



City of Merced, California

Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

The City of Merced, incorporated April 1, 1889, sponsored several events throughout the year in celebration of its 125th Anniversary. The festivities included a screening of the first movie shown in the historic Merced Theatre in 1931, a concert, and the revival of the Downtown Mercy Gulch Days.

Pictured is City of Merced's first City Hall and Fire station. In 1890, the building was located on 18th Street between M and Canal Streets.

"The cover photo is from the Merced County Historical Society Archives."

City of Merced

Merced, California

Annual Financial Report

For the year ended June 30, 2014

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City of Merced
Annual Financial Report
For the year ended June 30, 2014

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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, 2014, 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, 2014, 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 December 22, 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
December 22, 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, 2014. 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 Government-Wide Statement of Activities decreased by \$10.1 million. The governmental net position decreased by \$13.7 million and the business-type net position increased by \$3.6 million.

Government-wide:

- As shown on the Statement of Net Position, the assets of the City exceeded its liabilities at the close of the fiscal year by \$595.8 million.
- The net increase to governmental activity long-term debt of \$1.4 million was due to \$2 million prior period adjustment for the Housing and Community Development (HUD) Section 108 loan, less scheduled principal payments.
- The net decrease to business-type activity long-term debt of \$3.2 million was due to scheduled principal payments and amortization of related premiums.

Governmental Funds:

- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$7.5 million, or 53.6% of the General Fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, Continued

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

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 absences).

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, Continued

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

The City maintains thirty 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, Measure C 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 eight governmental funds are combined into a single, aggregated presentation.

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, Measure C 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 four 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 one proprietary fund is presented as a Non-Major Fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for 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 \$595.8 million at the close of the most recent fiscal year.

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 107,539,627	\$ 99,417,907	\$ 109,364,867	\$ 104,950,223	\$ 216,904,494	\$ 204,368,130
Capital assets	325,820,783	334,701,590	167,731,143	171,154,012	493,551,926	505,855,602
Total assets	433,360,410	434,119,497	277,096,010	276,104,235	710,456,420	710,223,732
Current liabilities	11,946,428	7,601,916	6,618,531	7,266,836	18,564,959	14,868,752
Noncurrent liabilities	40,223,056	34,509,556	55,850,439	57,824,066	96,073,495	92,333,622
Total liabilities	52,169,484	42,111,472	62,468,970	65,090,902	114,638,454	107,202,374
Net position:						
Net investment in capital assets	325,820,783	332,456,582	114,252,654	121,784,920	440,073,437	454,241,502
Restricted - restated	31,356,532	30,076,838	43,215,253	43,786,967	74,571,785	73,863,805
Unrestricted - restated	24,013,611	29,474,605	57,159,133	45,441,446	81,172,744	74,916,051
Total net position	\$ 381,190,926	\$ 392,008,025	\$ 214,627,040	\$ 211,013,333	\$ 595,817,966	\$ 603,021,358

The largest portion of the City's net position, 73.9%, reflects its investment in capital assets (e.g., land and improvements, construction in progress, buildings and structures, machinery and equipment, and improvements other than buildings, structures and land improvements), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Thirteen percent of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$81.2 million is the unrestricted net position. The Governmental Activities unrestricted net position of \$24 million includes \$7.3 million of funds that are unassigned. The Business-Type Activities restricted net position of \$43.2 million includes \$2.3 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	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	\$ 9,229,320	\$ 9,552,143	\$ 44,206,806	\$ 46,138,817	\$ 53,436,126	\$ 55,690,960
Operating grants and contributions	7,060,529	10,658,346	187,723	537,055	7,248,252	11,195,401
Capital grants and contributions	2,342,203	352,925	2,124	13,456	2,344,327	366,381
General revenues and transfers:						
Property taxes	12,599,009	12,220,004	38,138	39,278	12,637,147	12,259,282
Sales taxes	13,618,386	12,928,562			13,618,386	12,928,562
Franchise taxes	1,609,263	1,562,742			1,609,263	1,562,742
Transient occupancy tax	990,002	883,392			990,002	883,392
Business license tax	1,102,008	1,124,968			1,102,008	1,124,968
Cost recovery impact study	44,171	4,231			44,171	4,231
Business improvement area	71,473	75,220			71,473	75,220
Other	2,331,092	717,503	1,887,915	(676,429)	4,219,007	41,074
Total revenues	<u>50,997,456</u>	<u>50,080,036</u>	<u>46,322,706</u>	<u>46,052,177</u>	<u>97,320,162</u>	<u>96,132,213</u>
Expenses						
Governmental activities:						
General government	12,964,142	17,133,839			12,964,142	17,133,839
Public Safety	29,580,390	29,756,847			29,580,390	29,756,847
Public Works	20,229,487	18,040,611			20,229,487	18,040,611
Parks	2,054,063	1,909,409			2,054,063	1,909,409
Other	669,022	653,517			669,022	653,517
Business-type activities:						
Wastewater system			16,451,780	15,065,532	16,451,780	15,065,532
Water system			11,616,236	11,948,348	11,616,236	11,948,348
Refuse collection			12,888,440	12,235,483	12,888,440	12,235,483
Merced municipal airport			989,458	915,486	989,458	915,486
Parks and Community Services						
Total expenses	<u>65,497,104</u>	<u>67,494,223</u>	<u>41,945,914</u>	<u>40,164,849</u>	<u>107,443,018</u>	<u>107,659,072</u>
Increase (decrease) in net position before transfers	(14,499,648)	(17,414,187)	4,376,792	5,887,328	(10,122,856)	(11,526,859)
Transfers	763,085	806,577	(763,085)	(806,577)		
Increase (decrease) in net position	(13,736,563)	(16,607,610)	3,613,707	5,080,751	(10,122,856)	(11,526,859)
Net position beginning of year, as restated (Note 17)	<u>394,927,489</u>	<u>408,615,635</u>	<u>211,013,333</u>	<u>205,932,582</u>	<u>605,940,822</u>	<u>614,548,217</u>
Net position ending of year	<u>\$ 381,190,926</u>	<u>\$ 392,008,025</u>	<u>\$ 214,627,040</u>	<u>\$ 211,013,333</u>	<u>\$ 595,817,966</u>	<u>\$ 603,021,358</u>

Governmental Activities - Governmental Activities decreased the City's net position by \$13.7 million. Taxes provided 59% of the revenue and charges for services provided 18% of the revenue, and operating and capital grants and contributions provided 18% 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, 2014

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
General Government	\$ 12,964,142	\$ (10,590,308)
Public Safety	29,580,390	(25,850,811)
Public Works	20,229,487	(10,490,402)
Parks	2,054,063	735,491
Interest on Long-term Debt	669,022	(669,022)
Total	<u>\$ 65,497,104</u>	<u>\$ (46,865,052)</u>

The costs for all governmental activities during the year were \$65.4 million, which is 61% of total expenses. The costs were paid for by \$18.6 million of program revenues, \$30 million of taxes, \$3.1 million of interest and investment earnings, transfers and other revenues. The balance of \$13.7 million was covered by reserves or accumulated revenues.

Business-type Activities – Business-type activities increased the City's net position by \$3.6 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 and other revenue of \$46.3 million. Expenses of business-type activities were \$41.9 million. Transfers from the City's business-type activities were \$763,085.

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, 2014 of \$42.9 million, an increase of \$424,233. The net increase was due to transfers in and the sale of capital assets in excess of the 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 \$14.1 million and the unassigned fund balance was \$7.5 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 balanced decreased by \$1.4 million during the fiscal year. The decrease in the General Fund is attributable to one time expenditures, which included \$940,000 for public safety workers compensation claims, \$400,000 for the acquisition of a fire truck and \$100,000 of election costs for Charter amendments.

Sales tax and property tax are the primary revenues of the General Fund. Property tax increased 3% while Sales tax increased by 2%.

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

Housing Fund-

- This special revenue fund decreased by \$328,385 due to the use of accumulated program revenue.

Measure C Fund-

- This special revenue fund increased by \$403,315 primarily due to unspent capital project funding that will be carried over to fiscal year 2014-15.

Low and Moderate Income Housing Fund-

- This special revenue fund increased by \$63,013 due to repayment on loans.

Streets & Signals Fund-

- This capital projects fund decreased by \$335,567 due to capital outlay expenditures covered by carryover of funding from the Surface Transportation Program funds and Public Facilities Impact Fees.

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 \$4.3 million. The unrestricted net position of the Enterprise Funds were \$57 million. The total change in net position for the Governmental Activities Internal Service Funds and the Enterprise Funds were a decrease of \$1 million and an increase of \$3.6 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 \$623,161, which includes grants and service charges. The difference between the General Fund original expenditure budget and the final expenditure budget was an increase of \$1.7 million, which includes machinery and equipment 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, 2014, amounted to \$493.6 million. This investment in capital assets includes land and improvements, construction in progress, buildings and structures, machinery and equipment, and improvements other than buildings, structures, and land improvement. Additional information on the City of Merced's capital assets can be found in Note 6, Capital Assets.

CAPITAL ASSET AND DEBT ADMINISTRATION, Continued

Capital Assets

	Governmental		Business-type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Non-depreciable Assets:						
Land and improvements	\$ 88,017,809	\$ 88,198,854	\$ 2,163,106	\$ 2,020,776	\$ 90,180,915	\$ 90,219,630
Construction in progress	13,384,129	10,699,321	44,984,053	43,982,687	58,368,182	54,682,008
Total non-depreciable assets	101,401,938	98,898,175	47,147,159	46,003,463	148,549,097	144,901,638
Depreciable Assets:						
Building and structures	23,082,307	22,926,121	4,575,769	4,409,166	27,658,076	27,335,287
Machinery and equipment	34,707,665	34,374,948	3,603,877	3,129,670	38,311,542	37,504,618
Improvements other than buildings, structures and land improvements	111,943,768	111,842,526	144,356,521	143,477,843	256,300,289	255,320,369
Infrastructure	373,627,644	371,510,054	39,813,393	38,220,264	413,441,037	409,730,318
Accumulated depreciation	(318,942,539)	(304,850,234)	(71,765,576)	(64,086,394)	(390,708,115)	(368,936,628)
Total depreciable assets, net	224,418,845	235,803,415	120,583,984	125,150,549	345,002,829	360,953,964
Total capital assets	\$ 325,820,783	\$ 334,701,590	\$ 167,731,143	\$ 171,154,012	\$ 493,551,926	\$ 505,855,602

The change to capital assets over \$1 million during the current fiscal year included the following costs:

- Parks improvement to McNamara Park of \$2.3 million.

