



City of Merced, California

Basic Financial Statements

For the Fiscal Year Ended June 30, 2016



MERCED

University of California, Merced Downtown Campus Center

The Downtown Campus Center is a strategic effort to consolidate UC Merced's business functions in a single location, to strengthen downtown's economy and to focus space on the existing campus for teaching and research. By establishing a substantial presence in downtown, the University can continue to foster and create partnerships with the community.

The 3-story, 67,400 gross square foot building will have assigned collaborative space, private group working spaces for up to 370 staff and 60 meeting rooms. Forty administrative departments are being considered for a phased relocation when the building opens in Fall 2017.

Architect: Heller Manus Architects, San Francisco ~ Artwork provided by Heller Manus Architects, San Francisco

**City of
Merced**
Merced, California

Annual Financial Report

For the year ended June 30, 2016

Prepared by:
Finance Department

City of Merced
Annual Financial Report
For the year ended June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Merced, California (City) as of and for the year ended June 30, 2016, 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.

To the Honorable Mayor and Members of the City Council
of the City of Merced
Merced, California
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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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension plan information, and schedule of funding progress for OPEB on pages 5-13, 110-112, and 113 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The general fund combining balance sheet and combining statement of revenues, expenditures, and changes in fund balance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the general fund combining balance sheet and combining statement of revenues, expenditures, and changes in fund balance are 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 January 23, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi and Associates
Certified Public Accountants
Oakland, California
January 23, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Merced (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016.

FINANCIAL HIGHLIGHTS

The City's net position as shown on the Government-Wide Statement of Activities decreased by \$5.3 million. The governmental net position decreased by \$10.2 million and the business-type net position increased by \$4.9 million.

Government-wide:

- As shown on the Statement of Net Position, the assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$512.7 million.
- The net decrease to governmental activity long-term debt of \$925,564 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 \$3.1 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 \$8.7 million, or 45.3% 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-two individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances for General Fund, Housing Special Revenue Fund, Measure C Special Revenue Fund, Low and Moderate Income Housing Special Revenue Fund, and Streets and Signals Capital Projects Fund, which are considered major funds. Data from the other twenty-seven 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 \$512.7 million at the close of the most recent fiscal year.

Summary of Net Position

	Governmental		Business-Type		Total	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 104,214,673	\$ 107,166,335	\$ 115,794,906	\$ 112,101,268	\$ 220,009,579	\$ 219,267,603
Capital assets	298,864,581	311,219,066	163,507,816	165,601,997	462,372,397	476,821,063
Total assets	403,079,254	418,385,401	279,302,722	277,703,265	682,381,976	696,088,666
Deferred outflows related to pension	4,892,388	4,477,112	1,103,081	1,014,952	5,995,469	5,492,064
Total deferred outflows	4,892,388	4,477,112	1,103,081	1,014,952	5,995,469	5,492,064
Current liabilities	10,150,422	10,946,386	7,574,762	7,837,280	17,725,184	18,783,666
Noncurrent liabilities	87,973,196	84,787,855	62,290,721	63,985,142	150,263,917	148,772,997
Total liabilities	98,123,618	95,734,241	69,865,483	71,822,422	167,989,101	167,556,663
Deferred inflows related to pension	6,325,658	11,142,761	1,319,903	2,546,187	7,645,561	13,688,948
Total deferred inflows	6,325,658	11,142,761	1,319,903	2,546,187	7,645,561	13,688,948
Net position:						
Net investment in capital assets	296,886,365	309,124,469	122,838,022	122,078,985	419,724,387	431,203,454
Restricted	57,841,866	61,047,982	44,831,546	47,571,164	102,673,412	108,619,146
Unrestricted	(51,205,865)	(54,186,940)	41,550,849	34,699,459	(9,655,016)	(19,487,481)
Total net position	\$ 303,522,366	\$ 315,985,511	\$ 209,220,417	\$ 204,349,608	\$ 512,742,783	\$ 520,335,119

The largest portion of the City's net position, 81.9%, 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 \$512.7 million total net position, \$102.7 million, or 20.0% of these resources are subject to external restrictions on how they may be used. The total unrestricted net position is a negative \$9.7 million due to governmental activities negative \$51.2 million unrestricted net position. The negative net position originated in fiscal year 2014-15 from recording the City's net pension liabilities pursuant to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68 and making adjustment for deferred inflows pursuant to GASB Statement No. 63. The business-type activities restricted and unrestricted net position is \$44.8 million and \$41.6 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 of \$96,319. The negative net position originated in fiscal year 2014-15 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 Activities		Business-Type Activities		Total Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	\$ 9,730,346	\$ 10,117,787	\$ 46,545,957	\$ 43,672,207	\$ 56,276,303	\$ 53,789,994
Operating grants and contributions	4,408,439	6,116,936	80,384	430,764	4,488,823	6,547,700
Capital grants and contributions	2,590,377	1,182,168	1,227,069	126,720	3,817,446	1,308,888
General revenues:						
Property taxes	14,572,075	13,933,670	33,421	35,337	14,605,496	13,969,007
Sales taxes	15,822,896	13,922,380	-	-	15,822,896	13,922,380
Franchise taxes	1,750,195	1,698,203	-	-	1,750,195	1,698,203
Transient occupancy tax	1,518,998	1,874,354	-	-	1,518,998	1,874,354
Business license tax	1,172,320	1,077,292	-	-	1,172,320	1,077,292
Cost recovery impact study	183,373	124,102	-	-	183,373	124,102
Business improvement tax	77,696	73,813	-	-	77,696	73,813
Other	816,199	705,575	937,675	795,215	1,753,874	1,500,790
Total revenues	52,642,914	50,826,280	48,824,506	45,060,243	101,467,420	95,886,523
Expenses						
Governmental activities:						
General government	7,818,097	7,650,592	-	-	7,818,097	7,650,592
Public safety	29,865,328	29,599,678	-	-	29,865,328	29,599,678
Public works	18,237,735	17,475,927	-	-	18,237,735	17,475,927
Culture and recreation	2,020,449	1,955,966	-	-	2,020,449	1,955,966
Other	698,726	773,778	-	-	698,726	773,778
Business-type activities:						
Wastewater system	-	-	15,304,779	15,568,388	15,304,779	15,568,388
Water system	-	-	15,864,279	13,719,156	15,864,279	13,719,156
Refuse collection	-	-	12,339,351	12,263,902	12,339,351	12,263,902
Merced municipal airport	-	-	977,413	1,202,072	977,413	1,202,072
Total expenses	58,640,335	57,455,941	44,485,822	42,753,518	103,126,157	100,209,459
Increase (decrease) in net position						
before transfers and extraordinary item	(5,997,421)	(6,629,661)	4,338,684	2,306,725	(1,658,737)	(4,322,936)
Disposal of capital assets	-	(2,644,693)	-	14,013	-	(2,630,680)
Transfers	(532,125)	463,400	532,125	(463,400)	-	-
Extraordinary item - RDA dissolution	(3,687,378)	-	-	-	(3,687,378)	-
Increase (decrease) in net position	(10,216,924)	(8,810,954)	4,870,809	1,857,338	(5,346,115)	(6,953,616)
Net position beginning of year, as restated (Note 17)	313,739,290	324,796,465	204,349,608	202,492,270	518,088,898	527,288,735
Net position ending of year	\$ 303,522,366	\$ 315,985,511	\$ 209,220,417	\$ 204,349,608	\$ 512,742,783	\$ 520,335,119

Governmental Activities - Governmental Activities decreased the City's net position by \$10.2 million. Taxes provided 66.7% of the revenue, charges for services provided 18.5% of the revenue, and operating and capital grants and contributions provided 13.3% of the revenue received during the year. As discussed in Note 18, assets totaling \$3,687,378 have been removed from the basic financial statement.

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, 2016

	Total Cost of Services	Net Cost of Services
General government	\$ 7,818,097	\$ (4,225,898)
Public safety	29,865,328	(26,896,688)
Public works	18,237,735	(9,401,376)
Culture and recreation	2,020,449	(688,485)
Interest on long-term debt	698,726	(698,726)
Total	<u>\$ 58,640,335</u>	<u>\$ (41,911,173)</u>

The costs for all governmental activities during the year were \$58.6 million, which is 56.9% of total governmental and business-type activities expenses. These costs were paid for by \$16.7 million of program revenues, \$35.1 million of taxes, and \$816,199 of interest and investment earnings. The balance of \$6.0 million was covered by reserves or accumulated revenues. Transfers from City's governmental activities were \$532,125.

Business-type Activities - Business-type activities increased the City's net position by \$4.9 million. This increase consists of fees collected for future capital projects. The revenues from the business-type activities include program revenue, taxes, interest and investment earnings, other revenue and transfers of \$49.4 million. Expenses of business-type activities were \$44.5 million.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

The City's governmental funds reported a combined fund balance at June 30, 2016 of \$78.3 million, an increase of \$114,963 after restatement of the 2015 net position. See Note 17 for more details of the restatement.

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 \$19.1 million and the unassigned fund balance was \$8.7 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 25.8% of total General Fund expenditures.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS, Continued

The General Fund balance increased by \$2.0 million during the fiscal year. Taxes are the primary revenue of the General Fund. Property tax increased by 4.6%, sales tax increased by 13.7% while transient occupancy tax decreased by 19.0%. The decrease in transient occupancy tax is due to a onetime adjustment in fiscal year 2014-15 that corrected payments for three previous years.

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

Housing Fund-

- This special revenue fund increased by \$510,329 due to the sale of property and receipt of program income.

Measure C Fund-

- This special revenue fund increased by \$38,861 due to unspent funding that will be used to cover encumbrances.

Low and Moderate Income Housing Fund-

- This special revenue fund increased by \$30,602 due to accumulation of program revenue.

Streets and Signals Fund-

- This capital projects fund decreased by \$232,222 due to capital outlay expenditures covered by carryover of prior year Surface Transportation Program funds.

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

The unrestricted net position of the Governmental Activities Internal Service Funds were \$1.6 million. The unrestricted net position of the Enterprise Funds were \$41.6 million. The change in net position for the Governmental Activities Internal Service Funds and the Enterprise Funds increased \$805,534 and \$4.9 million respectively. Other factors concerning the finances of the Proprietary funds have been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

The difference between the General Fund original revenue budget and the final revenue budget was an increase of \$512,579, 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 \$1.0 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, 2016, amounted to \$462.4 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			
	2016	2015	2016	2015	2016	2015
Non-depreciable Assets:						
Land and improvements	\$ 86,467,028	\$ 87,074,139	\$ 2,461,520	\$ 2,343,020	\$ 88,928,548	\$ 89,417,159
Construction in progress	6,971,361	10,094,570	11,468,040	49,372,327	18,439,401	59,466,897
Total non-depreciable assets	93,438,389	97,168,709	13,929,560	51,715,347	107,367,949	148,884,056
Depreciable Assets:						
Building and structures	22,519,384	22,115,487	4,575,769	4,575,769	27,095,153	26,691,256
Machinery and equipment	36,742,922	34,965,729	4,642,668	3,965,594	41,385,590	38,931,323
Improvements other than buildings, structures and land improvements	121,198,774	116,013,305	188,254,113	144,896,446	309,452,887	260,909,751
Infrastructure	373,627,644	373,627,644	40,278,359	40,278,359	413,906,003	413,906,003
Accumulated depreciation	(348,662,532)	(332,671,808)	(88,172,653)	(79,829,518)	(436,835,185)	(412,501,326)
Total depreciable assets, net	205,426,192	214,050,357	149,578,256	113,886,650	355,004,448	327,937,007
Total capital assets	\$ 298,864,581	\$ 311,219,066	\$ 163,507,816	\$ 165,601,997	\$ 462,372,397	\$ 476,821,063

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

- Water Well 20 in the amount of \$1.9 million.

Long-term Debt – At the end of the current fiscal year, the City had \$60.2 million in outstanding debt consisting of pension obligation bonds, revenue bonds, capital lease and loans.

	Outstanding Debt June 30, 2016					
	Governmental		Business-Type		Total	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
Pension obligation bonds	\$ 5,255,000	\$ 5,630,000	\$ -	\$ -	\$ 5,255,000	\$ 5,630,000
Loans payable	1,600,000	1,800,000	33,094,548	34,805,831	34,694,548	36,605,831
Capital lease	5,965,663	6,316,227	-	-	5,965,663	6,316,227
Revenue bonds payable	-	-	13,275,000	14,500,000	13,275,000	14,500,000
Unamortized premiums	-	-	1,052,454	1,169,394	1,052,454	1,169,394
Total	\$ 12,820,663	\$ 13,746,227	\$ 47,422,002	\$ 50,475,225	\$ 60,242,665	\$ 64,221,452

During the current fiscal year, the City's net debt decreased by \$4.0 million or 6.2%. The net decrease was due to scheduled principal payments and unamortized premium retirements. Additional information on the City of Merced's debt can be found in Note 8.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- Economic indicators for unemployment and housing starts in the local economy remain stable. UC Merced's 2020 project is bringing a new administration building at a cost to \$45 million to downtown Merced. Commercial development opportunities exist at the new Mission Healy interchange.
- While optimistic of the future, the City remained conservative in developing the 2016-17 fiscal year budget to meet the Council priorities in the areas of Public Safety, Economic Development and Youth Activities. In addition to adding new positions to meet the priorities, one time expenditures in the General Fund budget include two new funds. The Revenue Stabilization Fund sets aside funds for future economic downturns and the Economic Opportunity Fund sets aside funds for business development/job creation opportunities.
- A measure on the November ballot for a ½ cent sales tax dedicated to regional road improvement and local road maintenance passed. This measure will provide funding to enhance road maintenance.
- Enterprise Funds continue to maintain a stable financial position.

