OTHER LIABILITIES, Continued

B. Fund Financial Statements

	Developers Credits	Deposits	Miscellaneous Liabilities	Total Other Liabilities
<i>Governmental Funds</i>				
General Fund	\$	\$	\$ 26,992	\$ 26,992
Housing Special Revenue Fund			2,961	2,961
Non-Major Funds	5,076,301	450		5,076,751
Total governmental funds	5,076,301	450	29,953	5,106,704
<i>Business Type Funds</i>				
Wastewater System	121,669	246,721	5,000	373,390
Water System		383,552		383,552
Refuse Collection		202,703		202,703
Non-Major Funds		23,726	11,408	35,134
Total business type funds	121,669	856,702	16,408	994,779
<i>Internal Services Funds</i>				
			37,152	37,152
Total	\$ 5,197,970	\$ 857,152	\$ 83,513	\$ 6,138,635

9. 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, 2011:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year	Due in More than One Year
Tax Allocation Bonds	\$ 34,327,825	\$	\$ (1,955,000)	\$ 32,372,825	\$ 2,030,000	\$ 30,342,825
Pension Obligation Bonds	6,860,000		(170,000)	6,690,000	205,000	6,485,000
Loans Payable	3,067,271	2,500,000	(217,271)	5,350,000	2,700,000	2,650,000
Loan Guarantees	690,142		(135,273)	554,869	135,273	419,596
Capital Lease		7,157,493		7,157,493		7,157,493
Total	\$ 44,945,238	\$ 9,657,493	\$ (2,477,544)	\$ 52,125,187	\$ 5,070,273	\$ 47,054,914

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Governmental Activities, Continued

Tax Allocation Bonds Payable

Tax allocation bonds payable at June 30, 2011 consisted of the following:

1999 \$25,000,000 Tax Allocation Bonds, Series A	\$	9,055,000
2001 \$2,400,000 Tax Allocation Bonds, Series A		2,050,000
2003 \$9,007,825 Tax Allocation Bonds, Series A		8,317,825
2009 \$13,120,000 Tax Allocation Bonds, Series A		<u>12,950,000</u>
Total	\$	<u>32,372,825</u>

For the year ended June 30, 2011, the combined principal and interest on the Tax Allocation Bonds used 45% of the total tax increment revenues pledged.

1999 \$25,000,000 Tax Allocation Bonds, Series A

1999 \$25,000,000 Tax Allocation Bonds, Series A, Redevelopment Agency, \$1,100,000 to \$1,975,000 principal payable annually, interest at 3.50% to 4.75%, payable semi-annually, matures fiscal year 2016. The tax allocation bonds are secured by property tax increments. The 2003 RDA Project Area 2 Tax Allocation Bonds were issued as a parity debt to the 1999 RDA Project Area 2 Tax Allocation Bonds. Annual principal and interest payments on the 1999 and 2003 RDA Project Area 2 Tax Allocation Bonds were expected to use 69% of tax revenues in 2010-11. The total principal and interest remaining to be paid on the 1999 and 2003 RDA Project Area 2 bonds is \$10,139,348 and \$17,745,171, respectively. For the current year, total principal and interest paid was \$2,210,340 and property tax increment revenue was \$5,620,366. The tax allocation bonds used 39% of current year's tax revenue.

The annual debt service requirements for the 1999 \$25,000,000 Tax Allocation Bonds are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2012	\$ 1,655,000	\$ 376,710	\$ 2,031,710
2013	1,730,000	301,375	2,031,375
2014	1,805,000	221,838	2,026,838
2015	1,890,000	137,519	2,027,519
2016	<u>1,975,000</u>	<u>46,906</u>	<u>2,021,906</u>
Total	\$ 9,055,000	\$ 1,084,348	\$ 10,139,348

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Tax Allocation Bonds Payable, Continued

2001 \$2,400,000 Tax Allocation Bonds, Series A

2001 \$2,400,000 Tax Allocation Bonds, Series A, Redevelopment Agency, \$40,000 to \$165,000 of principal payable annually, interest at 5.00% to 5.60%, payable semi-annually, matures fiscal year 2032. The tax allocation bonds are secured by property tax increments. The 2009 RDA Gateways Tax Allocation Bonds were issued as a parity debt to the 2001 RDA Gateways Tax Allocation Bonds. Annual principal and interest payments on the 2001 and 2009 Gateways Tax Allocation Bonds were expected to use 45% of tax revenues in 2010-11. The total principal and interest remaining to be paid on the 2001 and 2009 Gateways bonds is \$3,527,231 and \$28,703,091, respectively. For the current year, principal and interest paid was \$1,128,915 and property tax increment revenue was \$1,768,471. The tax allocation bonds used 64% of current year's tax revenue.

The annual debt service requirements for the 2001 \$2,400,000 Tax Allocation Bonds are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2012	\$ 50,000	\$ 114,347	\$ 164,347
2013	55,000	111,695	166,695
2014	55,000	108,863	163,863
2015	60,000	105,842	165,842
2016	65,000	102,497	167,497
2017-2021	390,000	451,223	841,223
2022-2026	510,000	325,068	835,068
2027-2031	700,000	152,952	852,952
2032	165,000	4,744	169,744
Total	\$ 2,050,000	\$ 1,477,231	\$ 3,527,231

2003 \$9,007,825 Tax Allocation Bonds, Series A

2003 \$9,007,825 Tax Allocation Bonds, Series A, Redevelopment Agency, consisting of \$1,485,000 Current Interest Bonds and \$7,522,825 Capital Appreciation Bonds, \$130,000 to \$1,156,807 of principal payable annually, interest payable semi-annually, matures fiscal year 2024. The tax allocation bonds are secured by property tax increments. The 2003 RDA Project Area 2 Tax Allocation Bonds were issued as a parity debt to the 1999 RDA Project Area 2 Tax Allocation Bonds. Annual principal and interest payments on the 1999 and 2003 RDA Project Area 2 Tax Allocation Bonds were expected to use 69% of tax revenues in 2010-11. The total principal and interest remaining to be paid on the 1999 and 2003 RDA Project Area 2 bonds is \$10,139,348 and \$17,745,171, respectively. For the current year, total principal and interest paid was \$2,210,340 and property tax increment revenue was \$5,620,366. The tax allocation bonds used 39% of current year's tax revenue.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Tax Allocation Bonds Payable, Continued

2003 \$9,007,825 Tax Allocation Bonds, Series A, Continued

The interest rate on the Current Interest Bonds is 2.0% to 3.625%. The yield to maturity on the Capital Appreciation Bonds is 4.5% to 5.15%.

