



*City of Merced, California
Basic Financial Statements
For the Fiscal Year Ended June 30, 2018*



The Merced Sunrise Rotary Club continues the annual tradition as they host the Merced 6th Annual Field of Honor® display where more than a thousand U.S. flags will fly in ordered rows and columns. The Field of Honor® flag display was posted on the lawns at Merced Community College in tribute to our military, our veterans and our first responders, and as in years past this inspiring panorama of flags was spectacular.

The Merced Field of Honor® is a gift to the community made possible through donations, sponsorships and many dedicated volunteers. Each year this event allows people to walk through the sea of red, white and blue and provides the community with a memorable experience.

Photo courtesy of Merced Sunrise Rotary

City of Merced
Annual Financial Report
For the year ended June 30, 2018

Table of Contents

	<u>Page</u>
Independent Auditor’s Report	1
Management’s Discussion and Analysis	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	19
Statement of Activities	20
Fund Financial Statements:	
Governmental Fund Financial Statements:	
Balance Sheet.....	26
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.....	28
Statement of Revenues, Expenditures and Changes in Fund Balances.....	30
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities	32
Proprietary Fund Financial Statements:	
Statement of Net Position.....	34
Statement of Revenues, Expenses and Changes in Net Position.....	36
Statement of Cash Flows	38
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Position.....	42
Statement of Changes in Fiduciary Net Position.....	43
Notes to Basic Financial Statements	45
Required Supplementary Information (Unaudited):	
Budgetary Control and Accounting	93
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
General Fund	94
Housing Special Revenue Fund.....	98
Measure C Special Revenue Fund	99
Low and Moderate Income Housing Special Revenue Fund	100
Schedule of Changes in Net Pension Liability and Related Ratios	
Miscellaneous Plan	101
Safety Plan	102

City of Merced
Annual Financial Report
For the year ended June 30, 2018

Table of Contents, Continued

	<u>Page</u>
Basic Financial Statements, Continued	
Schedule of Plan Contributions	
Miscellaneous Plan	103
Safety Plan	104
Schedule of Changes in Net OPEB Liability and Related Ratios.....	105
Schedule of Contributions - OPEB	106
Supplementary Information:	
General Fund:	
Combining Balance Sheet	109
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	110
University Capital Fund:	
Balance Sheet	111
Statement of Revenues, Expenses and Changes in Fund Balance	112



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, 2018, 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
Merced, California
Page 2

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, 2018, 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 OPEB information on pages 5-13, and 92-106 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
Page 3

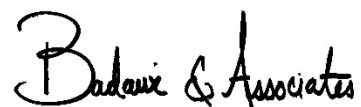
The General Fund combining balance sheet and combining statement of revenues, expenditures, and changes in fund balance, and the University Capital Fund balance sheet and statement of revenues, expenses, and changes in fund balance are the responsibility of management and were derived from and relate 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2018, the City adopted new accounting guidance, *GASBS No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2019, 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 & Associates, CPAs
Oakland, California
March 18, 2019

This page intentionally left blank

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, 2018.

FINANCIAL HIGHLIGHTS

The City's net position as shown on the Government-Wide Statement of Activities decreased by \$191,142. The governmental net position decreased by \$5.9 million and the business-type net position increased by \$5.7 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 \$499.1 million.
- The net decrease to governmental activity long-term debt of \$1.1 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 \$3.2 million was due to scheduled principal payments and amortization of related premiums.

Governmental Funds:

- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$13.7 million, or 64% 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-four 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 \$499.1 million at the close of the most recent fiscal year.

Summary of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 111,318,939	\$ 105,603,681	\$ 131,304,270	\$ 121,802,485	\$ 242,623,209	\$ 227,406,166
Capital assets	278,868,261	288,464,085	150,201,848	157,190,479	429,070,109	445,654,564
Total assets	390,187,200	394,067,766	281,506,118	278,992,964	671,693,318	673,060,730
Deferred outflows related to pension	18,855,793	14,121,116	4,148,433	3,172,055	23,004,226	17,293,171
Deferred outflows related to OPEB	996,823	-	588,177	-	1,585,000	-
Total deferred outflows	19,852,616	14,121,116	4,736,610	3,172,055	24,589,226	17,293,171
Current liabilities	10,577,800	9,560,931	7,765,196	8,091,931	18,342,996	17,652,862
Noncurrent liabilities	103,721,029	96,498,093	67,384,232	61,744,818	171,105,261	158,242,911
Total liabilities	114,298,829	106,059,024	75,149,428	69,836,749	189,448,257	175,895,773
Deferred inflows related to pension	3,788,349	5,286,733	266,328	742,026	4,054,677	6,028,759
Deferred inflows related to OPEB	2,253,389	-	1,329,611	-	3,583,000	-
Total deferred inflows	6,041,738	5,286,733	1,595,939	742,026	7,637,677	6,028,759
Net position:						
Net investment in capital assets	277,162,254	286,615,067	115,383,992	119,419,018	392,546,246	406,034,085
Restricted	61,562,884	58,030,269	50,846,772	46,454,867	112,409,656	104,485,136
Unrestricted	(49,025,889)	(47,802,211)	43,266,597	45,712,359	(5,759,292)	(2,089,852)
Total net position	\$ 289,699,249	\$ 296,843,125	\$ 209,497,361	\$ 211,586,244	\$ 499,196,610	\$ 508,429,369

The largest portion of the City's net position, 78.8%, 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 \$499.1 million total net position, \$112.4 million, or 22% of these resources are subject to external restrictions on how they may be used. The total unrestricted net position is a negative \$5.7 million due to governmental activities negative \$49.0 million unrestricted net position. The negative net position originated 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 and outflows pursuant to GASB Statement No. 63. The negative net position is further increased by the recording the City's net OPEB liabilities and deferred inflows pursuant to GASB Statement No. 75. The business-type activities restricted and unrestricted net position is \$50.8 million and \$43.2 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	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues:						
Charges for services	\$ 15,360,930	\$ 11,484,955	\$ 51,832,345	\$ 46,018,938	\$ 67,193,275	\$ 57,503,893
Operating grants and contributions	3,880,027	4,134,969	64,682	179,647	3,944,709	4,314,616
Capital grants and contributions	3,541,623	2,599,337	412,329	995,251	3,953,952	3,594,588
General revenues and transfers:						
Property taxes	14,502,905	14,252,945	66,768	34,059	14,569,673	14,287,004
Sales taxes	19,925,100	18,291,163	-	-	19,925,100	18,291,163
Franchise taxes	1,667,391	1,627,975	-	-	1,667,391	1,627,975
Transient occupancy tax	1,744,005	1,609,448	-	-	1,744,005	1,609,448
Business license tax	1,343,507	1,206,299	-	-	1,343,507	1,206,299
Cost recovery impact study	807,026	341,400	-	-	807,026	341,400
Business improvement tax	84,738	74,405	-	-	84,738	74,405
Other	870,348	349,481	1,547,476	470,150	2,417,824	819,631
Total revenues	63,727,600	55,972,377	53,923,600	47,698,045	117,651,200	103,670,422
Expenses						
Governmental activities:						
General government	8,007,404	5,720,543	-	-	8,007,404	5,720,543
Public safety	37,734,422	33,442,577	-	-	37,734,422	33,442,577
Public works	20,810,146	18,853,287	-	-	20,810,146	18,853,287
Culture and recreation	2,518,326	2,260,728	-	-	2,518,326	2,260,728
Other	595,467	650,095	-	-	595,467	650,095
Business-type activities:						
Wastewater system	-	-	20,227,686	18,428,338	20,227,686	18,428,338
Water system	-	-	13,591,694	13,838,624	13,591,694	13,838,624
Refuse collection	-	-	13,414,323	12,184,751	13,414,323	12,184,751
Merced municipal airport	-	-	942,874	977,044	942,874	977,044
Total expenses	69,665,765	60,927,230	48,176,577	45,428,757	117,842,342	106,355,987
Increase (decrease) in net position before transfers and extraordinary item	(5,938,165)	(4,954,853)	5,747,023	2,269,288	(191,142)	(2,685,565)
Disposal of capital assets						
Transfers	(3,578)	(96,539)	3,578	96,539	-	-
Extraordinary item - RDA dissolution	-	(1,627,849)	-	-	-	(1,627,849)
Increase (decrease) in net position	(5,941,743)	(6,679,241)	5,750,601	2,365,827	(191,142)	(4,313,414)
Net position beginning of year, as restated (Note 18)	295,640,992	303,522,366	203,746,760	209,220,417	499,387,752	512,742,783
Net position ending of year	\$ 289,699,249	\$ 296,843,125	\$ 209,497,361	\$ 211,586,244	\$ 499,196,610	\$ 508,429,369

Governmental Activities - Governmental activities decreased the City's net position by \$5.9 million. Taxes provided 62.8% of the revenue and charges for services provided 24.1% of the revenue, and operating and capital grants and contributions provided 11.6% of the revenue received during the year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

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

Net Cost of Governmental Activities For the Fiscal Year Ended June 30, 2018

	Total Cost of Services	Net Cost of Services
General government	\$ 8,007,404	\$ (2,197,785)
Public safety	37,734,422	(33,537,687)
Public works	20,810,146	(8,741,289)
Culture and recreation	2,518,326	(1,810,957)
Interest on long-term debt	595,467	(595,467)
Total	<u>\$ 69,665,765</u>	<u>\$ (46,883,185)</u>

The costs for all governmental activities during the year were \$69.7 million, which is 59.3% of total governmental and business-type activities expenses. These costs were paid for by \$22.8 million of program revenues, \$40 million of taxes, and \$870,348 of investment earnings and other revenue. The balance of \$5.9 million was covered by reserves or accumulated revenues. Transfer from City's governmental activities were \$3,578.

Business-type Activities - Business-type activities increased the City's net position by \$5.7 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 \$52.3 million. Expenses of business-type activities were \$48.5 million.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

The City's governmental funds reported a combined fund balance at June 30, 2018 of \$86.6 million, an increase of \$5.4 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 \$21.4 million and the unassigned fund balance was \$13.7 million. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total expenditures. The unassigned fund balance represents 35.9% of total General Fund expenditures.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS, Continued

The General Fund balance increased by \$422,716 during the fiscal year. Taxes are the primary revenue of the General Fund. Property tax increased by 1.75%, sales tax increased by 8.93% while transient occupancy tax increased by 8.4%.

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

Housing Fund-

- This special revenue fund decreased by \$155,175 due to the use of accumulated program revenue.

Measure C Fund-

- This special revenue fund increased by \$294,000 due to unspent funding that will be used to cover encumbrances.

Low and Moderate Income Housing Fund-

- This special revenue fund increased by \$25,690 due to repayment and interest on loans.

Streets and Signals Fund-

- This capital projects fund increased by \$619,384 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 negative \$2.9 million. The unrestricted net position of the Enterprise Funds was \$43.2 million. The change in net position for the Governmental Activities Internal Service Funds is a decrease of \$667,771 and the Enterprise Funds is an increase of \$5.7 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 \$1.0 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 \$273,078, 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, 2018, amounted to \$429.1 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			
	2018	2017	2018	2017	2018	2017
Non-depreciable Assets:						
Land and improvements	\$ 86,923,895	\$ 86,159,407	\$ 2,461,520	\$ 2,461,520	\$ 89,385,415	\$ 88,620,927
Construction in progress	7,857,702	6,725,201	12,008,407	14,255,588	19,866,109	20,980,789
Total non-depreciable assets	94,781,597	92,884,608	14,469,927	16,717,108	109,251,524	109,601,716
Depreciable Assets:						
Building and structures	23,225,281	22,363,198	9,324,573	4,575,769	32,549,854	26,938,967
Machinery and equipment	42,960,235	41,563,173	5,759,262	5,166,440	48,719,497	46,729,613
Improvements other than buildings, structures and land improvements	125,179,232	122,747,310	189,028,752	188,540,420	314,207,984	311,287,730
Infrastructure	373,627,644	373,627,644	42,062,326	41,452,754	415,689,970	415,080,398
Accumulated depreciation	(380,905,728)	(364,721,848)	(110,442,992)	(99,262,012)	(491,348,720)	(463,983,860)
Total depreciable assets, net	184,086,664	195,579,477	135,731,921	140,473,371	319,818,585	336,052,848
Total capital assets	\$ 278,868,261	\$ 288,464,085	\$ 150,201,848	\$ 157,190,479	\$ 429,070,109	\$ 445,654,564

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

- Bridge Repairs on M St in the amount of \$2.4 million.
- Police Headquarters in the amount of \$1.7 million.