REQUEST FOR INFORMATION

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

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**BASIC
FINANCIAL STATEMENTS**

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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City of Merced
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 57,813,284	\$ 104,142,865	\$ 161,956,149
Restricted cash held by fiscal agents	9	-	9
Receivables	9,881,369	11,371,163	21,252,532
Prepaid items	7,236	-	7,236
Inventory	223,748	236,068	459,816
Total current assets	67,925,646	115,750,096	183,675,742
Noncurrent assets:			
Land held for resale	2,847,110	-	2,847,110
Notes receivable	33,441,917	44,810	33,486,727
Capital assets:			
Non-depreciable	93,438,389	13,929,560	107,367,949
Depreciable, net	205,426,192	149,578,256	355,004,448
Total capital assets	298,864,581	163,507,816	462,372,397
Total noncurrent assets	335,153,608	163,552,626	498,706,234
Total assets	403,079,254	279,302,722	682,381,976
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	4,892,388	1,103,081	5,995,469
Total deferred outflows of resources	4,892,388	1,103,081	5,995,469
LIABILITIES			
Current liabilities:			
Accounts payable	757,331	1,494,435	2,251,766
Payroll liabilities	1,181,128	367,962	1,549,090
Deposits and other liabilities	65,554	1,147,359	1,212,913
Unearned revenue	3,527,502	1,011,016	4,538,518
Accrued interest payable	143,753	423,072	566,825
Claims liability, due within one year	2,799,240	-	2,799,240
Compensated absences, due within one year	661,295	124,522	785,817
Long-term debt, due within one year	1,014,619	3,006,396	4,021,015
Total current liabilities	10,150,422	7,574,762	17,725,184
Noncurrent liabilities:			
Claims liability, due in more than one year	3,183,074	-	3,183,074
Compensated absences - due in more than one year	2,776,457	802,992	3,579,449
Long term debt, due in more than one year	11,806,044	44,415,606	56,221,650
Net other postemployment benefits obligation	22,601,195	5,739,805	28,341,000
Net pension liability	47,606,426	11,332,318	58,938,744
Total noncurrent liabilities	87,973,196	62,290,721	150,263,917
Total liabilities	98,123,618	69,865,483	167,989,101
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	6,325,658	1,319,903	7,645,561
Total deferred inflows of resources	6,325,658	1,319,903	7,645,561
NET POSITION			
Net investment in capital assets	296,886,365	122,838,022	419,724,387
Restricted for:			
Streets and street lights	3,028,997	-	3,028,997
Community development	10,191,608	-	10,191,608
Housing	32,960,478	-	32,960,478
Public safety	375,011	-	375,011
Special districts	3,178,584	-	3,178,584
Other special projects and programs	4,452,628	1,436,031	5,888,659
Debt service	-	1,965,573	1,965,573
Capital projects	3,654,560	41,429,942	45,084,502
Unrestricted	(51,205,865)	41,550,849	(9,655,016)
Total net position	\$ 303,522,366	\$ 209,220,417	\$ 512,742,783

See accompanying Notes to Basic Financial Statements.

City of Merced
Statement of Activities
For the year ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental activities:					
General government	\$ 7,818,097	\$ 1,430,115	\$ 2,162,084	\$ -	\$ 3,592,199
Public safety	29,865,328	2,371,917	596,723	-	2,968,640
Public works	18,237,735	5,470,118	1,649,632	1,716,609	8,836,359
Culture and recreation	2,020,449	458,196	-	873,768	1,331,964
Interest on long-term debt	698,726	-	-	-	-
Total governmental activities	58,640,335	9,730,346	4,408,439	2,590,377	16,729,162
Business-type activities:					
Wastewater system	15,304,779	19,403,391	3,672	-	19,407,063
Water system	15,864,279	13,953,223	-	1,227,069	15,180,292
Refuse collection system	12,339,351	12,763,821	42,189	-	12,806,010
Merced municipal airport	977,413	425,522	34,523	-	460,045
Total business-type activities	44,485,822	46,545,957	80,384	1,227,069	47,853,410
Total primary government	\$ 103,126,157	\$ 56,276,303	\$ 4,488,823	\$ 3,817,446	\$ 64,582,572

General Revenues:

Taxes:
Property
Sales
Franchise taxes
Transient lodging taxes
Business license tax
Business improvement tax
Cost recovery impact study
Total taxes
Investment earnings
Transfers
Extraordinary item - RDA dissolution
Total general revenues, transfers, and extraordinary item
Change in net position
Net position - beginning of year, as restated
Net position - end of year

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (4,225,898)	\$ -	\$ (4,225,898)
(26,896,688)	-	(26,896,688)
(9,401,376)	-	(9,401,376)
(688,485)	-	(688,485)
(698,726)	-	(698,726)
(41,911,173)	-	(41,911,173)
-	4,102,284	4,102,284
-	(683,987)	(683,987)
-	466,659	466,659
-	(517,368)	(517,368)
-	3,367,588	3,367,588
(41,911,173)	3,367,588	(38,543,585)
14,572,075	33,421	14,605,496
15,822,896	-	15,822,896
1,750,195	-	1,750,195
1,518,998	-	1,518,998
1,172,320	-	1,172,320
77,696	-	77,696
183,373	-	183,373
35,097,553	33,421	35,130,974
816,199	937,675	1,753,874
(532,125)	532,125	-
(3,687,378)	-	(3,687,378)
31,694,249	1,503,221	33,197,470
(10,216,924)	4,870,809	(5,346,115)
313,739,290	204,349,608	518,088,898
\$ 303,522,366	\$ 209,220,417	\$ 512,742,783

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FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund - This fund is used to account for financial resources applicable to the general government operations of the City of Merced. In compliance with Governmental Accounting Standards Board Statement No. 54, the Parks and Community Services 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 transactions and use tax that was approved by area voters and became effective April 1, 2006.

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

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

City of Merced
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	Housing Special Revenue Fund	Measure C Special Revenue Fund	Low and Moderate Income Housing Special Revenue Fund
ASSETS				
Cash, cash equivalents and investments	\$ 13,471,511	\$ 394,417	\$ 268,549	\$ 432,371
Restricted cash held by fiscal agents	9	-	-	-
Receivables:				
Accounts	686,649	458	4,906	-
Due from other government	4,601,005	306,778	1,117,307	-
Interest	18,992	-	-	3,754
Due from other funds	394,855	-	-	-
Inventory	51,972	-	-	-
Land held for resale	-	162,000	-	1,603,664
Notes receivable	157,366	20,462,935	-	8,533,191
Advances to other funds	1,710,991	-	-	-
Total assets	\$ 21,093,350	\$ 21,326,588	\$ 1,390,762	\$ 10,572,980
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 193,022	\$ 85,749	\$ 30,590	\$ -
Payroll liabilities	743,675	9,592	130,969	-
Unearned revenues	1,020,327	54,989	-	-
Due to other funds	-	-	-	-
Advances from other funds	-	-	-	-
Other liabilities	7,180	3,106	-	-
Total liabilities	1,964,204	153,436	161,559	-
Fund Balances:				
Nonspendable	1,920,330	-	-	-
Restricted	4,000,000	21,173,152	-	10,572,980
Committed	-	-	1,229,203	-
Assigned	4,543,807	-	-	-
Unassigned	8,665,009	-	-	-
Total fund balances	19,129,146	21,173,152	1,229,203	10,572,980
Total liabilities and fund balances	\$ 21,093,350	\$ 21,326,588	\$ 1,390,762	\$ 10,572,980

See accompanying Notes to Basic Financial Statement:

Streets and Signals Capital Projects Fund	Non-Major Governmental Funds	Total
\$ 1,741,732	\$ 20,929,382	\$ 37,237,962
-	-	9
-	1,141,755	1,833,768
210,074	1,648,470	7,883,634
2,183	26,014	50,943
-	107,099	501,954
-	-	51,972
-	1,081,446	2,847,110
-	4,288,425	33,441,917
-	-	1,710,991
<u>\$ 1,953,989</u>	<u>\$ 29,222,591</u>	<u>\$ 85,560,260</u>
\$ 17,111	\$ 107,081	\$ 433,553
-	150,566	1,034,802
-	2,452,186	3,527,502
-	501,954	501,954
-	1,710,991	1,710,991
-	51,637	61,923
<u>17,111</u>	<u>4,974,415</u>	<u>7,270,725</u>
-	-	1,920,330
1,936,878	20,158,856	57,841,866
-	4,260,450	5,489,653
-	-	4,543,807
-	(171,130)	8,493,879
<u>1,936,878</u>	<u>24,248,176</u>	<u>78,289,535</u>
<u>\$ 1,953,989</u>	<u>\$ 29,222,591</u>	<u>\$ 85,560,260</u>

City of Merced

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

June 30, 2016

Total Fund Balances - Total Governmental Funds \$ 78,289,535

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

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

Non-depreciable	\$ 93,406,307	
Depreciable, net	<u>196,930,971</u>	
Total capital assets		290,337,278

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet. (60,624)

Internal service funds were used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the Internal Service Funds were included in governmental activities in the Government-Wide Statement of Net Position. 8,099,297

Employer contributions for pension were recorded as expenditures in the governmental funds. However, in the Government-Wide Financial Statement these contributions are deferred. 4,441,414

In the Government-Wide Financial Statements certain differences between actuarial estimates and actual results for pension and other employer specific items are deferred and amortized over a period of time, however in the governmental funds no transactions are recorded. (5,668,022)

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

Compensated absences, due within one year	(601,842)	
Long term debt, due within one year	(625,000)	
Compensated absences, due in more than one year	(2,415,964)	
Long term debt, due in more than one year	(6,230,000)	
Net other postemployment benefits obligation	(19,848,116)	
Net pension liability	<u>(42,195,590)</u>	
Total long-term liabilities		<u>(71,916,512)</u>

Net Position of Governmental Activities \$ 303,522,366

See accompanying Notes to Basic Financial Statements.

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City of Merced
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2016

	General Fund	Housing Special Revenue Fund	Measure C Special Revenue Fund	Low and Moderate Income Housing Special Revenue Fund
REVENUES:				
Taxes	\$ 28,848,769	\$ -	\$ 5,714,301	\$ -
Intergovernmental	598,161	1,643,138	118,147	-
Licenses and permits	21,483	-	-	-
Use of money and property	221,848	334,704	763	41,996
Service charges	5,252,681	390,612	204,163	-
Fines, forfeitures and penalties	200,411	-	-	-
Other revenues	661,965	-	-	-
Total revenues	35,805,318	2,368,454	6,037,374	41,996
EXPENDITURES:				
Current:				
General government	5,593,643	877,284	-	11,394
Public safety	24,588,564	-	5,542,750	-
Public works	1,449,813	-	22,133	-
Culture and recreation	1,236,745	-	-	-
Total current operating	32,868,765	877,284	5,564,883	11,394
Capital outlay	21,584	67,549	64,788	-
Debt service:				
Principal	375,000	-	-	-
Interest and fiscal charges	334,134	-	-	-
Total expenditures	33,599,483	944,833	5,629,671	11,394
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,205,835	1,423,621	407,703	30,602
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of assets	2,255	-	-	-
Transfers in	707,141	40,650	6,376	-
Transfers out	(879,678)	(953,942)	(375,218)	-
Total other financing sources (uses)	(170,282)	(913,292)	(368,842)	-
EXTRAORDINARY ITEM:				
RDA dissolution	-	-	-	-
Net change in fund balances	2,035,553	510,329	38,861	30,602
FUND BALANCES:				
Beginning of year, as restated	17,093,593	20,662,823	1,190,342	10,542,378
End of year	<u>\$ 19,129,146</u>	<u>\$ 21,173,152</u>	<u>\$ 1,229,203</u>	<u>\$ 10,572,980</u>

See accompanying Notes to Basic Financial Statements.