The annual debt service requirements for the 2003 \$9,007,825 Tax Allocation Bonds are as follows:

For the Years Ending June 30,	Current Interest Bonds		Capital Appreciation Bonds		
	Principal	Interest	Initial Amount	Accreted Interest	Value at Maturity
2012	\$ 150,000	\$ 24,384	\$	\$	\$
2013	155,000	19,521			
2014	160,000	14,302			
2015	160,000	8,882			
2016	170,000	3,082			
2017-2021			4,238,800	4,201,200	8,440,000
2022-2024			3,284,025	5,155,975	8,440,000
Total	\$ 795,000	\$ 70,171	\$ 7,522,825	\$ 9,357,175	\$ 16,880,000

2009 \$13,120,000 Tax Allocation Bonds, Series A

2009 \$13,120,000 Tax Allocation Bonds, Series A, Redevelopment Agency, \$170,000 to \$1,050,000 of principal payable annually, interest at 3.00% to 6.50%, payable semi-annually, matures fiscal year 2040. The tax allocation bonds are secured by property tax increments. The 2009 RDA Gateways Tax Allocation Bonds were issued as a parity debt to the 2001 RDA Gateways Tax Allocation Bonds. Annual principal and interest payments on the 2009 and 2001 Gateways Tax Allocation Bonds were expected to use 45% of tax revenues in 2010-11. The total principal and interest remaining to be paid on the 2001 and 2009 Gateways bonds is \$3,527,231 and \$28,703,091, respectively. For the current year, principal and interest paid was \$1,128,915 and property tax increment revenue was \$1,768,471. The tax allocation bonds used 64% of current year's tax revenue.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Tax Allocation Bonds Payable, Continued

2009 \$13,120,000 Tax Allocation Bonds, Series A, Continued

The annual debt service requirements for the 2009 \$13,120,000 Tax Allocation Bonds are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2012	\$ 175,000	\$ 786,456	\$ 961,456
2013	180,000	780,019	960,019
2014	185,000	772,944	957,944
2015	200,000	764,869	964,869
2016	210,000	755,769	965,769
2017-2021	1,190,000	3,605,594	4,795,594
2022-2026	1,530,000	3,234,059	4,764,059
2027-2031	2,030,000	2,693,556	4,723,556
2032-2036	3,440,000	1,844,375	5,284,375
2037-2040	3,810,000	515,450	4,325,450
Total	\$ 12,950,000	\$ 15,753,091	\$ 28,703,091

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 for the purpose of purchasing 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 were used by each Local Agency to meet obligations to pay the Local Agency's unfunded accrued actuarial liability to the California Public Employees' Retirement System. The bonds are an unconditional obligation of the Local Agencies 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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Pension Obligation Bonds, Continued

California Statewide Communities Development Authority Taxable Pension Obligation Bonds, Continued

The annual debt service requirements for the Pension Obligation Bonds are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2012	\$ 205,000	\$ 387,781	\$ 592,781
2013	245,000	377,162	622,162
2014	285,000	364,104	649,104
2015	325,000	348,691	673,691
2016	375,000	330,790	705,790
2017-2021	2,735,000	1,264,397	3,999,397
2022-2024	2,520,000	307,181	2,827,181
Total	\$ 6,690,000	\$ 3,380,106	\$ 10,070,106

Loans Payable

Loans payable at June 30, 2011 consisted of the following:

2003 \$4,000,000 Loans Payable	\$ 2,600,000
2008 \$250,000 Property Acquisition Loan Payable	250,000
2011 \$2,500,000 Loan Payable	2,500,000
Total	\$ 5,350,000

2003 \$4,000,000 Loans Payable

2003 \$4,000,000 Loans Payable 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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Loans Payable, Continued

2003 \$4,000,000 Loans Payable, Continued

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

For the Years Ending June 30,	Principal	Interest	Total
2012	\$ 200,000	\$ 130,960	\$ 330,960
2013	200,000	121,860	321,860
2014	200,000	112,370	312,370
2015'	200,000	102,610	302,610
2016	200,000	92,610	292,610
2017-2021	1,000,000	305,150	1,305,150
2022-2024	600,000	50,960	650,960
Total	\$ 2,600,000	\$ 916,520	\$ 3,516,520

2008 \$250,000 Real Estate Purchase Agreement

2008 \$250,000 Real Estate Purchase Agreement for the purchase of park land in Fahrens Park. Payments are \$15,000 interest only for 4 years. A balloon payment of \$250,000 principal and \$15,000 interest will be paid in 2013. The annual debt service requirements for the 2008 \$250,000 Real Estate Purchase Agreement are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2012	\$	\$ 15,000	\$ 15,000
2013	250,000	15,000	265,000
Total	\$ 250,000	\$ 30,000	\$ 280,000

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Loans Payable, Continued

2011 \$2,500,000 Loans Payable

2011 \$2,500,000 Loans Payable to Farmers and Merchants Bank of Central California. Interest only payable monthly at 5.75% beginning January 5, 2011, principal and any unpaid interest due and payable on May 5, 2012. The funds were used to finance the restoration of the Merced Theatre. The annual debt service requirements for the 2011 \$2,500,000 Loans payable are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2012	\$ 2,500,000	\$ 133,767	\$ 2,633,767
Total	\$ 2,500,000	\$ 133,767	\$ 2,633,767

Loan Guarantee

Loans guarantees at June 30, 2011, consisted of the following:

2001 Debt Service Agreement	\$ 182,244
2005 Debt Service Agreement	372,625
Total	\$ 554,869

2001 \$789,724 Debt Service Funding Agreement

2001 \$789,724 Debt Service Funding Agreement is with a developer. The developer agrees to make monthly payments to the Agency for the repayment of its loan with a financial lender. The Agency guarantees the monthly payments to the lender. The Redevelopment Agency has a deposit of \$60,748 to be used as a reserve. Payments are \$5,062 for 156 months. The loan does not bear interest and matures in fiscal year 2014. The balance outstanding at June 30, 2011 was \$182,244. An amount equal to the loan payable has been recorded as a loan guarantee receivable from the developer.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Loan Guarantee, Continued