Long-term Debt – At the end of the current fiscal year, the City had \$68.1 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, 2014

	Governmental		Business-type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Pension obligation bonds	\$ 5,955,000	\$ 6,240,000	\$	\$	\$ 5,955,000	\$ 6,240,000
Loans payable	2,000,000		36,502,153	38,158,658	38,502,153	38,158,658
Capital Lease	6,630,193	6,909,882			6,630,193	6,909,882
Revenue bonds payable			15,690,000	16,850,000	15,690,000	16,850,000
Unamortized premiums			1,286,333	1,735,065	1,286,333	1,735,065
Total	\$ 14,585,193	\$ 13,149,882	\$ 53,478,486	\$ 56,743,723	\$ 68,063,679	\$ 69,893,605

During the current fiscal year, the City's net debt decreased by \$1.83 million or 2.6%. The net decrease included a reduction for scheduled principal payments and unamortized premium retirements of \$3.8 million and an addition of \$2 million to record a prior period adjustment for a Housing and Community Development (HUD) Section 108 loan. Additional information on the City of Merced's debt can be found in Note 8, Long-Term Debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- Economic indicators show potential for new growth. These indicators include, 1) University of California, Merced's (UCM) implementation of an Urban Land Institute study with the goal of reaching 10,000 students by 2020; 2) opening of the UCM/City of Merced Small Business Incubator and Accelerator; 3) resurgence of single-family and multi-family construction; and 4) reduction in the unemployment rate.
- Due to threatened litigation by the Mexican American Legal Defense and Education Fund the City Council placed a charter amendment on the November 2014 ballot to create City Council districts.
- The Enterprise Funds continue to maintain a stable financial position. A refuse rate study is in progress and is expected to be effective in January 2015. Water and Wastewater Master Plans are in the development stage. The Plans will provide direction for expansion to meet the needs of future growth.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Merced's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Officer, City of Merced, 678 West 18th Street, Merced, California 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, 2014

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current assets:			
Cash, cash equivalents and investments	\$ 53,051,058	\$ 99,058,071	\$ 152,109,129
Restricted cash held by fiscal agents	5		5
Receivables	11,375,477	10,070,544	21,446,021
Prepaid items	8,408		8,408
Inventory	278,205	204,356	482,561
Total current assets	64,713,153	109,332,971	174,046,124
Noncurrent assets:			
Land held for resale	3,496,822		3,496,822
Notes receivable	34,463,264	31,896	34,495,160
Net pension asset	4,866,388		4,866,388
Capital assets:			
Non-depreciable	101,401,938	47,147,159	148,549,097
Depreciable, net of accumulated depreciation	224,418,845	120,583,984	345,002,829
Total noncurrent assets	368,647,257	167,763,039	536,410,296
Total assets	433,360,410	277,096,010	710,456,420
LIABILITIES			
Current liabilities:			
Accounts payable	1,826,964	848,480	2,675,444
Payroll liabilities	808,694	221,293	1,029,987
Deposits and other liabilities	2,523,646	1,873,481	4,397,127
Unearned revenue	1,528,464	249,323	1,777,787
Accrued interest payable	129,350	471,846	601,196
Claims liability, due within one year	3,775,823		3,775,823
Compensated absences, due within one year	514,522	67,788	582,310
Long-term debt, due within one year	838,965	2,886,320	3,725,285
Total current liabilities	11,946,428	6,618,531	18,564,959
Noncurrent liabilities:			
Claims liability, due in more than one year	2,668,369		2,668,369
Compensated absences, due in more than one year	3,077,095	674,637	3,751,732
Long-term debt, due in more than one year	13,746,228	50,592,166	64,338,394
Net other postemployment benefits obligation	20,731,364	4,583,636	25,315,000
Total noncurrent liabilities	40,223,056	55,850,439	96,073,495
Total liabilities	52,169,484	62,468,970	114,638,454
NET POSITION			
Net investment in capital assets	325,820,783	114,252,654	440,073,437
Restricted for:			
Streets and street lights	3,006,791		3,006,791
Community development	9,425,899		9,425,899
Housing	7,398,159		7,398,159
Public safety	54,461		54,461
Special districts	2,607,674		2,607,674
Other special projects and programs	4,381,744	2,303,199	6,684,943
Debt service			
Capital projects	4,481,804	40,912,054	45,393,858
Unrestricted	24,013,611	57,159,133	81,172,744
Total net position	\$ 381,190,926	\$ 214,627,040	\$ 595,817,966

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, 2014**

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 12,964,142	\$ 1,109,687	\$ 1,260,149	\$ 3,998	\$ 2,373,834
Public safety	29,580,390	2,715,179	1,014,400		3,729,579
Public works	20,229,487	4,953,105	4,785,980		9,739,085
Culture and recreation	2,054,063	451,349		2,338,205	2,789,554
Interest on long-term debt	669,022				
Total governmental activities	65,497,104	9,229,320	7,060,529	2,342,203	18,632,052
Business-Type activities:					
Wastewater system	16,451,780	17,669,512		2,124	17,671,636
Water system	11,616,236	14,256,963			14,256,963
Refuse collection system	12,888,440	11,897,359	32,090		11,929,449
Merced municipal airport	989,458	382,972	155,633		538,605
Total business-type activities	41,945,914	44,206,806	187,723	2,124	44,396,653
Total government	\$ 107,443,018	\$ 53,436,126	\$ 7,248,252	\$ 2,344,327	\$ 63,028,705

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
\$ (10,590,308)	\$	\$ (10,590,308)
(25,850,811)		(25,850,811)
(10,490,402)		(10,490,402)
735,491		735,491
(669,022)		(669,022)
<u>(46,865,052)</u>		<u>(46,865,052)</u>
	1,219,856	1,219,856
	2,640,727	2,640,727
	(958,991)	(958,991)
	(450,853)	(450,853)
	<u>2,450,739</u>	<u>2,450,739</u>
<u>(46,865,052)</u>	<u>2,450,739</u>	<u>(44,414,313)</u>
12,599,009	38,138	12,637,147
13,618,386		13,618,386
1,609,263		1,609,263
990,002		990,002
1,102,008		1,102,008
71,473		71,473
44,171		44,171
<u>30,034,312</u>	<u>38,138</u>	<u>30,072,450</u>
1,107,659	1,804,776	2,912,435
1,223,433	83,139	1,306,572
763,085	(763,085)	
<u>33,128,489</u>	<u>1,162,968</u>	<u>34,291,457</u>
(13,736,563)	3,613,707	(10,122,856)
<u>394,927,489</u>	<u>211,013,333</u>	<u>605,940,822</u>
<u>\$ 381,190,926</u>	<u>\$ 214,627,040</u>	<u>\$ 595,817,966</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.

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

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. The Oversight Board has approved the conveyance of former Redevelopment Agency Housing Assets to the City of Merced as Housing Successor in accordance with California Health and Safety Code sections 34177 and 34181. To complete the transfer process, the Asset Transfer Review Report must be approved by the Department of Finance and a Due Diligence Review must be completed and approved pursuant to the Health and Safety Code sections 34179.6.

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, 2014

	General Fund	Housing	Measure C
ASSETS			
Cash, cash equivalents and investments	\$ 9,045,711	\$	\$ 572,797
Restricted cash held by fiscal agents	5		
Receivables:			
Accounts	674,543	369	17,825
Due from other governments	2,112,391	796,462	1,065,514
Interest	13,931	458,121	639
Due from other funds	2,438,622	509,112	
Inventory	52,338		
Land held for resale		744,693	
Notes receivable		19,823,017	
Advances to other funds	1,710,992		
Total assets	\$ 16,048,533	\$ 22,331,774	\$ 1,656,775
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 252,250	\$ 71,560	\$ 12,418
Payroll liabilities	490,129	9,265	99,389
Unearned revenue	853,522	619,236	
Due to other funds	359,112	470,542	
Advances from other funds			
Other liabilities	11,615	3,816	
Total liabilities	1,966,628	1,174,419	111,807
Deferred inflows of resources:			
Unavailable revenue		20,280,987	
Fund balances:			
Nonspendable	1,763,330		
Restricted	4,000,000	876,368	
Committed			1,544,968
Assigned	767,098		
Unassigned	7,551,477		
Total fund balances	14,081,905	876,368	1,544,968
Total liabilities, deferred inflows of resources and fund balances	\$ 16,048,533	\$ 22,331,774	\$ 1,656,775

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

Low and Moderate Income Housing	Streets & Signals	Non-Major Governmental Funds	Total
\$ 202,344	\$ 1,669,474	\$ 20,670,249	\$ 32,160,575
			5
277,570		964,947	1,935,254
	426,579	3,393,088	7,794,034
106,025	1,866	994,770	1,575,352
		125,492	3,073,226
			52,338
1,603,664		1,148,465	3,496,822
8,820,469		5,819,778	34,463,264
			1,710,992
<u>\$ 11,010,072</u>	<u>\$ 2,097,919</u>	<u>\$ 33,116,789</u>	<u>\$ 86,261,862</u>
\$	\$ 86,956	\$ 134,317	\$ 557,501
		112,033	710,816
		55,706	1,528,464
		2,252,962	3,082,616
		1,710,992	1,710,992
		2,504,584	2,520,015
	<u>86,956</u>	<u>6,770,594</u>	<u>10,110,404</u>
<u>7,773,872</u>		<u>5,141,863</u>	<u>33,196,722</u>
			1,763,330
3,236,200	2,010,963	21,233,001	31,356,532
		255,259	1,800,227
			767,098
		(283,928)	7,267,549
<u>3,236,200</u>	<u>2,010,963</u>	<u>21,204,332</u>	<u>42,954,736</u>
<u>\$ 11,010,072</u>	<u>\$ 2,097,919</u>	<u>\$ 33,116,789</u>	<u>\$ 86,261,862</u>

CITY OF MERCED

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

June 30, 2014

Total Fund Balances - Total Governmental Funds	\$ 42,954,736
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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	\$ 101,401,938	
Depreciable, net of accumulated depreciation and net of Internal Service Fund assets of \$7,119,858	216,692,408	318,094,346

The prepaid pension asset resulting from contributions in excess of the annual required contribution is not a financial resource and therefore not reported in the funds.	4,866,388
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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	(525,000)	
Long-term debt due in more than one year	(7,430,000)	
Net other postemployment health care benefits obligation, net of Internal Service Fund obligation of \$1,548,106	(18,842,062)	
Compensated absences, net of Internal Service Fund liability of \$347,874	(3,232,857)	(30,029,919)

Unavailable 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.	33,196,722
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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.	(29,057)
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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.	12,137,710
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Net position of governmental activities	\$ 381,190,926
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CITY OF MERCED

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2014

	General Fund	Housing	Measure C
REVENUES:			
Taxes	\$ 24,070,812	\$	\$ 5,453,218
Intergovernmental	576,624	1,237,731	74,360
Licenses and permits	25,376		
Use of money and property	245,090	5,815	6,468
Service charges	6,691,882	100,289	295,769
Fines, forfeitures and penalties	418,647		
Other	256,953	1,000	11,596
Total revenues	<u>32,285,384</u>	<u>1,344,835</u>	<u>5,841,411</u>
EXPENDITURES:			
Current operating:			
General government	5,218,967	1,717,047	
Public safety	23,236,318		5,433,383
Public works	1,536,917		3,172
Culture and recreation	1,141,493		
Total current operating	<u>31,133,695</u>	<u>1,717,047</u>	<u>5,436,555</u>
Capital outlay		513,714	1,813
Debt Service:			
Principal	285,000		
Interest	364,104		
Total expenditures	<u>31,782,799</u>	<u>2,230,761</u>	<u>5,438,368</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>502,585</u>	<u>(885,926)</u>	<u>403,043</u>
OTHER FINANCING SOURCES (USES):			
Sale of capital assets	2,857	639,821	
Transfers in	631,175		765
Transfers out	(2,550,274)	(82,280)	(493)
Total other financing sources (uses)	<u>(1,916,242)</u>	<u>557,541</u>	<u>272</u>
NET CHANGE IN FUND BALANCES	(1,413,657)	(328,385)	403,315
FUND BALANCES:			
Beginning of year, restated	15,495,562	1,204,753	1,141,653
End of year	<u>\$ 14,081,905</u>	<u>\$ 876,368</u>	<u>\$ 1,544,968</u>