Streets and Signals Capital Projects Fund	Non-Major Governmental Funds	Total
\$ -	\$ 534,484	\$ 35,097,554
845,470	3,713,572	6,918,488
-	731,889	753,372
14,529	403,170	1,017,010
-	6,219,847	12,067,303
-	5,198	205,609
-	262,001	923,966
<u>859,999</u>	<u>11,870,161</u>	<u>56,983,302</u>
-	3,624,748	10,107,069
-	1,149,398	31,280,712
-	5,225,520	6,697,466
-	3,446	1,240,191
-	10,003,112	49,325,438
1,436,205	1,366,982	2,957,108
-	200,000	575,000
-	92,610	426,744
<u>1,436,205</u>	<u>11,662,704</u>	<u>53,284,290</u>
<u>(576,206)</u>	<u>207,457</u>	<u>3,699,012</u>
-	137	2,392
383,099	1,281,705	2,418,971
<u>(39,115)</u>	<u>(1,427,512)</u>	<u>(3,675,465)</u>
343,984	(145,670)	(1,254,102)
-	(2,329,947)	(2,329,947)
(232,222)	(2,268,160)	114,963
<u>2,169,100</u>	<u>26,516,336</u>	<u>78,174,572</u>
<u>\$ 1,936,878</u>	<u>\$ 24,248,176</u>	<u>\$ 78,289,535</u>

City of Merced

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities For the year ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds	\$ 114,963
Amounts reported for governmental activities in the Statement of Activities were different because:	
Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period, net of internal service funds of \$2,330,608.	2,952,562
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but they 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 funds of \$1,946,542.	(14,333,772)
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 expenditure in the governmental funds. Extraordinary item from dissolution of Redevelopment Agency.	(1,357,431)
Accrued compensated leave payable was an expenditure in governmental funds, but the accrued payable increased compensated leave liabilities in the Government-Wide Statement of Net Position.	227,586
OPEB expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(1,062,284)
Bond proceeds provided current financial resources to governmental funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Position. Repayment of bond principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position.	
Long-term debt repayments	575,000
Interest expense on long-term debt is reported on the accrual basis on the Government-Wide Statements, but expenditures on long-term debt in the governmental funds statements are recorded when paid. The following amount represents the change in accrued interest from the prior year.	5,351
Current year employer pension contributions are recorded as expenditures in the governmental funds, however these amounts are reported as a deferred outflow of resources in the Government-Wide Statement of Net Position.	4,441,414
Pension expense is recorded as incurred in the Government-Wide Statement of Activities, however pension expense is not recognized in the governmental funds.	(2,585,847)
Internal service funds were used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The net revenue of the internal service funds was reported with governmental activities.	<u>805,534</u>
Change in Net Position of Governmental Activities	<u>\$ (10,216,924)</u>

See accompanying Notes to Basic 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 and storm drainage collection system 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 and green waste, as well as street sweeping and leaf pickup for benefit of City customers.

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

City of Merced
Statement of Net Position
Proprietary Funds
June 30, 2016

	Business - Type Activities - Enterprise Funds			
	Wastewater System	Water System	Refuse Collection System	Non-Major Enterprise Funds
ASSETS				
Current assets:				
Cash, cash equivalent and investments	\$ 41,183,951	\$ 56,236,285	\$ 6,614,085	\$ 108,544
Accounts receivable, net	1,512,370	1,645,286	139,040	11,672
Due from other government	3,489,149	4,444,703	-	-
Interest receivable	51,412	69,661	7,870	-
Prepaid items	-	-	-	-
Inventory	-	236,068	-	-
Total current assets	46,236,882	62,632,003	6,760,995	120,216
Noncurrent assets:				
Notes receivable - private parties	18,680	26,130	-	-
Advances to other funds	-	128,446	-	-
Capital assets:				
Non-depreciable	6,192,306	7,719,456	-	17,798
Depreciable, net	102,415,129	41,314,278	197,953	5,650,896
Total capital assets	108,607,435	49,033,734	197,953	5,668,694
Total noncurrent assets	108,626,115	49,188,310	197,953	5,668,694
Total assets	154,862,997	111,820,313	6,958,948	5,788,910
DEFERRED OUTFLOW OF RESOURCES				
Deferred outflows related to pension	397,031	287,152	394,880	24,018
Total deferred outflow of resources	397,031	287,152	394,880	24,018
LIABILITIES				
Current liabilities:				
Accounts payable	318,822	929,115	231,356	15,142
Payroll payable	128,177	97,308	136,620	5,857
Unearned revenue	908,399	48,785	53,832	-
Accrued interest payable	343,196	79,876	-	-
Deposits and other liabilities	335,169	501,555	282,222	28,413
Compensated absences, due within one year	45,618	32,154	45,370	1,380
Claims payable, due within one year	-	-	-	-
Long-term debt, due within one year	2,511,146	495,250	-	-
Total current liabilities	4,590,527	2,184,043	749,400	50,792
Noncurrent liabilities:				
Advances from other funds	-	-	-	128,446
Compensated absences, due in more than one year	294,183	207,351	292,580	8,878
Claims payable, due in more than one year	-	-	-	-
Long-term debt, due in more than one year	37,270,054	7,145,552	-	-
Net other postemployment benefits obligation	2,040,680	1,492,447	2,060,748	145,930
Net pension liability	4,267,488	2,839,170	3,854,938	370,722
Total noncurrent liabilities	43,872,405	11,684,520	6,208,266	653,976
Total liabilities	48,462,932	13,868,563	6,957,666	704,768
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pension	445,850	354,513	492,481	27,059
Total deferred inflows of resources	445,850	354,513	492,481	27,059
NET POSITION				
Net investment in capital assets	72,269,860	44,701,515	197,953	5,668,694
Restricted:				
Other special projects and programs	646,287	711,692	74,346	3,706
Debt service	1,938,963	26,610	-	-
Capital projects	10,245,517	30,837,350	347,075	-
Unrestricted	21,250,619	21,607,222	(715,693)	(591,299)
Total net position	\$ 106,351,246	\$ 97,884,389	\$ (96,319)	\$ 5,081,101

See accompanying Notes to Basic Financial Statements.

<u>Total</u>	<u>Governmental Activities Internal Service Funds</u>
\$ 104,142,865	\$ 20,575,322
3,308,368	90,448
7,933,852	1,073
128,943	21,503
-	7,236
<u>236,068</u>	<u>171,776</u>
<u>115,750,096</u>	<u>20,867,358</u>
44,810	-
128,446	-
13,929,560	32,082
<u>149,578,256</u>	<u>8,495,221</u>
<u>163,507,816</u>	<u>8,527,303</u>
<u>163,681,072</u>	<u>8,527,303</u>
<u>279,431,168</u>	<u>29,394,661</u>
1,103,081	450,974
<u>1,103,081</u>	<u>450,974</u>
1,494,435	323,778
367,962	146,326
1,011,016	-
423,072	83,129
1,147,359	3,631
124,522	59,453
-	2,799,240
<u>3,006,396</u>	<u>389,619</u>
<u>7,574,762</u>	<u>3,805,176</u>
128,446	-
802,992	360,493
-	3,183,074
44,415,606	5,576,044
5,739,805	2,753,079
<u>11,332,318</u>	<u>5,410,836</u>
<u>62,419,167</u>	<u>17,283,526</u>
<u>69,993,929</u>	<u>21,088,702</u>
1,319,903	657,636
<u>1,319,903</u>	<u>657,636</u>
122,838,022	6,549,089
1,436,031	-
1,965,573	-
41,429,942	-
<u>41,550,849</u>	<u>1,550,208</u>
<u>\$ 209,220,417</u>	<u>\$ 8,099,297</u>

City of Merced
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the year ended June 30, 2016

	Business - Type Activities - Enterprise Funds			
	Wastewater System	Water System	Refuse Collection System	Non-Major Enterprise Funds
OPERATING REVENUES:				
Charges for services	\$ 18,774,202	\$ 13,113,293	\$ 12,725,655	\$ 421,314
Other revenues	629,189	839,930	38,166	4,208
Total operating revenues	19,403,391	13,953,223	12,763,821	425,522
OPERATING EXPENSES:				
Personnel services	4,024,945	2,847,852	4,195,840	227,160
Materials, supplies and other services	5,802,250	9,512,040	8,116,955	315,392
Depreciation	4,681,402	3,242,867	26,556	425,375
Total operating expenses	14,508,597	15,602,759	12,339,351	967,927
OPERATING INCOME (LOSS):	4,894,794	(1,649,536)	424,470	(542,405)
NONOPERATING REVENUES (EXPENSES):				
Property taxes	-	-	-	33,421
Intergovernmental revenues	3,672	1,108,569	42,189	34,523
Interest and investment earnings	360,020	519,989	57,269	397
Gain (loss) on disposition of capital assets	9,142	6,645	-	-
Interest and related expenses	(805,324)	(268,165)	-	(9,486)
Total nonoperating revenues (expenses)	(432,490)	1,367,038	99,458	58,855
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	4,462,304	(282,498)	523,928	(483,550)
Capital contributions	-	118,500	-	-
Transfers in	-	597,072	32,292	71,003
Transfers out	(10,949)	(54,466)	(92,977)	(9,850)
Total transfers and capital contributions	(10,949)	661,106	(60,685)	61,153
Change in net position	4,451,355	378,608	463,243	(422,397)
NET POSITION:				
Beginning of year, as restated	101,899,891	97,505,781	(559,562)	5,503,498
End of year	<u>\$ 106,351,246</u>	<u>\$ 97,884,389</u>	<u>\$ (96,319)</u>	<u>\$ 5,081,101</u>

See accompanying Notes to Basic Financial Statements.

Total	Governmental Activities Internal Service Funds
\$ 45,034,464	\$ 23,012,101
1,511,493	595,345
<u>46,545,957</u>	<u>23,607,446</u>
11,295,797	4,743,977
23,746,637	16,763,251
8,376,200	1,946,452
<u>43,418,634</u>	<u>23,453,680</u>
<u>3,127,323</u>	<u>153,766</u>
33,421	-
1,188,953	2,398
937,675	176,288
15,787	26,045
<u>(1,082,975)</u>	<u>(277,332)</u>
<u>1,092,861</u>	<u>(72,601)</u>
<u>4,220,184</u>	<u>81,165</u>
118,500	-
700,367	972,369
<u>(168,242)</u>	<u>(248,000)</u>
<u>650,625</u>	<u>724,369</u>
4,870,809	805,534
204,349,608	7,293,763
<u>\$ 209,220,417</u>	<u>\$ 8,099,297</u>

City of Merced
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2016

	Business - Type Activities - Enterprise Funds		
	Wastewater System	Water System	Refuse Collection System
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 19,645,023	\$ 12,154,601	\$ 12,677,848
Payments to suppliers and users	(6,844,363)	(9,571,739)	(8,098,461)
Payments to employees	(3,838,455)	(2,871,482)	(4,177,811)
Net cash provided by (used in) operating activities	8,962,205	(288,620)	401,576
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Tax proceeds not attributable to capital	-	-	-
Cash receipts from other funds	-	641,530	32,292
Cash payments to other funds	(10,949)	(54,466)	(92,977)
Net cash provided by (used in) noncapital financing activities	(10,949)	587,064	(60,685)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of capital assets	(1,717,844)	(4,583,087)	-
Proceeds from sale of capital assets	34,711	6,645	-
Capital grants and cash contributions received	3,672	1,227,069	42,189
Interest paid	(824,042)	(272,428)	-
Principal payments - long-term debt	(2,546,088)	(507,135)	-
Net cash provided by (used in) capital and related financing activities	(5,049,591)	(4,128,936)	42,189
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	350,113	517,145	56,438
Net cash provided by investing activities	350,113	517,145	56,438
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,251,778	(3,313,347)	439,518
CASH AND CASH EQUIVALENTS:			
Beginning of year	36,932,173	59,549,632	6,174,567
End of year	<u>\$ 41,183,951</u>	<u>\$ 56,236,285</u>	<u>\$ 6,614,085</u>
FINANCIAL STATEMENT PRESENTATION:			
Cash and investments	\$ 41,183,951	\$ 56,236,285	\$ 6,614,085
Total	<u>\$ 41,183,951</u>	<u>\$ 56,236,285</u>	<u>\$ 6,614,085</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	\$ 4,894,794	\$ (1,649,536)	\$ 424,470
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	4,681,402	3,242,867	26,556
Changes in assets and liabilities:			
Receivables	(553,465)	(1,757,346)	(52,649)
Inventory	-	15,776	-
Prepaid expenses	-	-	-
Accounts payable	(210,864)	(50,452)	7,866
Payroll liabilities	36,533	20,261	26,359
Unearned revenue	795,097	(41,276)	(33,324)
Other liabilities	(831,249)	(25,023)	10,628
Claims payable	-	-	-
Compensated absences	70,598	(2,706)	34,566
Deferred outflows of resources - pension	(43,369)	(18,589)	(23,583)
Deferred inflows of resources - pension	(441,375)	(319,224)	(438,984)
Net other postemployment benefits	261,382	90,509	138,088
Net pension liability	302,721	206,119	281,583
Total adjustments	4,067,411	1,360,916	(22,894)
Net cash provided by (used in) operating activities	\$ 8,962,205	\$ (288,620)	\$ 401,576

See accompanying Notes to Basic Financial Statements.