Long-term Debt – At the end of the current fiscal year, the City had \$51.8 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, 2018					
	Governmental		Business-type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Pension obligation bonds	\$ 4,350,000	\$ 4,830,000	\$ -	\$ -	\$ 4,350,000	\$ 4,830,000
Loans payable	1,200,000	1,400,000	29,576,492	31,343,152	30,776,492	32,743,152
Capital lease	5,144,774	5,576,044	-	-	5,144,774	5,576,044
Revenue bonds payable	-	-	10,725,000	12,020,000	10,725,000	12,020,000
Unamortized premiums	-	-	818,574	935,514	818,574	935,514
Total	\$ 10,694,774	\$ 11,806,044	\$ 41,120,066	\$ 44,298,666	\$ 51,814,840	\$ 56,104,710

During the current fiscal year, the City's net debt decreased by \$4.3 million or 7.6%. 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. Residential development has continued to increase. There were 500 single-family building permits issued in Fiscal year 2017-18.
- The El Capitan Hotel renovation and expansion into a boutique hotel is currently underway. This will preserve the historic 33-room hotel and add another 77 rooms, plus a restaurant and meeting rooms. Two major retail projects are 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. The historic Hotel Tioga is undergoing a major beautification project, which includes restoring the former hotel to its grand stature. Inside, a transformation is taking place and Hotel Tioga will become home to residents wanting to experience life in Merced's Central Business District. Future tenants will enjoy living in the 70-unit structure with studio, one-bedroom, two-bedroom, and penthouse units. Project completion is scheduled for fall 2019.
- Measure Y, a Commercial Cannabis Business Tax for up to \$25 per square foot of cultivation space, or 10% of gross receipts, was passed by the voters in June 2018. In 2017, Merced City Council approved a Cannabis Ordinance allowing medical and recreational dispensaries, cultivation, and manufacturing. The Cannabis Business Tax is estimated to generate approximately \$1,000,000 and will fund Police, Fire, Parks and Recreation.
- While optimistic of the future, the City remained conservative in developing the 2018-19 fiscal year budget, but added new positions to meet the Council priorities in the areas of Public Safety and Internal Service activities.
- In January 2019, the City Council approved establishing a Post-Employment Benefit Trust for the purpose of pre-funding pension obligations. The City of Merced is working on funding options for the trust.
- Enterprise Funds continue to maintain a stable financial position. The water rates, approved in fiscal year 2018-19, will increase by 2% per year beginning January 1, 2019, then every July through 2021. The proposed rates include a Drought Rate Schedule, which will be implemented only during times of significant drought. A Refuse Rate Study is expected to be completed in 2019.

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, CA 95340.

This page intentionally left blank

**BASIC
FINANCIAL STATEMENTS**

This page intentionally left blank

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page intentionally left blank

City of Merced
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 67,499,136	\$ 119,353,774	\$ 186,852,910
Restricted cash held by fiscal agents	5,020	154	5,174
Receivables	9,932,568	11,679,468	21,612,036
Prepaid items	8,466	-	8,466
Inventory	234,445	238,709	473,154
Total current assets	<u>77,679,635</u>	<u>131,272,105</u>	<u>208,951,740</u>
Noncurrent assets:			
Land held for resale	1,337,319	-	1,337,319
Notes receivable	32,301,985	32,165	32,334,150
Capital assets:			
Non-depreciable	94,781,597	14,469,927	109,251,524
Depreciable, net	184,086,664	135,731,921	319,818,585
Total capital assets	<u>278,868,261</u>	<u>150,201,848</u>	<u>429,070,109</u>
Total noncurrent assets	<u>312,507,565</u>	<u>150,234,013</u>	<u>462,741,578</u>
Total assets	<u>390,187,200</u>	<u>281,506,118</u>	<u>671,693,318</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	18,855,793	4,148,433	23,004,226
Deferred outflows related to OPEB	996,823	588,177	1,585,000
Total deferred outflows of resources	<u>19,852,616</u>	<u>4,736,610</u>	<u>24,589,226</u>
LIABILITIES			
Current liabilities:			
Accounts payable	911,706	1,274,460	2,186,166
Payroll liabilities	1,342,497	407,185	1,749,682
Deposits and other liabilities	74,728	1,488,081	1,562,809
Unearned revenue	3,299,629	952,551	4,252,180
Accrued interest payable	119,416	371,710	491,126
Claims liability, due within one year	3,066,545	-	3,066,545
Compensated absences, due within one year	547,614	114,132	661,746
Long-term debt, due within one year	1,215,665	3,157,077	4,372,742
Total current liabilities	<u>10,577,800</u>	<u>7,765,196</u>	<u>18,342,996</u>
Noncurrent liabilities:			
Claims liability, due in more than one year	3,929,802	-	3,929,802
Compensated absences, due in more than one year	2,737,944	908,578	3,646,522
Long term debt, due in more than one year	9,479,109	37,962,989	47,442,098
Net other postemployment benefits liability	20,368,549	12,018,451	32,387,000
Net pension liability	67,205,625	16,494,214	83,699,839
Total noncurrent liabilities	<u>103,721,029</u>	<u>67,384,232</u>	<u>171,105,261</u>
Total liabilities	<u>114,298,829</u>	<u>75,149,428</u>	<u>189,448,257</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	3,788,349	266,328	4,054,677
Deferred inflows related to OPEB	2,253,389	1,329,611	3,583,000
Total deferred inflows of resources	<u>6,041,738</u>	<u>1,595,939</u>	<u>7,637,677</u>
NET POSITION			
Net investment in capital assets	277,162,254	115,383,992	392,546,246
Restricted for:			
Streets and street lights	5,960,622	-	5,960,622
Community development	11,744,011	-	11,744,011
Housing	31,722,361	-	31,722,361
Public safety	359,537	-	359,537
Special districts	3,561,553	-	3,561,553
Other special projects and programs	4,400,377	2,395,254	6,795,631
Debt service	-	1,966,632	1,966,632
Capital projects	3,814,423	46,484,886	50,299,309
Unrestricted	(49,025,889)	43,266,597	(5,759,292)
Total net position	<u>\$ 289,699,249</u>	<u>\$ 209,497,361</u>	<u>\$ 499,196,610</u>

See accompanying Notes to Basic Financial Statements.

City of Merced
Statement of Activities
For the year ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental activities:					
General government	\$ 8,007,404	\$ 4,760,137	\$ 1,019,907	\$ 29,575	\$ 5,809,619
Public safety	37,734,422	3,467,246	729,489	-	4,196,735
Public works	20,810,146	6,426,178	2,130,631	3,512,048	12,068,857
Culture and recreation	2,518,326	707,369	-	-	707,369
Interest on long-term debt	595,467	-	-	-	-
Total governmental activities	69,665,765	15,360,930	3,880,027	3,541,623	22,782,580
Business-type activities:					
Wastewater system	20,227,686	22,053,277	-	-	22,053,277
Water system	13,591,694	15,426,525	-	412,329	15,838,854
Refuse collection system	13,414,323	13,924,006	64,682	-	13,988,688
Merced municipal airport	942,874	428,537	-	-	428,537
Total business-type activities	48,176,577	51,832,345	64,682	412,329	52,309,356
Total primary government	\$ 117,842,342	\$ 67,193,275	\$ 3,944,709	\$ 3,953,952	\$ 75,091,936
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					
Total general revenues and transfers					
Change in net position					
Net position - beginning of year, as restated					
Net position - end of year					

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (2,197,785)	\$ -	\$ (2,197,785)
(33,537,687)	-	(33,537,687)
(8,741,289)	-	(8,741,289)
(1,810,957)	-	(1,810,957)
(595,467)	-	(595,467)
(46,883,185)	-	(46,883,185)
-	1,825,591	1,825,591
-	2,247,160	2,247,160
-	574,365	574,365
-	(514,337)	(514,337)
-	4,132,779	4,132,779
(46,883,185)	4,132,779	(42,750,406)
14,502,905	66,768	14,569,673
19,925,100	-	19,925,100
1,667,391	-	1,667,391
1,744,005	-	1,744,005
1,343,507	-	1,343,507
84,738	-	84,738
807,026	-	807,026
40,074,672	66,768	40,141,440
852,211	1,547,476	2,399,687
18,137	-	18,137
(3,578)	3,578	-
40,941,442	1,617,822	42,559,264
(5,941,743)	5,750,601	(191,142)
295,640,992	203,746,760	499,387,752
\$ 289,699,249	\$ 209,497,361	\$ 499,196,610

This page intentionally left blank

FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

This page intentionally left blank

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, Economic Development Opportunity, and the Substandard Housing 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, 2018

	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	\$ 18,223,685	\$ 1,014,452	\$ 709,994	\$ 1,233,021
Restricted cash held by fiscal agents	5,020	-	-	-
Receivables:				
Accounts	875,825	-	-	-
Due from other government	2,630,542	23,923	1,037,255	-
Interest	70,725	1,945	1,742	5,955
Due from other funds	47,034	-	-	-
Inventory	62,499	-	-	-
Land held for resale	-	-	-	645,617
Notes receivable	-	20,165,248	-	7,867,350
Advances to other funds	1,710,991	-	-	-
Total assets	\$ 23,626,321	\$ 21,205,568	\$ 1,748,991	\$ 9,751,943
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 282,719	\$ 10,570	\$ 2,395	\$ -
Payroll liabilities	894,252	12,032	136,463	-
Unearned revenues	1,052,090	54,989	-	-
Due to other funds	-	-	-	-
Advances from other funds	-	-	-	-
Other liabilities	7,263	3,244	-	-
Total liabilities	2,236,324	80,835	138,858	-
Fund Balances:				
Nonspendable	1,773,490	-	-	-
Restricted	4,000,000	21,124,733	-	9,751,943
Committed	33,195	-	1,610,133	-
Assigned	1,828,759	-	-	-
Unassigned	13,754,553	-	-	-
Total fund balances	21,389,997	21,124,733	1,610,133	9,751,943
Total liabilities and fund balances	\$ 23,626,321	\$ 21,205,568	\$ 1,748,991	\$ 9,751,943

Streets and Signals Capital Projects Fund	Non-Major Governmental Funds	Total
\$ 1,995,028	\$ 25,174,060	\$ 48,350,240
-	-	5,020
-	2,129,130	3,004,955
913,678	1,974,928	6,580,326
9,632	111,435	201,434
-	124,436	171,470
-	-	62,499
-	691,702	1,337,319
-	4,269,387	32,301,985
-	-	1,710,991
<u>\$ 2,918,338</u>	<u>\$ 34,475,078</u>	<u>\$ 93,726,239</u>
\$ 122,952	\$ 224,322	\$ 642,958
-	145,863	1,188,610
-	2,192,550	3,299,629
-	171,470	171,470
-	1,710,991	1,710,991
-	60,574	71,081
<u>122,952</u>	<u>4,505,770</u>	<u>7,084,739</u>
-	-	1,773,490
2,795,386	23,890,822	61,562,884
-	6,078,486	7,721,814
-	-	1,828,759
-	-	13,754,553
<u>2,795,386</u>	<u>29,969,308</u>	<u>86,641,500</u>
<u>\$ 2,918,338</u>	<u>\$ 34,475,078</u>	<u>\$ 93,726,239</u>

City of Merced
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2018

Total Fund Balances - Total Governmental Funds \$ 86,641,500

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	\$ 94,781,597	\$ (227,702)	94,553,895
Depreciable, net	184,086,664	(8,264,681)	175,821,983
Total capital assets	\$ 278,868,261	\$ (8,492,383)	270,375,878

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. (47,726)

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. 3,870,373

Employer contributions for pension are recorded as expenditures in the governmental funds. However, in the Government-Wide Financial Statement these contributions are deferred. 5,308,235

In the Government-Wide Financial Statements certain differences between actuarial estimates and actual results for pension are deferred and amortized over a period of time, however in the governmental funds no transactions are recorded. 8,236,457

Employer contributions for OPEB are recorded as expenditures in the governmental funds. However, in the Government-Wide Financial Statement these contributions are deferred. 766,759

In the Government-Wide Financial Statements certain differences between actuarial estimates and actual results for OPEB are deferred and amortized over a period of time, however in the governmental funds no transactions are recorded. (1,733,311)

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	\$ (547,614)	\$ 41,656	\$ (505,958)
Long term debt, due within one year	(1,215,665)	475,665	(740,000)
Compensated absences, due in more than one year	(2,737,944)	313,472	(2,424,472)
Long term debt, due in more than one year	(9,479,109)	4,669,108	(4,810,001)
Net other postemployment benefits liability	(20,368,549)	4,701,023	(15,667,526)
Net pension liability	(67,205,625)	7,634,666	(59,570,959)
Total long-term liabilities	\$ (105,484,308)	\$ 21,765,392	(83,718,916)