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

Low and Moderate Income Housing	Streets & Signals	Non-Major Governmental Funds	Total
\$ 46,382	\$ 1,299,273	\$ 510,282	\$ 30,034,312
		6,080,542	9,314,912
		499,061	524,437
17,417	32,850	631,083	938,723
		6,101,639	13,189,579
		43,116	461,763
		20,373	289,922
<u>63,799</u>	<u>1,332,123</u>	<u>13,886,096</u>	<u>54,753,648</u>
786		3,214,286	10,151,086
		1,159,473	29,829,174
		5,441,506	6,981,595
		106	1,141,599
<u>786</u>	<u>3,119,755</u>	<u>9,815,371</u>	<u>48,103,454</u>
		2,524,332	6,159,614
			285,000
			364,104
<u>786</u>	<u>3,119,755</u>	<u>12,339,703</u>	<u>54,912,172</u>
<u>63,013</u>	<u>(1,787,632)</u>	<u>1,546,393</u>	<u>(158,524)</u>
		1,187,614	1,830,292
	1,537,626	4,139,609	6,309,175
	(85,561)	(4,838,102)	(7,556,710)
	<u>1,452,065</u>	<u>489,121</u>	<u>582,757</u>
63,013	(335,567)	2,035,514	424,233
3,173,187	2,346,530	19,168,818	42,530,503
<u>\$ 3,236,200</u>	<u>\$ 2,010,963</u>	<u>\$ 21,204,332</u>	<u>\$ 42,954,736</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, 2014

Net Change in Fund Balances - Total Governmental Funds	\$ 424,233
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.	5,555,295
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 \$1,693,739.	(14,398,572)
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.	(627,793)
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 unavailable revenues in the governmental funds.	65,779
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	285,000
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.	(165,102)
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.	(3,524,545)
Change in prepaid pension asset	(315,483)
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.	1,284
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.	<u>(1,036,659)</u>
Change in Net Position of Governmental Activities	<u>\$ (13,736,563)</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, 2014

	Business-type Activities Major Enterprise Funds		
	Wastewater System	Water System	Refuse Collection System
ASSETS			
Current assets:			
Cash, cash equivalents and investments	\$ 35,016,558	\$ 58,123,377	\$ 5,829,368
Cash held by fiscal agents			
Accounts receivable, net	1,551,944	972,532	90,103
Due from other governments	3,697,852	3,550,873	21,293
Interest receivable	39,146	64,977	6,531
Prepaid items			
Due from other funds			
Inventory		204,356	
Total current assets	<u>40,305,500</u>	<u>62,916,115</u>	<u>5,947,295</u>
Noncurrent assets:			
Notes receivable-private parties	25,562	6,334	
Advances to other funds		214,691	
Deferred charges			
Capital assets:			
Non-depreciable	44,551,102	2,068,429	79,076
Depreciable, net of accumulated depreciation	67,809,361	32,920,347	13,841,519
Total noncurrent assets	<u>112,386,025</u>	<u>35,209,801</u>	<u>13,920,595</u>
Total assets	<u>152,691,525</u>	<u>98,125,916</u>	<u>19,867,890</u>
LIABILITIES			
Current liabilities:			
Accounts payable	308,652	253,324	276,594
Payroll payable	75,596	54,326	85,312
Unearned revenue	99,729	77,290	72,304
Accrued interest payable	383,022	88,824	
Deposits and other liabilities	1,148,371	438,619	250,356
Compensated absences, due within one year	25,222	15,283	26,356
Claims payable, due within one year			
Long-term debt, due within one year	2,423,320	463,000	
Total current liabilities	<u>4,463,912</u>	<u>1,390,666</u>	<u>710,922</u>
Noncurrent liabilities:			
Advances from other funds			
Compensated absences, due in more than one year	211,996	220,398	224,636
Claims payable, due in more than one year			
Long-term debt, due in more than one year	42,410,092	8,182,074	
Net other postemployment benefits obligation	1,680,370	1,167,955	1,559,050
Total noncurrent liabilities	<u>44,302,458</u>	<u>9,570,427</u>	<u>1,783,686</u>
Total liabilities	<u>48,766,370</u>	<u>10,961,093</u>	<u>2,494,608</u>
NET POSITION			
Net investment in capital assets	67,527,049	26,343,701	13,920,595
Restricted:			
Other special projects and programs	1,462,294	840,905	
Debt service			
Capital projects	7,780,032	32,886,601	245,421
Unrestricted	27,155,780	27,093,616	3,207,266
Total net position	<u>\$ 103,925,155</u>	<u>\$ 87,164,823</u>	<u>\$ 17,373,282</u>

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

Business-type Activities	Total Enterprise Funds	Governmental Activities Internal Service Funds
\$ 88,768	\$ 99,058,071	\$ 20,890,483
3,513	2,618,092	47,030
71,680	7,341,698	455
100	110,754	23,352
		8,408
		9,390
	204,356	225,867
<u>164,061</u>	<u>109,332,971</u>	<u>21,204,985</u>
	31,896	
	214,691	
448,552	47,147,159	
<u>6,012,757</u>	<u>120,583,984</u>	<u>7,726,437</u>
<u>6,461,309</u>	<u>167,977,730</u>	<u>7,726,437</u>
<u>6,625,370</u>	<u>277,310,701</u>	<u>28,931,422</u>
9,910	848,480	1,269,463
6,059	221,293	97,878
	249,323	
	471,846	100,293
36,135	1,873,481	3,631
927	67,788	22,813
		3,775,823
	2,886,320	313,965
<u>53,031</u>	<u>6,618,531</u>	<u>5,583,866</u>
214,691	214,691	
17,607	674,637	335,947
		2,668,369
	50,592,166	6,316,228
<u>176,261</u>	<u>4,583,636</u>	<u>1,889,302</u>
<u>408,559</u>	<u>56,065,130</u>	<u>11,209,846</u>
<u>461,590</u>	<u>62,683,661</u>	<u>16,793,712</u>
6,461,309	114,252,654	7,726,437
	2,303,199	
		112,819
	40,912,054	
(297,529)	57,159,133	4,298,454
<u>\$ 6,163,780</u>	<u>\$ 214,627,040</u>	<u>\$ 12,137,710</u>

CITY OF MERCED
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2014

	Business-type Activities Major Enterprise Funds		
	Wastewater System	Water System	Refuse Collection System
OPERATING REVENUES			
Charges for services	\$ 16,883,184	\$ 14,252,866	\$ 11,839,258
Other revenues	786,328	4,097	58,101
Total operating revenues	<u>17,669,512</u>	<u>14,256,963</u>	<u>11,897,359</u>
OPERATING EXPENSES			
Personnel services	4,170,505	2,754,279	4,266,692
Materials, supplies and other services	7,137,518	6,199,281	7,751,728
Depreciation	4,252,732	2,363,937	870,020
Total operating expenses	<u>15,560,755</u>	<u>11,317,497</u>	<u>12,888,440</u>
OPERATING INCOME (LOSS)	<u>2,108,757</u>	<u>2,939,466</u>	<u>(991,081)</u>
NONOPERATING REVENUES (EXPENSES):			
Property taxes			
Intergovernmental revenues			32,090
Interest and investment earnings	595,776	989,012	112,947
Gain (loss) on disposition of capital assets	7,457	44,604	31,078
Interest and related expenses	(891,025)	(298,739)	
Total nonoperating revenues (expenses)	<u>(287,792)</u>	<u>734,877</u>	<u>176,115</u>
INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	<u>1,820,965</u>	<u>3,674,343</u>	<u>(814,966)</u>
TRANSFERS AND CAPITAL CONTRIBUTIONS			
Capital contributions	2,124		
Transfers in		51,629	
Transfers out	(12,902)	(17,430)	(857,487)
Total transfers and capital contributions	<u>(10,778)</u>	<u>34,199</u>	<u>(857,487)</u>
CHANGE IN NET POSITION	1,810,187	3,708,542	(1,672,453)
NET POSITION:			
Beginning of year	102,114,968	83,456,281	19,045,735
End of year	<u>\$ 103,925,155</u>	<u>\$ 87,164,823</u>	<u>\$ 17,373,282</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
\$ 374,825	\$ 43,350,133	\$ 22,041,049
8,147	856,673	220,976
<u>382,972</u>	<u>44,206,806</u>	<u>22,262,025</u>
342,607	11,534,083	5,164,735
208,124	21,296,651	18,627,157
424,061	7,910,750	1,693,739
<u>974,792</u>	<u>40,741,484</u>	<u>25,485,631</u>
<u>(591,820)</u>	<u>3,465,322</u>	<u>(3,223,606)</u>
38,138	38,138	
155,633	187,723	1,375
107,041	1,804,776	460,220
	83,139	20,934
<u>(14,666)</u>	<u>(1,204,430)</u>	<u>(306,202)</u>
<u>286,146</u>	<u>909,346</u>	<u>176,327</u>
<u>(305,674)</u>	<u>4,374,668</u>	<u>(3,047,279)</u>
	2,124	
82,998	134,627	2,375,131
<u>(9,893)</u>	<u>(897,712)</u>	<u>(364,511)</u>
<u>73,105</u>	<u>(760,961)</u>	<u>2,010,620</u>
<u>(232,569)</u>	<u>3,613,707</u>	<u>(1,036,659)</u>
6,396,349	211,013,333	13,174,369
<u>\$ 6,163,780</u>	<u>\$ 214,627,040</u>	<u>\$ 12,137,710</u>

CITY OF MERCED
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

	Business-type Activities Major Enterprise Funds		
	Wastewater System	Water System	Refuse Collection System
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers, including cash deposits	\$ 18,024,507	\$ 14,529,788	\$ 11,900,691
Cash paid to suppliers	(6,317,861)	(5,910,125)	(7,800,976)
Cash paid to employees	(3,717,685)	(2,556,550)	(3,772,612)
Net cash provided (used) by operating activities	7,988,961	6,063,113	327,103
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Advances to other funds		144,278	
Advances from other funds			
Due from other funds			
Other liabilities	77	(24,000)	
Receivables		(6,334)	
Tax proceeds not attributable to capital			
Transfers from other funds		51,629	
Transfers to other funds	(12,902)	(17,430)	(857,487)
Net cash provided (used) by noncapital financing activities	(12,825)	148,143	(857,487)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(2,527,530)	(1,625,962)	(201,012)
Proceeds of capital contributions	2,124		32,090
Payment of long-term debt	(2,375,757)	(440,749)	
Interest payments	(1,075,614)	(373,044)	
Proceeds from disposal of equipment	11,675	45,945	31,078
Net cash provided (used) by capital and related financing activities	(5,965,102)	(2,393,810)	(137,844)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment earnings	607,168	1,007,163	116,420
Net cash provided (used) by investing activities	607,168	1,007,163	116,420
Net Increase (Decrease) in Cash and Cash Equivalents	2,618,202	4,824,609	(551,808)
Cash and cash equivalents at beginning of year	32,398,356	53,298,768	6,381,176
Cash and cash equivalents at end of year	\$ 35,016,558	\$ 58,123,377	\$ 5,829,368

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
\$ 374,881	\$ 44,829,867	\$ 22,278,085
(208,936)	(20,237,898)	(15,968,036)
(303,959)	(10,350,806)	(4,797,821)
(138,014)	14,241,163	1,512,228
	144,278	
(144,278)	(144,278)	
		(5,741)
	(23,923)	
	(6,334)	
38,138	38,138	
82,998	134,627	2,375,131
(9,893)	(897,712)	(364,511)
(33,035)	(755,204)	2,004,879
(138,936)	(4,493,440)	(2,303,243)
155,633	189,847	1,375
	(2,816,506)	
(14,666)	(1,463,324)	(310,432)
	88,698	40,175
2,031	(8,494,725)	(2,572,125)
107,143	1,837,894	467,248
107,143	1,837,894	467,248
(61,875)	6,829,128	1,412,230
150,643	92,228,943	19,478,253
\$ 88,768	\$ 99,058,071	\$ 20,890,483