Non-Major Enterprise Funds	Total	Governmental Activities Internal Service Funds
\$ 452,056	\$ 44,929,528	\$ 23,581,752
(314,688)	(24,829,251)	(16,883,734)
(225,304)	(11,113,052)	(4,877,708)
(87,936)	8,987,225	1,820,310
33,421	33,421	-
26,545	700,367	972,369
(9,850)	(168,242)	(248,000)
50,116	565,546	724,369
(6,656)	(6,307,587)	(2,330,608)
-	41,356	26,045
34,523	1,307,453	2,398
(9,486)	(1,105,956)	(282,698)
-	(3,053,223)	(350,564)
18,381	(9,117,957)	(2,935,427)
518	924,214	178,442
518	924,214	178,442
(18,921)	1,359,028	(212,306)
127,465	102,783,837	20,787,628
<u>\$ 108,544</u>	<u>\$ 104,142,865</u>	<u>\$ 20,575,322</u>
\$ 108,544	\$ 104,142,865	\$ 20,575,322
\$ 108,544	\$ 104,142,865	\$ 20,575,322
\$ (542,405)	\$ 3,127,323	\$ 153,766
425,375	8,376,200	1,946,452
26,534	(2,336,926)	(25,694)
-	15,776	66,423
-	-	1,621
12,855	(240,595)	(116,867)
(690)	82,463	33,109
-	720,497	-
(12,151)	(857,795)	-
-	-	(71,660)
(1,377)	101,081	127,586
(2,588)	(88,129)	(131,131)
(26,701)	(1,226,284)	(144,751)
14,962	504,941	(76,224)
18,250	808,673	57,680
454,469	5,859,902	1,666,544
<u>\$ (87,936)</u>	<u>\$ 8,987,225</u>	<u>\$ 1,820,310</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, 2016

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash, cash equivalents and investments	\$ 236,474	\$ 3,724,974
Restricted cash held by fiscal agent	-	2,905,074
Receivables	-	865,621
Deposits	-	5,000
Total assets	236,474	\$ 7,500,669
LIABILITIES		
Deposits	-	\$ 3,022,317
Other liabilities	-	198,895
Due to other agencies	-	733,261
Due to bondholders	-	3,546,196
Total liabilities	-	\$ 7,500,669
NET POSITION		
Held in trust for other purposes	236,474	
Total net position	\$ 236,474	

See accompanying Notes to Basic Financial Statements.

City of Merced
Statement of Changes in Fiduciary Net Position
Fiduciary Funds - Private Purpose Trust Funds
For the year ended June 30, 2016

	Private Purpose Trust Funds
ADDITIONS:	
Investment income	\$ 1,161
Miscellaneous	342,340
Total additions	<u>343,501</u>
DEDUCTIONS:	
Administration	396,378
Total Deductions	<u>396,378</u>
Change in net position	(52,877)
NET POSITION:	
Beginning of year	<u>289,351</u>
End of year	<u><u>\$ 236,474</u></u>

See accompanying Notes to Basic Financial Statements.

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City of Merced
Notes to Basic Financial Statements
For the year ended June 30, 2016

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

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

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

The Authority 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. Separately issued financial statements for the Authority are not prepared.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Reporting Entity, Continued

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

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

The City provides accounting and investing services for the Merced 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) 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, 2016

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 collected within 60 days; except for Sales and Use Tax which is considered available if collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded in the accounting period in which the related liability is incurred.

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 majority of the fund's revenue is derived from grants that are restricted for these programs and activities.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

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

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

The City reports the following proprietary funds as major:

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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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.

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. 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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash, Cash Equivalents, and Investments, Continued

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. The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City does not have any investments that are measured using Level 3 inputs.

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

E. Receivables

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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Interfund Balances/Internal Balances

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

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

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

G. Inventory

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

H. Land Held for Resale

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

I. Capital Assets

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

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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Capital Assets, Continued

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

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

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

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

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

J. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources until then. The City reports deferred employer pension contributions in this category in the Government-Wide and Proprietary Funds' Statements of Net Position. Employer pension contributions made during period between the measurement date and the report date are deferred and reflected as a reduction in the net pension liability in the subsequent fiscal year.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Deferred Outflows/Inflows of Resources, Continued

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

The City reports amounts related to changes in the City's net pension liability that are deferred and amortized over a stated period. Certain changes in the City's net pension liability are required to be deferred and reflected in pension expense over a closed amortization period. The City reported the unamortized net difference between the projected and actual earnings, changes in assumptions, and differences between actual and expected experience on pension plans as deferred inflows of resources in the Government-Wide and Proprietary Funds' Statements of Net Position.

K. Compensated Absences

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

L. Unearned Revenue

In the Government-Wide Financial Statements, unearned revenue is recorded for transactions for which revenues have not been earned. In the Fund Financial Statements, unearned revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting.

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, 2016

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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

O. Net Position and Fund Equity Flow Assumptions

Government-Wide Financial Statements

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

Fund Financial Statements

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

P. Use of Estimates

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

Q. New Accounting Pronouncements

In 2016, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 72, *Fair Value Measurement and Application* - This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides 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. There was no impact on beginning net position as part of implementation of this accounting standard.
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68* - The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. There was no impact on beginning net position as part of implementation of this accounting standard.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Q. New Accounting Pronouncements, Continued

- GASB Statement No. 76 - *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. There was no impact on beginning net position as part of implementation of this accounting standard.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* - This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. There was no impact on beginning net position as part of implementation of this accounting standard.

- GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statement No. 67, No. 68, and No. 73*. This Statement addresses certain issues that had been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in the required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The City updated covered employee payroll information in the required supplementary information as part of implementation of this accounting standard.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

R. *New Accounting Pronouncements - Future Years*

The following accounting standards have been issued, but are to be implemented at a future date:

- *GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions* - This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with other postemployment benefits, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The Statement is effective for reporting period beginning after June 15, 2017.

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 monthly cash and investment balances in these funds.

A. *Cash Deposits*

At June 30, 2016, the carrying amount of the City's cash and cash equivalents were comprised of the general checking account which had a balance of \$(962,449) and petty cash of \$4,319. The bank balance in the City's general checking was \$254,475, 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's cash deposit was fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The remaining amount was collateralized with securities held by the pledging financial institutions in the City's name.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

2. CASH AND INVESTMENTS, Continued

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, 2016:

	Government-Wide Statement of Net Position			Fund Financials	
	Governmental Activities	Business-Type Activities	Total	Fiduciary Funds Statement of Net Position	Total
Cash and investments	\$ 57,813,284	\$ 104,142,865	\$ 161,956,149	\$ 3,961,448	\$ 165,917,597
Restricted cash held by fiscal agent	\$ 9	\$ -	\$ 9	\$ 2,905,074	\$ 2,905,083

D. Risks

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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

2. CASH AND INVESTMENTS, Continued

D. Risks, Continued

Cash and investments, including cash with fiscal agents, held in the City by maturity date at June 30, 2016 are shown below:

Cash and Investments	Fair Value	Investment Maturities (in years)	
		Less than 1 year	More than 1 year less than 5 years
Cash:			
Cash Deposits	\$ (962,449)	\$ (962,449)	\$ -
Petty Cash	4,319	4,319	-
Total cash	(958,130)	(958,130)	-
Investments:			
Money Market Funds	3,969,852	3,969,852	-
Certificates of Deposit	8,013,080	6,506,348	1,506,732
U.S. Government Agency Securities	135,136,900	75,054,100	60,082,800
Local Agency Investment Fund (LAIF)	19,755,895	19,755,895	-
Total investments	166,875,727	105,286,195	61,589,532
Total cash and investments	\$ 165,917,597	\$ 104,328,065	\$ 61,589,532
Restricted Cash with Fiscal Agents:			
Commercial Paper	\$ 1,614,346	\$ 1,614,346	\$ -
Public Investment Money Market Fund	206,389	206,389	-
Local Agency Investment Fund	1,084,339	1,084,339	-
Money Market Funds	9	9	-
Total restricted cash with fiscal agents	\$ 2,905,083	\$ 2,905,083	\$ -

Credit Risk: Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the June 30, 2016 rating which meets the minimum rating required by (where applicable) the California Government Code, the City's Investment Policy, or debt agreements:

	Credit Quality Ratings
Investments:	
Money Market Funds	AAA
U.S. Government Agency Securities	AA+
Local Agency Investment Fund	Not rated
Fiscal Agents:	
Commercial Paper	AA
Public Investment Money Market Fund	AA
Local Agency Investment Fund	Not rated
Money Market Funds	AA-
Government Obligation Fund	AAA

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

2. CASH AND INVESTMENTS, Continued

D. Risks, Continued

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

Issuer	Investment Type	Fair Value
Federal Farm Credit Bank	U.S. Government Agency Securities	\$ 9,998,400
Federal Home Loan Bank	U.S. Government Agency Securities	35,022,400
Federal Home Loan Mortgage Corporation Notes	U.S. Government Agency Securities	15,021,000
Federal National Mortgage Association	U.S. Government Agency Securities	20,051,000

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counter party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's Investment Policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the City). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

E. Fair Value of Investments

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires that the City's investments be carried at fair market value instead of cost. If material, the City adjusts the carrying value of its investments to reflect their fair value at each fiscal year-end and the effects of these adjustments are included in income for that fiscal year. The fair market value adjustment for the fiscal year ended June 30, 2016 was \$175,313.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

2. CASH AND INVESTMENTS, Continued

E. Fair Value of Investments, Continued

Investments (except for money market accounts, time deposits, and commercial paper) are measured at fair value on a recurring basis. Recurring fair value measurements, are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value. Inputs are assumptions that market participants use when pricing an asset or liability. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investment fair value measurements at June 30, 2016 are described on the following page.

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

Investment Type	Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Securities of U.S. Government				
Treasury and Agencies:				
Federal Agriculture Mortgage Corp (FAMC)	\$ 4,999,400	\$ -	\$ 4,999,400	\$ -
Federal Farm Credit Bank (FFCB)	9,998,400	-	9,998,400	-
Federal Home Loan Banks (FHLB)	35,022,400	-	35,022,400	-
Federal Home Loan Mortg Corp Notes (FHLMC)	15,021,000	-	15,021,000	-
Federal National Mortg Assoc Notes (FNMA)	20,051,000	-	20,051,000	-
U.S. Treasuries	50,044,700	50,044,700	-	-
Local Agency Investment Fund	20,840,234	-	20,840,234	-
Total investments subject to leveling	155,977,134	\$ 50,044,700	\$ 105,932,434	\$ -
Investments not subject to leveling:				
Commercial Paper	1,614,346			
Money Market Funds	4,176,250			
Time Deposits	8,013,080			
Total Investments	\$ 169,780,810			
Investments held by the City	\$ 166,875,727			
Investments held by fiscal agent	2,905,083			
Total Investments	\$ 169,780,810			

Treasury securities categorized as Level 1 are valued based on prices quoted in active markets for those securities. Federal Agriculture Mortgage Corporation, Federal Farm Credit Bank Bonds, Federal Home Loan Banks, Federal Home Loan Mortgage Corporate Notes and Federal National Mortgage Association Notes categorized as Level 2 are valued based on matrix pricing techniques. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

2. CASH AND INVESTMENTS, Continued

E. Fair Value of Investments, Continued

The City's fair value for its investment in the State of California Local Agency Investment Fund (LAIF) is based on the fair market value factors provided by LAIF that are calculated based on the total fair market value of the pool. LAIF includes investments categorized as Level 1 such as United States Treasury securities, Federal Agency securities, and supranational debentures that are valued based on prices quoted in active markets and investments categorized as Level 2 such as negotiable certificates of deposit and bank notes that are based on market corroborated pricing utilizing inputs such as yield curves and indices that are derived principally from or corroborated by observable market data by correlation to other means.

F. Investments in Local Agency Investment Fund

The City's investments with LAIF at June 30, 2016, 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, 2016, the City had \$19,755,895 invested in LAIF (excluding amounts held by fiscal agent), which had invested 2.81% of the pooled investment funds in Medium-term and Short-term Structured Notes and Asset-Backed Securities as compared to 2.08% in the previous year. The LAIF fair value factor of 1.000621222 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, 2016, cash and investments with fiscal agents totaled \$2,905,083.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

3. RECEIVABLES

A. Government-Wide Financial Statements

At June 30, 2016, the Government-Wide Financial Statements reported the following receivables net of allowances for uncollectible amounts:

	Governmental Activities	Business-Type Activities	Total
Accounts receivable	\$ 1,924,216	\$ 3,308,368	\$ 5,232,584
Due from other governments	7,884,707	7,933,852	15,818,559
Interest receivable	72,446	128,943	201,389
Total	\$ 9,881,369	\$ 11,371,163	\$ 21,252,532

B. Fund Financial Statements

At June 30, 2016, the fund financial statements show the following receivables:

	Governmental Funds	Enterprise Funds	Internal Service Funds	Total
Accounts receivable	\$ 1,833,768	\$ 3,308,368	\$ 90,448	\$ 5,232,584
Due from other governments	7,883,634	7,933,852	1,073	15,818,559
Interest receivable	50,943	128,943	21,503	201,389
Total	\$ 9,768,345	\$ 11,371,163	\$ 113,024	\$ 21,252,532

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

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, 2016, was as follows:

	Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
<i>Governmental Funds:</i>			
General Fund	\$ 2,081,308	\$ (1,394,659)	\$ 686,649
Housing	458	-	458
Measure C	4,906	-	4,906
Low and Moderate Income Housing	825	(825)	-
Non-Major Funds	1,191,719	(49,964)	1,141,755
Total governmental funds	<u>3,279,216</u>	<u>(1,445,448)</u>	<u>1,833,768</u>
<i>Enterprise Funds:</i>			
Wastewater System	1,590,734	(78,364)	1,512,370
Water System	1,722,656	(77,370)	1,645,286
Refuse Collection System	198,703	(59,663)	139,040
Non-Major Funds	18,286	(6,614)	11,672
Total enterprise funds	<u>3,530,379</u>	<u>(222,011)</u>	<u>3,308,368</u>
<i>Internal Service Funds</i>	<u>198,970</u>	<u>(108,522)</u>	<u>90,448</u>
Total	<u>\$ 7,008,565</u>	<u>\$ (1,775,981)</u>	<u>\$ 5,232,584</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

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, 2016, was as follows:

<i>Governmental Funds:</i>	
General Fund	\$ 4,601,005
Housing	306,778
Measure C	1,117,307
Streets and Signals	210,074
Non-Major Funds	<u>1,648,470</u>
Total governmental funds	<u>7,883,634</u>
 <i>Enterprise Funds:</i>	
Wastewater System	3,489,149
Water System	<u>4,444,703</u>
Total enterprise funds	<u>7,933,852</u>
 <i>Internal Service Funds</i>	 <u>1,073</u>
 Total	 <u><u>\$ 15,818,559</u></u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

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, 2016, was as follows:

<i>Governmental Funds:</i>	
General Fund	\$ 18,992
Low and Moderate Income Housing	3,754
Streets and Signals	2,183
Non-Major Funds	26,014
	<hr/>
Total governmental funds	50,943
	<hr/>
<i>Enterprise Funds:</i>	
Wastewater System	51,412
Water System	69,661
Refuse Collection System	7,870
	<hr/>
Total enterprise funds	128,943
	<hr/>
<i>Internal Services Fund</i>	21,503
	<hr/>
Total	\$ 201,389
	<hr/> <hr/>

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, 2016, unearned revenues in the Government-Wide Financial Statements were as follows:

	Governmental Activities	Business-Type Activities	Total
	<hr/>	<hr/>	<hr/>
Prepaid business license fees	\$ 1,077,146	\$ -	\$ 1,077,146
Grants	54,989	-	54,989
Service charges received in advance	-	168,225	168,225
Developer credits	2,395,367	842,791	3,238,158
	<hr/>	<hr/>	<hr/>
Total	\$ 3,527,502	\$ 1,011,016	\$ 4,538,518
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

4. UNEARNED REVENUE, Continued

B. Fund Financial Statements

At June 30, 2016, the following unearned revenues were recorded in the Fund Financial Statements because the revenues had not been earned:

<i>Governmental Funds:</i>	General	Housing	Non-Major Funds	Total
Prepaid business license fees	\$ 1,020,327	\$ -	\$ 56,819	\$ 1,077,146
Grants	-	54,989	-	54,989
Developer Credits	-	-	2,395,367	2,395,367
Total	\$ 1,020,327	\$ 54,989	\$ 2,452,186	\$ 3,527,502

<i>Enterprise Funds:</i>	Wastewater System	Water System	Refuse Collection System	Total
Service charges received in advance	\$ 65,608	\$ 48,785	\$ 53,832	\$ 168,225
Developer credits	842,791	-	-	842,791
Total	\$ 908,399	\$ 48,785	\$ 53,832	\$ 1,011,016

5. INTERFUND TRANSACTIONS

A. Fund Financial Statements

Due To, Due From

At June 30, 2016, the City had the following short-term interfund receivables and payables:

Receivable Fund	Payable Fund	Governmental Activities
General Fund	Non-Major Governmental Funds	\$ 394,855
Non-Major Governmental Funds	Non-Major Governmental Funds	107,099
Total		\$ 501,954

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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

5. INTERFUND TRANSACTIONS, Continued

A. Fund Financial Statements, Continued

Long-Term Advances

At June 30, 2016, the City had the following interfund long-term advances:

Receivable Fund	Payable Fund	Governmental Activities
General Fund	Non-Major Governmental Funds	\$ 1,710,991
Receivable Fund	Payable Fund	Business-Type Activities
Water System	Non-Major Enterprise Fund	\$ 128,446

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

Advance from the Restricted Water Mains Enterprise Fund to the Merced Municipal Airport Capital Improvement Project Fund (a non-major Enterprise fund) of \$400,000 for the purchase of general aviation hangars was approved by the City Council on November 17, 2008. Advance to be repaid over ten years at a rate of 6.210% with monthly payments of \$4,495.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

5. INTERFUND TRANSACTIONS, Continued

A. Fund Financial Statements, Continued

Interfund Transfers

The composition of interfund transfers for the year ended June 30, 2016 is as follows:

Transfers Out:	Transfers In:									
	Governmental Funds					Proprietary Funds				
	General Fund	Housing	Measure C	Streets and Signals	Non-Major Governmental Funds	Water System	Refuse Collection System	Non-Major Enterprise Funds	Internal Service	Total
Governmental Funds:										
General Fund	\$ -	\$ 40,650	\$ -	\$ -	\$ 350,573	\$ -	\$ -	\$ 44,221	\$ 444,234	\$ 879,678
Housing	14,955	-	-	167,231	267,661	504,095	-	-	-	953,942
Measure C	-	-	-	-	374,689	-	-	-	529	375,218
Streets and Signals	-	-	-	-	39,115	-	-	-	-	39,115
Non-Major Governmental Funds	687,680	-	6,376	215,868	-	-	32,292	26,782	458,514	1,427,512
Enterprise Funds:										
Wastewater System	2,253	-	-	-	-	-	-	-	8,696	10,949
Water System	2,253	-	-	-	1,667	-	-	-	50,546	54,466
Refuse Collection System	-	-	-	-	-	92,977	-	-	-	92,977
Non-Major Enterprise Funds	-	-	-	-	-	-	-	-	9,850	9,850
Internal Service	-	-	-	-	248,000	-	-	-	-	248,000
Total	\$ 707,141	\$ 40,650	\$ 6,376	\$ 383,099	\$ 1,281,705	\$ 597,072	\$ 32,292	\$ 71,003	\$ 972,369	\$ 4,091,707

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, 2016, the City made the following one-time transfers:

- 1) A transfer of \$2,253 from Wastewater System to General Fund to cover cost for interim City Attorney.
- 2) A transfer of \$2,253 from Water System to General Fund to cover cost for interim City Attorney.
- 3) A transfer of \$248,000 from Internal Service Funds to Non-Major Governmental Funds to cover its share of expenditures for streets maintenance.
- 4) A transfer of \$300,000 from General Fund to Internal Service Funds for a purchase of a fire truck.
- 5) A transfer of \$18,320 from General Fund to Internal Service Funds for a purchase of Closed Circuit Television (CCTV) storage system.
- 6) A transfer of \$68,891 from Non-Major Governmental Fund to Internal Service Funds for a purchase of Closed Circuit Television (CCTV) storage system.
- 7) A transfer of \$13,043 from Water System to Internal Service Funds for a purchase of Closed Circuit Television (CCTV) storage system.
- 8) A transfer of \$8,696 from Wastewater System to Internal Service Funds for a purchase of Closed Circuit Television (CCTV) storage system.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

6. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2016, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
<i>Non-depreciable Assets:</i>			
Land and improvements	\$ 86,467,028	\$ 2,461,520	\$ 88,928,548
Construction in process	6,971,361	11,468,040	18,439,401
	<u>93,438,389</u>	<u>13,929,560</u>	<u>107,367,949</u>
<i>Depreciable Assets:</i>			
Buildings and structures	22,519,384	4,575,769	27,095,153
Machinery and equipment	36,742,922	4,642,668	41,385,590
Improvements other than buildings, structures, and land improvements	121,198,774	188,254,113	309,452,887
Infrastructure	373,627,644	40,278,359	413,906,003
	<u>554,088,724</u>	<u>237,750,909</u>	<u>791,839,633</u>
Total depreciable assets	554,088,724	237,750,909	791,839,633
Total accumulated depreciation	(348,662,532)	(88,172,653)	(436,835,185)
	<u>205,426,192</u>	<u>149,578,256</u>	<u>355,004,448</u>
Total depreciable assets, net	205,426,192	149,578,256	355,004,448
Total	<u><u>\$ 298,864,581</u></u>	<u><u>\$ 163,507,816</u></u>	<u><u>\$ 462,372,397</u></u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

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

	Balance July 1, 2015	Additions	Deletions	Reclassification	Balance June 30, 2016
<i>Non-depreciable Assets:</i>					
Land and improvements	\$ 87,074,139	\$ 7,985	\$ (615,096)	\$ -	\$ 86,467,028
Construction in progress	10,094,570	3,328,223	-	(6,451,432)	6,971,361
Total non-depreciable assets	97,168,709	3,336,208	(615,096)	(6,451,432)	93,438,389
<i>Depreciable Assets:</i>					
Buildings and structures	22,115,487	-	-	403,897	22,519,384
Machinery and equipment	34,965,729	1,946,962	(169,769)	-	36,742,922
Improvements other than buildings, structures, and land improvements	116,013,305	-	(862,066)	6,047,535	121,198,774
Infrastructure	373,627,644	-	-	-	373,627,644
Total depreciable assets	546,722,165	1,946,962	(1,031,835)	6,451,432	554,088,724
<i>Accumulated depreciation:</i>					
Buildings and structures	(8,850,044)	(616,213)	-	-	(9,466,257)
Machinery and equipment	(29,536,714)	(1,888,230)	169,769	-	(31,255,175)
Improvements other than buildings, structures, and land improvements	(59,967,922)	(4,328,677)	119,731	-	(64,176,868)
Infrastructure	(234,317,128)	(9,447,104)	-	-	(243,764,232)
Total accumulated depreciation	(332,671,808)	(16,280,224)	289,500	-	(348,662,532)
Total depreciable assets, net	214,050,357	(14,333,262)	(742,335)	6,451,432	205,426,192
Total governmental activities, net	\$ 311,219,066	\$ (10,997,054)	\$ (1,357,431)	\$ -	\$ 298,864,581

As discussed in Note 18, capital assets of \$1,357,431 have been removed from the basic financial statements.

Governmental activities depreciation expense for capital assets for the year ended June 30, 2016 was as follows:

General government	\$ 1,377,817
Public safety	506,260
Public works	13,631,299
Culture and recreation	764,848
Total depreciation expense	\$ 16,280,224

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

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

	Balance July 1, 2015	Additions	Deletions	Reclassification	Balance June 30, 2016
<i>Non-depreciable Assets:</i>					
Land and improvements	\$ 2,343,020	\$ 118,500	\$ -	\$ -	\$ 2,461,520
Construction in progress	49,372,327	5,478,950	(25,568)	(43,357,669)	11,468,040
Total non-depreciable assets	51,715,347	5,597,450	(25,568)	(43,357,669)	13,929,560
<i>Depreciable Assets:</i>					
Buildings and structures	4,575,769	-	-	-	4,575,769
Machinery and equipment	3,965,596	710,137	(33,065)	-	4,642,668
Improvements other than buildings, structures, and land improvements	144,896,444	-	-	43,357,669	188,254,113
Infrastructure	40,278,359	-	-	-	40,278,359
Total depreciable assets	193,716,168	710,137	(33,065)	43,357,669	237,750,909
<i>Accumulated depreciation:</i>					
Buildings and structures	(2,857,470)	(106,832)	-	-	(2,964,302)
Machinery and equipment	(2,936,750)	(368,049)	33,065	-	(3,271,734)
Improvements other than buildings, structures, and land improvements	(62,599,029)	(6,737,943)	-	-	(69,336,972)
Infrastructure	(11,436,269)	(1,163,376)	-	-	(12,599,645)
Total accumulated depreciation	(79,829,518)	(8,376,200)	33,065	-	(88,172,653)
Total depreciable assets, net	113,886,650	(7,666,063)	-	43,357,669	149,578,256
Total business-type activities, net	\$ 165,601,997	\$ (2,068,613)	\$ (25,568)	\$ -	\$ 163,507,816

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Business-type activities depreciation expense for capital assets for the year ended June 30, 2016 was as follows:

Wastewater System Fund	\$	4,681,402
Water System Fund		3,242,867
Refuse Collection System		26,556
Merced Municipal Airport		<u>425,375</u>
Total depreciation expense	\$	<u>8,376,200</u>

B. Fund Financial Statements

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

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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

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, 2016, were as follows:

A. Government-Wide Financial Statements

	Governmental Activities	Business-Type Activities	Total
Deposits	\$ -	\$ 1,132,894	\$ 1,132,894
Miscellaneous liabilities	65,554	14,465	80,019
Total	\$ 65,554	\$ 1,147,359	\$ 1,212,913

B. Fund Financial Statements

	Deposits	Other Liabilities	Total Deposits and Other Liabilities
<i>Governmental Funds:</i>			
General Fund	\$ -	\$ 7,180	\$ 7,180
Housing	-	3,106	3,106
Non-Major Funds	-	51,637	51,637
Total governmental funds	-	61,923	61,923
<i>Business-Type Activities:</i>			
Wastewater System	335,092	77	335,169
Water System	498,707	2,848	501,555
Refuse Collection System	282,222	-	282,222
Non-Major Funds	16,874	11,539	28,413
Total business-type activities	1,132,895	14,464	1,147,359
<i>Internal Service Funds</i>	-	3,631	3,631
Total	\$ 1,132,895	\$ 80,018	\$ 1,212,913

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

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, 2016:

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Due Within One Year	Due in More than One Year
Pension obligation bonds	\$ 5,630,000	\$ -	\$ (375,000)	\$ 5,255,000	\$ 425,000	\$ 4,830,000
Loans payable	1,800,000	-	(200,000)	1,600,000	200,000	1,400,000
Capital lease	6,316,227	-	(350,564)	5,965,663	389,619	5,576,044
Total	\$ 13,746,227	\$ -	\$ (925,564)	\$ 12,820,663	\$ 1,014,619	\$ 11,806,044

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.