Net Position of Governmental Activities \$ 289,699,249

This page intentionally left blank

City of Merced
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2018

	General Fund	Housing Special Revenue Fund	Measure C Special Revenue Fund	Low and Moderate Income Housing Special Revenue Fund
REVENUES:				
Taxes	\$ 31,646,217	\$ -	\$ 6,062,912	\$ -
Intergovernmental	356,177	899,567	205,348	-
Licenses and permits	21,459	-	-	-
Use of money and property	253,926	(30,722)	3,483	52,864
Service charges	6,495,949	249,493	207,457	-
Fines, forfeitures and penalties	331,535	-	-	-
Other revenues	881,077	-	-	17,980
Total revenues	39,986,340	1,118,338	6,479,200	70,844
EXPENDITURES:				
Current:				
General government	6,298,180	1,072,047	-	45,154
Public safety	28,002,663	-	6,052,424	-
Public works	1,649,906	-	7,284	-
Culture and recreation	1,508,748	-	-	-
Total current operating	37,459,497	1,072,047	6,059,708	45,154
Capital outlay	104,328	48,286	-	-
Debt service:				
Principal	480,000	-	-	-
Interest and fiscal charges	288,001	-	-	-
Total expenditures	38,331,826	1,120,333	6,059,708	45,154
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,654,514	(1,995)	419,492	25,690
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of assets	2,577	-	1,410	-
Transfers in	637,224	-	6,608	-
Transfers out	(1,871,599)	(153,180)	(133,510)	-
Total other financing sources (uses)	(1,231,798)	(153,180)	(125,492)	-
Net change in fund balances	422,716	(155,175)	294,000	25,690
FUND BALANCES:				
Beginning of year, as restated	20,967,281	21,279,908	1,316,133	9,726,253
End of year	<u>\$ 21,389,997</u>	<u>\$ 21,124,733</u>	<u>\$ 1,610,133</u>	<u>\$ 9,751,943</u>

Streets and Signals Capital Projects Fund	Non-Major Governmental Funds	Total
\$ -	\$ 2,365,543	\$ 40,074,672
2,371,719	3,627,986	7,460,797
-	1,823,702	1,845,161
17,134	1,234,913	1,531,598
-	9,050,775	16,003,674
-	6,035	337,570
-	539,160	1,438,217
<u>2,388,853</u>	<u>18,648,114</u>	<u>68,691,689</u>
-	3,227,004	10,642,385
-	1,176,564	35,231,651
-	5,835,130	7,492,320
-	3,502	1,512,250
-	10,242,200	54,878,606
3,076,508	1,952,162	5,181,284
-	200,000	680,000
-	71,870	359,871
<u>3,076,508</u>	<u>12,466,232</u>	<u>61,099,761</u>
<u>(687,655)</u>	<u>6,181,882</u>	<u>7,591,928</u>
-	-	3,987
1,332,262	277,102	2,253,196
<u>(25,223)</u>	<u>(2,294,777)</u>	<u>(4,478,289)</u>
1,307,039	(2,017,675)	(2,221,106)
619,384	4,164,207	5,370,822
<u>2,176,002</u>	<u>25,805,101</u>	<u>81,270,678</u>
<u>\$ 2,795,386</u>	<u>\$ 29,969,308</u>	<u>\$ 86,641,500</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, 2018

Net Change in Fund Balances - Total Governmental Funds	\$ 5,370,822
Amounts reported for governmental activities in the Statement of Activities are different because:	
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 \$1,783,960.	5,421,077
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 \$2,211,243.	(14,572,880)
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.	(557)
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.	(99,263)
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.	228,335
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	680,000
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.	6,598
Current year employer OPEB 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.	766,759
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.	5,308,235
Pension expense is recorded as incurred in the Government-Wide Statement of Activities, however pension expense is not recognized in the governmental funds.	(8,383,098)
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.	(667,771)
Change in Net Position of Governmental Activities	<u>\$ (5,941,743)</u>

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, 2018

	Business - Type Activities - Enterprise Funds			
	Wastewater System	Water System	Refuse Collection System	Non-Major Enterprise Funds
ASSETS				
Current assets:				
Cash, cash equivalent and investments	\$ 49,507,011	\$ 62,016,619	\$ 7,667,246	\$ 162,898
Restricted cash and investments	105	49	-	-
Accounts receivable, net	2,197,359	1,654,681	193,007	42,929
Due from other government	3,256,064	3,749,471	11,971	311
Interest receivable	238,239	299,422	36,014	-
Prepaid items	-	-	-	-
Inventory	-	238,709	-	-
Total current assets	<u>55,198,778</u>	<u>67,958,951</u>	<u>7,908,238</u>	<u>206,138</u>
Noncurrent assets:				
Notes receivable - private parties	20,711	11,454	-	-
Advances to other funds	-	30,827	-	-
Capital assets:				
Non-depreciable	7,613,620	6,838,509	-	17,798
Depreciable, net	102,749,597	27,526,505	714,897	4,740,922
Total capital assets	<u>110,363,217</u>	<u>34,365,014</u>	<u>714,897</u>	<u>4,758,720</u>
Total noncurrent assets	<u>110,383,928</u>	<u>34,407,295</u>	<u>714,897</u>	<u>4,758,720</u>
Total assets	<u>165,582,706</u>	<u>102,366,246</u>	<u>8,623,135</u>	<u>4,964,858</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pension	1,591,558	1,010,881	1,461,966	84,028
Deferred outflows related to OPEB	178,158	142,358	267,661	-
Total deferred outflows of resources	<u>1,769,716</u>	<u>1,153,239</u>	<u>1,729,627</u>	<u>84,028</u>
LIABILITIES				
Current liabilities:				
Accounts payable	744,775	318,841	210,166	678
Payroll payable	137,417	93,683	166,347	9,738
Unearned revenue	870,946	72,538	9,067	-
Accrued interest payable	300,778	70,932	-	-
Deposits and other liabilities	380,158	714,084	358,594	35,245
Compensated absences, due within one year	60,177	23,582	25,264	5,109
Claims payable, due within one year	-	-	-	-
Long-term debt, due within one year	2,624,577	532,500	-	-
Total current liabilities	<u>5,118,828</u>	<u>1,826,160</u>	<u>769,438</u>	<u>50,770</u>
Noncurrent liabilities:				
Advances from other funds	-	-	-	30,827
Compensated absences, due in more than one year	320,810	214,659	347,649	25,460
Claims payable, due in more than one year	-	-	-	-
Long-term debt, due in more than one year	31,923,460	6,039,529	-	-
Net other postemployment benefits liability	3,640,368	2,908,852	5,469,231	-
Net pension liability	6,207,687	4,116,203	5,688,481	481,843
Total noncurrent liabilities	<u>42,092,325</u>	<u>13,279,243</u>	<u>11,505,361</u>	<u>538,130</u>
Total liabilities	<u>47,211,153</u>	<u>15,105,403</u>	<u>12,274,799</u>	<u>588,900</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pension	100,282	66,438	91,892	7,716
Deferred inflows related to OPEB	402,737	321,809	605,065	-
Total deferred inflows of resources	<u>503,019</u>	<u>388,247</u>	<u>696,957</u>	<u>7,716</u>
NET POSITION				
Net investment in capital assets	79,029,308	30,881,067	714,897	4,758,720
Restricted:				
Other special projects and programs	797,969	645,153	922,315	29,817
Debt service	1,948,709	11,454	-	6,469
Capital projects	14,250,735	31,952,376	281,775	-
Unrestricted	23,611,529	24,535,785	(4,537,981)	(342,736)
Total net position	<u>\$ 119,638,250</u>	<u>\$ 88,025,835</u>	<u>\$ (2,618,994)</u>	<u>\$ 4,452,270</u>

See accompanying Notes to Basic Financial Statements.

Total	Governmental Activities Internal Service Funds
\$ 119,353,774	\$ 19,148,896
154	-
4,087,976	62,422
7,017,817	2,789
573,675	80,642
-	8,466
238,709	171,946
<u>131,272,105</u>	<u>19,475,161</u>
32,165	-
30,827	-
14,469,927	227,702
<u>135,731,921</u>	<u>8,264,681</u>
<u>150,201,848</u>	<u>8,492,383</u>
<u>150,264,840</u>	<u>8,492,383</u>
<u>281,536,945</u>	<u>27,967,544</u>
4,148,433	1,646,017
588,177	230,064
<u>4,736,610</u>	<u>1,876,081</u>
1,274,460	268,748
407,185	153,887
952,551	-
371,710	71,690
1,488,081	3,647
114,132	41,656
-	3,066,545
3,157,077	475,665
<u>7,765,196</u>	<u>4,081,838</u>
30,827	-
908,578	313,472
-	3,929,802
37,962,989	4,669,108
12,018,451	4,701,023
16,494,214	7,634,666
<u>67,415,059</u>	<u>21,248,071</u>
<u>75,180,255</u>	<u>25,329,909</u>
266,328	123,265
1,329,611	520,078
<u>1,595,939</u>	<u>643,343</u>
115,383,992	6,786,373
2,395,254	-
1,966,632	-
46,484,886	-
43,266,597	(2,916,000)
<u>\$ 209,497,361</u>	<u>\$ 3,870,373</u>

City of Merced
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the year ended June 30, 2018

	Business - Type Activities - Enterprise Funds			
	Wastewater System	Water System	Refuse Collection System	Non-Major Enterprise Funds
OPERATING REVENUES:				
Charges for services	\$ 21,327,967	\$ 15,267,167	\$ 13,777,074	\$ 426,130
Other revenues	725,310	159,358	146,932	2,407
Total operating revenues	22,053,277	15,426,525	13,924,006	428,537
OPERATING EXPENSES:				
Personnel services	4,403,486	2,993,994	5,105,277	260,305
Materials, supplies and other services	6,935,198	8,028,642	8,210,603	224,228
Depreciation	8,186,615	2,441,204	98,443	454,718
Total operating expenses	19,525,299	13,463,840	13,414,323	939,251
OPERATING INCOME (LOSS):	2,527,978	1,962,685	509,683	(510,714)
NONOPERATING REVENUES (EXPENSES):				
Property taxes	-	-	-	66,768
Intergovernmental revenues	-	412,329	64,682	-
Interest and investment earnings	640,890	803,568	101,481	1,537
Gain (loss) on disposition of capital assets	1,935	110,207	-	-
Interest and related expenses	(704,322)	(238,061)	-	(3,623)
Total nonoperating revenues (expenses)	(61,497)	1,088,043	166,163	64,682
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	2,466,481	3,050,728	675,846	(446,032)
Capital contributions	-	-	-	-
Transfers in	11,918,327	39,000	37,510	16,292
Transfers out	-	(11,957,982)	(39,000)	(10,569)
Total transfers and capital contributions	11,918,327	(11,918,982)	(1,490)	5,723
Change in net position	14,384,808	(8,868,254)	674,356	(440,309)
NET POSITION:				
Beginning of year, as restated	105,253,442	96,894,089	(3,293,350)	4,892,579
End of year	<u>\$ 119,638,250</u>	<u>\$ 88,025,835</u>	<u>\$ (2,618,994)</u>	<u>\$ 4,452,270</u>

Total	Governmental Activities Internal Service Funds
\$ 50,798,338	\$ 24,998,507
1,034,007	254,480
<u>51,832,345</u>	<u>25,252,987</u>
12,763,062	6,350,596
23,398,671	19,605,084
<u>11,180,980</u>	<u>2,211,243</u>
<u>47,342,713</u>	<u>28,166,923</u>
<u>4,489,632</u>	<u>(2,913,936)</u>
66,768	-
477,011	3,443
1,547,476	244,685
112,142	18,715
<u>(946,006)</u>	<u>(242,193)</u>
<u>1,257,391</u>	<u>24,650</u>
<u>5,747,023</u>	<u>(2,889,286)</u>
-	-
12,011,129	2,221,515
<u>(12,007,551)</u>	<u>-</u>
<u>3,578</u>	<u>2,221,515</u>
5,750,601	(667,771)
<u>203,746,760</u>	<u>4,538,144</u>
<u>\$ 209,497,361</u>	<u>\$ 3,870,373</u>

City of Merced
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2018

	Business - Type Activities - Enterprise Funds		
	Wastewater System	Water System	Refuse Collection System
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 21,160,108	\$ 16,322,680	\$ 13,834,919
Payments to suppliers and users	(7,100,741)	(8,295,789)	(8,185,888)
Payments to employees	(4,218,538)	(2,929,618)	(5,034,072)
Net cash provided by (used in) operating activities	9,840,829	5,097,273	614,959
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Tax proceeds not attributable to capital	-	-	-
Cash receipts from other funds	-	89,320	37,510
Cash payments to other funds	-	(39,655)	(39,000)
Net cash provided by (used in) noncapital financing activities	-	49,665	(1,490)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of capital assets	(2,905,477)	(907,540)	(379,332)
Proceeds from sale of capital assets	1,935	110,207	-
Capital grants and cash contributions received	-	412,329	64,682
Interest paid	(809,007)	(277,520)	-
Principal payments - long-term debt	(2,556,409)	(505,251)	-
Net cash provided by (used in) capital and related financing activities	(6,268,958)	(1,167,775)	(314,650)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	491,240	615,169	79,444
Net cash provided by investing activities	491,240	615,169	79,444
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,063,111	4,594,332	378,263
CASH AND CASH EQUIVALENTS:			
Beginning of year	45,444,005	57,422,336	7,288,983
End of year	\$ 49,507,116	\$ 62,016,668	\$ 7,667,246
FINANCIAL STATEMENT PRESENTATION:			
Cash and investments	\$ 49,507,011	\$ 62,016,619	\$ 7,667,246
Restricted cash and investments	105	49	-
Total	\$ 49,507,116	\$ 62,016,668	\$ 7,667,246
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	\$ 2,527,978	\$ 1,962,685	\$ 509,683
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	8,186,615	2,441,204	98,443
Changes in assets and liabilities:			
Receivables	(889,338)	904,910	(87,992)
Inventory	-	(19,222)	-
Prepaid expenses	-	-	-
Accounts payable	(186,847)	(333,891)	(21,961)
Payroll liabilities	(5,960)	(11,938)	10,148
Unearned revenue	(3,831)	(8,755)	(1,095)
Other liabilities	21,304	85,966	46,676
Claims payable	-	-	-
Compensated absences	7,746	(13,802)	28,706
Net other postemployment benefits and related items	(231,212)	(184,751)	(347,368)
Net pension liability and related items	414,374	274,867	379,719
Total adjustments	7,312,851	3,134,588	105,276
Net cash provided by (used in) operating activities	\$ 9,840,829	\$ 5,097,273	\$ 614,959

See accompanying Notes to Basic Financial Statements.

