



City of Merced, California
Basic Financial Statements For Fiscal Year Ended June 30, 2017

Merced FEAST (Festival Engaging Agriculture Sustainability to the Table) feature fares from only Merced County farms, which are artfully prepared by local area celebrity chefs, highlighting our wonderful and diverse food cultures of this Central Valley Region. This event is a joint effort of The Merced Certified Farmer's Market, Merced College, Downtown Neighborhood Association and The Merced Main Street Association.

The primary goal of this farm-to-table event is to explore new and interesting ways to connect Merced County residents to the local foods and the farming community that produce them. This mission is accomplished by presenting FEAST dinner guests with a multi-course meal with menu creations based around what agricultural products are in season, harvested from farmer's fields in Merced County.

*Photo Courtesy of Merced Main Street Association
Photographer -- Kevin Hammon*

**City of
Merced**
Merced, California

Annual Financial Report

For the year ended June 30, 2017

Prepared by:
Finance Department

City of Merced
Annual Financial Report
For the year ended June 30, 2017

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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, 2017, 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.

To the Honorable Mayor and Members of the City Council
of the City of Merced
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2017, 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, and 96-106 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, and the University Capital Fund balance sheet and statement of revenues, expenses, and changes in fund balance are presented for purposes of additional analysis and are not a required part of the basic financial statements.

To the Honorable Mayor and Members of the City Council
of the City of Merced
Merced, California
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The General Fund combining balance sheet and combining statement of revenues, expenditures, and changes in fund balance, and the University Capital Fund balance sheet and statement of revenues, expenses, 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, and the University Capital Fund balance sheet and statement of revenues, expenses, and changes in fund balance are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2018, 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.



Badawi and Associates
Certified Public Accountants
Oakland, California
February 9, 2018

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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, 2017.

FINANCIAL HIGHLIGHTS

The City's net position as shown on the Government-Wide Statement of Activities decreased by \$4.3 million. The governmental net position decreased by \$6.7 million and the business-type net position increased by \$2.3 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 \$508.4 million.
- The net decrease to governmental activity long-term debt of \$1.0 million 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 \$11.5 million, or 55.0% 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'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 City assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

The Government-Wide Financial Statements include not only the City itself (known as the primary government), but also the following legally separate entities for which the City is financially accountable:

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

The financial information for these component units is blended with the City and reported in the governmental activities of the government-wide financial statements and the fund financial statements.

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, Continued

The City maintains thirty-three individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for General Fund, Housing Special Revenue Fund, Measure C Special Revenue Fund, Low and Moderate Income Housing Special Revenue Fund, and Streets and Signals Capital Projects Fund, which are considered major funds. Data from the other non-major governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for all its governmental funds. Budgetary comparison statements have 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 as 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 workers' compensation, liability and unemployment insurance, employee benefits, fleet management and 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 statements 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 \$508.4 million at the close of the most recent fiscal year.

Summary of Net Position

	Governmental		Business-Type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 105,603,681	\$ 104,214,673	\$ 121,802,485	\$ 115,794,906	\$ 227,406,166	\$ 220,009,579
Capital assets	288,464,085	298,864,581	157,190,479	163,507,816	445,654,564	462,372,397
Total assets	<u>394,067,766</u>	<u>403,079,254</u>	<u>278,992,964</u>	<u>279,302,722</u>	<u>673,060,730</u>	<u>682,381,976</u>
Deferred outflows related to pension	14,121,116	4,892,388	3,172,055	1,103,081	17,293,171	5,995,469
Total deferred outflows	<u>14,121,116</u>	<u>4,892,388</u>	<u>3,172,055</u>	<u>1,103,081</u>	<u>17,293,171</u>	<u>5,995,469</u>
Current liabilities	9,560,931	10,150,422	8,091,931	7,574,762	17,652,862	17,725,184
Noncurrent liabilities	96,498,093	87,973,196	61,744,818	62,290,721	158,242,911	150,263,917
Total liabilities	<u>106,059,024</u>	<u>98,123,618</u>	<u>69,836,749</u>	<u>69,865,483</u>	<u>175,895,773</u>	<u>167,989,101</u>
Deferred inflows related to pension	5,286,733	6,325,658	742,026	1,319,903	6,028,759	7,645,561
Total deferred inflows	<u>5,286,733</u>	<u>6,325,658</u>	<u>742,026</u>	<u>1,319,903</u>	<u>6,028,759</u>	<u>7,645,561</u>
Net position:						
Net investment in capital assets	286,615,067	296,886,365	119,419,018	122,838,022	406,034,085	419,724,387
Restricted	58,030,269	57,841,866	46,454,867	44,831,546	104,485,136	102,673,412
Unrestricted	<u>(47,802,211)</u>	<u>(51,205,865)</u>	<u>45,712,359</u>	<u>41,550,849</u>	<u>(2,089,852)</u>	<u>(9,655,016)</u>
Total net position	<u>\$ 296,843,125</u>	<u>\$ 303,522,366</u>	<u>\$ 211,586,244</u>	<u>\$ 209,220,417</u>	<u>\$ 508,429,369</u>	<u>\$ 512,742,783</u>

The largest portion of the City's net position, 79.9%, 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 \$508.4 million total net position, \$104.5 million, or 20.5% of these resources are subject to external restrictions on how they may be used. The total unrestricted net position is a negative \$2.1 million due to governmental activities negative \$47.8 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 \$46.5 million and \$45.7 million, respectively.

The total business-type activities reported positive balances in all category of net position.

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	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	\$ 11,484,955	\$ 9,730,346	\$ 46,018,938	\$ 46,545,957	\$ 57,503,893	\$ 56,276,303
Operating grants and contributions	4,134,969	4,408,439	179,647	80,384	4,314,616	4,488,823
Capital grants and contributions	2,599,337	2,590,377	995,251	1,227,069	3,594,588	3,817,446
General revenues and transfers:						
Property taxes	14,252,945	14,572,075	34,059	33,421	14,287,004	14,605,496
Sales taxes	18,291,163	15,822,896	-	-	18,291,163	15,822,896
Franchise taxes	1,627,975	1,750,195	-	-	1,627,975	1,750,195
Transient occupancy tax	1,609,448	1,518,998	-	-	1,609,448	1,518,998
Business license tax	1,206,299	1,172,320	-	-	1,206,299	1,172,320
Cost recovery impact study	341,400	183,373	-	-	341,400	183,373
Business improvement tax	74,405	77,696	-	-	74,405	77,696
Other	349,481	816,199	470,150	937,675	819,631	1,753,874
Total revenues	<u>55,972,377</u>	<u>52,642,914</u>	<u>47,698,045</u>	<u>48,824,506</u>	<u>103,670,422</u>	<u>101,467,420</u>
Expenses						
Governmental activities:						
General government	5,720,543	7,818,097	-	-	5,720,543	7,818,097
Public safety	33,442,577	29,865,328	-	-	33,442,577	29,865,328
Public works	18,853,287	18,237,735	-	-	18,853,287	18,237,735
Culture and recreation	2,260,728	2,020,449	-	-	2,260,728	2,020,449
Other	650,095	698,726	-	-	650,095	698,726
Business-type activities:						
Wastewater system	-	-	18,428,338	15,304,779	18,428,338	15,304,779
Water system	-	-	13,838,624	15,864,279	13,838,624	15,864,279
Refuse collection	-	-	12,184,751	12,339,351	12,184,751	12,339,351
Merced municipal airport	-	-	977,044	977,413	977,044	977,413
Total expenses	<u>60,927,230</u>	<u>58,640,335</u>	<u>45,428,757</u>	<u>44,485,822</u>	<u>106,355,987</u>	<u>103,126,157</u>
Increase (decrease) in net position						
before transfers and extraordinary item	(4,954,853)	(5,997,421)	2,269,288	4,338,684	(2,685,565)	(1,658,737)
Disposal of capital assets	-	-	-	-	-	-
Transfers	(96,539)	(532,125)	96,539	532,125	-	-
Extraordinary item - RDA dissolution	(1,627,849)	(3,687,378)	-	-	(1,627,849)	(3,687,378)
Increase (decrease) in net position	<u>(6,679,241)</u>	<u>(10,216,924)</u>	<u>2,365,827</u>	<u>4,870,809</u>	<u>(4,313,414)</u>	<u>(5,346,115)</u>
Net position beginning of year, as restated (Note 17)	<u>303,522,366</u>	<u>313,739,290</u>	<u>209,220,417</u>	<u>204,349,608</u>	<u>512,742,783</u>	<u>518,088,898</u>
Net position ending of year	<u>\$ 296,843,125</u>	<u>\$ 303,522,366</u>	<u>\$ 211,586,244</u>	<u>\$ 209,220,417</u>	<u>\$ 508,429,369</u>	<u>\$ 512,742,783</u>

Governmental Activities - Governmental activities decreased the City's net position by \$6.7 million. Taxes provided 66.8% of the revenue and charges for services provided 20.5% of the revenue, and operating and capital grants and contributions provided 12.0% of the revenue received during the year. As discussed in Note 17, assets totaling \$1,627,849 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, 2017

	Total Cost of Services	Net Cost of Services
General government	\$ 5,720,543	\$ (1,908,963)
Public safety	33,442,577	(29,827,671)
Public works	18,853,287	(8,525,102)
Culture and recreation	2,260,728	(1,796,138)
Interest on long-term debt	650,095	(650,095)
Total	<u>\$ 60,927,230</u>	<u>\$ (42,707,969)</u>

The costs for all governmental activities during the year were \$60.9 million, which is 57.3% of total governmental and business-type activities expenses. These costs were paid for by \$18.2 million of program revenues, \$37.4 million of taxes, and \$349,481 of investment earnings and other revenue. The balance of \$5.0 million was covered by reserves or accumulated revenues. Transfer from City's governmental activities were \$96,539.

Business-type Activities - Business-type activities increased the City's net position by \$2.4 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 \$47.8 million. Expenses of business-type activities were \$45.4 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, 2017 of \$81.3 million, an increase of \$3.0 million.

The General Fund is the chief operating fund of the City. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. At the end of the current fiscal year, the fund balance of the General Fund was \$21.0 million and the unassigned fund balance was \$11.5 million. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total expenditures. The unassigned fund balance represents 29.7% of total General Fund expenditures.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS, Continued

The General Fund balance increased by \$1.8 million during the fiscal year. Taxes are the primary revenue of the General Fund. Property tax decreased by 2.9%, sales tax increased by 15.6% while transient occupancy tax increased by 6.0%.

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

Housing Fund-

- This special revenue fund increased by \$219,291 due to the sale of property and receipt of program income.

Measure C Fund-

- This special revenue fund increased by \$86,930 due to unspent funding that will be used to cover encumbrances.

Low and Moderate Income Housing Fund-

- This special revenue fund decreased by \$949,262 due to assets transferred to the Designated Local Agency associated with RDA dissolution.

Streets and Signals Fund-

- This capital projects fund increased by \$239,124 due to unspent capital funding that will be carried over to next fiscal year.

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

The unrestricted net position of the Governmental Activities Internal Service Funds was \$76,903. The unrestricted net position of the Enterprise Funds was \$45.7 million. The change in net position for the Governmental Activities Internal Service Funds is a decrease of \$935,563 and the Enterprise Funds is an increase of \$2.4 million. Other factors concerning the finances of the Proprietary funds have been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

The difference between the General Fund original revenue budget and the final revenue budget was an increase of \$2.3 million, which includes taxes, grants, and other revenues. The difference between the General Fund original expenditure budget and the final expenditure budget was an increase of \$3.9 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, 2017, amounted to \$445.7 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			
	2017	2016	2017	2016	2017	2016
Non-depreciable Assets:						
Land and improvements	\$ 86,159,407	\$ 86,467,028	\$ 2,461,520	\$ 2,461,520	\$ 88,620,927	\$ 88,928,548
Construction in progress	6,725,201	6,971,361	14,255,588	11,468,040	20,980,789	18,439,401
Total non-depreciable assets	92,884,608	93,438,389	16,717,108	13,929,560	109,601,716	107,367,949
Depreciable Assets:						
Building and structures	22,363,198	22,519,384	4,575,769	4,575,769	26,938,967	27,095,153
Machinery and equipment	41,563,173	36,742,922	5,166,440	4,642,668	46,729,613	41,385,590
Improvements other than buildings, structures and land improvements	122,747,310	121,198,774	188,540,420	188,254,113	311,287,730	309,452,887
Infrastructure	373,627,644	373,627,644	41,452,754	40,278,359	415,080,398	413,906,003
Accumulated depreciation	(364,721,848)	(348,662,532)	(99,262,012)	(88,172,653)	(463,983,860)	(436,835,185)
Total depreciable assets, net	195,579,477	205,426,192	140,473,371	149,578,256	336,052,848	355,004,448
Total capital assets	\$ 288,464,085	\$ 298,864,581	\$ 157,190,479	\$ 163,507,816	\$ 445,654,564	\$ 462,372,397

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

- Tyler and Gerard sewer main replacement in the amount of \$1.2 million.