CITY OF MERCED
Statement of Cash Flows (continued)
Proprietary Funds
For the Year Ended June 30, 2014

	Business-type Activities Major Enterprise Funds		
	Wastewater System	Water System	Refuse Collection System
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 2,108,757	\$ 2,939,466	\$ (991,081)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	4,252,732	2,363,937	870,020
Other noncash activities	1,266,691	306,593	
Changes in assets, deferred inflows and liabilities:			
Receivables	359,552	266,353	1,846
Inventory		(15,192)	
Prepaid expenses			
Accounts payable	(458,399)	(18,434)	(58,433)
Payroll liabilities	13,016	7,164	20,653
Deposits	11,479	16,189	9,185
Unearned revenues	(4,557)	6,472	1,486
Other liabilities	(114)		
Insurance claims			
Long-term liabilities			
Compensated absences	33,866	(3,479)	37,806
Net other postemployment benefits obligation	405,938	194,044	435,621
Total adjustments	5,880,204	3,123,647	1,318,184
Net Cash Provided (Used) By Operating Activities	\$ 7,988,961	\$ 6,063,113	\$ 327,103

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
\$ (591,820)	\$ 3,465,322	\$ (3,223,606)
424,061	7,910,750 1,573,284	1,693,739
(8,091)	619,660 (15,192)	16,060 (81,262) (4,288)
2,573	(532,693)	1,125,664
770	41,603	14,832
(6,202)	30,651	
	3,401	
2,817	2,703	(15,433)
		1,914,129 (279,689)
3,222	71,415	10,886
<u>34,656</u>	<u>1,070,259</u>	<u>341,196</u>
<u>453,806</u>	<u>10,775,841</u>	<u>4,735,834</u>
<u>\$ (138,014)</u>	<u>\$ 14,241,163</u>	<u>\$ 1,512,228</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, 2014

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash, cash equivalents and investments	\$ 346,926	\$ 2,491,755
Restricted cash held by fiscal agent		2,870,385
Receivables	388	160,221
Deposits		203,132
Total assets	347,314	5,725,493
LIABILITIES		
Accounts payable	148,803	
Deposits		1,409,722
Other liabilities		204,384
Due to bondholders		4,111,387
Total liabilities	148,803	\$ 5,725,493
NET POSITION		
Held in trust for other purposes	198,511	
Total net position	\$ 198,511	

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, 2014

	Private Purpose Trust Funds
ADDITIONS:	
Investment earnings	\$ 8,199
Miscellaneous	325,460
Total Additions	<u>333,659</u>
DEDUCTIONS:	
General government	<u>331,881</u>
Net Change	1,778
NET POSITION HELD IN TRUST FOR OTHER PURPOSES:	
Beginning of year	<u>196,734</u>
End of year	<u><u>\$ 198,511</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, 2014

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, 2014

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, 2014

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, except when property changes ownership or new construction occurs.

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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

The 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 was 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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

Certain eliminations have been made as prescribed by GASB Statement No. 34 for interfund activities, payables and receivables. All internal balances in the Statement of Net 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. Net Position and Fund Equity Flow Assumptions

Government-Wide Financial Statements

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

Fund Financial Statements

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

E. 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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Cash, Cash Equivalents, and Investments

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

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

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

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

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.

G. 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.

H. 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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Interfund Balances/Internal Balances, Continued

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

I. 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.

J. 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.

K. 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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Capital Assets, Continued

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

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

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

L. 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.

M. 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.

N. 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, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

O. 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 10.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

P. Use of Estimates

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

Q. 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. 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.

R. New Accounting Pronouncements - Future Years

Governmental 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, 2014, the carrying amount of the City's cash and cash equivalents were comprised of the general checking account which had a balance of \$39,173 and petty cash of \$4,323. Bank balance in the City's general checking account was \$1,215,304 and was fully insured and collateralized with securities held by the pledging financial institutions in the City's name as discussed below. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

2. CASH AND INVESTMENTS, Continued

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, 2014:

	Government-Wide Statement of Net Position			Fund Financials	
	Governmental Activities	Business-Type Activities	Total	Fiduciary Funds Statement of Net Position	Total
Cash and Investments	<u>\$ 53,051,058</u>	<u>\$ 99,058,071</u>	<u>\$ 152,109,129</u>	<u>\$ 2,838,681</u>	<u>\$ 154,947,810</u>
Restricted Cash held by fiscal agent	<u>\$ 5</u>	<u>\$</u>	<u>\$ 5</u>	<u>\$ 2,870,385</u>	<u>\$ 2,870,390</u>

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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

2. CASH AND INVESTMENTS, Continued

D. Risks, Continued

Pooled cash and investments, including cash with fiscal agents, held in the City by maturity date at June 30, 2014 are shown below:

Investment Type	Total	Investment Maturities (in years)	
		Less than 1 year	More than 1 year less than 5 years
Cash:			
Cash Deposits	\$ 39,173	\$ 39,173	\$
Petty Cash	4,323	4,323	
Total cash:	43,496	43,496	
Investments:			
Money Market Fund	5,273,886	5,273,886	
U.S. Government Agency Securities	123,499,634	10,014,063	113,485,571
Local Agency Investment Fund (LAIF)	26,130,794	26,130,794	
Total investments	154,904,314	41,418,743	113,485,571
Total cash and investments	\$ 154,947,810	\$ 41,462,239	\$ 113,485,571
Restricted Cash with Fiscal Agents:			
Commercial Paper	\$ 1,576,048	\$ 1,576,048	\$
Public Investment Money Market Fund	206,162	206,162	
Local Agency Investment Fund	1,086,793	1,086,793	
Money Market Funds	5	5	
Treasury Obligation Fund	1,382	1,382	
Total restricted cash with fiscal agents	\$ 2,870,390	\$ 2,870,390	\$

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, 2014 rating which meets the minimum rating required by (where applicable) the California Government Code, the City's Investment Policy, or debt agreements:

Credit Quality Ratings	
Investments:	
Money Market Fund	AAA
U.S. Government Agency Securities	AA+
Local Agency Investment Fund	Not rated
Fiscal Agents:	
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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

2. CASH AND INVESTMENTS, Continued

D. Risks, Continued

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

Issuer	Investment Type	Reported Amount
Federal Home Loan Mortgage Corporation Notes	U.S. Government Agency Securities	\$ 24,968,300
Federal National Mortgage Association	U.S. Government Agency Securities	59,875,450
Federal Home Loan Bank	U.S. Government Agency Securities	33,655,884
Federal Farm Credit	U.S. Government Agency Securities	5,000,000

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. If material, the City adjusts the carrying value of its investments to reflect their fair value at each fiscal year-end and the effects of these adjustments are included in income for that fiscal year. The fiscal year June 30, 2014 adjustment was immaterial and therefore was not reflected on the financial statements. The unrecorded fair market value adjustment for the fiscal year ended June 30, 2014 was \$10,894.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

2. CASH AND INVESTMENTS, Continued

F. Investments in Local Agency Investment Fund

The City's investments with LAIF at June 30, 2014, 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, 2014, the City had \$26,130,794 invested in LAIF, which had invested 1.86% of the pooled investment funds in Medium-term and Short-term Structured Notes and Asset-Backed Securities as compared to 1.96% in the previous year. The LAIF fair value factor of 1.0002985750 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, 2014, cash and investments with fiscal agents totaled \$2,870,390.

3. RECEIVABLES

A. Government Wide Financial Statements

At June 30, 2014, the Government-Wide Financial Statements reported the following receivables net of allowances for uncollectible amounts:

	Governmental Activities	Business-Type Activities	Total
	<u> </u>	<u> </u>	<u> </u>
Accounts receivable	\$ 1,982,284	\$ 2,618,092	\$ 4,600,376
Due from other governments	7,794,489	7,341,698	15,136,187
Interest receivable	1,598,704	110,754	1,709,458
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 11,375,477</u>	<u>\$ 10,070,544</u>	<u>\$ 21,446,021</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

3. RECEIVABLES, Continued

B. Fund Financial Statements

At June 30, 2014, the fund financial statements show the following receivables:

	Governmental Funds	Enterprise Funds	Internal Service Funds	Total
Accounts receivable	\$ 1,935,254	\$ 2,618,092	\$ 47,030	\$ 4,600,376
Due from other governments	7,794,034	7,341,698	455	15,136,187
Interest receivable	1,575,352	110,754	23,352	1,709,458
Total	\$ 11,304,640	\$ 10,070,544	\$ 70,837	\$ 21,446,021

Accounts Receivable

Accounts receivable consists of amounts accrued in the ordinary course of operations. The accounts receivable as of June 30, 2014, was as follows:

	Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
<i>Governmental Funds:</i>			
General Fund	\$ 2,756,870	\$ (2,082,327)	\$ 674,543
Housing	369		369
Measure C	17,825		17,825
Low and Moderate Income Housing	278,395	(825)	277,570
Non-Major Funds	975,485	(10,538)	964,947
Total governmental funds	4,028,944	(2,093,690)	1,935,254
<i>Enterprise Funds:</i>			
Wastewater System	1,644,862	(92,918)	1,551,944
Water System	1,064,744	(92,212)	972,532
Refuse Collection System	163,510	(73,407)	90,103
Non-Major Funds	7,547	(4,034)	3,513
Total enterprise funds	2,880,663	(262,571)	2,618,092
<i>Internal Service Funds</i>	208,468	(161,438)	47,030
Total Accounts Receivable	\$ 7,118,075	\$ (2,517,699)	\$ 4,600,376

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

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, 2014, was as follows:

<i>Governmental Funds:</i>	
General Fund	\$ 2,112,391
Housing	796,462
Measure C	1,065,514
Streets & Signals	426,579
Non-Major Funds	3,393,088
Total governmental funds	<u>7,794,034</u>
<i>Enterprise Funds:</i>	
Wastewater System	3,697,852
Water System	3,550,873
Refuse Collection System	21,293
Non-Major Funds	71,680
Total enterprise funds	<u>7,341,698</u>
<i>Internal Services Fund</i>	<u>455</u>
Total Due from Other Governments	<u><u>\$ 15,136,187</u></u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

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, 2014, was as follows:

<i>Governmental Funds:</i>	
General Fund	\$ 13,931
Housing	458,121
Measure C	639
Low and Moderate Income Housing	106,025
Streets & Signals	1,866
Non-Major Funds	994,770
	<hr/>
Total governmental funds	1,575,352
	<hr/>
<i>Enterprise Funds:</i>	
Wastewater System	39,146
Water System	64,977
Refuse Collection System	6,531
Non-Major Funds	100
	<hr/>
Total enterprise funds	110,754
	<hr/>
<i>Internal Services Fund</i>	23,352
	<hr/>
Total Interest Receivable	\$ 1,709,458
	<hr/> <hr/>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

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, 2014, unearned revenues in the Government-Wide Financial Statements were as follows:

	Governmental Activities	Business-Type Activities	Total
Prepaid business license fees	\$ 891,882	\$	\$ 891,882
Grants	636,582		636,582
Service charges received in advance		249,323	249,323
	<u>\$ 1,528,464</u>	<u>\$ 249,323</u>	<u>\$ 1,777,787</u>

B. Fund Financial Statements

At June 30, 2014, the following unearned revenues were recorded in the Fund Financial Statements because the revenues had not been earned:

