



**City of Merced, California**  
**Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

The 8.7 acre McNamara Community Park, located in South Merced was renovated with a \$2.6 million Statewide Park Development and Community Revitalization Program (Proposition 84) grant. The renovations include two new synthetic turf soccer fields, one natural turf soccer field, perimeter ornamental wrought iron fencing, a splash park, new playground equipment and a new landscaped boulevard and picnic area.

# City of Merced

Merced, California

*Annual Financial Report*

*For the year ended June 30, 2015*

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**City of Merced**  
**Annual Financial Report**  
**For the year ended June 30, 2015**

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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, 2015, 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, 2015, 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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## **Emphasis of Matter**

### *Implementation of New Accounting Standards*

As disclosed in the Note 1 to the financial statements, the City adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the fiscal year 2015. Our opinion is not modified with respect to this matter.

## **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, schedule of changes in net pension liability and related ratios, schedule of plan contributions, and postemployment healthcare plan schedule of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *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 information 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 relates 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.



To the Honorable Mayor and Members  
of the City Council of the City of Merced  
Merced, California  
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**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2015 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.

A handwritten signature in cursive script that reads "Gallina LLP".

Roseville, California  
December 18, 2015

## 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, 2015.

### FINANCIAL HIGHLIGHTS

The City's net position as shown on the Government-Wide Statement of Activities decreased by \$7.0 million subsequent to the restatement of beginning balances, the result of implementation of new accounting standards which are discussed in Note 17. The governmental net position decreased by \$8.8 million and the business-type net position increased by \$1.8 million.

#### Government-wide:

- As shown on the Statement of Net Position, the assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the fiscal year by \$520.3 million.
- The net decrease to governmental activity long-term debt of \$838,966 was due to scheduled principal payments. Additional information can be found in Note 8.
- The net decrease to business-type activity long-term debt of \$3.0 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 \$10.1 million, or 59.3% 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.

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

## OVERVIEW OF THE FINANCIAL STATEMENTS, Continued

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

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

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

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

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

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

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

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

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

## OVERVIEW OF THE FINANCIAL STATEMENTS, Continued

The City maintains thirty-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 General Fund, Housing Special Revenue Fund, Measure C Special Revenue Fund, Low and Moderate Income Housing Special Revenue Fund, and Streets and Signals Capital Projects Fund, which are considered major funds. Data from the other twenty-eight non-major 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. Information is presented separately in the Proprietary Statement of Net Position and the Proprietary Statement of Revenues, Expense and Changes in Net Position for the Wastewater System, Water System and Refuse Collection System, which are considered major funds. The Airport Fund is the only non-major Enterprise Fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for 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 \$520.3 million at the close of the most recent fiscal year.

### Summary of Net Position

|                                  | Governmental   |                | Business-type  |                | Total          |                |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                  | Activities     |                | Activities     |                |                |                |
|                                  | 2015           | 2014           | 2015           | 2014           | 2015           | 2014           |
| Current and other assets         | \$ 107,166,335 | \$ 107,539,627 | \$ 112,101,268 | \$ 109,364,867 | \$ 219,267,603 | \$ 216,904,494 |
| Capital assets                   | 311,219,066    | 325,820,783    | 165,601,997    | 167,731,143    | 476,821,063    | 493,551,926    |
| Total assets                     | 418,385,401    | 433,360,410    | 277,703,265    | 277,096,010    | 696,088,666    | 710,456,420    |
| Deferred outflows - pensions     | 4,477,112      |                | 1,014,952      |                | 5,492,064      |                |
| Total deferred outflows          | 4,477,112      |                | 1,014,952      |                | 5,492,064      |                |
| Current liabilities              | 10,946,386     | 11,946,428     | 7,837,280      | 6,618,531      | 18,783,666     | 18,564,959     |
| Noncurrent liabilities           | 84,787,855     | 40,223,056     | 63,985,142     | 55,850,439     | 148,772,997    | 96,073,495     |
| Total liabilities                | 95,734,241     | 52,169,484     | 71,822,422     | 62,468,970     | 167,556,663    | 114,638,454    |
| Deferred inflows - pensions      | 11,142,761     |                | 2,546,187      |                | 13,688,948     |                |
| Total deferred inflows           | 11,142,761     |                | 2,546,187      |                | 13,688,948     |                |
| Net position:                    |                |                |                |                |                |                |
| Net investment in capital assets | 309,124,469    | 325,820,783    | 122,078,985    | 114,252,654    | 431,203,454    | 440,073,437    |
| Restricted                       | 61,047,982     | 31,356,532     | 47,571,164     | 43,215,253     | 108,619,146    | 74,571,785     |
| Unrestricted                     | (54,186,940)   | 24,013,611     | 34,699,459     | 57,159,133     | (19,487,481)   | 81,172,744     |
| Total net position               | \$ 315,985,511 | \$ 381,190,926 | \$ 204,349,608 | \$ 214,627,040 | \$ 520,335,119 | \$ 595,817,966 |

The largest portion of the City's net position, 82.9%, reflects its net investment in capital assets (e.g., land and improvements, construction in progress, buildings and structures, machinery and equipment, and improvements other than buildings, structures and land improvements), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Of the City's \$520.3 million total net position, \$108.6 million, or 20.9% of these resources are subject to external restrictions on how they may be used. The total unrestricted net position is a negative \$19.4 million due to the governmental activities negative \$54.2 million unrestricted net position. This was caused by recording the City's net pension liabilities pursuant to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68 and the reclassification of deferred inflows pursuant to GASB Statement No. 63. The business-type activities restricted and unrestricted net position is \$47.5 million and \$34.6 million, respectively.

The total business-type activities reported positive balances in all category of net position. However, of the individual funds that make up the business-type activities, the Refuse Collection System fund has a negative unrestricted net position due to the implementation of GASB Statement No. 68.

## 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<br>Activities |                | Business-type<br>Activities |                | Total<br>Government |                |
|   | 2015                       | 2014           | 2015                        | 2014           | 2015                | 2014           |
| Revenues  |                            |                |                             |                |                     |                |
| Program revenues:   |                            |                |                             |                |                     |                |
| Charges for services  | \$ 10,117,787              | \$ 9,229,320   | \$ 43,672,207               | \$ 44,206,806  | \$ 53,789,994       | \$ 53,436,126  |
| Operating grants and contributions  | 6,116,936                  | 7,060,529      | 430,764                     | 187,723        | 6,547,700           | 7,248,252      |
| Capital grants and contributions  | 1,182,168                  | 2,342,203      | 126,720                     | 2,124          | 1,308,888           | 2,344,327      |
| General revenues and transfers:   |                            |                |                             |                |                     |                |
| Property taxes  | 13,933,670                 | 12,599,009     | 35,337                      | 38,138         | 13,969,007          | 12,637,147     |
| Sales taxes   | 13,922,380                 | 13,618,386     |                             |                | 13,922,380          | 13,618,386     |
| Franchise taxes   | 1,698,203                  | 1,609,263      |                             |                | 1,698,203           | 1,609,263      |
| Transient occupancy tax   | 1,874,354                  | 990,002        |                             |                | 1,874,354           | 990,002        |
| Business license tax  | 1,077,292                  | 1,102,008      |                             |                | 1,077,292           | 1,102,008      |
| Cost recovery impact study  | 124,102                    | 44,171         |                             |                | 124,102             | 44,171         |
| Business improvement area   | 73,813                     | 71,473         |                             |                | 73,813              | 71,473         |
| Other   | 705,575                    | 2,331,092      | 795,215                     | 1,887,915      | 1,500,790           | 4,219,007      |
| Total revenues  | 50,826,280                 | 50,997,456     | 45,060,243                  | 46,322,706     | 95,886,523          | 97,320,162     |
| Expenses  |                            |                |                             |                |                     |                |
| Governmental activities:  |                            |                |                             |                |                     |                |
| General government  | 7,650,592                  | 12,964,142     |                             |                | 7,650,592           | 12,964,142     |
| Public Safety   | 29,599,678                 | 29,580,390     |                             |                | 29,599,678          | 29,580,390     |
| Public Works  | 17,475,927                 | 20,229,487     |                             |                | 17,475,927          | 20,229,487     |
| Parks   | 1,955,966                  | 2,054,063      |                             |                | 1,955,966           | 2,054,063      |
| Other   | 773,778                    | 669,022        |                             |                | 773,778             | 669,022        |
| Business-type activities:   |                            |                |                             |                |                     |                |
| Wastewater system   |                            |                | 15,568,388                  | 16,451,780     | 15,568,388          | 16,451,780     |
| Water system  |                            |                | 13,719,156                  | 11,616,236     | 13,719,156          | 11,616,236     |
| Refuse collection   |                            |                | 12,263,902                  | 12,888,440     | 12,263,902          | 12,888,440     |
| Merced municipal airport  |                            |                | 1,202,072                   | 989,458        | 1,202,072           | 989,458        |
| Total expenses  | 57,455,941                 | 65,497,104     | 42,753,518                  | 41,945,914     | 100,209,459         | 107,443,018    |
| Increase (decrease) in net position<br>before disposal of capital assets<br>and transfers | (6,629,661)                | (14,499,648)   | 2,306,725                   | 4,376,792      | (4,322,936)         | (10,122,856)   |
| Disposal of capital assets  | (2,644,693)                |                | 14,013                      |                | (2,630,680)         |                |
| Transfers   | 463,400                    | 763,085        | (463,400)                   | (763,085)      |                     |                |
| Increase (decrease) in net position   | (8,810,954)                | (13,736,563)   | 1,857,338                   | 3,613,707      | (6,953,616)         | (10,122,856)   |
| Net position beginning of year,<br>as restated (Note 17)                                  | 324,796,465                | 394,927,489    | 202,492,270                 | 211,013,333    | 527,288,735         | 605,940,822    |
| Net position ending of year   | \$ 315,985,511             | \$ 381,190,926 | \$ 204,349,608              | \$ 214,627,040 | \$ 520,335,119      | \$ 595,817,966 |

**Governmental Activities** - Governmental Activities decreased the City's net position by \$8.8 million. Taxes provided 64.3% of the revenue and charges for services provided 19.9% of the revenue, and operating and capital grants and contributions provided 14.4% of the revenue received during the year.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

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

### Net Cost of Governmental Activities For the Fiscal Year Ended June 30, 2015

|                            | <u>Total Cost<br/>of Services</u> | <u>Net Cost<br/>of Services</u> |
|----------------------------|-----------------------------------|---------------------------------|
| General government         | \$ 7,650,592                      | \$ (3,854,659)                  |
| Public safety              | 29,599,678                        | (26,210,498)                    |
| Public works               | 17,475,927                        | (7,870,010)                     |
| Culture and recreation     | 1,955,966                         | (1,330,105)                     |
| Interest on long-term debt | 773,778                           | (773,778)                       |
| Total                      | <u>\$ 57,455,941</u>              | <u>\$ (40,039,050)</u>          |

The costs for all governmental activities during the year were \$57.4 million, which is 57.3% of total governmental and business-type activities expenses. These costs were paid for by \$17.4 million of program revenues, \$32.7 million of taxes, and \$1.1 million of interest and investment earnings and transfers. The balance of \$6.2 million was covered by reserves or accumulated revenues.

**Business-type Activities** - Business-type activities increased the City's net position by \$1.8 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 \$45.0 million. Expenses of business-type activities were \$42.7 million. Transfers from the City's business-type activities were \$463,400.

## 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, 2015 of \$80.4 million, an increase of \$4.3 million after restatement of the beginning fund balance. See Note 17 for details of this restatement. In fiscal year 2014-15, the governmental revenue increased by \$1.7 million and governmental expenses decreased by \$1.5 million.

The General Fund is the chief operating fund of the City. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. At the end of the current fiscal year, the fund balance of the General Fund was \$17.0 million and the unassigned fund balance was \$10.1 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 30.8% of total General Fund expenditures.

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

The General Fund balance increased by \$3.0 million during the fiscal year. Taxes are the primary revenue of the General Fund. Property tax increased by 10.5%, sales tax increased by 2.2% while transient occupancy tax increased by 89.3%. The increase in transient occupancy tax represents a onetime adjustment which corrected payments for the past three years.

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

### Housing Fund-

- This special revenue fund increased by \$61,008 due from the sale of property.

### Measure C Fund-

- This special revenue fund decreased by \$354,626 due to capital outlay expenditures covered by accumulated revenues.

### Low and Moderate Income Housing Fund-

- This special revenue fund increased by \$231,169 due to an increase of revenue from sale of property.

### Streets & Signals Fund-

- This capital projects fund increased by \$158,137 due to unspent capital project funding that will be carried over to fiscal year 2015-16.

**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 were \$1.7 million. The unrestricted net position of the Enterprise Funds were \$34.6 million. The change in net position for the Governmental Activities Internal Service Funds and the Enterprise Funds both increased \$1.8 million. Other factors concerning the finances of the Proprietary funds have been addressed in the discussion of the City's business-type activities.

## GENERAL FUND BUDGETARY HIGHLIGHTS

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

The difference between the General Fund original revenue budget and the final revenue budget was an increase of \$610,376, which includes grants, service charges and other revenues. The difference between the General Fund original expenditure budget and the final expenditure budget was an increase of \$1.3 million, which includes machinery and equipment, supplies and services, capital outlay and personnel related expenditures.

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets** – The City of Merced's investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounted to \$476.8 million. This investment in capital assets includes land and improvements, construction in progress, buildings and structures, machinery and equipment, and improvements other than buildings, structures, and land improvement. Additional information on the City of Merced's capital assets can be found in Note 6.



## CAPITAL ASSET AND DEBT ADMINISTRATION, Continued

### Capital Assets

|  | Governmental   |                | Business-type  |                | Total          |                |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
|  | Activities     |                | Activities     |                |                |                |
|  | 2015           | 2014           | 2015           | 2014           | 2015           | 2014           |
| Non-depreciable Assets:  |                |                |                |                |                |                |
| Land and improvements  | \$ 87,074,139  | \$ 88,017,809  | \$ 2,343,020   | \$ 2,163,106   | \$ 89,417,159  | \$ 90,180,915  |
| Construction in progress   | 10,094,570     | 13,384,129     | 49,372,327     | 44,984,053     | 59,466,897     | 58,368,182     |
| Total non-depreciable assets   | 97,168,709     | 101,401,938    | 51,715,347     | 47,147,159     | 148,884,056    | 148,549,097    |
| Depreciable Assets:  |                |                |                |                |                |                |
| Building and structures  | 22,115,487     | 23,082,307     | 4,575,769      | 4,575,769      | 26,691,256     | 27,658,076     |
| Machinery and equipment  | 34,965,729     | 34,707,665     | 3,965,594      | 3,603,877      | 38,931,323     | 38,311,542     |
| Improvements other than buildings,<br>structures and land improvements | 116,013,305    | 111,943,768    | 144,896,446    | 144,356,521    | 260,909,751    | 256,300,289    |
| Infrastructure   | 373,627,644    | 373,627,644    | 40,278,359     | 39,813,393     | 413,906,003    | 413,441,037    |
| Accumulated depreciation   | (332,671,808)  | (318,942,539)  | (79,829,518)   | (71,765,576)   | (412,501,326)  | (390,708,115)  |
| Total depreciable assets, net  | 214,050,357    | 224,418,845    | 113,886,650    | 120,583,984    | 327,937,007    | 345,002,829    |
| Total capital assets   | \$ 311,219,066 | \$ 325,820,783 | \$ 165,601,997 | \$ 167,731,143 | \$ 476,821,063 | \$ 493,551,926 |

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

- Wastewater Treatment Plant's new laboratory in the amount of \$2.6 million.
- Merced Roadway improvement and rehabilitation project in the amount of \$1.7 million.

**Long-term Debt** – At the end of the current fiscal year, the City had \$64.2 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, 2015

|                          | Governmental  |               | Business-type |               | Total         |               |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                          | Activities    |               | Activities    |               |               |               |
|                          | 2015          | 2014          | 2015          | 2014          | 2015          | 2014          |
| Pension obligation bonds | \$ 5,630,000  | \$ 5,955,000  | \$            | \$            | \$ 5,630,000  | \$ 5,955,000  |
| Loans payable            | 1,800,000     | 2,000,000     | 34,805,831    | 36,502,153    | 36,605,831    | 38,502,153    |
| Capital Lease            | 6,316,227     | 6,630,193     |               |               | 6,316,227     | 6,630,193     |
| Revenue bonds payable    |               |               | 14,500,000    | 15,690,000    | 14,500,000    | 15,690,000    |
| Unamortized premiums     |               |               | 1,169,394     | 1,286,334     | 1,169,394     | 1,286,334     |
| Total                    | \$ 13,746,227 | \$ 14,585,193 | \$ 50,475,225 | \$ 53,478,487 | \$ 64,221,452 | \$ 68,063,680 |

During the current fiscal year, the City's net debt decreased by \$3.8 million or 5.6%. The net decrease included a reduction for scheduled principal payments and unamortized premium retirements. Additional information on the City of Merced's debt can be found in Note 8.

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

- Economic indicators show promise for growth in the local economy. These indicators include, 1) continued decline in local unemployment; 2) an upturn in residential development that will support expansion of retail business and jobs; 3) the development of the Downtown area with planning for the High Speed Rail, the opening of University of California Merced's Venture Lab, and future development of offices and retail business.
- The General Fund revenues for fiscal year 2015-16 are projected to increase 4% over fiscal year 2014-15 which supports the City's priorities to add Public Safety, Recreation and Community Services positions.
- The Enterprise Funds continue to maintain a stable financial position. The refuse rates, approved in the study completed in fiscal year 2014-15, will increase by 3.5% for residential customers and 1% percent annually for commercial businesses for the next five years. A wastewater rate study is planned for fiscal year 2015-16. In an effort to deal with the drought conditions in California, the City has implemented various water conservation measures including public education and outreach, ordinance amendment for restrictions and installation of approximately 10,800 meters for unmetered water accounts.