2001 \$789,724 Debt Service Funding Agreement, Continued

The annual debt service requirements for the 2001 \$789,724 Debt Service Funding Agreement are as follows:

<u>For the Years Ending June 30,</u>		
2012	\$	60,748
2013		60,748
2014		60,748
Total	\$	182,244

2005 \$894,300 Debt Service Funding Agreement

2005 \$894,300 Debt Service Funding Agreement is with a developer for the purchase of property in a Redevelopment project area. Developer agrees to make the monthly payments to the Agency for the repayment of its loan with a financial lender. The Agency guarantees the monthly payments to the lender. Monthly payments are \$6,210 for 144 months. The loan does not bear interest and matures in fiscal year 2016. The balance outstanding at June 30, 2011 was \$372,625. An amount of \$378,835 has been recorded as a loan guarantee receivable from the developer. The variance of \$6,210 between the loan guarantee receivable and the loan payable is due to timing of the monthly payment.

The annual debt service requirements for the 2005 \$894,300 Debt Service Funding Agreement are as follows:

<u>For the Years Ending June 30,</u>		
2012	\$	74,525
2013		74,525
2014		74,525
2015		74,525
2016		74,525
Total	\$	372,625

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Capital Lease

The City entered into a capital lease agreement under which the related facility will become the property of the City when all terms of the lease agreement are met.

The following is a summary of property leased under capital lease agreements by the City as of June 30, 2011:

	<u>Stated Interest Rate</u>	<u>Present Value of Remaining Payments as of June 30, 2011</u>
Governmental Activities: Facilities	4.50%	<u>\$ 7,157,493</u>

The equipment is currently under construction.

As of June 30, 2011, future minimum lease payments under capital leases was as follows:

<u>Year Ending June 30:</u>	<u>Governmental Activities</u>
2012	\$ 324,807
2013	569,641
2014	590,122
2015	611,321
2016	633,262
2017-2021	3,523,255
2022-2026	3,403,398
2027	<u>715,061</u>
Total Future Minimum Lease Payments	10,370,867
Less: Interest	<u>(3,213,374)</u>
Present Value of Minimal Lease Payments	<u>\$ 7,157,493</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Business-Type Activities

Following is a summary of business-type activity long-term debt transactions during the fiscal year ended June 30, 2011:

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year	Due in More than One Year
Revenue bonds payable	\$ 24,931,445	\$	\$ (1,183,330)	\$ 23,748,115	\$ 1,231,440	\$ 22,516,675
Loans payable	42,782,841		(150,000)	42,632,841	150,000	42,482,841
Water well development agreement	69,246		(22,160)	47,086		47,086
Improvement bonds payable	940,000		(295,000)	645,000	315,000	330,000
Total	\$ 68,723,532	\$	\$ (1,650,490)	\$ 67,073,042	\$ 1,696,440	\$ 65,376,602

Revenue Bonds Payable

Revenue bonds payable at June 30, 2011, consisted of the following:

CSCDA Water Revenue Bonds Payable	\$ 6,988,328
CSCDA Wastewater Revenue Bonds Payable	16,759,787
Total	\$ 23,748,115

CSCDA Water and Wastewater Revenue Bonds Series 2005A

On June 2, 2004, the CSCDA issued Water and Wastewater Revenue Bonds (Pooled Financing Program) in the amount of \$56,880,000 pursuant to an Indenture by and between the CSCDA and Union Bank of California (Trustee) as trustee. The pooled financing program was available to California cities and special districts that operate water and wastewater enterprises. The bonds were authorized by law and were used to finance and refinance certain public capital improvements of the four project participants. The City's obligation was \$8,755,000 for its Water Enterprise Fund and \$21,000,000 for its Wastewater Enterprise Fund.

The proceeds of the bonds were used to refinance the 2003 Local Agency Revenue Refunding Bonds and to make improvements to the water and the wastewater systems. The bonds are secured by pledges of the water and wastewater net revenues under the respective installment purchase agreements for each individual program participant. Program participants are not obligated to make up for any deficiency in the installment payments of other program participants.

Principal payments are due on October 1 of each year and interest payments ranging from 3% to 5.25% are due on April 1 and October 1 of each year.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Revenue Bonds Payable, Continued

CSCDA Water and Wastewater Revenue Bonds Series 2005A, Continued

The total principal and interest remaining to be paid on the CSCDA Water Revenue Bonds is \$9,800,586. For the current year, principal and interest paid was \$698,262 and water system net revenues were \$5,418,066, all of which are pledged. For the year ended June 30, 2011 principal and interest on the Water bonds used 13% of the system net revenues.

The total principal and interest remaining to be paid on the CSCDA Wastewater Revenue Bonds is \$23,503,182. For the current year, principal and interest paid was \$1,681,312 and water system net revenues were \$10,030,959, all of which are pledged. For the year ended June 30, 2011, principal and interest on the Wastewater Revenue bonds used 17% of the system net revenues.

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

For the Years Ending June 30,	Principal	Interest	Total
2012	\$ 350,000	\$ 347,812	\$ 697,812
2013	370,000	329,812	699,812
2014	385,000	310,937	695,937
2015	405,000	291,187	696,187
2016	425,000	270,437	695,437
2017-2021	2,480,000	992,219	3,472,219
2022-2025	2,490,000	269,854	2,759,854
	6,905,000	2,812,258	9,717,258
Add unamortized premium	83,328		83,328
Total	\$ 6,988,328	\$ 2,812,258	\$ 9,800,586

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

For the Years Ending June 30,	Principal	Interest	Total
2012	\$ 845,000	\$ 833,987	\$ 1,678,987
2013	880,000	790,862	1,670,862
2014	925,000	745,737	1,670,737
2015	975,000	698,237	1,673,237
2016	1,020,000	648,362	1,668,362
2017-2021	5,940,000	2,378,749	8,318,749
2022-2025	5,975,000	647,461	6,622,461
	16,560,000	6,743,395	23,303,395
Add unamortized premium	199,787		199,787
Total	\$ 16,759,787	\$ 6,743,395	\$ 23,503,182