<i>Governmental Funds:</i>	General	Housing	Non-Major Funds	Total
Prepaid business license fees	\$ 840,186	\$	\$ 51,696	\$ 891,882
Grants	13,336	619,236	4,010	636,582
Total	<u>\$ 853,522</u>	<u>\$ 619,236</u>	<u>\$ 55,706</u>	<u>\$ 1,528,464</u>

<i>Enterprise Funds:</i>	Wastewater System	Water System	Refuse Collection System	Total
Service charges received in advance	\$ 99,729	\$ 77,290	\$ 72,304	\$ 249,323
Total	<u>\$ 99,729</u>	<u>\$ 77,290</u>	<u>\$ 72,304</u>	<u>\$ 249,323</u>

At June 30, 2014, the following unavailable revenues were recorded in the Fund Financial Statements because the funds were not available to finance expenditures of the current period:

<i>Governmental Funds:</i>	Housing	Low and Moderate Income Housing	Non-Major Funds	Total
Long-term loans receivable	\$ 20,280,987	\$ 7,773,872	\$ 5,141,863	\$ 33,196,722
Total	<u>\$ 20,280,987</u>	<u>\$ 7,773,872</u>	<u>\$ 5,141,863</u>	<u>\$ 33,196,722</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

5. INTERFUND TRANSACTIONS

A. Fund Financial Statements

Due To, Due From

At June 30, 2014, the City had the following short-term interfund receivables and payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Governmental Activities</u>
General Fund	Housing	\$ 470,542
General Fund	Non-Major Governmental Funds	1,968,080
Housing	General Fund	359,112
Housing	Non-Major Governmental Funds	150,000
Non-Major Governmental Funds	Non-Major Governmental Funds	125,492
		<u>\$ 3,073,226</u>
<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Internal Service</u>
Internal Service-Fleet Management	Non-Major Governmental Funds	\$ 9,390
		<u>9,390</u>

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

Long-Term Advances

At June 30, 2014, the City had the following interfund long-term advances:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Governmental Activities</u>
General Fund	Non-Major Governmental Funds	\$ 1,710,992
		<u>1,710,992</u>
<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Business-Type Activities</u>
Water System	Non-Major Enterprise Fund	\$ 214,691
		<u>214,691</u>

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, 2014 is \$1,710,992.

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 over ten years at a rate of 6.210% with monthly payments of \$4,495. Advance balance as of June 30, 2014 is \$214,691.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

5. INTERFUND TRANSACTIONS, Continued

A. Fund Financial Statements, Continued

Interfund Transfers

The composition of interfund transfers for the year ended June 30, 2014 is as follows:

	Transfers In:							Total
	Governmental Funds			Enterprise Funds				
Transfers Out:	General Fund	Measure C	Streets & Signals	Non-Major Governmental Funds	Water System	Non-Major Enterprise Funds	Internal Service	
Governmental Funds:								
General Fund	\$	\$	\$	\$ 994,356	\$	\$ 69,368	\$ 1,486,550	\$ 2,550,274
Housing	8,140			74,140				82,280
Measure C							493	493
Streets & Signals				85,561				85,561
Non-Major Governmental Funds	568,190	765	1,537,626	2,334,436		13,630	383,455	4,838,102
Enterprise Funds:								
Wastewater System					12,902			12,902
Water System	15,887			1,543				17,430
Refuse Collection System				640,008			217,479	857,487
Non-Major Enterprise Funds				714			9,179	9,893
Internal Service	38,958			8,851	38,727		277,975	364,511
Total	\$ 631,175	\$ 765	\$ 1,537,626	\$ 4,139,609	\$ 51,629	\$ 82,998	\$ 2,375,131	\$ 8,818,933

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

Furthermore, during the year ended June 30, 2014, the City made the following one-time transfers from the General Fund to the Internal Service Funds:

- 1) A transfer of \$940,000 for Public Safety Workers Compensation claims settlements.
- 2) A transfer of \$400,000 to purchase a Fire truck.
- 3) A transfer of \$70,000 to fund the cost of labor negotiations.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

6. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2014, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
<i>Non-depreciable Assets:</i>			
Land and improvements	\$ 88,017,809	\$ 2,163,106	\$ 90,180,915
Construction in process	13,384,129	44,984,053	58,368,182
Total non-depreciable assets	101,401,938	47,147,159	148,549,097
<i>Depreciable Assets:</i>			
Buildings and structures	23,082,307	4,575,769	27,658,076
Machinery and equipment	34,707,665	3,603,877	38,311,542
Improvements other than buildings, structures, and land improvements	111,943,768	144,356,521	256,300,289
Infrastructure	373,627,644	39,813,393	413,441,037
<i>Total depreciable Assets:</i>	543,361,384	192,349,560	735,710,944
Less accumulated depreciation	(318,942,539)	(71,765,576)	(390,708,115)
Total depreciable assets, net	224,418,845	120,583,984	345,002,829
Total Capital Assets	\$ 325,820,783	\$ 167,731,143	\$ 493,551,926

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

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

	Balance July 1, 2013	Additions	Deletions	Reclassification	Balance June 30, 2014
<i>Non-depreciable Assets:</i>					
Land and improvements	\$ 88,198,854	\$ 431,371	\$ (624,816)	\$ 12,400	\$ 88,017,809
Construction in progress	10,699,321	4,916,040		(2,231,232)	13,384,129
Total non-depreciable assets	98,898,175	5,347,411	(624,816)	(2,218,832)	101,401,938
<i>Depreciable Assets:</i>					
Buildings and structures	22,926,121	156,186			23,082,307
Machinery and equipment	34,374,948	2,354,939	(2,022,222)		34,707,665
Improvements other than buildings, structures, and land improvements	111,842,526			101,242	111,943,768
Infrastructure	371,510,054			2,117,590	373,627,644
Total depreciable assets	540,653,649	2,511,125	(2,022,222)	2,218,832	543,361,384
<i>Accumulated depreciation:</i>					
Buildings and structures	(7,698,432)	(634,251)			(8,332,683)
Machinery and equipment	(30,194,098)	(1,633,423)	2,000,007		(29,827,514)
Improvements other than buildings, structures, and land improvements	(51,535,237)	(4,395,546)			(55,930,783)
Infrastructure	(215,422,467)	(9,429,092)			(224,851,559)
Total accumulated depreciation	(304,850,234)	(16,092,312)	2,000,007		(318,942,539)
Total depreciable assets, net	235,803,415	(13,581,187)	(22,215)	2,218,832	224,418,845
Total governmental activities, net	\$ 334,701,590	\$ (8,233,776)	\$ (647,031)	\$	\$ 325,820,783

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Governmental activities depreciation expense for capital assets for the year ended June 30, 2014 was as follows:

General Government	\$ 1,580,819
Public Safety	575,740
Public Works	13,112,015
Parks	823,738
	<hr/>
Total depreciation expense	<u><u>\$ 16,092,312</u></u>

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

	Balance July 1, 2013	Additions	Deletions	Reclassification	Balance June 30, 2014
<i>Non-depreciable Assets:</i>					
Land and improvements	\$ 2,020,776	\$ 142,330	\$	\$	\$ 2,163,106
Construction in progress	43,982,687	3,643,917	(4,141)	(2,638,410)	44,984,053
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total non-depreciable assets	46,003,463	3,786,247	(4,141)	(2,638,410)	47,147,159
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciable Assets:</i>					
Buildings and structures	4,409,166			166,603	4,575,769
Machinery and equipment	3,129,670	707,192	(232,985)		3,603,877
Improvements other than buildings, structures, and land improvements	143,477,843			878,678	144,356,521
Infrastructure	38,220,264			1,593,129	39,813,393
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total depreciable assets	189,236,943	707,192	(232,985)	2,638,410	192,349,560
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Accumulated depreciation:</i>					
Buildings and structures	(2,647,214)	(103,198)			(2,750,412)
Machinery and equipment	(2,711,438)	(190,964)	231,568		(2,670,834)
Improvements other than buildings, structures, and land improvements	(49,559,437)	(6,501,345)			(56,060,782)
Infrastructure	(9,168,305)	(1,115,243)			(10,283,548)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total accumulated depreciation	(64,086,394)	(7,910,750)	231,568		(71,765,576)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total depreciable assets, net	125,150,549	(7,203,558)	(1,417)	2,638,410	120,583,984
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total business-type activities	<u><u>\$ 171,154,012</u></u>	<u><u>\$ (3,417,311)</u></u>	<u><u>\$ (5,558)</u></u>	<u><u>\$</u></u>	<u><u>\$ 167,731,143</u></u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Business-type activities depreciation expense for capital assets for the year ended June 30, 2014 was as follows:

Wastewater System Fund	\$ 4,252,732
Water System Fund	2,363,937
Refuse Collection System	870,020
Non-Major Funds	<u>424,061</u>
Total depreciation expense	<u><u>\$ 7,910,750</u></u>

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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

7. 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, 2014, were as follows:

A. Government-Wide Financial Statements

	Governmental Activities	Business-Type Activities	Total
Developers Credits	\$ 2,451,848	\$ 842,791	\$ 3,294,639
Deposits	3,631	1,004,298	1,007,929
Miscellaneous Liabilities	68,167	26,392	94,559
Total	<u><u>\$ 2,523,646</u></u>	<u><u>\$ 1,873,481</u></u>	<u><u>\$ 4,397,127</u></u>

B. Fund Financial Statements

	Developers Credits	Deposits	Miscellaneous Liabilities	Total Other Liabilities
<i>Governmental Funds:</i>				
General Fund	\$	\$	\$ 11,615	\$ 11,615
Housing			3,816	3,816
Non-Major Funds	2,451,848		52,736	2,504,584
Total governmental funds	<u>2,451,848</u>		<u>68,167</u>	<u>2,520,015</u>
<i>Business-Type Activities:</i>				
Wastewater System	842,791	305,503	77	1,148,371
Water System		431,771	6,848	438,619
Refuse Collection System		250,356		250,356
Non-Major Funds		16,668	19,467	36,135
Total business-type activities	<u>842,791</u>	<u>1,004,298</u>	<u>26,392</u>	<u>1,873,481</u>
<i>Internal Services Funds</i>		3,631		3,631
Total	<u><u>\$ 3,294,639</u></u>	<u><u>\$ 1,007,929</u></u>	<u><u>\$ 94,559</u></u>	<u><u>\$ 4,397,127</u></u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

8. LONG-TERM DEBT

A. Government-Wide Financial Statements

Governmental Activities

Following is a summary of governmental activity long-term debt transactions during the fiscal year ended June 30, 2014:

	Balance July 1, 2013	Adjustment	Balance July 1, 2013 Restated	Retirements	Balance June 30, 2014	Due Within One Year	Due in More than One Year
Pension Obligation Bonds	\$ 6,240,000	\$	\$ 6,240,000	\$ (285,000)	\$ 5,955,000	\$ 325,000	\$ 5,630,000
Loans Payable		2,000,000	2,000,000		2,000,000	200,000	1,800,000
Capital Lease	6,909,882		6,909,882	(279,689)	6,630,193	313,965	6,316,228
Total	\$ 13,149,882	\$ 2,000,000	\$ 15,149,882	\$ (564,689)	\$ 14,585,193	\$ 838,965	\$13,746,228

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, 2014, the net pension asset was \$4,866,388. Additional information about the net pension asset can be found in Note 13, 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, 2014

8. 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
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	540,000	256,476	796,476
2020-2024	3,810,000	720,491	4,530,491
Total	\$ 5,955,000	\$ 2,251,060	\$ 8,206,060

Loans Payable

2003 \$4,000,000 Loan Payable

2003 \$4,000,000 Loan for loan guarantee assistance under Section 108 of the Housing and Community Development Act of 1974, Principal payments are \$200,000 annually. Interest is 2.0% to 6.5%, payable semi-annually. Additional information regarding the loan can be found in Note 17, Prior Period Adjustment.