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, 2016

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

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

Year Ending June 30,	Principal	Interest	Total
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	680,000	188,672	868,672
2022-2024	2,520,000	307,181	2,827,181
Total	\$ 5,255,000	\$ 1,571,578	\$ 6,826,578

Loans Payable

2003 \$4,000,000 Loan Payable

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

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

Year Ending June 30,	Principal	Interest	Total
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	200,000	39,370	239,370
2022-2024	600,000	50,960	650,960
Total	\$ 1,600,000	\$ 356,110	\$ 1,956,110

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

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 efficient cost savings facility improvement measures and facility upgrades under which the related facility will become the property of the City when all terms of the lease agreement are met. The capital lease agreement of \$7,157,493 funded energy efficiency retrofitting of \$4,783,916 and capital improvements of \$2,373,577. As of June 30, 2016, the accumulated depreciation on the capital assets is \$484,605.

The capital lease agreement balance as of June 30, 2016:

	Stated Interest Rate	Present Value of Remaining Payments as of June 30, 2016
	<u> </u>	<u> </u>
Governmental Activities:		
Facilities	4.50%	\$ 5,965,663
		<u> </u>

As of June 30, 2016, future minimum lease payments under capital leases are as follows:

Year Ending June 30,	Governmental Activities
<u> </u>	<u> </u>
2017	\$ 655,970
2018	679,474
2019	703,799
2020	728,977
2021	755,035
2022-2026	3,403,398
2027	715,061
Total future minimum lease payments	<u>7,641,714</u>
Less: interest	<u>(1,676,051)</u>
Present value of minimum lease payments	<u>\$ 5,965,663</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Business-Type Activities

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Due Within One Year	Due in More than One Year
Revenue bonds payable	\$ 14,500,000	\$ -	\$ (1,225,000)	\$ 13,275,000	\$ 1,255,000	\$ 12,020,000
Unamortized premiums	1,169,394	-	(116,940)	1,052,454	-	1,052,454
Loans payable	34,805,831	-	(1,711,283)	33,094,548	1,751,396	31,343,152
Total	\$ 50,475,225	\$ -	\$ (3,053,223)	\$ 47,422,002	\$ 3,006,396	\$ 44,415,606

Revenue Bonds Payable

Revenue bonds payable at June 30, 2016, consisted of the following:

	Bonds Payable	Unamortized Premiums
Water Revenue Bonds	\$ 4,025,000	307,219
Wastewater Revenue Bonds	9,250,000	745,235
Total	\$ 13,275,000	\$ 1,052,454

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, 2016 totals \$1,052,454.

The bonds were secured by pledges of the Water and Wastewater Fund net revenues under the respective installment purchase agreements for each individual program participant. The indentures prescribe that the City will collect charges and fees for the use of Water and Wastewater which are reasonably fair and nondiscriminatory and which are estimated in each fiscal year to be at least sufficient to yield net revenues during such fiscal year equal to 125% of debt services for such fiscal year plus the amount necessary to restore the Reserve Fund, if any, to the respective amounts required to be on deposit therein in such fiscal year. For 2015-16 fiscal year, the debt coverage is 6.09 and 7.81 for the Water Fund and Wastewater Fund, respectively.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Revenue Bonds Payable, Continued

2012 Series Water and Wastewater Revenue Bonds, Continued

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

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

Year Ending June 30,	Principal	Interest	Total
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	445,000	82,100	527,100
2022-2025	1,960,000	142,600	2,102,600
Total	\$ 4,025,000	\$ 717,931	\$ 4,742,931

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

Year Ending June 30,	Principal	Interest	Total
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	1,015,000	247,800	1,262,800
2022-2025	4,550,000	468,750	5,018,750
Total	\$ 9,250,000	\$ 2,088,475	\$ 11,338,475

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Loans Payable

Loans payable at June 30, 2016 consisted of the following:

California Infrastructure and Economic Development Bank (CIEDB)		
Enterprise Fund Installment Sales Agreement	\$	6,752,209
California State Water Resources Control Board		
Clean Water State Revolving Fund		26,342,339
Total	\$	<u>33,094,548</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
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	300,000	178,382	478,382
2022-2026	1,750,000	734,998	2,484,998
2027-2031	2,225,000	418,394	2,643,394
2032-2034	1,502,209	73,085	1,575,294
Total	<u>\$ 6,752,209</u>	<u>\$ 2,201,998</u>	<u>\$ 8,954,207</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

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 2012 and ending September 30, 2031.

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

For the Years Ending June 30,	Principal	Interest	Total
2017	\$ 1,526,396	\$ 263,423	\$ 1,789,819
2018	1,541,660	248,159	1,789,819
2019	1,557,077	232,743	1,789,820
2020	1,572,648	217,172	1,789,820
2021	1,588,374	201,446	1,789,820
2022-2026	8,183,327	765,771	8,949,098
2027-2031	8,600,759	348,339	8,949,098
2032	1,772,098	17,721	1,789,819
Total	\$ 26,342,339	\$ 2,294,774	\$ 28,637,113

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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

8. LONG-TERM DEBT, Continued

C. Debt with No City Commitment

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

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

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

	Outstanding June 30, 2016
1998 Liberty Park Refunding Assessment District	\$ 140,000
16th Street Refunding Assessment District	44,000
Fahrens Park Refunding Assessment District	2,075,000
Bellevue Ranch East CFD	9,035,000
Bellevue Ranch West CFD	6,215,000
Moraga CFD	4,510,000
Total	\$ 22,019,000

9. COMPENSATED ABSENCES

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

A summary of changes in compensated absences for the year ended June 30, 2016, is as follows:

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Due Within One Year	Due in More than One Year
Governmental activities	\$ 3,537,752	\$ 738,972	\$ (838,972)	\$ 3,437,752	\$ 661,295	\$ 2,776,457
Business-type activities	826,433	207,468	(106,387)	927,514	124,522	802,992
Total	\$ 4,364,185	\$ 946,440	\$ (945,359)	\$ 4,365,266	\$ 785,817	\$ 3,579,449

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

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 Special Revenue	Low & Moderate Income Housing Special Revenue	Streets and Signals Capital Projects	Non-Major Funds	Total
Nonspendable:							
Inventory	\$ 51,972	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 51,972
Advances receivable	1,710,992	-	-	-	-	-	1,710,992
Long term portion of notes receivable	157,366	-	-	-	-	-	157,366
Total nonspendable	1,920,330	-	-	-	-	-	1,920,330
Restricted for:							
Street and street lights	-	-	-	-	-	3,028,997	3,028,997
Community development	-	-	-	-	-	10,191,608	10,191,608
Housing	-	21,173,152	-	10,572,980	-	1,214,346	32,960,478
Public safety	-	-	-	-	-	375,011	375,011
Special districts	-	-	-	-	-	3,178,584	3,178,584
Capital projects	-	-	-	-	1,936,878	1,717,683	3,654,561
Other special projects and programs:	-	-	-	-	-	-	-
Cash basis fund	4,000,000	-	-	-	-	-	4,000,000
Other	-	-	-	-	-	452,627	452,627
Total restricted	4,000,000	21,173,152	-	10,572,980	1,936,878	20,158,856	57,841,866
Committed to:							
Street and street lights	-	-	-	-	-	7,828	7,828
Community development	-	-	-	-	-	252,338	252,338
Public safety	-	-	1,229,203	-	-	-	1,229,203
Housing	-	-	-	-	-	4,000,284	4,000,284
Total committed	-	-	1,229,203	-	-	4,260,450	5,489,653
Assigned to:							
Appropriations in subsequent year	3,450,330	-	-	-	-	-	3,450,330
Encumbrances:							
General government	681,813	-	-	-	-	-	681,813
Public safety	341,397	-	-	-	-	-	341,397
Public works	16,543	-	-	-	-	-	16,543
Culture and recreation	53,724	-	-	-	-	-	53,724
Total assigned	4,543,807	-	-	-	-	-	4,543,807
Unassigned	8,665,009	-	-	-	-	(171,130)	8,493,879
Total fund balances	\$ 19,129,146	\$ 21,173,152	\$ 1,229,203	\$ 10,572,980	\$ 1,936,878	\$ 24,248,176	\$ 78,289,535

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

11. OTHER FUND DISCLOSURES

A. Deficit Balances

At June 30, 2016, the funds below had the following deficit fund balance or net position:

Non-major Governmental Funds:

Park Reserve Fund \$ (171,132)

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 sub-divider 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 fund balance was caused by the City receiving dedicated park land prior to the Developer pulling building permits which resulted in unearned revenue from developer credits. The deficit fund balance will be eliminated as the Developer pulls building permits.

Enterprise Funds:

Refuse Collection System Fund \$ (96,319)

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 requires net pension liability to be reported on the Statement of Net Position. The deficit balance will be eliminated by future charges for services.

Internal Service Funds:

Workers' Compensation Insurance Fund \$ (3,443,106)

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 \$ (505,950)

This fund is used to account for the daily operation and maintenance of City 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. The deficit will be eliminated by future charges for services.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

11. OTHER FUND DISCLOSURES, Continued

A. Deficit Balances, Continued

Internal Service Funds, Continued:

Facility Maintenance Fund \$ (4,586,531)

This fund is used to account for costs of maintaining and operating City facilities. The deficit net position was caused by recording other postemployment benefits liability, and net pension liability. In addition, the City's capital lease agreement to fund certain energy cost saving facility improvement measures and facility upgrades cause a reduction in fund balance. The related facility will become property of the City when all terms of the lease agreement are met. The deficit balance will be eliminated by future charges for services and debt service payments related to the capital lease agreement.

Support Services Fund \$ (2,702,655)

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.

Public Works Administration Fund \$ (2,118,800)

This fund is used to account for administrative costs for all Public Works Operations, Safety Specialist and all Public Works clerical support. The deficit net position was caused by recording other postemployment benefits liability and net pension liability through the implementation of Governmental Accounting Standards Board Statement No. 68. The deficit will be eliminated by future charges for services.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

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, 2016, claims for general liability and workers' compensation were \$973,353 and \$5,008,961 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 above the member's retained limit up to \$5 million. LAWCX is a member of the California State Association of Counties Excess Insurance Authority (CSAC EIA) who provides the excess coverage over the \$5 million.

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

	General Liability	Workers' Compensation
	<u> </u>	<u> </u>
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
	<u> </u>	<u> </u>
Liability - June 30, 2015	1,090,168	4,963,806
Claims incurred	396,095	904,569
Claims payments	(512,910)	(1,062,970)
Changes to prior year estimates	-	203,556
	<u> </u>	<u> </u>
Liability - June 30, 2016	<u>\$ 973,353</u>	<u>\$ 5,008,961</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

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.

The Plans’ provisions and benefits in effect at June 30, 2016 are summarized as follows:

	Miscellaneous Plan		
	Existing plan members hired before	Existing plan members hired after	New plan members hired after
Hire date	December 10, 2012	December 10, 2012	January 1, 2013
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	16.891%	16.891%	16.891%

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

13. PENSION PLANS, Continued

A. General Information about the Pension Plans, Continued

	Safety Plan		
	Existing plan members hired before	Existing plan members hired after	New plan members hired after
Hire date - Fire	October 7, 2011	October 7, 2011	January 1, 2013
Hire date - Police	December 10, 2012	December 10, 2012	January 1, 2013
Benefit formula	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50 - 55	50 - 57
Monthly benefits, as a % of eligible compensation	3.0%	2.4% - 3.0%	2.0% to 2.7%
Required employee contribution rates	9%	9%	11.25%
Required employer contribution rates	25.512%	25.512%	25.512%

Employees Covered - At June 30, 2016, the following employees were covered by the benefit terms for each Plan:

	Miscellaneous Plan	Safety Plan
Inactive employees or beneficiaries currently receiving benefits	318	168
Inactive employees entitled to but not yet receiving benefits	193	90
Active employees	270	140
Total	<u>781</u>	<u>398</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, 2015 (the measurement date), the average active employee contribution rate is 7.776 and 9.000 percent of annual pay, and the employer's contribution rate is 15.558 and 23.599 percent of annual payroll for miscellaneous and safety employees, respectfully. Employer contribution rates may change if plan contracts are amended.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

13. PENSION PLANS, Continued

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, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions - The June 30, 2014 valuation was rolled forward to determine the June 30, 2015 total pension liability, based on the following actuarial methods and assumptions:

	<u>Miscellaneous and Safety Plans</u>
Actuarial cost method	Entry-age normal cost method
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75%
Projected salary increases	Varies by entry age and service
Investment rate of return	7.65% net of pension plan investment 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, 2014 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.

Change of Assumptions - GASB Statement No. 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. Administrative expenses are assumed to be 15 basis points. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

13. PENSION PLANS, Continued

B. Net Pension Liability, Continued

Discount Rate – The discount rate used to measure the total pension liability was 7.65 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 of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 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.