Long-term Debt – At the end of the current fiscal year, the City had \$56.1 million in outstanding debt consisting of pension obligation bonds, revenue bonds, capital lease and loans. All of the debt was secured or earmarked by specific revenue sources.

Outstanding Debt June 30, 2017

	Governmental		Business-type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Pension obligation bonds	\$ 4,830,000	\$ 5,255,000	\$ -	\$ -	\$ 4,830,000	\$ 5,255,000
Loans payable	1,400,000	1,600,000	31,343,152	33,094,548	32,743,152	34,694,548
Capital lease	5,576,044	5,965,663	-	-	5,576,044	5,965,663
Revenue bonds payable	-	-	12,020,000	13,275,000	12,020,000	13,275,000
Unamortized premiums	-	-	935,514	1,052,454	935,514	1,052,454
Total	\$ 11,806,044	\$ 12,820,663	\$ 44,298,666	\$ 47,422,002	\$ 56,104,710	\$ 60,242,665

During the current fiscal year, the City's net debt decreased by \$4.1 million or 6.9%. 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 show promise for growth in the local economy. Unemployment continues to decline. The residential development has progressively increased over the last few years.
- UC Merced's 2020 project, which included a new administration building to downtown opened January 23, 2018. Proposals are underway for the El Capitan Hotel to renovate and expand into a boutique hotel. This will preserve the historic 33-room hotel and add another 77 rooms, plus a restaurant and meeting rooms. Two major retail projects are currently moving forward; the Merced Mall, adding 90,000 square feet of new retail, food and entertainment space, plus a theatre as a second level and the Merced Gateway Retail Center at Mission-Healy interchange.
- In April 2017, the San Joaquin Regional Rail Commission (SJRRRC), which operates the Altamont Corridor Express (ACE Train) was notified that it will be receiving \$400 million of the Transportation Funding Measure (SB1) to help make improvements to its system including long term improvements to expand ACE services to Merced. When completed the ACE train will link City residents to the Bay area.
- On December 4, 2017, the Merced City Council approved a Cannabis Ordinance allowing medical and recreational dispensaries, cultivation, and manufacturing. The City is working on putting a tax measure on the ballot for retail sale of cannabis.
- Measure V, a one half cent sales tax dedicated to regional road improvement and local road maintenance passed in November 2017. This measure will provide funding to enhance road maintenance.
- While optimistic of the future, the City remained conservative in developing the 2017-18 fiscal year budget, but added new positions to meet the Council priorities in the areas of Public Safety, Economic Development and Youth Activities. Funding was earmarked for the Revenue Stabilization Fund, which sets aside funds for future economic downturns and the Economic Development Opportunity Fund, which sets aside funds for business development and job creation opportunities. The City also included \$350,000 to put towards city-wide Enterprise Resource Planning.
- Enterprise Funds continue to maintain a stable financial position. A Water Rate Study is expected to be completed in 2018.

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, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 62,602,335	\$ 110,315,915	\$ 172,918,250
Restricted cash held by fiscal agents	412	14	426
Receivables	8,838,281	11,229,175	20,067,456
Prepaid items	7,304	-	7,304
Inventory	239,512	219,487	458,999
Total current assets	71,687,844	121,764,591	193,452,435
Noncurrent assets:			
Land held for resale	1,384,246	-	1,384,246
Notes receivable	32,531,591	37,894	32,569,485
Capital assets:			
Non-depreciable	92,884,608	16,717,108	109,601,716
Depreciable, net	195,579,477	140,473,371	336,052,848
Total capital assets	288,464,085	157,190,479	445,654,564
Total noncurrent assets	322,379,922	157,228,373	479,608,295
Total assets	394,067,766	278,992,964	673,060,730
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	14,121,116	3,172,055	17,293,171
Total deferred outflows of resources	14,121,116	3,172,055	17,293,171
LIABILITIES			
Current liabilities:			
Accounts payable	940,269	1,817,947	2,758,216
Payroll liabilities	1,259,194	412,833	1,672,027
Deposits and other liabilities	63,556	1,326,270	1,389,826
Unearned revenue	3,364,590	966,232	4,330,822
Accrued interest payable	132,024	398,915	530,939
Claims liability, due within one year	2,169,324	-	2,169,324
Compensated absences, due within one year	520,703	108,074	628,777
Long-term debt, due within one year	1,111,271	3,061,660	4,172,931
Total current liabilities	9,560,931	8,091,931	17,652,862
Noncurrent liabilities:			
Claims liability, due in more than one year	3,945,799	-	3,945,799
Compensated absences, due in more than one year	2,750,300	883,186	3,633,486
Long term debt, due in more than one year	10,694,773	41,237,006	51,931,779
Net other postemployment benefits obligation	21,719,269	5,683,732	27,403,001
Net pension liability	57,387,952	13,940,894	71,328,846
Total noncurrent liabilities	96,498,093	61,744,818	158,242,911
Total liabilities	106,059,024	69,836,749	175,895,773
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	5,286,733	742,026	6,028,759
Total deferred inflows of resources	5,286,733	742,026	6,028,759
NET POSITION			
Net investment in capital assets	286,615,067	119,419,018	406,034,085
Restricted for:			
Streets and street lights	4,416,400	-	4,416,400
Community development	10,650,185	-	10,650,185
Housing	31,848,897	-	31,848,897
Public safety	300,556	-	300,556
Special districts	3,448,329	-	3,448,329
Other special projects and programs	4,500,884	1,751,980	6,252,864
Debt service	-	1,964,338	1,964,338
Capital projects	2,865,018	42,738,549	45,603,567
Unrestricted	(47,802,211)	45,712,359	(2,089,852)
Total net position	\$ 296,843,125	\$ 211,586,244	\$ 508,429,369

See accompanying Notes to Basic Financial Statements.

City of Merced
Statement of Activities
For the year ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental activities:					
General government	\$ 5,720,543	\$ 2,021,353	\$ 1,750,629	\$ 39,598	\$ 3,811,580
Public safety	33,442,577	2,773,954	840,952	-	3,614,906
Public works	18,853,287	6,225,058	1,543,388	2,559,739	10,328,185
Culture and recreation	2,260,728	464,590	-	-	464,590
Interest on long-term debt	650,095	-	-	-	-
Total governmental activities	60,927,230	11,484,955	4,134,969	2,599,337	18,219,261
Business-type activities:					
Wastewater system	18,428,338	19,144,865	9,990	-	19,154,855
Water system	13,838,624	13,207,297	-	995,251	14,202,548
Refuse collection system	12,184,751	13,228,901	45,397	-	13,274,298
Merced municipal airport	977,044	437,875	124,260	-	562,135
Total business-type activities	45,428,757	46,018,938	179,647	995,251	47,193,836
Total primary government	\$ 106,355,987	\$ 57,503,893	\$ 4,314,616	\$ 3,594,588	\$ 65,413,097
General Revenues:					
Taxes:					
Property					
Sales					
Franchise taxes					
Transient lodging taxes					
Business license tax					
Business improvement tax					
Cost recovery impact study					
Total taxes					
Investment earnings					
Other revenues					
Transfers					
Extraordinary item - RDA dissolution					
Total general revenues, transfers, and extraordinary item					
Change in net position					
Net position - beginning of year					
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
\$ (1,908,963)	\$ -	\$ (1,908,963)
(29,827,671)	-	(29,827,671)
(8,525,102)	-	(8,525,102)
(1,796,138)	-	(1,796,138)
(650,095)	-	(650,095)
<u>(42,707,969)</u>	<u>-</u>	<u>(42,707,969)</u>
-	726,517	726,517
-	363,924	363,924
-	1,089,547	1,089,547
-	(414,909)	(414,909)
<u>-</u>	<u>1,765,079</u>	<u>1,765,079</u>
<u>(42,707,969)</u>	<u>1,765,079</u>	<u>(40,942,890)</u>
14,252,945	34,059	14,287,004
18,291,163	-	18,291,163
1,627,975	-	1,627,975
1,609,448	-	1,609,448
1,206,299	-	1,206,299
74,405	-	74,405
341,400	-	341,400
<u>37,403,635</u>	<u>34,059</u>	<u>37,437,694</u>
297,700	470,150	767,850
51,781	-	51,781
(96,539)	96,539	-
<u>(1,627,849)</u>	<u>-</u>	<u>(1,627,849)</u>
<u>36,028,728</u>	<u>600,748</u>	<u>36,629,476</u>
(6,679,241)	2,365,827	(4,313,414)
<u>303,522,366</u>	<u>209,220,417</u>	<u>512,742,783</u>
<u>\$ 296,843,125</u>	<u>\$ 211,586,244</u>	<u>\$ 508,429,369</u>

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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, the Revenue Stabilization, and the Economic Development Opportunity Funds have been reported with the General Fund because a substantial portion of the inflows are not derived from restricted or committed revenue sources and do 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, 2017

	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	\$ 17,501,998	\$ 891,789	\$ 300,351	\$ 985,351
Restricted cash held by fiscal agents	412	-	-	-
Receivables:				
Accounts	803,846	421	5,681	-
Due from other government	2,985,144	247,570	1,178,977	-
Interest	38,476	-	-	1,693
Due from other funds	-	-	-	-
Inventory	63,650	-	-	-
Land held for resale	-	46,927	-	645,617
Notes receivable	-	20,275,306	-	7,991,057
Advances to other funds	1,710,991	-	-	-
Total assets	\$ 23,104,517	\$ 21,462,013	\$ 1,485,009	\$ 9,623,718
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 186,278	\$ 2,371	\$ 35,223	\$ -
Payroll liabilities	844,979	8,672	133,653	-
Unearned revenues	1,098,699	54,989	-	-
Due to other funds	-	-	-	-
Advances from other funds	-	-	-	-
Other liabilities	7,280	3,538	-	-
Total liabilities	2,137,236	69,570	168,876	-
Fund Balances:				
Nonspendable	1,774,641	-	-	-
Restricted	4,000,000	21,392,443	-	9,623,718
Committed	-	-	1,316,133	-
Assigned	3,652,862	-	-	-
Unassigned	11,539,778	-	-	-
Total fund balances	20,967,281	21,392,443	1,316,133	9,623,718
Total liabilities and fund balances	\$ 23,104,517	\$ 21,462,013	\$ 1,485,009	\$ 9,623,718

See accompanying Notes to Basic Financial Statement:

Streets and Signals Capital Projects Fund	Non-Major Governmental Funds	Total
\$ 1,757,226	\$ 22,253,098	\$ 43,689,813
-	-	412
-	1,063,810	1,873,758
586,532	1,782,818	6,781,041
3,054	36,284	79,507
-	111,737	111,737
-	-	63,650
-	691,702	1,384,246
-	4,265,228	32,531,591
-	-	1,710,991
<u>\$ 2,346,812</u>	<u>\$ 30,204,677</u>	<u>\$ 88,226,746</u>

\$ 170,810	\$ 209,826	\$ 604,508
-	114,436	1,101,740
-	2,210,902	3,364,590
-	111,737	111,737
-	1,710,991	1,710,991
-	49,067	59,885
<u>170,810</u>	<u>4,406,959</u>	<u>6,953,451</u>

-	-	1,774,641
2,176,002	20,838,106	58,030,269
-	5,030,355	6,346,488
-	-	3,652,862
-	(70,743)	11,469,035
<u>2,176,002</u>	<u>25,797,718</u>	<u>81,273,295</u>
<u>\$ 2,346,812</u>	<u>\$ 30,204,677</u>	<u>\$ 88,226,746</u>

City of Merced
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2017

Total Fund Balances - Total Governmental Funds \$ 81,273,295

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

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

	Government- Wide Statement of Net Position	Internal Service Funds	
Non-depreciable	\$ 92,884,608	\$ (53,982)	92,830,626
Depreciable, net	195,579,477	(8,881,865)	186,697,612
Total capital assets	\$ 288,464,085	\$ (8,935,847)	279,528,238

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable is not reported as a liability in Governmental Funds Balance Sheet. (54,324)

Internal service funds are 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 are included in governmental activities in the Government-Wide Statement of Net Position. 7,163,734

Employer contributions for pension are recorded as expenditures in the governmental funds. However, in the Government-Wide Financial Statement these contributions are deferred. 4,818,793

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. 3,164,979

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

	Government- Wide Statement of Net Position	Internal Service Funds	Total
Compensated absences, due within one year	\$ (520,703)	\$ 43,843	\$ (476,860)
Long term debt, due within one year	(1,111,271)	431,271	(680,000)
Compensated absences, due in more than one year	(2,750,300)	395,993	(2,354,307)
Long term debt, due in more than one year	(10,694,773)	5,144,773	(5,550,000)
Net other postemployment benefits obligation	(21,719,269)	2,664,022	(19,055,247)
Net pension liability	(57,387,952)	6,452,776	(50,935,176)
Total long-term liabilities	\$ (98,130,067)	\$ 19,078,477	(79,051,590)
Net Position of Governmental Activities			\$ 296,843,125

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City of Merced
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2017

	General Fund	Housing Special Revenue Fund	Measure C Special Revenue Fund	Low and Moderate Income Housing Special Revenue Fund
REVENUES:				
Taxes	\$ 30,444,057	\$ -	\$ 5,994,851	\$ -
Intergovernmental	656,850	1,359,733	153,351	-
Licenses and permits	19,694	-	-	-
Use of money and property	149,187	61,579	1,743	37,345
Service charges	5,672,901	369,411	138,640	-
Fines, forfeitures and penalties	246,905	-	-	-
Other revenues	717,368	6,654	-	-
Total revenues	37,906,962	1,797,377	6,288,585	37,345
EXPENDITURES:				
Current:				
General government	5,429,992	1,093,153	-	28,561
Public safety	29,711,789	-	5,792,918	-
Public works	1,491,129	-	8,268	-
Culture and recreation	1,367,983	-	-	-
Total current operating	38,000,893	1,093,153	5,801,186	28,561
Capital outlay	96,770	115,073	-	-
Debt service:				
Principal	425,000	-	-	-
Interest and fiscal charges	313,122	-	-	-
Total expenditures	38,835,785	1,208,226	5,801,186	28,561
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(928,823)	589,151	487,399	8,784
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of assets	3,583	-	-	-
Transfers in	3,645,323	3,081	46,425	-
Transfers out	(881,948)	(372,941)	(446,894)	-
Total other financing sources (uses)	2,766,958	(369,860)	(400,469)	-
EXTRAORDINARY ITEM:				
RDA dissolution	-	-	-	(958,046)
Net change in fund balances	1,838,135	219,291	86,930	(949,262)
FUND BALANCES:				
Beginning of year	19,129,146	21,173,152	1,229,203	10,572,980
End of year	<u>\$ 20,967,281</u>	<u>\$ 21,392,443</u>	<u>\$ 1,316,133</u>	<u>\$ 9,623,718</u>

See accompanying Notes to Basic Financial Statements.