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Loans Payable

Loans payable at June 30, 2011 consisted of the following:

California Infrastructure Bank and Economic Development Bank (CIEDB)		
Enterprise Fund Installment Sales Agreement	\$	7,652,209
California State Water Resources Control Board		
Clean Water State Revolving Fund		34,980,632
		<u>42,632,841</u>
	<i>Total</i>	
Water Well Development Agreement		47,086
Improvement Bond Payable		645,000
		<u>645,000</u>
Total	\$	<u>43,324,927</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 promissory note is not to exceed \$9 million 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:

For the Years Ending June 30,	Principal	Interest	Total
2012	\$ 150,000	\$ 240,198	\$ 390,198
2013	175,000	235,046	410,046
2014	175,000	229,499	404,499
2015	200,000	223,555	423,555
2016	200,000	217,214	417,214
2017-2021	1,275,000	975,520	2,250,520
2022-2026	1,750,000	734,996	2,484,996
2027-2031	2,225,000	418,394	2,643,394
2032-2034	1,502,209	73,084	1,575,293
Total	\$ 7,652,209	\$ 3,347,506	\$ 10,999,715

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Loan Payable, Continued

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 is \$34,980,632 with an interest rate of 1.0% per annum. There is principal forgiveness of \$2,000,000 contingent on the City's completion of construction by September 30, 2011, project completion by December 31, 2011, and completion of all American Recovery and Reinvestment Act (ARRA) requirements.

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

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

For the Years Ending June 30,	Principal	Interest	Total
2012	\$ 1,012,962	\$ 842,817	\$ 1,855,779
2013	1,536,103	319,677	1,855,780
2014	1,551,464	304,316	1,855,780
2015	1,566,978	288,801	1,855,779
2016	1,582,648	273,131	1,855,779
2017-2021	8,153,826	1,125,069	9,278,895
2022-2026	8,569,754	709,141	9,278,895
2027-2031	11,006,897	271,999	11,278,896
Total	\$ 34,980,632	\$ 4,134,951	\$ 39,115,583

Water Well Development Agreement

During fiscal year 2002, the City entered into a Development Agreement with Zelman Retail Partners, Inc. (Developer) which contained a provision for the construction of a water well site. The City determined that the fair value of the well site was \$250,000 which the City agreed to pay to the Developer in ten equal annual installments. The accreted interest was calculated at a rate of 4.1% resulting in a principal amount of \$201,767.

The annual debt service requirements of the Development are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2012	\$ 23,070	\$ 1,930	\$ 25,000
2013	24,016	984	25,000
Total	\$ 47,086	\$ 2,914	\$ 50,000

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Loan Payable, Continued

Improvement Bonds Payable

1999 \$4,024,381 Improvement Bonds, North Merced Sewer Improvement Refunding Reassessment City, \$264,381 to \$430,000 principal payable annually, interest at 4.35% to 5.55% payable semi-annually, matures in fiscal year 2013, secured by assessments.

The annual debt service requirements for the Improvement Bonds Payable are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2012	\$ 315,000	\$ 26,977	\$ 341,977
2013	330,000	9,158	339,158
Total	\$ 645,000	\$ 36,135	\$ 681,135

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 Assets.

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.

C. Debt with No City Commitment

The following bond issues are not reported in the City's financial statements, because the City acts solely as an agent for the bond holders 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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. LONG-TERM DEBT, Continued

C. Debt with No City Commitment, Continued

	Outstanding June 30, 2011
1998 Liberty Park Refunding Assessment District	\$ 329,000
16th Street Refunding Assessment District	228,000
Fahrens Park Refunding Assessment District	3,715,000
Bellevue Ranch East CFD	10,305,000
Bellevue Ranch West CFD	6,955,000
Moraga CFD	5,520,000
Total	<u>\$ 27,052,000</u>

10. SHORT-TERM LOAN

On December 10, 2010, the Agency received \$4,850,258 as an interest-free short-term loan from Wells Fargo Bank. The proceeds were used to rehabilitate the Merced Theatre. The loan was repaid in full on December 13, 2010.

11. 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, Street Trees Fund, Streets and Street Light Maintenance Fund, Recreation & Parks Fund, Public Works Administration 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, 2011, is as follows:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year	Due in More than One Year
Governmental Activities	\$ 3,454,375	\$ 731,967	\$ (942,945)	\$ 3,243,397	\$ 522,483	\$ 2,720,914
Business-type Activities	503,978	169,380	(75,494)	597,864	30,602	567,262
Total	<u>\$ 3,958,353</u>	<u>\$ 901,347</u>	<u>\$ (1,018,439)</u>	<u>\$ 3,841,261</u>	<u>\$ 553,085</u>	<u>\$ 3,288,176</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

12. CLASSIFICATION OF FUND BALANCE

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

	General Fund	Housing Special Revenue	Redevelopment Agency Debt Service	Streets & Signals Capital Projects	Redevelopment Agency Capital Projects	Non-Major Funds	Total
Nonspendable:							
Inventory	\$ 41,371	\$	\$	\$	\$	\$	\$ 41,371
Land held for resale		1,365,522	413,172			4,412,123	6,190,817
Advances receivable	1,710,991						1,710,991
Total Nonspendable	1,752,362	1,365,522	413,172			4,412,123	7,943,179
Restricted for:							
Street and street lights						2,439,034	2,439,034
Community development						14,266,848	14,266,848
Housing		388,232				3,169,749	3,557,981
Public safety						37,968	37,968
Special districts						1,846,772	1,846,772
Debt service			2,638,527				2,638,527
Capital projects				1,868,920	85,996	14,310,363	16,265,279
Other special projects and programs	4,000,000					716,264	4,716,264
Total Restricted	4,000,000	388,232	2,638,527	1,868,920	85,996	36,786,998	45,768,673
Committed to:							
Street and street lights						95,900	95,900
Community development						9,461	9,461
Public safety						640,617	640,617
Debt service						7,524	7,524
Total Committed						753,502	753,502
Assigned to:							
Appropriations in subsequent year	2,272,531						2,272,531
Encumbrances	712,114						712,114
Total Assigned	2,984,645						2,984,645
Unassigned	6,833,353					(2,293,872)	4,539,481
Total Fund Balances	\$ 15,570,360	\$ 1,753,754	\$ 3,051,699	\$ 1,868,920	\$ 85,996	\$ 39,658,751	\$ 61,989,480

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

13. OTHER FUND DISCLOSURES

A. Deficit Fund Balances

At June 30, 2011, the funds below had the following deficit fund balance or net assets:

Special Revenue Funds

Communities Facilities District Services Funds \$ (20,886)

The CFD-Services established in new developments are generating revenues at a slower pace than anticipated. This is due primarily to the housing market downturn. The CFD-Service's have received a loan from pooled cash to meet the increased service needs in these new developments. As housing stock develops, funds will be available to carry the full service cost and repay the debt to the governmental funds.