## **REQUEST FOR INFORMATION**

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

**BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**City of Merced**  
**Statement of Net Position**  
**June 30, 2015**

|   | Governmental<br>Activities | Business-Type<br>Activities | Totals                |
|---|----------------------------|-----------------------------|-----------------------|
| <b>ASSETS</b>                                   |                            |                             |                       |
| Current assets:                                 |                            |                             |                       |
| Cash, cash equivalents and investments          | \$ 59,501,654              | \$ 102,783,837              | \$ 162,285,491        |
| Restricted cash held by fiscal agents           | 6                          |                             | 6                     |
| Receivables                                     | 9,974,795                  | 9,027,580                   | 19,002,375            |
| Prepaid items                                   | 8,857                      |                             | 8,857                 |
| Inventory                                       | 288,904                    | 251,844                     | 540,748               |
| Total current assets                            | <u>69,774,216</u>          | <u>112,063,261</u>          | <u>181,837,477</u>    |
| Noncurrent assets:                              |                            |                             |                       |
| Land held for resale                            | 2,909,191                  |                             | 2,909,191             |
| Notes receivable                                | 34,482,928                 | 38,007                      | 34,520,935            |
| Capital assets:                                 |                            |                             |                       |
| Non-depreciable                                 | 97,168,709                 | 51,715,347                  | 148,884,056           |
| Depreciable, net of accumulated depreciation    | 214,050,357                | 113,886,650                 | 327,937,007           |
| Total noncurrent assets                         | <u>348,611,185</u>         | <u>165,640,004</u>          | <u>514,251,189</u>    |
| <b>Total assets</b>                             | <u>418,385,401</u>         | <u>277,703,265</u>          | <u>696,088,666</u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>           |                            |                             |                       |
| Deferred pensions                               | <u>4,477,112</u>           | <u>1,014,952</u>            | <u>5,492,064</u>      |
| <b>LIABILITIES</b>                              |                            |                             |                       |
| Current liabilities:                            |                            |                             |                       |
| Accounts payable                                | 1,192,363                  | 1,735,030                   | 2,927,393             |
| Payroll liabilities                             | 928,973                    | 285,499                     | 1,214,472             |
| Deposits and other liabilities                  | 2,480,603                  | 2,005,154                   | 4,485,757             |
| Unearned revenue                                | 1,576,928                  | 290,519                     | 1,867,447             |
| Accrued interest payable                        | 154,469                    | 446,053                     | 600,522               |
| Claims liability, due within one year           | 2,980,927                  |                             | 2,980,927             |
| Compensated absences, due within one year       | 706,559                    | 138,742                     | 845,301               |
| Long-term debt, due within one year             | 925,564                    | 2,936,283                   | 3,861,847             |
| Total current liabilities                       | <u>10,946,386</u>          | <u>7,837,280</u>            | <u>18,783,666</u>     |
| Noncurrent liabilities:                         |                            |                             |                       |
| Claims liability, due in more than one year     | 3,073,047                  |                             | 3,073,047             |
| Compensated absences, due in more than one year | 2,831,193                  | 687,691                     | 3,518,884             |
| Long-term debt, due in more than one year       | 12,820,663                 | 47,538,942                  | 60,359,605            |
| Net other postemployment benefits obligation    | 21,615,136                 | 5,234,864                   | 26,850,000            |
| Net pension liability                           | 44,447,816                 | 10,523,645                  | 54,971,461            |
| Total noncurrent liabilities                    | <u>84,787,855</u>          | <u>63,985,142</u>           | <u>148,772,997</u>    |
| <b>Total liabilities</b>                        | <u>95,734,241</u>          | <u>71,822,422</u>           | <u>167,556,663</u>    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>            |                            |                             |                       |
| Deferred pensions                               | <u>11,142,761</u>          | <u>2,546,187</u>            | <u>13,688,948</u>     |
| <b>NET POSITION</b>                             |                            |                             |                       |
| Net investment in capital assets                | 309,124,469                | 122,078,985                 | 431,203,454           |
| Restricted for:                                 |                            |                             |                       |
| Streets and street lights                       | 2,666,663                  |                             | 2,666,663             |
| Community development                           | 9,861,427                  |                             | 9,861,427             |
| Housing   | 36,056,468                 |                             | 36,056,468            |
| Public safety                                   | 395,634                    |                             | 395,634               |
| Special districts                               | 2,859,678                  |                             | 2,859,678             |
| Other special projects and programs             | 4,363,727                  | 3,077,089                   | 7,440,816             |
| Debt service                                    |                            | 1,938,547                   | 1,938,547             |
| Capital projects                                | 4,844,385                  | 42,555,528                  | 47,399,913            |
| Unrestricted                                    | (54,186,940)               | 34,699,459                  | (19,487,481)          |
| <b>Total net position</b>                       | <u>\$ 315,985,511</u>      | <u>\$ 204,349,608</u>       | <u>\$ 520,335,119</u> |

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, 2015**

| <b>Functions/Programs</b>             | <b>Expenses</b>       | <b>Program Revenues</b>     |   |   | <b>Total</b>         |
|---------------------------------------|-----------------------|-----------------------------|---|---|----------------------|
|                                       |                       | <b>Charges for Services</b> | <b>Operating Grants and Contributions</b> | <b>Capital Grants and Contributions</b> |                      |
| <b>Governmental activities:</b>       |                       |                             |   |   |                      |
| General government                    | \$ 7,650,592          | \$ 1,620,532                | \$ 2,174,831                              | \$ 570                                  | \$ 3,795,933         |
| Public safety                         | 29,599,678            | 2,702,479                   | 686,701                                   |   | 3,389,180            |
| Public works                          | 17,475,927            | 5,331,518                   | 3,142,042                                 | 1,132,357                               | 9,605,917            |
| Culture and recreation                | 1,955,966             | 463,258                     | 113,362                                   | 49,241                                  | 625,861              |
| Interest on long-term debt            | 773,778               |                             |   |   |                      |
| <b>Total governmental activities</b>  | <b>57,455,941</b>     | <b>10,117,787</b>           | <b>6,116,936</b>                          | <b>1,182,168</b>                        | <b>17,416,891</b>    |
| <b>Business-Type activities:</b>      |                       |                             |   |   |                      |
| Wastewater system                     | 15,568,388            | 17,807,823                  |   |   | 17,807,823           |
| Water system                          | 13,719,156            | 13,238,388                  |   | 126,720                                 | 13,365,108           |
| Refuse collection system              | 12,263,902            | 12,221,542                  | 17,057                                    |   | 12,238,599           |
| Merced municipal airport              | 1,202,072             | 404,454                     | 413,707                                   |   | 818,161              |
| <b>Total business-type activities</b> | <b>42,753,518</b>     | <b>43,672,207</b>           | <b>430,764</b>                            | <b>126,720</b>                          | <b>44,229,691</b>    |
| <b>Total government</b>               | <b>\$ 100,209,459</b> | <b>\$ 53,789,994</b>        | <b>\$ 6,547,700</b>                       | <b>\$ 1,308,888</b>                     | <b>\$ 61,646,582</b> |

**General Revenues:**

Taxes:  
Property  
Sales  
Franchise taxes  
Transient occupancy taxes  
Business license tax  
Business improvement tax  
Cost recovery impact study  
Total taxes  
Interest and investment earnings  
Disposal of capital assets  
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<br>Activities | Business-Type<br>Activities | Total                 |
|----------------------------|-----------------------------|-----------------------|
| \$ (3,854,659)             | \$                          | \$ (3,854,659)        |
| (26,210,498)               |                             | (26,210,498)          |
| (7,870,010)                |                             | (7,870,010)           |
| (1,330,105)                |                             | (1,330,105)           |
| (773,778)                  |                             | (773,778)             |
| <u>(40,039,050)</u>        |                             | <u>(40,039,050)</u>   |
|                            | 2,239,435                   | 2,239,435             |
|                            | (354,048)                   | (354,048)             |
|                            | (25,303)                    | (25,303)              |
|                            | <u>(383,911)</u>            | <u>(383,911)</u>      |
|                            | <u>1,476,173</u>            | <u>1,476,173</u>      |
| <u>(40,039,050)</u>        | <u>1,476,173</u>            | <u>(38,562,877)</u>   |
| 13,933,670                 | 35,337                      | 13,969,007            |
| 13,922,380                 |                             | 13,922,380            |
| 1,698,203                  |                             | 1,698,203             |
| 1,874,354                  |                             | 1,874,354             |
| 1,077,292                  |                             | 1,077,292             |
| 73,813                     |                             | 73,813                |
| 124,102                    |                             | 124,102               |
| <u>32,703,814</u>          | <u>35,337</u>               | <u>32,739,151</u>     |
| 705,575                    | 795,215                     | 1,500,790             |
| (2,644,693)                | 14,013                      | (2,630,680)           |
| 463,400                    | <u>(463,400)</u>            |                       |
| <u>31,228,096</u>          | <u>381,165</u>              | <u>31,609,261</u>     |
| (8,810,954)                | 1,857,338                   | (6,953,616)           |
| 324,796,465                | 202,492,270                 | 527,288,735           |
| <u>\$ 315,985,511</u>      | <u>\$ 204,349,608</u>       | <u>\$ 520,335,119</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.

*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 low and moderate income housing activities. On January 12, 2012, the City Council adopted Resolution 2012-5, assuming all rights, powers, assets, liabilities, duties, and obligations associated with the housing activities of the former Redevelopment Agency.

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

**City of Merced**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2015**

|  | General<br>Fund      | Housing                     | Measure C                   |
|--|----------------------|-----------------------------|-----------------------------|
| <b>ASSETS</b>                              |                      |                             |                             |
| Cash, cash equivalents and investments     | \$ 13,603,525        | \$ 1,043,146                | \$ 285,897                  |
| Restricted cash held by fiscal agents      | 6                    |                             |                             |
| Receivables:                               |                      |                             |                             |
| Accounts                                   | 717,103              | 371                         | 6,079                       |
| Due from other governments                 | 2,273,394            | 71,351                      | 1,130,693                   |
| Interest                                   | 15,776               | 551,375                     | 333                         |
| Due from other funds                       | 241,662              |                             |                             |
| Inventory                                  | 50,705               |                             |                             |
| Land held for resale                       |                      | 229,548                     |                             |
| Notes receivable                           | 173,425              | 19,925,239                  |                             |
| Advances to other funds                    | 1,710,991            |                             |                             |
|  | <u>1,710,991</u>     | <u>                    </u> | <u>                    </u> |
| <b>Total assets</b>                        | <u>\$ 18,786,587</u> | <u>\$ 21,821,030</u>        | <u>\$ 1,423,002</u>         |
| <b>LIABILITIES AND FUND BALANCES</b>       |                      |                             |                             |
| Liabilities:                               |                      |                             |                             |
| Accounts payable                           | \$ 149,164           | \$ 38,155                   | \$ 117,691                  |
| Payroll liabilities                        | 575,749              | 7,706                       | 114,969                     |
| Unearned revenue                           | 961,411              | 559,084                     |                             |
| Due to other funds                         |                      |                             |                             |
| Advances from other funds                  |                      |                             |                             |
| Other liabilities                          | 6,670                | 3,068                       |                             |
| <b>Total liabilities</b>                   | <u>1,692,994</u>     | <u>608,013</u>              | <u>232,660</u>              |
| Fund balances:                             |                      |                             |                             |
| Nonspendable                               | 1,917,715            |                             |                             |
| Restricted                                 | 4,000,000            | 21,213,017                  |                             |
| Committed                                  |                      |                             | 1,190,342                   |
| Assigned                                   | 1,047,714            |                             |                             |
| Unassigned                                 | 10,128,164           |                             |                             |
| <b>Total fund balances</b>                 | <u>17,093,593</u>    | <u>21,213,017</u>           | <u>1,190,342</u>            |
| <b>Total liabilities and fund balances</b> | <u>\$ 18,786,587</u> | <u>\$ 21,821,030</u>        | <u>\$ 1,423,002</u>         |

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

| Low and Moderate Income Housing | Streets & Signals   | Non-Major Governmental Funds | Total                |
|---------------------------------|---------------------|------------------------------|----------------------|
| \$ 304,655                      | \$ 2,076,915        | \$ 21,399,888                | \$ 38,714,026        |
|                                 |                     |                              | 6                    |
|                                 |                     | 1,079,823                    | 1,803,376            |
|                                 | 467,070             | 1,777,329                    | 5,719,837            |
| 705,541                         | 2,183               | 1,086,890                    | 2,362,098            |
|                                 |                     | 102,919                      | 344,581              |
|                                 |                     |                              | 50,705               |
| 1,603,664                       |                     | 1,075,979                    | 2,909,191            |
| 8,627,381                       |                     | 5,756,883                    | 34,482,928           |
|                                 |                     |                              | 1,710,991            |
| <u>\$ 11,241,241</u>            | <u>\$ 2,546,168</u> | <u>\$ 32,279,711</u>         | <u>\$ 88,097,739</u> |
|                                 |                     |                              |                      |
| \$                              | \$ 377,068          | \$ 69,640                    | \$ 751,718           |
|                                 |                     | 117,332                      | 815,756              |
|                                 |                     | 56,433                       | 1,576,928            |
|                                 |                     | 344,581                      | 344,581              |
|                                 |                     | 1,710,991                    | 1,710,991            |
|                                 |                     | 2,467,234                    | 2,476,972            |
|                                 | <u>377,068</u>      | <u>4,766,211</u>             | <u>7,676,946</u>     |
|                                 |                     |                              |                      |
|                                 |                     |                              | 1,917,715            |
| 11,241,241                      | 2,169,100           | 22,424,624                   | 61,047,982           |
|                                 |                     | 5,323,654                    | 6,513,996            |
|                                 |                     |                              | 1,047,714            |
|                                 |                     | (234,778)                    | 9,893,386            |
| <u>11,241,241</u>               | <u>2,169,100</u>    | <u>27,513,500</u>            | <u>80,420,793</u>    |
| <u>\$ 11,241,241</u>            | <u>\$ 2,546,168</u> | <u>\$ 32,279,711</u>         | <u>\$ 88,097,739</u> |

**City of Merced**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Position**  
**June 30, 2015**

**Total Fund Balances - Total Governmental Funds** \$ 80,420,793

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 \$3,998                                     | \$ 97,164,711 |             |
| Depreciable, net of accumulated depreciation and net of Internal Service Fund assets of \$8,139,149 | 205,911,208   | 303,075,919 |

|  |  |           |
|--|--|-----------|
| Deferred outflows of resources related to the net pension liability. |  | 4,157,269 |
|--|--|-----------|

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   | (575,000)    |              |
| Long-term debt due in more than one year   | (6,855,000)  |              |
| Net other postemployment health care benefits obligation, net of Internal Service Fund obligation of \$1,965,019 | (19,650,116) |              |
| Net pension liability  | (40,842,266) |              |
| Compensated absences, net of Internal Service Fund liability of \$292,360  | (3,245,392)  | (71,167,774) |

|   |  |              |
|---|--|--------------|
| Deferred inflows of resources related to the net pension liability. |  | (10,340,374) |
|---|--|--------------|

|  |  |          |
|--|--|----------|
| 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. |  | (65,975) |
|--|--|----------|

|   |  |           |
|---|--|-----------|
| 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. |  | 9,905,653 |
|---|--|-----------|

|  |  |                              |
|--|--|------------------------------|
| <b>Net position of governmental activities</b> |  | <u><u>\$ 315,985,511</u></u> |
|--|--|------------------------------|

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**City of Merced**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2015**

|   | General<br>Fund      | Housing              | Measure C           |
|---|----------------------|----------------------|---------------------|
| <b>REVENUES:</b>                          |                      |                      |                     |
| Taxes                                     | \$ 26,591,389        | \$                   | \$ 5,568,158        |
| Intergovernmental                         | 879,227              | 1,226,637            | 250,988             |
| Licenses and permits                      | 22,631               |                      |                     |
| Use of money and property                 | 145,411              | 7,019                | 1,560               |
| Service charges                           | 7,129,251            | 536,286              | 322,632             |
| Fines, forfeitures and penalties          | 359,058              |                      |                     |
| Other                                     | 502,692              |                      |                     |
| Total revenues                            | <u>35,629,659</u>    | <u>1,769,942</u>     | <u>6,143,338</u>    |
| <b>EXPENDITURES:</b>                      |                      |                      |                     |
| Current operating:                        |                      |                      |                     |
| General government                        | 5,275,197            | 1,507,920            |                     |
| Public safety                             | 24,184,904           |                      | 5,901,150           |
| Public works                              | 1,573,305            |                      | 187,904             |
| Culture and recreation                    | 1,106,843            |                      |                     |
| Total current operating                   | <u>32,140,249</u>    | <u>1,507,920</u>     | <u>6,089,054</u>    |
| Capital outlay                            | 20,348               | 515,145              | 408,399             |
| Debt Service:                             |                      |                      |                     |
| Principal                                 | 325,000              |                      |                     |
| Interest                                  | 348,691              |                      |                     |
| Total expenditures                        | <u>32,834,288</u>    | <u>2,023,065</u>     | <u>6,497,453</u>    |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | <u>2,795,371</u>     | <u>(253,123)</u>     | <u>(354,115)</u>    |
| <b>OTHER FINANCING SOURCES (USES):</b>    |                      |                      |                     |
| Sale of capital assets                    | 439,250              | 675,422              |                     |
| Transfers in                              | 1,161,793            |                      |                     |
| Transfers out                             | (1,384,726)          | (361,291)            | (511)               |
| Total other financing sources (uses)      | <u>216,317</u>       | <u>314,131</u>       | <u>(511)</u>        |
| <b>NET CHANGE IN FUND BALANCES</b>        | 3,011,688            | 61,008               | (354,626)           |
| <b>FUND BALANCES:</b>                     |                      |                      |                     |
| Beginning of year, restated               | 14,081,905           | 21,152,009           | 1,544,968           |
| End of year                               | <u>\$ 17,093,593</u> | <u>\$ 21,213,017</u> | <u>\$ 1,190,342</u> |

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



| Low and<br>Moderate<br>Income Housing | Streets &<br>Signals | Non-Major<br>Governmental<br>Funds | Total                |
|---------------------------------------|----------------------|------------------------------------|----------------------|
| \$                                    | \$                   | \$                                 | \$                   |
| 216,942                               | 1,132,357            | 544,267                            | 32,703,814           |
|                                       |                      | 3,590,148                          | 7,296,299            |
|                                       |                      | 537,502                            | 560,133              |
| 15,912                                | 10,258               | 516,519                            | 696,679              |
|                                       |                      | 6,187,892                          | 14,176,061           |
|                                       |                      | 53,915                             | 412,973              |
|                                       |                      | 171,204                            | 673,896              |
| <u>232,854</u>                        | <u>1,142,615</u>     | <u>11,601,447</u>                  | <u>56,519,855</u>    |
|                                       |                      |                                    |                      |
| 1,685                                 |                      | 2,561,328                          | 9,346,130            |
|                                       |                      | 1,234,960                          | 31,321,014           |
|                                       |                      | 5,038,389                          | 6,799,598            |
|                                       |                      |                                    | 1,106,843            |
| <u>1,685</u>                          |                      | <u>8,834,677</u>                   | <u>48,573,585</u>    |
|                                       | 2,669,128            | 239,030                            | 3,852,050            |
|                                       |                      | 200,000                            | 525,000              |
|                                       |                      | 102,610                            | 451,301              |
| <u>1,685</u>                          | <u>2,669,128</u>     | <u>9,376,317</u>                   | <u>53,401,936</u>    |
|                                       |                      |                                    |                      |
| <u>231,169</u>                        | <u>(1,526,513)</u>   | <u>2,225,130</u>                   | <u>3,117,919</u>     |
|                                       |                      |                                    |                      |
|                                       |                      | 139,030                            | 1,253,702            |
|                                       | 1,847,661            | 1,716,368                          | 4,725,822            |
|                                       | (163,011)            | (2,848,324)                        | (4,757,863)          |
|                                       | <u>1,684,650</u>     | <u>(992,926)</u>                   | <u>1,221,661</u>     |
|                                       |                      |                                    |                      |
| 231,169                               | 158,137              | 1,232,204                          | 4,339,580            |
|                                       |                      |                                    |                      |
| 11,010,072                            | 2,010,963            | 26,281,296                         | 76,081,213           |
| <u>\$ 11,241,241</u>                  | <u>\$ 2,169,100</u>  | <u>\$ 27,513,500</u>               | <u>\$ 80,420,793</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, 2015

|   |                              |
|---|------------------------------|
| <b>Net Change in Fund Balances - Total Governmental Funds</b>   | \$ 4,339,580                 |
| 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.  | 3,237,430                    |
| 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 \$1,896,132.   | (14,243,677)                 |
| 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.  | (4,012,180)                  |
| 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   | 525,000                      |
| 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.   | (12,535)                     |
| Change in net other postemployment health care benefits obligation, net of Internal Service Fund obligation expense of \$75,718   | (808,054)                    |
| Change in net pension liability and related deferred inflows/outflows.  | 319,189                      |
| 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. | (36,918)                     |
| 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>1,881,211</u>             |
| <b>Change in Net Position of Governmental Activities</b>  | <u><u>\$ (8,810,954)</u></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, 2015**