Non-Major Enterprise Funds		Total	Governmental Activities Internal Service Funds
\$ 416,478	\$ 51,734,185	\$ 25,263,587	
(217,137)	(23,799,555)	(18,788,142)	
(217,119)	(12,399,347)	(6,227,697)	
<u>(17,778)</u>	<u>15,535,283</u>	<u>247,748</u>	
66,768	66,768	-	
(34,028)	92,802	2,221,515	
(10,569)	(89,224)	-	
<u>22,171</u>	<u>70,346</u>	<u>2,221,515</u>	
-	(4,192,349)	(1,783,960)	
-	112,142	34,896	
-	477,011	3,443	
(3,623)	(1,090,150)	(248,205)	
-	(3,061,660)	(431,270)	
<u>(3,623)</u>	<u>(7,755,006)</u>	<u>(2,425,096)</u>	
1,537	1,187,390	192,207	
<u>1,537</u>	<u>1,187,390</u>	<u>192,207</u>	
2,307	9,038,013	236,374	
160,591	110,315,915	18,912,522	
<u>\$ 162,898</u>	<u>\$ 119,353,928</u>	<u>\$ 19,148,896</u>	
\$ 162,898	\$ 119,353,774	\$ 19,148,896	
-	154	-	
<u>\$ 162,898</u>	<u>\$ 119,353,928</u>	<u>\$ 19,148,896</u>	
\$ (510,714)	\$ 4,489,632	\$ (2,913,936)	
454,718	11,180,980	2,211,243	
(12,059)	(84,479)	10,600	
-	(19,222)	3,916	
-	-	(1,162)	
(773)	(543,472)	(67,012)	
2,102	(5,648)	(3,567)	
-	(13,681)	-	
7,864	161,810	(24)	
-	-	881,224	
8,800	31,450	(84,708)	
-	(763,331)	(298,575)	
32,284	1,101,244	509,749	
<u>492,936</u>	<u>11,045,651</u>	<u>3,161,684</u>	
<u>\$ (17,778)</u>	<u>\$ 15,535,283</u>	<u>\$ 247,748</u>	

This page intentionally left blank

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, 2018

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash, cash equivalents and investments	\$ 175,879	\$ 2,692,223
Restricted cash held by fiscal agent	-	2,864,596
Receivables	-	544,013
Deposits	-	-
Total assets	175,879	\$ 6,100,832
LIABILITIES		
Deposits	-	\$ 1,548,723
Other liabilities	-	191,825
Due to other agencies	-	852,955
Due to bondholders	-	3,507,329
Total liabilities	-	\$ 6,100,832
NET POSITION		
Held in trust for other purposes	175,879	
Total net position	\$ 175,879	

City of Merced
Statement of Changes in Fiduciary Net Position
Fiduciary Funds - Private Purpose Trust Funds
For the year ended June 30, 2018

	Private Purpose Trust Funds
ADDITIONS:	
Investment income	\$ 1,837
Miscellaneous	8,711
Total additions	<u>10,548</u>
DEDUCTIONS:	
Administration	19,604
Total deductions	<u>19,604</u>
Change in net position	(9,056)
NET POSITION:	
Beginning of year	<u>184,935</u>
End of year	<u>\$ 175,879</u>

This page intentionally left blank

City of Merced

Notes to Basic Financial Statements

For the year ended June 30, 2018

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.

The City provides accounting and investing services for the Merced Area Gang and Narcotic Enforcement Team (MAGNET), 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 MAGNET, therefore this entity is reported in the accompanying financial statements as Agency Funds in the Fiduciary Fund Financial Statements.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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, Economic Development Opportunity and Substandard Housing 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.

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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation, Continued

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

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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation, Continued

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

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.

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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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."

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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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 will not be recognized as an outflow of resources until then.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. *Deferred Outflows/Inflows of Resources, Continued*

In addition to liabilities, the Statement of Net Position will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and 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.

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.”

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

N. Net Position and Fund Equity, Continued

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. The City Council has not delegated the authority to assign fund balance.

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

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

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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

P. Use of Estimates

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

Q. Pension

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. For this report, the following timeframes are used:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	June 30, 2016 to June 30, 2017

R. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the plan's (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	June 30, 2016 to June 30, 2017

S. New Accounting Pronouncements

In 2018, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - The objective of this statement is to address reporting by governments that provide other postemployment benefits (OPEB) to their employees and for governments that finance OPEB for employees of other governments. The City restated its beginning net position as part of implementation of this statement.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

S. New Accounting Pronouncements, Continued

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements* – The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement did not apply to the City for the current fiscal year.
- GASB Statement No. 85, *Omnibus 2017* – The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and other postemployment benefits (OPEB). There was no effect on net position as a result of implementation of this statement.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues* – The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. There was no effect on net position as a result of implementation of this statement.

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, 2018:

	Government-Wide Statement of Net Position			Fund Financials	
	Governmental Activities	Business-Type Activities	Total	Fiduciary Funds Statement of Net Position	Total
Cash and investments	\$ 67,499,136	\$ 119,353,774	\$ 186,852,910	\$ 2,868,102	\$ 189,721,012
Restricted cash held by fiscal agent	5,020	154	5,174	2,864,596	2,869,770
Total Cash and Investments	\$ 67,504,156	\$ 119,353,928	\$ 186,858,084	\$ 5,732,698	\$ 192,590,782

Cash and investments as of June 30, 2018, consist of the following:

Cash on Hand	\$ 4,473
Deposits with financial institutions	5,287,865
Restricted Cash held by fiscal agent	2,869,770
Investments	184,428,674
Total Cash and Investments	\$ 192,590,782

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

2. CASH AND INVESTMENTS, Continued

A. Summary of Cash and Investments, Continued

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, 2018 was \$(309,287).

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, 2018 are described on the following page.

Investment Type	Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Asset-backed Securities	\$ 13,531,254	\$ -	\$ 13,531,254	\$ -
Federal Agency Securities	32,400,896	-	32,400,896	-
Commercial Paper	8,974,175	-	8,974,175	-
Municipal Securities	3,900,368	-	3,900,368	-
Negotiable Certificates of Deposit	11,981,082	-	11,981,082	-
Supranational Securities	6,932,318	-	6,932,318	-
U.S. Corporate Securities	25,130,016	-	25,130,016	-
U.S. Treasury Securities	51,204,811	-	51,204,811	-
Total investments subject to leveling	154,054,920	\$ -	\$ 154,054,920	\$ -
Investments not subject to leveling:				
Local Agency Investment Fund	27,748,553			
Money Market Funds	2,625,201			
Total Investments	\$ 184,428,674			

Asset-backed Securities, Federal Agency Securities, Commercial Paper, Municipal Securities, Negotiable Certificates of Deposit, Supranational Securities, U.S. Corporate Securities, U.S. Treasury Securities 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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

2. CASH AND INVESTMENTS, Continued

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, 2018, 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.

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, 2018, the City had \$27,748,553 invested in LAIF, which had invested 2.67% of the pooled investment funds in Medium-term and Short-term Structured Notes and Asset-Backed Securities as compared to 2.89% in the previous year. The LAIF fair value factor of 0.998126869 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:

- * Municipal Securities
- * U.S. Treasury Securities
- * U.S. Corporate Securities
- * Federal Agency Securities
- * Federally Insured Time Deposits
- * Collateralized Time Deposits
- * Negotiable Certificates of Deposit
- * Local Agency Investment Fund
- * Collateralized Bank Deposits
- * Bankers' Acceptances
- * Commercial Paper
- * Medium-Term Notes
- * Repurchase Agreements
- * Mutual Funds and Money Market Mutual Funds
- * Asset-backed Securities
- * Supranational Securities

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

2. CASH AND INVESTMENTS, Continued

D. Risks

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

Cash and investments, including cash with fiscal agents, held in the City by maturity date at June 30, 2018 are shown on the following page:

Cash and Investments	Fair Value	Investment Maturities (in years)		
		Less than 1 year	1-3 years	3-5 years
Cash:				
Cash Deposits	\$ 5,287,865	\$ 5,287,865	\$ -	\$ -
Petty Cash	4,473	4,473	-	-
Total cash	5,292,338	5,292,338	-	-
Investments:				
Money Market Funds	2,625,201	2,625,201	-	-
U.S. Treasury Securities	51,204,811	51,204,811	-	-
Federal Agency Securities	32,400,896	14,954,805	12,500,720	4,945,371
U.S. Corporate Securities	25,130,016	796,927	4,820,193	19,512,896
Asset-backed Securities	13,531,254	-	1,533,382	11,997,872
Negotiable Certificates of Deposit	11,981,082	11,981,082	-	-
Commercial Paper	8,974,175	8,974,175	-	-
Supranational Securities	6,932,318	2,998,140	1,976,274	1,957,904
Municipal Securities	3,900,368	-	3,900,368	-
Local Agency Investment Fund (LAIF)	27,748,553	27,748,553	-	-
Total investments	184,428,674	121,283,694	24,730,937	38,414,043
Total cash and investments	\$ 189,721,012	\$ 126,576,032	\$ 24,730,937	\$ 38,414,043
Restricted Cash with Fiscal Agents:				
Public Investment Money Market Fund	\$ 1,290,974	\$ 1,290,974	\$ -	\$ -
Commercial Paper	1,573,622	1,573,622	-	-
Money Market Funds	5,174	5,174	-	-
Total restricted cash with fiscal agents	\$ 2,869,770	\$ 2,869,770	\$ -	\$ -

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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

2. CASH AND INVESTMENTS, Continued

D. Risks, Continued

Presented below is the June 30, 2018 rating which meets the minimum rating required by (where applicable) the California Government Code, the City's Investment Policy, or debt agreements:

	<u>Credit Quality Ratings</u>
Investments:	
Asset-backed Securities	Aaa
Federal Agency Securities	Aaa
Commercial Paper	A-1
Municipal Securities	Aa2
Negotiable Certificates of Deposit	Aaa
Supranational Securities	A1
U.S. Corporate Securities	A1
U.S. Treasury Securities	Aaa
Fiscal Agents:	
Local Agency Investment Fund	Not rated
Money Market Funds	Aaa

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

Issuer	Fair Value	Percent of Total Investments
Federal Home Loan Bank	\$ 9,998,500	6.49%
Federal Nation Mortgage Assn	14,930,838	9.69%
U.S. Treasury Bill and Notes	51,204,811	33.24%

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counter party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's Investment Policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits:

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the City). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

2. CASH AND INVESTMENTS, Continued

D. Risks, Continued

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, 2018, the carrying amount of the City's cash (excluding cash equivalents) includes the general checking account which had a balance of \$114,529 and petty cash of \$4,473. The bank balance in the City's general checking was \$299,130, fully insured and collateralized with securities held by the pledging financial institutions in the City's name as discussed below. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. The remainder of the cash balance is cash held in an account used solely for the collection of interest and the value of matured investments.