Capital Project Funds

Park Reserve Fund \$ (1,520,127)

This fund is used to account for all in-lieu fees. As a condition of approval of a final subdivision map or parcel map, a subdivider shall dedicate land, pay a fee in lieu as building permits are pulled, or both, at the option of the City, for neighborhood and community park or recreational purposes. The deficit was caused by the City receiving dedicated park land prior to the Developer pulling building permits which resulted in a developer credit liability. The liability and deficit fund balance will be eliminated as the Developer pulls building permits.

Merced Theatre Restoration Capital Project Fund \$ (752,866)

This fund is used to account for the Merced Theatre Restoration Capital Improvement Project. The deficit was caused by the receiving an Advance from the Public Facilities and Economic Development Authority Project Area 2 Capital Improvement Project Fund in the amount of \$2,260,594. The liability and deficit fund balance will be eliminated when the loan repayment is made.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

13. OTHER FUND DISCLOSURES, Continued

A. Deficit Fund Balances, Continued

Internal Service Funds

Workers Compensation Insurance Fund \$ (2,960,163)

The deficit net assets was caused by the adoption of Statement No 10 of the Governmental Accounting Standards Board, "Accounting and Financial Reporting for Risk Financing and related Insurance," which established accounting and financial reporting standards for risk financing and insurance- related activities of state and local governmental entities. The Governmental Accounting Standards Board No 10 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 reported (IBNR). The recording of these estimated future claims and IBNR has caused the net assets deficit balance. The deficit balance will be eliminated by future fees.

Fleet Management \$ (13,374)

This fund is used to account for the daily operation and maintenance of city vehicles. The deficit fund balance was caused by the recording of Other Post Employment Benefits liability. The deficit balance will be eliminated by future fees.

Facility Maintenance \$ (1,113,167)

This fund is used to account for costs of maintaining and operating City facilities. The deficit fund balance was caused by the recording of the capital lease agreement to fund certain energy cost saving facility improvement measures and facility upgrades. 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 debt service payments.

14. RISK MANAGEMENT

The City maintains internal service funds to account for the City's general liability insurance and workers' compensation insurance. All unpaid claims that were probable liabilities that occurred prior to the 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, 2011, claims for general liability and workers' compensation were \$861,909 and \$3,026,397, respectively.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

14. RISK MANAGEMENT, Continued

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, with a self-insured retention of \$100,000 for general liability and errors and omissions, and \$100,000 for vehicle liability. Settled claims have not exceeded the commercial claims in any fiscal year. The changes in the general claims liability were as follows:

Year Ended June 30,	Claims Payable July 1	Fiscal Year Claims and Changes in Estimates	Claims Payments	Claims Payable June 30	Due Within One Year
2009	\$ 780,846	\$ 1,823,307	\$ (1,957,154)	\$ 646,999	\$ 646,999
2010	646,999	2,465,666	(2,215,943)	896,722	896,722
2011	896,722	1,796,927	(1,831,740)	861,909	861,909

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. The City purchases commercial insurance for claims in excess of the coverage provided in the fund. Settled claims have not exceeded the commercial claims in any fiscal year. The changes in the workers' compensation claims liability were as follows:

Year Ended June 30,	Claims Payable July 1	Fiscal Year Claims and Changes in Estimates	Claims Payments	Claims Payable June 30	Due Within One Year
2009	\$ 2,884,364	\$ 298,263	\$ (577,563)	\$ 2,605,064	\$ 790,484
2010	2,605,064	916,778	(975,395)	2,546,447	570,512
2011	2,546,447	1,573,763	(1,093,813)	3,026,397	1,057,516

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

15. RETIREMENT PLANS

Pension Plan

Plan Description - The City contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State Statute and City Ordinance. Copies of CalPERS' Annual Financial Report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Funding Policy - Active plan members are required by State Statute to contribute 8% for miscellaneous and 9% for safety employees of their annual covered salary. The required employee contribution was paid by the City on behalf of the employees and for their account. This amounted to \$2,520,454 for the year ended June 30, 2011. The City employer was required to contribute for fiscal year 2010-2011 at an actuarially determined rate of 9.510% and 18.114% of annual covered payroll for miscellaneous and safety employees, respectively. Of the combined employee and employer miscellaneous rate of 17.51%, miscellaneous employees contributed 2.95% of annual covered payroll. Of the combined employee and employer safety rate of 27.114%, safety employees contributed 4.743% of annual covered payroll. See the Required Supplementary Information for the Schedule of Funding Progress.

Annual Pension Cost - For fiscal year 2010-2011, the City's annual pension cost was equal to the City's required and actual contributions of \$4,028,304. The required contribution was determined as part of the June 30, 2008, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that range from 3.25% to 14.45% for miscellaneous and 3.25% to 13.15% for safety employees depending on age, service, and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15 year period. CalPERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2008, was 32 years for safety employees and 32 years for miscellaneous employees for prior and current service unfunded liability.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Miscellaneous	Safety	Total	Percentage of ARC Contributed	Net Pension Obligation
	Employees Annual Required Contribution (ARC)	Employees Annual Required Contribution (ARC)	Annual Required Contribution (ARC)		
6/30/2009	\$ 1,694,688	\$ 2,444,828	\$ 4,139,516	100%	\$
6/30/2010	1,652,713	2,360,359	4,013,072	100%	
6/30/2011	1,644,110	2,384,194	4,028,304	100%	

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

15. RETIREMENT PLANS, Continued

Pension Plan, Continued

Funded Status of Plan

The City contributed to the California Public Employees' Retirement System (CalPERS), as an agent multiple-employer public employee defined benefit pension plan. The amounts reflected herein represent the City's portion as reported by CalPERS.