|   | Business-type Activities<br>Major Enterprise Funds |                      |                                |
|---|--|----------------------|--------------------------------|
|   | Wastewater<br>System                               | Water<br>System      | Refuse<br>Collection<br>System |
| <b>ASSETS</b>                                   |  |                      |                                |
| Current assets:                                 |  |                      |                                |
| Cash, cash equivalents and investments          | \$ 36,932,173                                      | \$ 59,549,632        | \$ 6,174,567                   |
| Accounts receivable, net                        | 849,903  | 891,355              | 86,391                         |
| Due from other governments                      | 3,594,664  | 3,451,578            |                                |
| Interest receivable                             | 41,505   | 66,817               | 7,040                          |
| Prepaid items                                   |  |                      |                                |
| Inventory                                       |  | 251,844              |                                |
| Total current assets                            | <u>41,418,245</u>                                  | <u>64,211,226</u>    | <u>6,267,998</u>               |
| Noncurrent assets:                              |  |                      |                                |
| Notes receivable-private parties                | 22,167   | 15,840               |                                |
| Advances to other funds                         |  | 172,904              |                                |
| Capital assets:                                 |  |                      |                                |
| Non-depreciable                                 | 47,519,649   | 3,698,367            |                                |
| Depreciable, net of accumulated depreciation    | 64,076,913   | 43,995,147           | 224,508                        |
| Total noncurrent assets                         | <u>111,618,729</u>                                 | <u>47,882,258</u>    | <u>224,508</u>                 |
| <b>Total assets</b>                             | <u>153,036,974</u>                                 | <u>112,093,484</u>   | <u>6,492,506</u>               |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>           |  |                      |                                |
| Deferred pensions                               | <u>353,662</u>                                     | <u>268,563</u>       | <u>371,297</u>                 |
| <b>LIABILITIES</b>                              |  |                      |                                |
| Current liabilities:                            |  |                      |                                |
| Accounts payable                                | 529,686  | 979,567              | 223,490                        |
| Payroll payable                                 | 91,644   | 77,047               | 110,261                        |
| Unearned revenue                                | 113,302  | 90,061               | 87,156                         |
| Accrued interest payable                        | 361,914  | 84,139               |                                |
| Deposits and other liabilities                  | 1,166,418  | 526,578              | 271,594                        |
| Compensated absences, due within one year       | 57,929   | 39,766               | 40,120                         |
| Claims payable, due within one year             |  |                      |                                |
| Long-term debt, due within one year             | 2,463,283  | 473,000              |                                |
| Total current liabilities                       | <u>4,784,176</u>                                   | <u>2,270,158</u>     | <u>732,621</u>                 |
| Noncurrent liabilities:                         |  |                      |                                |
| Advances from other funds                       |  |                      |                                |
| Compensated absences, due in more than one year | 211,274  | 202,445              | 263,264                        |
| Claims payable, due in more than one year       |  |                      |                                |
| Long-term debt, due in more than one year       | 39,864,005   | 7,674,937            |                                |
| Net other postemployment benefits obligation    | 1,779,298  | 1,401,938            | 1,922,660                      |
| Net pension liability                           | 3,964,767  | 2,633,051            | 3,573,355                      |
| Total noncurrent liabilities                    | <u>45,819,344</u>                                  | <u>11,912,371</u>    | <u>5,759,279</u>               |
| <b>Total liabilities</b>                        | <u>50,603,520</u>                                  | <u>14,182,529</u>    | <u>6,491,900</u>               |
| <b>DEFERRED INFLOWS OF RESOURCES</b>            |  |                      |                                |
| Deferred pensions                               | <u>887,225</u>                                     | <u>673,737</u>       | <u>931,465</u>                 |
| <b>NET POSITION</b>                             |  |                      |                                |
| Net investment in capital assets                | 72,814,899   | 42,952,160           | 224,508                        |
| Restricted:                                     |  |                      |                                |
| Other special projects and programs             | 1,068,200  | 1,799,529            | 142,768                        |
| Debt service                                    | 1,938,506  | 41                   |                                |
| Capital projects                                | 8,437,725  | 33,394,811           | 722,992                        |
| Unrestricted                                    | 17,640,561   | 19,359,240           | (1,649,830)                    |
| <b>Total net position</b>                       | <u>\$ 101,899,891</u>                              | <u>\$ 97,505,781</u> | <u>\$ (559,562)</u>            |

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

| Business-type<br>Activities | Total<br>Enterprise<br>Funds | Governmental<br>Activities<br>Internal<br>Service Funds |
|-----------------------------|------------------------------|---|
| \$ 127,465                  | \$ 102,783,837               | \$ 20,787,628   |
| 6,454                       | 1,834,103                    | 65,266  |
| 31,752                      | 7,077,994                    | 561   |
| 121                         | 115,483                      | 23,657  |
|                             |                              | 8,857   |
|                             | 251,844                      | 238,199   |
| <u>165,792</u>              | <u>112,063,261</u>           | <u>21,124,168</u>                                       |
|                             | 38,007                       |   |
|                             | 172,904                      |   |
| 497,331                     | 51,715,347                   | 3,998   |
| 5,590,082                   | 113,886,650                  | 8,139,149   |
| <u>6,087,413</u>            | <u>165,812,908</u>           | <u>8,143,147</u>  |
| <u>6,253,205</u>            | <u>277,876,169</u>           | <u>29,267,315</u>                                       |
| <br>                        |                              |   |
| <u>21,430</u>               | <u>1,014,952</u>             | <u>319,843</u>  |
| <br>                        |                              |   |
| 2,287                       | 1,735,030                    | 440,645   |
| 6,547                       | 285,499                      | 113,217   |
|                             | 290,519                      |   |
|                             | 446,053                      | 88,495  |
| 40,564                      | 2,005,154                    | 3,631   |
| 927                         | 138,742                      | 35,646  |
|                             |                              | 2,980,927   |
|                             | 2,936,283                    | 350,564   |
| <u>50,325</u>               | <u>7,837,280</u>             | <u>4,013,125</u>  |
| <br>                        |                              |   |
| 172,904                     | 172,904                      |   |
| 10,708                      | 687,691                      | 256,714   |
|                             |                              | 3,073,047   |
|                             | 47,538,942                   | 5,965,663   |
| 130,968                     | 5,234,864                    | 1,965,019   |
| 352,472                     | 10,523,645                   | 3,605,550   |
| <u>667,052</u>              | <u>64,158,046</u>            | <u>14,865,993</u>                                       |
| <u>717,377</u>              | <u>71,995,326</u>            | <u>18,879,118</u>                                       |
| <br>                        |                              |   |
| <u>53,760</u>               | <u>2,546,187</u>             | <u>802,387</u>  |
| <br>                        |                              |   |
| 6,087,418                   | 122,078,985                  | 8,143,147   |
| 66,592                      | 3,077,089                    |   |
|                             | 1,938,547                    |   |
|                             | 42,555,528                   |   |
| (650,512)                   | 34,699,459                   | 1,762,506   |
| <u>\$ 5,503,498</u>         | <u>\$ 204,349,608</u>        | <u>\$ 9,905,653</u>                                     |

**City of Merced**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2015**

|   | Business-type Activities<br>Major Enterprise Funds |                      |                                |
|---|--|----------------------|--------------------------------|
|   | Wastewater<br>System                               | Water<br>System      | Refuse<br>Collection<br>System |
| <b>OPERATING REVENUES</b>   |  |                      |                                |
| Charges for services  | \$ 16,978,427                                      | \$ 13,217,806        | \$ 12,182,435                  |
| Other revenues  | 829,396  | 20,582               | 39,107                         |
| Total operating revenues  | <u>17,807,823</u>                                  | <u>13,238,388</u>    | <u>12,221,542</u>              |
| <b>OPERATING EXPENSES</b>   |  |                      |                                |
| Personnel services  | 3,775,996  | 3,076,293            | 4,677,540                      |
| Materials, supplies and other services                              | 6,549,574  | 7,149,278            | 7,554,303                      |
| Depreciation  | 4,397,308  | 3,211,901            | 32,059                         |
| Total operating expenses  | <u>14,722,878</u>                                  | <u>13,437,472</u>    | <u>12,263,902</u>              |
| <b>OPERATING INCOME (LOSS)</b>                                      | <u>3,084,945</u>                                   | <u>(199,084)</u>     | <u>(42,360)</u>                |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                             |  |                      |                                |
| Property taxes  |  |                      |                                |
| Intergovernmental revenues  |  |                      | 17,057                         |
| Interest and investment earnings                                    | 280,056  | 468,670              | 45,735                         |
| Gain (loss) on disposition of capital assets                        | 5,024  | 8,989                |                                |
| Interest and related expenses                                       | (845,510)  | (281,684)            |                                |
| Total nonoperating revenues (expenses)                              | <u>(560,430)</u>                                   | <u>195,975</u>       | <u>62,792</u>                  |
| <b>INCOME (LOSS) BEFORE TRANSFERS<br/>AND CAPITAL CONTRIBUTIONS</b> | <u>2,524,515</u>                                   | <u>(3,109)</u>       | <u>20,432</u>                  |
| <b>TRANSFERS AND CAPITAL CONTRIBUTIONS</b>                          |  |                      |                                |
| Capital contributions   |  | 126,720              |                                |
| Transfers in  |  | 13,814,160           | 31,864                         |
| Transfers out   | (23,612)   | (537,448)            | (13,822,391)                   |
| Total transfers and capital contributions                           | <u>(23,612)</u>                                    | <u>13,403,432</u>    | <u>(13,790,527)</u>            |
| <b>CHANGE IN NET POSITION</b>                                       | 2,500,903  | 13,400,323           | (13,770,095)                   |
| <b>NET POSITION:</b>  |  |                      |                                |
| Beginning of year, restated   | 99,398,988   | 84,105,458           | 13,210,533                     |
| End of year   | <u>\$ 101,899,891</u>                              | <u>\$ 97,505,781</u> | <u>\$ (559,562)</u>            |

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

| Business-type<br>Activities | Total<br>Enterprise<br>Funds | Governmental<br>Activities<br>Internal<br>Service Funds |
|-----------------------------|------------------------------|---|
| \$ 401,854                  | \$ 42,780,522                | \$ 22,909,875   |
| 2,600                       | 891,685                      | 1,308,098   |
| <u>404,454</u>              | <u>43,672,207</u>            | <u>24,217,973</u>                                       |
| 212,368                     | 11,742,197                   | 5,202,155   |
| 554,874                     | 21,808,029                   | 15,834,860  |
| 422,674                     | 8,063,942                    | 1,896,132   |
| <u>1,189,916</u>            | <u>41,614,168</u>            | <u>22,933,147</u>                                       |
| <u>(785,462)</u>            | <u>2,058,039</u>             | <u>1,284,826</u>  |
| 35,337                      | 35,337                       |   |
| 413,707                     | 430,764                      | 1,143   |
| 754                         | 795,215                      | 271,575   |
|                             | 14,013                       | 113,785   |
| <u>(12,156)</u>             | <u>(1,139,350)</u>           | <u>(285,559)</u>  |
| <u>437,642</u>              | <u>135,979</u>               | <u>100,944</u>  |
| <u>(347,820)</u>            | <u>2,194,018</u>             | <u>1,385,770</u>  |
|                             | 126,720                      |   |
| 83,536                      | 13,929,560                   | 695,603   |
| (9,509)                     | (14,392,960)                 | (200,162)   |
| <u>74,027</u>               | <u>(336,680)</u>             | <u>495,441</u>  |
| (273,793)                   | 1,857,338                    | 1,881,211   |
| 5,777,291                   | 202,492,270                  | 8,024,442   |
| <u>\$ 5,503,498</u>         | <u>\$ 204,349,608</u>        | <u>\$ 9,905,653</u>                                     |

**City of Merced**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2015**

|   | Business-type Activities<br>Major Enterprise Funds |                    |                                |
|---|--|--------------------|--------------------------------|
|   | Wastewater<br>System                               | Water<br>System    | Refuse<br>Collection<br>System |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                     |  |                    |                                |
| Cash received from customers,<br>including cash deposits                        | \$ 18,630,020                                      | \$ 13,431,631      | \$ 12,261,399                  |
| Cash paid to suppliers  | (6,310,563)  | (6,386,564)        | (7,586,169)                    |
| Cash paid to employees  | (3,656,872)  | (2,834,199)        | (4,265,815)                    |
| <b>Net cash provided (used)<br/>by operating activities</b>                     | <b>8,662,585</b>                                   | <b>4,210,868</b>   | <b>409,415</b>                 |
| <b>CASH FLOWS FROM NONCAPITAL<br/>FINANCING ACTIVITIES</b>                      |  |                    |                                |
| Advances to other funds   |  | 41,787             |                                |
| Advances from other funds   |  |                    |                                |
| Due from other funds  |  |                    |                                |
| Other liabilities   | 70   | 4,000              |                                |
| Receivables   |  | (9,506)            |                                |
| Tax proceeds not attributable to capital  |  |                    |                                |
| Transfers from other funds  |  | (168,907)          | 31,864                         |
| Transfers to other funds  | (23,612)   | (218,409)          | (158,363)                      |
| <b>Net cash provided (used) by<br/>noncapital financing activities</b>          | <b>(23,542)</b>                                    | <b>(351,035)</b>   | <b>(126,499)</b>               |
| <b>CASH FLOWS FROM CAPITAL AND<br/>RELATED FINANCING ACTIVITIES</b>             |  |                    |                                |
| Acquisition and construction of capital assets                                  | (3,633,407)  | (2,252,611)        |                                |
| Proceeds of capital contributions   |  | 126,720            | 17,057                         |
| Payment of long-term debt   | (2,423,320)  | (463,001)          |                                |
| Interest payments   | (949,422)  | (320,505)          |                                |
| Proceeds from disposal of equipment   | 5,024  | 8,989              |                                |
| <b>Net cash provided (used) by capital<br/>and related financing activities</b> | <b>(7,001,125)</b>                                 | <b>(2,900,408)</b> | <b>17,057</b>                  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                     |  |                    |                                |
| Investment earnings   | 277,697  | 466,830            | 45,226                         |
| <b>Net cash provided (used)<br/>by investing activities</b>                     | <b>277,697</b>                                     | <b>466,830</b>     | <b>45,226</b>                  |
| <b>Net Increase (Decrease) in Cash<br/>and Cash Equivalents</b>                 | <b>1,915,615</b>                                   | <b>1,426,255</b>   | <b>345,199</b>                 |
| Cash and cash equivalents at beginning of year                                  | 35,016,558   | 58,123,377         | 5,829,368                      |
| Cash and cash equivalents at end of year  | \$ 36,932,173                                      | \$ 59,549,632      | \$ 6,174,567                   |

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



| Business-type<br>Activities     | Total               | Governmental                            |
|---------------------------------|---------------------|---|
| Nonmajor<br>Enterprise<br>Funds | Enterprise<br>Funds | Activities<br>Internal<br>Service Funds |
| \$ 441,441                      | \$ 44,764,491       | \$ 24,199,631                           |
| (558,068)                       | (20,841,364)        | (17,380,643)                            |
| (265,759)                       | (11,022,645)        | (5,202,673)                             |
| (382,386)                       | 12,900,482          | 1,616,315                               |
|                                 | 41,787              |   |
| (41,787)                        | (41,787)            |   |
|                                 |                     | 9,390                                   |
|                                 | 4,070               |   |
|                                 | (9,506)             |   |
| 35,337                          | 35,337              |   |
| 83,536                          | (53,507)            | 695,603                                 |
| 316,739                         | (83,645)            | (200,162)                               |
| 393,825                         | (107,251)           | 504,831                                 |
| (375,026)                       | (6,261,044)         | (2,312,842)                             |
| 413,707                         | 557,484             | 1,143                                   |
|                                 | (2,886,321)         |   |
| (12,156)                        | (1,282,083)         | (297,357)                               |
|                                 | 14,013              | 113,785                                 |
| 26,525                          | (9,857,951)         | (2,495,271)                             |
| 733                             | 790,486             | 271,270                                 |
| 733                             | 790,486             | 271,270                                 |
| 38,697                          | 3,725,766           | (102,855)                               |
| 88,768                          | 99,058,071          | 20,890,483                              |
| \$ 127,465                      | \$ 102,783,837      | \$ 20,787,628                           |

**City of Merced**  
**Statement of Cash Flows (continued)**  
**Proprietary Funds**  
**For the Year Ended June 30, 2015**

|   | Business-type Activities<br>Major Enterprise Funds |                     |                                |
|---|--|---------------------|--------------------------------|
|   | Wastewater<br>System                               | Water<br>System     | Refuse<br>Collection<br>System |
| <b>RECONCILIATION OF OPERATING<br/>INCOME (LOSS) TO NET CASH<br/>PROVIDED (USED) BY OPERATING<br/>ACTIVITIES:</b> |  |                     |                                |
| Operating income (loss)   | \$ 3,084,945                                       | \$ (199,084)        | \$ (42,360)                    |
| Adjustments to reconcile operating income<br>(loss) to net cash provided (used) by<br>operating activities:       |  |                     |                                |
| Depreciation  | 4,397,308  | 3,211,901           | 32,059                         |
| Changes in assets and liabilities:  |  |                     |                                |
| Receivables   | 808,624  | 180,472             | 25,005                         |
| Inventory   |  | (47,488)            |                                |
| Prepaid expenses  |  |                     |                                |
| Accounts payable  | 221,034  | 726,243             | (53,104)                       |
| Payroll liabilities   | 16,048   | 22,721              | 24,949                         |
| Deposits  | 17,977   | 83,959              | 21,238                         |
| Unearned revenues   | 13,573   | 12,771              | 14,852                         |
| Other liabilities   |  |                     |                                |
| Insurance claims  |  |                     |                                |
| Long-term liabilities   |  |                     |                                |
| Compensated absences  | 31,985   | 6,530               | 52,392                         |
| Net pension liability   | (27,837)   | (21,140)            | (29,226)                       |
| Net other postemployment<br>benefits obligation   | 98,928   | 233,983             | 363,610                        |
| Total adjustments   | 5,577,640  | 4,409,952           | 451,775                        |
| <b>Net Cash Provided (Used) By<br/>Operating Activities</b>   | <b>\$ 8,662,585</b>                                | <b>\$ 4,210,868</b> | <b>\$ 409,415</b>              |

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

| Business-type<br>Activities     | Total                | Governmental                            |
|---------------------------------|----------------------|---|
| Nonmajor<br>Enterprise<br>Funds | Enterprise<br>Funds  | Activities<br>Internal<br>Service Funds |
| \$ (785,462)                    | \$ 2,058,039         | \$ 1,284,826                            |
| 422,674                         | 8,063,942            | 1,896,132                               |
| 36,987                          | 1,051,088            | (18,342)                                |
|                                 | (47,488)             | (12,332)                                |
|                                 |                      | (449)                                   |
| (7,623)                         | 886,550              | (828,818)                               |
| 488                             | 64,206               | 15,339                                  |
| 581                             | 123,755              |   |
|                                 | 41,196               |   |
| 3,848                           | 3,848                |   |
|                                 |                      | (390,218)                               |
|                                 |                      | (313,966)                               |
| (6,899)                         | 84,008               | (66,400)                                |
| (1,687)                         | (79,890)             | (25,174)                                |
| (45,293)                        | 651,228              | 75,717                                  |
| 403,076                         | 10,842,443           | 331,489                                 |
| <u>\$ (382,386)</u>             | <u>\$ 12,900,482</u> | <u>\$ 1,616,315</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, 2015**

|  | Private<br>Purpose<br>Trust Funds | Agency<br>Funds |
|--|-----------------------------------|-----------------|
| <b>ASSETS</b>                          |                                   |                 |
| Cash, cash equivalents and investments | \$ 289,025                        | \$ 3,059,592    |
| Restricted cash held by fiscal agent   |                                   | 2,936,111       |
| Receivables                            | 326                               | 135,751         |
| Deposits                               |                                   | 220,122         |
| Total assets                           | 289,351                           | 6,351,576       |
| <b>LIABILITIES</b>                     |                                   |                 |
| Deposits                               |                                   | 1,814,667       |
| Other liabilities                      |                                   | 217,607         |
| Due to other agencies                  |                                   | 780,479         |
| Due to bondholders                     |                                   | 3,538,823       |
| Total liabilities                      | \$                                | \$ 6,351,576    |
| <b>NET POSITION</b>                    |                                   |                 |
| Held in trust for other purposes       | 289,351                           |                 |
| Total net position                     | \$ 289,351                        |                 |

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, 2015**

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|   | Private<br>Purpose<br>Trust Funds |
|---|-----------------------------------|
| <b>ADDITIONS:</b>                                     |                                   |
| Investment earnings                                   | \$ 1,930                          |
| Miscellaneous   | 249,260                           |
| Total Additions                                       | <u>251,190</u>                    |
| <b>DEDUCTIONS:</b>                                    |                                   |
| General government                                    | <u>160,350</u>                    |
| Net Change  | 90,840                            |
| <b>NET POSITION HELD IN TRUST FOR OTHER PURPOSES:</b> |                                   |
| Beginning of year                                     | <u>198,511</u>                    |
| End of year   | <u><u>\$ 289,351</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, 2015**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

The financial reporting entity, as defined by GASB, consists of the primary government, the City, organizations for which the primary government is financially accountable and any other organization for which the nature and significance of their relationship with the primary government are such that exclusion would cause the City's financial statements to be misleading or incomplete.

