



**City of Merced, California**  
**Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2013**

# City of Merced

Merced, California

*Annual Financial Report*

*For the year ended June 30, 2013*

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**City of Merced**  
**Annual Financial Report**  
**For the year ended June 30, 2013**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Merced, California (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and Members  
of the City Council of the City of Merced  
Merced, California  
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## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, and the schedules of funding progress for the Public Employee Retirement Systems and the Postemployment Healthcare Plan, 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.

### *Other Information*

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.



Roseville, California  
January 16, 2014

# 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, 2013. 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.

## FINANCIAL HIGHLIGHTS

The City's net position as shown on the Statement of Activities decreased by \$11.5 million. The governmental net position decreased by \$16.6 million and the business-type net position increased by \$5.1 million.

- As shown on the Statement of Net Position, the assets of the City exceeded its liabilities at the close of the fiscal year by \$603 million.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$7.4 million, or 48% of the General Fund fund balance.
- The net decrease to governmental activity long-term debt was \$742,611 due to scheduled principal payments.
- The net decrease to business-type activity long-term debt was \$2.9 million due to scheduled principal payments.

## 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.

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

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



## OVERVIEW OF THE FINANCIAL STATEMENTS, Continued

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

The government-wide financial statements include not only the City itself (known as the primary government), but also the following legally separate entities for which the City is financially accountable:

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

The financial information for these component units is blended with the City and reported in the governmental activities of the Government-wide Financial Statements and the Fund Financial Statements.

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

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

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

The City maintains thirty three 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, Low and Moderate Income Housing Special Revenue Fund, and Streets and Signals Capital Projects Fund, which are considered to be major funds. Data from the other twenty nine governmental funds are combined into a single, aggregated presentation.

## OVERVIEW OF THE FINANCIAL STATEMENTS, Continued

The City adopts an annual appropriated budget for all its governmental funds. A budgetary comparison has been provided for the General Fund, Housing Special Revenue Fund and the Low and Moderate Income 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 Position and the Proprietary Statement of Revenues, Expense and Changes in Net Position 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, Fleet Replacement, Facility Maintenance, Support Services, Personal Computer Replacement and Public Works Administration. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the Government-wide Financial Statements.

**Fiduciary Funds-** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial 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 position may serve over time as a useful indicator of a governments' financial position. In the case of the City, assets exceeded liabilities by \$603 million at the close of the most recent fiscal year.

### Summary of Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 99,417,907	\$ 107,782,434	\$ 104,950,223	\$ 108,274,059	\$ 204,368,130	\$ 216,056,493
Capital assets	334,701,590	343,344,519	171,154,012	166,041,929	505,855,602	509,386,448
Total assets	434,119,497	451,126,953	276,104,235	274,315,988	710,223,732	725,442,941
Current liabilities	7,601,916	10,662,473	7,266,836	8,698,087	14,868,752	19,360,560
Noncurrent liabilities	34,509,556	32,052,697	57,824,066	59,481,467	92,333,622	91,534,164
Total liabilities	42,111,472	42,715,170	65,090,902	68,179,554	107,202,374	110,894,724
Net position:						
Invested in capital assets, net of debt	332,456,582	340,674,993	121,784,920	114,734,369	454,241,502	455,409,362
Restricted	30,076,838	29,088,347	5,304,326	12,032,422	35,381,164	41,120,769
Unrestricted	29,474,605	38,648,443	83,924,087	79,369,643	113,398,692	118,018,086
Total net position	\$ 392,008,025	\$ 408,411,783	\$ 211,013,333	\$ 206,136,434	\$ 603,021,358	\$ 614,548,217

The largest portion of the City's net position, 75%, 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.

Six percent of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$113.3 million is the unrestricted net position. The Governmental Activities unrestricted net position of \$29.4 million includes \$7.1 million of funds that are unassigned. The Business-Type Activities restricted net position of \$5.3 million includes \$3 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 position, 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 position for governmental and business-type activities.

Statement of Activities						
	Governmental Activities		Business-type Activities		Total Government	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Charges for services	\$ 9,552,143	\$ 10,456,569	\$ 46,138,817	\$ 46,104,253	\$ 55,690,960	\$ 56,560,822
Operating grants and contributions	10,658,346	14,212,898	537,055	1,295,142	11,195,401	15,508,040
Capital grants and contributions	352,925	8,939,200	13,456	2,550,000	366,381	11,489,200
General revenues and transfers:						
Property taxes	12,220,004	15,499,462	39,278	33,879	12,259,282	15,533,341
Sales taxes	12,928,562	12,173,010			12,928,562	12,173,010
Franchise taxes	1,562,742	1,541,714			1,562,742	1,541,714
Transient occupancy tax	883,392	894,418			883,392	894,418
Business license tax	1,124,968	1,091,483			1,124,968	1,091,483
Cost recovery impact study	4,231	73,707			4,231	73,707
Business improvement area	75,220	73,123			75,220	73,123
Other	717,503	1,926,299	(676,429)	1,559,143	41,074	3,485,442
Total revenues	<u>50,080,036</u>	<u>66,881,883</u>	<u>46,052,177</u>	<u>51,542,417</u>	<u>96,132,213</u>	<u>118,424,300</u>
Expenses						
Governmental activities:						
General government	17,133,839	27,533,277			17,133,839	27,533,277
Public Safety	29,756,847	31,047,015			29,756,847	31,047,015
Public Works	18,040,611	19,506,108			18,040,611	19,506,108
Culture and recreation	1,909,409	609,543			1,909,409	609,543
Other	653,517	2,003,185			653,517	2,003,185
Business-type activities:						
Wastewater system			15,065,532	12,903,776	15,065,532	12,903,776
Water system			11,948,348	12,573,036	11,948,348	12,573,036
Refuse collection			12,235,483	11,906,585	12,235,483	11,906,585
Merced municipal airport			915,486	1,011,166	915,486	1,011,166
Parks and Community Services				1,216,788		1,216,788
Total expenses	<u>67,494,223</u>	<u>80,699,128</u>	<u>40,164,849</u>	<u>39,611,351</u>	<u>107,659,072</u>	<u>120,310,479</u>
Increase in net position before transfers and Extraordinary item	(17,414,187)	(13,817,245)	5,887,328	11,931,066	(11,526,859)	(1,886,179)
Transfers	806,577	69,007	(806,577)	(69,007)		
Extraordinary item-RDA Dissolution		31,343,400				31,343,400
Increase in net position	<u>(16,607,610)</u>	<u>17,595,162</u>	<u>5,080,751</u>	<u>11,862,059</u>	<u>(11,526,859)</u>	<u>29,457,221</u>
Net position beginning of year, as restated (Note 18)	<u>408,615,635</u>	<u>390,816,621</u>	<u>205,932,582</u>	<u>194,274,375</u>	<u>614,548,217</u>	<u>585,090,996</u>
Net position ending of year	<u>\$ 392,008,025</u>	<u>\$ 408,411,783</u>	<u>\$ 211,013,333</u>	<u>\$ 206,136,434</u>	<u>\$ 603,021,358</u>	<u>\$ 614,548,217</u>

**Governmental Activities-** Governmental Activities decreased the City's net position by \$16.6 million. Taxes provided 57% of the revenue and charges for services provided 19% of the revenue, and operating and capital grants and contributions provided 22% of the revenue received during the year.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

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

	Net Cost of Governmental Activities For the Fiscal Year Ended June 30, 2013	
	Total Cost of Services	Net Cost of Services
General Government	\$ 17,133,839	\$ (13,143,183)
Public Safety	29,756,847	(25,885,246)
Public Works	18,040,611	(8,776,479)
Parks	1,909,409	1,527,616
Interest on long-term debt	653,517	(653,517)
Total	<u>\$ 67,494,223</u>	<u>\$ (46,930,809)</u>

The costs for all governmental activities during the year were \$67.4 million, which is 63% of total expenses. The costs were paid for by \$20.5 million of program revenues, \$28.7 million of taxes, \$1.5 million of interest and investment earnings, transfers and other revenues. The balance of \$16.7 million was covered by reserves or accumulated revenues.

**Business-type Activities**-Business-type activities increased the City's net position by \$5 million. This increase consists of fees collected for future capital projects. The revenues from the business-type activities include program revenue, taxes, interest and investment earnings of \$46 million. Expenses of business-type activities were \$40.1 million. Transfers from the City's business-type activities were \$806,577.

## 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, 2013 of \$42.5 million, a decrease of \$3 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. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. At the end of the current fiscal year, the fund balance of the General Fund was \$15.4 million and the unassigned fund balance was \$7.4 million. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total expenditures. The unassigned fund balance represents 24% of total General Fund expenditures.



## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS, Continued

The General Fund balance increased by \$652,752 during the fiscal year. Sales tax and property tax are the primary revenues of the General Fund. Property tax decreased 21% while sales tax increased by 6%. Fiscal year 2012 included tax increment of \$3.4 million from the former RDA, which was classified as a component unit. Fiscal year 2013 excludes tax increment. Comparatively, the City would have experienced a 1% increase.

Other changes in fund balances include the following:

### Housing Special Revenue Fund-

- This major fund decreased by \$670,133 due to increase in current operating expenditures covered by accumulated program revenue.

### Low and Moderate Income Housing Special Revenue Fund-

- This major fund increased by \$292,029 due to repayment on loans.

### Streets & Signals Capital Projects Fund-

- This major fund decreased by 980,411 due to capital outlay expenditures covered by carryover of prior year transfers from Surface Transportation Program funds.

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

The unrestricted net position of the Governmental Activities Internal Service Funds was \$5.9 million. The unrestricted net position of the enterprise funds were \$83.9 million. The total change in net position for the Governmental Activities Internal Service Funds and the Enterprise Funds were (\$414,291) and \$5 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 revenue budget and the final revenue budget was an increase of \$880,699, which includes grants and service charges. The difference between the General Fund original expenditure budget and the final expenditure budget was an increase of \$442,779, which includes machinery and equipment, professional services, utilities and personnel related expenditures.

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets** - The City of Merced's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounted to \$505.8 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

### Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
	Non-depreciable Assets:					
Land and improvements	\$ 88,198,854	\$ 87,121,374	\$ 2,020,776	\$ 1,899,420	\$ 90,219,630	\$ 89,020,794
Construction in progress	10,699,321	28,677,098	43,982,687	43,117,688	54,682,008	71,794,786
Total non-depreciable assets	98,898,175	115,798,472	46,003,463	45,017,108	144,901,638	160,815,580
Depreciable Assets:						
Building and structures	22,926,121	22,926,121	4,409,166	4,287,506	27,335,287	27,213,627
Machinery and equipment	34,374,948	37,862,996	3,129,670	4,005,739	37,504,618	41,868,735
Improvements other than buildings, structures and land improvements	111,842,526	90,383,268	143,477,843	133,209,672	255,320,369	223,592,940
Infrastructure	371,510,054	371,510,054	38,220,264	37,499,142	409,730,318	409,009,196
Accumulated depreciation	(304,850,234)	(295,136,392)	(64,086,394)	(57,977,238)	(368,936,628)	(353,113,630)
Total depreciable assets, net	235,803,415	227,546,047	125,150,549	121,024,821	360,953,964	348,570,868
Total capital assets	\$ 334,701,590	\$ 343,344,519	\$ 171,154,012	\$ 166,041,929	\$ 505,855,602	\$ 509,386,448

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

- Street & Signal Improvement at Highway 59 & Cooper of \$1.4 million.
- Wastewater Treatment Plant Phase 5 solids handling of \$9.0 million.
- Sewer Line at Gerard Ave East of N Street of \$1.1 million.

**Long-term debt** - At the end of the current fiscal year, the City had \$69.8 million in outstanding debt consisting of pension obligation bonds, revenue bonds, capital lease, development agreements, and loans. All of the debt was secured or earmarked by specific revenue sources.

	Outstanding Debt June 30, 2013					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Pension obligation bonds	\$ 6,240,000	\$ 6,485,000	\$	\$	\$ 6,240,000	\$ 6,485,000
Loan payable		250,000				250,000
Capital Lease	6,909,882	7,157,493			6,909,882	7,157,493
Revenue bonds payable			18,585,065	19,803,425	18,585,065	19,803,425
Water Well Development Agreement				24,016		24,016
Loan payable			38,158,658	39,818,179	38,158,658	39,818,179
Total	\$ 13,149,882	\$ 13,892,493	\$ 56,743,723	\$ 59,645,620	\$ 69,893,605	\$ 73,538,113

During the current fiscal year, the City's net debt decreased by \$3.64 million or 5% by the scheduled principal payments. Additional information on the City of Merced's debt can be found in Note 9. Long-Term Debt.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

- Economic indicators show promise for improvements in the local economy. These indicators include the University of California, Merced's implementation of an Urban Land Institute study with goals of reaching 10,000 students by 2020, reduced development fees expected to stimulate new development, potential for business expansion and new industries including national retailers such as Chipotle, Panera Bread and Harbor Freight Tools and decline in the single family housing stock for sale.
- The General Fund revenues for fiscal year 2013-14 are forecasted to increase by 4.2% over fiscal year 2012-13. The City used \$1.49 million of reserves for one time appropriations, which includes \$940,000 for public safety workers compensation claims and \$400,000 for acquisition of a fire truck, but was able to maintain the General Fund reserves in accordance with Government Finance Officers Association's standards. A settlement with Merced County for correction of administrative charges totaling \$1,147,440 was scheduled for payout over three years. The first payment of \$600,000 was received in fiscal year 2012-13 with the balance due in equal installments of \$273,720 over the next two fiscal years which is aiding the forecast.
- The Enterprise Funds continue to maintain a stable financial position. A rate study for the water fees was completed during fiscal year 2012-13 which reduced metered water rates by 4% and increased flat water rates ranging from 5% to 16% through 2017. A refuse rate study is expected to be completed during fiscal year 2013-14.