Miscellaneous Employees

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Actuarial Unfunded (Overfunded) Liability	Funded Ratio	Covered Payroll	Liability as Percentage of Covered Payroll
6/30/2010	\$ 80,860,555	\$ 96,575,241	\$ 15,714,686	83.7%	\$ 17,954,782	87.5%

Safety Employees

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Actuarial Unfunded (Overfunded) Liability	Funded Ratio	Covered Payroll	Liability as Percentage of Covered Payroll
6/30/2010	\$ 89,123,527	\$ 101,941,129	\$ 12,817,602	87.4%	\$ 13,411,475	95.6%

* Additional information regarding the funded status of the miscellaneous and safety employees' retirement plan can be found in the Required Supplementary Information section.

16. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS

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

The City made a \$987,000 pre-funding contribution to the California Employers' Retiree Benefit Trust (CERBT) during the fiscal year ending June 30, 2011. 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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

16. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS, Continued

Out of approximately 432 full-time City employees, approximately 243 have a current MOU that calls for the City to provide health care insurance upon retirement. 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 Anthem Blue Cross of California. Dental and vision benefits are also available to retirees, but at their own expense.

Since medical premiums are determined for actives and retirees on a combined basis, an implied subsidy must be reflected under GASB 45.

Funding Policy - 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. However, the City made a pre-funding contribution of \$987,000 to the CERBT for the fiscal year ending June 30, 2011. No regular pre-funding is currently planned.

For the fiscal year ending June 30, 2011, the City contributed \$2,763,000 to the plan, including \$1,324,000 in medical premium payments for retirees, \$452,000 for implied subsidies, and a pre-funding contribution of \$987,000 to the CERBT. The City allows retirees to participate in the same City medical plan (Anthem Blue Cross of California) as active employees. Because active employees and retirees have pooled premiums, retirees pay less than they would if they were in a stand-alone medical plan. The difference between the expected claims for retirees and the premium charged to retirees is the implied subsidy. The implied subsidy has been included in the actuarial valuation as required under GASB 45, and therefore the corresponding benefit payments are included as an offset to the Annual OPEB Cost accrual.

Annual OPEB Cost and Net OPEB Obligation - The City's annual other postemployment benefit cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the Normal Cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

16. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS, Continued

Annual OPEB Cost and Net OPEB Obligation, Continued

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's Net OPEB obligation:

Annual required contribution	\$ 6,343,000
Interest on net OPEB obligation	358,000
Adjustment to annual required contribution	<u>(772,000)</u>
Annual OPEB cost (expense)	5,929,000
Contributions made to CERBT	(987,000)
Benefit payments made outside CERBT	<u>(1,776,003)</u>
Increase in net OPEB obligation	3,165,997
Net OPEB obligation - beginning of year	8,435,003
Net OPEB obligation - end of year	<u>\$ 11,601,000</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	\$ 5,812,000	24.8%	\$ 4,373,000
6/30/2010	5,951,000	31.7%	8,435,003
6/30/2011	5,929,000	46.6%	11,601,000

Funded Status and Funding Progress- The funded status of the plan as of June 30, 2009, the plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 60,770,000
Actuarial value of plan assets	<u>60,770,000</u>
Unfunded actuarial accrued liability (UAAL)	0%
Funded ratio (actuarial value of plan assets/ AAL)	0%
Covered payroll (eligible active plan members)	18,248,000
UAAL as a percentage of covered payroll	333%

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend rate. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

16. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS, Continued

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan participants) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan participants to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2009 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.25% investment rate of return (net of administrative expenses), which is the expected long-term investment return on the City's investments, a 3% general inflation assumption, and an annual pre-Medicare medical cost increase rate of 9.0% for 2011 decreasing to 4.5% after 6 years. The post-Medicare medical cost increase rate is 9.3% for 2011 decreasing to 4.5% after 6 years. The caps on the City-paid medical benefits were assumed to increase with the pre-Medicare medical cost trend rate. The initial UAAL as of June 30, 2008 is being amortized as a level dollar amount over 30 years on a closed basis. The remaining amortization period at June 30, 2011 was 27 years.

17. COMMITMENTS AND CONTINGENT LIABILITIES

Litigation

As of June 30, 2011, there were certain personal injury and other tort claims that have been denied by the City Council. The outcome and eventual liability to the City in these cases, if any, is not known at this time. Management estimates that the potential claims against the City, not covered by insurance, resulting from such litigation would not materially affect the financial statements of the City.

The City has issued bonds under the "Refunding Act of 1984 for 1915 Act Improvement Bonds." These bonds are secured by real property within the district boundaries. Assessments levied on these properties are used to pay the bonds. Property tax delinquencies have triggered the foreclosure covenants in the North Merced Sewer Assessment District. The City will commence foreclosure and collection proceedings against those properties in default.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

17. COMMITMENTS AND CONTINGENT LIABILITIES, Continued

Project Commitments

As of June 30, 2011, the City had the following outstanding commitments that exceeded \$500,000:

Vendor Name	Outstanding Amount
C. Overaa & Co Inc.	\$ 25,040,235
Merced Pacific Associates	7,446,000
Siemens Industry, Inc.	5,053,680
A Teichert & Son, Inc.	3,983,306
Carollo Engineers	2,468,820
Stantec Consulting Services, Inc.	2,352,229
Rolfe Construction, Inc.	1,926,240
Merced Union High School District	1,576,004
RGW Construction, Inc.	847,494
Maxwell Construction, Inc.	793,518
Merced Co. Dept. of Public Works	679,957
BNSF Railway Company	666,109
	\$ 52,833,592

18. POLLUTION REMEDIATION OBLIGATIONS

The City of Merced and Agency are aware of various contaminated sites throughout the City, which contain certain gasoline chemicals and other contaminants such as pesticides and solvents. The City is participating on behalf of private responsible parties in pollution remediation activities such as site assessments and cleanups per certain local and state regulations or requirements.

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 funded through existing water service fees.