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

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

As a result, these organizations are considered component units of the City and are included within the financial statements of the City using the blended method.

The Authority was originally created in August 1987 but had expired by its terms. The Authority was re-created on January 1, 2003, by City and former City of Merced Redevelopment Agency (Agency). The Parking Authority became a member of the Authority on April 18, 2011. On January 30, 2012, the Agency was removed as a member from the Authority. The Authority is a separate public entity and is to provide for the financing of costs and expenses of acquisition, construction and installation of authorized public capital improvements for the members through any financing procedures legally available to the members. All powers are vested in the governing board.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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

*A. Reporting Entity, Continued*

The Parking Authority was created on April 18, 2011, by City and Parking Authority Resolutions. The Authority is a separate public entity and is a specialized governmental agency focusing on parking issues and how to alleviate parking problems. All powers are vested in the governing board.

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

The City provides accounting and investing services for the Merced Mariposa Narcotics Task Force and Merced Somoto Sister City, whose funds are included in the City's pooled cash for investing purposes only. The City does not have the ability to exercise influence over them, therefore these entities are reported in the accompanying financial statements as Agency Funds in the Fiduciary Fund Financial Statements.

*B. Government-Wide Fund Financial Statements*

The basic financial statements include both Government-Wide (based on the City as a whole) and Fund Financial Statements. While the previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or major individual funds (within the Fund Financial Statements). Major Funds are funds whose revenues, expenditures or expenses, assets, or liabilities are at least ten percent of the corresponding totals for all Governmental or Enterprise Funds and at least five percent of the aggregate amount for all Governmental and Enterprise Funds for the same type. The General Fund is always a Major Fund and any other governmental or enterprise fund may be reported as a Major Fund if the City believes that fund is particularly important to financial statement users.

The Government-Wide Financial Statements (i.e., the Statement of Net Position and the Statement of Activities and Changes in Net Position) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental Activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from Business-Type Activities, which rely to a significant extent on fees and charges for support.

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

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

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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

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

The Government-Wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the Proprietary Fund Financial Statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, special assessments, sales taxes, licenses, intergovernmental revenues, investment earnings, charges for services and fines and penalties associated with the current fiscal year are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal year. Property taxes attach as an enforceable lien on property. Secured and unsecured property taxes are levied on July 1. The unsecured and secured property tax lien date is January 1. Unsecured property taxes become delinquent on August 31. Secured property taxes are payable in two installments, on November 1 and February 1 of each year, and become delinquent on December 10 and April 10, respectively. The County of Merced, California (County) bills and collects the property taxes and remits them to the City according to a payment schedule established by the County. City property tax revenues are recognized when received in cash except at year-end when they are accrued pursuant to the modified accrual basis of accounting. The County is permitted by State law to levy property taxes at 1% of properties assessed value and can increase property assessed value no more than 2% per year, 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, 2015**

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**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, and Regional Transportation Trust.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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**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.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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

*E. Cash, Cash Equivalents, and Investments*

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

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

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

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

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. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to change in interest rates.

*F. Receivables*

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

*G. Interfund Balances/Internal Balances*

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

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

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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

*G. 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.”

*H. Inventory*

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

*I. Land Held for Resale*

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

*J. Capital Assets*

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

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

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

|                                   | <u>Years</u> |
|-----------------------------------|--------------|
| Infrastructure                    | 10-40        |
| Buildings and structures          | 15-20        |
| Improvements other than buildings | 15           |
| Machinery and equipment           | 5            |

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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

*J. 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.

*K. Compensated Absences*

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

*L. Unavailable Revenue/Unearned Revenue*

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

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

*M. Long-Term Liabilities*

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

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



**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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

*N. Net Position and Fund Equity*

**Government-Wide Financial Statements**

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

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

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

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

**Fund Financial Statements**

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

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

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

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

Assigned fund balance - This includes amounts that are constrained by the City's intent to be used for specific purposes. The intent can be established at either the highest level of decision making or by a body or an official designated for that purpose.

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

The City Council establishes, modifies or rescinds fund balance restrictions, commitments and assignments, 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, 2015**

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

*O. Use of Estimates*

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

*P. New Accounting Pronouncements*

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

Governmental Accounting Standards Board Statement No. 68 and No. 71

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, and the amendment under GASB Statement No. 71, 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.

*Q. New Accounting Pronouncements - Future Years*

Governmental Accounting Standards Board Statement No. 72

GASB Statement No. 72, Fair Value Measurement and Application, is effective for periods beginning after June 15, 2015. The principal objective of this statement is to provide guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Governmental Accounting Standards Board Statement No. 76

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, is effective for periods beginning after June 15, 2015. The principal objective of this statement is to identify the hierarchy of generally accepted accounting principles (GAAP) and the framework for selecting those principles.

**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.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**2. CASH AND INVESTMENTS, Continued**

*A. Cash Deposits*

At June 30, 2015, the carrying amount of the City's cash and cash equivalents were comprised of the general checking account which had a balance of \$(1,085,656) and petty cash of \$4,323. Bank balance in the City's general checking account was \$168,305 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.

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
- 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, 2015:

|                                      | <u>Government-Wide Statement of Net Position</u> |                                 |                       | <u>Fund Financials</u>                           |                       |
|--------------------------------------|--|---------------------------------|-----------------------|--|-----------------------|
|                                      | <u>Governmental Activities</u>                   | <u>Business-Type Activities</u> | <u>Total</u>          | <u>Fiduciary Funds Statement of Net Position</u> | <u>Total</u>          |
| Cash and Investments                 | <u>\$ 59,501,654</u>                             | <u>\$ 102,783,837</u>           | <u>\$ 162,285,491</u> | <u>\$ 3,348,617</u>                              | <u>\$ 165,634,108</u> |
| Restricted Cash held by fiscal agent | <u>\$ 6</u>                                      | <u>\$</u>                       | <u>\$ 6</u>           | <u>\$ 2,936,111</u>                              | <u>\$ 2,936,117</u>   |

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**2. CASH AND INVESTMENTS, Continued**

**D. Risks**

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

Pooled cash and investments, including cash with fiscal agents, held in the City by maturity date at June 30, 2015 are shown below:

| Investment Type                                 | Total                 | Investment Maturities (in years) |                                    |
|---|-----------------------|----------------------------------|------------------------------------|
|   |                       | Less than 1 year                 | More than 1 year less than 5 years |
| <b>Cash:</b>                                    |                       |                                  |                                    |
| Cash Deposits                                   | \$ (1,085,656)        | \$ (1,085,656)                   | \$                                 |
| Petty Cash                                      | 4,323                 | 4,323                            |                                    |
| <b>Total cash:</b>                              | <b>(1,081,333)</b>    | <b>(1,081,333)</b>               |                                    |
| <b>Investments:</b>                             |                       |                                  |                                    |
| Money Market Fund                               | 3,798,298             | 3,798,298                        |                                    |
| Certificate of Deposit                          | 5,000,000             | 2,000,000                        | 3,000,000                          |
| U.S. Government Agency Securities               | 128,451,435           | 38,657,735                       | 89,793,700                         |
| Local Agency Investment Fund (LAIF)             | 29,465,708            | 29,465,708                       |                                    |
| <b>Total investments</b>                        | <b>166,715,441</b>    | <b>73,921,741</b>                | <b>92,793,700</b>                  |
| <b>Total cash and investments</b>               | <b>\$ 165,634,108</b> | <b>\$ 72,840,408</b>             | <b>\$ 92,793,700</b>               |
| <b>Restricted Cash with Fiscal Agents:</b>      |                       |                                  |                                    |
| Commercial Paper                                | \$ 1,649,445          | \$ 1,649,445                     | \$                                 |
| Public Investment Money Market Fund             | 206,215               | 206,215                          |                                    |
| Local Agency Investment Fund                    | 1,080,451             | 1,080,451                        |                                    |
| Money Market Funds                              | 6                     | 6                                |                                    |
| <b>Total restricted cash with fiscal agents</b> | <b>\$ 2,936,117</b>   | <b>\$ 2,936,117</b>              | <b>\$</b>                          |

*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.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**2. CASH AND INVESTMENTS, Continued**

*D. Risks, Continued*

Presented below is the June 30, 2015 rating which meets the minimum rating required by (where applicable) the California Government Code, the City's Investment Policy, or debt agreements:

|                                     | <u>Credit Quality Rating</u> |
|-------------------------------------|------------------------------|
| <b>Investments:</b>                 |                              |
| Money Market Fund                   | AAA                          |
| U.S. Government Agency Securities   | AA+                          |
| Local Agency Investment Fund        | Not rated                    |
| <b>Fiscal Agents:</b>               |                              |
| Commercial Paper                    | AA-                          |
| Public Investment Money Market Fund | AA+                          |
| Local Agency Investment Fund        | Not rated                    |
| Money Market Funds                  | AAA                          |
| Government Obligation Fund          | AAA                          |

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

| <u>Issuer</u>                                | <u>Investment Type</u>            | <u>Reported Amount</u> |
|--|-----------------------------------|------------------------|
| Federal Home Loan Mortgage Corporation Notes | U.S. Government Agency Securities | \$ 19,972,600          |
| Federal National Mortgage Association        | U.S. Government Agency Securities | 64,874,950             |
| Federal Home Loan Bank                       | U.S. Government Agency Securities | 43,603,885             |

*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.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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**2. CASH AND INVESTMENTS, Continued**

*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, 2015 adjustment was immaterial and therefore was not reflected on the financial statements.

*F. Investments in Local Agency Investment Fund*

The City's investments with LAIF at June 30, 2015, 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, 2015, the City had \$29,465,708 invested in LAIF, which had invested 2.08% of the pooled investment funds in Medium-term and Short-term Structured Notes and Asset-Backed Securities as compared to 1.86% in the previous year. The LAIF fair value factor of 1.000375979 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, 2015, cash and investments with fiscal agents totaled \$2,936,117.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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**3. RECEIVABLES**

*A. Government Wide Financial Statements*

At June 30, 2015, the Government-Wide Financial Statements reported the following receivables net of allowances for uncollectible amounts:

|                            | Governmental<br>Activities | Business-Type<br>Activities | Total                |
|----------------------------|----------------------------|-----------------------------|----------------------|
| Accounts receivable        | \$ 1,868,642               | \$ 1,834,103                | \$ 3,702,745         |
| Due from other governments | 5,720,398                  | 7,077,994                   | 12,798,392           |
| Interest receivable        | 2,385,755                  | 115,483                     | 2,501,238            |
| <b>Total</b>               | <b>\$ 9,974,795</b>        | <b>\$ 9,027,580</b>         | <b>\$ 19,002,375</b> |

*B. Fund Financial Statements*

At June 30, 2015, the fund financial statements show the following receivables:

|                            | Governmental<br>Funds | Enterprise<br>Funds | Internal<br>Service Funds | Total                |
|----------------------------|-----------------------|---------------------|---------------------------|----------------------|
| Accounts receivable        | \$ 1,803,376          | \$ 1,834,103        | \$ 65,266                 | \$ 3,702,745         |
| Due from other governments | 5,719,837             | 7,077,994           | 561                       | 12,798,392           |
| Interest receivable        | 2,362,098             | 115,483             | 23,657                    | 2,501,238            |
| <b>Total</b>               | <b>\$ 9,885,311</b>   | <b>\$ 9,027,580</b> | <b>\$ 89,484</b>          | <b>\$ 19,002,375</b> |

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**3. RECEIVABLES, Continued**

*B. Fund Financial Statements, Continued*

Accounts Receivable

Accounts receivable consists of amounts accrued in the ordinary course of operations. The accounts receivable as of June 30, 2015, was as follows:

|                                  | Accounts<br>Receivable      | Allowance for<br>Doubtful<br>Accounts | Net<br>Accounts<br>Receivable |
|----------------------------------|-----------------------------|---------------------------------------|-------------------------------|
|                                  | <u>                    </u> | <u>                    </u>           | <u>                    </u>   |
| <i>Governmental Funds:</i>       |                             |                                       |                               |
| General Fund                     | \$ 2,481,534                | \$ (1,764,431)                        | \$ 717,103                    |
| Housing                          | 371                         |                                       | 371                           |
| Measure C                        | 6,079                       |                                       | 6,079                         |
| Low and Moderate Income Housing  | 825                         | (825)                                 |                               |
| Non-Major Funds                  | 1,095,695                   | (15,872)                              | 1,079,823                     |
|                                  | <u>3,584,504</u>            | <u>(1,781,128)</u>                    | <u>1,803,376</u>              |
| Total governmental funds         |                             |                                       |                               |
| <i>Enterprise Funds:</i>         |                             |                                       |                               |
| Wastewater System                | 933,133                     | (83,230)                              | 849,903                       |
| Water System                     | 973,705                     | (82,350)                              | 891,355                       |
| Refuse Collection System         | 148,762                     | (62,371)                              | 86,391                        |
| Non-Major Funds                  | 11,622                      | (5,168)                               | 6,454                         |
|                                  | <u>2,067,222</u>            | <u>(233,119)</u>                      | <u>1,834,103</u>              |
| Total enterprise funds           |                             |                                       |                               |
| <i>Internal Service Funds</i>    | <u>144,563</u>              | <u>(79,297)</u>                       | <u>65,266</u>                 |
|                                  |                             |                                       |                               |
| <b>Total Accounts Receivable</b> | <u><u>\$ 5,796,289</u></u>  | <u><u>\$ (2,093,544)</u></u>          | <u><u>\$ 3,702,745</u></u>    |



**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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**3. RECEIVABLES, Continued**

*B. Fund Financial Statements, Continued*

*Due from other Governments*

Due from other governments consists of amounts due from other governmental entities. The due from other governments as of June 30, 2015, was as follows:

|   |                      |
|---|----------------------|
| <i>Governmental Funds:</i>              |                      |
| General Fund                            | \$ 2,273,394         |
| Housing                                 | 71,351               |
| Measure C                               | 1,130,693            |
| Streets & Signals                       | 467,070              |
| Non-Major Funds                         | 1,777,329            |
| Total governmental funds                | <u>5,719,837</u>     |
| <i>Enterprise Funds:</i>                |                      |
| Wastewater System                       | 3,594,664            |
| Water System                            | 3,451,578            |
| Non-Major Funds                         | 31,752               |
| Total enterprise funds                  | <u>7,077,994</u>     |
| <i>Internal Services Fund</i>           | <u>561</u>           |
| <b>Total Due from Other Governments</b> | <b>\$ 12,798,392</b> |

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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**3. RECEIVABLES, Continued**

*B. Fund Financial Statements, Continued*

Interest Receivable

Interest receivable consisted of interest income from notes and investments pooled by the City as well as interest income to be received by fiscal agents from investments in their possession. Interest income is allocated to the funds at the end of the accounting period. The interest receivable as of June 30, 2015, was as follows:

*Governmental Funds:*

|                                 |           |
|---------------------------------|-----------|
| General Fund                    | \$ 15,776 |
| Housing                         | 551,375   |
| Measure C                       | 333       |
| Low and Moderate Income Housing | 705,541   |
| Streets & Signals               | 2,183     |
| Non-Major Funds                 | 1,086,890 |
|                                 | <hr/>     |
| Total governmental funds        | 2,362,098 |
|                                 | <hr/>     |

*Enterprise Funds:*

|                          |         |
|--------------------------|---------|
| Wastewater System        | 41,505  |
| Water System             | 66,817  |
| Refuse Collection System | 7,040   |
| Non-Major Funds          | 121     |
|                          | <hr/>   |
| Total enterprise funds   | 115,483 |
|                          | <hr/>   |

*Internal Services Fund*

|                                  |                     |
|----------------------------------|---------------------|
|                                  | 23,657              |
|                                  | <hr/>               |
| <b>Total Interest Receivable</b> | <b>\$ 2,501,238</b> |
|                                  | <hr/> <hr/>         |

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**4. UNEARNED REVENUE**

**A. Government-Wide Financial Statements**

Unearned revenues in the Government-Wide Financial Statements represent amounts for which revenues have not been earned. At June 30, 2015, unearned revenues in the Government-Wide Financial Statements were as follows:

|                                     | Governmental<br>Activities | Business-Type<br>Activities | Total               |
|-------------------------------------|----------------------------|-----------------------------|---------------------|
| Prepaid business license fees       | \$ 1,013,224               | \$                          | \$ 1,013,224        |
| Grants                              | 563,704                    |                             | 563,704             |
| Service charges received in advance |                            | 290,519                     | 290,519             |
|                                     | <u>\$ 1,576,928</u>        | <u>\$ 290,519</u>           | <u>\$ 1,867,447</u> |

**B. Fund Financial Statements**

At June 30, 2015, 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<br>Funds | Total               |
|-------------------------------|-------------------|-------------------|--------------------|---------------------|
| Prepaid business license fees | \$ 956,791        | \$                | \$ 56,433          | \$ 1,013,224        |
| Grants                        | 4,620             | 559,084           |                    | 563,704             |
| <b>Total</b>                  | <u>\$ 961,411</u> | <u>\$ 559,084</u> | <u>\$ 56,433</u>   | <u>\$ 1,576,928</u> |

  

| <i>Enterprise Funds:</i>               | Wastewater<br>System | Water<br>System  | Refuse<br>Collection<br>System | Total             |
|--|----------------------|------------------|--------------------------------|-------------------|
| Service charges received<br>in advance | \$ 113,302           | \$ 90,061        | \$ 87,156                      | \$ 290,519        |
| <b>Total</b>                           | <u>\$ 113,302</u>    | <u>\$ 90,061</u> | <u>\$ 87,156</u>               | <u>\$ 290,519</u> |

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**5. INTERFUND TRANSACTIONS**

*A. Fund Financial Statements*

Due To, Due From

At June 30, 2015, the City had the following short-term interfund receivables and payables:

| <u>Receivable Fund</u>       | <u>Payable Fund</u>          | <u>Governmental<br/>Activities</u> |
|------------------------------|------------------------------|------------------------------------|
| General Fund                 | Non-Major Governmental Funds | \$ 241,662                         |
| Non-Major Governmental Funds | Non-Major Governmental Funds | 102,919                            |
|                              |                              | <u>\$ 344,581</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, 2015, the City had the following interfund long-term advances:

| <u>Receivable Fund</u> | <u>Payable Fund</u>          | <u>Governmental<br/>Activities</u>  |
|------------------------|------------------------------|-------------------------------------|
| General Fund           | Non-Major Governmental Funds | <u>\$ 1,710,991</u>                 |
|                        |                              |                                     |
| <u>Receivable Fund</u> | <u>Payable Fund</u>          | <u>Business-Type<br/>Activities</u> |
| Water System           | Non-Major Enterprise Fund    | <u>\$ 172,904</u>                   |

Advance to the Community Facility Districts Funds (non-major governmental funds) represents 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, 2015 is \$1,710,991.