## **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 18<sup>th</sup> Street, Merced, CA, 95340.

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## **BASIC FINANCIAL STATEMENTS**



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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**CITY OF MERCED**  
**Statement of Net Position**  
**June 30, 2013**

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
Current assets:			
Cash, cash equivalents and investments	\$ 51,140,058	\$ 92,222,872	\$ 143,362,930
Restricted cash held by fiscal agents	7	6,071	6,078
Receivables	8,769,299	10,739,022	19,508,321
Prepaid items	4,120		4,120
Inventory	191,734	189,164	380,898
<b>Total current assets</b>	<b>60,105,218</b>	<b>103,157,129</b>	<b>163,262,347</b>
Noncurrent assets:			
Land held for resale	3,804,899		3,804,899
Notes receivable	30,325,919	9,862	30,335,781
Deferred charges		1,783,232	1,783,232
Prepaid pension asset	5,181,871		5,181,871
Capital assets:			
Non-depreciable	98,898,175	46,003,463	144,901,638
Depreciable, net of accumulated depreciation	235,803,415	125,150,549	360,953,964
<b>Total noncurrent assets</b>	<b>374,014,279</b>	<b>172,947,106</b>	<b>546,961,385</b>
<b>Total assets</b>	<b>434,119,497</b>	<b>276,104,235</b>	<b>710,223,732</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	399,644	1,381,173	1,780,817
Payroll liabilities	758,680	179,690	938,370
Deposits and other liabilities	2,557,089	1,864,050	4,421,139
Unearned revenue	299,998	245,922	545,920
Accrued interest payable	134,864	491,957	626,821
Claims liability, due within one year	2,426,568		2,426,568
Compensated absences, due within one year	460,384	57,884	518,268
Long-term debt, due within one year	564,689	3,046,160	3,610,849
<b>Total current liabilities</b>	<b>7,601,916</b>	<b>7,266,836</b>	<b>14,868,752</b>
Noncurrent liabilities:			
Claims liability, due in more than one year	2,103,495		2,103,495
Compensated absences, due in more than one year	2,955,245	613,126	3,568,371
Long-term debt, due in more than one year	12,585,193	53,697,563	66,282,756
Net other postemployment benefits obligation	16,865,623	3,513,377	20,379,000
<b>Total noncurrent liabilities</b>	<b>34,509,556</b>	<b>57,824,066</b>	<b>92,333,622</b>
<b>Total liabilities</b>	<b>42,111,472</b>	<b>65,090,902</b>	<b>107,202,374</b>
<b>NET POSITION</b>			
Net investment in capital assets	332,456,582	121,784,920	454,241,502
Restricted for:			
Streets and street lights	2,141,124		2,141,124
Community development	9,987,912		9,987,912
Housing	7,603,392		7,603,392
Public safety	91,573		91,573
Special districts	2,365,958		2,365,958
Other special projects and programs	4,437,149	3,046,672	7,483,821
Debt service		53,944	53,944
Capital projects	3,449,730	2,203,710	5,653,440
Unrestricted	29,474,605	83,924,087	113,398,692
<b>Total net position</b>	<b>\$ 392,008,025</b>	<b>\$ 211,013,333</b>	<b>\$ 603,021,358</b>

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

**CITY OF MERCED**

**Statement of Activities and Changes in Net Position  
For the Year Ended June 30, 2013**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Total</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
<b>Governmental activities:</b>					
General government	\$ 17,133,839	\$ 1,470,368	\$ 2,336,178	\$ 184,110	\$ 3,990,656
Public safety	29,756,847	2,501,500	1,370,101		3,871,601
Public works	18,040,611	5,186,607	4,077,525		9,264,132
Culture and recreation	1,909,409	393,668	2,874,542	168,815	3,437,025
Interest on long-term debt	653,517				
<b>Total governmental activities</b>	<b>67,494,223</b>	<b>9,552,143</b>	<b>10,658,346</b>	<b>352,925</b>	<b>20,563,414</b>
<b>Business-Type activities:</b>					
Wastewater system	15,065,532	18,235,244	186,958	4,706	18,426,908
Water system	11,948,348	15,558,554	965	8,750	15,568,269
Refuse collection system	12,235,483	11,873,448	224,556		12,098,004
Merced municipal airport	915,486	471,571	124,576		596,147
<b>Total business-type activities</b>	<b>40,164,849</b>	<b>46,138,817</b>	<b>537,055</b>	<b>13,456</b>	<b>46,689,328</b>
<b>Total government</b>	<b>\$ 107,659,072</b>	<b>\$ 55,690,960</b>	<b>\$ 11,195,401</b>	<b>\$ 366,381</b>	<b>\$ 67,252,742</b>

**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

Other

Transfers

Total general revenues and transfers

Change in net position

**Net Position:**

Beginning of year, restated

End of year

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



Net (Expense) Revenue and  
Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (13,143,183)	\$	\$ (13,143,183)
(25,885,246)		(25,885,246)
(8,776,479)		(8,776,479)
1,527,616		1,527,616
(653,517)		(653,517)
<u>(46,930,809)</u>		<u>(46,930,809)</u>
	3,361,376	3,361,376
	3,619,921	3,619,921
	(137,479)	(137,479)
	(319,339)	(319,339)
	<u>6,524,479</u>	<u>6,524,479</u>
<u>(46,930,809)</u>	<u>6,524,479</u>	<u>(40,406,330)</u>
12,220,004	39,278	12,259,282
12,928,562		12,928,562
1,562,742		1,562,742
883,392		883,392
1,124,968		1,124,968
75,220		75,220
4,231		4,231
<u>28,799,119</u>	<u>39,278</u>	<u>28,838,397</u>
(15,679)	(684,461)	(700,140)
733,182	8,032	741,214
806,577	(806,577)	
<u>30,323,199</u>	<u>(1,443,728)</u>	<u>28,879,471</u>
(16,607,610)	5,080,751	(11,526,859)
<u>408,615,635</u>	<u>205,932,582</u>	<u>614,548,217</u>
<u>\$ 392,008,025</u>	<u>\$ 211,013,333</u>	<u>\$ 603,021,358</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. In compliance with Governmental Accounting Standards Board Statement No. 54, the Parks and Community Services Fund has been reported with the General Fund because a substantial portion of the inflows are not derived from restricted or committed revenue sources and does not meet the definition of a Special Revenue Fund.

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

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

*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.

**CITY OF MERCED**

**Balance Sheet**

**Governmental Funds**

**June 30, 2013**

	General Fund	Housing Special Revenue	Low and Moderate Income Housing Special Revenue
<b>ASSETS</b>			
Cash, cash equivalents and investments	\$ 11,042,043	\$	\$ 68,174
Restricted cash held by fiscal agents	7		
Receivables:			
Accounts	515,544	59,279	
Due from other governments	2,758,706	449,771	
Interest	21,726	400,438	383,184
Due from other funds	232,852		
Inventory	47,129		
Land held for resale		1,052,770	1,603,664
Notes receivable		19,479,130	8,945,258
Advances to other funds	1,710,992		
<b>Total assets</b>	<b>\$ 16,328,999</b>	<b>\$ 21,441,388</b>	<b>\$ 11,000,280</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 88,129	\$ 15,919	\$
Payroll liabilities	471,931	12,466	
Unearned revenue	266,612		
Due to other funds		70,727	
Advances from other funds			
Other liabilities	6,765	3,090	
<b>Total liabilities</b>	<b>833,437</b>	<b>102,202</b>	
Deferred inflows of resources:			
Unavailable revenue		20,134,433	7,827,093
Fund balances:			
Nonspendable	1,758,121		
Restricted	4,000,000	1,204,753	3,173,187
Committed			
Assigned	2,246,275		
Unassigned	7,491,166		
<b>Total fund balances</b>	<b>15,495,562</b>	<b>1,204,753</b>	<b>3,173,187</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 16,328,999</b>	<b>\$ 21,441,388</b>	<b>\$ 11,000,280</b>

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

Streets & Signals Capital Projects	Non-Major Governmental Funds	Total
\$ 2,290,199	\$ 18,261,389	\$ 31,661,805
		7
	936,152	1,510,975
120,156	2,960,422	6,289,055
3,670	66,326	875,344
	344,334	577,186
		47,129
	1,148,465	3,804,899
	1,901,531	30,325,919
		1,710,992
\$ 2,414,025	\$ 25,618,619	\$ 76,803,311
\$ 67,495	\$ 84,302	\$ 255,845
	191,237	675,634
	33,386	299,998
	510,108	580,835
	1,710,992	1,710,992
	2,528,170	2,538,025
67,495	5,058,195	6,061,329
	249,953	28,211,479
		1,758,121
2,346,530	19,352,368	30,076,838
	1,273,465	1,273,465
		2,246,275
	(315,362)	7,175,804
2,346,530	20,310,471	42,530,503
\$ 2,414,025	\$ 25,618,619	\$ 76,803,311

# CITY OF MERCED

## Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position

June 30, 2013

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<b>Total Fund Balances - Total Governmental Funds</b>		\$ 42,530,503
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Amounts reported for governmental activities in the Statement  
of Net Position 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 \$16,316	98,881,859	
Depreciable, net of accumulated depreciation and net of Internal Service Fund assets of \$7,119,858	<u>228,683,557</u>	327,565,416

The prepaid pension asset resulting from contributions in excess of the annual required contribution are not financial resources and therefore not reported in the funds.		5,181,871
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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	(285,000)	
Long-term debt due in more than one year	(5,955,000)	
Net other postemployment health care benefits obligation, net of Internal Service Fund obligation of \$1,548,106	(15,317,517)	
Compensated absences, net of Internal Service Fund liability of \$347,874	<u>(3,067,755)</u>	(24,625,272)

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.		28,211,479
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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.		(30,341)
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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>13,174,369</u>
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<b>Net position of governmental activities</b>		<u><u>\$ 392,008,025</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, 2013**

	General Fund	Housing Special Revenue	Low and Moderate Income Housing Special Revenue
<b>REVENUES:</b>			
Taxes	\$ 23,357,045	\$	\$
Intergovernmental	1,090,215	3,116,380	(7,758)
Licenses and permits	24,329		
Use of money and property	(49,540)	(5,619)	300,086
Service charges	6,506,969	241,777	
Fines, forfeitures and penalties	412,553		
Other	678,714		
Total revenues	32,020,285	3,352,538	292,328
<b>EXPENDITURES:</b>			
Current operating:			
General government	4,697,450	3,521,457	299
Public safety	23,635,282		
Public works	1,600,869		
Culture and recreation	1,050,053		
Total current operating	30,983,654	3,521,457	299
Capital outlay		934,923	
Debt Service:			
Principal	245,000		
Interest	377,162		
Total expenditures	31,605,816	4,456,380	299
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	414,469	(1,103,842)	292,029
<b>OTHER FINANCING SOURCES (USES):</b>			
Sale of capital assets	5,125	943,026	
Transfers in	873,302		
Transfers out	(640,144)	(509,317)	
Total other financing sources (uses)	238,283	433,709	
<b>NET CHANGE IN FUND BALANCES</b>	652,752	(670,133)	292,029
<b>FUND BALANCES:</b>			
Beginning of year, restated	14,842,810	1,874,886	2,881,158
End of year	\$ 15,495,562	\$ 1,204,753	\$ 3,173,187

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



Streets & Signals Capital Projects	Non-Major Governmental Funds	Total
\$	\$	\$
1,003,978	5,442,074	28,799,119
	3,434,041	8,636,856
	473,905	498,234
(10,150)	87,322	322,099
	6,061,708	12,810,454
	48,761	461,314
28,415	3,177,774	3,884,903
<u>1,022,243</u>	<u>18,725,585</u>	<u>55,412,979</u>
	3,410,795	11,630,001
	6,521,834	30,157,116
	5,698,653	7,299,522
		1,050,053
	<u>15,631,282</u>	<u>50,136,692</u>
4,147,554	3,455,997	8,538,474
	250,001	495,001
	15,000	392,162
<u>4,147,554</u>	<u>19,352,280</u>	<u>59,562,329</u>
<u>(3,125,311)</u>	<u>(626,695)</u>	<u>(4,149,350)</u>
		948,151
2,187,567	3,681,186	6,742,055
(42,667)	(5,417,519)	(6,609,647)
<u>2,144,900</u>	<u>(1,736,333)</u>	<u>1,080,559</u>
(980,411)	(2,363,028)	(3,068,791)
3,326,941	22,673,499	45,599,294
<u>\$ 2,346,530</u>	<u>\$ 20,310,471</u>	<u>\$ 42,530,503</u>