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 (Public Employee’s Retirement 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 on the following page 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. The target allocation shown was adopted by the Board effective on July 1, 2014.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

13. PENSION PLANS, Continued

B. Net Pension Liability, Continued

Asset Class	Current Target Allocation	Real Return Years 1 -10 (a)	Real Return Years 11+ (b)
Global equity	51.0%	5.25%	5.71%
Global fixed income	19.0%	0.99%	2.43%
Inflation sensitive	6.0%	0.45%	3.36%
Private equity	10.0%	6.83%	6.95%
Real estate	10.0%	4.50%	5.13%
Infrastructure and forestland	2.0%	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

C. Changes in the Net Pension Liability

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

Miscellaneous Plan:	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Pension (b)	Net Pension Liability (Asset) (c) = (a) - (b)
Beginning balance	\$ 123,382,379	\$ 94,448,164	\$ 28,934,215
Change in the year:			
Service cost	2,478,640	-	2,478,640
Interest on the total pension liability	9,059,272	-	9,059,272
Changes in assumptions	(2,210,035)	-	(2,210,035)
Differences between actual and expected experience	(1,270,597)	-	(1,270,597)
Contribution - employer	-	2,585,409	(2,585,409)
Contribution - employee	-	1,311,171	(1,311,171)
Net Investment income	-	2,146,212	(2,146,212)
Administrative expenses	-	(106,839)	106,839
Benefit payments, including refunds of employee contribution	(5,438,406)	(5,438,406)	-
Net changes	2,618,874	497,547	2,121,327
Ending at June 30, 2015	\$ 126,001,253	\$ 94,945,711	\$ 31,055,542

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

13. PENSION PLANS, Continued

C. Changes in Net Pension Liability, Continued

Safety Plan:	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Pension	Net Pension Liability (Asset)
	(a)	(b)	(c) = (a) - (b)
Beginning balance	\$ 131,177,948	\$ 105,140,703	\$ 26,037,245
Change in the year:			
Service cost	2,915,019	-	2,915,019
Interest on the total pension liability	9,584,428	-	9,584,428
Changes in assumptions	(2,398,329)	-	(2,398,329)
Differences between actual and expected experience	(2,052,784)	-	(2,052,784)
Contribution - employer	-	2,907,155	(2,907,155)
Contribution - employee	-	1,068,553	(1,068,553)
Net Investment income	-	2,345,446	(2,345,446)
Administrative expenses	-	(118,777)	118,777
Benefit payments, including refunds of employee contribution	(5,795,426)	(5,795,426)	-
Net changes	2,252,908	406,951	1,845,957
Ending at June 30, 2015	\$ 133,430,856	\$ 105,547,654	\$ 27,883,202

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 7.65 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:

	Miscellaneous Plan	Safety Plan
1% decrease	6.65%	6.65%
Net pension liability	\$ 47,872,697	\$ 46,231,090
Current discount rate	7.65%	7.65%
Net pension liability	\$ 31,055,542	\$ 27,883,202
1% increase	8.65%	8.65%
Net pension liability	\$ 17,125,292	\$ 12,787,074

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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

13. PENSION PLANS, Continued

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

For the year ended June 30, 2016, the City recognized pension expense of \$1,541,364 and \$1,874,597 for Miscellaneous and Safety Plans, respectively. At June 30, 2016, 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 Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows / Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,846,902	\$ -	\$ 3,148,567	\$ -	\$ 5,995,469
Expected and actual experience	-	(896,892)	-	(1,575,392)	(2,472,284)
Change in assumptions	-	(1,560,025)	-	(1,840,578)	(3,400,603)
Net differences between projected and actual earnings on pension plan investments	4,000,610	(4,863,531)	4,493,427	(5,403,180)	(1,772,674)
Total	\$ 6,847,512	\$ (7,320,448)	\$ 7,641,994	\$ (8,819,150)	\$ (1,650,092)

\$2,846,902 and \$3,148,567 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30	<u>Miscellaneous Plan</u>	<u>Safety Plan</u>
	Deferred Outflows/(Inflows) of Resources	Deferred Outflows/(Inflows) of Resources
2016	\$ (1,644,740)	\$ (1,712,846)
2017	(1,644,740)	(1,712,846)
2018	(1,030,512)	(1,712,846)
2019	1,000,154	812,815
2020	-	-
Remaining	-	-

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

14. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS

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

The City has \$1,722,687 in the California Employers' Retiree Benefit Trust (CERBT) at the end of the fiscal year ending June 30, 2016. CERBT is a tax-qualified irrevocable trust administered by the California Public Employees' Retirement System (CalPERS) and organized under Internal Revenue Code Section 115 to pre-fund retiree healthcare and other postemployment benefits. Copies of CalPERS' financial report may be obtained from the CalPERS website at www.calpers.ca.gov or from CalPERS Headquarters at 400 Q Street, Sacramento, California, 95811.

Out of approximately 418 full-time City employees, approximately 168 full-time employees have a current MOU that calls for the City to provide health care insurance upon retirement. Employees hired after December 31, 2002 in the Public Safety Bargaining Unit, December 31, 2003 in the AFSCME Bargaining Unit, December 31, 2004 in the MACE Bargaining Unit, and July 4, 2006 for Unrepresented Management Employees are not eligible for retirement healthcare benefits.

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

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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

14. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS, Continued

For the fiscal year ending June 30, 2016, the City contributed \$1,619,000 to the plan, including \$1,323,000 in medical premium payments for retirees and \$296,000 for implied subsidies. The City allows retirees to participate in the medical plan provided by United Health Care. 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	\$ 4,794,000
Interest on net OPEB obligation	1,035,000
Adjustment to annual required contribution	<u>(2,719,000)</u>
Annual OPEB cost (expense)	3,110,000
Benefit payments made outside of CERBT	<u>(1,619,000)</u>
Increase in net OPEB obligation	1,491,000
Net OPEB obligation - beginning of year	26,850,000
Net OPEB obligation - end of year	<u><u>\$ 28,341,000</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2016 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 6,597,000	25.2%	\$ 25,315,000
6/30/2015	3,064,000	49.9%	26,850,000
6/30/2016	3,110,000	52.1%	28,341,000

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

14. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS, Continued

Funded Status and Funding Progress – The funded status of the Plan as of June 30, 2015, the Plan’s most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 31,030,000
Actuarial value of Plan assets	(1,696,000)
Unfunded actuarial accrued liability (UAAL)	<u>29,334,000</u>
Funded ratio (actuarial value of Plan assets/AAL)	5.5%
Covered payroll (eligible action Plan participants)	\$ 13,246,000
UAAL as a percentage of covered payroll	221.5%

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, 2016

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 7.50% for 2016, grading down to 5.0% for 2021 and after. The post-Medicare medical cost increase rate is 7.80% for 2016 grading down to 5.0% for 2021 and after. The caps on the City-paid medical benefits were assumed to increase 3.5% every 3rd year. The initial UAAL as of June 30, 2008 was amortized as a level dollar amount over a fixed 30-year period, plan and assumption changes over a fixed 20-year period, and gains and losses over a fixed 15-year period. The remaining equivalent single amortization period as of June 30, 2016 was 22 years.

15. COMMITMENTS AND CONTINGENT LIABILITIES

Project Commitments

As of June 30, 2016, the City had the following outstanding commitments that exceeded \$500,000:

<u>Vendor Name</u>	<u>Outstanding Amount</u>
Carbon Activated Corporation	\$ 653,389
Merced Co Dept of Public Works	625,231
Total	<u><u>\$ 1,278,620</u></u>

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 recorded the following restatements to correct interest receivable recorded in the prior year and to correct net pension liability and net OPEB obligation for internal service funds.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

17. NET POSITION AND FUND BALANCE RESTATEMENT, Continued

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

Government-Wide Financial Statement

	Governmental Activities
Beginning balance, July 1, 2015	\$ 315,985,511
Interest receivable adjustment	(2,246,221)
Beginning balance, July 1, 2015, as restated	<u>\$ 313,739,290</u>

Fund Financial Statements

<i>Governmental Funds:</i>	Housing Special Revenue Fund	Low and Moderate Income Housing Special Revenue Fund	Non - Major Governmental Funds
Beginning balance, July 1, 2015	\$ 21,213,017	\$ 11,241,241	\$ 27,513,500
Interest receivable adjustment	(550,194)	(698,863)	(997,164)
Beginning balance, July 1, 2015 as restated	<u>\$ 20,662,823</u>	<u>\$ 10,542,378</u>	<u>\$ 26,516,336</u>

Internal Service Funds:

Beginning balance, July 1, 2015	\$ 9,905,653
Adjustment for GASB Statement No. 68	(1,747,606)
Adjustment for GASB Statement No. 45	(864,284)
Beginning balance, July 1, 2015, as restated	<u>\$ 7,293,763</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2016

18. EXTRAORDINARY ITEM

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. The City continues to work through the Redevelopment Agency unwinding process with the Designated Local Authority and the State.

The City, Authority and Parking Authority continue to dispute the majority of the State Controller’s Office (SCO) and the Department of Finance findings, but are working with Designated Local Authority on the transfer of some assets pending resolution of all issues.

During fiscal year 2016, the Authority removed \$3,687,378 of assets from the books and transferred them to the Designated Local Authority.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Merced
Required Supplementary Information
For the year ended June 30, 2016

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, 2016, proceeds of taxes did not exceed allowable appropriations.

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

Encumbrances

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

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2016

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes:				
Property tax:				
Secured	\$ 5,507,000	\$ 5,507,000	\$ 6,225,321	\$ 718,321
Unsecured	471,000	471,000	444,593	(26,407)
Supplemental roll:				
Prior year - unsecured	6,000	6,000	5,092	(908)
Prior year - supplemental roll	90,000	90,000	115,862	25,862
Sales and use	8,400,000	8,400,000	9,764,866	1,364,866
Transient occupancy tax	1,302,000	1,302,000	1,518,998	216,998
Franchise	1,552,300	1,552,300	1,637,137	84,837
Business license	1,289,000	1,289,000	1,172,320	(116,680)
Cost revenue impact study fee	302,575	302,575	183,373	(119,202)
Real property transfer	188,000	188,000	188,248	248
Triple flip backfill	2,800,000	2,800,000	1,974,535	(825,465)
Vehicle in lieu backfill	5,560,000	5,560,000	5,618,424	58,424
Total taxes	<u>27,467,875</u>	<u>27,467,875</u>	<u>28,848,769</u>	<u>1,380,894</u>
Intergovernmental:				
Motor vehicle in lieu tax			32,973	32,973
Homeowners property tax relief	75,000	75,000	65,454	(9,546)
Police standards and training	35,000	35,000	30,722	(4,278)
Other state grants	65,231	140,240	67,229	(73,011)
Other federal grants	330,624	615,708	252,846	(362,862)
Office BJA - bulletproof vest grant	5,508	21,741	7,695	(14,046)
State mandated cost reimbursement	61,720	61,720	141,242	79,522
Total intergovernmental	<u>573,083</u>	<u>949,409</u>	<u>598,161</u>	<u>(351,248)</u>
Licenses and permits:				
Animal licenses	16,000	16,000	13,511	(2,489)
Bicycle licenses	120	120	181	61
Other licenses and permits	8,310	8,310	7,791	(519)
Total licenses and permits	<u>24,430</u>	<u>24,430</u>	<u>21,483</u>	<u>(2,947)</u>
Use of money and property				
Investment earnings	81,733	81,733	139,871	58,138
Rents and concessions (other than recreation)	74,145	74,145	74,918	773
Total use of money and property	<u>155,878</u>	<u>155,878</u>	<u>214,789</u>	<u>58,911</u>

(continued)

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2016

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES, Continued:				
Service Charges:				
Accident and police reports	\$ 4,700	\$ 4,700	\$ 10,054	\$ 5,354
Fire department special services	246,555	285,794	292,187	6,393
Fire prevention	45,045	45,045	32,710	(12,335)
Weed and lot cleaning	-	-	8,490	8,490
Administrative citations	2,000	2,000	6,100	4,100
Police cost recovery	90,200	90,200	91,123	923
Release fees class I	83,000	83,000	52,249	(30,751)
Administrative	2,808,134	2,808,134	2,720,032	(88,102)
Administrative review fee	100	100	-	(100)
Interdepartmental charges	1,796,644	1,796,644	1,796,644	-
Other current service charges	520	520	4,190	3,670
Total service charges	<u>5,076,898</u>	<u>5,116,137</u>	<u>5,013,779</u>	<u>(102,358)</u>
Fines, forfeitures and penalties:				
Criminal fines	87,000	87,000	54,535	(32,465)
Parking fines	300,000	300,000	145,876	(154,124)
Total fines, forfeitures and penalties	<u>387,000</u>	<u>387,000</u>	<u>200,411</u>	<u>(186,589)</u>
Other:				
Animal control services	4,500	4,500	4,870	370
School police officer	376,560	467,529	439,714	(27,815)
Valley High School police officer	-	19,493	22,367	2,874
Merchandise and brochure revenue	32,700	32,700	34,615	1,915
Cash overages (shortages)	100	100	(5)	(105)
Donations/contributions	600	600	165	(435)
S.M.I.P. fees	2,200	2,200	-	(2,200)
Miscellaneous	73,219	59,771	64,139	4,368
Total other	<u>489,879</u>	<u>586,893</u>	<u>565,865</u>	<u>(21,028)</u>
Total revenues	<u>34,175,043</u>	<u>34,687,622</u>	<u>35,463,257</u>	<u>775,635</u>

(continued)