Advance to the Merced Municipal Airport Capital Improvement Project Fund (a non-major Enterprise fund) represents advance from the Restricted Water Mains Enterprise Fund of \$400,000 per City Council action November 17, 2008. The advance of \$400,000 provided 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, 2015 is \$172,904.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**5. INTERFUND TRANSACTIONS, Continued**

*A. Fund Financial Statements, Continued*

Interfund Transfers

The composition of interfund transfers for the year ended June 30, 2015 is as follows:

|                              | Transfers In:       |                     |                              |                      |                          |                            |                   | Total                |
|------------------------------|---------------------|---------------------|------------------------------|----------------------|--------------------------|----------------------------|-------------------|----------------------|
|                              | Governmental Funds  |                     |                              | Proprietary Funds    |                          |                            |                   |                      |
| Transfers Out:               | General Fund        | Streets & Signals   | Non-Major Governmental Funds | Water System         | Refuse Collection System | Non-Major Enterprise Funds | Internal Service  |                      |
| Governmental Funds:          |                     |                     |                              |                      |                          |                            |                   |                      |
| General Fund                 | \$                  | \$                  | \$ 1,099,049                 | \$                   | \$                       | \$ 69,792                  | \$ 215,885        | \$ 1,384,726         |
| Housing                      | 4,000               | 21,111              | 302,689                      | 33,491               |                          |                            |                   | 361,291              |
| Measure C                    |                     |                     |                              |                      |                          |                            | 511               | 511                  |
| Streets & Signals            |                     |                     | 163,011                      |                      |                          |                            |                   | 163,011              |
| Non-Major Governmental Funds | 598,414             | 1,826,550           |                              |                      | 31,864                   | 13,744                     | 377,752           | 2,848,324            |
| Enterprise Funds:            |                     |                     |                              |                      |                          |                            |                   |                      |
| Wastewater System            |                     |                     |                              |                      |                          |                            | 23,612            | 23,612               |
| Water System                 | 359,217             |                     | 151,619                      |                      |                          |                            | 26,612            | 537,448              |
| Refuse Collection System     |                     |                     |                              | 13,780,669           |                          |                            | 41,722            | 13,822,391           |
| Non-Major Enterprise Funds   |                     |                     |                              |                      |                          |                            | 9,509             | 9,509                |
| Internal Service             | 200,162             |                     |                              |                      |                          |                            |                   | 200,162              |
| <b>Total</b>                 | <b>\$ 1,161,793</b> | <b>\$ 1,847,661</b> | <b>\$ 1,716,368</b>          | <b>\$ 13,814,160</b> | <b>\$ 31,864</b>         | <b>\$ 83,536</b>           | <b>\$ 695,603</b> | <b>\$ 19,350,985</b> |

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

Furthermore, during the fiscal year ended June 30, 2015, the City made the following one-time transfers:

- 1) A transfer of \$13,780,669 to convey the Storm Drains departmental operations and capital assets from Refuse Collection System to Water System.
- 2) A transfer of \$146,946 from General Fund to Internal Services Fund for labor negotiations and software upgrade.
- 3) A transfer of \$90,567 from General Fund to Non-Major Governmental Fund to establish a new fund.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**6. CAPITAL ASSETS**

*A. Government-Wide Financial Statements*

At June 30, 2015, the City's capital assets consisted of the following:

|   | Governmental<br>Activities       | Business-Type<br>Activities      | Total                            |
|---|----------------------------------|----------------------------------|----------------------------------|
| <i>Non-depreciable Assets:</i>  |                                  |                                  |                                  |
| Land and improvements   | \$ 87,074,139                    | \$ 2,343,020                     | \$ 89,417,159                    |
| Construction in process   | 10,094,570                       | 49,372,327                       | 59,466,897                       |
| <br>Total non-depreciable assets  | <br><u>97,168,709</u>            | <br><u>51,715,347</u>            | <br><u>148,884,056</u>           |
| <br><i>Depreciable Assets:</i>  |                                  |                                  |                                  |
| Buildings and structures  | 22,115,487                       | 4,575,769                        | 26,691,256                       |
| Machinery and equipment   | 34,965,729                       | 3,965,594                        | 38,931,323                       |
| Improvements other than buildings,<br>structures, and land improvements | 116,013,305                      | 144,896,446                      | 260,909,751                      |
| Infrastructure  | 373,627,644                      | 40,278,359                       | 413,906,003                      |
| <br>Total depreciable Assets:   | <br>546,722,165                  | <br>193,716,168                  | <br>740,438,333                  |
| Less accumulated depreciation   | <u>(332,671,808)</u>             | <u>(79,829,518)</u>              | <u>(412,501,326)</u>             |
| <br>Total depreciable assets, net                                       | <br><u>214,050,357</u>           | <br><u>113,886,650</u>           | <br><u>327,937,007</u>           |
| <br><b>Total Capital Assets</b>   | <br><u><u>\$ 311,219,066</u></u> | <br><u><u>\$ 165,601,997</u></u> | <br><u><u>\$ 476,821,063</u></u> |

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**6. CAPITAL ASSETS, Continued**

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

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

|   | Balance<br>July 1, 2014 | Additions              | Deletions             | Reclassification   | Balance<br>June 30, 2015 |
|---|-------------------------|------------------------|-----------------------|--------------------|--------------------------|
| <i>Non-depreciable Assets:</i>  |                         |                        |                       |                    |                          |
| Land and improvements   | \$ 88,017,809           | \$ 41,492              | \$ (1,605,162)        | \$ 620,000         | \$ 87,074,139            |
| Construction in progress  | 13,384,129              | 3,114,414              | (1,725,463)           | (4,678,510)        | 10,094,570               |
| <b>Total non-depreciable assets</b>                                     | <b>101,401,938</b>      | <b>3,155,906</b>       | <b>(3,330,625)</b>    | <b>(4,058,510)</b> | <b>97,168,709</b>        |
| <i>Depreciable Assets:</i>  |                         |                        |                       |                    |                          |
| Buildings and structures  | 23,082,307              |                        | (966,820)             |                    | 22,115,487               |
| Machinery and equipment   | 34,707,665              | 2,386,022              | (2,127,958)           |                    | 34,965,729               |
| Improvements other than buildings,<br>structures, and land improvements | 111,943,768             | 12,037                 | (1,010)               | 4,058,510          | 116,013,305              |
| Infrastructure  | 373,627,644             |                        |                       |                    | 373,627,644              |
| <b>Total depreciable assets</b>   | <b>543,361,384</b>      | <b>2,398,059</b>       | <b>(3,095,788)</b>    | <b>4,058,510</b>   | <b>546,722,165</b>       |
| <i>Accumulated depreciation:</i>  |                         |                        |                       |                    |                          |
| Buildings and structures  | (8,332,683)             | (614,043)              | 96,682                |                    | (8,850,044)              |
| Machinery and equipment   | (29,827,514)            | (1,834,167)            | 2,124,967             |                    | (29,536,714)             |
| Improvements other than buildings,<br>structures, and land improvements | (55,930,783)            | (4,226,030)            | 188,891               |                    | (59,967,922)             |
| Infrastructure  | (224,851,559)           | (9,465,569)            |                       |                    | (234,317,128)            |
| <b>Total accumulated depreciation</b>                                   | <b>(318,942,539)</b>    | <b>(16,139,809)</b>    | <b>2,410,540</b>      |                    | <b>(332,671,808)</b>     |
| <b>Total depreciable assets, net</b>                                    | <b>224,418,845</b>      | <b>(13,741,750)</b>    | <b>(685,248)</b>      | <b>4,058,510</b>   | <b>214,050,357</b>       |
| <b>Total governmental activities, net</b>                               | <b>\$ 325,820,783</b>   | <b>\$ (10,585,844)</b> | <b>\$ (4,015,873)</b> | <b>\$</b>          | <b>\$ 311,219,066</b>    |

Governmental activities depreciation expense for capital assets for the year ended June 30, 2015 was as follows:

|                                   |                      |
|-----------------------------------|----------------------|
| General government                | \$ 1,467,118         |
| Public safety                     | 507,427              |
| Public works                      | 13,338,856           |
| Culture and recreation            | 826,408              |
| <b>Total depreciation expense</b> | <b>\$ 16,139,809</b> |

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**6. CAPITAL ASSETS, Continued**

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

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

|  | Balance<br>July 1, 2014 | Additions             | Deletions           | Reclassification   | Balance<br>June 30, 2015 |
|--|-------------------------|-----------------------|---------------------|--------------------|--------------------------|
| <i>Non-depreciable Assets:</i>   |                         |                       |                     |                    |                          |
| Land and improvements  | \$ 2,163,106            | \$ 179,914            | \$                  | \$                 | \$ 2,343,020             |
| Construction in progress   | 44,984,053              | 5,719,410             | (326,247)           | (1,004,889)        | 49,372,327               |
| <b>Total non-depreciable assets</b>  | <b>47,147,159</b>       | <b>5,899,324</b>      | <b>(326,247)</b>    | <b>(1,004,889)</b> | <b>51,715,347</b>        |
| <i>Depreciable Assets:</i>   |                         |                       |                     |                    |                          |
| Buildings and structures   | 4,575,769               |                       |                     |                    | 4,575,769                |
| Machinery and equipment  | 3,603,877               | 361,719               |                     |                    | 3,965,596                |
| Improvements other<br>than buildings, structures,<br>and land improvements | 144,356,521             |                       |                     | 539,923            | 144,896,444              |
| Infrastructure   | 39,813,393              |                       |                     | 464,966            | 40,278,359               |
| <b>Total depreciable assets</b>  | <b>192,349,560</b>      | <b>361,719</b>        |                     | <b>1,004,889</b>   | <b>193,716,168</b>       |
| <i>Accumulated depreciation:</i>   |                         |                       |                     |                    |                          |
| Buildings and structures   | (2,750,412)             | (107,058)             |                     |                    | (2,857,470)              |
| Machinery and equipment  | (2,670,834)             | (265,916)             |                     |                    | (2,936,750)              |
| Improvements other<br>than buildings, structures,<br>and land improvements | (56,060,782)            | (6,538,247)           |                     |                    | (62,599,029)             |
| Infrastructure   | (10,283,548)            | (1,152,721)           |                     |                    | (11,436,269)             |
| <b>Total accumulated depreciation</b>                                      | <b>(71,765,576)</b>     | <b>(8,063,942)</b>    |                     |                    | <b>(79,829,518)</b>      |
| <b>Total depreciable assets, net</b>                                       | <b>120,583,984</b>      | <b>(7,702,223)</b>    |                     | <b>1,004,889</b>   | <b>113,886,650</b>       |
| <b>Total business-type activities</b>                                      | <b>\$ 167,731,143</b>   | <b>\$ (1,802,899)</b> | <b>\$ (326,247)</b> | <b>\$</b>          | <b>\$ 165,601,997</b>    |



**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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**6. CAPITAL ASSETS, Continued**

*A. Government-Wide Financial Statements, Continued*

Business-type activities depreciation expense for capital assets for the year ended June 30, 2015 was as follows:

|                                   |           |                                |
|-----------------------------------|-----------|--------------------------------|
| Wastewater System Fund            | \$        | 4,397,308                      |
| Water System Fund                 |           | 3,211,901                      |
| Refuse Collection System          |           | 32,059                         |
| Merced Municipal Airport          |           | <u>422,674</u>                 |
| <b>Total depreciation expense</b> | <b>\$</b> | <b><u><u>8,063,942</u></u></b> |

*B. Fund Financial Statements*

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

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

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**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, 2015, were as follows:

**A. Government-Wide Financial Statements**

|                           | Governmental<br>Activities | Business-Type<br>Activities | Total                      |
|---------------------------|----------------------------|-----------------------------|----------------------------|
| Developers Credits        | \$ 2,417,403               | \$ 842,791                  | \$ 3,260,194               |
| Deposits                  | 3,631                      | 1,128,053                   | 1,131,684                  |
| Miscellaneous Liabilities | 59,569                     | 34,310                      | 93,879                     |
| <b>Total</b>              | <u><u>\$ 2,480,603</u></u> | <u><u>\$ 2,005,154</u></u>  | <u><u>\$ 4,485,757</u></u> |

**B. Fund Financial Statements**

|                                       | Other Liabilities          |                            |                              | Total                      |
|---------------------------------------|----------------------------|----------------------------|------------------------------|----------------------------|
|                                       | Developers<br>Credits      | Deposits                   | Miscellaneous<br>Liabilities |                            |
| <i>Governmental Funds:</i>            |                            |                            |                              |                            |
| General Fund                          | \$                         | \$                         | \$ 6,670                     | \$ 6,670                   |
| Housing                               |                            |                            | 3,068                        | 3,068                      |
| Non-Major Funds                       | 2,417,403                  |                            | 49,831                       | 2,467,234                  |
| <b>Total governmental funds</b>       | <u>2,417,403</u>           |                            | <u>59,569</u>                | <u>2,476,972</u>           |
| <i>Business-Type Activities:</i>      |                            |                            |                              |                            |
| Wastewater System                     | 842,791                    | 323,480                    | 147                          | 1,166,418                  |
| Water System                          |                            | 515,730                    | 10,848                       | 526,578                    |
| Refuse Collection System              |                            | 271,594                    |                              | 271,594                    |
| Non-Major Funds                       |                            | 17,249                     | 23,315                       | 40,564                     |
| <b>Total business-type activities</b> | <u>842,791</u>             | <u>1,128,053</u>           | <u>34,310</u>                | <u>2,005,154</u>           |
| <i>Internal Services Funds</i>        |                            | 3,631                      |                              | 3,631                      |
| <b>Total</b>                          | <u><u>\$ 3,260,194</u></u> | <u><u>\$ 1,131,684</u></u> | <u><u>\$ 93,879</u></u>      | <u><u>\$ 4,485,757</u></u> |

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**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, 2015:

|                          | Balance<br><u>July 1, 2014</u> | <u>Additions</u> | <u>Retirements</u>  | Balance<br><u>June 30, 2015</u> | Due Within<br><u>One Year</u> | Due in<br>More than<br><u>One Year</u> |
|--------------------------|--------------------------------|------------------|---------------------|---------------------------------|-------------------------------|--|
| Pension Obligation Bonds | \$ 5,955,000                   | \$               | \$ (325,000)        | \$ 5,630,000                    | \$ 375,000                    | \$ 5,255,000                           |
| Loans Payable            | 2,000,000                      |                  | (200,000)           | 1,800,000                       | 200,000                       | 1,600,000                              |
| Capital Lease            | 6,630,193                      |                  | (313,966)           | 6,316,227                       | 350,564                       | 5,965,663                              |
| <b>Total</b>             | <b>\$ 14,585,193</b>           | <b>\$</b>        | <b>\$ (838,966)</b> | <b>\$ 13,746,227</b>            | <b>\$ 925,564</b>             | <b>\$ 12,820,663</b>                   |

**Pension Obligation Bonds**

*California Statewide Communities Development Authority Taxable Pension Obligation Bonds*

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

The bond proceeds in the amount of \$7,138,378 were used by the City to prepay a portion of the unfunded actuarial accrued liability to the California Public Employees' Retirement System. The bonds are an unconditional obligation of the City payable from legally available funds. The prepayment created a net pension asset. At June 30, 2015, the net pension asset of \$4,866,388 was removed due to the implementation of Governmental Accounting Standards Board Statement No. 68. Additional information on the removal of pension asset can be found in Note 17, Prior Period Adjustment.

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, 2015**

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**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<br>June 30, | Principal           | Interest            | Total               |
|-------------------------|---------------------|---------------------|---------------------|
| 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                    | 610,000             | 224,637             | 834,637             |
| 2021-2024               | 3,200,000           | 495,853             | 3,695,853           |
| <b>Total</b>            | <b>\$ 5,630,000</b> | <b>\$ 1,902,368</b> | <b>\$ 7,532,368</b> |

**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.

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

| Year Ending<br>June 30, | Principal           | Interest          | Total               |
|-------------------------|---------------------|-------------------|---------------------|
| 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                    | 200,000             | 50,360            | 250,360             |
| 2021-2024               | 800,000             | 90,330            | 890,330             |
| <b>Total</b>            | <b>\$ 1,800,000</b> | <b>\$ 448,720</b> | <b>\$ 2,248,720</b> |

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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**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, 2015 is as follows:

|                          | Stated<br>Interest<br>Rate | Present Value<br>of Remaining<br>Payments as of<br>June 30, 2015 |
|--------------------------|----------------------------|--|
|                          | <u>Rate</u>                | <u>June 30, 2015</u>   |
| Governmental Activities: |                            |  |
| Facilities               | 4.50%                      | \$ 6,316,227   |
|                          |                            | <u><u>6,316,227</u></u>  |

As of June 30, 2015, future minimum lease payments under capital leases are as follows:

| Year Ending<br>June 30,                 | Governmental<br>Activities |
|---|----------------------------|
| <u>June 30,</u>                         | <u>Governmental</u>        |
| 2016                                    | \$ 633,262                 |
| 2017                                    | 655,970                    |
| 2018                                    | 679,474                    |
| 2019                                    | 703,799                    |
| 2020                                    | 728,977                    |
| 2021-2025                               | 3,468,078                  |
| 2026-2027                               | 1,405,415                  |
| Total Future Minimum Lease Payments     | <u>8,274,975</u>           |
| Less: Interest                          | <u>(1,958,748)</u>         |
| Present Value of Minimum Lease Payments | <u><u>\$ 6,316,227</u></u> |

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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

*A. Government-Wide Financial Statements, Continued*

**Business-Type Activities**

|                       | Balance<br>July 1, 2014 | Additions | Retirements           | Balance<br>June 30, 2015 | Due Within<br>One Year | Due in<br>More than<br>One Year |
|-----------------------|-------------------------|-----------|-----------------------|--------------------------|------------------------|---------------------------------|
| Revenue bonds payable | \$ 15,690,000           | \$        | \$ (1,190,000)        | \$ 14,500,000            | \$ 1,225,000           | \$ 13,275,000                   |
| Unamortized premiums  | 1,286,333               |           | (116,939)             | 1,169,394                |                        | 1,169,394                       |
| Loans payable         | 36,502,153              |           | (1,696,322)           | 34,805,831               | 1,711,283              | 33,094,548                      |
| <b>Total</b>          | <b>\$ 53,478,486</b>    | <b>\$</b> | <b>\$ (3,003,261)</b> | <b>\$ 50,475,225</b>     | <b>\$ 2,936,283</b>    | <b>\$ 47,538,942</b>            |

**Revenue Bonds Payable**

Revenue bonds payable at June 30, 2015, consisted of the following:

|                          | Bonds Payable        | Unamortized<br>Premiums |
|--------------------------|----------------------|-------------------------|
| Water Revenue Bonds      | \$ 4,400,000         | \$                      |
| Water Revenue Bonds      |                      | 341,355                 |
| Wastewater Revenue Bonds | 10,100,000           |                         |
| Wastewater Revenue Bonds |                      | 828,039                 |
| <b>Total</b>             | <b>\$ 14,500,000</b> | <b>\$ 1,169,394</b>     |