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

Year Ending June 30,	Principal	Interest	Total
2015	\$ 200,000	\$ 102,610	\$ 302,610
2016	200,000	92,610	292,610
2017	200,000	82,350	282,350
2018	200,000	71,870	271,870
2019	200,000	61,200	261,200
2020-2023	1,000,000	140,690	1,140,690
Total	\$ 2,000,000	\$ 551,330	\$ 2,551,330

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Capital Lease

On March 9, 2011, the City entered into a capital lease agreement with Bank of America 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, 2014:

	Stated Interest Rate	Present Value of Remaining Payments as of June 30, 2014
Governmental Activities: Facilities	4.50%	\$ 6,630,193

As of June 30, 2014, future minimum lease payments under capital leases are as follows:

Year Ending June 30,	Governmental Activities
2015	\$ 611,321
2016	633,262
2017	655,970
2018	679,474
2019	703,799
2020-2024	3,530,572
2025-2027	2,071,899
Total Future Minimum Lease Payments	8,886,297
Less: Interest	(2,256,104)
Present Value of Minimum Lease Payments	\$ 6,630,193

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Business-Type Activities

	Balance				Balance	Due Within	Due in
	July 1, 2013	Additions	Retirements	Adjustment	June 30, 2014	One Year	More than One Year
Revenue bonds payable	\$ 16,850,000	\$	\$ (1,160,000)	\$	\$ 15,690,000	\$ 1,190,000	\$ 14,500,000
Unamortized premiums	1,735,065		(116,940)	(331,792)	1,286,333		1,286,333
Loans payable	38,158,658		(1,656,505)		36,502,153	1,696,320	34,805,833
Total	\$ 56,743,723	\$	\$ (2,933,445)	\$ (331,792)	\$ 53,478,486	\$ 2,886,320	\$ 50,592,166

Revenue Bonds Payable

Revenue bonds payable at June 30, 2014, consisted of the following:

	Bonds Payable	Unamortized Premiums
Water Revenue Bonds	\$ 4,765,000	
Water Revenue Bonds		\$ 375,490
Wastewater Revenue Bonds	10,925,000	
Wastewater Revenue Bonds		910,843
Total	\$ 15,690,000	\$ 1,286,333

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 advance refunding resulted in an unamortized premium of \$1,808,425 that will be amortized over the life of the bonds. The unamortized premium balance at June 30, 2014 totals \$1,286,333.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Revenue Bonds Payable, Continued

2012 Series Water and Wastewater Revenue Bonds, Continued

The bonds were secured by pledges of the Water Fund and Wastewater 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 Fund and \$12,540,000 for the Wastewater Fund.

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

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

Year Ending June 30,	Principal	Interest	Total
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	410,000	116,400	526,400
2020-2024	2,315,000	316,500	2,631,500
2025	520,000	7,800	527,800
	<u>\$ 4,765,000</u>	<u>\$ 1,036,719</u>	<u>\$ 5,801,719</u>

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

Year Ending June 30,	Principal	Interest	Total
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	940,000	325,900	1,265,900
2020-2024	5,320,000	973,650	6,293,650
2025	1,220,000	30,500	1,250,500
	<u>\$ 10,925,000</u>	<u>\$ 2,957,413</u>	<u>\$ 13,882,413</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Loans Payable

Loans payable at June 30, 2014 consisted of the following:

California Infrastructure Bank and Economic Development Bank (CIEDB)	
Enterprise Fund Installment Sales Agreement	\$ 7,152,209
California State Water Resources Control Board	
Clean Water State Revolving Fund	29,349,944
<i>Total</i>	<u>\$ 36,502,153</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
2015	\$ 200,000	\$ 223,555	\$ 423,555
2016	200,000	217,215	417,215
2017	225,000	210,479	435,479
2018	225,000	203,346	428,346
2019	250,000	195,818	445,818
2020-2024	1,575,000	840,004	2,415,004
2025-2029	2,050,000	554,308	2,604,308
2030-2034	2,427,209	198,044	2,625,253
Total	<u>\$ 7,152,209</u>	<u>\$ 2,642,769</u>	<u>\$ 9,794,978</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

8. 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
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	248,160	1,789,820
2019	1,557,077	232,743	1,789,820
2020-2024	8,022,083	927,015	8,949,098
2025-2029	8,431,290	517,808	8,949,098
2030-2031	5,263,835	105,625	5,369,460
Total	\$ 29,349,944	\$ 2,866,810	\$ 32,216,754

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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

8. LONG-TERM DEBT, Continued

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, 2014
1998 Liberty Park Refunding Assessment District	\$ 218,000
16th Street Refunding Assessment District	124,000
Fahrens Park Refunding Assessment District	2,950,000
Bellevue Ranch East CFD	9,430,000
Bellevue Ranch West CFD	6,530,000
Moraga CFD	4,775,000
Total	<u>\$ 24,027,000</u>

9. COMPENSATED ABSENCES

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

A summary of changes in compensated absences for the year ended June 30, 2014, is as follows:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year	Due in More than One Year
Governmental Activities	\$ 3,415,629	\$ 733,790	\$ (557,802)	\$ 3,591,617	\$ 514,522	\$ 3,077,095
Business-type Activities	671,010	122,713	(51,298)	742,425	67,788	674,637
Total	<u>\$ 4,086,639</u>	<u>\$ 856,503</u>	<u>\$ (609,100)</u>	<u>\$ 4,334,042</u>	<u>\$ 582,310</u>	<u>\$ 3,751,732</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

10. 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	Measure C	Low and Moderate Income Housing	Streets & Signals	Non-Major Funds	Total
Nonspendable:							
Inventory	\$ 52,338	\$	\$	\$	\$	\$	\$ 52,338
Advances receivable	1,710,992						1,710,992
Total Nonspendable	<u>1,763,330</u>						<u>1,763,330</u>
Restricted for:							
Street and street lights						3,006,791	3,006,791
Community development						9,425,899	9,425,899
Housing		876,368		3,236,200		3,285,591	7,398,159
Public safety						54,461	54,461
Special districts						2,607,674	2,607,674
Capital projects					2,010,963	2,470,841	4,481,804
Other special projects and programs:							
Cash basis fund	4,000,000						4,000,000
Other						381,744	381,744
Total Restricted	<u>4,000,000</u>	<u>876,368</u>		<u>3,236,200</u>	<u>2,010,963</u>	<u>21,233,001</u>	<u>31,356,532</u>
Committed to:							
Streets and street lights						255,259	255,259
Public safety			1,544,968				1,544,968
Total Committed			<u>1,544,968</u>			<u>255,259</u>	<u>1,800,227</u>
Assigned to:							
City council	31,810						31,810
City manager	13,462						13,462
City attorney	83,784						83,784
Finance	39,765						39,765
Purchasing	223						223
Police protection	172,397						172,397
Fire protection	181,815						181,815
Public works	21,245						21,245
Economic development	155,440						155,440
Visitor's service	1,686						1,686
Parks and Community Services	65,471						65,471
Total Assigned	<u>767,098</u>						<u>767,098</u>
Unassigned							
	<u>7,551,477</u>					<u>(283,928)</u>	<u>7,267,549</u>
Total Fund Balances	<u>\$ 14,081,905</u>	<u>\$ 876,368</u>	<u>\$ 1,544,968</u>	<u>\$ 3,236,200</u>	<u>\$ 2,010,963</u>	<u>\$ 21,204,332</u>	<u>\$ 42,954,736</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

11. OTHER FUND DISCLOSURES

A. Deficit Fund Balances

At June 30, 2014, the funds below had the following deficit fund balance or net position:

Special Revenue Funds

Development Services Fund \$ (10,402)

This fund is used to account for all revenues and expenditures associated with future planning, engineering, one-stop application processing and inspection services. The deficit in the Development Services Fund was caused by a reduction of revenue as a result of an audit by the U. S. Department of Housing and Urban Development. The audit determined that certain expenditures were either ineligible, or failed to meet a National Objective.

Capital Project Funds

Park Reserve Fund \$ (273,526)

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 \$ (3,111,423)

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, 2014

11. OTHER FUND DISCLOSURES, Continued

A. Deficit Fund Balances, Continued

Internal Service Funds, Continued

Liability Insurance	\$ (71,848)
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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.

Facility Maintenance	\$ (4,024,031)
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This fund is used to account for costs of maintaining and operating City facilities. The deficit fund balance was caused by recording of Other Postemployment 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	\$ (751,230)
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This fund is used to account for Personnel, Information Systems, and Risk Management Administration divisions which support all other city functions. The deficit net position was caused by the recording of Other Postemployment Benefits liability. The deficit balance will be eliminated by future fees.

12. 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, 2014, claims for general liability and workers' compensation were \$1,500,843 and \$4,943,349 respectively.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

12. RISK MANAGEMENT, Continued

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

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

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

	Workers' Compensation	General Liability
Liability - June 30, 2012	\$ 3,733,424	\$ 231,265
Claims incurred	1,670,951	285,945
Claims payments	(1,078,031)	(296,852)
Changes to prior year estimates	39,732	(56,371)
Liability - June 30, 2013	4,366,076	163,987
Claims incurred	1,650,806	1,507,636
Claims payments	(1,191,291)	(492,400)
Changes to prior year estimates	117,758	321,620
Liability - June 30, 2014	<u>\$ 4,943,349</u>	<u>\$ 1,500,843</u>

13. 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: Classic, Classic - 2nd Tier, and Public Employees' Pension Reform Act (PEPRA).

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

13. RETIREMENT PLANS, Continued

Pension Plan, Continued

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

Funding Policy – The required contribution rates as a percentage of annual covered payroll are established annually by CalPERS. At June 30, 2014 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 (actuarially determined rate)	22.581%	14.044%	22.581%	14.044%	22.581%	14.044%
Member rate	9.00%	8.00%	9.00%	7.00%	11.25%	6.25%
Total Required Contribution Rate	<u>31.581%</u>	<u>22.044%</u>	<u>31.581%</u>	<u>21.044%</u>	<u>33.831%</u>	<u>20.294%</u>

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
Miscellaneous		Existing plan members hired before December 10, 2012		Existing plan members hired after December 10, 2012		New plan members hired after January 1, 2013
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 8.20% to 11.25% toward the total required actuarially contribution rate.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

13. RETIREMENT PLANS, Continued

Pension Plan, Continued

Annual Pension Cost - For fiscal year 2013-2014 the City's annual pension cost of \$5,179,070 is equal to the City's annual required contribution of \$4,863,587 plus net pension asset change of \$315,483. The City's contributions paid are equal to the annual required contributions. The annual required contribution was determined as part of the June 30, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.50% investment rate of return (net of administrative expenses.), (b) projected annual salary increases that range from 3.30% to 14.20% for miscellaneous and safety employees depending on age, service, and type of employment, and (c) 3.00% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.75% 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, 2012, was 26 years for safety employees and 24 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, 2014, were as follows:

Net Pension Asset		
Annual required contribution	\$	4,863,587
Interest		(401,595)
Adjustment for amortization		717,078
Annual pension cost		<u>5,179,070</u>
Contributions paid		<u>4,863,587</u>
Decrease in pension asset		(315,483)
Net pension asset, beginning of year		<u>5,181,871</u>
Net pension asset, end of year	\$	<u><u>4,866,388</u></u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

13. 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
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
2014	2,196,621	2,666,966	4,863,587	315,483	5,179,070	94%	4,866,388

The net pension asset totaling \$4,866,388 is reported on the Government-Wide Financial Statements. Additional information about the bond issue can be found in Note 8, 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
6/30/2013	\$ 81,766,198	\$ 111,581,912	\$ 29,815,714	73.3%	\$ 15,992,062	186.4%

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
6/30/2013	\$ 91,125,199	\$ 118,484,439	\$ 27,359,240	76.9%	\$ 11,709,900	233.6%

* 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, 2014

14. 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 \$1,710,000 in the California Employers' Retiree Benefit Trust (CERBT) at the end of the fiscal year ending June 30, 2014. CERBT is a tax-qualified irrevocable trust administered by the California Public Employees' Retirement System (CalPERS) and organized under Internal Revenue Code Section 115 to pre-fund retiree healthcare and other postemployment benefits. Copies of CalPERS' financial report may be obtained from the CalPERS website at www.calpers.ca.gov or from CalPERS Headquarters at 400 Q Street, Sacramento, California, 95811.