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2016

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
EXPENDITURES:				
Current operating:				
General government:				
City council	\$ 233,498	\$ 229,673	\$ 190,812	\$ 38,861
City manager	927,744	1,330,319	779,907	550,412
City clerk	429,590	477,293	432,063	45,230
City attorney	1,143,726	1,121,190	967,163	154,027
Finance	2,343,069	2,397,136	2,362,551	34,585
Purchasing	195,519	200,071	197,331	2,740
Economic development	464,832	606,543	492,189	114,354
Youth council	12,500	12,500	6,391	6,109
Visitor's services	166,294	170,054	165,236	4,818
Total general government	<u>5,916,772</u>	<u>6,544,779</u>	<u>5,593,643</u>	<u>951,136</u>
Public safety:				
Police protection	16,684,457	16,840,588	16,084,903	755,685
Fire protection and weed abatement	8,447,310	8,696,166	8,503,661	192,505
Total public safety	<u>25,131,767</u>	<u>25,536,754</u>	<u>24,588,564</u>	<u>948,190</u>
Public works				
Total current operating	<u>32,630,506</u>	<u>33,672,313</u>	<u>31,632,020</u>	<u>2,040,293</u>
Capital outlay				
Total capital outlay	22,286	21,584	21,584	-
Debt service:				
Principal	375,000	375,000	375,000	-
Interest	334,190	334,190	334,134	56
Total debt service	<u>709,190</u>	<u>709,190</u>	<u>709,134</u>	<u>56</u>
Total expenditures	<u>33,361,982</u>	<u>34,403,087</u>	<u>32,362,738</u>	<u>2,040,349</u>
EXCESS (DEFICIENCY) OF REVENUES				
OVER (UNDER) EXPENDITURES	<u>813,061</u>	<u>284,535</u>	<u>3,100,519</u>	<u>2,815,984</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of assets	5,100	5,100	2,065	(3,035)
Transfers in	668,656	778,917	643,472	(135,445)
Transfers out	(1,701,180)	(2,205,859)	(1,634,095)	571,764
Total other financing sources (uses)	<u>(1,027,424)</u>	<u>(1,421,842)</u>	<u>(988,558)</u>	<u>433,284</u>
Net change in fund balance				
	<u>\$ (214,363)</u>	<u>\$ (1,137,307)</u>	2,111,961	<u>\$ 3,249,268</u>
FUND BALANCE:				
Beginning of year			16,957,462	
End of year			<u>\$ 19,069,423</u>	

(continued)

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2016

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

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

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

	<u>General Fund - Budgetary Schedule - Actual</u>	<u>Parks and Community Services Fund</u>	<u>General Fund - Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance</u>
Total revenues	\$ 35,463,257	\$ 342,061	\$ 35,805,318
Total expenditures	<u>32,362,738</u>	<u>1,236,745</u>	<u>33,599,483</u>
Excess (deficiency) of revenues over (under) expenditures	3,100,519	(894,684)	2,205,835
Total other financing sources (uses)	<u>(988,558)</u>	<u>818,276</u>	<u>(170,282)</u>
Net change in fund balance	2,111,961	(76,408)	2,035,553
Beginning of year	<u>16,957,462</u>	<u>136,131</u>	<u>17,093,593</u>
End of year	<u>\$ 19,069,423</u>	<u>\$ 59,723</u>	<u>\$ 19,129,146</u>

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2016

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 2,678,449	\$ 3,783,342	\$ 1,643,138	\$ (2,140,204)
Use of money and property	860,173	860,173	334,704	(525,469)
Service charges	651,575	651,575	390,612	(260,963)
Total revenues	<u>4,190,197</u>	<u>5,295,090</u>	<u>2,368,454</u>	<u>(2,926,636)</u>
EXPENDITURES:				
Current operating:				
General government	3,620,768	4,453,598	877,284	3,576,314
Total current operating	<u>3,620,768</u>	<u>4,453,598</u>	<u>877,284</u>	<u>3,576,314</u>
Capital outlay			67,549	(67,549)
Total expenditures	<u>3,620,768</u>	<u>4,453,598</u>	<u>944,833</u>	<u>3,508,765</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	569,429	841,492	1,423,621	582,129
OTHER FINANCING SOURCES (USES):				
Transfers in	-	92,860	40,650	(52,210)
Transfers out	846,130	(1,117,672)	(953,942)	163,730
Total other financing sources (uses)	<u>846,130</u>	<u>(1,024,812)</u>	<u>(913,292)</u>	<u>111,520</u>
Net change in fund balance	<u>\$ 1,415,559</u>	<u>\$ (183,320)</u>	510,329	<u>\$ 693,649</u>
FUND BALANCE:				
Beginning of year, as restated			<u>20,662,823</u>	
End of year			<u>\$ 21,173,152</u>	

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2016

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 6,167,000	\$ 6,167,000	\$ 5,714,301	\$ (452,699)
Intergovernmental	407,830	407,830	118,147	(289,683)
Use of money and property	2,120	2,120	763	(1,357)
Service charges	146,189	204,164	204,163	(1)
Total revenues	<u>6,723,139</u>	<u>6,781,114</u>	<u>6,037,374</u>	<u>(743,740)</u>
EXPENDITURES:				
Current operating:				
Public safety	6,000,289	6,118,014	5,542,750	575,264
Public works	4,850	24,895	22,133	2,762
Total current operating	<u>6,005,139</u>	<u>6,142,909</u>	<u>5,564,883</u>	<u>578,026</u>
Capital outlay	<u>760,784</u>	<u>364,789</u>	<u>64,788</u>	<u>300,001</u>
Total expenditures	<u>6,765,923</u>	<u>6,507,698</u>	<u>5,629,671</u>	<u>878,027</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(42,784)</u>	<u>273,416</u>	<u>407,703</u>	<u>134,287</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	6,376	6,376
Transfers out	<u>378,218</u>	<u>(375,218)</u>	<u>(375,218)</u>	<u>-</u>
Total other financing sources (uses)	<u>378,218</u>	<u>(375,218)</u>	<u>(368,842)</u>	<u>6,376</u>
Net change in fund balance	<u>\$ 335,434</u>	<u>\$ (101,802)</u>	38,861	<u>\$ 140,663</u>
FUND BALANCE:				
Beginning of year			<u>1,190,342</u>	
End of year			<u>\$ 1,229,203</u>	

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2016

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Use of money and property	\$ 25,240	\$ 25,240	\$ 41,996	\$ 16,756
Total revenues	25,240	25,240	41,996	16,756
EXPENDITURES:				
Current operating:				
General government	187,914	187,914	11,394	176,520
Total current operating	187,914	187,914	11,394	176,520
Total expenditures	187,914	187,914	11,394	176,520
Net change in fund balance	\$ (162,674)	\$ (162,674)	30,602	\$ 193,276
FUND BALANCE:				
Beginning of year, as restated			10,542,378	
End of year			\$ 10,572,980	

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2016

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

Measurement period 2013 - 14	2015		
	Miscellaneous Plan	Safety Plan	Total
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 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 (1)	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	12,534,506	13,752,998	26,287,504
Plan fiduciary net position - beginning	81,913,658	91,387,705	173,301,363
Plan fiduciary net position - ending (b)	94,448,164	105,140,703	199,588,867
Net pension liability - ending (a) - (b)	\$ 28,934,215	\$ 26,037,245	\$ 54,971,460
Plan fiduciary net position as a percentage of the total pension liability	76.55%	80.15%	78.41%
Covered payroll	\$ 16,471,824	\$ 12,061,197	\$ 28,533,021
Net pension liability as percentage of covered payroll	175.66%	215.88%	192.66%

(1) Net of administrative expenses.

Notes to schedule:

Benefit changes: No plan change

Changes in assumptions: The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent.

Fiscal year 2015 was the 1st year of implementation

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2016

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

Measurement period 2014 - 15	2016		
	Miscellaneous Plan	Safety Plan	Total
Total pension liability			
Service cost	\$ 2,478,640	\$ 2,915,019	\$ 5,393,659
Interest on total pension liability	9,059,272	9,584,428	18,643,700
Differences between expected and actual experience	(1,270,597)	(2,052,784)	(3,323,381)
Changes in assumptions	(2,210,035)	(2,398,329)	(4,608,364)
Benefit payments, including refunds of employee contributions	(5,438,406)	(5,795,426)	(11,233,832)
Net change in total pension liability	2,618,874	2,252,908	4,871,782
Total pension liability - beginning	123,382,379	131,177,948	254,560,327
Total pension liability - ending (a)	126,001,253	133,430,856	259,432,109
Plan fiduciary net position			
Contributions - employer	2,585,409	2,907,155	5,492,564
Contributions - employee	1,311,171	1,068,553	2,379,724
Net investment income (1)	2,146,212	2,345,446	4,491,658
Administrative expense	(106,839)	(118,777)	(225,616)
Benefit payments	(5,438,406)	(5,795,426)	(11,233,832)
Net change in plan fiduciary net position	497,547	406,951	904,498
Plan fiduciary net position - beginning	94,448,164	105,140,703	199,588,867
Plan fiduciary net position - ending (b)	94,945,711	105,547,654	200,493,365
Net pension liability - ending (a) - (b)	\$ 31,055,542	\$ 27,883,202	\$ 58,938,744
Plan fiduciary net position as a percentage of the total pension liability	75.35%	79.10%	77.28%
Covered payroll	\$ 16,286,485	\$ 11,774,523	\$ 28,061,008
Net pension liability as percentage of covered payroll	190.68%	236.81%	210.04%

(1) Net of administrative expenses.

Notes to schedule:

Benefit changes: No plan change

Changes in assumptions: The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent.

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2016

3. SCHEDULE OF PLAN CONTRIBUTIONS

	2015		2016	
	Miscellaneous Plan	Safety Plan	Miscellaneous Plan	Safety Plan
Actuarially determined contribution	\$ 2,247,444	\$ 2,615,979	\$ 2,585,409	\$ 2,907,155
Contributions in relation to the actuarially determined contributions	(2,247,444)	(2,615,979)	(2,585,409)	(2,907,155)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 16,471,824	\$ 12,061,197	\$ 16,286,485	\$ 11,774,523
Contributions as a percentage of covered-employee payroll	13.64%	21.69%	15.87%	24.69%

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
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	The probabilities of Retirement are based on the 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.

Fiscal year 2015 was the 1st year of implementation.

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2016

4. POSTEMPLOYMENT HEALTHCARE PLAN SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2011	\$ 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%
6/30/2015	1,696,000	31,030,000	29,334,000	5.47%	13,246,000	221.5%

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SUPPLEMENTARY INFORMATION

City of Merced
Supplementary Information
General Fund Combining Balance Sheet
June 30, 2016

	General Fund	Parks and Community Services Fund	General Fund Combined
ASSETS			
Cash, cash equivalents and investments	\$ 13,367,652	\$ 103,859	\$ 13,471,511
Restricted cash held by fiscal agents	9	-	9
Receivables:			
Accounts	679,835	6,814	686,649
Due from other government	4,601,005	-	4,601,005
Interest	18,992	-	18,992
Due from other funds	394,855	-	394,855
Inventory	51,972	-	51,972
Land held for resale	-	-	-
Notes receivable	157,366	-	157,366
Advances to other funds	1,710,991	-	1,710,991
Total assets	\$ 20,982,677	\$ 110,673	\$ 21,093,350
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 173,585	\$ 19,437	\$ 193,022
Payroll liabilities	712,162	31,513	743,675
Unearned revenues	1,020,327	-	1,020,327
Due to other funds	-	-	-
Advances from other funds	-	-	-
Other liabilities	7,180	-	7,180
Total liabilities	1,913,254	50,950	1,964,204
Fund Balances:			
Nonspendable	1,920,330	-	1,920,330
Restricted	4,000,000	-	4,000,000
Committed	-	-	-
Assigned	4,490,084	53,723	4,543,807
Unassigned	8,659,009	6,000	8,665,009
Total fund balances	19,069,423	59,723	19,129,146
Total liabilities and fund balances	\$ 20,982,677	\$ 110,673	\$ 21,093,350

City of Merced
Supplementary Information
General Fund Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the year ended June 30, 2016

	General Fund	Parks and Community Services Fund	General Fund Combined
REVENUES:			
Taxes	\$ 28,848,769	\$ -	\$ 28,848,769
Intergovernmental	598,161	-	598,161
Licenses and permits	21,483	-	21,483
Use of money and property	214,789	7,059	221,848
Service charges	5,013,779	238,902	5,252,681
Fines, forfeitures and penalties	200,411	-	200,411
Other revenues	565,865	96,100	661,965
Total revenues	35,463,257	342,061	35,805,318
EXPENDITURES:			
Current:			
General government	5,593,643	-	5,593,643
Public safety	24,588,564	-	24,588,564
Public works	1,449,813	-	1,449,813
Culture and recreation	-	1,236,745	1,236,745
Total current operating	31,632,020	1,236,745	32,868,765
Capital outlay	21,584	-	21,584
Debt service:			
Principal	375,000	-	375,000
Interest and fiscal charges	334,134	-	334,134
Total expenditures	32,362,738	1,236,745	33,599,483
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	3,100,519	(894,684)	2,205,835
OTHER FINANCING SOURCES (USES):			
Proceeds from sale of asset	2,065	190	2,255
Transfers in	643,471	63,670	707,141
Transfers out	(871,303)	(8,375)	(879,678)
Intrafund transfers	(762,791)	762,791	-
Total other financing sources (uses)	(988,558)	818,276	(170,282)
Net change in fund balances	2,111,961	(76,408)	2,035,553
FUND BALANCES:			
Beginning of year	16,957,462	136,131	17,093,593
End of year	<u>\$ 19,069,423</u>	<u>\$ 59,723</u>	<u>\$ 19,129,146</u>