# 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 Position For the Year Ended June 30, 2013

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ (3,068,791)
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 Position, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	4,884,330
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Position, 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 \$1,974,368.	(13,293,062)
Loss on disposal of capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Position, but it did not require the use of current financial resources. Therefore, the loss was not reported as expenditures in the governmental funds.	(220,365)
Revenue in the Government-Wide Statement of Activities and Changes in Net Position 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.	(1,436,161)
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 Position. 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 Position.	
Principal payment	495,000
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 Position.	(55,475)
Some expenses reported in the Government-Wide Statement of Activities and Changes in Net Position do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in net other postemployment health care benefits obligation, net of Internal Service Fund obligation expense of \$304,273.	(3,262,933)
Change in prepaid pension asset	(292,792)
Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Position, 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.	56,930
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in Net Position of the internal service funds is reported with governmental activities.	(414,291)
<b>Change in Net Position of Governmental Activities</b>	<u>\$ (16,607,610)</u>

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 Position**  
**Proprietary Funds**  
**June 30, 2013**

	Business-type Activities Major Enterprise Funds		
	Wastewater System	Water System	Refuse Collection System
<b>ASSETS</b>			
Current assets:			
Cash, cash equivalents and investments	\$ 32,397,380	\$ 53,293,673	\$ 6,381,176
Cash held by fiscal agents	976	5,095	
Accounts receivable, net	1,832,882	1,152,004	91,771
Due from other governments	3,792,166	3,637,754	21,471
Interest receivable	50,538	83,128	10,004
Prepaid items			
Due from other funds			
Inventory		189,164	
<b>Total current assets</b>	<u>38,073,942</u>	<u>58,360,818</u>	<u>6,504,422</u>
Noncurrent assets:			
Notes receivable-private parties	9,862		
Advances to other funds		358,969	
Deferred charges	1,416,202	367,030	
Capital assets:			
Non-depreciable	45,045,386	586,177	62,282
Depreciable, net of accumulated depreciation	69,044,497	35,141,915	14,527,321
<b>Total noncurrent assets</b>	<u>115,515,947</u>	<u>36,454,091</u>	<u>14,589,603</u>
<b>Total assets</b>	<u>153,589,889</u>	<u>94,814,909</u>	<u>21,094,025</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	767,051	271,758	335,027
Payroll payable	62,580	47,162	64,659
Unearned revenue	104,286	70,818	70,818
Accrued interest payable	399,338	92,619	
Deposits and other liabilities	1,136,929	446,430	241,171
Compensated absences, due within one year	26,608	13,490	16,873
Claims payable, due within one year			
Long-term debt, due within one year	2,535,120	511,040	
<b>Total current liabilities</b>	<u>5,031,912</u>	<u>1,453,317</u>	<u>728,548</u>
Noncurrent liabilities:			
Advances from other funds			
Compensated absences, due in more than one year	176,744	225,670	196,313
Claims payable, due in more than one year			
Long-term debt, due in more than one year	44,991,833	8,705,730	
Net other postemployment benefits obligation	1,274,432	973,911	1,123,429
<b>Total noncurrent liabilities</b>	<u>46,443,009</u>	<u>9,905,311</u>	<u>1,319,742</u>
<b>Total liabilities</b>	<u>51,474,921</u>	<u>11,358,628</u>	<u>2,048,290</u>
<b>NET POSITION</b>			
Net investment in capital assets	70,299,807	30,149,076	14,589,603
Restricted:			
Other special projects and programs	1,846,902	876,284	308,994
Debt service			
Capital projects	1,880,870	162,567	101,523
Unrestricted	28,087,389	52,268,354	4,045,615
<b>Total net position</b>	<u>\$ 102,114,968</u>	<u>\$ 83,456,281</u>	<u>\$ 19,045,735</u>

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

Business-type Activities	Total Enterprise Funds	Governmental Activities Internal Service Funds
\$ 150,643	\$ 92,222,872	\$ 19,478,253
	6,071	
66,168	3,142,825	46,572
934	7,452,325	16,973
202	143,872	30,380
		4,120
		3,649
	189,164	144,605
217,947	103,157,129	19,724,552
	9,862	
	358,969	
	1,783,232	
309,618	46,003,463	16,316
6,436,816	125,150,549	7,119,858
6,746,434	173,306,075	7,136,174
6,964,381	276,463,204	26,860,726
7,337	1,381,173	143,799
5,289	179,690	83,046
	245,922	
	491,957	104,523
39,520	1,864,050	19,064
913	57,884	9,027
		2,426,568
	3,046,160	279,689
53,059	7,266,836	3,065,716
358,969	358,969	
14,399	613,126	338,847
		2,103,495
	53,697,563	6,630,193
141,605	3,513,377	1,548,106
514,973	58,183,035	10,620,641
568,032	65,449,871	13,686,357
6,746,434	121,784,920	7,136,174
14,492	3,046,672	
53,944	53,944	98,132
58,750	2,203,710	
(477,271)	83,924,087	5,940,063
\$ 6,396,349	\$ 211,013,333	\$ 13,174,369

**CITY OF MERCED**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2013**

	Business-type Activities Major Enterprise Funds		
	Wastewater System	Water System	Refuse Collection System
<b>OPERATING REVENUES</b>			
Charges for services	\$ 17,534,276	\$ 13,348,461	\$ 11,776,724
Other revenues	700,968	2,210,093	96,724
Total operating revenues	<u>18,235,244</u>	<u>15,558,554</u>	<u>11,873,448</u>
<b>OPERATING EXPENSES</b>			
Personnel services	4,125,297	2,924,743	3,838,435
Materials, supplies and other services	5,998,335	6,554,338	7,566,059
Depreciation	3,864,949	2,200,986	830,989
Total operating expenses	<u>13,988,581</u>	<u>11,680,067</u>	<u>12,235,483</u>
<b>OPERATING INCOME (LOSS)</b>	<u>4,246,663</u>	<u>3,878,487</u>	<u>(362,035)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Property taxes			
Intergovernmental revenues	186,958	965	224,556
Interest and investment earnings	(266,090)	(372,291)	(45,440)
Gain (loss) on disposition of capital assets	934	7,098	
Interest and related expenses	(1,076,951)	(268,281)	
Total nonoperating revenues (expenses)	<u>(1,155,149)</u>	<u>(632,509)</u>	<u>179,116</u>
<b>INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS</b>	<u>3,091,514</u>	<u>3,245,978</u>	<u>(182,919)</u>
<b>TRANSFERS AND CAPITAL CONTRIBUTIONS</b>			
Capital contributions	4,706	8,750	
Transfers in			
Transfers out		(6,347)	(835,053)
Total transfers and capital contributions	<u>4,706</u>	<u>2,403</u>	<u>(835,053)</u>
<b>CHANGE IN NET POSITION</b>	<u>3,096,220</u>	<u>3,248,381</u>	<u>(1,017,972)</u>
<b>NET POSITION:</b>			
Beginning of year, restated	99,018,748	80,207,900	20,063,707
End of year	<u>\$ 102,114,968</u>	<u>\$ 83,456,281</u>	<u>\$ 19,045,735</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
\$ 470,719	\$ 43,130,180	\$ 22,673,715
852	3,008,637	184,965
<u>471,571</u>	<u>46,138,817</u>	<u>22,858,680</u>
322,416	11,210,891	5,343,868
172,890	20,291,622	16,790,945
403,157	7,300,081	1,974,368
<u>898,463</u>	<u>38,802,594</u>	<u>24,109,181</u>
<u>(426,892)</u>	<u>7,336,223</u>	<u>(1,250,501)</u>
39,278	39,278	
124,576	537,055	533,506
(640)	(684,461)	(58,577)
	8,032	5,396
<u>(17,023)</u>	<u>(1,362,255)</u>	<u>(318,284)</u>
<u>146,191</u>	<u>(1,462,351)</u>	<u>162,041</u>
<u>(280,701)</u>	<u>5,873,872</u>	<u>(1,088,460)</u>
	13,456	
43,684	43,684	683,237
(8,861)	(850,261)	(9,068)
<u>34,823</u>	<u>(793,121)</u>	<u>674,169</u>
<u>(245,878)</u>	<u>5,080,751</u>	<u>(414,291)</u>
6,642,227	205,932,582	13,588,660
<u>\$ 6,396,349</u>	<u>\$ 211,013,333</u>	<u>\$ 13,174,369</u>

**CITY OF MERCED**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2013**

	Business-type Activities Major Enterprise Funds		
	Wastewater System	Water System	Refuse Collection System
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers, including cash deposits	\$ 19,950,427	\$ 15,519,787	\$ 12,486,340
Cash paid to suppliers	(7,880,766)	(6,755,359)	(7,798,668)
Cash paid to employees	(3,674,790)	(2,648,374)	(3,499,083)
<b>Net cash provided (used) by operating activities</b>	<b>8,394,871</b>	<b>6,116,054</b>	<b>1,188,589</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Advances to other funds		36,919	
Advances from other funds			
Due from other funds			
Other liabilities	721,122	19,500	
Tax proceeds not attributable to capital			
Transfers from other funds			
Transfers to other funds		(6,347)	(835,053)
<b>Net cash provided (used) by noncapital financing activities</b>	<b>721,122</b>	<b>50,072</b>	<b>(835,053)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(12,014,719)	(234,134)	(22,451)
Proceeds of capital contributions	186,958	9,715	224,556
Payment of long-term debt	(2,426,679)	(470,513)	
Interest payments	(714,058)	(230,715)	
Proceeds from disposal of equipment	934	7,098	
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(14,967,564)</b>	<b>(918,549)</b>	<b>202,105</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment earnings	(251,882)	(374,314)	(45,541)
<b>Net cash provided (used) by investing activities</b>	<b>(251,882)</b>	<b>(374,314)</b>	<b>(45,541)</b>
<b>Net Increase (decrease) in Cash and Cash Equivalents</b>	<b>(6,103,453)</b>	<b>4,873,263</b>	<b>510,100</b>
Cash and cash equivalents at beginning of year	38,501,809	48,425,505	5,871,076
Cash and cash equivalents at end of year	<u>\$ 32,398,356</u>	<u>\$ 53,298,768</u>	<u>\$ 6,381,176</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
\$ 556,428	\$ 48,512,982	\$ 22,899,366
(166,597)	(22,601,390)	(16,855,462)
(299,790)	(10,122,037)	(5,056,140)
<u>90,041</u>	<u>15,789,555</u>	<u>987,764</u>
	36,919	
(36,919)	(36,919)	
		4,733
	740,622	
39,278	39,278	
43,684	43,684	683,237
(8,861)	(850,261)	(9,068)
<u>37,182</u>	<u>(26,677)</u>	<u>678,902</u>
(140,860)	(12,412,164)	(1,960,534)
124,576	545,805	533,506
	(2,897,192)	
(17,023)	(961,796)	(322,030)
	8,032	5,396
<u>(33,307)</u>	<u>(15,717,315)</u>	<u>(1,743,662)</u>
<u>(680)</u>	<u>(672,417)</u>	<u>(56,399)</u>
<u>(680)</u>	<u>(672,417)</u>	<u>(56,399)</u>
<u>93,236</u>	<u>(626,854)</u>	<u>(133,395)</u>
<u>57,407</u>	<u>92,855,797</u>	<u>19,611,648</u>
<u>\$ 150,643</u>	<u>\$ 92,228,943</u>	<u>\$ 19,478,253</u>

Continued

**CITY OF MERCED**  
**Statement of Cash Flows (continued)**  
**Proprietary Funds**  
**For the Year Ended June 30, 2013**

	Business-type Activities Major Enterprise Funds		
	Wastewater System	Water System	Refuse Collection System
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ 4,246,663	\$ 3,878,487	\$ (362,035)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	3,864,949	2,200,986	830,989
Receivables	1,717,587	(38,415)	613,244
Inventory		(17,619)	
Prepaid expenses			
Accounts payable	(1,904,717)	(146,249)	(250,873)
Payroll liabilities	9,097	3,786	10,200
Deposits	22,286	(37,153)	18,264
Unearned revenues	(2,404)	(352)	(352)
Other liabilities			
Insurance claims			
Long-term liabilities			
Compensated absences	10,488	15,742	10,132
Net other postemployment benefits obligation	430,922	256,841	319,020
Total adjustments	4,148,208	2,237,567	1,550,624
<b>Net Cash Provided (used) by operating activities</b>	<b>\$ 8,394,871</b>	<b>\$ 6,116,054</b>	<b>\$ 1,188,589</b>

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

Business-type Activities	Total Enterprise Funds	Governmental Activities Internal Service Funds
\$ (426,892)	\$ 7,336,223	\$ (1,250,501)
403,157	7,300,081	1,974,368
84,857	2,377,273	40,686
	(17,619)	(35,352)
		110
2,657	(2,299,182)	(345,589)
(100)	22,983	7,691
(1,618)	1,779	
	(3,108)	
5,254	5,254	(1,449)
		565,374
		(247,611)
2,714	39,076	(24,235)
20,012	1,026,795	304,272
516,933	8,453,332	2,238,265
<u>\$ 90,041</u>	<u>\$ 15,789,555</u>	<u>\$ 987,764</u>

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## FIDUCIARY FUND FINANCIAL STATEMENTS

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

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

**CITY OF MERCED**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2013**

	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>		
Cash, cash equivalents and investments	\$ 210,264	\$ 1,743,986
Restricted cash held by fiscal agent		2,356,102
Receivables	4,259	926,407
Deposits		222,847
Total assets	214,523	5,249,342
<b>LIABILITIES</b>		
Accounts payable	13,858	
Deferred revenue	3,931	
Deposits		882,171
Other liabilities		188,907
Due to bondholders		4,178,264
Total liabilities	17,789	\$ 5,249,342
<b>NET POSITION</b>		
Held in trust for other purposes	196,734	
Total net position	\$ 196,734	

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

**CITY OF MERCED**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds - Private Purpose Trust Funds**  
**For the Year Ended June 30, 2013**

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	Private Purpose Trust Funds
<b>ADDITIONS:</b>	
Investment earnings	\$ 16,235
Miscellaneous	128,542
Total Additions	<u>144,777</u>
<b>DEDUCTIONS:</b>	
General government	<u>296,773</u>
Net Change	(151,996)
<b>NET POSITION HELD IN TRUST FOR OTHER PURPOSES:</b>	
Beginning of year	<u>348,730</u>
End of year	<u><u>\$ 196,734</u></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, 2013**

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**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 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.