Streets and Signals Capital Projects Fund	Non-Major Governmental Funds	Total
\$ -	\$ 964,727	\$ 37,403,635
893,684	3,576,683	6,640,301
-	1,046,567	1,066,261
6,806	328,380	585,040
-	7,127,144	13,308,096
-	3,669	250,574
39,255	564,235	1,327,512
<u>939,745</u>	<u>13,611,405</u>	<u>60,581,419</u>
-	2,832,672	9,384,378
-	224,323	35,729,030
-	5,111,098	6,610,495
-	3,576	1,371,559
-	8,171,669	53,095,462
1,266,341	102,686	1,580,870
-	200,000	625,000
-	82,350	395,472
<u>1,266,341</u>	<u>8,556,705</u>	<u>55,696,804</u>
<u>(326,596)</u>	<u>5,054,700</u>	<u>4,884,615</u>
-	139	3,722
726,328	1,544,445	5,965,602
(160,608)	(4,659,998)	(6,522,389)
565,720	(3,115,414)	(553,065)
-	(389,744)	(1,347,790)
239,124	1,549,542	2,983,760
1,936,878	24,248,176	78,289,535
<u>\$ 2,176,002</u>	<u>\$ 25,797,718</u>	<u>\$ 81,273,295</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, 2017

Net Change in Fund Balances - Total Governmental Funds	\$ 2,983,760
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period, net of internal service funds of \$2,525,771.	3,927,851
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds. This amount is net of internal service funds of \$2,117,227.	(14,338,161)
In the Statement of Activities, only the gain or (loss) on the sale of capital assets is reported, whereas in the governmental funds proceeds from sales increases financial resources. This represents the difference between proceeds and the loss on disposal of capital assets.	(398,730)
Accrued compensated leave payable is an expenditure in governmental funds, but the accrued payable increased compensated leave liabilities in the Government-Wide Statement of Net Position.	186,639
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.	792,869
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 is an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position.	
Long-term debt repayments	625,000
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.	6,300
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.	4,818,793
Pension expense is recorded as incurred in the Government-Wide Statement of Activities, however pension expense is not recognized in the governmental funds.	(4,347,999)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The net expense of the internal service funds is reported with governmental activities.	(935,563)
Change in Net Position of Governmental Activities	<u>\$ (6,679,241)</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, 2017

	Business - Type Activities - Enterprise Funds			
	Wastewater System	Water System	Refuse Collection System	Non-Major Enterprise Funds
ASSETS				
Current assets:				
Cash, cash equivalent and investments	\$ 45,444,005	\$ 57,422,336	\$ 7,288,983	\$ 160,591
Restricted cash and investments	10	4	-	-
Accounts receivable, net	1,187,825	979,469	116,986	31,181
Due from other government	3,372,389	5,327,735	-	-
Interest receivable	88,589	111,023	13,978	-
Prepaid items	-	-	-	-
Inventory	-	219,487	-	-
Total current assets	<u>50,092,818</u>	<u>64,060,054</u>	<u>7,419,947</u>	<u>191,772</u>
Noncurrent assets:				
Notes receivable - private parties	24,637	13,257	-	-
Advances to other funds	-	81,147	-	-
Capital assets:				
Non-depreciable	7,655,258	9,044,052	-	17,798
Depreciable, net	<u>96,070,771</u>	<u>38,772,953</u>	<u>434,007</u>	<u>5,195,640</u>
Total capital assets	<u>103,726,029</u>	<u>47,817,005</u>	<u>434,007</u>	<u>5,213,438</u>
Total noncurrent assets	<u>103,750,666</u>	<u>47,911,409</u>	<u>434,007</u>	<u>5,213,438</u>
Total assets	<u>153,843,484</u>	<u>111,971,463</u>	<u>7,853,954</u>	<u>5,405,210</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pension	1,224,169	767,180	1,125,302	55,404
Total deferred outflows of resources	<u>1,224,169</u>	<u>767,180</u>	<u>1,125,302</u>	<u>55,404</u>
LIABILITIES				
Current liabilities:				
Accounts payable	931,688	652,680	232,127	1,452
Payroll payable	143,377	105,621	156,199	7,636
Unearned revenue	874,777	81,293	10,162	-
Accrued interest payable	322,659	76,256	-	-
Deposits and other liabilities	358,854	628,118	311,918	27,380
Compensated absences, due within one year	56,040	23,834	23,679	4,521
Claims payable, due within one year	-	-	-	-
Long-term debt, due within one year	2,556,410	505,250	-	-
Total current liabilities	<u>5,243,805</u>	<u>2,073,052</u>	<u>734,085</u>	<u>40,989</u>
Noncurrent liabilities:				
Advances from other funds	-	-	-	81,147
Compensated absences, due in more than one year	317,201	228,209	320,528	17,248
Claims payable, due in more than one year	-	-	-	-
Long-term debt, due in more than one year	34,630,840	6,606,166	-	-
Net other postemployment benefits obligation	2,063,722	1,443,949	2,069,626	106,435
Net pension liability	5,246,930	3,478,903	4,808,073	406,988
Total noncurrent liabilities	<u>42,258,693</u>	<u>11,757,227</u>	<u>7,198,227</u>	<u>611,818</u>
Total liabilities	<u>47,502,498</u>	<u>13,830,279</u>	<u>7,932,312</u>	<u>652,807</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pension	279,276	185,170	255,917	21,663
Total deferred inflows of resources	<u>279,276</u>	<u>185,170</u>	<u>255,917</u>	<u>21,663</u>
NET POSITION				
Net investment in capital assets	69,867,654	43,903,919	434,007	5,213,438
Restricted:				
Other special projects and programs	829,331	843,916	67,303	11,430
Debt service	1,951,081	13,257	-	-
Capital projects	11,489,090	31,119,009	130,450	-
Unrestricted	23,148,723	22,843,093	159,267	(438,724)
Total net position	<u>\$ 107,285,879</u>	<u>\$ 98,723,194</u>	<u>\$ 791,027</u>	<u>\$ 4,786,144</u>

See accompanying Notes to Basic Financial Statements.

<u>Total</u>	<u>Governmental Activities Internal Service Funds</u>
\$ 110,315,915	\$ 18,912,522
14	-
2,315,461	73,137
8,700,124	2,674
213,590	28,164
-	7,304
219,487	175,862
<u>121,764,591</u>	<u>19,199,663</u>
37,894	-
81,147	-
16,717,108	53,982
<u>140,473,371</u>	<u>8,881,865</u>
<u>157,190,479</u>	<u>8,935,847</u>
<u>157,309,520</u>	<u>8,935,847</u>
<u>279,074,111</u>	<u>28,135,510</u>
3,172,055	1,194,070
<u>3,172,055</u>	<u>1,194,070</u>
1,817,947	335,761
412,833	157,454
966,232	-
398,915	77,700
1,326,270	3,671
108,074	43,843
-	2,169,324
3,061,660	431,271
<u>8,091,931</u>	<u>3,219,024</u>
81,147	-
883,186	395,993
-	3,945,799
41,237,006	5,144,773
5,683,732	2,664,022
13,940,894	6,452,776
<u>61,825,965</u>	<u>18,603,363</u>
<u>69,917,896</u>	<u>21,822,387</u>
742,026	343,459
<u>742,026</u>	<u>343,459</u>
119,419,018	7,086,831
1,751,980	-
1,964,338	-
42,738,549	-
45,712,359	76,903
<u>\$ 211,586,244</u>	<u>\$ 7,163,734</u>

City of Merced
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the year ended June 30, 2017

	Business - Type Activities - Enterprise Funds			
	Wastewater System	Water System	Refuse Collection System	Non-Major Enterprise Funds
OPERATING REVENUES:				
Charges for services	\$ 18,733,491	\$ 12,641,450	\$ 13,150,710	\$ 433,525
Other revenues	411,374	565,847	78,191	4,350
Total operating revenues	19,144,865	13,207,297	13,228,901	437,875
OPERATING EXPENSES:				
Personnel services	4,192,767	2,862,508	4,429,859	180,177
Materials, supplies and other services	6,171,366	7,425,597	7,723,885	334,966
Depreciation	7,308,399	3,294,697	31,007	455,256
Total operating expenses	17,672,532	13,582,802	12,184,751	970,399
OPERATING INCOME (LOSS):	1,472,333	(375,505)	1,044,150	(532,524)
NONOPERATING REVENUES (EXPENSES):				
Property taxes	-	-	-	34,059
Intergovernmental revenues	9,990	995,251	45,397	124,260
Interest and investment earnings	189,482	246,802	33,260	606
Gain (loss) on disposition of capital assets	2,130	-	-	-
Interest and related expenses	(757,936)	(255,822)	-	(6,645)
Total nonoperating revenues (expenses)	(556,334)	986,231	78,657	152,280
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	915,999	610,726	1,122,807	(380,244)
Capital contributions	-	-	-	-
Transfers in	18,634	269,010	33,549	95,490
Transfers out	-	(40,931)	(269,010)	(10,203)
Total transfers and capital contributions	18,634	228,079	(235,461)	85,287
Change in net position	934,633	838,805	887,346	(294,957)
NET POSITION:				
Beginning of year	106,351,246	97,884,389	(96,319)	5,081,101
End of year	<u>\$ 107,285,879</u>	<u>\$ 98,723,194</u>	<u>\$ 791,027</u>	<u>\$ 4,786,144</u>

See accompanying Notes to Basic Financial Statements.