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, 2015 totals \$1,169,394.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**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 Water Revenue Bonds are as follows:

| Year Ending<br>June 30, | Principal    | Interest   | Total        |
|-------------------------|--------------|------------|--------------|
| 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                    | 430,000      | 99,600     | 529,600      |
| 2021-2025               | 2,405,000    | 224,700    | 2,629,700    |
|                         | \$ 4,400,000 | \$ 872,056 | \$ 5,272,056 |

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

| Year Ending<br>June 30, | Principal     | Interest     | Total         |
|-------------------------|---------------|--------------|---------------|
| 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                    | 975,000       | 287,600      | 1,262,600     |
| 2021-2025               | 5,565,000     | 716,550      | 6,281,550     |
|                         | \$ 10,100,000 | \$ 2,510,913 | \$ 12,610,913 |

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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

*A. Government-Wide Financial Statements, Continued*

**Loans Payable**

Loans payable at June 30, 2015 consisted of the following:

|  |                             |
|--|-----------------------------|
| California Infrastructure Bank and Economic Development Bank (CIEDB) |                             |
| Enterprise Fund Installment Sales Agreement                          | \$ 6,952,208                |
| California State Water Resources Control Board                       |                             |
| Clean Water State Revolving Fund                                     | <u>27,853,623</u>           |
| <i>Total</i>   | <u><u>\$ 34,805,831</u></u> |

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

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

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

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

| For the Years   |                            |                            |                            |  |
|-----------------|----------------------------|----------------------------|----------------------------|--|
| Ending June 30, | Principal                  | Interest                   | Total                      |  |
| 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            | 275,000                    | 187,496                    | 462,496                    |  |
| 2021-2025       | 1,650,000                  | 788,888                    | 2,438,888                  |  |
| 2026-2030       | 2,150,000                  | 487,738                    | 2,637,738                  |  |
| 2031-2034       | 1,977,208                  | 128,234                    | 2,105,442                  |  |
| <b>Total</b>    | <u><u>\$ 6,952,208</u></u> | <u><u>\$ 2,419,214</u></u> | <u><u>\$ 9,371,422</u></u> |  |



**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**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<br>Ending June 30, | Principal            | Interest            | Total                |
|----------------------------------|----------------------|---------------------|----------------------|
| 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                             | 1,572,648            | 217,172             | 1,789,820            |
| 2021-2025                        | 8,102,304            | 846,794             | 8,949,098            |
| 2026-2030                        | 8,515,603            | 433,495             | 8,949,098            |
| 2031-2032                        | 3,526,652            | 52,988              | 3,579,640            |
| <b>Total</b>                     | <b>\$ 27,853,623</b> | <b>\$ 2,573,311</b> | <b>\$ 30,426,934</b> |

*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, 2015**

**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<br>June 30, 2015 |
|---|------------------------------|
| 1998 Liberty Park Refunding Assessment District | \$ 181,000                   |
| 16th Street Refunding Assessment District       | 84,000                       |
| Fahrens Park Refunding Assessment District      | 2,650,000                    |
| Bellevue Ranch East CFD                         | 9,235,000                    |
| Bellevue Ranch West CFD                         | 6,375,000                    |
| Moraga CFD                                      | 4,645,000                    |
| <b>Total</b>                                    | <b>\$ 23,170,000</b>         |

**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, 2015, is as follows:

|                          | Balance<br>July 1, 2014 | Additions         | Retirements         | Balance<br>June 30, 2015 | Due<br>Within<br>One Year | Due in<br>More than<br>One Year |
|--------------------------|-------------------------|-------------------|---------------------|--------------------------|---------------------------|---------------------------------|
| Governmental Activities  | \$ 3,591,617            | \$ 467,318        | \$ (521,183)        | \$ 3,537,752             | \$ 706,559                | \$ 2,831,193                    |
| Business-type Activities | 742,425                 | 157,765           | (73,757)            | 826,433                  | 138,742                   | 687,691                         |
| <b>Total</b>             | <b>\$ 4,334,042</b>     | <b>\$ 625,083</b> | <b>\$ (594,940)</b> | <b>\$ 4,364,185</b>      | <b>\$ 845,301</b>         | <b>\$ 3,518,884</b>             |

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**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 Special Revenue | Measure C           | Low & Moderate Income Housing Special Revenue | Streets & Signals Capital Projects | Non-Major Funds      | Total                |
|---------------------------------------|----------------------|-------------------------|---------------------|---|------------------------------------|----------------------|----------------------|
| <b>Nonspendable:</b>                  |                      |                         |                     |   |                                    |                      |                      |
| Inventory                             | \$ 50,705            | \$                      | \$                  | \$  | \$                                 | \$                   | \$ 50,705            |
| Advances receivable                   | 1,710,992            |                         |                     |   |                                    |                      | 1,710,992            |
| Long term portion of notes receivable | 156,018              |                         |                     |   |                                    |                      | 156,018              |
| Total Nonspendable                    | <u>1,917,715</u>     |                         |                     |   |                                    |                      | <u>1,917,715</u>     |
| <b>Restricted for:</b>                |                      |                         |                     |   |                                    |                      |                      |
| Street and street lights              |                      |                         |                     |   |                                    | 2,666,663            | 2,666,663            |
| Community development                 |                      |                         |                     |   |                                    | 9,861,427            | 9,861,427            |
| Housing                               |                      | 21,213,017              |                     | 11,241,241                                    |                                    | 3,602,210            | 36,056,468           |
| Public safety                         |                      |                         |                     |   |                                    | 395,634              | 395,634              |
| Special districts                     |                      |                         |                     |   |                                    | 2,859,678            | 2,859,678            |
| Capital projects                      |                      |                         |                     |   | 2,169,100                          | 2,675,285            | 4,844,385            |
| Other special projects and programs:  |                      |                         |                     |   |                                    |                      |                      |
| Cash basis fund                       | 4,000,000            |                         |                     |   |                                    |                      | 4,000,000            |
| Other                                 |                      |                         |                     |   |                                    | 363,727              | 363,727              |
| Total Restricted                      | <u>4,000,000</u>     | <u>21,213,017</u>       |                     | <u>11,241,241</u>                             | <u>2,169,100</u>                   | <u>22,424,624</u>    | <u>61,047,982</u>    |
| <b>Committed to:</b>                  |                      |                         |                     |   |                                    |                      |                      |
| Street and street lights              |                      |                         |                     |   |                                    | 7,775                | 7,775                |
| Community development                 |                      |                         |                     |   |                                    | 293,608              | 293,608              |
| Public safety                         |                      |                         | 1,190,342           |   |                                    |                      | 1,190,342            |
| Total Committed                       |                      |                         | <u>1,190,342</u>    |   |                                    | <u>5,022,271</u>     | <u>5,022,271</u>     |
| <b>Assigned to:</b>                   |                      |                         |                     |   |                                    |                      |                      |
| Appropriations in subsequent year     | 214,363              |                         |                     |   |                                    |                      | 214,363              |
| City council                          | 14,591               |                         |                     |   |                                    |                      | 14,591               |
| City manager                          | 2,896                |                         |                     |   |                                    |                      | 2,896                |
| City clerk                            | 78,157               |                         |                     |   |                                    |                      | 78,157               |
| City attorney                         | 94,046               |                         |                     |   |                                    |                      | 94,046               |
| Finance                               | 46,030               |                         |                     |   |                                    |                      | 46,030               |
| Purchasing                            | 434                  |                         |                     |   |                                    |                      | 434                  |
| Police protection                     | 199,775              |                         |                     |   |                                    |                      | 199,775              |
| Fire protection                       | 135,178              |                         |                     |   |                                    |                      | 135,178              |
| Public works                          | 18,308               |                         |                     |   |                                    |                      | 18,308               |
| Economic development                  | 149,321              |                         |                     |   |                                    |                      | 149,321              |
| Visitor's service                     | 1,171                |                         |                     |   |                                    |                      | 1,171                |
| Parks and community services          | 93,444               |                         |                     |   |                                    |                      | 93,444               |
| Total Assigned                        | <u>1,047,714</u>     |                         |                     |   |                                    |                      | <u>1,047,714</u>     |
| Unassigned                            | <u>10,128,164</u>    |                         |                     |   |                                    | <u>(234,778)</u>     | <u>9,893,386</u>     |
| Total Fund Balances                   | <u>\$ 17,093,593</u> | <u>\$ 21,213,017</u>    | <u>\$ 1,190,342</u> | <u>\$ 11,241,241</u>                          | <u>\$ 2,169,100</u>                | <u>\$ 27,513,500</u> | <u>\$ 80,420,793</u> |

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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**11. OTHER FUND DISCLOSURES**

**A. Deficit Fund Balances**

At June 30, 2015, the funds below had the following deficit fund balance or deficit net position:

**Non-Major Governmental Funds**

Park Reserve Fund \$ (234,781)

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 a 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.

**Enterprise Funds**

Refuse Collection System Fund \$ (559,562)

This fund is used to account for the daily operation of the City's solid waste collection. The deficit net position was caused by the adjustments established through implementation of Governmental Accounting Standards Board Statement No. 68, which required net pension liability to be reported on the Statement of Net Position.

**Internal Service Funds**

Workers Compensation Insurance Fund \$ (2,978,456)

The deficit net position was caused by recording a liability according to the Governmental Accounting Standards Board Statement No. 10 that requires an accrual of claims liabilities based on estimates of the ultimate cost of claims, including future claim adjustment expenditures, that have been reported but not settled, and of claims that have been incurred but not yet reported (IBNR).

Fleet Management Fund \$ (624,504)

This fund is used to account for the daily operation and maintenance of City's vehicles. The deficit net position was caused by the adjustments established through implementation of Governmental Accounting Standards Board Statement No. 68, which requires net pension liability to be reported on the Statement of Net Position.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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**11. OTHER FUND DISCLOSURES, Continued**

*A. Deficit Fund Balances, Continued*

**Internal Service Funds, Continued**

Facility Maintenance Fund \$ (4,739,105)

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, Net Pension Liability. In addition, the City's capital lease agreement to fund certain energy cost saving facility improvement measures and facility upgrades cause a reduction in fund balance. The related facility will become property of the City when all terms of the lease agreement are met. The deficit balance will be eliminated by future fees and debt service payments related to the capital lease agreement.

Support Services Fund \$ (2,879,464)

This fund is used to account for the 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 and the net pension liability. The deficit balance will be eliminated by future charges for services.

**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, 2015, claims for general liability and workers' compensation were \$1,090,168 and \$4,963,806 respectively.

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

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**12. RISK MANAGEMENT, Continued**

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

|                                 | General<br>Liability | Workers'<br>Compensation |
|---------------------------------|----------------------|--------------------------|
| Liability - June 30, 2013       | \$ 163,987           | \$ 4,366,076             |
| Claims incurred                 | 1,507,636            | 1,650,806                |
| Claims payments                 | (492,400)            | (1,191,291)              |
| Changes to prior year estimates | 321,620              | 117,758                  |
|                                 | <hr/>                | <hr/>                    |
| Liability - June 30, 2014       | 1,500,843            | 4,943,349                |
| Claims incurred                 | 259,216              | 1,261,808                |
| Claims payments                 | (666,838)            | (1,394,183)              |
| Changes to prior year estimates | (3,053)              | 152,832                  |
|                                 | <hr/>                | <hr/>                    |
| Liability - June 30, 2015       | <u>\$ 1,090,168</u>  | <u>\$ 4,963,806</u>      |

**13. PENSION PLANS**

**A. General Information about the Pension Plans**

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

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

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**13. PENSION PLANS, Continued**

*A. General Information about the Pension Plans, Continued*

The Plan's provisions and benefits in effect at June 30, 2015, are summarized as follows:

|  | <b>Miscellaneous Plan</b>                |   |                                    |
|--|--|---|------------------------------------|
|  | Existing plan<br>members hired<br>before | Existing plan<br>members hired<br>after | New plan<br>members hired<br>after |
| Hire date  | December 10, 2012                        | December 10, 2012                       | January 1, 2013                    |
| Benefit formula                                      | 2.5% @ 55                                | 2% @ 60                                 | 2% @ 62                            |
| Benefit vesting schedule                             | 5 years service                          | 5 years service                         | 5 years service                    |
| Benefit payments                                     | monthly for life                         | monthly for life                        | monthly for life                   |
| Retirement age                                       | 50 - 55                                  | 50 - 63                                 | 52 - 67                            |
| Monthly benefits, as a % of eligible<br>compensation | 2.0% to 2.5%                             | 1.092% to 2.418%                        | 1.0% to 2.5%                       |
| Required employee contribution rates                 | 8%                                       | 7%                                      | 6.25%                              |
| Required employer contribution rates                 | 15.558%                                  | 15.558%                                 | 15.558%                            |
|  | <b>Safety Plan</b>                       |   |                                    |
|  | Existing plan<br>members hired<br>before | Existing plan<br>members hired<br>after | New plan<br>members hired<br>after |
| Hire date - Fire                                     | October 7, 2011                          | October 7, 2011                         | January 1, 2013                    |
| Hire date - Police                                   | December 10, 2012                        | December 10, 2012                       | January 1, 2013                    |
| Benefit formula                                      | 3% @ 50                                  | 3% @ 55                                 | 2.7% @ 57                          |
| Benefit vesting schedule                             | 5 years service                          | 5 years service                         | 5 years service                    |
| Benefit payments                                     | monthly for life                         | monthly for life                        | monthly for life                   |
| Retirement age                                       | 50                                       | 50 - 55                                 | 50 - 57                            |
| Monthly benefits, as a % of eligible<br>compensation | 3.0%                                     | 2.4% - 3.0%                             | 2.0% to 2.7%                       |
| Required employee contribution rates                 | 9%                                       | 9%                                      | 11.25%                             |
| Required employer contribution rates                 | 23.599%                                  | 23.599%                                 | 23.599%                            |

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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**13. PENSION PLANS, Continued**

**A. General Information about the Pension Plans, Continued**

*Employees Covered* – At June 30, 2015, the following employees were covered by the benefit terms for each Plan:

|  | <b>Miscellaneous<br/>Plan</b> | <b>Safety Plan</b> |
|--|-------------------------------|--------------------|
| Inactive employees or beneficiaries currently receiving benefits | 303                           | 168                |
| Inactive employees entitled to but not yet receiving benefits    | 199                           | 87                 |
| Active employees   | 276                           | 142                |
| Total  | <u>778</u>                    | <u>397</u>         |

*Contributions* – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS’s annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the average active employee contribution rate is 7.762 and 9.011 percent of annual pay, and the employer’s contribution rate is 14.048 and 22.581 percent of annual payroll for miscellaneous and safety employee, respectfully. Employer contribution rates may change if plan contracts are amended.

**B. Net Pension Liability**

The City’s net pension liability for each Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

*Actuarial Assumptions* – For the measurement period ended June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and the June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:



**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**13. PENSION PLANS, Continued**

**B. Net Pension Liability, Continued**

|                                  | <u>Miscellaneous and Safety Plans</u>   |
|----------------------------------|---|
| Actuarial cost method            | Entry-age normal cost method  |
| <b>Actuarial assumptions:</b>    |   |
| Discount rate                    | 7.5%  |
| Inflation                        | 2.75%   |
| Projected salary increases       | Varies by entry age and service   |
| Investment rate of return        | 7.50% net of pension plan investment and administrative expenses, includes inflation                                      |
| Mortality rate table (1)         | Derived using CalPERS' membership data for all funds  |
| Post retirement benefit increase | Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter |

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. Further details of the Experience Study can be found on the CalPERS website.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study Report can be obtained at CalPERS' website under Forms and Publications.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the agent multiple-employer plan. However, employers may determine the impact at the rate plan level for their own financial reporting purposes. Refer to the *Sensitivity of the Net Pension Liability to Changes in the Discount Rate* section of this note which provides information on the sensitivity of the net pension liability to changes in the discount rate.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**13. PENSION PLANS, Continued**

**B. Net Pension Liability, Continued**

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as CalPERS methodology has changed.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

| Asset Class                   | New<br>Strategic<br>Allocation | Real Return<br>Years 1 -10 (a) | Real Return<br>Years 11+ (b) |
|-------------------------------|--------------------------------|--------------------------------|------------------------------|
| Global equity                 | 47.0%                          | 5.25%                          | 5.71%                        |
| Global fixed income           | 19.0%                          | 0.99%                          | 2.43%                        |
| Inflation sensitive           | 6.0%                           | 0.45%                          | 3.36%                        |
| Private equity                | 12.0%                          | 6.83%                          | 6.95%                        |
| Real estate                   | 11.0%                          | 4.50%                          | 5.13%                        |
| Infrastructure and forestland | 3.0%                           | 4.50%                          | 5.09%                        |
| Liquidity                     | 2.0%                           | -0.55%                         | -1.05%                       |
| Total                         | 100.0%                         |                                |                              |

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**13. PENSION PLANS, Continued**

*C. Changes in the Net Pension Liability*

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

| <b>Miscellaneous Plan:</b>                                      | Increase (Decrease)        |                               |                                  |
|---|----------------------------|-------------------------------|----------------------------------|
|   | Total Pension<br>Liability | Plan Fiduciary<br>Net Pension | Net Pension<br>Liability (Asset) |
| Beginning balance, restated                                     | \$ 117,198,579             | \$ 81,913,658                 | \$ 35,284,921                    |
| Change in the year:   |                            |                               |                                  |
| Service cost  | 2,627,256                  |                               | 2,627,256                        |
| Interest on the total pension liability                         | 8,695,697                  |                               | 8,695,697                        |
| Contribution - employer   |                            | 2,247,444                     | (2,247,444)                      |
| Contribution - employee   |                            | 1,253,749                     | (1,253,749)                      |
| Net investment income (1)                                       |                            | 14,172,466                    | (14,172,466)                     |
| Benefit payments, including refunds<br>of employee contribution | (5,139,153)                | (5,139,153)                   |                                  |
| <b>Net Changes</b>  | <b>6,183,800</b>           | <b>12,534,506</b>             | <b>(6,350,706)</b>               |
| Ending at June 30, 2014   | <u>\$ 123,382,379</u>      | <u>\$ 94,448,164</u>          | <u>\$ 28,934,215</u>             |

  

| <b>Safety Plan:</b>   | Increase (Decrease)        |                               |                                  |
|---|----------------------------|-------------------------------|----------------------------------|
|   | Total Pension<br>Liability | Plan Fiduciary<br>Net Pension | Net Pension<br>Liability (Asset) |
| Beginning balance, restated                                     | \$ 124,558,804             | \$ 91,387,705                 | \$ 33,171,099                    |
| Change in the year:   |                            |                               |                                  |
| Service cost  | 3,121,317                  |                               | 3,121,317                        |
| Interest on the total pension liability                         | 9,243,496                  |                               | 9,243,496                        |
| Contribution - employer   |                            | 2,615,979                     | (2,615,979)                      |
| Contribution - employee   |                            | 1,106,201                     | (1,106,201)                      |
| Net investment income (1)                                       |                            | 15,776,487                    | (15,776,487)                     |
| Benefit payments, including refunds<br>of employee contribution | (5,745,669)                | (5,745,669)                   |                                  |
| <b>Net Changes</b>  | <b>6,619,144</b>           | <b>13,752,998</b>             | <b>(7,133,854)</b>               |
| Ending at June 30, 2014   | <u>\$ 131,177,948</u>      | <u>\$ 105,140,703</u>         | <u>\$ 26,037,245</u>             |