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, 2018, cash and investments with fiscal agents totaled \$2,869,770.

3. RECEIVABLES

A. Government-Wide Financial Statements

At June 30, 2018, the Government-Wide Financial Statements reported the following receivables net of allowances for uncollectible amounts:

	Governmental Activities	Business-Type Activities	Total
Accounts receivable	\$ 3,067,377	\$ 4,087,976	\$ 7,155,353
Due from other governments	6,583,115	7,017,817	13,600,932
Interest receivable	282,076	573,675	855,751
Total	\$ 9,932,568	\$ 11,679,468	\$ 21,612,036

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

3. RECEIVABLES, Continued

B. Fund Financial Statements

At June 30, 2018, the fund financial statements show the following receivables:

	Governmental Funds	Enterprise Funds	Internal Service Funds	Total
Accounts receivable	\$ 3,004,955	\$ 4,087,976	\$ 62,422	\$ 7,155,353
Due from other governments	6,580,326	7,017,817	2,789	13,600,932
Interest receivable	201,434	573,675	80,642	855,751
Total	\$ 9,786,715	\$ 11,679,468	\$ 145,853	\$ 21,612,036

Accounts Receivable

Accounts receivable consists of amounts accrued in the ordinary course of operations. The accounts receivable as of June 30, 2018 was as follows:

	Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
Governmental Funds:			
General Fund	\$ 2,463,644	\$ (1,587,819)	\$ 875,825
Non-Major Funds	2,151,717	(22,587)	2,129,130
Total governmental Funds	<u>4,615,361</u>	<u>(1,610,406)</u>	<u>3,004,955</u>
Enterprise Funds:			
Wastewater System	2,259,455	(62,096)	2,197,359
Water System	1,712,960	(58,279)	1,654,681
Refuse Collection System	250,181	(57,174)	193,007
Non-Major Funds	46,623	(3,694)	42,929
Total enterprise funds	<u>4,269,219</u>	<u>(181,243)</u>	<u>4,087,976</u>
Internal Service Funds	248,497	(186,075)	62,422
Total	<u>\$ 9,133,077</u>	<u>\$ (1,977,724)</u>	<u>\$ 7,155,353</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

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, 2018 was as follows:

Governmental Funds:	
General Fund	\$ 2,630,542
Housing	23,923
Measure C	1,037,255
Streets and Signals	913,678
Non-Major Funds	<u>1,974,928</u>
Total governmental funds	<u>6,580,326</u>
Enterprise Funds:	
Wastewater System	3,256,064
Water System	3,749,471
Refuse Collection System	11,971
Non-Major Funds	<u>311</u>
Total enterprise funds	<u>7,017,817</u>
Internal Service Funds	<u>2,789</u>
Total	<u>\$ 13,600,932</u>

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, 2018, was as follows:

Governmental Funds:	
General Fund	\$ 70,725
Measure C	1,742
Housing Special Revenue Fund	1,945
Low and Moderate Income Housing	5,955
Streets and Signals	9,632
Non-Major Funds	<u>111,435</u>
Total governmental funds	<u>201,434</u>
Enterprise Funds:	
Wastewater System	238,239
Water System	299,422
Refuse Collection System	<u>36,014</u>
Total enterprise funds	<u>573,675</u>
Internal Services Fund	<u>80,642</u>
Total	<u>\$ 855,751</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

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, 2018, unearned revenues in the Government-Wide Financial Statements were as follows:

	Governmental Activities	Business-Type Activities	Total
Prepaid business license fees	\$ 1,113,796	\$ -	\$ 1,113,796
Grants	54,989	-	54,989
Service charges received in advance	-	113,340	113,340
Developer credits	2,130,844	839,211	2,970,055
Total	\$ 3,299,629	\$ 952,551	\$ 4,252,180

B. Fund Financial Statements

At June 30, 2018, 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	\$ 1,052,090	\$ -	\$ 61,706	\$ 1,113,796
Grants	-	54,989	-	54,989
Developer Credits	-	-	2,130,844	2,130,844
Total	\$ 1,052,090	\$ 54,989	\$ 2,192,550	\$ 3,299,629

<i>Enterprise Funds:</i>	Wastewater System	Water System	Refuse Collection System	Total
Service charges received in advance	\$ 31,735	\$ 72,538	\$ 9,067	\$ 113,340
Developer credits	839,211	-	-	839,211
Total	\$ 870,946	\$ 72,538	\$ 9,067	\$ 952,551

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

5. INTERFUND TRANSACTIONS

A. Fund Financial Statements

Due To, Due From

At June 30, 2018, the City had the following short-term interfund receivables and payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	Governmental Activities
General Fund	Non-Major Governmental Funds	\$ 47,034
Non-Major Governmental Funds	Non-Major Governmental Funds	124,436
Total		\$ 171,470

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

Long-Term Advances

At June 30, 2018, 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>
		Business-Type Activities
<u>Receivable Fund</u>	<u>Payable Fund</u>	
Water System	Non-Major Enterprise Fund	<u>\$ 30,827</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, 2018

5. INTERFUND TRANSACTIONS, Continued

A. Fund Financial Statements, Continued

Interfund Transfers

The composition of interfund transfers for the year ended June 30, 2018 is as follows:

Transfers Out:	Governmental Funds				Transfers In:					Total
	General Fund	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	\$ -	\$ -	\$ -	\$ 167,187	\$ -	\$ -	\$ -	\$ -	\$ 1,704,412	\$ 1,871,599
Housing	1,461	-	151,719	-	-	-	-	-	-	153,180
Measure C	-	-	-	82,942	-	-	-	-	50,568	133,510
Streets and Signals	-	-	-	25,223	-	-	-	-	-	25,223
Non-Major Governmental Funds	635,763	6,608	1,180,543	-	-	-	37,510	16,292	418,061	2,294,777
Enterprise Funds:										
Water System	-	-	-	1,750	11,918,327	-	-	-	37,905	11,957,982
Refuse Collection System	-	-	-	-	-	-	-	-	-	-
Non-Major Enterprise Funds	-	-	-	-	-	39,000	-	-	-	39,000
	-	-	-	-	-	-	-	-	10,569	10,569
Total	\$ 637,224	\$ 6,608	\$ 1,332,262	\$ 277,102	\$ 11,918,327	\$ 39,000	\$ 37,510	\$ 16,292	\$ 2,221,515	\$ 16,485,840

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, 2018, the City made the following one-time transfers:

- 1) A transfer of \$11,918,327 from Water System to Wastewater System represents the reclassification of capital assets of the Storm Drain Department moving its operation from the Water System to Wastewater System.
- 2) A transfer of \$225,000 from General Fund to Internal Service Funds for additional workers' compensation claims paid during the fiscal year.
- 3) A transfer of \$891,756 from General Fund to Internal Service Funds represents the RDA residual set aside for future RDA litigations and liability payments.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

6. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2018, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
<i>Non-depreciable Assets:</i>			
Land and improvements	\$ 86,923,895	\$ 2,461,520	\$ 89,385,415
Construction in process	7,857,702	12,008,407	19,866,109
Total non-depreciable assets	94,781,597	14,469,927	109,251,524
<i>Depreciable Assets:</i>			
Buildings and structures	23,225,281	9,324,573	32,549,854
Machinery and equipment	42,960,235	5,759,262	48,719,497
Improvements other than buildings, structures, and land improvements	125,179,232	189,028,752	314,207,984
Infrastructure	373,627,644	42,062,326	415,689,970
Total depreciable assets	564,992,392	246,174,913	811,167,305
Total accumulated depreciation	(380,905,728)	(110,442,992)	(491,348,720)
Total depreciable assets, net	184,086,664	135,731,921	319,818,585
Total	\$ 278,868,261	\$ 150,201,848	\$ 429,070,109

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

	Balance July 1, 2017	Additions	Deletions	Reclassification	Balance June 30, 2018
<i>Non-depreciable Assets:</i>					
Land and improvements	\$ 86,159,407	\$ 764,488	\$ -	\$ -	\$ 86,923,895
Construction in progress	6,725,201	3,564,980	(557)	(2,431,922)	7,857,702
Total non-depreciable assets	92,884,608	4,329,468	(557)	(2,431,922)	94,781,597
<i>Depreciable Assets:</i>					
Buildings and structures	22,363,198	862,083	-	-	23,225,281
Machinery and equipment	41,563,173	2,013,486	(616,424)	-	42,960,235
Improvements other than buildings, structures, and land improvements	122,747,310	-	-	2,431,922	125,179,232
Infrastructure	373,627,644	-	-	-	373,627,644
Total depreciable assets	560,301,325	2,875,569	(616,424)	2,431,922	564,992,392
<i>Accumulated depreciation:</i>					
Buildings and structures	(10,010,274)	(639,197)	-	-	(10,649,471)
Machinery and equipment	(33,003,518)	(2,150,641)	600,243	-	(34,553,916)
Improvements other than buildings, structures, and land improvements	(68,699,835)	(4,750,296)	-	-	(73,450,131)
Infrastructure	(253,008,221)	(9,243,989)	-	-	(262,252,210)
Total accumulated depreciation	(364,721,848)	(16,784,123)	600,243	-	(380,905,728)
Total depreciable assets, net	195,579,477	(13,908,554)	(16,181)	2,431,922	184,086,664
Total governmental activities, net	\$ 288,464,085	\$ (9,579,086)	\$ (16,738)	\$ -	\$ 278,868,261

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Governmental activities depreciation expense for capital assets for the year ended June 30, 2018 was as follows:

General government	\$ 1,406,054
Public safety	570,804
Public works	13,877,322
Culture and recreation	929,943
Total depreciation expense	<u>\$ 16,784,123</u>

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

	Balance July 1, 2017	Additions	Deletions	Reclassification	Balance June 30, 2018
<i>Non-depreciable Assets:</i>					
Land and improvements	\$ 2,461,520	\$ -	\$ -	\$ -	\$ 2,461,520
Construction in progress	14,255,588	3,584,727	-	(5,831,908)	12,008,407
Total non-depreciable assets	<u>16,717,108</u>	<u>3,584,727</u>	<u>-</u>	<u>(5,831,908)</u>	<u>14,469,927</u>
<i>Depreciable Assets:</i>					
Buildings and structures	4,575,769	-	-	4,748,804	9,324,573
Machinery and equipment	5,166,440	592,822	-	-	5,759,262
Improvements other than buildings, structures, and land improvements	188,540,420	14,800	-	473,532	189,028,752
Infrastructure	41,452,754	-	-	609,572	42,062,326
Total depreciable assets	<u>239,735,383</u>	<u>607,622</u>	<u>-</u>	<u>5,831,908</u>	<u>246,174,913</u>
<i>Accumulated depreciation:</i>					
Buildings and structures	(3,071,135)	(126,620)	-	-	(3,197,755)
Machinery and equipment	(3,727,067)	(532,076)	-	-	(4,259,143)
Improvements other than buildings, structures, and land improvements	(78,698,342)	(9,328,278)	-	-	(88,026,620)
Infrastructure	(13,765,468)	(1,194,006)	-	-	(14,959,474)
Total accumulated depreciation	<u>(99,262,012)</u>	<u>(11,180,980)</u>	<u>-</u>	<u>-</u>	<u>(110,442,992)</u>
Total depreciable assets, net	<u>140,473,371</u>	<u>(10,573,358)</u>	<u>-</u>	<u>5,831,908</u>	<u>135,731,921</u>
Total business-type activities, net	<u>\$ 157,190,479</u>	<u>\$ (6,988,631)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 150,201,848</u>

Business-type activities depreciation expense for capital assets for the year ended June 30, 2018 was as follows:

Wastewater System Fund	\$ 8,186,615
Water System Fund	2,441,204
Refuse Collection System	98,443
Merced Municipal Airport	454,718
Total depreciation expense	<u>\$ 11,180,980</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

6. CAPITAL ASSETS, Continued

B. Fund Financial Statements

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

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

7. 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, 2018, were as follows:

A. Government-Wide Financial Statements

	Governmental Activities	Business-Type Activities	Total
Deposits	\$ 12,721	\$ 1,465,505	\$ 1,478,226
Miscellaneous liabilities	62,007	22,576	84,583
Total	\$ 74,728	\$ 1,488,081	\$ 1,562,809

B. Fund Financial Statements

	Deposits	Other Liabilities	Total Deposits and Other Liabilities
<i>Governmental Funds:</i>			
General Fund	\$ -	\$ 7,263	\$ 7,263
Housing	-	3,244	3,244
Non-Major Funds	12,721	47,853	60,574
Total governmental funds	12,721	58,360	71,081
<i>Business-Type Activities:</i>			
Wastewater System	379,662	496	380,158
Water System	711,236	2,848	714,084
Refuse Collection System	358,594	-	358,594
Non-Major Funds	16,013	19,232	35,245
Total business-type activities	1,465,505	22,576	1,488,081
<i>Internal Service Funds</i>	-	3,647	3,647
Total	\$ 1,478,226	\$ 84,583	\$ 1,562,809

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

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, 2018:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Due Within One Year	Due in More than One Year
Pension obligation bonds	\$ 4,830,000	\$ -	\$ (480,000)	\$ 4,350,000	\$ 540,000	\$ 3,810,000
Loans payable	1,400,000	-	(200,000)	1,200,000	200,000	1,000,000
Capital lease	5,576,044	-	(431,270)	5,144,774	475,665	4,669,109
Total	\$ 11,806,044	\$ -	\$ (1,111,270)	\$ 10,694,774	\$ 1,215,665	\$ 9,479,109

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.