Total	Governmental Activities Internal Service Funds
\$ 44,959,176	\$ 23,630,889
1,059,762	147,807
<u>46,018,938</u>	<u>23,778,696</u>
11,665,311	5,132,778
21,655,814	17,747,129
<u>11,089,359</u>	<u>2,117,227</u>
<u>44,410,484</u>	<u>24,997,134</u>
<u>1,608,454</u>	<u>(1,218,438)</u>
34,059	-
1,174,898	2,674
470,150	80,873
2,130	2
<u>(1,020,403)</u>	<u>(260,922)</u>
<u>660,834</u>	<u>(177,373)</u>
<u>2,269,288</u>	<u>(1,395,811)</u>
-	-
416,683	612,564
<u>(320,144)</u>	<u>(152,316)</u>
<u>96,539</u>	<u>460,248</u>
2,365,827	(935,563)
<u>209,220,417</u>	<u>8,099,297</u>
<u>\$ 211,586,244</u>	<u>\$ 7,163,734</u>

City of Merced
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2017

	Business - Type Activities - Enterprise Funds		
	Wastewater System	Water System	Refuse Collection System
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 19,546,536	\$ 13,035,518	\$ 13,207,285
Payments to suppliers and users	(5,534,762)	(7,558,945)	(7,693,418)
Payments to employees	(4,135,354)	(2,899,793)	(4,408,996)
Net cash provided by (used in) operating activities	9,876,420	2,576,780	1,104,871
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Tax proceeds not attributable to capital	-	-	-
Cash receipts from other funds	18,634	316,309	33,549
Cash payments to other funds	-	(40,931)	(269,010)
Net cash provided by (used in) noncapital financing activities	18,634	275,378	(235,461)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of capital assets	(2,452,561)	(2,077,967)	(267,060)
Proceeds from sale of capital assets	27,699	-	-
Capital grants and cash contributions received	9,990	995,251	45,397
Interest paid	(778,473)	(259,442)	-
Principal payments - long-term debt	(2,593,950)	(529,385)	-
Net cash provided by (used in) capital and related financing activities	(5,787,295)	(1,871,543)	(221,663)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	152,305	205,440	27,151
Net cash provided by investing activities	152,305	205,440	27,151
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,260,064	1,186,055	674,898
CASH AND CASH EQUIVALENTS:			
Beginning of year	41,183,951	56,236,285	6,614,085
End of year	<u>\$ 45,444,015</u>	<u>\$ 57,422,340</u>	<u>\$ 7,288,983</u>
FINANCIAL STATEMENT PRESENTATION:			
Cash and investments	\$ 45,444,005	\$ 57,422,336	\$ 7,288,983
Restricted cash and investments	10	4	-
Total	<u>\$ 45,444,015</u>	<u>\$ 57,422,340</u>	<u>\$ 7,288,983</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	\$ 1,472,333	\$ (375,505)	\$ 1,044,150
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	7,308,399	3,294,697	31,007
Changes in assets and liabilities:			
Receivables	435,293	(204,287)	22,054
Inventory	-	16,581	-
Prepaid expenses	-	-	-
Accounts payable	612,919	(276,492)	771
Payroll liabilities	15,200	8,313	19,579
Unearned revenue	(33,622)	32,508	(43,670)
Other liabilities	23,685	126,563	29,696
Claims payable	-	-	-
Compensated absences	33,440	12,538	6,257
Deferred outflows of resources - pension	(827,138)	(480,028)	(730,422)
Deferred inflows of resources - pension	(166,574)	(169,343)	(236,564)
Net other postemployment benefits	23,043	(48,498)	8,878
Net pension liability	979,442	639,733	953,135
Total adjustments	8,404,087	2,952,285	60,721
Net cash provided by (used in) operating activities	<u>\$ 9,876,420</u>	<u>\$ 2,576,780</u>	<u>\$ 1,104,871</u>

See accompanying Notes to Basic Financial Statements.

Non-Major Enterprise Funds		Total	Governmental Activities Internal Service Funds
\$ 418,366	\$ 46,207,705	\$ 23,794,406	
(349,689)	(21,136,814)	(17,606,450)	
(206,898)	(11,651,041)	(5,206,150)	
(138,221)	13,419,850	981,806	
34,059	34,059	-	
48,191	416,683	612,564	
(10,203)	(320,144)	(152,316)	
72,047	130,598	460,248	
-	(4,797,588)	(2,525,771)	
-	27,699	2	
124,260	1,174,898	2,674	
(6,645)	(1,044,560)	(266,351)	
-	(3,123,335)	(389,620)	
117,615	(7,762,886)	(3,179,066)	
606	385,502	74,212	
606	385,502	74,212	
52,047	6,173,064	(1,662,800)	
108,544	104,142,865	20,575,322	
\$ 160,591	\$ 110,315,929	\$ 18,912,522	
\$ 160,591	\$ 110,315,915	\$ 18,912,522	
-	14	-	
\$ 160,591	\$ 110,315,929	\$ 18,912,522	
\$ (532,524)	\$ 1,608,454	\$ (1,218,438)	
455,256	11,089,359	2,117,227	
(19,509)	233,551	15,710	
-	16,581	(4,086)	
-	-	(68)	
(13,689)	323,509	11,984	
1,779	44,871	11,128	
-	(44,784)	-	
(1,034)	178,910	40	
-	-	132,809	
11,511	63,746	19,890	
(31,386)	(2,068,974)	(743,096)	
(5,396)	(577,877)	(314,177)	
(39,495)	(56,072)	(89,057)	
36,266	2,608,576	1,041,940	
394,303	11,811,396	2,200,244	
\$ (138,221)	\$ 13,419,850	\$ 981,806	

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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, 2017

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash, cash equivalents and investments	\$ 184,935	\$ 3,103,413
Restricted cash held by fiscal agent	-	2,820,704
Receivables	-	762,929
Deposits	-	5,000
Total assets	\$ 184,935	\$ 6,692,046
LIABILITIES		
Deposits	\$ -	\$ 2,339,452
Other liabilities	-	198,264
Due to other agencies	-	801,396
Due to bondholders	-	3,352,934
Total liabilities	-	\$ 6,692,046
NET POSITION		
Held in trust for other purposes	184,935	
Total net position	\$ 184,935	

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, 2017

	Private Purpose Trust Funds
ADDITIONS:	
Investment income	\$ 1,416
Miscellaneous	27,907
Total additions	<u>29,323</u>
DEDUCTIONS:	
Administration	80,862
Total deductions	<u>80,862</u>
Change in net position	(51,539)
NET POSITION:	
Beginning of year	<u>236,474</u>
End of year	<u>\$ 184,935</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, 2017

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 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 City was incorporated April 1, 1889 while 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 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 is a separate public entity and provides for the financing of costs and expenses of acquisition, construction and installation of authorized public capital improvements for the members through any financing procedures legally available to the members. All powers are vested in the governing board. The 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. Separately issued financial statements for the Authority are not prepared.

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. The Parking Authority was created on April 18, 2011, by City and Authority Resolutions. 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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Reporting Entity, Continued

The City provides accounting and investing services for the Merced Area Gang and Narcotic Enforcement Team 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. Basis of Presentation

Government-Wide Fund Financial Statements

The Statement of Net Position and the Statement of Activities report information on all of the activities of the government, except for fiduciary activities. 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.

Fund Financial Statements

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.

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 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, Revenue Stabilization, and Economic Development Opportunity Funds have been reported with the General Fund because a substantial portion of the inflows are not derived from restricted or committed revenue sources and do not meet the definition of a Special Revenue Fund.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation, Continued

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.

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

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

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 and Refuse Capital Equipment Funds.

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 on a cost reimbursement basis. The City has Internal Service Funds for workers' compensation,

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation, Continued

liability and unemployment insurance, employee benefits, fleet management and replacement, facility maintenance, support services, personal computer replacement, and public works administration.

The Private Purpose Trust Funds are used to account for resources legally held in trust for the Task Force Trust, Youth Programs Endowment, Wahnetta 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.

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.

C. Basis of Accounting

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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Basis of Accounting, Continued

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, 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 all revenues, except sales and use tax, to be available if collected within 60 days. Sales and Use Tax 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.

D. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents consist of cash on hand and demand deposits and are stated at cost. All other investments are stated at fair value.

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.

The City participates in the Local Agency Investment Fund (LAIF), an investment pool managed by the State of California. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments.

E. Receivables

All receivables are shown net of an allowance for doubtful accounts. Service charge revenues for water, sewer and refuse collection are recorded when 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.

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."

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 as the following:

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

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

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

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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Capital Assets, Continued

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

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

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.

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.

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 and Fund Financial Statements, unearned revenue is recorded for transactions for which revenues have not been earned.

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, 2017

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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

N. Net Position and Fund Equity, Continued

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.

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 2017, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*– The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans 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 (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this statement were not applicable to the City.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Q. New Accounting Pronouncements, Continued

- GASB Statement No. 77, *Tax Abatement Disclosure*- This Statement addresses the financial statements prepared by state and local governments in conformity with generally accepted accounting principles providing citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. There was no impact on net position as a result of implementation of this statement.

- GASB Statement No. 78, *Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans*- The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this statement were not applicable to the City.

- GASB Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14* - The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this statement were not applicable to the City.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

2. CASH AND INVESTMENTS

A. Summary of Cash and Investments

The following is a summary of pooled cash and investments, including restricted cash and investments at June 30, 2017:

	Government-Wide Statement of Net Position			Fund Financials	
	Governmental Activities	Business-Type Activities	Total	Fiduciary Funds Statement of Net Position	Total
Cash and investments	\$ 62,602,335	\$ 110,315,915	\$ 172,918,250	\$ 3,288,348	\$ 176,206,598
Restricted cash held by fiscal agent	412	14	426	2,820,704	2,821,130

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

B. 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, 2017 was \$(444,820).

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, 2017 are described on the following page.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

2. CASH AND INVESTMENTS, Continued

B. Fair Value of Investments, Continued

Investment Type	Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Securities of U.S. Government				
Treasury and Agencies:				
Federal Farm Credit Bank (FFCB)	\$ 4,987,650	\$ -	\$ 4,987,650	\$ -
Federal Home Loan Banks (FHLB)	19,961,050	-	19,961,050	-
Federal Home Loan Mortg Corp Notes (FHLMC)	9,977,550	-	9,977,550	-
Federal National Mortg Assoc Notes (FNMA)	24,934,400	-	24,934,400	-
U.S. Treasuries	74,731,950	-	74,731,950	-
State of California Obligations	3,934,991	-	3,934,991	-
Total investments subject to leveling	138,527,591	\$ -	\$ 138,527,591	\$ -
Investments not subject to leveling:				
Local Agency Investment Fund	33,521,740			
Public Investment Money Market Fund	1,298,247			
Money Market Funds	2,688,469			
Commercial Paper	1,269,701			
Certificates of Deposit	1,500,472			
Total Investments	\$ 178,806,220			
Investments held by the City	\$ 175,985,090			
Investments held by fiscal agent	2,821,130			
Total Investments	\$ 178,806,220			

Treasury 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.

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

C. Investments

The City is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by the California Government Code with oversight by the Treasurer of the State of California. At June 30, 2017, LAIF 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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

2. CASH AND INVESTMENTS, Continued

C. Investments, Continued

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, 2017, the City had \$33,268,984 invested in LAIF, which had invested 2.89% of the pooled investment funds in Medium-term and Short-term Structured Notes and Asset-Backed Securities as compared to 2.81% in the previous year. The LAIF fair value factor of 0.998940671 was used to calculate the fair value of the investments in LAIF.

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

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.

Cash and investments, including cash with fiscal agents, held in the City by maturity date at June 30, 2017 are shown on the following page:

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

2. CASH AND INVESTMENTS, Continued

D. Risks, Continued

Cash and Investments	Fair Value	Investment Maturities (in years)	
		Less than 1 year	More than 1 year less than 5 years
Cash:			
Cash Deposits	\$ 217,186	\$ 217,186	\$ -
Petty Cash	4,323	4,323	-
Total cash	221,509	221,509	-
Investments:			
Money Market Funds	2,688,043	2,687,964	-
Certificate of Deposits	1,500,472	1,500,472	-
U.S. Government Agency Securities	134,592,600	104,741,500	29,851,100
State of California Obligations	3,934,991	-	3,934,991
Local Agency Investment Fund (LAIF)	33,268,984	33,268,984	-
Total investments	175,985,090	142,198,920	33,786,091
Total cash and investments	\$ 176,206,599	\$ 142,420,429	\$ 33,786,091
Restricted Cash with Fiscal Agents:			
Commercial Paper	\$ 1,269,701	\$ 1,269,701	\$ -
Public Investment Money Market Fund	1,298,247	1,298,247	-
Local Agency Investment Fund	252,756	252,756	-
Money Market Funds	426	426	-
Total restricted cash with fiscal agents	\$ 2,821,130	\$ 2,821,130	\$ -

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, 2017 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	Aaa
Local Agency Investment Fund	Not rated
Government Obligation Fund	Aa2
Fiscal Agents:	
Commercial Paper	AA
Public Investment Money Market Fund	Aa
Local Agency Investment Fund	Not rated
Money Market Funds	Aaa

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

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	Fair Value	Percent of Total Investments
Federal Home Loan Bank	\$ 19,961,050	11.12%
Federal Home Loan Mortgage Corporation Notes	9,977,550	5.57%
Federal National Mortgage Association	24,934,400	13.85%

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.

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 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.

At June 30, 2017, the carrying amount of the City's cash and cash equivalents were comprised of the general checking account which had a balance of \$217,186 and petty cash of \$4,323. The bank balance in the City's general checking was \$107,237, fully insured and collateralized with securities held by the pledging financial institutions in the City's name as discussed below. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

2. CASH AND INVESTMENTS, Continued

E. 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, 2017, cash and investments with fiscal agents totaled \$2,821,130.