The Authority was originally created in August 1987 but had expired by its terms. The Authority was re-created on January 1, 2003, by City and former City of Merced Redevelopment Agency (Agency). The Parking Authority became a member of the Authority on April 18, 2011. On January 30, 2012, the Agency was removed as a member from the Authority. 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.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***A. Reporting Entity, Continued***

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.

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 Position and the Statement of Activities and Changes in Net Position) 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, 2013**

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**1. 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. In compliance with Governmental Accounting Standards Board Statement No. 54, the Parks and Community Services Fund has been reported with the General Fund because a substantial portion of the inflows are not derived from restricted or committed revenue sources and does not meet the definition of a Special Revenue Fund.

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

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

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

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

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:

The 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.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

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

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

*D. Use of Restricted and Unrestricted Net Position*

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

*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.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**E. *Cash, Cash Equivalents, and Investments, Continued***

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

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.

**E. *Receivables***

All receivables are shown net of an allowance for doubtful accounts. Service charge 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 non-spendable fund balance classification in the applicable governmental funds to indicate that they are not available financial resources.

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

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

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*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 non-spendable fund balance classification, which indicates that it does not constitute available financial resources. Inventories in the proprietary funds are recorded at cost, which approximates market.

*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 non-spendable 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.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*J. Capital Assets, Continued*

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.

*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. Unavailable 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, unavailable revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records unavailable 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.



**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*N. Net Position and Fund Equity*

**Government-Wide Financial Statements**

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

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

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

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

**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:

Non-spendable 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 11.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*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 Accounting Pronouncements*

The following Governmental Accounting Standards Board (GASB) Statements have been implemented in the current financial statements.

Governmental Accounting Standards Board Statement No. 61

Statement No. 61, The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34. The objective of this statement is to improve guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The requirements of GASB Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those statements.

Governmental Accounting Standards Board Statement No. 62

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The Statement improves financial reporting by contributing to GASB’s efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.

Governmental Accounting Standards Board Statement No. 63

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previously, GASB Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. GASB Statement No. 63 amends the net asset reporting requirements in GASB Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*Q. New Accounting Pronouncements - Future Years*

Governmental Accounting Standards Board Statement No. 65

GASB Statement No. 65, items Previously Reported as Assets and Liabilities, is effective for periods beginning after December 15, 2012. It improves the financial reporting for state and local governments by reclassifying, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Government Accounting Standards Board Statement No. 66

GASB Statement No. 66, Technical Corrections - 2012, is effective for periods beginning after December 15, 2012. It improves financial reporting for state and local governments by resolving conflicting guidance that resulted from the Issuance of GASB Statement Nos. 54 and 62.

Government Accounting Standards Board Statement No.67

GASB Statement No. 67, Financial Reporting for Pension Plans, is effective for periods beginning after June 15, 2013. It improves financial reporting for state and local governments by improving the usefulness of pension information included in the general purpose external financial reports of state and local governmental pension plans for making decisions and assessing accountability.

Government Accounting Standards Board Statement No. 68

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, is effective for periods beginning after June 15, 2014. The principal objective of this statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports of governments whose employees - both active employees and inactive employees - are provided with pensions. An additional objective is to improve the information provided in government financial reports about pension-related financial support provided by certain nonemployer entities that make contributions to pension plans that are used to provide benefits to the employees of other entities.

**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, 2013, the carrying amount of the City's cash and cash equivalents were comprised of the general checking account which had a balance of (\$914,852) and petty cash of \$4,323. Bank balance in the City's general checking account was \$56,064 and was fully insured and collateralized with securities held by the

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**2. CASH AND INVESTMENTS, Continued**

*A. Cash Deposits, Continued*

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

*C. Summary of Cash and Investments*

The following is a summary of pooled cash and investments, including restricted cash and investments at June 30, 2013:

	Government-Wide Statement of Net Position			Fund Financials	Total
	Governmental Activities	Business-Type Activities	Total	Fiduciary Funds Statement of Net Position	
Cash and Investments	\$ 51,140,058	\$ 92,222,872	\$ 143,362,930	\$ 1,954,250	\$ 145,317,180
Restricted Cash held by fiscal agent	\$ 7	\$ 6,071	\$ 6,078	\$ 2,356,102	\$ 2,362,180

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**2. CASH AND INVESTMENTS, Continued**

**D. Risks**

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

Pooled cash and investments, including cash with fiscal agents, held in the City by maturity date at June 30, 2013 are shown below:

Investment Type	Fair Value	Investment Maturities (in years)	
		Less than 1 year	More than 1 year, less than 5 years
<b>Cash:</b>			
Cash Deposits	\$ (914,852)	\$ (914,852)	\$
Petty Cash	4,323	4,323	
<b>Total cash:</b>	<b>(910,529)</b>	<b>(910,529)</b>	
<b>Investments:</b>			
Money Market Fund	3,495,337	3,495,337	
U.S. Government Agency Securities	117,259,983	30,085,300	87,174,683
Local Agency Investment Fund (LAIF)	25,472,389	25,472,389	
<b>Total investments</b>	<b>146,227,709</b>	<b>59,053,026</b>	<b>87,174,683</b>
<b>Total cash and investments</b>	<b>\$ 145,317,180</b>	<b>\$ 58,142,497</b>	<b>\$ 87,174,683</b>
<b>Restricted Cash with Fiscal Agents:</b>			
Commercial Paper	\$ 1,084,725	\$ 1,084,725	\$
Public Investment Money Market Fund	185,851	185,851	
Local Agency Investment Fund	1,084,144	1,084,144	
Money Market Funds	7	7	
Treasury Obligation Fund	1,382	1,382	
Government Obligation Fund	6,015	6,015	
Treasury Cash Funds	56	56	
<b>Total restricted cash with fiscal agents</b>	<b>\$ 2,362,180</b>	<b>\$ 2,362,180</b>	<b>\$</b>

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**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, 2013 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>
<b>Investments:</b>	
Money Market Fund	AAA
U.S. Government Agency Securities	AA+
Local Agency Investment Fund	Not rated
<b>Fiscal Agents:</b>	
Commercial Paper	AA-
Public Investment Money Market Fund	AA-
Local Agency Investment Fund	Not rated
Money Market Funds	AAA
Treasury Obligation Fund	AAA
Government Obligation Fund	AAA
Treasury Cash Funds	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, 2013 from June 30, 2012 amounted to an unrealized loss of \$1,459,563.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**2. CASH AND INVESTMENTS, Continued**

*F. Investments in Local Agency Investment Fund*

The City's investments with LAIF at June 30, 2013, 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, 2013, the City had \$25,472,389 invested in LAIF, which had invested 1.96% of the pooled investment funds in Medium-term and Short-term Structured Notes and Asset-Backed Securities as compared to 3.47% in the previous year. The LAIF fair value factor of 1.0010186 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 "AA-" or better by Moody's, and money market mutual funds which are rated in the highest category by Moody's. At June 30, 2013, cash and investments with fiscal agents totaling \$2,362,180 were recorded at fair value.

**3. RECEIVABLES**

*A. Government Wide Financial Statements*

At June 30, 2013, the Government-Wide Financial Statements reported the following receivables net of allowances for uncollectible amounts:

	Governmental Activities	Business-Type Activities	Total
Accounts receivable	\$ 1,557,547	\$ 3,142,825	\$ 4,700,372
Due from other governments	6,306,028	7,452,325	13,758,353
Interest receivable	905,724	143,872	1,049,596
<b>Total</b>	<b>\$ 8,769,299</b>	<b>\$ 10,739,022</b>	<b>\$ 19,508,321</b>

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**3. RECEIVABLES, Continued**

**B. Fund Financial Statements**

At June 30, 2013, the fund financial statements show the following receivables:

	Governmental Funds	Enterprise Funds	Internal Service Funds	Total
Accounts receivable	\$ 1,510,975	\$ 3,142,825	\$ 46,572	\$ 4,700,372
Due from other governments	6,289,055	7,452,325	16,973	13,758,353
Interest receivable	875,344	143,872	30,380	1,049,596
<b>Total</b>	<b>\$ 8,675,374</b>	<b>\$ 10,739,022</b>	<b>\$ 93,925</b>	<b>\$ 19,508,321</b>

Accounts Receivable

Accounts receivable consists of amounts accrued in the ordinary course of operations. The accounts receivable as of June 30, 2013, was as follows:

	Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
<i>Governmental Funds:</i>			
General Fund	\$ 2,705,380	\$ (2,189,836)	\$ 515,544
Housing Special Revenue Fund	59,279		59,279
Low and Moderate Income Housing	825	(825)	
Non-major Funds	948,900	(12,748)	936,152
Total governmental funds	3,714,384	(2,203,409)	1,510,975
<i>Enterprise Funds:</i>			
Wastewater System	1,939,718	(106,836)	1,832,882
Water System	1,264,626	(112,622)	1,152,004
Refuse Collection System	178,134	(86,363)	91,771
Non-major Funds	68,616	(2,448)	66,168
Total enterprise funds	3,451,094	(308,269)	3,142,825
<i>Internal Service Funds</i>	175,318	(128,746)	46,572
<b>Total Accounts Receivable</b>	<b>\$ 7,340,796</b>	<b>\$ (2,640,424)</b>	<b>\$ 4,700,372</b>



**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**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, 2013, was as follows:

<i>Governmental Funds:</i>	
General Fund	\$ 2,758,706
Housing - Special Revenue Fund	449,771
Streets & Signals Capital Project Fund	120,156
Non-major Funds	<u>2,960,422</u>
Total governmental funds	<u>6,289,055</u>
<i>Enterprise Funds:</i>	
Wastewater System	3,792,166
Water System	3,637,754
Refuse Collection System	21,471
Non-major Funds	<u>934</u>
Total enterprise funds	<u>7,452,325</u>
<i>Internal Services Fund</i>	<u>16,973</u>
<b>Total Due from Other Governments</b>	<b><u><u>\$ 13,758,353</u></u></b>

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**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, 2013, was as follows:

	<u>City Pooled Investments</u>
<i>Governmental Funds:</i>	
General Fund	\$ 21,726
Streets and Signals-CIP Fund	3,670
Housing Special Revenue Fund	400,438
Low and Moderate Income Housing Special Revenue Fund	383,184
Non-major Funds	<u>66,326</u>
Total governmental funds	<u>875,344</u>
<i>Enterprise Funds:</i>	
Wastewater System	50,538
Water System	83,128
Refuse Collection System	10,004
Non-major Funds	<u>202</u>
Total enterprise funds	<u>143,872</u>
<i>Internal Service Funds:</i>	<u>30,380</u>
<b>Total interest receivable</b>	<b><u><u>\$ 1,049,596</u></u></b>

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**4. UNAVAILABLE 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, 2013, unearned revenues in the Government-Wide Financial Statements were as follows:

	Governmental Activities	Business-Type Activities	Total
Prepaid business license fees	\$ 145,749	\$	\$ 145,749
Grants	154,249		154,249
Service charges received in advance		245,922	245,922
	<u>\$ 299,998</u>	<u>\$ 245,922</u>	<u>\$ 545,920</u>

**B. Fund Financial Statements**

At June 30, 2013, the following unearned revenues were recorded in the Fund Financial Statements because the revenues had not been earned:

*Governmental Funds:*

	General	Non-major	Total
Prepaid business license fees	\$ 137,894	\$ 7,855	\$ 145,749
Grants	128,718	25,531	154,249
<b>Total</b>	<u>\$ 266,612</u>	<u>\$ 33,386</u>	<u>\$ 299,998</u>

*Proprietary Funds:*

	Wastewater System	Water System	Refuse Collection System	Total
Service charges received in advance	\$ 104,286	\$ 70,818	\$ 70,818	\$ 245,922
<b>Total</b>	<u>\$ 104,286</u>	<u>\$ 70,818</u>	<u>\$ 70,818</u>	<u>\$ 245,922</u>

At June 30, 2013, the following unavailable revenues were recorded in the Fund Financial Statements because the funds were not available to finance expenditures of the current period:

*Governmental Funds:*

	Housing Special Revenue	Low and Moderate Income Housing Special Revenue	Non-major	Total
Grants	\$ 664,057	\$	\$	\$ 664,057
Long-term loans receivable	19,470,376	7,827,093	249,953	27,547,422
<b>Total</b>	<u>\$ 20,134,433</u>	<u>\$ 7,827,093</u>	<u>\$ 249,953</u>	<u>\$ 28,211,479</u>

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**5. INTERFUND TRANSACTIONS**

**A. Fund Financial Statements**

Due To, Due From

At June 30, 2013, the City had the following short-term interfund receivables and payables:

		Due From			
		Governmental Activities		Internal Service Funds	Total
Due To	Governmental Activities:	General	Non-Major Funds		
			Housing Special Revenue	\$ 70,727	\$
	Non-Major Funds	162,125	344,334	3,649	510,108
	<b>Total</b>	<b>\$ 232,852</b>	<b>\$ 344,334</b>	<b>\$ 3,649</b>	<b>\$ 580,835</b>

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, 2013, the City had the following interfund long-term advances:

		Advances to Other Funds		
		Governmental Activities	Business-type Activities	
Advances From Other Funds	Governmental Activities:	General	Water System	Total
			Non-Major Funds	\$ 1,710,992
	<i>Business-type Activities:</i>			
	Non-Major Funds		358,969	358,969
	<b>Total</b>	<b>\$ 1,710,992</b>	<b>\$ 358,969</b>	<b>\$ 2,069,961</b>

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, 2013 is \$1,710,992.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**5. INTERFUND TRANSACTIONS, Continued**

*A. Fund Financial Statements, Continued*

Long-Term Advances, Continued

Advance to the Merced Municipal Airport Capital Improvement Project Fund (a non-major fund) represents advances from the Restricted Water Mains Enterprise Fund of \$400,000 per City Council action November 17, 2008. The advance of \$400,000 is to provide funding for purchase of 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, 2013 is \$253,969. The advance of \$105,000 was to cash flow site improvements per City Council action on December 19, 2011. The advance is to be repaid back over 3 years.