Out of approximately 416 full-time City employees, approximately 207 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.

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, 2014, the City contributed \$1,661,000 to the plan, including \$1,408,000 in medical premium payments for retirees and \$253,000 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 Other Post Employment Benefits (OPEB) Cost accrual.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

14. 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	\$ 7,840,000
Interest on net OPEB obligation	823,000
Adjustment to annual required contribution	<u>(2,066,000)</u>
Annual OPEB cost (expense)	6,597,000
Benefit payments made outside of CERBT	<u>(1,661,000)</u>
Increase in net OPEB obligation	4,936,000
Net OPEB obligation - beginning of year	<u>20,379,000</u>
Net OPEB obligation - end of year	<u><u>\$ 25,315,000</u></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 2014 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/12	\$ 6,013,000	30.4%	\$ 15,785,000
6/30/13	6,464,000	28.9%	20,379,000
6/30/14	6,597,000	25.2%	25,315,000

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)	\$ 52,467,000
Actuarial value of Plan assets	<u>(1,546,000)</u>
Unfunded actuarial accrued liability (UAAL)	50,921,000
Funded ratio (actuarial value of Plan assets/AAL)	2.95%
Covered payroll (eligible action Plan participants)	\$ 14,203,000
UAAL as a percentage of covered payroll	358.50%

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

14. 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 3rd 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, 2014 was 24 years.

15. COMMITMENTS AND CONTINGENT LIABILITIES

Project Commitments

As of June 30, 2014, the City had the following outstanding commitments that exceeded \$500,000:

<u>Vendor Name</u>	<u>Outstanding Amount</u>
Maxwell Construction, Inc.	\$ 793,518
Merced Co Dept of Public Works	625,231
Pacific Gas and Electric Company	980,134
	<u>\$ 2,398,883</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

15. 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.

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.

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.

On August 13, 2014, the State Controller's Office (SCO) issued a letter with the Draft Merced Redevelopment Agency Asset Transfer Review Report (Draft Report). The Draft Report alleged that the former Merced Redevelopment Agency "made unallowable transfers totaling \$42,065,255 to the Public Financing and Economic Development Authority (Authority) of the City of Merced."

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

15. COMMITMENTS AND CONTINGENT LIABILITIES, Continued

The City, Authority and Parking Authority responded on August 28th with the following dispute to the findings:

- Cash from the former Merced Redevelopment Agency in the amount of \$5,634,827 was turned over to the Auditor Controller of the County of Merced.
- The Authority transferred \$16,895,308 of former Merced Redevelopment Agency housing assets to the City as housing successor agency.
- The City, Authority and the Parking Authority dispute the legality of the proposed SCO Draft based upon the legal authorities and arguments raised in the litigation filed by League of California, City of Vallejo and Christopher K. McKenzie filed against Ana J. Matosantos in her official capacity and other related parties.

A final version of the Draft Report has not been released by the SCO.

16. POLLUTION REMEDIATION OBLIGATIONS

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

The State of California Regional Water Quality Control Board requires the City to expend \$250,000 annually on perchloroethylene (PCE) remediation efforts at certain dry cleaner sites. Costs for these activities are funded through existing water service fees.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

17. PRIOR PERIOD ADJUSTMENT

During the fiscal year, the City identified an accounting correction and, accordingly, restated the City's net position as of July 1, 2013 as follows:

In fiscal year 2011-2012, the Housing and Community Development (HUD) Section 108 loan payable totaling \$2.4 million was removed from the financial statements due to the dissolution of the Redevelopment Agency. On May 16, 2014, the California State Department of Finance determined that the City of Merced was responsible for this loan. Therefore, during the 2013-14 fiscal year, the City recorded a prior period adjustment in the amount of \$2,000,000 for the outstanding balance for the HUD Section 108 loan. Additional information on this loan can be found in Note 8, Long-Term Debt.

In addition, as part of the HUD Section 108 financing agreement, the Central Valley Coalition entered into a loan agreement with the Redevelopment Agency on April 7, 2003 for \$4 million. Therefore, during the 2013-14 fiscal year, the City recorded a prior period adjustment of \$4,919,464 for the balance of the notes receivable and interest receivable (\$4,000,000 and \$919,464, respectively). The following is a summary of the restatement of beginning balance:

Government-Wide Financial Statements

	Governmental Activities
Prior Period Adjustments:	
Beginning balance, July 1, 2013	\$ 392,008,025
Adjust for Central Valley Coalition note receivable	4,000,000
Adjust for interest receivable on Central Valley Coalition note	919,464
HUD Section 108 loan adjustment	(2,000,000)
	<u> </u>
Beginning balance, July 1, 2013, as restated	<u><u>\$ 394,927,489</u></u>

Fund Financial Statements

	Non-Major Governmental Funds
Prior Period Adjustments:	
Beginning balance, July 1, 2013	\$ 19,168,818
Adjust for Central Valley Coalition note receivable	4,000,000
Adjust for interest receivable on Central Valley Coalition note	919,464
Adjust for unavailable revenues for June 30, 2014	(4,919,464)
	<u> </u>
Beginning balance, July 1, 2013, as restated	<u><u>\$ 19,168,818</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

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City of Merced
Required Supplementary Information
For the year ended June 30, 2014

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, 2014

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes:				
Property tax:				
Secured	\$ 4,596,710	\$ 4,596,710	\$ 4,685,890	\$ 89,180
Unsecured	393,205	393,205	379,675	(13,530)
Supplemental roll:				
Prior year - unsecured	5,000	5,000	12,762	7,762
Prior year - supplemental roll	75,000	75,000	69,902	(5,098)
Sales and use	8,073,700	8,073,700	7,828,609	(245,091)
Transient occupancy tax	939,000	939,000	990,002	51,002
Franchise	1,500,170	1,500,170	1,507,013	6,843
Business license	1,158,000	1,158,000	1,102,008	(55,992)
Cost revenue impact study fee	58,695	58,695	44,171	(14,524)
Real property transfer	104,000	104,000	144,065	40,065
Triple flip backfill	2,583,000	2,583,000	2,614,142	31,142
Vehicle in lieu backfill	4,517,240	4,517,240	4,692,573	175,333
Total taxes	<u>24,003,720</u>	<u>24,003,720</u>	<u>24,070,812</u>	<u>67,092</u>
Intergovernmental:				
Motor vehicle in lieu tax	41,515	41,515	34,358	(7,157)
Homeowners property tax relief	75,000	75,000	63,324	(11,676)
Police standards and training	31,200	31,200	35,700	4,500
Other state grants	39,671	189,037	179,723	(9,314)
Other federal grants	300,000	609,985	192,195	(417,790)
Office BJA - bulletproof vest grant	3,971	8,480	7,668	(812)
State mandated cost reimbursement	60,429	60,429	63,656	3,227
Total intergovernmental	<u>551,786</u>	<u>1,015,646</u>	<u>576,624</u>	<u>(439,022)</u>
Licenses and permits:				
Animal licenses	17,500	17,500	17,039	(461)
Bicycle licenses	208	208	100	(108)
Other licenses and permits	8,360	8,360	8,237	(123)
Total licenses and permits	<u>26,068</u>	<u>26,068</u>	<u>25,376</u>	<u>(692)</u>
Use of money and property				
Investment Earnings	50,950	50,950	176,981	126,031
Rents and concessions (other than recreation)	54,352	54,352	67,186	12,834
Total use of money and property	<u>105,302</u>	<u>105,302</u>	<u>244,167</u>	<u>138,865</u>

(continued)

CITY OF MERCED
Required Supplementary Information, Continued
For the Year Ended June 30, 2014

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES, Continued:				
Service Charges:				
Fire department special services	\$ 36,031	\$ 178,561	\$ 206,399	\$ 27,838
Fire prevention	50,000	50,000	48,351	(1,649)
Accident reports	4,000	4,000	5,613	1,613
PERS-EE share 2.5% at 55	392,941	392,941	375,553	(17,388)
PERS-EE share 3% at 50	820,502	820,502	777,621	(42,881)
PERS-EE share 2% at 62	15,464	15,464	5,242	(10,222)
PERS-EE share 2.7% at 57	6,624	6,624	19,771	13,147
PERS-EE share 2% at 60			4,072	4,072
PERS-EE share 3% at 55			2,541	2,541
Administrative	2,689,136	2,689,136	2,689,136	
Administrative review fee	104	104		(104)
Animal control services	5,900	5,900	3,670	(2,230)
School police officer	325,291	281,920	281,920	
Valley High School police officer	131,808	93,640	91,640	(2,000)
Interdepartmental charges	1,637,269	1,637,269	1,637,269	
Cost applied	110,820	110,820	156,109	45,289
Other current service charges	92,860	92,860	108,168	15,308
Total service charges	<u>6,318,750</u>	<u>6,379,741</u>	<u>6,413,075</u>	<u>33,334</u>
Fines, forfeitures and penalties:				
Criminal fines	157,822	157,822	96,258	(61,564)
Parking fines	300,000	300,000	322,389	22,389
Total fines, forfeitures and penalties	<u>457,822</u>	<u>457,822</u>	<u>418,647</u>	<u>(39,175)</u>
Other:				
Unclassified revenue	295,365	302,489	(20,220)	(322,709)
Snack machine revenue				
Garnishments handling fees	1,140	1,140	1,061	(79)
Miscellaneous	41,500	116,767	151,543	34,776
Cash overages (shortages)	100	100	231	131
Donations/contributions	5,300	21,219	16,668	(4,551)
S.M.I.P. fees	1,831	1,831		(1,831)
Total other	<u>345,236</u>	<u>443,546</u>	<u>149,283</u>	<u>(294,263)</u>
Total revenues	<u>31,808,684</u>	<u>32,431,845</u>	<u>31,897,984</u>	<u>(533,861)</u>

(continued)

CITY OF MERCED
Required Supplementary Information, Continued
For the Year Ended June 30, 2014

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
EXPENDITURES:				
Current operating:				
General government:				
City Council	\$ 228,667	\$ 253,236	\$ 180,035	\$ 73,201
City Manager	1,351,388	1,354,462	959,426	395,036
City Attorney	868,227	1,047,859	934,536	113,323
Finance	2,327,261	2,397,389	2,357,639	39,750
Purchasing	211,071	209,556	207,756	1,800
Economic development	493,755	597,656	422,964	174,692
Visitor's services	159,307	163,431	156,611	6,820
Total general government	<u>5,639,676</u>	<u>6,023,589</u>	<u>5,218,967</u>	<u>804,622</u>
Public safety:				
Police protection	15,240,976	16,107,425	15,078,502	1,028,923
Fire protection and weed abatement	8,059,203	8,425,969	8,157,816	268,153
Total public safety	<u>23,300,179</u>	<u>24,533,394</u>	<u>23,236,318</u>	<u>1,297,076</u>
Public works	1,545,542	1,594,426	1,536,917	57,509
Total current operating	<u>30,485,397</u>	<u>32,151,409</u>	<u>29,992,202</u>	<u>2,159,207</u>
Debt service:				
Principal	285,000	285,000	285,000	
Interest	364,104	364,104	364,104	
Total debt service	<u>649,104</u>	<u>649,104</u>	<u>649,104</u>	
Total expenditures	<u>31,134,501</u>	<u>32,800,513</u>	<u>30,641,306</u>	<u>2,159,207</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>674,183</u>	<u>(368,668)</u>	<u>1,256,678</u>	<u>1,625,346</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	5,100	5,100	2,796	(2,304)
Transfers in	768,793	643,292	576,900	(66,392)
Transfers out	(2,946,582)	(3,252,792)	(3,211,583)	41,209
Total other financing sources (uses)	<u>(2,172,689)</u>	<u>(2,604,400)</u>	<u>(2,631,887)</u>	<u>(27,487)</u>
Net change in fund balance	<u>\$ (1,498,506)</u>	<u>\$ (2,973,068)</u>	<u>(1,375,209)</u>	<u>\$ 1,597,859</u>
FUND BALANCE:				
Beginning of year			15,382,336	
End of year			<u>\$ 14,007,127</u>	

(continued)

CITY OF MERCED
Required Supplementary Information, Continued
For the Year Ended June 30, 2014

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.