3. RECEIVABLES

A. Government-Wide Financial Statements

At June 30, 2017, the Government-Wide Financial Statements reported the following receivables net of allowances for uncollectible amounts:

	Governmental Activities	Business-Type Activities	Total
	<u> </u>	<u> </u>	<u> </u>
Accounts receivable	\$ 1,946,895	\$ 2,315,461	\$ 4,262,356
Due from other governments	6,783,715	8,700,124	15,483,839
Interest receivable	107,671	213,590	321,261
Total	<u><u>\$ 8,838,281</u></u>	<u><u>\$ 11,229,175</u></u>	<u><u>\$ 20,067,456</u></u>

B. Fund Financial Statements

At June 30, 2017, the fund financial statements show the following receivables:

	Governmental Funds	Enterprise Funds	Internal Service Funds	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Accounts receivable	\$ 1,873,758	\$ 2,315,461	\$ 73,137	\$ 4,262,356
Due from other governments	6,781,041	8,700,124	2,674	15,483,839
Interest receivable	79,507	213,590	28,164	321,261
Total	<u><u>\$ 8,734,306</u></u>	<u><u>\$ 11,229,175</u></u>	<u><u>\$ 103,975</u></u>	<u><u>\$ 20,067,456</u></u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

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, 2017 was as follows:

	Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
<i>Governmental Funds:</i>			
General Fund	\$ 1,999,447	\$ (1,195,601)	\$ 803,846
Housing	421	-	421
Measure C	5,681	-	5,681
Low and Moderate Income Housing	825	(825)	-
Non-Major Funds	1,113,716	(49,906)	1,063,810
Total governmental funds	<u>3,120,090</u>	<u>(1,246,332)</u>	<u>1,873,758</u>
<i>Enterprise Funds:</i>			
Wastewater System	1,268,702	(80,877)	1,187,825
Water System	1,053,913	(74,444)	979,469
Refuse Collection System	183,030	(66,044)	116,986
Non-Major Funds	35,857	(4,676)	31,181
Total enterprise funds	<u>2,541,502</u>	<u>(226,041)</u>	<u>2,315,461</u>
<i>Internal Service Funds</i>	<u>194,860</u>	<u>(121,723)</u>	<u>73,137</u>
Total	<u><u>\$ 5,856,452</u></u>	<u><u>\$ (1,594,096)</u></u>	<u><u>\$ 4,262,356</u></u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

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, 2017 was as follows:

<i>Governmental Funds:</i>	
General Fund	\$ 2,985,144
Housing	247,570
Measure C	1,178,977
Streets and Signals	586,532
Non-Major Funds	<u>1,782,818</u>
Total governmental funds	<u>6,781,041</u>
<i>Enterprise Funds:</i>	
Wastewater System	3,372,389
Water System	<u>5,327,735</u>
Total enterprise funds	<u>8,700,124</u>
<i>Internal Service Funds</i>	<u>2,674</u>
Total	<u><u>\$ 15,483,839</u></u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

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, 2017, was as follows:

<i>Governmental Funds:</i>	
General Fund	\$ 38,476
Low and Moderate Income Housing	1,693
Streets and Signals	3,054
Non-Major Funds	<u>36,284</u>
Total governmental funds	<u>79,507</u>
<i>Enterprise Funds:</i>	
Wastewater System	88,589
Water System	111,023
Refuse Collection System	<u>13,978</u>
Total enterprise funds	<u>213,590</u>
<i>Internal Services Fund</i>	<u>28,164</u>
Total	<u><u>\$ 321,261</u></u>

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, 2017, unearned revenues in the Government-Wide Financial Statements were as follows:

	Governmental Activities	Business-Type Activities	Total
Prepaid business license fees	\$ 1,167,879	\$ -	\$ 1,167,879
Grants	54,989	-	54,989
Service charges received in advance	-	127,021	127,021
Developer credits	<u>2,141,722</u>	<u>839,211</u>	<u>2,980,933</u>
Total	<u><u>\$ 3,364,590</u></u>	<u><u>\$ 966,232</u></u>	<u><u>\$ 4,330,822</u></u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

4. UNEARNED REVENUE, Continued

B. Fund Financial Statements

At June 30, 2017, 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	\$ 1,098,699	\$ -	\$ 69,180	\$ 1,167,879
Grants	-	54,989	-	54,989
Developer Credits	-	-	2,141,722	2,141,722
Total	\$ 1,098,699	\$ 54,989	\$ 2,210,902	\$ 3,364,590

<i>Enterprise Funds:</i>	Wastewater System	Water System	Refuse Collection System	Total
Service charges received in advance	\$ 35,566	\$ 81,293	\$ 10,162	\$ 127,021
Developer credits	839,211	-	-	839,211
Total	\$ 874,777	\$ 81,293	\$ 10,162	\$ 966,232

5. INTERFUND TRANSACTIONS

A. Fund Financial Statements

Due To, Due From

At June 30, 2017, the City had the following short-term interfund receivables and payables:

Receivable Fund	Payable Fund	Governmental Activities
Non-Major Governmental Funds	Non-Major Governmental Funds	\$ 111,737

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, 2017

5. INTERFUND TRANSACTIONS, Continued

A. Fund Financial Statements, Continued

Long-Term Advances

At June 30, 2017, the City had the following interfund long-term advances:

<u>Receivable Fund</u>	<u>Payable Fund</u>	Governmental Activities
General Fund	Non-Major Governmental Funds	<u>\$ 1,710,991</u>
<u>Receivable Fund</u>	<u>Payable Fund</u>	Business-Type Activities
Water System	Non-Major Enterprise Fund	<u>\$ 81,147</u>

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 amounts received by the annual special tax.

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, 2017

5. INTERFUND TRANSACTIONS, Continued

A. Fund Financial Statements, Continued

Interfund Transfers

The composition of interfund transfers for the year ended June 30, 2017 is as follows:

Transfers Out:	Transfers In:										Total
	Governmental Funds					Proprietary Funds					
	General Fund	Housing	Measure C	Streets and Signals	Non-Major Governmental Funds	Wastewater System	Water System	Refuse Collection System	Non-Major Enterprise Funds	Internal Service	
Governmental Funds:											
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 632,767	\$ -	\$ -	\$ -	\$ 76,764	\$ 172,417	\$ 881,948
Housing	11,036	-	-	79,555	282,350	-	-	-	-	-	372,941
Measure C	-	-	-	-	446,346	-	-	-	-	548	446,894
Streets and Signals	-	-	-	-	160,608	-	-	-	-	-	160,608
Non-Major Governmental Funds	3,555,128	-	19,609	646,773	-	-	-	33,549	14,662	390,277	4,659,998
Enterprise Funds:											
Wastewater System	-	-	-	-	-	-	-	-	-	-	-
Water System	-	-	-	-	1,812	-	-	-	-	39,119	40,931
Refuse Collection System	-	-	-	-	-	-	269,010	-	-	-	269,010
Non-Major Enterprise Funds	-	-	-	-	-	-	-	-	-	10,203	10,203
Internal Service	79,159	3,081	26,816	-	20,562	18,634	-	-	4,064	-	152,316
Total	\$ 3,645,323	\$ 3,081	\$ 46,425	\$ 726,328	\$ 1,544,445	\$ 18,634	\$ 269,010	\$ 33,549	\$ 95,490	\$ 612,564	\$ 6,994,849

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, 2017, the City made the following one-time transfers:

- 1) A transfer of \$835,726 from General Fund to Non-major Governmental Funds to purchase a fire truck.
- 2) A transfer of \$1,024,900 from Non-major Governmental Funds to General Fund to establish an Economic Development Opportunity Fund.
- 3) A transfer of \$26,816 from Internal Service Funds to Measure C as a reimbursement of unspent fund balance.
- 4) A transfer of \$20,562 from Internal Service Funds to Non-major Governmental Funds as a reimbursement of unspent fund balance.
- 5) A transfer of \$18,634 from Internal Service Funds to Wastewater System as a reimbursement of unspent fund balance
- 6) A transfer of \$4,065 from Internal Service Funds to Non-major Enterprise Funds as a reimbursement of unspent fund balance.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

6. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2017, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
<i>Non-depreciable Assets:</i>			
Land and improvements	\$ 86,159,407	\$ 2,461,520	\$ 88,620,927
Construction in process	6,725,201	14,255,588	20,980,789
Total non-depreciable assets	92,884,608	16,717,108	109,601,716
<i>Depreciable Assets:</i>			
Buildings and structures	22,363,198	4,575,769	26,938,967
Machinery and equipment	41,563,173	5,166,440	46,729,613
Improvements other than buildings, structures, and land improvements	122,747,310	188,540,420	311,287,730
Infrastructure	373,627,644	41,452,754	415,080,398
Total depreciable assets	560,301,325	239,735,383	800,036,708
Total accumulated depreciation	(364,721,848)	(99,262,012)	(463,983,860)
Total depreciable assets, net	195,579,477	140,473,371	336,052,848
Total	\$ 288,464,085	\$ 157,190,479	\$ 445,654,564

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

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

	Balance July 1, 2016	Additions	Deletions	Reclassification	Balance June 30, 2017
<i>Non-depreciable Assets:</i>					
Land and improvements	\$ 86,467,028	\$ -	\$ (307,621)	\$ -	\$ 86,159,407
Construction in progress	6,971,361	1,428,516	-	(1,674,676)	6,725,201
Total non-depreciable assets	93,438,389	1,428,516	(307,621)	(1,674,676)	92,884,608
<i>Depreciable Assets:</i>					
Buildings and structures	22,519,384	-	(156,186)	-	22,363,198
Machinery and equipment	36,742,922	5,025,106	(204,855)	-	41,563,173
Improvements other than buildings, structures, and land improvements	121,198,774	-	(126,140)	1,674,676	122,747,310
Infrastructure	373,627,644	-	-	-	373,627,644
Total depreciable assets	554,088,724	5,025,106	(487,181)	1,674,676	560,301,325
<i>Accumulated depreciation:</i>					
Buildings and structures	(9,466,257)	(609,094)	65,077	-	(10,010,274)
Machinery and equipment	(31,255,175)	(1,953,198)	204,855	-	(33,003,518)
Improvements other than buildings, structures, and land improvements	(64,176,868)	(4,649,107)	126,140	-	(68,699,835)
Infrastructure	(243,764,232)	(9,243,989)	-	-	(253,008,221)
Total accumulated depreciation	(348,662,532)	(16,455,388)	396,072	-	(364,721,848)
Total depreciable assets, net	205,426,192	(11,430,282)	(91,109)	1,674,676	195,579,477
Total governmental activities, net	\$ 298,864,581	\$ (10,001,766)	\$ (398,730)	\$ -	\$ 288,464,085

As discussed in Note 17, capital assets of \$280,059 have been removed from the basic financial statements.

Governmental activities depreciation expense for capital assets for the year ended June 30, 2017 was as follows:

General government	\$ 1,349,908
Public safety	436,114
Public works	13,782,373
Culture and recreation	886,993
Total depreciation expense	\$ 16,455,388

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

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, 2016	Additions	Deletions	Reclassification	Balance June 30, 2017
<i>Non-depreciable Assets:</i>					
Land and improvements	\$ 2,461,520	\$ -	\$ -	\$ -	\$ 2,461,520
Construction in progress	11,468,040	4,248,250	-	(1,460,702)	14,255,588
Total non-depreciable assets	13,929,560	4,248,250	-	(1,460,702)	16,717,108
<i>Depreciable Assets:</i>					
Buildings and structures	4,575,769	-	-	-	4,575,769
Machinery and equipment	4,642,668	523,772	-	-	5,166,440
Improvements other than buildings, structures, and land improvements	188,254,113	-	-	286,307	188,540,420
Infrastructure	40,278,359	-	-	1,174,395	41,452,754
Total depreciable assets	237,750,909	523,772	-	1,460,702	239,735,383
<i>Accumulated depreciation:</i>					
Buildings and structures	(2,964,302)	(106,833)	-	-	(3,071,135)
Machinery and equipment	(3,271,734)	(455,333)	-	-	(3,727,067)
Improvements other than buildings, structures, and land improvements	(69,336,972)	(9,361,370)	-	-	(78,698,342)
Infrastructure	(12,599,645)	(1,165,823)	-	-	(13,765,468)
Total accumulated depreciation	(88,172,653)	(11,089,359)	-	-	(99,262,012)
Total depreciable assets, net	149,578,256	(10,565,587)	-	1,460,702	140,473,371
Total business-type activities, net	\$ 163,507,816	\$ (6,317,337)	\$ -	\$ -	\$ 157,190,479

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Business-type activities depreciation expense for capital assets for the year ended June 30, 2017 was as follows:

Wastewater System Fund	\$ 7,308,399
Water System Fund	3,294,697
Refuse Collection System	31,007
Merced Municipal Airport	<u>455,256</u>
Total depreciation expense	<u><u>\$ 11,089,359</u></u>

B. Fund Financial Statements

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

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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

7. DEPOSITS AND OTHER LIABILITIES

Deposits and other liabilities consist of amounts accrued in the ordinary course of operations. The other liabilities as of June 30, 2017, were as follows:

A. Government-Wide Financial Statements

	Governmental Activities	Business-Type Activities	Total
Deposits	\$ -	\$ 1,311,481	\$ 1,311,481
Miscellaneous liabilities	63,556	14,789	78,345
Total	\$ 63,556	\$ 1,326,270	\$ 1,389,826

B. Fund Financial Statements

	Deposits	Other Liabilities	Total Deposits and Other Liabilities
<i>Governmental Funds:</i>			
General Fund	\$ -	\$ 7,280	\$ 7,280
Housing	-	3,538	3,538
Non-Major Funds	-	49,067	49,067
Total governmental funds	-	59,885	59,885
<i>Business-Type Activities:</i>			
Wastewater System	358,777	77	358,854
Water System	625,270	2,848	628,118
Refuse Collection System	311,918	-	311,918
Non-Major Funds	15,516	11,864	27,380
Total business-type activities	1,311,481	14,789	1,326,270
<i>Internal Service Funds</i>			
	-	3,671	3,671
Total	\$ 1,311,481	\$ 78,345	\$ 1,389,826

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

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, 2017:

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year	Due in More than One Year
Pension obligation bonds	\$ 5,255,000	\$ -	\$ (425,000)	\$ 4,830,000	\$ 480,000	\$ 4,350,000
Loans payable	1,600,000	-	(200,000)	1,400,000	200,000	1,200,000
Capital lease	5,965,663	-	(389,619)	5,576,044	431,271	5,144,773
Total	\$ 12,820,663	\$ -	\$ (1,014,619)	\$ 11,806,044	\$ 1,111,271	\$ 10,694,773

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, 2017

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
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	755,000	148,579	903,579
2023-2024	1,765,000	158,602	1,923,602
Total	\$ 4,830,000	\$ 1,261,743	\$ 6,091,743

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
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	200,000	28,250	228,250
2023-2024	400,000	22,710	422,710
Total	\$ 1,400,000	\$ 273,760	\$ 1,673,760

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

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, 2017, the accumulated depreciation on the capital assets is \$603,283.