Transfers

At June 30, 2013, the City had the following transfers:

		Governmental Activities		
		Transfers In		
		Streets & Signals Capital Projects		Total
		Non-Major Funds	Nonmajor Funds	Governmental Funds
<b>Transfers Out</b>	<i>Governmental Activities:</i>			
	General	\$	\$	\$ 295,326
	Housing Special Revenue	359,112		150,205
	Streets and Signals Capital Projects			42,667
	Non-Major Funds	514,190	2,187,567	2,342,520
	<i>Business-type Activities:</i>			
	Water System			6,347
	Refuse			835,053
	Non-Major Funds			9,068
	<i>Internal Service Funds</i>			9,068
<b>Total</b>		<b>\$ 873,302</b>	<b>\$ 2,187,567</b>	<b>\$ 3,681,186</b>
				<b>\$ 6,742,055</b>

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**5. INTERFUND TRANSACTIONS, Continued**

**A. Fund Financial Statements, Continued**

Transfers, Continued

		Business-Type Activities				
		Transfers In				
		Total			Total	Total
		Non-Major	Business-Type	Internal	Governmental	Total
		Funds	Activities	Service	Funds	All Funds
			Funds	Funds		
<b>Transfers Out</b>	<i>Governmental Activities:</i>					
	General	\$ 21,400	\$ 21,400	\$ 323,418	\$ 295,326	\$ 640,144
	Housing Special Revenue				509,317	509,317
	Streets and Signals Capital Projects				42,667	42,667
	Non-Major Funds	22,284	22,284	350,958	5,044,277	5,417,519
	<i>Business-type Activities:</i>					
	Water System				6,347	6,347
	Refuse				835,053	835,053
	Non-Major Funds			8,861		8,861
	<i>Internal Service Funds</i>				9,068	9,068
	<b>Total</b>	<b>\$ 43,684</b>	<b>\$ 43,684</b>	<b>\$ 683,237</b>	<b>\$ 6,742,055</b>	<b>\$ 7,468,976</b>

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 economic development.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**6. CAPITAL ASSETS**

*A. Government-Wide Financial Statements*

At June 30, 2013, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
<i>Non-depreciable Assets:</i>			
Land and improvements	\$ 88,198,854	\$ 2,020,776	\$ 90,219,630
Construction in process	10,699,321	43,982,687	54,682,008
<b>Total non-depreciable assets</b>	<b>98,898,175</b>	<b>46,003,463</b>	<b>144,901,638</b>
<i>Depreciable Assets:</i>			
Buildings and structures	22,926,121	4,409,166	27,335,287
Machinery and equipment	34,374,948	3,129,670	37,504,618
Improvements other than buildings, structures, and land improvements	111,842,526	143,477,843	255,320,369
Infrastructure	371,510,054	38,220,264	409,730,318
<i>Total depreciable Assets:</i>	540,653,649	189,236,943	729,890,592
Less accumulated depreciation	(304,850,234)	(64,086,394)	(368,936,628)
<b>Total depreciable assets, net</b>	<b>235,803,415</b>	<b>125,150,549</b>	<b>360,953,964</b>
<b>Total Capital Assets</b>	<b>\$ 334,701,590</b>	<b>\$ 171,154,012</b>	<b>\$ 505,855,602</b>

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**6. CAPITAL ASSETS, Continued**

**A. Government-Wide Financial Statements, Continued**

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

	Balance July 1, 2012	Additions	Deletions	Reclassification	Balance June 30, 2013
<i>Non-depreciable Assets:</i>					
Land and improvements	\$ 87,121,374	\$ 1,185,380	\$ (107,900)	\$	\$ 88,198,854
Construction in progress	28,677,098	3,593,851	(112,370)	(21,459,258)	10,699,321
<b>Total non-depreciable assets</b>	<b>115,798,472</b>	<b>4,779,231</b>	<b>(220,270)</b>	<b>(21,459,258)</b>	<b>98,898,175</b>
<i>Depreciable Assets:</i>					
Buildings and structures	22,926,121				22,926,121
Machinery and equipment	37,862,996	2,109,586	(5,597,634)		34,374,948
Improvements other than buildings, structures, and land improvements	90,383,268			21,459,258	111,842,526
Infrastructure	371,510,054				371,510,054
<b>Total depreciable assets</b>	<b>522,682,439</b>	<b>2,109,586</b>	<b>(5,597,634)</b>	<b>21,459,258</b>	<b>540,653,649</b>
<i>Accumulated depreciation:</i>					
Buildings and structures	(7,002,261)	(696,171)			(7,698,432)
Machinery and equipment	(33,705,142)	(2,042,545)	5,553,589		(30,194,098)
Improvements other than buildings, structures, and land improvements	(48,431,202)	(3,104,035)			(51,535,237)
Infrastructure	(205,997,787)	(9,424,680)			(215,422,467)
<b>Total accumulated depreciation</b>	<b>(295,136,392)</b>	<b>(15,267,431)</b>	<b>5,553,589</b>		<b>(304,850,234)</b>
<b>Total depreciable assets, net</b>	<b>227,546,047</b>	<b>(13,157,845)</b>	<b>(44,045)</b>	<b>21,459,258</b>	<b>235,803,415</b>
<b>Total governmental activities, net</b>	<b>\$ 343,344,519</b>	<b>\$ (8,378,614)</b>	<b>\$ (264,315)</b>	<b>\$</b>	<b>\$ 334,701,590</b>



**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**6. CAPITAL ASSETS, Continued**

**A. Government-Wide Financial Statements, Continued**

Governmental activities depreciation expense for capital assets for the year ended June 30, 2013 was as follows:

General Government	\$ 1,677,615
Public Safety	650,046
Public Works	12,113,543
Parks	826,227
	<u>15,267,431</u>
<b>Total depreciation expense</b>	<b><u>\$ 15,267,431</u></b>

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

	Balance July 1, 2012	Additions	Deletions	Reclassification	Balance June 30, 2013
<i>Non-depreciable Assets:</i>					
Land and improvements	\$ 1,899,420	\$ 121,356	\$	\$	\$ 2,020,776
Construction in progress	43,117,688	11,307,925	(20,773)	(10,422,153)	43,982,687
	<u>45,017,108</u>	<u>11,429,281</u>	<u>(20,773)</u>	<u>(10,422,153)</u>	<u>46,003,463</u>
<i>Depreciable Assets:</i>					
Buildings and structures	4,287,506			121,660	4,409,166
Machinery and equipment	4,005,739	294,880	(1,203,271)	32,322	3,129,670
Improvements other than buildings, structures, and land improvements	133,209,672			10,268,171	143,477,843
Infrastructure	37,499,142	721,122			38,220,264
	<u>179,002,059</u>	<u>1,016,002</u>	<u>(1,203,271)</u>	<u>10,422,153</u>	<u>189,236,943</u>
<i>Accumulated depreciation:</i>					
Buildings and structures	(2,550,285)	(96,929)			(2,647,214)
Machinery and equipment	(3,768,073)	(134,290)	1,190,925		(2,711,438)
Improvements other than buildings, structures, and land improvements	(43,585,973)	(5,973,464)			(49,559,437)
Infrastructure	(8,072,907)	(1,095,398)			(9,168,305)
	<u>(57,977,238)</u>	<u>(7,300,081)</u>	<u>1,190,925</u>		<u>(64,086,394)</u>
Total depreciable assets, net	<u>121,024,821</u>	<u>(6,284,079)</u>	<u>(12,346)</u>	<u>10,422,153</u>	<u>125,150,549</u>
<b>Total business-type activities</b>	<b><u>\$ 166,041,929</u></b>	<b><u>\$ 5,145,202</u></b>	<b><u>\$ (33,119)</u></b>	<b><u>\$</u></b>	<b><u>\$ 171,154,012</u></b>

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**6. CAPITAL ASSETS, Continued**

*A. Government-Wide Financial Statements, Continued*

Business-type activities depreciation expense for capital assets for the year ended June 30, 2013 was as follows:

Wastewater System Fund	\$	3,864,949
Water System Fund		2,200,986
Refuse Collection System		830,989
Non-Major Funds		<u>403,157</u>
<b>Total depreciation expense</b>	<b>\$</b>	<b><u><u>7,300,081</u></u></b>

*B. Fund Financial Statements*

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

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

**7. DEFERRED CHARGES**

At June 30, 2013, the City had the following deferred charges:

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2013</u>
Business-type Activities:				
Wastewater Revenue Bonds	\$ 1,470,944	\$	\$ (54,742)	\$ 1,416,202
Water Revenue Bonds	<u>387,092</u>		<u>(20,062)</u>	<u>367,030</u>
<b>Total</b>	<b><u><u>\$ 1,858,036</u></u></b>	<b><u><u>\$</u></u></b>	<b><u><u>\$ (74,804)</u></u></b>	<b><u><u>\$ 1,783,232</u></u></b>

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, 2013 was \$74,804.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**8. DEPOSITS AND OTHER LIABILITIES**

Deposit and other liabilities consist of amounts accrued in the ordinary course of operations. The other liabilities as of June 30, 2013, were as follows:

*A. Government-Wide Financial Statements*

	Governmental Funds	Business-Type Funds	Total
Developers Credits	\$ 2,491,409	\$ 842,791	\$ 3,334,200
Deposits		973,648	973,648
Miscellaneous Liabilities	65,679	47,612	113,291
<b>Total</b>	<u>\$ 2,557,089</u>	<u>\$ 1,864,050</u>	<u>\$ 4,421,139</u>

*B. Fund Financial Statements*

	Developers Credits	Deposits	Miscellaneous Liabilities	Total Other Liabilities
<i>Governmental Funds</i>				
General Fund	\$	\$	\$ 6,765	\$ 6,765
Housing Special Revenue Fund			3,090	3,090
Non-Major Funds	2,491,409		36,761	2,528,170
<b>Total governmental funds</b>	<u>2,491,409</u>		<u>46,616</u>	<u>2,538,025</u>
<i>Business Type Funds</i>				
Wastewater System	842,791	294,025	114	1,136,929
Water System		415,582	30,848	446,430
Refuse Collection		241,171		241,171
Non-Major Funds		22,870	16,650	39,520
<b>Total business type funds</b>	<u>842,791</u>	<u>973,648</u>	<u>47,612</u>	<u>1,864,050</u>
<i>Internal Services Funds</i>				
			19,064	19,064
<b>Total</b>	<u>\$ 3,334,200</u>	<u>\$ 973,648</u>	<u>\$ 113,291</u>	<u>\$ 4,421,139</u>

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**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, 2013:

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013	Due Within One Year	Due in More than One Year
Pension Obligation Bonds	\$ 6,485,000	\$	\$ (245,000)	\$ 6,240,000	\$ 285,000	\$ 5,955,000
Loans Payable	250,000		(250,000)			
Capital Lease	7,157,493		(247,611)	6,909,882	279,689	6,630,193
<b>Total</b>	<b>\$ 13,892,493</b>	<b>\$</b>	<b>\$ (742,611)</b>	<b>\$ 13,149,882</b>	<b>\$ 564,689</b>	<b>\$ 12,585,193</b>

**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 in the amount of \$7,138,378 were used by the City to prepay a portion of the unfunded actuarial accrued liability to the California Public Employees' Retirement System. The bonds are an unconditional obligation of the City payable from legally available funds. The prepayment created a net pension asset. At June 30, 2013, the net pension asset was \$5,181,870. Additional information about the net pension asset can be found in Note 14. Retirement Plans.

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, 2013**

**9. LONG-TERM DEBT, Continued**

*A. Government-Wide Financial Statements, Continued*

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

Year Ending June 30,	Principal	Interest	Total
2014	285,000	364,104	649,104
2015	325,000	348,691	673,691
2016	375,000	330,790	705,790
2017	425,000	309,835	734,835
2018	480,000	284,777	764,777
2019-2023	3,425,000	922,428	4,347,428
2024	925,000	54,538	979,538
<b>Total</b>	<b>\$ 6,240,000</b>	<b>\$ 2,615,163</b>	<b>\$ 8,855,163</b>

**Loans Payable**

Loans payable at June 30, 2013 consisted of the following:

2008 \$250,000 Real Estate Purchase Agreement

In 2008, The City entered into a Real Estate Purchase Agreement in the amount of \$250,000 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 paid off the loan in fiscal year 2013.