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

Year Ending June 30	Principal	Interest	Total
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	840,000	104,065	944,065
2024	925,000	54,538	979,538
Total	\$ 4,350,000	\$ 976,967	\$ 5,326,967

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

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
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	200,000	17,020	217,020
2024	200,000	5,690	205,690
Total	\$ 1,200,000	\$ 201,890	\$ 1,401,890

Capital Lease

On March 9, 2011, the City entered into a capital lease agreement with Bank of America to fund certain energy efficient, cost saving facility improvement measures and facility upgrades under which the related facility will become the property of the City when all terms of the lease agreement are met. The capital lease agreement of \$7,157,493 funded energy efficiency retrofitting of \$4,783,916 and capital improvements of \$2,373,577. As of June 30, 2018, the accumulated depreciation on the capital assets is \$721,962.

The capital lease agreement balance as of June 30, 2018:

	Stated Interest Rate	Present Value of Remaining Payments as of June 30, 2018
Governmental Activities: Facilities	4.50%	<u>\$ 5,144,774</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

As of June 30, 2018, future minimum lease payments under capital leases are as follows:

	Year Ending June 30	Governmental Activities
	2019	\$ 703,799
	2020	728,977
	2021	755,035
	2022	782,005
	2023	621,135
	2024-2027	2,715,319
Total future minimum lease payments		6,306,270
Less: interest		(1,161,496)
Present value of minimum lease payments		\$ 5,144,774

Business-Type Activities

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Due Within One Year	Due in More than One Year
Revenue bonds payable	\$12,020,000	\$ -	\$ (1,295,000)	\$10,725,000	\$ 1,350,000	\$ 9,375,000
Unamortized premiums	935,514	-	(116,940)	818,574	-	818,574
Loans payable	31,343,152	-	(1,766,660)	29,576,492	1,807,077	27,769,415
Total	\$44,298,666	\$ -	\$ (3,178,600)	\$41,120,066	\$ 3,157,077	\$37,962,989

Revenue Bonds Payable

Revenue bonds payable at June 30, 2018, consisted of the following:

	Bonds Payable	Unamortized Premiums
Water Revenue Bonds	\$ 3,245,000	\$ 238,947
Wastewater Revenue Bonds	7,480,000	579,627
Total	\$ 10,725,000	\$ 818,574

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% 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%.

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, 2018 totals \$818,574.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Revenue Bonds Payable, Continued

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 2017-18 fiscal year, the debt coverage is 7.26 and 7.30 for the Water Fund and Wastewater Fund, respectively.

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
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	524,000
2023	480,000	45,200	525,200
2024-2025	1,020,000	33,400	1,053,400
Total	<u>\$ 3,245,000</u>	<u>\$ 440,700</u>	<u>\$ 3,685,700</u>

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

Year Ending June 30	Principal	Interest	Total
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	1,110,000	147,000	1,257,000
2024-2025	2,385,000	120,625	2,505,625
Total	<u>\$ 7,480,000</u>	<u>\$ 1,330,050</u>	<u>\$ 8,810,050</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Loans Payable

Loans payable at June 30, 2018 consisted of the following:

California Infrastructure and Economic Development Bank (CIEDB)	
Enterprise Fund Installment Sales Agreement	\$ 6,302,209
California State Water Resources Control Board	
Clean Water State Revolving Fund	23,274,283
Total	<u>\$ 29,576,492</u>

California Infrastructure and Economic Development Bank Enterprise Fund Installment Sales Agreement

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

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

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

Year Ending June 30	Principal	Interest	Total
2019	\$ 250,000	\$ 195,818	\$ 445,818
2020	275,000	187,496	462,496
2021	300,000	178,382	478,382
2022	325,000	168,476	493,476
2023	325,000	158,174	483,174
2024-2028	1,950,000	617,708	2,567,708
2029-2033	2,350,000	273,763	2,623,763
2034	527,209	8,356	535,565
Total	<u>\$ 6,302,209</u>	<u>\$ 1,788,173</u>	<u>\$ 8,090,382</u>

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.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

8. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Loans Payable, Continued

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 30-Jun	Principal	Interest	Total
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	1,620,300	169,519	1,789,819
2024-2028	8,347,812	601,286	8,949,098
2029-2032	6,983,814	175,464	7,159,278
Total	<u>\$ 23,274,283</u>	<u>\$ 1,783,192</u>	<u>\$ 25,057,475</u>

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.

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 bondholders 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, 2018
1998 Liberty Park Refunding Assessment District	\$ 50,000
Fahrens Park Refunding Assessment District	1,490,000
Bellevue Ranch East CFD	8,595,000
Bellevue Ranch West CFD	6,330,000
Moraga CFD	4,220,000
Total	<u>\$ 20,685,000</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

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, 2018 is as follows:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Due Within One Year	Due in More than One Year
Governmental activities	\$ 3,271,003	\$ 730,503	\$ (715,948)	\$ 3,285,558	\$ 547,614	\$ 2,737,944
Business-type activities	991,260	170,343	(138,893)	1,022,710	114,132	908,578
Total	\$ 4,262,263	\$ 900,846	\$ (854,841)	\$ 4,308,268	\$ 661,746	\$ 3,646,522

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

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	\$ 62,499	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 62,499
Advances receivable	1,710,991	-	-	-	-	-	1,710,991
Total nonspendable	1,773,490	-	-	-	-	-	1,773,490
Restricted for:							
Street and street lights	-	-	-	-	-	5,960,622	5,960,622
Community development	-	-	-	-	-	11,744,011	11,744,011
Housing	-	21,124,733	-	9,751,943	-	845,686	31,722,362
Public safety	-	-	-	-	-	359,537	359,537
Special districts	-	-	-	-	-	3,561,553	3,561,553
Capital projects	-	-	-	-	2,795,386	1,019,135	3,814,521
Other special projects and programs:							
Cash basis fund	4,000,000	-	-	-	-	-	4,000,000
Other	-	-	-	-	-	400,278	400,278
Total restricted	4,000,000	21,124,733	-	9,751,943	2,795,386	23,890,822	61,562,884
Committed to:							
Substandard Housing	33,195	-	-	-	-	-	33,195
Street and street lights	-	-	-	-	-	7,962	7,962
Community development	-	-	-	-	-	1,642,428	1,642,428
Public safety	-	-	1,610,133	-	-	-	1,610,133
Housing	-	-	-	-	-	4,428,096	4,428,096
Total committed	33,195	-	1,610,133	-	-	6,078,486	7,721,814
Assigned to:							
Appropriations in subsequent year	698,155	-	-	-	-	-	698,155
Encumbrances:							
General government	690,987	-	-	-	-	-	690,987
Public safety	404,106	-	-	-	-	-	404,106
Public works	12,883	-	-	-	-	-	12,883
Parks and recreation	22,628	-	-	-	-	-	22,628
Total assigned	1,828,759	-	-	-	-	-	1,828,759
Unassigned	13,754,553	-	-	-	-	-	13,754,553
Total Fund Balances	\$ 21,389,997	\$ 21,124,733	\$ 1,610,133	\$ 9,751,943	\$ 2,795,386	\$ 29,969,308	\$ 86,641,500

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

11. OTHER FUND DISCLOSURES

A. Deficit Balances

At June 30, 2018, the funds below had the following deficit fund balance or net position:

Enterprise Funds:

Refuse Fund	\$ (2,715,743)
-------------	----------------

The deficit net position was caused by the adjustments established through implementation of Governmental Accounting Standards Board Statement No. 68 and 75, which requires the net pension liability and net OPEB liability to be reported on the Statement of Net Position. The deficit will be eliminated by future charges for services.

Internal Service Funds:

Workers' Compensation Insurance Fund	\$ (5,812,307)
--------------------------------------	----------------

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	\$ (623,661)
-----------------------	--------------

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	\$ (4,193,249)
---------------------------	----------------

The deficit net position was caused by recording other postemployment benefits liability through the implementation of Governmental Accounting Standards Board Statement No. 75 and net pension liability. In addition, the City's capital lease agreement to fund certain energy cost saving facility improvement measures and facility upgrades cause a reduction in fund balance. The related facility will become property of the City when all terms of the lease agreement are met. The deficit balance will be eliminated by future charges for services and debt service payments related to the capital lease agreement.

Support Services Fund	\$ (4,399,606)
-----------------------	----------------

The deficit net position was caused by the recording of other postemployment benefits liability through the implementation of Governmental Accounting Standards Board Statement No. 75 and the net pension liability. The deficit balance will be eliminated by future charges for services.

Public Works Administration Fund	\$ (2,825,069)
----------------------------------	----------------

The deficit net position was caused by the recording of other postemployment benefits liability through the implementation of Governmental Accounting Standards Board Statement No. 75 and the net pension liability. The deficit will be eliminated by future charges for services.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

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 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, 2018, claims for general liability and workers' compensation were \$1,077,168 and \$5,919,179 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.

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

	General Liability	Workers' Compensation
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	478,762	5,636,361
Claims incurred	839,937	1,966,698
Claims payments	(241,531)	(1,927,907)
Changes to prior year estimates	-	244,027
Liability - June 30, 2018	<u>\$ 1,077,168</u>	<u>\$ 5,919,179</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

13. PENSION PLANS

A. General Information about the Pension Plans

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

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

The Plans’ provisions and benefits in effect at June 30, 2018 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	20.124%	20.124%	20.124%

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

13. PENSION PLANS, Continued

A. General Information about the Pension Plans, Continued

	Safety Plan		
	Existing plan members hired before	Existing plan members hired after	New plan members hired after
Hire date - Fire	October 7, 2011	October 7, 2011	January 1, 2013
Hire date - Police	December 10, 2012	December 10, 2012	January 1, 2013
Benefit formula	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50 - 55	50 - 57
Monthly benefits, as a % of eligible compensation	3.0%	2.4% - 3.0%	2.0% to 2.7%
Required employee contribution rates	9%	9%	10.75%
Required employer contribution rates	30.129%	30.129%	30.129%

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

	Miscellaneous Plan	Safety Plan
Inactive employees or beneficiaries currently receiving benefits	344	151
Inactive employees entitled to but not yet receiving benefits	204	97
Active employees	275	175
Total	823	423

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.

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, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 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, 2018

13. PENSION PLANS, Continued

B. Net Pension Liability, Continued

Actuarial Assumptions – The June 30, 2016 valuation was rolled forward to determine the June 30, 2017 total pension liability, based on the following actuarial methods and assumptions:

	Miscellaneous and Safety Plans
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.15%
Mortality (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

All other actuarial assumptions used in the June 30, 2016 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 may be obtained at CalPERS' website under Forms and Publications.