The capital lease agreement balance as of June 30, 2017:

	Stated Interest Rate	Present Value of Remaining Payments as of June 30, 2017
Governmental Activities:		
Facilities	4.50%	\$ 5,576,044

As of June 30, 2017, future minimum lease payments under capital leases are as follows:

Year Ending June 30	Governmental Activities
2018	\$ 679,474
2019	703,799
2020	728,977
2021	755,035
2022	782,005
2023-2027	3,336,454
Total future minimum lease payments	6,985,744
Less: interest	(1,409,700)
Present value of minimum lease payments	\$ 5,576,044

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Business-Type Activities

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year	Due in More than One Year
Revenue bonds payable	\$ 13,275,000	\$ -	\$ (1,255,000)	\$ 12,020,000	\$ 1,295,000	\$ 10,725,000
Unamortized premiums	1,052,454	-	(116,940)	935,514	-	935,514
Loans payable	33,094,548	-	(1,751,396)	31,343,152	1,766,660	29,576,492
Total	\$ 47,422,002	\$ -	\$ (3,123,336)	\$ 44,298,666	\$ 3,061,660	\$ 41,237,006

Revenue Bonds Payable

Revenue bonds payable at June 30, 2017, consisted of the following:

	Bonds Payable	Unamortized Premiums
Water Revenue Bonds	\$ 3,640,000	\$ 273,083
Wastewater Revenue Bonds	8,380,000	662,431
Total	\$ 12,020,000	\$ 935,514

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 debt issuance 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, 2017 totals \$935,514.

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 2016-17 fiscal year, the debt coverage is 7.86 and 7.09 for the Water Fund and Wastewater Fund, respectively.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

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
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	460,000	64,000	597,200
2023-2024	1,500,000	78,600	1,578,600
Total	\$ 3,640,000	\$ 573,200	\$ 4,286,400

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

Year Ending June 30	Principal	Interest	Total
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	1,055,000	201,125	1,256,125
2023-2024	3,495,000	267,625	3,762,625
Total	\$ 8,380,000	\$ 1,692,750	\$ 10,072,750

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Loans Payable

Loans payable at June 30, 2017 consisted of the following:

California Infrastructure and Economic Development Bank (CIEDB)		
Enterprise Fund Installment Sales Agreement	\$	6,527,209
California State Water Resources Control Board		
Clean Water State Revolving Fund		24,815,513
Total	\$	31,342,722

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:

Year Ending June 30	Principal	Interest	Total
2018	\$ 225,000	\$ 203,346	\$ 428,346
2019	250,000	195,818	445,818
2020	275,000	187,496	462,496
2021	300,000	178,383	478,383
2022	325,000	168,476	493,476
2023-2027	1,850,000	677,938	2,527,938
2028-2032	2,275,000	347,069	2,622,069
2033-2034	1,027,209	32,994	1,060,203
Total	\$ 6,527,209	\$ 1,991,520	\$ 8,518,729

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

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:

Year Ending June 30	Principal	Interest	Total
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	1,604,258	185,562	1,789,820
2023-2027	8,265,160	683,938	8,949,098
2028-2032	8,686,336	262,332	8,948,667
Total	\$ 24,815,513	\$ 2,031,351	\$ 26,846,864

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, 2017

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, 2017
1998 Liberty Park Refunding Assessment District	\$ 97,000
Fahrens Park Refunding Assessment District	1,765,000
Bellevue Ranch East CFD	8,985,000
Bellevue Ranch West CFD	6,045,000
Moraga CFD	4,370,000
Total	<u><u>\$ 21,262,000</u></u>

9. COMPENSATED ABSENCES

The City's compensated absences consist of accrued vacation pay and floating holiday pay for all permanent full-time employees. Some employees also accrue compensatory time. The total amount of the accrued liability is recorded in the Government-Wide Financial Statements and charges for compensated absences expense is charged to the General Fund, Development Services Fund, Housing Fund, 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, 2017 is as follows:

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year	Due in More than One Year
Governmental activities	\$ 3,437,752	\$ 613,970	\$ (780,719)	\$ 3,271,003	\$ 520,703	\$ 2,750,300
Business-type activities	927,514	167,115	(103,369)	991,260	108,074	883,186
Total	<u><u>\$ 4,365,266</u></u>	<u><u>\$ 781,085</u></u>	<u><u>\$ (884,088)</u></u>	<u><u>\$ 4,262,263</u></u>	<u><u>\$ 628,777</u></u>	<u><u>\$ 3,633,486</u></u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

10. CLASSIFICATION OF FUND BALANCE

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

	Major Governmental Funds					Non Major Government Funds	Total Government
	General	Housing Special Revenue	Measure C Special Revenue	Low & Moderate Income Housing Special Revenue	Streets and Signals Capital Projects		
Nonspendable:							
Inventory	\$ 63,650	\$ -	\$ -	\$ -	\$ -	\$ -	63,650
Advances receivable	1,710,991	-	-	-	-	-	1,710,991
Total nonspendable	1,774,641	-	-	-	-	-	1,774,641
Restricted for:							
Street and street lights	-	-	-	-	-	4,416,400	4,416,400
Community development	-	-	-	-	-	10,650,185	10,650,185
Housing	-	21,392,443	-	9,623,718	-	832,736	31,848,897
Public safety	-	-	-	-	-	300,556	300,556
Special districts	-	-	-	-	-	3,448,329	3,448,329
Capital projects	-	-	-	-	2,176,002	689,016	2,865,018
Other special projects and programs:							
Cash basis fund	4,000,000	-	-	-	-	-	4,000,000
Other	-	-	-	-	-	500,884	500,884
Total restricted	4,000,000	21,392,443	-	9,623,718	2,176,002	20,838,106	58,030,269
Committed to:							
Street and street lights	-	-	-	-	-	7,886	7,886
Community development	-	-	-	-	-	1,022,183	1,022,183
Public safety	-	-	1,316,133	-	-	-	1,316,133
Housing	-	-	-	-	-	4,000,286	4,000,286
Total committed	-	-	1,316,133	-	-	5,030,355	6,346,488
Assigned to:							
Appropriations in subsequent year	2,151,597	-	-	-	-	-	2,151,597
Encumbrances:							
General government	720,333	-	-	-	-	-	720,333
Public safety	630,342	-	-	-	-	-	630,342
Public works	90,046	-	-	-	-	-	90,046
Culture and recreation	60,544	-	-	-	-	-	60,544
Total assigned	3,652,862	-	-	-	-	-	3,652,862
Unassigned	11,539,778	-	-	-	-	(70,743)	11,469,035
Total Fund Balances	\$ 20,967,281	\$ 21,392,443	\$ 1,316,133	\$ 9,623,718	\$ 2,176,002	\$ 25,797,718	\$ 81,273,295

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

11. OTHER FUND DISCLOSURES

A. Deficit Balances

At June 30, 2017, the funds below had the following deficit fund balance or net position:

Non-major Governmental Funds:

Park Reserve Fund \$ (70,744)

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 for 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.

Internal Service Funds:

Workers' Compensation Insurance Fund \$ (4,961,893)

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 \$ (649,667)

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.

Facility Maintenance Fund \$ (4,328,890)

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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

11. OTHER FUND DISCLOSURES, Continued

A. Deficit Balances, Continued

Internal Service Funds, Continued:

Support Services Fund	\$ (2,552,841)
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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	\$ (1,996,490)
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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.

12. RISK MANAGEMENT

The City maintains internal service funds to account for the City's general liability 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, 2017, claims for general liability and workers' compensation were \$478,762 and \$5,636,361 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 up 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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

12. RISK MANAGEMENT, Continued

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

	General Liability	Workers' Compensation
Liability - June 30, 2015	\$ 1,090,168	\$ 4,963,805
Claims incurred	396,095	904,569
Claims payments	(512,910)	(1,062,970)
Changes to prior year estimates	-	203,556
Liability - June 30, 2016	973,353	5,008,960
Claims incurred	(108,066)	1,719,412
Claims payments	(367,582)	(1,389,028)
Changes to prior year estimates	(18,943)	297,017
Liability - June 30, 2017	<u>\$ 478,762</u>	<u>\$ 5,636,361</u>

13. PENSION PLANS

A. General Information about the Pension Plans

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

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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

13. PENSION PLANS, Continued

A. General Information about the Pension Plans, Continued

The Plans' provisions and benefits in effect at June 30, 2017 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	18.421%	18.421%	18.421%
	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%	10.75%
Required employer contribution rates	28.025%	28.025%	28.025%

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

13. PENSION PLANS, Continued

A. General Information about the Pension Plans, Continued

Employees Covered - As of the measurement date, the following employees were covered by the benefit terms for each Plan:

	<u>Miscellaneous Plan</u>	<u>Safety Plan</u>
Inactive employees or beneficiaries currently receiving benefits	327	168
Inactive employees entitled to but not yet receiving benefits	201	92
Active employees	<u>265</u>	<u>142</u>
Total	<u><u>793</u></u>	<u><u>402</u></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, 2016 (the measurement date), the average active employee contribution rate is 7.710 and 9.095 percent of annual pay, and the employer's contribution rate is 18.421 and 28.025 percent of annual payroll for miscellaneous and safety employees, respectfully. Employer contribution rates may change if plan contracts are amended.

B. Net Pension Liability

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown on the following page.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

13. PENSION PLANS, Continued

B. Net Pension Liability, Continued

Actuarial Assumptions – The June 30, 2015 valuation was rolled forward to determine the June 30, 2016 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%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return (1)	7.50%
Mortality (2)	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) Net of administrative expenses.

(2) 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.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study Report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate – The discount rate used to measure the total pension liability was 7.65 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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

13. PENSION PLANS, Continued

B. Net Pension Liability, Continued

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, 2015.

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	20.0%	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	1.0%	-0.55%	-1.05%
Total	100.0%		

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

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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

13. PENSION PLANS, Continued

C. Changes in the Net Pension Liability

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

Miscellaneous Plan:	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Pension	Net Pension Liability (Asset)
	(a)	(b)	(c) = (a) - (b)
Beginning balance	\$ 126,001,253	\$ 94,945,711	\$ 31,055,542
Change in the year:			
Service cost	2,380,009	-	2,380,009
Interest on the total pension liability	9,435,717	-	9,435,717
Changes in assumptions	-	-	-
Differences between actual and expected experience	(818,329)	-	(818,329)
Contribution - employer	-	2,847,440	(2,847,440)
Contribution - employee	-	1,235,668	(1,235,668)
Net Investment income	-	531,348	(531,348)
Administrative expenses	-	(57,864)	57,864
Benefit payments, including refunds of employee contribution	(6,060,443)	(6,060,443)	-
Net changes	4,936,954	(1,503,851)	6,440,805
Ending at June 30, 2016	\$ 130,938,207	\$ 93,441,860	\$ 37,496,347

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

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	\$ 133,430,856	\$ 105,547,654	\$ 27,883,202
Change in the year:			
Service cost	2,918,262	-	2,918,262
Interest on the total pension liability	9,919,699	-	9,919,699
Changes in assumptions	-	-	-
Differences between actual and expected experience	(2,152,774)	-	(2,152,774)
Contribution - employer	-	3,149,784	(3,149,784)
Contribution - employee	-	1,111,386	(1,111,386)
Net Investment income	-	539,046	(539,046)
Administrative expenses	-	(64,326)	64,326
Benefit payments, including refunds of employee contribution	(6,135,867)	(6,135,867)	-
Net changes	4,549,320	(1,399,977)	5,949,297
Ending at June 30, 2016	\$ 137,980,176	\$ 104,147,677	\$ 33,832,499

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	Total Plans
1% decrease	6.65%	6.65%	6.65%
Net pension liability	\$ 54,780,021	\$ 52,703,094	\$ 107,483,115
Current discount rate	7.65%	7.65%	7.65%
Net pension liability	\$ 37,496,347	\$ 33,832,499	\$ 71,328,846
1% increase	8.65%	8.65%	8.65%
Net pension liability	\$ 23,165,776	\$ 18,288,415	\$ 41,454,191