(1) Net of administrative expenses.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**13. PENSION PLANS, Continued**

*C. Changes in the Net Pension Liability, Continued*

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* - The following presents the net pension liability of each Plan as of the measurement date, calculated using the discount rate of 7.50 percent for each Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage point-higher than the current rate:

|                       | <u>Miscellaneous<br/>Plan</u> | <u>Safety<br/>Plan</u> |
|-----------------------|-------------------------------|------------------------|
| 1% decrease           | 6.50%                         | 6.50%                  |
| Net pension liability | \$ 45,079,298                 | \$ 43,617,919          |
| Current discount rate | 7.50%                         | 7.50%                  |
| Net pension liability | \$ 28,934,215                 | \$ 26,037,245          |
| 1% increase           | 8.50%                         | 8.50%                  |
| Net pension liability | \$ 15,504,284                 | \$ 11,499,504          |

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

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

For the year ended June 30, 2015, the City recognized pension expense of \$2,381,446 and \$2,686,365 for Miscellaneous and Safety Plans, respectfully. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Miscellaneous Plan</u> |                       | <u>Safety Plan</u>  |                       | <u>Total</u>          |
|---|---------------------------|-----------------------|---------------------|-----------------------|-----------------------|
|   | Deferred                  | Deferred              | Deferred            | Deferred              | Deferred              |
|   | Outflows of               | Inflows of            | Outflows of         | Inflows of            | Outflows/Inflows      |
|   | Resources                 | Resources             | Resources           | Resources             | of Resources          |
| Pension contributions subsequent to measurement date                              | \$ 2,584,907              | \$                    | \$ 2,907,157        | \$                    | \$ 5,492,064          |
| Net differences between projected and actual earnings on pension plan investments |                           | (6,484,708)           |                     | (7,204,240)           | (13,688,948)          |
| <b>Total</b>  | <b>\$ 2,584,907</b>       | <b>\$ (6,484,708)</b> | <b>\$ 2,907,157</b> | <b>\$ (7,204,240)</b> | <b>\$ (8,196,884)</b> |

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**13. PENSION PLANS, Continued**

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

\$2,584,907 and \$2,907,157 for Miscellaneous and Safety Plans, respectively, reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Measurement<br>Period Ended<br>June 30 | <u>Miscellaneous Plan</u>                      | <u>Safety Plan</u>                             |
|--|--|--|
|  | Deferred<br>Outflows/(Inflows)<br>of Resources | Deferred<br>Outflows/(Inflows)<br>of Resources |
| 2015                                   | \$ (1,621,177)                                 | \$ (1,801,060)                                 |
| 2016                                   | (1,621,177)                                    | (1,801,060)                                    |
| 2017                                   | (1,621,177)                                    | (1,801,060)                                    |
| 2018                                   | (1,621,177)                                    | (1,801,060)                                    |
| 2019                                   |  |  |
| Thereafter                             |  |  |

**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 Memorandum 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 \$1,706,371 in the California Employers' Retiree Benefit Trust (CERBT) at the end of the fiscal year ending June 30, 2015. CERBT is a tax-qualified irrevocable trust administered by the California Public Employees' Retirement System (CalPERS) and organized under Internal Revenue Code Section 115 to pre-fund retiree healthcare and other postemployment benefits. Copies of CalPERS' financial report may be obtained from the CalPERS website at [www.calpers.ca.gov](http://www.calpers.ca.gov) or from CalPERS Headquarters at 400 Q Street, Sacramento, California, 95811.

Out of approximately 411 full-time City employees, approximately 192 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.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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

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, 2015, the City contributed \$1,529,000 to the plan, including \$1,285,000 in medical premium payments for retirees and \$244,000 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.

*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               | \$ 4,628,000                |
| Interest on net OPEB obligation            | 977,000                     |
| Adjustment to annual required contribution | <u>(2,541,000)</u>          |
| Annual OPEB cost (expense)                 | 3,064,000                   |
| Benefit payments made outside of CERBT     | <u>(1,529,000)</u>          |
| Increase in net OPEB obligation            | 1,535,000                   |
| Net OPEB obligation - beginning of year    | <u>25,315,000</u>           |
| Net OPEB obligation - end of year          | <u><u>\$ 26,850,000</u></u> |

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2015 and the two preceding fiscal years were as follows:

| Fiscal Year<br>Ended | Annual<br>OPEB Cost | Percentage of<br>Annual OPEB<br>Cost Contributed | Net OPEB<br>Obligation |
|----------------------|---------------------|--|------------------------|
| 6/30/2013            | \$ 6,464,000        | 28.9%  | \$ 20,379,000          |
| 6/30/2014            | 6,597,000           | 25.2%  | 25,315,000             |
| 6/30/2015            | 3,064,000           | 49.9%  | 26,850,000             |

*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                      | (1,546,000)       |
| Unfunded actuarial accrued liability (UAAL)         | <u>50,921,000</u> |
| Funded ratio (actuarial value of Plan assets/AAL)   | 2.95%             |
| Covered payroll (eligible action Plan participants) | \$ 13,245,823     |
| UAAL as a percentage of covered payroll             | 384.40%           |

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.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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

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 8.00% for 2015, grading down to 5.0% for 2021 and after. The post-Medicare medical cost increase rate is 8.3% for 2015, grading down to 5.0% for 2021 and after. The caps on the City-paid medical benefits were assumed to increase 3.5% every 3<sup>rd</sup> year. The initial UAAL as of June 30, 2008 was amortized as a level dollar amount over a fixed 30-year period, plan and assumption changes over a fixed 20-year period, and gains and losses over a fixed 15-year period. The remaining equivalent single amortization period as of June 30, 2015 was 23 years.

**15. COMMITMENTS AND CONTINGENT LIABILITIES**

Project Commitments

As of June 30, 2015, the City had the following outstanding commitments that exceeded \$500,000:

| <u>Vendor Name</u>             | <u>Outstanding<br/>Amount</u> |
|--------------------------------|-------------------------------|
| BMY Construction Group, Inc    | \$ 1,117,579                  |
| Maxwell Construction Inc       | 793,518                       |
| National Meter & Automation    | 629,662                       |
| Merced Co Dept of Public Works | 625,231                       |
| Carbon Activated Corporation   | 519,717                       |
|                                | <u>\$ 3,685,707</u>           |

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.

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



**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

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

The City continues to work through the Redevelopment Agency unwinding process with the Designated Local Authority (DLA). The most recent letters from the State Controller's Office (SCO) and the Department of Finance claim that of \$42,065,255 of assets conveyed to the Public Financing and Economic Development Authority (Authority), \$7,050,342 of Housing assets were allowable, and the remaining \$35,014,913 were unallowable.

The City, Authority and Parking Authority continue to dispute some of the findings, but are working with DLA on the transfer of some assets, once related issues are resolved.

**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.

**17. NET POSITION AND FUND BALANCE RESTATEMENT**

During the fiscal year, the City implemented new accounting standards. Accordingly, the City restated fund balances and net positions as of July 1, 2014.

The City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Beginning balances were adjusted as reported below. These adjustments reflect the recording of net pension liabilities, deferred inflows of resources and deferred outflows of resources as required under the new GASB. In addition, under the provisions of GASB No. 68, the City will no longer record a prepaid pension asset; therefore an adjustment was required to remove this balance.

Under the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, the City reported deferred inflows in the prior year financial statements for unavailable revenue on loan principal. Based on further interpretation of this GASB, the City has determined that the unavailable revenue did not qualify as deferred inflows and should be reclassified.

**City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2015**

**17. NET POSITION AND FUND BALANCE RESTATEMENT, Continued**

The following is a summary of the restatement of beginning balances:

*Government-Wide Financial Statements*

|  | Governmental<br>Activities | Business-Type<br>Activities |
|--|----------------------------|-----------------------------|
| Beginning balance, July 1, 2014              | \$ 381,190,926             | \$ 214,627,040              |
| Adjustment for pension                       | (51,457,828)               | (12,134,770)                |
| Adjustment for deferred inflows              | (70,245)                   |                             |
| Adjustment for prepaid pension asset         | (4,866,388)                |                             |
| Beginning balance, July 1, 2014, as restated | <u>\$ 324,796,465</u>      | <u>\$ 202,492,270</u>       |

*Fund Financial Statements*

|  | Housing  | Low and<br>Moderate<br>Income Housing | Non-Major<br>Governmental<br>Funds |                                  |
|--|--|---------------------------------------|------------------------------------|----------------------------------|
| <i>Governmental Funds:</i>                   |  |                                       |                                    |                                  |
| Beginning balance, July 1, 2014              | \$ 876,368   | \$ 3,236,200                          | \$ 21,204,332                      |                                  |
| Adjustment for deferred inflows              | 20,275,641   | 7,773,872                             | 5,076,964                          |                                  |
| Beginning balance, July 1, 2014, as restated | <u>\$ 21,152,009</u>                                   | <u>\$ 11,010,072</u>                  | <u>\$ 26,281,296</u>               |                                  |
|  |  |                                       |                                    |                                  |
| <i>Enterprise Funds:</i>                     |  |                                       |                                    |                                  |
|  | Wastewater<br>System                                   | Water<br>System                       | Refuse<br>Collection<br>System     | Non-Major<br>Enterprise<br>Funds |
| Beginning balance, July 1, 2014              | \$ 103,925,155   | \$ 87,164,823                         | \$ 17,373,282                      | \$ 6,163,780                     |
| Adjustment for pension                       | (4,526,167)  | (3,059,365)                           | (4,162,749)                        | (386,489)                        |
| Beginning balance, July 1, 2014, as restated | <u>\$ 99,398,988</u>                                   | <u>\$ 84,105,458</u>                  | <u>\$ 13,210,533</u>               | <u>\$ 5,777,291</u>              |
|  |  |                                       |                                    |                                  |
| <i>Internal Service Fund:</i>                | Governmental<br>Activities<br>Internal Service<br>Fund |                                       |                                    |                                  |
| Beginning balance, July 1, 2014              | \$ 12,137,710  |                                       |                                    |                                  |
| Adjustment for pension                       | (4,113,268)  |                                       |                                    |                                  |
| Beginning balance, July 1, 2014, as restated | <u>\$ 8,024,442</u>                                    |                                       |                                    |                                  |

**REQUIRED SUPPLEMENTARY INFORMATION**

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**City of Merced**  
**Required Supplementary Information**  
**For the year ended June 30, 2015**

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**1. BUDGETARY CONTROL AND ACCOUNTING**

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

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

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations, and if certain proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or refunded to the taxpayers through revised tax rates or revised fee schedules. For the fiscal year ended June 30, 2015, 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, 2015**

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

*General Fund*

|   | Budget            |                   | Actual            | Variance with<br>Final Budget |
|---|-------------------|-------------------|-------------------|-------------------------------|
|   | Original          | Final             |                   |                               |
| <b>REVENUES:</b>                              |                   |                   |                   |                               |
| Taxes:  |                   |                   |                   |                               |
| Property tax:                                 |                   |                   |                   |                               |
| Secured                                       | \$ 5,089,998      | \$ 5,089,998      | \$ 5,068,183      | \$ (21,815)                   |
| Unsecured                                     | 435,532           | 435,532           | 647,884           | 212,352                       |
| Supplemental roll:                            |                   |                   |                   |                               |
| Prior year - unsecured                        | 5,538             | 5,538             | 3,991             | (1,547)                       |
| Prior year - supplemental roll                | 83,073            | 83,073            | 102,752           | 19,679                        |
| Sales and use                                 | 8,354,167         | 8,354,167         | 7,993,497         | (360,670)                     |
| Transient occupancy tax                       | 927,996           | 927,996           | 1,874,354         | 946,358                       |
| Franchise                                     | 1,522,380         | 1,522,380         | 1,588,474         | 66,094                        |
| Business license                              | 1,282,475         | 1,282,475         | 1,077,292         | (205,183)                     |
| Cost revenue impact study fee                 | 116,025           | 116,025           | 124,102           | 8,077                         |
| Real property transfer                        | 155,802           | 155,802           | 135,368           | (20,434)                      |
| Triple flip backfill                          | 2,784,722         | 2,784,722         | 2,817,600         | 32,878                        |
| Vehicle in lieu backfill                      | 4,743,000         | 4,743,000         | 5,157,892         | 414,892                       |
| Total taxes                                   | <u>25,500,708</u> | <u>25,500,708</u> | <u>26,591,389</u> | <u>1,090,681</u>              |
| Intergovernmental:                            |                   |                   |                   |                               |
| Motor vehicle in lieu tax                     |                   |                   | 33,248            | 33,248                        |
| Homeowners property tax relief                | 75,000            | 75,000            | 59,105            | (15,895)                      |
| Police standards and training                 | 28,000            | 28,000            | 62,030            | 34,030                        |
| Other state grants                            | 25,000            | 178,088           | 91,202            | (86,886)                      |
| Other federal grants                          | 348,164           | 545,897           | 284,947           | (260,950)                     |
| Office BJA - bulletproof vest grant           | 3,896             | 12,393            | 6,075             | (6,318)                       |
| State mandated cost reimbursement             | 57,260            | 57,260            | 342,620           | 285,360                       |
| Total intergovernmental                       | <u>537,320</u>    | <u>896,638</u>    | <u>879,227</u>    | <u>(17,411)</u>               |
| Licenses and permits:                         |                   |                   |                   |                               |
| Animal licenses                               | 16,000            | 16,000            | 13,413            | (2,587)                       |
| Bicycle licenses                              | 215               | 215               | 176               | (39)                          |
| Other licenses and permits                    | 8,400             | 8,400             | 9,042             | 642                           |
| Total licenses and permits                    | <u>24,615</u>     | <u>24,615</u>     | <u>22,631</u>     | <u>(1,984)</u>                |
| Use of money and property                     |                   |                   |                   |                               |
| Investment Earnings                           | 47,220            | 47,220            | 84,522            | 37,302                        |
| Rents and concessions (other than recreation) | 80,262            | 80,262            | 56,610            | (23,652)                      |
| Total use of money and property               | <u>127,482</u>    | <u>127,482</u>    | <u>141,132</u>    | <u>13,650</u>                 |

(continued)

**City of Merced**  
**Required Supplementary Information, Continued**  
**For the Year Ended June 30, 2015**

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

*General Fund (continued)*

|  | Budget            |                   | Actual            | Variance with<br>Final Budget |
|--|-------------------|-------------------|-------------------|-------------------------------|
|  | Original          | Final             |                   |                               |
| <b>REVENUES, Continued:</b>            |                   |                   |                   |                               |
| Service Charges:                       |                   |                   |                   |                               |
| Fire department special services       | \$ 46,138         | \$ 269,318        | \$ 269,319        | \$ 1                          |
| Fire prevention                        | 50,000            | 50,000            | 38,742            | (11,258)                      |
| Accident reports                       | 4,100             | 4,100             | 7,264             | 3,164                         |
| PERS-EE share 2.5% at 55               | 429,457           | 430,178           | 345,814           | (84,364)                      |
| PERS-EE share 3% at 50                 | 794,387           | 794,387           | 751,014           | (43,373)                      |
| PERS-EE share 2% at 62                 | 20,045            | 20,045            | 21,509            | 1,464                         |
| PERS-EE share 2.7% at 57               | 60,070            | 60,070            | 28,150            | (31,920)                      |
| PERS-EE share 2% at 60                 | 4,717             | 4,717             | 10,383            | 5,666                         |
| PERS-EE share 3% at 55                 | 5,529             | 5,529             | 9,553             | 4,024                         |
| Administrative                         | 3,011,990         | 3,086,570         | 3,086,570         |                               |
| Administrative review fee              | 100               | 100               |                   | (100)                         |
| Animal control services                | 3,500             | 3,500             | 5,492             | 1,992                         |
| School police officer                  | 281,920           | 281,920           | 375,005           | 93,085                        |
| Valley High School police officer      | 93,640            |                   |                   |                               |
| Interdepartmental charges              | 1,710,348         | 1,710,348         | 1,710,348         |                               |
| Cost applied                           | 112,500           | 112,500           | 115,581           | 3,081                         |
| Other current service charges          | 96,228            | 96,228            | 94,859            | (1,369)                       |
| Total service charges                  | <u>6,724,669</u>  | <u>6,929,510</u>  | <u>6,869,603</u>  | <u>(59,907)</u>               |
| Fines, forfeitures and penalties:      |                   |                   |                   |                               |
| Criminal fines                         | 83,749            | 83,749            | 82,968            | (781)                         |
| Parking fines                          | 300,000           | 300,000           | 276,090           | (23,910)                      |
| Total fines, forfeitures and penalties | <u>383,749</u>    | <u>383,749</u>    | <u>359,058</u>    | <u>(24,691)</u>               |
| Other:                                 |                   |                   |                   |                               |
| Unclassified revenue                   | 277,865           | 277,865           | 287,827           | 9,962                         |
| Snack machine revenue                  |                   |                   |                   |                               |
| Garnishments handling fees             | 1,140             | 1,140             | 872               | (268)                         |
| Miscellaneous                          | 104,458           | 150,675           | 111,202           | (39,473)                      |
| Cash overages (shortages)              | 100               | 100               | (18)              | (118)                         |
| Donations/contributions                | 700               | 700               | 1,092             | 392                           |
| S.M.I.P. fees                          | 1,983             | 1,983             |                   | (1,983)                       |
| Total other                            | <u>386,246</u>    | <u>432,463</u>    | <u>400,975</u>    | <u>(31,488)</u>               |
| <b>Total revenues</b>                  | <u>33,684,789</u> | <u>34,295,165</u> | <u>35,264,015</u> | <u>968,850</u>                |

(continued)

**City of Merced**  
**Required Supplementary Information, Continued**  
**For the Year Ended June 30, 2015**

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

**General Fund (continued)**

|   | Budget            |                     | Actual               | Variance with<br>Final Budget |
|---|-------------------|---------------------|----------------------|-------------------------------|
|   | Original          | Final               |                      |                               |
| <b>EXPENDITURES:</b>                        |                   |                     |                      |                               |
| Current operating:                          |                   |                     |                      |                               |
| General government:                         |                   |                     |                      |                               |
| City council                                | \$ 210,866        | \$ 229,868          | \$ 176,144           | \$ 53,724                     |
| City manager                                | 837,667           | 1,038,572           | 541,613              | 496,959                       |
| City attorney                               | 869,148           | 1,061,289           | 926,513              | 134,776                       |
| City clerk                                  | 668,762           | 679,762             | 459,285              | 220,477                       |
| Finance                                     | 2,417,803         | 2,402,851           | 2,324,354            | 78,497                        |
| Purchasing                                  | 205,388           | 208,406             | 205,630              | 2,776                         |
| Economic development                        | 494,293           | 634,144             | 472,118              | 162,026                       |
| Youth council                               |                   | 12,500              | 128                  | 12,372                        |
| Visitor's services                          | 173,361           | 171,560             | 169,412              | 2,148                         |
| Total general government                    | <u>5,877,288</u>  | <u>6,438,952</u>    | <u>5,275,197</u>     | <u>1,163,755</u>              |
| Public safety:                              |                   |                     |                      |                               |
| Police protection                           | 16,141,561        | 16,489,702          | 15,836,872           | 652,830                       |
| Fire protection and weed abatement          | 8,442,635         | 8,891,565           | 8,368,383            | 523,182                       |
| Total public safety                         | <u>24,584,196</u> | <u>25,381,267</u>   | <u>24,205,255</u>    | <u>1,176,012</u>              |
| Public works                                | <u>1,623,130</u>  | <u>1,653,283</u>    | <u>1,573,305</u>     | <u>79,978</u>                 |
| Total current operating                     | <u>32,084,614</u> | <u>33,473,502</u>   | <u>31,053,757</u>    | <u>2,419,745</u>              |
| Debt service:                               |                   |                     |                      |                               |
| Principal                                   | 325,000           | 325,000             | 325,000              |                               |
| Interest                                    | 348,691           | 348,691             | 348,691              |                               |
| Total debt service                          | <u>673,691</u>    | <u>673,691</u>      | <u>673,691</u>       |                               |
| <b>Total expenditures</b>                   | <u>32,758,305</u> | <u>34,147,193</u>   | <u>31,727,448</u>    | <u>2,419,745</u>              |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b>   | <u>926,484</u>    | <u>147,972</u>      | <u>3,536,567</u>     | <u>3,388,595</u>              |
| <b>OTHER FINANCING SOURCES (USES):</b>      |                   |                     |                      |                               |
| Sale of capital assets                      | 205,100           | 205,100             | 436,376              | 231,276                       |
| Transfers in                                | 749,524           | 1,315,203           | 1,107,732            | (207,471)                     |
| Transfers out                               | (1,850,983)       | (2,253,769)         | (2,130,340)          | 123,429                       |
| <b>Total other financing sources (uses)</b> | <u>(896,359)</u>  | <u>(733,466)</u>    | <u>(586,232)</u>     | <u>147,234</u>                |
| <b>Net change in fund balance</b>           | <u>\$ 30,125</u>  | <u>\$ (585,494)</u> | <u>2,950,335</u>     | <u>\$ 3,535,829</u>           |
| <b>FUND BALANCE:</b>                        |                   |                     |                      |                               |
| Beginning of year                           |                   |                     | <u>14,007,127</u>    |                               |
| End of year                                 |                   |                     | <u>\$ 16,957,462</u> |                               |