**Capital Lease**

The City entered into a capital lease agreement to fund certain energy cost saving facility improvement measures and facility upgrades under which the related facility will become the property of the City when all terms of the lease agreement are met.

The capital lease agreement balance as of June 30, 2013:

	Stated Interest Rate	Present Value of Remaining Payments as of June 30, 2013
Governmental Activities: Facilities	4.50%	<b>\$ 6,909,882</b>

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**9. LONG-TERM DEBT, Continued**

*A. Government-Wide Financial Statements, Continued*

**Capital Lease, Continued**

As of June 30, 2013, future minimum lease payments under capital leases are as follows:

Year Ending June 30,	Governmental Activities
2014	590,122
2015	611,321
2016	633,262
2017	655,970
2018	679,474
2019-2023	3,590,951
2024-2027	2,715,319
Total Future Minimum Lease Payments	9,476,419
Less: Interest	(2,566,537)
Present Value of Minimum Lease Payments	<u>\$ 6,909,882</u>

**Business-Type Activities**

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013	Due Within One Year	Due in More than One Year
Revenue bonds payable	\$ 19,803,425	\$	\$ (1,218,360)	\$ 18,585,065	\$ 1,389,655	\$ 17,195,410
Loans payable	39,818,179		(1,659,521)	38,158,658	1,656,505	36,502,153
Water well development agreement	24,016		(24,016)			
<b>Total</b>	<u>\$ 59,645,620</u>	<u>\$</u>	<u>\$ (2,901,897)</u>	<u>\$ 56,743,723</u>	<u>\$ 3,046,160</u>	<u>\$ 53,697,563</u>

**Revenue Bonds Payable**

Revenue bonds payable at June 30, 2013, consisted of the following:

Water Revenue Bonds Payable	\$ 5,626,438
Wastewater Revenue Bonds Payable	12,958,627
<b>Total</b>	<u>\$ 18,585,065</u>

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**9. LONG-TERM DEBT, Continued**

*A. Government-Wide Financial Statements, Continued*

**Revenue Bonds Payable, Continued**

*2012 Series Water and Wastewater Revenue Bonds*

On June 19, 2012, the City issued 2012 Series in the amount of \$17,995,000 with an average interest rate of 3.665 percent to advance refund \$22,270,000 of outstanding 2005 CSCDA Water and Wastewater Bonds, \$6,555,000 and \$15,715,000 respectively, with an average interest rate of 5.223 percent. The net proceeds of \$19,853,035, after payment of \$305,711 in underwriting fees, insurance, and other issuance costs, plus an additional \$4,225,388 of city funds were used to purchase State and Local Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2005A Series bonds. As of June 30, 2013, \$21,020,000 of 2005 CSCDA Water and Wastewater Bonds outstanding are considered defeased.

The City completed the advance refunding to reduce debt service payments over 14 years which achieved an economic gain of \$2,339,835. The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$1,808,425 and was reported as unamortized premium. It will be charged to operations through the year 2022 using the effective-interest method. The amount issued of \$17,995,000 plus amortized premium of \$1,808,425 equals the total revenue bonds payable of \$19,803,425 at issuance.

The bonds were secured by pledges of the Water Enterprise Fund and Wastewater Enterprise Fund net revenues under the respective installment purchase agreements for each individual program participant. The City's obligation at issuance was \$5,455,000 for the Water Enterprise Fund and \$12,540,000 for the Wastewater Enterprise Fund.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**9. LONG-TERM DEBT, Continued**

*A. Government-Wide Financial Statements, Continued*

**Revenue Bonds Payable, Continued**

2012 Series Water and Wastewater Revenue Bonds, Continued

Principal payments are due on October 1 of each year and interest payments ranging from 2.0% to 5.0% are due on April 1 and October 1 of each year.

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

For the Years Ending June 30,	Principal	Interest	Total
2014	355,000	175,463	530,463
2015	365,000	164,663	529,663
2016	375,000	154,125	529,125
2017	385,000	144,731	529,731
2018	395,000	132,500	527,500
2019-2023	2,225,000	407,300	2,632,300
2024-2025	1,020,000	33,400	1,053,400
	5,120,000	1,212,182	6,332,182
Add unamortized premium	506,438		506,438
<b>Total</b>	<b>\$ 5,626,438</b>	<b>\$ 1,212,182</b>	<b>\$ 6,838,620</b>

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

For the Years Ending June 30,	Principal	Interest	Total
2014	805,000	466,925	1,271,925
2015	825,000	446,500	1,271,500
2016	850,000	422,438	1,272,438
2017	870,000	395,725	1,265,725
2018	900,000	362,700	1,262,700
2019-2023	5,095,000	1,209,425	6,304,425
2024-2025	2,385,000	120,625	2,505,625
	11,730,000	3,424,338	15,154,338
Add unamortized premium	1,228,627		1,228,627
<b>Total</b>	<b>\$ 12,958,627</b>	<b>\$ 3,424,338</b>	<b>\$ 16,382,965</b>



**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**9. LONG-TERM DEBT, Continued**

*A. Government-Wide Financial Statements, Continued*

**Loans Payable**

Loans payable at June 30, 2013 consisted of the following:

California Infrastructure Bank and Economic Development Bank (CIEDB)		
Enterprise Fund Installment Sales Agreement	\$	7,327,209
California State Water Resources Control Board		
Clean Water State Revolving Fund		30,831,449
<i>Total</i>	\$	<u>38,158,658</u>

*California Infrastructure and Economic Development Bank Enterprise Fund Installment Sales Agreement*

On October 1, 2003, the City entered into an Enterprise Fund Installment Sales Agreement with California Infrastructure and Economic Development Bank for the purchase of water and sewer improvements for the University of California Merced Campus. The principal balance of the agreement was \$8,262,209 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
2014	175,000	229,499	404,499
2015	200,000	223,555	423,555
2016	200,000	217,214	417,214
2017	225,000	210,479	435,479
2018	225,000	203,346	428,346
2019-2023	1,475,000	888,346	2,363,346
2024-2028	1,950,000	617,708	2,567,708
2029-2033	2,350,000	273,763	2,623,763
2034	527,209	8,356	535,565
<b>Total</b>	<u>\$ 7,327,209</u>	<u>\$ 2,872,266</u>	<u>\$ 10,199,475</u>

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**9. LONG-TERM DEBT, Continued**

*A. Government-Wide Financial Statements, Continued*

**Loans 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 was \$32,315,970 with an interest rate of 1.0% per annum, after the American Recovery and Reinvestment Act (ARRA) principal forgiveness grant of \$2,000,000.

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
2014	1,481,505	308,315	1,789,820
2015	1,496,320	293,500	1,789,820
2016	1,511,283	278,536	1,789,819
2017	1,526,396	263,423	1,789,819
2018	1,541,660	248,159	1,789,819
2019-2023	7,942,657	1,006,442	8,949,099
2024-2028	8,347,812	601,286	8,949,098
2029-2031	6,983,816	175,464	7,159,280
<b>Total</b>	<b>\$ 30,831,449</b>	<b>\$ 3,175,125</b>	<b>\$ 34,006,574</b>

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 final debt service payment of \$25,000, \$24,016 in principal and \$985 in interest was made during fiscal year 2013.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**9. LONG-TERM DEBT, Continued**

**Loans Payable, Continued**

*B. Fund Financial Statements*

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

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.

	Outstanding June 30, 2013
1998 Liberty Park Refunding Assessment District	\$ 256,000
16th Street Refunding Assessment District	160,000
Fahrens Park Refunding Assessment District	3,230,000
Bellevue Ranch East CFD	9,620,000
Bellevue Ranch West CFD	6,680,000
Moraga CFD	5,285,000
Total	<u>\$ 25,231,000</u>

**10. 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, Parks and Community Services Fund, Public Works Administration Fund, Measure "C" Fund, Maintenance Districts Fund, and the Community Facilities Districts Services Fund.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**10. COMPENSATED ABSENCES, Continued**

A summary of changes in compensated absences for the year ended June 30, 2013, is as follows:

	Balance			Due		
	July 1, 2012	Additions	Retirements	June 30, 2013	Within One Year	Due in More than One Year
Governmental Activities	\$ 3,384,389	\$ 562,325	\$ (531,085)	\$ 3,415,629	\$ 460,384	\$ 2,955,245
Business-type Activities	631,934	100,045	(60,969)	671,010	57,884	613,126
<b>Total</b>	<b>\$ 4,016,323</b>	<b>\$ 662,370</b>	<b>\$ (592,054)</b>	<b>\$ 4,086,639</b>	<b>\$ 518,268</b>	<b>\$ 3,568,371</b>

**11. 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	Low & Moderate Income Housing Special Revenue	Streets & Signals Capital Projects	Non-Major Funds	Total
<b>Nonspendable:</b>						
Inventory	\$ 47,129					\$ 47,129
Advances receivable	1,710,992					1,710,992
Total Nonspendable	1,758,121					1,758,121
<b>Restricted for:</b>						
Street and street lights					2,141,124	2,141,124
Community development					9,987,912	9,987,912
Housing		1,204,753	3,173,187		3,225,452	7,603,392
Public safety					91,573	91,573
Special districts					2,365,958	2,365,958
Capital projects				2,346,530	1,103,200	3,449,730
Other special projects and programs:						
Cash basis fund	4,000,000					4,000,000
Other					437,149	437,149
Total Restricted	4,000,000	1,204,753	3,173,187	2,346,530	19,352,368	30,076,838
<b>Committed to:</b>						
Street and street lights					114,000	114,000
Community development					17,812	17,812
Public safety					1,141,653	1,141,653
Total Committed					1,273,465	1,273,465
<b>Assigned to:</b>						
Appropriations in subsequent year	1,498,506					1,498,506
City council	15,250					15,250
City manager	1,432					1,432
City attorney	89,576					89,576
Finance	52,361					52,361
Purchasing	876					876
Police protection	347,478					347,478
Fire protection	51,503					51,503
Public works	2,207					2,207
Economic development	99,145					99,145
Visitor's service	2,056					2,056
Parks and Community Services	85,884					85,884
Total Assigned	2,246,275					2,246,275
<b>Unassigned</b>	7,491,166				(315,362)	7,175,804
Total Fund Balances	\$ 15,495,562	\$ 1,204,753	\$ 3,173,187	\$ 2,346,530	\$ 20,310,471	\$ 42,530,503

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**12. OTHER FUND DISCLOSURES**

*A. Deficit Fund Balances*

At June 30, 2013, the funds below had the following deficit fund balance or net position:

**Capital Project Funds**

Park Reserve Fund \$ (315,362)

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.

**Internal Service Funds**

Workers Compensation Insurance Fund \$ (3,671,279)

The deficit net position 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 yet reported (IBNR). The recording of these estimated future claims and IBNR has caused the net position deficit balance.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**12. OTHER FUND DISCLOSURES, Continued**

*A. Deficit Fund Balances, Continued*

**Internal Service Funds, Continued**

Fleet Management \$ (59,467)

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

Facility Maintenance \$ (4,022,245)

This fund is used to account for costs of maintaining and operating City facilities. The deficit fund balance was caused by recording of Other Post Employment Benefits liability as well as 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 fees and debt service payments related to the capital lease agreement.

Support Services Fund \$ (597,719)

This fund is used to account for personnel, Information Systems, Records, and Risk Management Administration divisions which support all other city functions. The deficit net position was caused by the recording of Other Post Employment Benefits liability. The deficit balance will be eliminated by future fees.

**13. 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, 2013, claims for general liability and workers' compensation were \$163,987 and \$4,366,076 respectively.

The Liability Insurance Fund is used to account for all general liability claims against the City. The City is a member of the Central San Joaquin Valley Risk Management Authority, 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:

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**13. RISK MANAGEMENT, Continued**

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
2011	\$ 896,722	\$ 1,796,927	\$ (1,831,740)	\$ 861,909	\$ 861,909
2012	861,909	2,237,517	(2,868,161)	231,265	231,265
2013	231,265	1,062,359	(1,129,637)	163,987	163,987

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
2011	\$ 2,546,447	\$ 1,573,763	\$ (1,093,813)	\$ 3,026,397	\$ 1,057,516
2012	3,026,397	2,669,917	(1,962,890)	3,733,424	1,066,464
2013	3,733,424	2,398,477	(1,765,825)	4,366,076	2,262,581

**14. 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. The City has three plans: the Classic, Classic - 2<sup>nd</sup> Tier, and Public Employees' Pension Reform Act (PEPRA).