Discount Rate – The discount rate used to measure the total pension liability was 7.15%. 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 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund (PERF). 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, 2018

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	Current Target Allocation	Real Return Years 1 -10 (a)	Real Return Years 11+ (b)
Global equity	47.0%	4.90%	5.38%
Global fixed income	19.0%	0.80%	2.27%
Inflation sensitive	6.0%	0.60%	1.39%
Private equity	12.0%	6.60%	6.63%
Real estate	11.0%	2.80%	5.21%
Infrastructure and forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
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, 2018

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	\$ 130,938,207	\$ 93,441,860	\$ 37,496,347
Change in the year:			
Service cost	2,693,011	-	2,693,011
Interest on the total pension liability	9,858,159	-	9,858,159
Changes in assumptions	8,157,365	-	8,157,365
Differences between actual and expected experience	673,366	-	673,366
Contribution - employer	-	2,989,612	(2,989,612)
Contribution - employee	-	1,224,690	(1,224,690)
Net Investment income	-	10,438,103	(10,438,103)
Administrative expenses	-	(137,961)	137,961
Benefit payments, including refunds of employee contribution	(6,478,220)	(6,478,220)	-
Net changes	14,903,681	8,036,224	6,867,457
Ending at June 30, 2017	\$ 145,841,888	\$ 101,478,084	\$ 44,363,804
Safety Plan:	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Pension	Net Pension Liability (Asset)
	(a)	(b)	(c) = (a) - (b)
Beginning balance	\$ 137,980,176	\$ 104,147,677	\$ 33,832,499
Change in the year:			
Service cost	3,431,918	-	3,431,918
Interest on the total pension liability	10,305,955	-	10,305,955
Changes in assumptions	8,884,695	-	8,884,695
Differences between actual and expected experience	(1,074,802)	-	(1,074,802)
Contribution - employer	-	3,498,832	(3,498,832)
Contribution - employee	-	1,163,431	(1,163,431)
Net Investment income	-	11,535,734	(11,535,734)
Administrative expenses	-	(153,767)	153,767
Benefit payments, including refunds of employee contribution	(6,733,626)	(6,733,626)	-
Net changes	14,814,140	9,310,604	5,503,536
Ending at June 30, 2017	\$ 152,794,316	\$ 113,458,281	\$ 39,336,035

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

13. PENSION PLANS, Continued

C. Changes in the Net Pension Liability, Continued

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of each Plan as of the measurement date, calculated using the discount rate of 7.15% 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	6.15%	6.15%	6.15%
Net pension liability	\$ 64,039,227	\$ 61,013,049	\$ 125,052,276
Current discount rate	7.15%	7.15%	7.15%
Net pension liability	\$ 44,363,804	\$ 39,336,035	\$ 83,699,839
1% increase	8.15%	8.15%	8.15%
Net pension liability	\$ 28,097,022	\$ 21,573,977	\$ 49,670,999

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

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

For the year ended June 30, 2018, the City recognized pension expense of \$11,804,920 (\$6,297,746 and \$5,507,174 for Miscellaneous and Safety Plans, respectfully). At June 30, 2018, 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	\$ 3,336,238	\$ -	\$ 3,786,577	\$ -
Expected and actual experience	462,939	(456,355)	-	(2,613,241)
Change in assumptions	5,608,188	(260,005)	6,953,240	(725,076)
Net differences between projected and actual earnings on pension plan investments	1,277,947	-	1,579,097	-
Total	<u>\$ 10,685,312</u>	<u>\$ (716,360)</u>	<u>\$ 12,318,914</u>	<u>\$ (3,338,317)</u>

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

13. PENSION PLANS, Continued

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

For Miscellaneous and Safety Plans, \$3,336,238 and \$3,786,577, respectfully, is reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. 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
2018	\$ 2,030,012	\$ 140,411
2019	4,265,261	2,666,072
2020	1,108,565	2,203,708
2021	(771,124)	183,829

14. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS (OPEB)

A. General Information about the OPEB Plan

Plan Description - The City of Merced Retiree Healthcare Plan (“Plan”) is an agent multiple-employer defined benefit healthcare plan. 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 \$2,054,357 in the California Employers’ Retiree Benefit Trust (CERBT) at the end of the fiscal year ending June 30, 2018. 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.

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 available to retirees, but at their own expense.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

14. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS (OPEB), Continued

A. General Information about the OPEB Plan, Continued

Employees Covered - As of the actuarial valuation date June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	257
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>152</u>
Total	<u><u>409</u></u>

Contributions - 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.

B. Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

Actuarial Assumptions - The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	Based on Municipal Bond Rate 3.58%, Bond Buyer 20
Inflation	2.75%
Expected Long-Term Investment Rate of Return	6.75% at 6/30/17, net of investment expenses
Actuarial Cost Method	Entry age, level percent of payroll
Mortality, Disability, Termination, Retirement	CalPERS 1997-2011 Experience Study
Mortality Improvement Scale	Mortality projected fully generational with Scale MP-16
Trend	Pre-Medicare - 7.5% for 2019, decreasing to 4.00% for 2076 and later Medicare - 6.5% for 2019, decreasing to 4.00% for 2076 and later
Healthcare Participation for Future Retirees	Medical coverage: 100% Spouse coverage: 100% for those with more than single coverage Assumptions based on study of recent retiree experience

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2016 to June 30, 2017.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

14. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS (OPEB), Continued

B. Net OPEB Liability, Continued

The long-term expected rate of return on OPEB 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation CERBT-Strategy 1	Long-term expected real rate of return
Global equity	57.0%	4.82%
Fixed income	27.0%	1.47%
TIPS	5.0%	1.29%
Commodities	3.0%	0.84%
REITS	8.0%	3.76%
Total	100.0%	

Discount Rate - The discount rate used to measure the total OPEB liability was 3.58%. The projection of cash flows used to determine the discount rate assumed that the City contributions would be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

14. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS (OPEB), Continued

C. Change in the Net OPEB Liability

The changes in the net OPEB liability for the Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/ (Asset) (c) = (a) - (b)
Beginning balance	\$ 39,594,000	\$ 1,725,000	\$ 37,869,000
Change in the year:			
Service cost	877,000	-	877,000
Interest on the total OPEB liability	1,133,000	-	1,133,000
Changes of benefit terms	-	-	-
Changes in Assumptions	(2,937,000)	-	(2,937,000)
Differences between expected and actual experience	(2,947,000)	-	(2,947,000)
Contribution - employer	-	1,427,000	(1,427,000)
Contribution - employee	-	-	-
Net Investment income	-	182,000	(182,000)
Benefit payments, including refunds	(1,427,000)	(1,427,000)	-
Administrative expenses	-	(1,000)	1,000
Net Changes	(5,301,000)	181,000	(5,482,000)
Ending at June 30, 2018 (measurement date June, 30, 2017)	\$ 34,293,000	\$ 1,906,000	\$ 32,387,000

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - the following presents the net OPEB liability of the City, as well as what the City's net OPEB 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 discount rate:

	Discount Rate -1 % (2.58%)	Current Discount Rate (3.58%)	Discount Rate +1 % (4.58%)
Net OPEB Liability/(Asset)	\$ 36,737,000	\$ 32,387,000	\$ 28,756,000

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates - the following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Discount Rate -1 % (6.50% decreasing to 3.00%)	Healthcare Cost Trend Rates (7.50% decreasing to 4.00%)	Discount Rate +1 % (8.50% decreasing to 5.00%)
Net OPEB Liability/(Asset)	\$ 30,432,000	\$ 32,387,000	\$ 34,684,000

OPEB Plan Fiduciary Net Position - detailed information about the OPEB plan's fiduciary net position is available in the separately issued plan financial report.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

14. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS (OPEB), Continued

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

For the fiscal year ended June 30, 2018, the City recognized OPEB expense of \$(472,000). At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,768,000
Change in assumptions	-	1,762,000
Net differences between projected and actual earnings on OPEB plan investments	-	53,000
Employer contributions made subsequent to the measurement date	1,585,000	-
Total	\$ 1,585,000	\$ 3,583,000

The \$1,585,000 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Measurement Period Ended June 30	Deferred Outflows/(Inflows) of Resources
2019	\$ (2,367,000)
2020	(1,189,000)
2021	(13,000)
2022	(14,000)

15. COMMITMENTS AND CONTINGENT LIABILITIES

Project Commitments

As of June 30, 2018, the City had the following outstanding commitments that exceeded \$500,000:

Taylor Backhoe Service, Inc	\$ 1,007,140
Merced County Department of Public Works	625,230
Total	\$ 1,632,370

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 offset by insurance recoveries, and therefore no liability is reported on the City's Statement of Net Position.

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

17. DISSOLUTION OF REDEVELOPMENT AGENCY

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

City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2018

18. RESTATEMENT

The City recorded a prior period adjustment to recognize deferred outflows of resources and net OPEB liability as of June 30, 2017, eliminate previously reported net OPEB obligation, and to correct accrued interest on loan receivables.

	Net Position, as Previously Reported at June 30, 2017	Prior Period Adjustments			Net Position, as Restated at June 30, 2017	
		Interest Receivable	Deferred Employer OPEB Contributions	Net OPEB Obligation		Net OPEB Liability
Government-Wide Statements						
Governmental activities	\$ 296,843,125	\$ (2,617)	\$ 897,456	\$ 21,719,269	\$ (23,816,241)	\$ 295,640,992
Business-type activities	\$ 211,586,244	\$ -	\$ 529,544	\$ 5,683,732	\$ (14,052,760)	\$ 203,746,760
Governmental Funds						
Housing Special Revenue Fund	\$ 21,392,443	\$ (112,535)	\$ -	\$ -	\$ -	\$ 21,279,908
Low and Moderate Income Housing Special Revenue Fund	\$ 9,623,718	\$ 102,535	\$ -	\$ -	\$ -	\$ 9,726,253
Non-Major Governmental Funds	\$ 25,797,718	\$ 7,383	\$ -	\$ -	\$ -	\$ 25,805,101
Proprietary Funds						
Wastewater System	\$ 107,285,879	\$ -	\$ 160,398	\$ 2,063,722	\$ (4,256,557)	\$ 105,253,442
Water System	\$ 98,723,194	\$ -	\$ 128,167	\$ 1,443,949	\$ (3,401,221)	\$ 96,894,089
Refuse Collection System	\$ 791,027	\$ -	\$ 240,979	\$ 2,069,626	\$ (6,394,982)	\$ (3,293,350)
Non-Major Enterprise Funds	\$ 4,786,144	\$ -	\$ -	\$ 106,435	\$ -	\$ 4,892,579
Internal Service Funds	\$ 7,163,734	\$ -	\$ 207,131	\$ 2,664,022	\$ (5,496,743)	\$ 4,538,144

REQUIRED SUPPLEMENTARY INFORMATION

This page intentionally left blank

City of Merced
Required Supplementary Information
For the year ended June 30, 2018

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, 2018, 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, 2018

1. BUDGETARY CONTROL AND ACCOUNTING, Continued

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	\$ 6,617,665	\$ 6,617,665	\$ 7,615,450	\$ 997,785
Unsecured	490,008	490,008	460,166	(29,842)
Supplemental roll:				
Prior year - unsecured	6,120	6,120	9,794	3,674
Prior year - supplemental roll	122,814	122,814	159,567	36,753
Sales and use	12,300,000	12,300,000	11,718,798	(581,202)
Transient occupancy tax	1,600,000	1,600,000	1,744,005	144,005
Franchise	1,660,000	1,660,000	1,667,391	7,391
Business license	1,327,000	1,327,000	1,315,502	(11,498)
Cost revenue impact study fee	350,000	350,000	807,026	457,026
Real property transfer	191,760	191,760	239,684	47,924
Vehicle in lieu backfill	5,982,767	5,982,767	5,908,834	(73,933)
Total taxes	<u>30,648,134</u>	<u>30,648,134</u>	<u>31,646,217</u>	<u>998,083</u>
Intergovernmental:				
Motor vehicle in lieu tax	34,680	34,680	44,461	9,781
Homeowners property tax relief	61,200	61,200	61,666	466
Police standards and training	-	-	30,739	30,739
Other state grants	12,000	202,739	133,451	(69,288)
Other federal grants	-	278,774	19,904	(258,870)
Office BJA - bulletproof vest grant	-	17,507	12,597	(4,910)
State mandated cost reimbursement	63,917	63,917	53,359	(10,558)
Total intergovernmental	<u>171,797</u>	<u>658,817</u>	<u>356,177</u>	<u>(302,640)</u>
Licenses and permits:				
Animal licenses	14,000	14,000	12,371	(1,629)
Bicycle licenses	150	150	144	(6)
Other licenses and permits	8,800	8,800	8,944	144
Total licenses and permits	<u>22,950</u>	<u>22,950</u>	<u>21,459</u>	<u>(1,491)</u>
Use of money and property				
Investment Earnings	121,140	121,140	149,787	28,647
Rents and concessions (other than recreation)	77,853	77,853	59,549	(18,304)
Total use of money and property	<u>198,993</u>	<u>198,993</u>	<u>209,336</u>	<u>10,343</u>

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2018

1. BUDGETARY CONTROL AND ACCOUNTING, Continued

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	\$ 7,600	\$ 7,600	\$ 8,547	\$ 947
Fire department special services	43,280	519,182	501,979	(17,203)
Fire prevention	190,000	190,000	229,982	39,982
Weed and lot cleaning	-	-	-	-
Administrative citations	50,000	50,000	136,765	86,765
Police cost recovery	120,700	120,700	107,499	(13,201)
Release fees class I	55,000	55,000	84,015	29,015
Administrative	3,424,713	3,424,713	3,417,038	(7,675)
Interdepartmental charges	1,795,175	1,795,175	1,795,175	-
Other current service charges	430	430	727	297
Total service charges	5,686,898	6,162,800	6,281,727	118,927
Fines, forfeitures and penalties:				
Criminal fines	63,800	63,800	89,369	25,569
Parking fines	200,000	200,000	242,166	42,166
Total fines, forfeitures and penalties	263,800	263,800	331,535	67,735
Other:				
Animal control services	7,500	7,500	12,960	5,460
School police officer	459,787	459,787	432,826	(26,961)
Valley High School police officer	-	58,866	28,502	(30,364)
Merced Community College captain	182,064	182,064	176,010	(6,054)
Merchandise and brochure revenue	34,000	34,000	30,957	(3,043)
Cash overages (shortages)	100	100	41	(59)
Donations and contributions	450	8,650	15,495	6,845
S.M.I.P. fees	2,700	2,700	-	(2,700)
Miscellaneous	39,907	39,907	69,139	29,232
Total other	726,508	793,574	765,930	(27,644)
Total revenues	37,719,080	38,749,068	39,612,381	863,313