(continued)



**City of Merced**  
**Required Supplementary Information, Continued**  
**For the Year Ended June 30, 2015**

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

*General Fund (continued)*

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

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

|                                      | General Fund -<br>Budgetary<br>Schedule -<br>Actual | Parks and<br>Community<br>Services Fund | General Fund -<br>Governmental<br>Funds<br>Statement of<br>Revenues,<br>Expenditures<br>and Changes in<br>Fund Balance |
|--------------------------------------|---|---|--|
| Total revenues                       | \$ 35,264,012                                       | \$ 365,647                              | \$ 35,629,659  |
| Total expenditures                   | <u>31,727,445</u>                                   | <u>1,106,843</u>                        | <u>32,834,288</u>  |
| Revenues over (under) expenditures   | 3,536,567   | (741,196)                               | 2,795,371  |
| Total other financing sources (uses) | <u>(586,232)</u>                                    | <u>802,549</u>                          | <u>216,317</u>   |
| Net change in fund balance           | 2,950,335   | 61,353                                  | 3,011,688  |
| Beginning of year                    | <u>14,007,127</u>                                   | <u>74,778</u>                           | <u>14,081,905</u>  |
| End of year                          | <u><u>\$ 16,957,462</u></u>                         | <u><u>\$ 136,131</u></u>                | <u><u>\$ 17,093,593</u></u>  |

**City of Merced**  
**Required Supplementary Information, Continued**  
**For the Year Ended June 30, 2015**

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

|   | Budget              |                    | Actual               | Variance with<br>Final Budget |
|---|---------------------|--------------------|----------------------|-------------------------------|
|   | Original            | Final              |                      |                               |
| <b>REVENUES:</b>                          |                     |                    |                      |                               |
| Intergovernmental                         | \$ 4,045,207        | \$ 4,219,445       | \$ 1,226,637         | \$ (2,992,808)                |
| Use of money and property                 | 2,300               | 2,300              | 7,019                | 4,719                         |
| Service charges                           | 583,351             | 583,351            | 536,286              | (47,065)                      |
| Total revenues                            | <u>4,630,858</u>    | <u>4,805,096</u>   | <u>1,769,942</u>     | <u>(3,035,154)</u>            |
| <b>EXPENDITURES:</b>                      |                     |                    |                      |                               |
| Current operating:                        |                     |                    |                      |                               |
| General government                        | 5,446,693           | 4,509,197          | 1,507,920            | 3,001,277                     |
| Total current operating                   | <u>5,446,693</u>    | <u>4,509,197</u>   | <u>1,507,920</u>     | <u>3,001,277</u>              |
| Capital outlay                            | 83,651              |                    | 515,145              | (515,145)                     |
| Total expenditures                        | <u>5,530,344</u>    | <u>4,509,197</u>   | <u>2,023,065</u>     | <u>2,486,132</u>              |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | <u>(899,486)</u>    | <u>295,899</u>     | <u>(253,123)</u>     | <u>(549,022)</u>              |
| <b>OTHER FINANCING SOURCES (USES):</b>    |                     |                    |                      |                               |
| Sale of capital assets                    | 675,000             | 675,000            | 675,422              | 422                           |
| Transfers out                             | (4,979)             | (1,002,703)        | (361,291)            | 641,412                       |
| Total other financing sources (uses)      | <u>670,021</u>      | <u>(327,703)</u>   | <u>314,131</u>       | <u>641,834</u>                |
| Net change in fund balances               | <u>\$ (229,465)</u> | <u>\$ (31,804)</u> | 61,008               | <u>\$ 92,812</u>              |
| <b>FUND BALANCE:</b>                      |                     |                    |                      |                               |
| Beginning of year, restated               |                     |                    | <u>21,152,009</u>    |                               |
| End of year                               |                     |                    | <u>\$ 21,213,017</u> |                               |

**City of Merced**  
**Required Supplementary Information, Continued**  
**For the Year Ended June 30, 2015**

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

|   | Budget           |                     | Actual              | Variance with<br>Final Budget |
|---|------------------|---------------------|---------------------|-------------------------------|
|   | Original         | Final               |                     |                               |
| <b>REVENUES:</b>                          |                  |                     |                     |                               |
| Taxes                                     | \$ 5,569,444     | \$ 5,569,444        | \$ 5,568,158        | \$ (1,286)                    |
| Intergovernmental                         | 374,580          | 374,580             | 250,988             | (123,592)                     |
| Use of money and property                 | 2,400            | 2,400               | 1,560               | (840)                         |
| Service charges                           | 269,614          | 335,342             | 322,632             | (12,710)                      |
| Total revenues                            | <u>6,216,038</u> | <u>6,281,766</u>    | <u>6,143,338</u>    | <u>(138,428)</u>              |
| <b>EXPENDITURES:</b>                      |                  |                     |                     |                               |
| Current operating:                        |                  |                     |                     |                               |
| Public safety                             | 5,906,470        | 6,096,292           | 5,901,150           | 195,142                       |
| Public works                              | 232,722          | 235,724             | 187,904             | 47,820                        |
| Total current operating                   | <u>6,139,192</u> | <u>6,332,016</u>    | <u>6,089,054</u>    | <u>242,962</u>                |
| Capital outlay                            |                  | 473,187             | 408,399             | 64,788                        |
| Total expenditures                        | <u>6,139,192</u> | <u>6,805,203</u>    | <u>6,497,453</u>    | <u>307,750</u>                |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | <u>76,846</u>    | <u>(523,437)</u>    | <u>(354,115)</u>    | <u>169,322</u>                |
| <b>OTHER FINANCING SOURCES (USES):</b>    |                  |                     |                     |                               |
| Transfers in                              |                  |                     |                     |                               |
| Transfers out                             | <u>(511)</u>     | <u>(511)</u>        | <u>(511)</u>        |                               |
| Total other financing sources (uses)      | <u>(511)</u>     | <u>(511)</u>        | <u>(511)</u>        |                               |
| Net change in fund balances               | <u>\$ 76,335</u> | <u>\$ (523,948)</u> | <u>(354,626)</u>    | <u>\$ 169,322</u>             |
| <b>FUND BALANCE:</b>                      |                  |                     |                     |                               |
| Beginning of year                         |                  |                     | 1,544,968           |                               |
| End of year                               |                  |                     | <u>\$ 1,190,342</u> |                               |

**City of Merced**  
**Required Supplementary Information, Continued**  
**For the Year Ended June 30, 2015**

**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<br>Final Budget |
|-----------------------------|---------------------|---------------------|----------------------|-------------------------------|
|                             | Original            | Final               |                      |                               |
| <b>REVENUES:</b>            |                     |                     |                      |                               |
| Intergovernmental           | \$ 17,859           | \$ 17,859           | \$ 216,942           | \$ 199,083                    |
| Use of money and property   | 8,631               | 8,631               | 15,912               | 7,281                         |
| Total revenues              | <u>26,490</u>       | <u>26,490</u>       | <u>232,854</u>       | <u>206,364</u>                |
| <b>EXPENDITURES:</b>        |                     |                     |                      |                               |
| Current operating:          |                     |                     |                      |                               |
| General government          | 142,116             | 142,116             | 1,685                | 140,431                       |
| Total current operating     | <u>142,116</u>      | <u>142,116</u>      | <u>1,685</u>         | <u>140,431</u>                |
| Total expenditures          | <u>142,116</u>      | <u>142,116</u>      | <u>1,685</u>         | <u>140,431</u>                |
| Net change in fund balances | <u>\$ (115,626)</u> | <u>\$ (115,626)</u> | 231,169              | <u>\$ 346,795</u>             |
| <b>FUND BALANCE:</b>        |                     |                     |                      |                               |
| Beginning of year, restated |                     |                     | 11,010,072           |                               |
| End of year                 |                     |                     | <u>\$ 11,241,241</u> |                               |

**City of Merced**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2015**

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

|   | 2015                  |                      |                      |
|---|-----------------------|----------------------|----------------------|
|   | Miscellaneous<br>Plan | Safety<br>Plan       | Total                |
| Measurement period 2013/2014 (1)  |                       |                      |                      |
| Total pension liability   |                       |                      |                      |
| Service cost  | \$ 2,627,256          | \$ 3,121,317         | \$ 5,748,573         |
| Interest on total pension liability   | 8,695,697             | 9,243,496            | 17,939,193           |
| Benefit payments, including refunds of<br>employee contributions              | (5,139,153)           | (5,745,669)          | (10,884,822)         |
| Net change in total pension liability   | 6,183,800             | 6,619,144            | 12,802,944           |
| Total pension liability - beginning   | 117,198,579           | 124,558,804          | 241,757,383          |
| Total pension liability - ending (a)  | 123,382,379           | 131,177,948          | 254,560,327          |
| Plan fiduciary net position   |                       |                      |                      |
| Contributions - employer  | 2,247,444             | 2,615,979            | 4,863,423            |
| Contributions - employee  | 1,253,749             | 1,106,201            | 2,359,950            |
| Net investment income (2)   | 14,172,466            | 15,776,487           | 29,948,953           |
| Benefit payments  | (5,139,153)           | (5,745,669)          | (10,884,822)         |
| Net change in plan fiduciary net position - ending (b)                        | 12,534,506            | 13,752,998           | 26,287,504           |
| Plan fiduciary net position - beginning                                       | 81,913,657            | 91,387,705           | 173,301,362          |
| Plan fiduciary net position - ending  | 94,448,163            | 105,140,703          | 199,588,866          |
| Net pension liability - ending (a) - (b)                                      | <u>\$ 28,934,216</u>  | <u>\$ 26,037,245</u> | <u>\$ 54,971,461</u> |
| Plan fiduciary net position as a percentage<br>of the total pension liability | 76.55%                | 80.15%               | 78.41%               |
| Covered-employee payroll  | \$ 16,471,824         | \$ 12,061,197        | \$ 28,533,021        |
| Net pension liability as percentage<br>of covered-employee payroll            | 175.66%               | 215.88%              | 192.66%              |

(1) Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

(2) Net of administrative expenses.

**Notes to schedule:**

Benefits changes: No change

Changes in assumptions: No changes in assumptions

**City of Merced**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2015**

**3. SCHEDULE OF PLAN CONTRIBUTIONS (1)**

|   | 2015                  |                |
|---|-----------------------|----------------|
|   | Miscellaneous<br>Plan | Safety<br>Plan |
| Actuarially determined contribution                       | \$ 2,247,444          | \$ 2,615,979   |
| Contributions in relation to the actuarially determined   | (2,247,444)           | (2,615,979)    |
| Contribution deficiency (excess)                          | <u>\$</u>             | <u>\$</u>      |
| Covered-employee payroll fiscal year ending June 30, 2015 | \$ 15,806,840         | \$ 11,713,265  |
| Contributions as a percentage of covered-employee payroll | 14.22%                | 22.33%         |

(1) Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown

**Notes to schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were from the June 30, 2012 valuations:

|                            |  |
|----------------------------|--|
| Actuarial Cost Method      | Entry age normal   |
| Amortization Method/Period | Level percent of payroll   |
| Asset Valuation Method     | 15 year smoothed market  |
| Infation                   | 2.75%  |
| Salary Increases           | Varies by entry age and service  |
| Payroll Growth             | 3.00%  |
| Investment Rate of Return  | 7.50% net of pension plan investment and administrative expenses; includes inflation   |
| Retirement Age             | The probabilities of retirement are based on the 2010 CalPERS experience study for the period from 1997 to 2007  |
| Mortality                  | The probabilities of mortality are based on the 2010 CalPERS experience study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using scale AA published by the Society of Actuaries |

**City of Merced**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2015**

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**4. POSTEMPLOYMENT HEALTHCARE PLAN SCHEDULE OF FUNDING PROGRESS**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets | Actuarial<br>Accrued<br>Liability | Unfunded<br>Actuarial<br>Accrued<br>Liability | Funded<br>Ratio | Covered<br>Payroll | UAAL as a<br>Percentage of<br>Covered<br>Payroll |
|--------------------------------|---------------------------------|-----------------------------------|---|-----------------|--------------------|--|
| 6/30/2009                      | \$                              | \$ 60,770,000                     | \$ 60,770,000                                 | 0.00%           | \$ 18,248,000      | 333.0%   |
| 6/30/2011                      | 1,261,000                       | 71,442,000                        | 70,181,000                                    | 1.77%           | 16,299,000         | 430.6%   |
| 6/30/2013                      | 1,441,000                       | 51,005,000                        | 49,564,000                                    | 2.83%           | 15,102,000         | 328.2%   |

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## **SUPPLEMENTARY INFORMATION**

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**City of Merced**  
**Supplementary Information**  
**General Fund Combining Balance Sheet**  
**June 30, 2015**

|   | General<br>Fund      | Parks and<br>Community<br>Services<br>Fund | General<br>Fund<br>Combined |
|---|----------------------|--|-----------------------------|
| <b>ASSETS</b>   |                      |  |                             |
| Cash, cash equivalents and investments  | \$ 13,454,583        | \$ 148,942                                 | \$ 13,603,525               |
| Restricted cash held by fiscal agents   | 6                    |  | 6                           |
| Receivables:  |                      |  |                             |
| Accounts  | 688,106              | 28,997                                     | 717,103                     |
| Due from other governments  | 2,273,394            |  | 2,273,394                   |
| Interest  | 15,776               |  | 15,776                      |
| Due from other funds  | 241,662              |  | 241,662                     |
| Inventory   | 50,705               |  | 50,705                      |
| Notes receivable  | 173,425              |  | 173,425                     |
| Advances to other funds   | 1,710,991            |  | 1,710,991                   |
| <b>Total assets</b>   | <b>\$ 18,608,648</b> | <b>\$ 177,939</b>                          | <b>\$ 18,786,587</b>        |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES<br/>AND FUND BALANCES</b>       |                      |  |                             |
| Liabilities:  |                      |  |                             |
| Accounts payable  | \$ 124,509           | \$ 24,655                                  | \$ 149,164                  |
| Payroll liabilities   | 558,596              | 17,153                                     | 575,749                     |
| Unearned revenue  | 961,411              |  | 961,411                     |
| Other liabilities   | 6,670                |  | 6,670                       |
| <b>Total liabilities</b>  | <b>1,651,186</b>     | <b>41,808</b>                              | <b>1,692,994</b>            |
| Fund balances:  |                      |  |                             |
| Nonspendable  | 1,917,715            |  | 1,917,715                   |
| Restricted  | 4,000,000            |  | 4,000,000                   |
| Assigned  | 954,270              | 93,444                                     | 1,047,714                   |
| Unassigned  | 10,085,477           | 42,687                                     | 10,128,164                  |
| <b>Total fund balances</b>  | <b>16,957,462</b>    | <b>136,131</b>                             | <b>17,093,593</b>           |
| <b>Total liabilities, deferred inflows of resources<br/>and fund balances</b> | <b>\$ 18,608,648</b> | <b>\$ 177,939</b>                          | <b>\$ 18,786,587</b>        |

**City of Merced**  
**Supplementary Information**  
**General Fund Combining Statement of**  
**Revenues, Expenditures and Changes in Fund Balance**  
**June 30, 2015**

|   | General<br>Fund      | Parks and<br>Community<br>Services<br>Fund | General<br>Fund<br>Combined |
|---|----------------------|--|-----------------------------|
| <b>REVENUES:</b>                          |                      |  |                             |
| Taxes                                     | \$ 26,591,389        | \$   | \$ 26,591,389               |
| Intergovernmental                         | 879,227              |  | 879,227                     |
| Licenses and permits                      | 22,631               |  | 22,631                      |
| Use of money and property                 | 141,132              | 4,279                                      | 145,411                     |
| Service charges                           | 6,869,603            | 259,648                                    | 7,129,251                   |
| Fines, forfeitures and penalties          | 359,058              |  | 359,058                     |
| Other                                     | 400,972              | 101,720                                    | 502,692                     |
| Total revenues                            | <u>35,264,012</u>    | <u>365,647</u>                             | <u>35,629,659</u>           |
| <b>EXPENDITURES:</b>                      |                      |  |                             |
| Current operating:                        |                      |  |                             |
| General government                        | 5,275,197            |  | 5,275,197                   |
| Public safety                             | 24,184,904           |  | 24,184,904                  |
| Public works                              | 1,573,305            |  | 1,573,305                   |
| Culture and recreation                    |                      | 1,106,843                                  | 1,106,843                   |
| Total current operating                   | <u>31,033,406</u>    | <u>1,106,843</u>                           | <u>32,140,249</u>           |
| Capital outlay                            | 20,348               |  | 20,348                      |
| Debt Service:                             |                      |  |                             |
| Principal                                 | 325,000              |  | 325,000                     |
| Interest                                  | 348,691              |  | 348,691                     |
| Total expenditures                        | <u>31,727,445</u>    | <u>1,106,843</u>                           | <u>32,813,940</u>           |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | <u>3,536,567</u>     | <u>(741,196)</u>                           | <u>2,795,371</u>            |
| <b>OTHER FINANCING SOURCES (USES):</b>    |                      |  |                             |
| Sale of capital assets                    | 436,376              | 2,874                                      | 439,250                     |
| Transfers in                              | 1,107,732            | 54,061                                     | 1,161,793                   |
| Transfers out                             | (1,376,642)          | (8,084)                                    | (1,384,726)                 |
| Intrafund transfers                       | (753,698)            | 753,698                                    |                             |
| Total other financing sources (uses)      | <u>(586,232)</u>     | <u>802,549</u>                             | <u>216,317</u>              |
| <b>NET CHANGE IN FUND BALANCES</b>        | 2,950,335            | 61,353                                     | 3,011,688                   |
| <b>FUND BALANCES:</b>                     |                      |  |                             |
| Beginning of year                         | 14,007,127           | 74,778                                     | 14,081,905                  |
| End of year                               | <u>\$ 16,957,462</u> | <u>\$ 136,131</u>                          | <u>\$ 17,093,593</u>        |