The City and Agency initiated litigation with a variety of entities regarding contamination at specific sites. The liabilities associated with these sites are not reasonably estimable and, as such, are not recorded in the financial statements.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

19. SUBSEQUENT EVENTS

On June 28, 2011, the California Legislature adopted Assembly Bill X1 26 (Dissolution Act) and Assembly Bill X1 27 (Voluntary Program Act) which taken together are known as the Redevelopment Restructuring Act. The Dissolution Act provided for the elimination of redevelopment agencies by appointing successor agencies to direct the orderly distribution of a redevelopment agency's assets and liabilities. The Voluntary Program Act provided a voluntary alternative for local governments to continue redevelopment activities by the enactment of an ordinance agreeing to comply with the program requirements and agreeing to make certain annual Community Remittance payments into a special fund established for the benefit of other governments. The Agency's "Community Remittance" payment was estimated to be \$3.1 million for fiscal year 2011-12 and in future years it was estimated at \$780,000.

The Redevelopment Restructuring Act required the Agency and its sponsoring government (the City) to take several legislative actions to implement the various provisions of each assembly bill. On August 1, 2011, the City Council and the Agency agreed to participate under protest with the "Alternative Voluntary Redevelopment Program" and subsequently enacted the required ordinance to comply with its provisions, including the remittance of the payments described above as "Community Remittance."

The California Redevelopment Association along with others filed suit challenging the constitutionality of Assembly Bill X1 26 and Assembly Bill X1 27. On December 29, 2011, the Court ruled in favor of state law by upholding Assembly Bill X1 26 which effectively dissolved the City's Redevelopment Agency as of February 1, 2012. In the same ruling, the Court overturned Assembly Bill X1 27 as unconstitutional.

On January 12, 2012, the City Council took action to retain the housing assets and functions previously performed by the former Redevelopment Agency, but elected to not serve as the successor agency for the non-housing portion of the former Redevelopment Agency.

REQUIRED SUPPLEMENTARY INFORMATION

City of Merced
Required Supplementary Information
For the year ended June 30, 2011

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. The annual budget is adopted by the City Council 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, 2011, 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 Major 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, 2011

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes:				
Property tax:				
Secured	\$ 4,561,824	\$ 4,561,824	\$ 4,773,733	\$ 211,909
Unsecured	413,930	413,930	342,459	(71,471)
Supplemental roll:				
Prior year - unsecured	5,000	5,000	22,052	17,052
Prior year - supplemental roll			38,657	38,657
Sales and use	6,452,300	6,452,300	6,748,629	296,329
Transient occupancy tax	780,000	780,000	717,508	(62,492)
Franchise	1,491,460	1,491,460	1,460,274	(31,186)
Business license	1,118,400	1,118,400	1,067,420	(50,980)
Cost revenue impact study fee	86,450	86,450	14,487	(71,963)
Real property transfer	100,000	100,000	128,501	28,501
Triple flip backfill	1,437,000	1,437,000	2,286,589	849,589
Vehicle in lieu backfill	4,655,274	4,655,274	4,779,863	124,589
Total taxes	<u>21,101,638</u>	<u>21,101,638</u>	<u>22,380,172</u>	<u>1,278,534</u>
Intergovernmental:				
Motor vehicle in lieu tax	213,611	213,611	369,635	156,024
Homeowners property tax relief	75,000	75,000	83,534	8,534
Police standards and training	30,000	30,000	23,826	(6,174)
Other county grants		3,000	3,000	
Other state grants		595,194	539,837	(55,357)
Other federal grants	493,982	894,225	484,503	(409,722)
Office BJA - bullet proof vest grant	7,698	15,311	9,234	(6,077)
Response staffing - SAFER	12,800	12,800	12,800	
State mandated cost reimbursement	79,738	79,738	78,046	(1,692)
Total intergovernmental	<u>912,829</u>	<u>1,918,879</u>	<u>1,604,415</u>	<u>(314,464)</u>
Licenses and permits:				
Animal licenses	24,650	24,650	23,054	(1,596)
Bicycle licenses	300	300	179	(121)
Other licenses and permits	9,000	9,000	8,516	(484)
Total licenses and permits	<u>33,950</u>	<u>33,950</u>	<u>31,749</u>	<u>(2,201)</u>
Investment earnings	<u>185,300</u>	<u>185,300</u>	<u>87,145</u>	<u>(98,155)</u>

(continued)

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

CITY OF MERCED
Required Supplementary Information, Continued
For the Year Ended June 30, 2011

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES, Continued:				
Service Charges:				
Incident recovery fees	\$ 124,000	\$ 124,000	\$ 138,018	\$ 14,018
Fire department special services	70,000	70,000	15,179	(54,821)
Fire prevention	65,000	65,000	51,285	(13,715)
Accident reports	4,500	4,500	4,138	(362)
PERS-EE share 2.5% at 55	146,790	146,790	148,503	1,713
PERS-EE share 3% at 50	449,033	449,033	493,910	44,877
Administrative	3,514,645	3,553,737	3,510,996	(42,741)
Interdepartmental charges	1,662,187	1,662,187	1,662,187	
Cost applied	185,000	185,000	194,127	9,127
Other current service charges	36,475	36,475	97,684	61,209
Total service charges	<u>6,257,630</u>	<u>6,296,722</u>	<u>6,316,027</u>	<u>19,305</u>
Fines, forfeitures and penalties:				
Criminal fines	60,000	60,000	159,973	99,973
Parking fines	432,000	432,000	392,623	(39,377)
Total fines, forfeitures and penalties	<u>492,000</u>	<u>492,000</u>	<u>552,596</u>	<u>60,596</u>
Other:				
Rents and concessions (other than recreation)	46,695	57,703	53,426	(4,277)
Repayment on loan	1,678,000	1,678,000		(1,678,000)
Unclassified revenue	16,993	16,993	22,510	5,517
Animal control services	10,000	10,000	6,377	(3,623)
School police officer	217,927	202,334	202,718	384
Valley High School police officer	98,000	90,000	69,981	(20,019)
Cash overages (shortages)	100	100	52	(48)
Donations/contributions	1,500	14,600	13,100	(1,500)
S.M.I.P. fees	100	100	497	397
Miscellaneous	32,845	180,283	154,208	(26,075)
Sale of assets	9,150	9,150	14,101	4,951
Total other	<u>2,111,310</u>	<u>2,259,263</u>	<u>536,970</u>	<u>(1,722,293)</u>
Total revenues	<u>31,094,657</u>	<u>32,287,752</u>	<u>31,509,074</u>	<u>(778,678)</u>