	<u>General Fund - Budgetary Schedule - Actual</u>	<u>Parks and Community Services Fund</u>	<u>General Fund - Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance</u>
Total revenues	\$ 31,897,984	\$ 387,400	\$ 32,285,384
Total expenditures	<u>30,641,306</u>	<u>1,141,493</u>	<u>31,782,799</u>
Revenues over (under) expenditures	1,256,678	(754,093)	502,585
Total other financing sources (uses)	<u>(2,631,887)</u>	<u>715,645</u>	<u>(1,916,242)</u>
Net change in fund balance	(1,375,209)	(38,448)	(1,413,657)
Beginning of year	<u>15,382,336</u>	<u>113,226</u>	<u>15,495,562</u>
End of year	<u><u>\$ 14,007,127</u></u>	<u><u>\$ 74,778</u></u>	<u><u>\$ 14,081,905</u></u>

CITY OF MERCED
Required Supplementary Information, Continued
For the Year Ended June 30, 2014

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 2,194,493	\$ 3,864,607	\$ 1,237,731	\$ (2,626,876)
Use of money and property	2,600	2,600	5,815	3,215
Service charges	138,789	138,789	100,289	(38,500)
Other revenues			1,000	1,000
Total revenues	<u>2,335,882</u>	<u>4,005,996</u>	<u>1,344,835</u>	<u>(2,661,161)</u>
EXPENDITURES:				
Current operating:				
General government	2,862,430	4,682,639	1,717,047	2,965,592
Total current operating	<u>2,862,430</u>	<u>4,682,639</u>	<u>1,717,047</u>	<u>2,965,592</u>
Capital outlay	561,770	270,430	513,714	(243,284)
Total expenditures	<u>3,424,200</u>	<u>4,953,069</u>	<u>2,230,761</u>	<u>2,722,308</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,088,318)</u>	<u>(947,073)</u>	<u>(885,926)</u>	<u>61,147</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	780,400	865,400	639,821	(225,579)
Transfers out	(232,296)	(82,296)	(82,280)	16
Total other financing sources (uses)	<u>548,104</u>	<u>783,104</u>	<u>557,541</u>	<u>(225,563)</u>
Net change in fund balances	<u>\$ (540,214)</u>	<u>\$ (163,969)</u>	<u>(328,385)</u>	<u>\$ (164,416)</u>
FUND BALANCE:				
Beginning of Year			1,204,753	
End of Year			<u>\$ 876,368</u>	

CITY OF MERCED
Required Supplementary Information, Continued
For the Year Ended June 30, 2014

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 5,605,000	\$ 5,605,000	\$ 5,453,218	\$ (151,782)
Intergovernmental	399,453	399,453	74,360	(325,093)
Use of money and property	1,900	1,900	6,468	4,568
Service charges	265,345	321,108	295,769	(25,339)
Other revenues			11,596	11,596
Total revenues	<u>6,271,698</u>	<u>6,327,461</u>	<u>5,841,411</u>	<u>(486,050)</u>
EXPENDITURES:				
Current operating:				
Public safety	5,792,580	5,907,364	5,433,383	473,981
Public works	3,172	6,172	3,172	3,000
Total current operating	<u>5,795,752</u>	<u>5,913,536</u>	<u>5,436,555</u>	<u>476,981</u>
Capital outlay	475,000	475,000	1,813	473,187
Total expenditures	<u>6,270,752</u>	<u>6,388,536</u>	<u>5,438,368</u>	<u>950,168</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>946</u>	<u>(61,075)</u>	<u>403,043</u>	<u>464,118</u>
OTHER FINANCING SOURCES (USES):				
Transfers in			765	765
Transfers out	(493)	(493)	(493)	
Total other financing sources (uses)	<u>(493)</u>	<u>(493)</u>	<u>272</u>	<u>765</u>
Net change in fund balances	<u>\$ 453</u>	<u>\$ (61,568)</u>	<u>403,315</u>	<u>\$ 464,883</u>
FUND BALANCE:				
Beginning of Year			<u>1,141,653</u>	
End of Year			<u>\$ 1,544,968</u>	

CITY OF MERCED
Required Supplementary Information, Continued
For the Year Ended June 30, 2014

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 16,410	\$ 16,410	\$ 46,382	\$ 29,972
Use of money and property	9,825	9,825	17,417	7,592
Total revenues	<u>26,235</u>	<u>26,235</u>	<u>63,799</u>	<u>37,564</u>
EXPENDITURES:				
Current operating:				
General government	78,260	78,260	786	77,474
Total current operating	<u>78,260</u>	<u>78,260</u>	<u>786</u>	<u>77,474</u>
Total expenditures	<u>78,260</u>	<u>78,260</u>	<u>786</u>	<u>77,474</u>
Net change in fund balances	<u>\$ (52,025)</u>	<u>\$ (52,025)</u>	63,013	<u>\$ 115,038</u>
FUND BALANCE:				
Beginning of Year			<u>3,173,187</u>	
End of Year			<u>\$ 3,236,200</u>	

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2014

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
6/30/2011	\$ 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%
6/30/2013	81,766,198	111,581,912	29,815,714	73.3%	15,992,062	186.4%

Beginning with the June 30, 2013 valuation, Actuarial Value of Assets equals market value per CalPERS Direct Rate Smoothing Policy. Prior years' Actuarial Value of Assets was based on an actuarially determined amount. The Funded Ratio based upon market value of assets for June 30, 2012 and June 30, 2011 are 69.0% and 73.3%, respectively.

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
6/30/2011	\$ 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%
6/30/2013	91,125,199	118,484,439	27,359,240	76.9%	11,709,900	233.6%

Beginning with the June 30, 2013 valuation, Actuarial Value of Assets equals market value per CalPERS Direct Rate Smoothing Policy. Prior years' Actuarial Value of Assets was based on an actuarially determined amount. The Funded Ratio based upon market value of assets for June 30, 2012 and June 30, 2011 are 73.4% and 77.1%, respectively.

3. POSTEMPLOYMENT HEALTHCARE PLAN SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Fiscal Year Ending	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2011	6/30/2012	\$ 1,341,000	\$ 74,746,000	\$ 73,405,000	1.79%	\$ 15,649,000	469.1%
6/30/2013	6/30/2013	1,441,000	51,005,000	49,564,000	2.83%	15,102,000	328.2%
6/30/2013	6/30/2014	1,546,000	52,467,000	50,921,000	2.95%	14,203,000	358.5%

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SUPPLEMENTARY INFORMATION

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CITY OF MERCED
Supplementary Information
General Fund Combining Balance Sheet
June 30, 2014

	General Fund	Parks and Community Services Fund	General Fund Combined
ASSETS			
Cash, cash equivalents and investments	\$ 9,045,491	\$ 220	\$ 9,045,711
Restricted cash held by fiscal agents	5		5
Receivables:			
Accounts	673,938	605	674,543
Due from other governments	2,112,391		2,112,391
Interest	13,931		13,931
Due from other funds	2,330,901	107,721	2,438,622
Inventory	52,338		52,338
Land held for resale			
Notes receivable			
Advances to other funds	1,710,992		1,710,992
	<u>1,710,992</u>	<u>107,721</u>	<u>1,710,992</u>
Total assets	<u>\$ 15,939,987</u>	<u>\$ 108,546</u>	<u>\$ 16,048,533</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 233,607	\$ 18,643	\$ 252,250
Payroll liabilities	475,004	15,125	490,129
Unearned revenue	853,522		853,522
Due to other funds	359,112		359,112
Advances from other funds			
Other liabilities	11,615		11,615
Total liabilities	<u>1,932,860</u>	<u>33,768</u>	<u>1,966,628</u>
Deferred inflow of resources:			
Unavailable revenue			
Fund balances:			
Nonspendable	1,763,330		1,763,330
Restricted	4,000,000		4,000,000
Committed			
Assigned	767,098		767,098
Unassigned	7,476,699	74,778	7,551,477
Total fund balances	<u>14,007,127</u>	<u>74,778</u>	<u>14,081,905</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 15,939,987</u>	<u>\$ 108,546</u>	<u>\$ 16,048,533</u>

CITY OF MERCED
Supplementary Information
General Fund Combining Statement of
Revenues, Expenditures and Changes in Fund Balance
June 30, 2014

	General Fund	Parks and Community Services Fund	General Fund Combined
REVENUES:			
Taxes	\$ 24,070,812	\$	\$ 24,070,812
Intergovernmental	576,624		576,624
Licenses and permits	25,376		25,376
Use of money and property	244,167	923	245,090
Service charges	6,413,075	278,807	6,691,882
Fines, forfeitures and penalties	418,647		418,647
Other	149,283	107,670	256,953
Total revenues	<u>31,897,984</u>	<u>387,400</u>	<u>32,285,384</u>
EXPENDITURES:			
Current operating:			
General government	5,218,967		5,218,967
Public safety	23,236,318		23,236,318
Public works	1,536,917		1,536,917
Culture and recreation		1,141,493	1,141,493
Total current operating	<u>29,992,202</u>	<u>1,141,493</u>	<u>31,133,695</u>
Capital outlay			
Debt Service:			
Principal	285,000		285,000
Interest	364,104		364,104
Total expenditures	<u>30,641,306</u>	<u>1,141,493</u>	<u>31,782,799</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>1,256,678</u>	<u>(754,093)</u>	<u>502,585</u>
OTHER FINANCING SOURCES (USES):			
Sale of capital assets	2,796	61	2,857
Transfers in	576,900	54,275	631,175
Transfers out	(2,542,470)	(7,804)	(2,550,274)
Intrafund transfers	(669,113)	669,113	
Total other financing sources (uses)	<u>(2,631,887)</u>	<u>715,645</u>	<u>(1,916,242)</u>
NET CHANGE IN FUND BALANCES	<u>(1,375,209)</u>	<u>(38,448)</u>	<u>(1,413,657)</u>
FUND BALANCES:			
Beginning of year	15,382,336	113,226	15,495,562
End of year	<u>\$ 14,007,127</u>	<u>\$ 74,778</u>	<u>\$ 14,081,905</u>