Copies of CalPERS' Annual Financial Report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**14. RETIREMENT PLANS, Continued**

*Pension Plan, Continued*

*Funding Policy* - The required contribution rates as a percentage of annual covered payroll are established annually by CalPERS. At June 30, 2013 the required contribution rates for each plan are as follows:

	Classic		Classic - 2nd Tier		Public Employees' Pension Reform Act	
	Safety 3% @ 50	Miscellaneous 2.5% @55	Safety 3% @ 55	Miscellaneous 2% @60	Safety 2.7% @ 57	Miscellaneous 2% @ 62
Employer rate (actuarilly determined rate)	22.19%	12.99%	22.19%	12.99%	22.19%	12.99%
Member rate	9%	8%	9%	8%	11.25%	6.25%
Total Required Contribution Rate	31.19%	20.99%	31.19%	20.99%	33.44%	19.24%

Membership enrollment to the plans is based on hire date as follows:

	Classic		Classic - 2nd Tier		Public Employees' Pension Reform Act	
	Safety 3% @ 50	Miscellaneous 2.5% @55	Safety 3% @ 55	Miscellaneous 2% @60	Safety 2.7% @ 57	Miscellaneous 2% @ 62
Micellaneous		Existing plan members hired before December 10, 2012		Existing plan members hired after December 10, 2012		New plan members hired after January 1, 2013
Safety:						
Fire	Existing plan members hired before October 7, 2011		Existing plan members hired after October 7, 2011		New plan members hired after January 1, 2013	
Police	Existing plan members hired before December 10, 2012		Existing plan members hired after December 10, 2012		New plan members hired after January 1, 2013	

Based upon specific Memorandum of Understanding (MOU) and compensation plans, employees contribute a range of 7.00% to 11.25% toward the total required contribution rate.



**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**14. RETIREMENT PLANS, Continued**

*Pension Plan, Continued*

*Annual Pension Cost* - For fiscal year 2012-2013 the City's annual pension cost of \$5,023,397 is equal to the City's annual required contribution of \$4,730,605, plus the amortization of the net pension asset of \$292,792. The City's contributions paid are equal to the annual required contributions. The annual required contribution was determined as part of the June 30, 2010, 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 3.55% to 14.45% for miscellaneous and 3.55% 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 3.00% and an annual production growth of 0.25%. 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, 2010, was 29 years for safety employees and 27 years for miscellaneous employees for prior and current service unfunded liability.

Bond proceeds from the 2004 California Statewide Development Authority Taxable Pension Obligation Bonds were used to prepay a portion of the unfunded actuarial accrued liability to the California Public Employees' Retirement System. The prepayment created a net pension asset, which is amortized over a 20 year period. A net pension asset is defined as the cumulative difference between annual pension cost and the employer's annual contributions to a plan.

The City's annual pension cost and net pension asset for the year ended June 30, 2013, were as follows:

Net Pension Asset	
Annual Required contribution	\$ 4,730,605
Interest	(424,287)
Adjustment	717,079
Annual Pension cost	<u>5,023,397</u>
Contributions paid	<u>4,730,605</u>
Decrease in pension asset	(292,792)
Net pension asset, beginning of year	<u>5,474,663</u>
Net pension asset, end of year	<u><u>\$ 5,181,871</u></u>

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**14. RETIREMENT PLANS, Continued**

*Pension Plan, Continued*

**THREE-YEAR TREND INFORMATION FOR PERS**

Year Ended June 30,	Miscellaneous Employees Annual Required Contribution (ARC)	Safety Employees Annual Required Contribution (ARC)	Total Annual Required Contribution (ARC)	Amortization on Pension Asset	Total Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset End of Year
2011	1,644,110	2,384,194	4,028,304	252,188	4,280,492	94%	5,746,396
2012	2,007,337	2,616,611	4,623,948	271,733	4,895,681	94%	5,474,663
2013	2,104,013	2,626,592	4,730,605	292,793	5,023,398	94%	5,181,871

A total of \$5,181,871 of unamortized net pension asset is reported on the Government-Wide Financial Statements as Prepaid Pension Asset. Additional information about the bond issue can be found in Note 9. Long-Term Debt.

*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.

The actuarial value of assets for the plan is generally a market related value, while the amount reported as a net pension asset is the unamortized prepaid pension asset created by the issuance of the California Statewide Development Authority Taxable Pension Obligation Bonds.

*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
6/30/2012	\$ 88,284,621	\$ 106,678,048	\$ 18,393,427	82.8%	\$ 15,764,975	116.7%

*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
6/30/2012	\$ 98,681,380	\$ 112,189,627	\$ 13,508,247	88.0%	\$ 11,688,627	115.6%

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

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**15. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS**

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

The City has \$1,445,000 in the California Employers’ Retiree Benefit Trust (CERBT) at the end of the fiscal year ending June 30, 2013. 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](http://www.calpers.ca.gov) or from CalPERS Headquarters at 400 Q Street, Sacramento, California, 95811.

Out of approximately 416 full-time City employees, approximately 222 full-time employees 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. Based on the employee’s MOU, employees hired after certain dates are not eligible for the City’s Retiree Healthcare Plan.

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. No additional pre-funding is currently planned.

For the fiscal year ending June 30, 2013, the City contributed \$1,870,000 to the plan, including \$1,410,000 in medical premium payments for retirees and \$460,000 for implied subsidies. 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.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

**15. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS, Continued**

*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.

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	\$ 7,391,000
Interest on net OPEB obligation	632,000
Adjustment to annual required contribution	<u>(1,559,000)</u>
Annual OPEB cost (expense)	6,464,000
Contributions made to CERBT	(0)
Benefit payments made outside of CERBT	<u>(1,870,000)</u>
Increase in net OPEB obligation	4,594,000
Net OPEB obligation - beginning of year	<u>15,785,000</u>
Net OPEB obligation - end of year	<u>\$ 20,379,000</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 2013 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/11	\$ 5,929,000	46.6%	\$ 11,601,000
6/30/12	6,013,000	30.4%	15,785,000
6/30/13	6,464,000	28.9%	20,379,000

*Funded Status and Funding Progress.* The funded status of the Plan as of June 30, 2013, the Plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 51,005,000
Actuarial value of Plan assets	<u>(1,441,000)</u>
Unfunded actuarial accrued liability (UAAL)	\$ 49,564,000
Funded ratio (actuarial value of Plan assets/AAL)	2.83%
Covered payroll (eligible active Plan participants)	\$ 15,102,000
UAAL as a percentage of covered payroll	328.2%

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**15. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS, Continued**

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. 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.

*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, 2013 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.00% 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 8.0% for 2015, grading down to 5.0% for 2021 and after. The post-Medicare medical cost increase rate is 8.3% for 2015, grading down to 5.0% for 2021 and after. The caps on the City-paid medical benefits were assumed to increase 3.5% every 3<sup>rd</sup> year. The initial UAAL as of June 30, 2008 was amortized as a level dollar amount over a fixed 30-year period, plan and assumption changes over a fixed 20-year period, and gains and losses over a fixed 15-year period. The remaining equivalent single amortization period as of June 30, 2013 was 22 years.

**16. COMMITMENTS AND CONTINGENT LIABILITIES**

Project Commitments

As of June 30, 2013, the City had the following outstanding commitments that exceeded \$500,000:

Vendor Name	Outstanding Amount
Rolfe Construction Inc	\$ 1,194,982
Maxwell Construction, Inc.	793,518
Dawson-Mauldin Construction	758,742
Merced Co Dept of Public Works	679,957
	\$ 3,427,198

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**16. COMMITMENTS AND CONTINGENT LIABILITIES, Continued**

Redevelopment Agency Dissolution

On June 28, 2011, the California Legislature adopted Assembly Bill 1X 26 (Dissolution Act), which provided for the elimination of redevelopment agencies. The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government.

If no local agency elects to serve as a successor agency for a dissolved redevelopment agency, a public body, referred to as a "designated local authority" (DLA) shall be immediately formed. The Governor shall appoint three residents of the county to serve as the governing board of the authority. The designated local authority shall serve as successor agency until a local agency elects to become the successor agency in accordance with the legislation. Because neither the City nor any other local government agreed to serve as the "successor agency", the Governor appointed three residents who met for the first time on August 2, 2012.

After enactment of the law, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the review of a newly established oversight board, remaining assets of the former redevelopment agency can only be used to pay enforceable obligations in existence at the date of dissolution, including the completion of any unfinished projects that were subject to legally enforceable obligations -- including contracts.

The California Redevelopment Association along with others filed suit challenging the constitutionality of Dissolution Act. On December 29, 2011, the California Supreme Court upheld most of the Dissolution Act which effectively dissolved all Redevelopment Agencies as of February 1, 2012.

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

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2013**

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**16. COMMITMENTS AND CONTINGENT LIABILITIES, Continued**

Effective February 1, 2012, the Redevelopment Agency of the City of Merced was dissolved and all funds closed. The housing assets and liabilities were transferred to the City's Low and Moderate Income Housing Funds and all remaining non-housing assets and liabilities became the responsibility of the successor agency and therefore are not reflected in the financial statement.

On June 27, 2012, the California Legislature adopted Assembly Bill 1484 (AB 1484), which amended the Dissolution Act. Per Health and Safety Code Section 34183, under AB 1484, the county auditor-controller was to determine the amount, if any, owed by each successor agency to taxing entities and was to provide a demand for payment to the successor agency by July 9, 2012, the "true-up payment".

The true-up payment funds were to be paid to the county by the successor agency no later than July 12, 2012 for deposit into the Redevelopment Property Tax Trust Fund and subsequent distribution by July 16, 2012 to taxing entities.

The County of Merced did not provide such a demand and because no successor agency had been formed, and in order to comply with the legislation, and to avoid both the potential interruption of either sales and use taxes or property taxes or both as well as penalties under AB 1484, the City of Merced remitted all uncommitted funds in the amount of \$5,634,827 from the former Redevelopment Agency to the County of Merced on July 12, 2012. Subsequently, a successor agency was formed.

As of June 30, 2013, the State Controller's Office had not completed its review per Section 34179 of AB 1484. Therefore, the City has not received any reallocated property tax revenue.

**17. POLLUTION REMEDIATION OBLIGATIONS**

The City of Merced is aware of various contaminated sites throughout the City, which contain certain gasoline chemicals and other contaminants such as pesticides and solvents. The 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 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, 2013**

**18. CHANGES IN APPLICATION OF ACCOUNTING PRINCIPLES**

During the fiscal year, the city recognized that the Parks and Community Services Fund should be reported in the General Fund as permitted in GASB 54. Prior to GASB 54 the fund was a special revenue fund. With the adoption of GASB 54 in fiscal year 2011, the Parks and Community Services Fund was classified as an enterprise fund because it was anticipated it would be adequately funded by user fees. Instead, it has been supplemented by the General Fund. Additional information on the combined amounts reported in the General Fund can be found in the Supplementary Information section.

As a result of the change beginning balances were restated as follows:

*Government-Wide Financial Statements*

	Net Position as Previously Reported as June 30, 2012	Change in Reporting for Parks and Community Services Fund	Net Position, Beginning of Year, as Restated
Governmental Activities	\$ 408,411,783	\$ 203,852	\$ 408,615,635
Business-Type Activities	206,136,434	(203,852)	205,932,582
<b>Total Net Position</b>	<b>\$ 614,548,217</b>	<b>\$</b>	<b>\$ 614,548,217</b>

*Fund Financial Statements*

	Fund Balance/ Net Position as Previously Reported at June 30, 2012	Change in Reporting for Parks and Community Services Fund	Fund Balance/ Net Position Beginning of Year, as Restated
General Fund	\$ 14,638,958	\$ 203,852	\$ 14,842,810
Nonmajor Enterprise Fund	6,846,079	(203,852)	6,642,227
<b>Total</b>	<b>\$ 21,485,037</b>	<b>\$</b>	<b>\$ 21,485,037</b>



**REQUIRED SUPPLEMENTARY INFORMATION**

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**City of Merced**  
**Required Supplementary Information**  
**For the year ended June 30, 2013**

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**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, 2013, 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, 2013**

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property tax:				
Secured	\$ 5,164,710	\$ 5,164,710	\$ 4,416,545	\$ (748,165)
Unsecured	393,205	393,205	498,646	105,441
Supplemental roll:				
Prior year - unsecured	5,000	5,000	23,899	18,899
Prior year - supplemental roll	75,000	75,000	87,112	12,112
Sales and use	7,292,000	7,292,000	7,676,297	384,297
Transient occupancy tax	822,000	822,000	883,392	61,392
Franchise	1,474,000	1,474,000	1,448,153	(25,847)
Business license	1,100,000	1,100,000	1,124,968	24,968
Cost revenue impact study fee	50,505	50,505	4,231	(46,274)
Real property transfer	100,000	100,000	113,960	13,960
Triple flip backfill	2,055,930	2,055,930	2,562,603	506,673
Vehicle in lieu backfill	4,595,500	4,595,500	4,517,239	(78,261)
Total taxes	<u>23,127,850</u>	<u>23,127,850</u>	<u>23,357,045</u>	<u>229,195</u>
Intergovernmental:				
Motor vehicle in lieu tax	55,814	55,814	41,515	(14,299)
Homeowners property tax relief	75,000	75,000	65,283	(9,717)
Police standards and training	30,000	30,000	70,093	40,093
Other state grants	45,400	332,275	333,000	725
Other federal grants	587,057	650,159	408,979	(241,180)
Office BJA - bulletproof vest grant	7,536	12,268	7,571	(4,697)
State mandated cost reimbursement	33,176	33,176	163,774	130,598
Total intergovernmental	<u>833,983</u>	<u>1,188,692</u>	<u>1,090,215</u>	<u>(98,477)</u>
Licenses and permits:				
Animal licenses	19,190	19,190	15,136	(4,054)
Bicycle licenses	200	200	239	39
Other licenses and permits	9,000	9,000	8,954	(46)
Total licenses and permits	<u>28,390</u>	<u>28,390</u>	<u>24,329</u>	<u>(4,061)</u>
Use of money and property				
Investment Earnings	69,800	69,800	(112,163)	(181,963)
Rents and concessions (other than recreation)	75,811	75,811	62,421	(13,390)
Total use of money and property	<u>145,611</u>	<u>145,611</u>	<u>(49,742)</u>	<u>(195,353)</u>