(continued)

CITY OF MERCED
Required Supplementary Information, Continued
For the Year Ended June 30, 2011

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
EXPENDITURES:				
Current operating:				
General government:				
City Council	\$ 319,016	\$ 414,016	\$ 296,650	\$ 117,366
City Manager	794,674	794,674	731,018	63,656
City Attorney	1,013,458	1,111,032	1,012,990	98,042
Finance	2,702,542	2,805,296	2,765,449	39,847
Purchasing	295,959	299,219	275,937	23,282
Economic development	235,816	290,957	185,201	105,756
Visitor's services	189,214	189,214	186,288	2,926
Total general government	<u>5,550,679</u>	<u>5,904,408</u>	<u>5,453,533</u>	<u>450,875</u>
Public safety:				
Police protection	16,625,507	17,196,068	16,182,504	1,013,564
Fire protection and weed abatement	8,245,868	9,312,730	8,603,075	709,655
Total public safety	<u>24,871,375</u>	<u>26,508,798</u>	<u>24,785,579</u>	<u>1,723,219</u>
Public works	<u>2,094,773</u>	<u>2,118,564</u>	<u>1,949,481</u>	<u>169,083</u>
Total current operating	<u>32,516,827</u>	<u>34,531,770</u>	<u>32,188,593</u>	<u>2,343,177</u>
Debt service:				
Principal	170,000	170,000	170,000	
Interest	396,316	396,316	396,310	6
Total debt service	<u>566,316</u>	<u>566,316</u>	<u>566,310</u>	<u>6</u>
Total expenditures	<u>33,083,143</u>	<u>35,098,086</u>	<u>32,754,903</u>	<u>2,343,183</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,988,486)</u>	<u>(2,810,334)</u>	<u>(1,245,829)</u>	<u>1,564,505</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,899,864	1,974,026	1,865,777	(108,249)
Transfers out	<u>(2,301,639)</u>	<u>(2,351,548)</u>	<u>(2,245,106)</u>	<u>106,442</u>
Total other financing sources (uses)	<u>(401,775)</u>	<u>(377,522)</u>	<u>(379,329)</u>	<u>(1,807)</u>
Net change in fund balance	<u>\$ (2,390,261)</u>	<u>\$ (3,187,856)</u>	<u>(1,625,158)</u>	<u>\$ 1,562,698</u>
FUND BALANCE:				
Beginning of year			17,195,518	
End of year			<u>\$ 15,570,360</u>	

CITY OF MERCED
Required Supplementary Information, Continued
For the Year Ended June 30, 2011

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:				
CDBG Program	\$ 1,265,323	\$ 1,265,323	\$ 1,239,613	\$ (25,710)
CDBG Recovery Act Grant	59,570	187	187	
HPRP Grant	406,162	406,162	134,352	(271,810)
Neighborhood Stabilization Grant	511,702	2,240,551	976,908	(1,263,643)
Home Grant Program	2,089,062	2,237,387	657,459	(1,579,928)
BEGIN Program	520,000	520,000	3,223	(516,777)
Other intergovernmental	4,500	554,500	152,133	(402,367)
Investment earnings	200	200	3,037	2,837
Service Charges:				
PERS-EE share 2.5% at 55	5,833	5,833	6,215	382
Interdepartmental charges	109,000	313,936	305,582	(8,354)
Other			1,000	1,000
Total revenues	4,971,352	7,544,079	3,479,709	(4,064,370)
EXPENDITURES:				
Current operating:				
General government	3,896,166	6,456,566	2,533,338	3,923,228
Administrative shared expenditures	111,337	112,836	112,836	
Total current operating	4,007,503	6,569,402	2,646,174	3,923,228
Capital outlay			(511,930)	511,930
Total expenditures	4,007,503	6,569,402	2,134,244	4,435,158
REVENUES OVER (UNDER) EXPENDITURES	963,849	974,677	1,345,465	370,788
OTHER FINANCING SOURCES (USES):				
Transfers out	(1,190,316)	(1,429,633)	(845,891)	583,742
Total other financing sources (uses)	(1,190,316)	(1,429,633)	(845,891)	583,742
Net change in fund balance	\$ (226,467)	\$ (454,956)	499,574	\$ 954,530
FUND BALANCE:				
Beginning of year			1,254,180	
End of year			\$ 1,753,754	

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2011

2. PUBLIC EMPLOYEE RETIREMENT SYSTEMS SCHEDULE OF FUNDING PROGRESS

Miscellaneous Employees

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Actuarial Unfunded (Overfunded) Liability	Funded Ratio	Covered Payroll	Liability as Percentage of Covered Payroll
6/30/2008	\$ 73,135,917	\$ 80,401,788	\$ 7,265,871	91.0%	\$ 18,184,702	40.0%
6/30/2009	77,071,120	91,041,038	13,969,918	84.7%	18,593,883	75.1%
6/30/2010	80,860,555	96,575,241	15,714,686	83.7%	17,954,782	87.5%

Safety Employees

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Actuarial Unfunded (Overfunded) Liability	Funded Ratio	Covered Payroll	Liability as Percentage of Covered Payroll
6/30/2008	\$ 80,206,712	\$ 88,099,098	\$ 7,892,386	91.0%	\$ 13,987,485	56.4%
6/30/2009	84,891,140	96,887,943	11,996,803	87.6%	13,952,127	86.0%
6/30/2010	89,123,527	101,941,129	12,817,602	87.4%	13,411,475	95.6%

3. POSTEMPLOYMENT HEALTHCARE PLAN SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2007	\$	\$ 56,272,000	\$ 56,272,000	0.0%	\$ 20,746,000	271.2%
6/30/2009		60,770,000	60,770,000	0.0%	18,248,000	333.0%



12ND STREET

13RD STREET

14TH STREET

SANTA FE AVENUE

SANTA FE TERRACE

WEST 15TH STREET

EAST 15TH STREET

G' STREET

16TH STREET

Architect's Conception