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, 2017

13. PENSION PLANS, Continued

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

For the year ended June 30, 2017, the City recognized pension expense of \$2,895,016 and \$3,074,532 for Miscellaneous and Safety Plans, respectively. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous Plan		Safety Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,990,034	\$ -	\$ 3,502,161	\$ -
Expected and actual experience	-	(1,085,788)	-	(1,282,827)
Change in assumptions	-	(910,015)	-	(2,750,129)
Net differences between projected and actual earnings on pension plan investments	5,069,194	-	5,731,782	-
Total	\$ 8,059,228	\$ (1,995,803)	\$ 9,233,943	\$ (4,032,956)

\$2,990,034 and \$3,502,161 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, 2018. 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	Miscellaneous Plan	Safety Plan
	Deferred Outflows/(Inflows) of Resources	Deferred Outflows/(Inflows) of Resources
2017	\$ (572,695)	\$ (722,533)
2018	41,533	(722,533)
2019	2,276,782	1,803,128
2020	1,327,771	1,340,764

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

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 \$1,903,833 in the California Employers' Retiree Benefit Trust (CERBT) at the end of the fiscal year ending June 30, 2017. 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 422 full-time City employees, 152 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, 2017

14. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS, Continued

For the fiscal year ending June 30, 2017, the City contributed \$1,426,999 to the plan, including \$1,300,999 in medical premium payments for retirees and \$126,000 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	\$ 2,390,000
Interest on net OPEB obligation	1,134,000
Adjustment to annual required contribution	<u>(3,035,000)</u>
Annual OPEB cost (expense)	489,000
Benefit payments made outside of CERBT	<u>(1,426,999)</u>
Increase in net OPEB obligation	(937,999)
Net OPEB obligation - beginning of year	<u>28,341,000</u>
Net OPEB obligation - end of year	<u><u>\$ 27,403,001</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 2017 and the two preceding fiscal years were as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/2015	\$ 3,064,000	49.9%	\$ 26,850,000
6/30/2016	3,110,000	52.1%	28,341,000
6/30/2017	489,000	291.8%	27,403,001

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

14. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS, Continued

Funded Status and Funding Progress – The funded status of the Plan as of June 30, 2017, the Plan’s most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 33,629,000
Actuarial value of Plan assets	(1,925,000)
Unfunded actuarial accrued liability (UAAL)	<u>\$ 31,704,000</u>
Funded ratio (actuarial value of Plan assets/AAL)	5.7%
Covered payroll (eligible action Plan participants)	\$ 10,827,000
UAAL as a percentage of covered payroll	292.8%

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

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

In the June 30, 2017 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses), which is the expected long-term investment return on the City’s investments, a 2.75% general inflation assumption, and an annual pre-Medicare medical cost increase rate of 7.5% for 2019, grading down to 7.0% for 2022 and after. The post-Medicare medical cost increase rate is 6.5% for 2019 grading down to 6.1% for 2022 and after. The caps on the City-paid medical benefits were assumed to have no future increases. 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, 2017 was 21 years.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2017

15. COMMITMENTS AND CONTINGENT LIABILITIES

Project Commitments

As of June 30, 2017, the City had the following outstanding commitments that exceeded \$500,000:

Viking Construction Company	\$ 2,246,320
National Meter & Automation	679,332
Merced County Department of Public Works	625,230
Mozingo Construction, Inc	601,917
Total	<u><u>\$ 4,152,799</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. 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 nonhousing 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 2017, the Authority removed \$1,627,849 of assets from the books and transferred them to the Designated Local Authority. The assets transferred included \$1,347,790 of property held for resale and \$280,059 of land that was included as part of the City’s capital assets.

REQUIRED SUPPLEMENTARY INFORMATION

City of Merced
Required Supplementary Information
For the year ended June 30, 2017

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 and is adopted by resolution 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, 2017, 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, 2017

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	\$ 6,137,420	\$ 7,637,420	\$ 7,750,451	\$ 113,031
Unsecured	480,400	480,400	435,194	(45,206)
Supplemental roll:				
Prior year - unsecured	6,000	6,000	19,658	13,658
Prior year - supplemental roll	95,400	95,400	104,080	8,680
Sales and use	11,816,000	11,816,000	11,518,504	(297,496)
Transient occupancy tax	1,150,000	1,150,000	1,609,448	459,448
Franchise	1,605,000	1,605,000	1,627,975	22,975
Business license	1,289,000	1,289,000	1,206,299	(82,701)
Cost revenue impact study fee	302,575	302,575	341,400	38,825
Real property transfer	188,000	188,000	186,775	(1,225)
Vehicle in lieu backfill	5,893,600	5,893,600	5,644,273	(249,327)
Total taxes	<u>28,963,395</u>	<u>30,463,395</u>	<u>30,444,057</u>	<u>(19,338)</u>
Intergovernmental:				
Motor vehicle in lieu tax	34,000	34,000	37,615	3,615
Homeowners property tax relief	60,000	60,000	62,837	2,837
Police standards and training	35,000	35,000	20,480	(14,520)
Other state grants	56,838	393,705	270,561	(123,144)
Other federal grants	58,745	362,861	196,346	(166,515)
Office BJA - bulletproof vest grant	12,426	29,166	11,659	(17,507)
State mandated cost reimbursement	55,499	55,499	57,352	1,853
Total intergovernmental	<u>312,508</u>	<u>970,231</u>	<u>656,850</u>	<u>(313,381)</u>
Licenses and permits:				
Animal licenses	14,000	14,000	10,693	(3,307)
Bicycle licenses	170	170	178	8
Other licenses and permits	8,800	8,800	8,823	23
Total licenses and permits	<u>22,970</u>	<u>22,970</u>	<u>19,694</u>	<u>(3,276)</u>
Use of money and property				
Investment Earnings	90,755	90,755	48,373	(42,382)
Rents and concessions (other than recreation)	76,300	76,300	75,467	(833)
Total use of money and property	<u>167,055</u>	<u>167,055</u>	<u>123,840</u>	<u>(43,215)</u>

(continued)

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2017

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	\$ 5,900	\$ 5,900	\$ 9,770	\$ 3,870
Fire department special services	274,336	274,336	317,666	43,330
Fire prevention	38,742	38,742	122,043	83,301
Weed and lot cleaning	-	-	2,044	2,044
Administrative citations	2,000	2,000	111,200	109,200
Police cost recovery	99,700	99,700	127,957	28,257
Release fees class I	80,000	80,000	50,583	(29,417)
Administrative	2,885,070	2,885,070	2,842,715	(42,355)
Interdepartmental charges	1,849,874	1,849,874	1,849,874	-
Other current service charges	475	475	874	399
Total service charges	<u>5,236,097</u>	<u>5,236,097</u>	<u>5,434,726</u>	<u>198,629</u>
Fines, forfeitures and penalties:				
Criminal fines	66,000	66,000	76,610	10,610
Parking fines	250,000	250,000	170,295	(79,705)
Total fines, forfeitures and penalties	<u>316,000</u>	<u>316,000</u>	<u>246,905</u>	<u>(69,095)</u>
Other:				
Animal control services	4,000	4,000	7,350	3,350
School police officer	533,881	533,881	448,222	(85,659)
Valley High School police officer	35,737	35,737	-	(35,737)
Merced Community College captain	-	172,756	94,834	(77,922)
Merchandise and brochure revenue	34,000	34,000	33,525	(475)
Cash overages (shortages)	100	100	(287)	(387)
Donations/contributions	500	10,000	9,591	(409)
S.M.I.P. fees	2,700	2,700	-	(2,700)
Miscellaneous	33,129	33,129	56,323	23,194
Total other	<u>644,047</u>	<u>826,303</u>	<u>649,558</u>	<u>(176,745)</u>
Total revenues	<u>35,662,072</u>	<u>38,002,051</u>	<u>37,575,630</u>	<u>(426,421)</u>

(continued)

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2017

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	\$ 237,676	\$ 260,328	\$ 206,491	\$ 53,837
City manager	870,242	1,228,309	702,878	525,431
City clerk	516,380	539,223	456,173	83,050
City attorney	948,041	927,908	855,872	72,036
Finance	2,410,467	2,444,215	2,365,777	78,438
Purchasing	220,425	222,413	185,443	36,970
Economic development	482,487	614,583	474,959	139,624
Youth council	13,000	18,928	9,453	9,475
Visitor's services	158,304	163,668	162,946	722
Total general government	<u>5,857,022</u>	<u>6,419,575</u>	<u>5,419,992</u>	<u>999,583</u>
Public safety:				
Police protection	18,868,328	19,335,876	17,998,771	1,337,105
Fire protection and weed abatement	9,323,501	12,057,195	11,713,018	344,177
Total public safety	<u>28,191,829</u>	<u>31,393,071</u>	<u>29,711,789</u>	<u>1,681,282</u>
Public works	1,643,101	1,647,156	1,491,129	156,027
Total current operating	<u>35,691,952</u>	<u>39,459,802</u>	<u>36,622,910</u>	<u>2,836,892</u>
Capital outlay	100,834	191,446	96,770	94,676
Debt service:				
Principal	425,000	425,000	425,000	-
Interest	313,236	313,236	313,122	114
Total debt service	<u>738,236</u>	<u>738,236</u>	<u>738,122</u>	<u>114</u>
Total expenditures	<u>36,531,022</u>	<u>40,389,484</u>	<u>37,457,802</u>	<u>2,931,682</u>
EXCESS(DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	<u>(868,950)</u>	<u>(2,387,433)</u>	<u>117,828</u>	<u>2,505,261</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of assets	5,000	5,000	3,583	(1,417)
Transfers in	1,849,839	2,809,851	2,557,833	(252,018)
Transfers out	<u>(4,436,219)</u>	<u>(4,932,028)</u>	<u>(4,654,458)</u>	<u>277,570</u>
Total other financing sources (uses)	<u>(2,581,380)</u>	<u>(2,117,177)</u>	<u>(2,093,042)</u>	<u>24,135</u>
Net change in fund balance	<u>\$ (3,450,330)</u>	<u>\$ (4,504,610)</u>	<u>(1,975,214)</u>	<u>\$ 2,529,396</u>
FUND BALANCE:				
Beginning of year			19,069,423	
End of year			<u>\$ 17,094,209</u>	

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2017

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

General Fund (continued)

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

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

	General Fund - Budgetary Schedule - Actual	Parks and Community Services Fund	Revenue Stabilization Fund	Economic Development Opportunity Fund	General Fund - Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
Total revenues	\$ 37,575,630	\$ 309,829	\$ 10,940	\$ 10,563	\$ 37,906,962
Total expenditures	37,457,802	1,367,983	-	10,000	38,835,785
Excess (deficiency) of revenues over (under) expenditures	117,828	(1,058,154)	10,940	563	(928,823)
Total other financing sources (uses)	(2,093,042)	1,128,350	1,894,725	1,836,925	2,766,958
Net change in fund balance	(1,975,214)	70,196	1,905,665	1,837,488	1,838,135
Beginning of year	19,069,423	59,723	-	-	19,129,146
End of year	<u>\$ 17,094,209</u>	<u>\$ 129,919</u>	<u>\$ 1,905,665</u>	<u>\$ 1,837,488</u>	<u>\$ 20,967,281</u>

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2017

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	\$ 1,638,696	\$ 3,727,456	\$ 1,359,733	\$ (2,367,723)
Use of money and property	803,894	1,016,401	61,579	(954,822)
Service charges	453,683	453,683	369,411	(84,272)
Other revenues	-	-	6,654	6,654
Total revenues	<u>2,896,273</u>	<u>5,197,540</u>	<u>1,797,377</u>	<u>(3,400,163)</u>
EXPENDITURES:				
Current operating:				
General government	3,071,833	5,276,018	1,093,153	4,182,865
Total current operating	<u>3,071,833</u>	<u>5,276,018</u>	<u>1,093,153</u>	<u>4,182,865</u>
Capital outlay	-	1,359	115,073	(113,714)
Total expenditures	<u>3,071,833</u>	<u>5,277,377</u>	<u>1,208,226</u>	<u>4,069,151</u>
EXCESS(DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	<u>(175,560)</u>	<u>(79,837)</u>	<u>589,151</u>	<u>668,988</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	28,081	28,081	3,081	(25,000)
Transfers out	(436,468)	(536,647)	(372,941)	163,706
Total other financing sources (uses)	<u>(408,387)</u>	<u>(508,566)</u>	<u>(369,860)</u>	<u>138,706</u>
Net change in fund balances	<u>\$ (583,947)</u>	<u>\$ (588,403)</u>	219,291	<u>\$ 807,694</u>
FUND BALANCE:				
Beginning of Year			<u>21,173,152</u>	
End of Year			<u>\$ 21,392,443</u>	