(continued)

**CITY OF MERCED**  
**Required Supplementary Information, Continued**  
**For the Year Ended June 30, 2013**

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES, Continued:</b>				
Service Charges:				
Fire department special services	\$ 51,284	\$ 156,284	\$ 162,394	\$ 6,110
Fire prevention	50,000	50,000	47,423	(2,577)
Accident reports	3,500	3,500	4,792	1,292
PERS-EE share 2.5% at 55	273,471	363,911	342,866	(21,045)
PERS-EE share 3% at 50	143,013	808,302	799,708	(8,594)
PERS-EE share 2% at 62			510	510
PERS-EE share 2.7% at 57			1,876	1,876
Personnel Time Charged CIP	8,000	8,000		(8,000)
Administrative	2,391,388	2,391,388	2,391,289	(99)
Animal control services	6,100	6,100	3,205	(2,895)
School police officer	358,887	325,291	317,946	(7,345)
Valley High School police officer	143,078	131,808	130,281	(1,527)
Interdepartmental charges	1,797,755	1,772,755	1,772,755	
Cost applied	90,000	105,000	161,501	56,501
Other current service charges	73,511	(26,878)	87,645	114,523
Total service charges	<u>5,389,987</u>	<u>6,095,461</u>	<u>6,224,191</u>	<u>128,730</u>
Fines, forfeitures and penalties:				
Criminal fines	129,000	129,000	65,954	(63,046)
Parking fines	373,170	373,170	346,599	(26,571)
Total fines, forfeitures and penalties	<u>502,170</u>	<u>502,170</u>	<u>412,553</u>	<u>(89,617)</u>
Other:				
Unclassified revenue	11,700	11,700	608,320	596,620
Snack machine revenue	100	100		(100)
Garnishments handling fees	1,080	1,080	1,061	(19)
Miscellaneous	216,282	35,798	(156,836)	(192,634)
Cash overages (shortages)	100	100	(102)	(202)
Donations/contributions	166,503	167,503	112,451	(55,052)
S.M.I.P. fees	1,650	1,650		(1,650)
Total other	<u>397,415</u>	<u>217,931</u>	<u>564,894</u>	<u>346,963</u>
<b>Total revenues</b>	<u>30,425,406</u>	<u>31,306,105</u>	<u>31,623,485</u>	<u>317,380</u>

(continued)

**CITY OF MERCED**  
**Required Supplementary Information, Continued**  
**For the Year Ended June 30, 2013**

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>EXPENDITURES:</b>				
Current operating:				
General government:				
City Council	\$ 207,358	\$ 239,933	\$ 159,480	\$ 80,453
City Manager	525,700	527,043	507,079	19,964
City Attorney	901,099	991,146	854,778	136,368
Finance	2,358,911	2,429,565	2,365,814	63,751
Purchasing	207,710	209,422	208,766	656
Economic development	497,957	550,974	440,908	110,066
Visitor's services	157,552	164,307	160,625	3,682
Total general government	<u>4,856,287</u>	<u>5,112,390</u>	<u>4,697,450</u>	<u>414,940</u>
Public safety:				
Police protection	16,263,750	16,101,227	14,828,058	1,273,169
Fire protection and weed abatement	8,716,640	8,997,138	8,807,224	189,914
Total public safety	<u>24,980,390</u>	<u>25,098,365</u>	<u>23,635,282</u>	<u>1,463,083</u>
Public works	1,605,498	1,674,199	1,600,869	73,330
Total current operating	<u>31,442,175</u>	<u>31,884,954</u>	<u>29,933,601</u>	<u>1,951,353</u>
Debt service:				
Principal	245,000	245,000	245,000	
Interest	377,163	377,163	377,162	1
Total debt service	<u>622,163</u>	<u>622,163</u>	<u>622,162</u>	<u>1</u>
<b>Total expenditures</b>	<u>32,064,338</u>	<u>32,507,117</u>	<u>30,555,763</u>	<u>1,951,354</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(1,638,932)</u>	<u>(1,201,012)</u>	<u>1,067,722</u>	<u>2,268,734</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	6,000	6,000	5,125	(875)
Transfers in	832,646	877,978	295,172	(582,806)
Transfers out	(881,099)	(1,208,089)	(624,641)	583,448
<b>Total other financing sources (uses)</b>	<u>(42,453)</u>	<u>(324,111)</u>	<u>(324,344)</u>	<u>(233)</u>
<b>Net change in fund balance</b>	<u>\$ (1,681,385)</u>	<u>\$ (1,525,123)</u>	<u>743,378</u>	<u>\$ 2,268,501</u>
<b>FUND BALANCE:</b>				
Beginning of year, restated			14,638,958	
End of year			<u>\$ 15,382,336</u>	

(continued)

**CITY OF MERCED**  
**Required Supplementary Information, Continued**  
**For the Year Ended June 30, 2013**

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

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

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

	General Fund - Budgetary Schedule - Actual	Parks and Community Services Fund	General Fund - Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
Total revenues	\$ 31,623,485	\$ 396,800	\$ 32,020,285
Total expenditures	<u>30,555,763</u>	<u>1,050,053</u>	<u>31,605,816</u>
Revenues over (under) expenditures	1,067,722	(653,253)	414,469
Total other financing sources (uses)	<u>(324,344)</u>	<u>562,627</u>	<u>238,283</u>
Net change in fund balance	743,378	(90,626)	652,752
Beginning of year	<u>14,638,958</u>	<u>203,852</u>	<u>14,842,810</u>
End of year	<u>\$ 15,382,336</u>	<u>\$ 113,226</u>	<u>\$ 15,495,562</u>

**CITY OF MERCED**  
**Required Supplementary Information, Continued**  
**For the Year Ended June 30, 2013**

**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		
<b>REVENUES:</b>				
Intergovernmental	\$ 4,298,564	\$ 4,949,911	\$ 3,116,380	\$ (1,833,531)
Use of money and property	3,300	3,300	(5,619)	(8,919)
Service charges	329,849	332,081	241,777	(90,304)
Total revenues	<u>4,631,713</u>	<u>5,285,292</u>	<u>3,352,538</u>	<u>(1,932,754)</u>
<b>EXPENDITURES:</b>				
Current operating:				
General government	<u>4,411,703</u>	<u>5,312,612</u>	<u>3,521,457</u>	<u>1,791,155</u>
Total current operating	<u>4,411,703</u>	<u>5,312,612</u>	<u>3,521,457</u>	<u>1,791,155</u>
Capital outlay	<u>490,353</u>	<u>1,100,872</u>	<u>934,923</u>	<u>165,949</u>
Total expenditures	<u>4,902,056</u>	<u>6,413,484</u>	<u>4,456,380</u>	<u>1,957,104</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(270,343)</u>	<u>(1,128,192)</u>	<u>(1,103,842)</u>	<u>24,350</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	1,000,000	1,000,000	943,026	(56,974)
Transfers out	<u>(835,679)</u>	<u>(835,397)</u>	<u>(509,317)</u>	<u>326,080</u>
Total other financing sources (uses)	<u>164,321</u>	<u>164,603</u>	<u>433,709</u>	<u>269,106</u>
Net change in fund balances	<u>\$ (106,022)</u>	<u>\$ (963,589)</u>	<u>(670,133)</u>	<u>\$ 293,456</u>
<b>FUND BALANCE:</b>				
Beginning of Year			<u>1,874,886</u>	
End of Year			<u>\$ 1,204,753</u>	



**CITY OF MERCED**  
**Required Supplementary Information, Continued**  
**For the Year Ended June 30, 2013**

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 15,800	\$ 15,800	\$ (7,758)	\$ (23,558)
Use of money and property	9,930	9,930	300,086	290,156
Total revenues	<u>25,730</u>	<u>25,730</u>	<u>292,328</u>	<u>266,598</u>
<b>EXPENDITURES:</b>				
Current operating:				
General government	31,500	33,794	299	33,495
Total current operating	<u>31,500</u>	<u>33,794</u>	<u>299</u>	<u>33,495</u>
Capital outlay				
Total expenditures	<u>31,500</u>	<u>33,794</u>	<u>299</u>	<u>33,495</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(5,770)</u>	<u>(8,064)</u>	<u>292,029</u>	<u>300,093</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(2,294)			
Total other financing sources (uses)	<u>(2,294)</u>			
Net change in fund balances	<u>\$ (8,064)</u>	<u>\$ (8,064)</u>	292,029	<u>\$ 300,093</u>
<b>FUND BALANCE:</b>				
Beginning of Year			<u>2,881,158</u>	
End of Year			<u>\$ 3,173,187</u>	

**City of Merced**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2013**

**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
6/30/2010	\$ 80,860,555	\$ 96,575,241	\$ 15,714,686	83.7%	\$ 17,954,782	87.5%
6/30/2011	84,987,120	102,743,573	17,756,453	82.7%	16,833,042	105.5%
6/30/2012	88,284,621	106,678,048	18,393,427	82.8%	15,764,975	116.7%

*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%
6/30/2011	94,119,678	108,814,708	14,695,030	86.5%	12,608,240	116.6%
6/30/2012	98,681,380	112,189,627	13,508,247	88.0%	11,668,627	115.8%

**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
6/30/2009	\$	\$ 60,770,000	\$ 60,770,000	0.0%	\$ 18,248,000	333.0%
6/30/2011	1,261,000	71,422,000	70,181,000	1.77%	16,299,000	430.6%
6/30/2013	1,441,000	51,005,000	49,564,000	2.83%	15,102,000	328.2%

## **SUPPLEMENTARY INFORMATION**

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**CITY OF MERCED**  
**Supplementary Information**  
**General Fund Combining Balance Sheet**  
**June 30, 2013**

	General Fund	Parks and Community Services Fund	General Fund Combined
<b>ASSETS</b>			
Cash, cash equivalents and investments	\$ 11,036,062	\$ 5,981	\$ 11,042,043
Restricted cash held by fiscal agents	7		7
Receivables:			
Accounts	504,614	10,930	515,544
Due from other governments	2,758,706		2,758,706
Interest	21,726		21,726
Due from other funds	111,635	121,217	232,852
Inventory	47,129		47,129
Advances to other funds	1,710,992		1,710,992
<b>Total assets</b>	<b>\$ 16,190,871</b>	<b>\$ 138,128</b>	<b>\$ 16,328,999</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 74,559	\$ 13,570	\$ 88,129
Payroll liabilities	460,599	11,332	471,931
Unearned revenue	266,612		266,612
Due to other funds			
Advances from other funds			
Other liabilities	6,765		6,765
<b>Total liabilities</b>	<b>808,535</b>	<b>24,902</b>	<b>833,437</b>
Deferred inflow of resources:			
Unavailable revenue			
Fund balances:			
Nonspendable	1,672,237	85,884	1,758,121
Restricted	4,000,000		4,000,000
Committed			
Assigned	2,246,275		2,246,275
Unassigned	7,463,824	27,342	7,491,166
<b>Total fund balances</b>	<b>15,382,336</b>	<b>113,226</b>	<b>15,495,562</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 16,190,871</b>	<b>\$ 138,128</b>	<b>\$ 16,328,999</b>

**CITY OF MERCED**  
**Supplementary Information**  
**General Fund Combining Statement of**  
**Revenues, Expenditures and Changes in Fund Balance**  
**June 30, 2013**

	General Fund	Parks and Community Services Fund	General Fund Combined
<b>REVENUES:</b>			
Taxes	\$ 23,357,045	\$	\$ 23,357,045
Intergovernmental	1,090,215		1,090,215
Licenses and permits	24,329		24,329
Use of money and property	(49,742)	202	(49,540)
Service charges	6,224,191	282,778	6,506,969
Fines, forfeitures and penalties	412,553		412,553
Other	564,894	113,820	678,714
Total revenues	<u>31,623,485</u>	<u>396,800</u>	<u>32,020,285</u>
<b>EXPENDITURES:</b>			
Current operating:			
General government	4,697,450		4,697,450
Public safety	23,635,282		23,635,282
Public works	1,600,869		1,600,869
Culture and recreation		1,050,053	1,050,053
Total current operating	<u>29,933,601</u>	<u>1,050,053</u>	<u>30,983,654</u>
Capital outlay			
Debt Service:			
Principal	245,000		245,000
Interest	377,162		377,162
Total expenditures	<u>30,555,763</u>	<u>1,050,053</u>	<u>31,605,816</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>1,067,722</u>	<u>(653,253)</u>	<u>414,469</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Sale of capital assets	5,125		5,125
Transfers in	295,172	578,130	873,302
Transfers out	(624,641)	(15,503)	(640,144)
Total other financing sources (uses)	<u>(324,344)</u>	<u>562,627</u>	<u>238,283</u>
<b>NET CHANGE IN FUND BALANCES</b>	743,378	(90,626)	652,752
<b>FUND BALANCES:</b>			
Beginning of year	14,638,958	203,852	14,842,810
End of year	<u>\$ 15,382,336</u>	<u>\$ 113,226</u>	<u>\$ 15,495,562</u>