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2017

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 6,100,000	\$ 6,100,000	\$ 5,994,851	\$ (105,149)
Intergovernmental	283,022	277,489	153,351	(124,138)
Use of money and property	660	660	1,743	1,083
Service charges	130,054	130,054	138,640	8,586
Total revenues	<u>6,513,736</u>	<u>6,508,203</u>	<u>6,288,585</u>	<u>(219,618)</u>
EXPENDITURES:				
Current operating:				
Public safety	6,136,418	6,291,168	5,792,918	498,250
Public works	8,256	11,018	8,268	2,750
Total current operating	<u>6,144,674</u>	<u>6,302,186</u>	<u>5,801,186</u>	<u>501,000</u>
Capital outlay	-	-	-	-
Total expenditures	<u>6,144,674</u>	<u>6,302,186</u>	<u>5,801,186</u>	<u>501,000</u>
EXCESS(DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	<u>369,062</u>	<u>206,017</u>	<u>487,399</u>	<u>281,382</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	26,816	26,816	46,425	19,609
Transfers out	(446,894)	(446,894)	(446,894)	-
Total other financing sources (uses)	<u>(420,078)</u>	<u>(420,078)</u>	<u>(400,469)</u>	<u>19,609</u>
Net change in fund balances	<u>\$ (51,016)</u>	<u>\$ (214,061)</u>	86,930	<u>\$ 300,991</u>
FUND BALANCE:				
Beginning of Year			1,229,203	
End of Year			<u>\$ 1,316,133</u>	

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2017

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	\$ 23,030	\$ 23,030	\$ 37,345	\$ 14,315
Total revenues	<u>23,030</u>	<u>23,030</u>	<u>37,345</u>	<u>14,315</u>
EXPENDITURES:				
Current operating:				
General government	446,393	446,393	28,561	417,832
Total current operating	<u>446,393</u>	<u>446,393</u>	<u>28,561</u>	<u>417,832</u>
Total expenditures	<u>446,393</u>	<u>446,393</u>	<u>28,561</u>	<u>417,832</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(423,363)</u>	<u>(423,363)</u>	<u>8,784</u>	<u>432,147</u>
EXTRAORDINARY ITEM:				
RDA dissolution	-	-	(958,046)	(958,046)
Net change in fund balances	<u>\$ (423,363)</u>	<u>\$ (423,363)</u>	<u>(949,262)</u>	<u>\$ (525,899)</u>
FUND BALANCE:				
Beginning of Year			10,572,980	
End of Year			<u>\$ 9,623,718</u>	

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2017

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

Miscellaneous Plan

Measurement Period (1)	2015-16	2014-15	2013-14
TOTAL PENSION LIABILITY			
Service Cost	\$ 2,380,009	\$ 2,478,640	\$ 2,627,256
Interest on Total Pension Liability	9,435,717	9,059,272	8,695,697
Changes of Assumptions	-	(2,210,035)	-
Difference between Expected and Actual Experience	(818,329)	(1,270,597)	-
Benefit Payments, Including Refunds of Employee Contributions	(6,060,443)	(5,438,406)	(5,139,153)
Net Change in Total Pension Liability	4,936,954	2,618,874	6,183,800
Total Pension Liability - Beginning	126,001,253	123,382,379	117,198,579
Total Pension Liability - Ending (a)	\$ 130,938,207	\$ 126,001,253	\$ 123,382,379
PLAN FIDUCIARY NET POSITION			
Contributions - Employer	\$ 2,847,440	\$ 2,585,409	\$ 2,247,444
Contributions - Employee	1,235,668	1,311,171	1,253,749
Net Investment Income (2)	531,348	2,146,212	14,172,466
Benefit Payments, Including Refunds of Employee Contributions	(6,060,443)	(5,438,406)	(5,139,153)
Other Changes in Fiduciary Net Position	(57,864)	(106,839)	-
Net Change in Fiduciary Net Position	(1,503,851)	497,547	12,534,506
Plan Fiduciary Net Position - Beginning	94,945,711	94,448,164	81,913,658
Plan Fiduciary Net Position - Ending (b)	\$ 93,441,860	\$ 94,945,711	\$ 94,448,164
Plan Net Position Liability/(Asset) - Ending (a) - (b)	\$ 37,496,347	\$ 31,055,542	\$ 28,934,215
Plan Fiduciary Net Position as a Percentage of the			
Total Pension Liability	71.36%	75.35%	76.55%
Covered Payroll	\$ 15,970,003	\$ 16,286,485	\$ 16,471,824
Plan Net Pension Liability/(Asset) as			
a Percentage of Covered Payroll	234.79%	190.68%	175.66%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Net of administrative expenses.

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2017

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

Safety Plan

Measurement Period (1)	2015-16	2014-15	2013-14
TOTAL PENSION LIABILITY			
Service Cost	\$ 2,918,262	\$ 2,915,019	\$ 3,121,317
Interest on Total Pension Liability	9,919,699	9,584,428	9,243,496
Changes of Assumptions	-	(2,398,329)	-
Difference between Expected and Actual Experience	(2,152,774)	(2,052,784)	-
Benefit Payments, Including Refunds of Employee Contributions	(6,135,867)	(5,795,426)	(5,745,669)
Net Change in Total Pension Liability	4,549,320	2,252,908	6,619,144
Total Pension Liability - Beginning	133,430,856	131,177,948	124,558,804
Total Pension Liability - Ending (a)	\$ 137,980,176	\$ 133,430,856	\$ 131,177,948
PLAN FIDUCIARY NET POSITION			
Contributions - Employer	\$ 3,149,784	\$ 2,907,155	\$ 2,615,979
Contributions - Employee	1,111,386	1,068,553	1,106,201
Net Investment Income (2)	539,046	2,345,446	15,776,487
Benefit Payments, Including Refunds of Employee Contributions	(6,135,867)	(5,795,426)	(5,745,669)
Other Changes in Fiduciary Net Position	(64,326)	(118,777)	-
Net Change in Fiduciary Net Position	(1,399,977)	406,951	13,752,998
Plan Fiduciary Net Position - Beginning	105,547,654	105,140,703	91,387,705
Plan Fiduciary Net Position - Ending (b)	\$ 104,147,677	\$ 105,547,654	\$ 105,140,703
Plan Net Position Liability/(Asset) - Ending (a) - (b)	\$ 33,832,499	\$ 27,883,202	\$ 26,037,245
Plan Fiduciary Net Position as a Percentage of the			
Total Pension Liability	75.48%	79.10%	80.15%
Covered Payroll	\$ 11,867,192	\$ 11,774,523	\$ 12,061,197
Plan Net Pension Liability/(Asset) as			
a Percentage of Covered Payroll	285.09%	236.81%	215.88%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Net of administrative expenses.

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2017

3. SCHEDULE OF PLAN CONTRIBUTIONS

	2015		2016		2017	
	Miscellaneous Plan	Safety Plan	Miscellaneous Plan	Safety Plan	Miscellaneous Plan	Safety Plan
Actuarially determined contribution	\$ 2,585,409	\$ 2,907,155	\$ 2,847,440	\$ 3,149,784	\$ 2,990,034	\$ 3,502,161
Contributions in relation to the actuarially determined contributions	(2,585,409)	(2,907,155)	(2,847,440)	(3,149,784)	(2,990,034)	(3,502,161)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 16,471,824	\$ 12,061,197	\$ 16,286,485	\$ 11,774,523	\$ 16,231,745	\$ 12,497,620
Contributions as a percentage of covered payroll	15.70%	24.10%	17.48%	26.75%	18.42%	28.02%

Fiscal year 2015 was the 1st year of implementation.

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
6/30/2013	\$ 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%
6/30/2017	1,925,000	33,629,000	31,704,000	5.72%	10,827,000	292.8%

SUPPLEMENTARY INFORMATION

City of Merced
Supplementary Information
General Fund Combining Balance Sheet
June 30, 2017

	General Fund	Parks and Community Services Fund	Revenue Stabilization Fund	Economic Development Opportunity Fund	General Fund Combined
ASSETS					
Cash, cash equivalents and investments	\$ 13,587,731	\$ 178,403	\$ 1,901,954	\$ 1,833,910	\$ 17,501,998
Restricted cash held by fiscal agents	412	-	-	-	412
Receivables:					
Accounts	802,927	919	-	-	803,846
Due from other government	2,985,144	-	-	-	2,985,144
Interest	31,187	-	3,711	3,578	38,476
Inventory	63,650	-	-	-	63,650
Advances to other funds	1,710,991	-	-	-	1,710,991
Total assets	\$ 19,182,042	\$ 179,322	\$ 1,905,665	\$ 1,837,488	\$ 23,104,517
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 173,357	\$ 12,921	\$ -	\$ -	\$ 186,278
Payroll liabilities	808,498	36,481	-	-	844,979
Unearned revenues	1,098,699	-	-	-	1,098,699
Other liabilities	7,280	-	-	-	7,280
Total liabilities	2,087,834	49,402	-	-	2,137,236
Fund Balances:					
Nonspendable	1,774,641	-	-	-	1,774,641
Restricted	4,000,000	-	-	-	4,000,000
Assigned	3,592,318	60,544	-	-	3,652,862
Unassigned	7,727,249	69,376	1,905,665	1,837,488	11,539,778
Total fund balances	17,094,208	129,920	1,905,665	1,837,488	20,967,281
Total liabilities and fund balances	\$ 19,182,042	\$ 179,322	\$ 1,905,665	\$ 1,837,488	\$ 23,104,517

City of Merced
Supplementary Information
General Fund Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the year ended June 30, 2017

	General Fund	Parks and Community Services Fund	Revenue Stabilization Fund	Economic Development Opportunity Fund	General Fund Combined
REVENUES:					
Taxes	\$ 30,444,057	\$ -	\$ -	\$ -	\$ 30,444,057
Intergovernmental	656,850	-	-	-	656,850
Licenses and permits	19,694	-	-	-	19,694
Use of money and property	123,840	3,844	10,940	10,563	149,187
Service charges	5,434,726	238,175	-	-	5,672,901
Fines, forfeitures and penalties	246,905	-	-	-	246,905
Other revenues	649,558	67,810	-	-	717,368
Total revenues	37,575,630	309,829	10,940	10,563	37,906,962
EXPENDITURES:					
Current:					
General government	5,419,992	-	-	10,000	5,429,992
Public safety	29,711,789	-	-	-	29,711,789
Public works	1,491,129	-	-	-	1,491,129
Culture and recreation	-	1,367,983	-	-	1,367,983
Total current operating	36,622,910	1,367,983	-	10,000	38,000,893
Capital outlay	96,770	-	-	-	96,770
Debt service:					
Principal	425,000	-	-	-	425,000
Interest and fiscal charges	313,122	-	-	-	313,122
Total expenditures	37,457,802	1,367,983	-	10,000	38,835,785
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	117,828	(1,058,154)	10,940	563	(928,823)
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of asset	3,583	-	-	-	3,583
Transfers in	2,557,833	62,590	-	1,024,900	3,645,323
Transfers out	(873,273)	(8,675)	-	-	(881,948)
Intrafund transfers	(3,781,185)	1,074,435	1,894,725	812,025	-
Total other financing sources (uses)	(2,093,042)	1,128,350	1,894,725	1,836,925	2,766,958
Net change in fund balances	(1,975,214)	70,196	1,905,665	1,837,488	1,838,135
FUND BALANCES:					
Beginning of year	19,069,423	59,723	-	-	19,129,146
End of year	\$ 17,094,209	\$ 129,919	\$ 1,905,665	\$ 1,837,488	\$ 20,967,281

City of Merced
Supplementary Information
University Capital Fund Balance Sheet
For the year ended June 30, 2017

	Total University Capital Charge	University Capital Charge Wastewater System	University Capital Charge Water System
ASSETS			
Intergovernmental receivable	\$ 6,612,375	\$ 3,372,311	\$ 3,240,064
Total assets	\$ 6,612,375	\$ 3,372,311	\$ 3,240,064
LIABILITIES AND FUND BALANCES			
Accrued Interest Payable	\$ 85,165	\$ 43,434	\$ 41,731
Bonds Payable Current	225,000	114,750	110,250
Bonds Payable Noncurrent	6,302,210	3,214,127	3,088,083
Total liabilities	6,612,375	3,372,311	3,240,064
Total fund balances	-	-	-
Total liabilities and fund balances	\$ 6,612,375	\$ 3,372,311	\$ 3,240,064

City of Merced
Supplementary Information
University Capital Fund Statement of Revenues, Expenses
and Changes in Fund Balance
For the year ended June 30, 2017

	Total University Capital Charge	University Capital Charge Wastewater System	University Capital Charge Water System
	<u> </u>	<u> </u>	<u> </u>
OPERATING REVENUES:			
Sewer Facility Fee	\$ 226,715	\$ 115,625	\$ 111,090
Total operating revenues	<u>226,715</u>	<u>115,625</u>	<u>111,090</u>
NONOPERATING REVENUES (EXPENSES):			
Interest & Agent Fees	<u>(227,695)</u>	<u>(116,124)</u>	<u>(111,571)</u>
Total nonoperating revenues (expenses)	<u>(227,695)</u>	<u>(116,124)</u>	<u>(111,571)</u>
Net Income (Loss)	(980)	(499)	(481)
FUND BALANCE			
Beginning of Year	<u>980</u>	<u>499</u>	<u>481</u>
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