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2018

1. BUDGETARY CONTROL AND ACCOUNTING, Continued

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	\$ 254,694	\$ 284,270	\$ 237,627	\$ 46,643
Youth council	13,379	21,379	14,086	7,293
City manager	1,045,102	1,422,200	953,190	469,010
City clerk	451,041	476,822	376,662	100,160
City attorney	966,450	1,064,642	1,032,838	31,804
Finance	2,704,394	2,590,183	2,493,685	96,498
Purchasing	241,282	239,239	206,021	33,218
Economic development	532,108	644,956	552,325	92,631
Visitor's services	165,323	163,854	158,952	4,902
Total general government	6,373,773	6,907,545	6,025,386	882,159
Public safety:				
Police protection	19,777,740	19,184,032	18,459,928	724,104
Fire protection and weed abatement	9,498,504	9,797,606	9,542,735	254,871
Total public safety	29,276,244	28,981,638	28,002,663	978,975
Public works	1,823,630	1,732,221	1,649,906	82,315
Total current operating	37,473,647	37,621,404	35,677,955	1,943,449
Capital outlay				
	75,525	200,846	104,328	96,518
Debt service:				
Principal	480,000	480,000	480,000	-
Interest	288,077	288,077	288,001	76
Total debt service	768,077	768,077	768,001	76
Total expenditures	38,317,249	38,590,327	36,550,284	2,040,043
EXCESS(DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES				
	(598,169)	158,741	3,062,097	2,903,356
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of assets	-	-	2,382	2,382
Transfers in	597,020	695,794	578,877	(116,917)
Transfers out	(3,574,641)	(4,502,794)	(4,457,346)	45,448
Total other financing sources (uses)	(2,977,621)	(3,807,000)	(3,876,087)	(69,087)
Net change in fund balance	\$ (3,575,790)	\$ (3,648,259)	(813,990)	\$ 2,834,269
FUND BALANCE:				
Beginning of year			17,094,209	
End of year			<u>16,280,219</u>	

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2018

1. BUDGETARY CONTROL AND ACCOUNTING, Continued

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	Substandard Housing Fund	General Fund - Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
Total revenues	\$ 39,612,381	\$ 332,384	\$ 13,930	\$ 27,645	\$ -	\$ 39,986,340
Total expenditures	36,550,284	1,508,748	-	155,989	116,805	38,331,826
Excess (deficiency) of revenues over (under) expenditures	3,062,097	(1,176,364)	13,930	(128,344)	(116,805)	1,654,514
Total other financing sources (uses)	(3,876,087)	1,069,289	997,500	427,500	150,000	(1,231,798)
Net change in fund balance	(813,990)	(107,075)	1,011,430	299,156	33,195	422,716
Beginning of year	17,094,209	129,919	1,905,665	1,837,488	-	20,967,281
End of year	\$ 16,280,219	\$ 22,844	\$ 2,917,095	\$ 2,136,644	\$ 33,195	\$ 21,389,997

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2018

1. BUDGETARY CONTROL AND ACCOUNTING, Continued

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	\$ 1,860,959	\$ 3,678,503	\$ 899,567	\$ (2,778,936)
Use of money and property	210,120	210,120	(30,722)	(240,842)
Service charges	528,799	528,799	249,493	(279,306)
Total revenues	<u>2,599,878</u>	<u>4,417,422</u>	<u>1,118,338</u>	<u>(3,299,084)</u>
EXPENDITURES:				
Current operating:				
General government	3,073,583	4,854,413	1,072,048	3,782,365
Total current operating	<u>3,073,583</u>	<u>4,854,413</u>	<u>1,072,048</u>	<u>3,782,365</u>
Capital outlay	-	1,359	48,285	(46,926)
Total expenditures	<u>3,073,583</u>	<u>4,855,772</u>	<u>1,120,333</u>	<u>3,735,439</u>
EXCESS(DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	<u>(473,705)</u>	<u>(438,350)</u>	<u>(1,995)</u>	<u>436,355</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	25,000	25,000	-	(25,000)
Transfers out	(135,811)	(617,437)	(153,180)	464,257
Total other financing sources (uses)	<u>(110,811)</u>	<u>(592,437)</u>	<u>(153,180)</u>	<u>439,257</u>
Net change in fund balances	<u>\$ (584,516)</u>	<u>\$ (1,030,787)</u>	<u>(155,175)</u>	<u>\$ 875,612</u>
FUND BALANCE:				
Beginning of Year, restated			21,279,908	
End of Year			<u>\$21,124,733</u>	

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2018

1. BUDGETARY CONTROL AND ACCOUNTING, Continued

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	\$ 6,290,000	\$ 6,290,000	\$ 6,062,912	\$ (227,088)
Intergovernmental	220,695	243,117	205,348	(37,769)
Use of money and property	1,900	1,900	3,483	1,583
Service charges	97,520	207,457	207,457	-
Other Revenue	55,570	55,570	-	(55,570)
Total revenues	<u>6,665,685</u>	<u>6,798,044</u>	<u>6,479,200</u>	<u>(318,844)</u>
EXPENDITURES:				
Current operating:				
Public safety	6,778,935	6,776,543	6,052,424	724,119
Public works	7,246	9,997	7,284	2,713
Total current operating	<u>6,786,181</u>	<u>6,786,540</u>	<u>6,059,708</u>	<u>726,832</u>
Capital outlay	-	-	-	-
Total expenditures	<u>6,786,181</u>	<u>6,786,540</u>	<u>6,059,708</u>	<u>726,832</u>
EXCESS(DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES				
	<u>(120,496)</u>	<u>11,504</u>	<u>419,492</u>	<u>407,988</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of assets	-	-	1,410	1,410
Transfers in	15,000	6,608	6,608	-
Transfers out	(62,568)	(133,510)	(133,510)	-
Total other financing sources (uses)	<u>(47,568)</u>	<u>(126,902)</u>	<u>(125,492)</u>	<u>1,410</u>
Net change in fund balances	<u>\$ (168,064)</u>	<u>\$ (115,398)</u>	294,000	<u>\$ 409,398</u>
FUND BALANCE:				
Beginning of Year			<u>1,316,133</u>	
End of Year			<u>\$ 1,610,133</u>	

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2018

1. BUDGETARY CONTROL AND ACCOUNTING, Continued

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental				
Use of money and property	\$ 24,735	\$ 24,735	\$ 52,864	\$ 28,129
Other Revenue	-	-	17,980	17,980
Total revenues	<u>24,735</u>	<u>24,735</u>	<u>70,844</u>	<u>46,109</u>
EXPENDITURES:				
Current operating:				
General government	591,092	591,092	45,154	545,938
Total current operating	<u>591,092</u>	<u>591,092</u>	<u>45,154</u>	<u>545,938</u>
Total expenditures	<u>591,092</u>	<u>591,092</u>	<u>45,154</u>	<u>545,938</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>(566,357)</u>	<u>(566,357)</u>	<u>25,690</u>	<u>592,047</u>
Net change in fund balances	<u>\$ (566,357)</u>	<u>\$ (566,357)</u>	<u>25,690</u>	<u>\$ 592,047</u>
FUND BALANCE:				
Beginning of Year, restated			<u>9,726,253</u>	
End of Year			<u>\$ 9,751,943</u>	

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2018

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

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) - *Miscellaneous Plan*

Measurement Period (1)	2016-17	2015-16	2014-15	2013-14
TOTAL PENSION LIABILITY				
Service Cost	\$ 2,693,011	\$ 2,380,009	\$ 2,478,640	\$ 2,627,256
Interest on Total Pension Liability	9,858,159	9,435,717	9,059,272	8,695,697
Changes of Assumptions	8,157,365	-	(2,210,035)	-
Difference between Expected and Actual Experience	673,366	(818,329)	(1,270,597)	-
Benefit Payments, Including Refunds of Employee Contributions	(6,478,220)	(6,060,443)	(5,438,406)	(5,139,153)
Net Change in Total Pension Liability	14,903,681	4,936,954	2,618,874	6,183,800
Total Pension Liability - Beginning	130,938,207	126,001,253	123,382,379	117,198,579
Total Pension Liability - Ending (a)	\$ 145,841,888	\$ 130,938,207	\$ 126,001,253	\$ 123,382,379
PLAN FIDUCIARY NET POSITION				
Contributions - Employer	\$ 2,989,612	\$ 2,847,440	\$ 2,585,409	\$ 2,247,444
Contributions - Employee	1,224,690	1,235,668	1,311,171	1,253,749
Net Investment Income	10,300,142	473,484	2,039,373	14,172,466
Benefit Payments, Including Refunds of Employee Contributions	(6,478,220)	(6,060,443)	(5,438,406)	(5,139,153)
Net Change in Fiduciary Net Position	8,036,224	(1,503,851)	497,547	12,534,506
Plan Fiduciary Net Position - Beginning	93,441,860	94,945,711	94,448,164	81,913,658
Plan Fiduciary Net Position - Ending (b)	\$ 101,478,084	\$ 93,441,860	\$ 94,945,711	\$ 94,448,164
Plan Net Position Liability/(Asset) - Ending (a) - (b)	\$ 44,363,804	\$ 37,496,347	\$ 31,055,542	\$ 28,934,215
Plan Fiduciary Net Position as a Percentage of the				
Total Pension Liability	69.58%	71.36%	75.35%	76.55%
Covered Payroll	\$ 16,516,474	\$ 15,970,003	\$ 16,286,485	\$ 16,471,824
Plan Net Pension Liability/(Asset) as				
a Percentage of Covered Payroll	268.60%	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.

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes that occurred after the June 20, 2016 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: In 2017, the accounting discount rate reduced from 7.65% to 7.15%. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5% (net of administrative expense) to 7.65% (without a reduction for pension plan administrative expense.). In 2014, amounts reported were based on the 7.5% discount rate.

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2018

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

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) – *Safety Plan*

Measurement Period (1)	2016-17	2015-16	2014-15	2013-14
TOTAL PENSION LIABILITY				
Service Cost	\$ 3,431,918	\$ 2,918,262	\$ 2,915,019	\$ 3,121,317
Interest on Total Pension Liability	10,305,955	9,919,699	9,584,428	9,243,496
Changes of Assumptions	8,884,695	-	(2,398,329)	-
Difference between Expected and Actual Experience	(1,074,802)	(2,152,774)	(2,052,784)	-
Benefit Payments, Including Refunds of Employee Contributions	(6,733,626)	(6,135,867)	(5,795,426)	(5,745,669)
Net Change in Total Pension Liability	14,814,140	4,549,320	2,252,908	6,619,144
Total Pension Liability - Beginning	137,980,176	133,430,856	131,177,948	124,558,804
Total Pension Liability - Ending (a)	\$ 152,794,316	\$ 137,980,176	\$ 133,430,856	\$ 131,177,948
PLAN FIDUCIARY NET POSITION				
Contributions - Employer	\$ 3,498,832	\$ 3,149,784	\$ 2,907,155	\$ 2,615,979
Contributions - Employee	1,163,431	1,111,386	1,068,553	1,106,201
Net Investment Income (2)	11,381,967	474,720	2,226,669	15,776,487
Benefit Payments, Including Refunds of Employee Contributions	(6,733,626)	(6,135,867)	(5,795,426)	(5,745,669)
Net Change in Fiduciary Net Position	9,310,604	(1,399,977)	406,951	13,752,998
Plan Fiduciary Net Position - Beginning	104,147,677	105,547,654	105,140,703	91,387,705
Plan Fiduciary Net Position - Ending (b)	\$ 113,458,281	\$ 104,147,677	\$ 105,547,654	\$ 105,140,703
Plan Net Position Liability/(Asset) - Ending (a) - (b)	\$ 39,336,035	\$ 33,832,499	\$ 27,883,202	\$ 26,037,245
Plan Fiduciary Net Position as a Percentage of the				
Total Pension Liability	74.26%	75.48%	79.10%	80.15%
Covered Payroll	\$ 12,534,855	\$ 11,867,192	\$ 11,774,523	\$ 12,061,197
Plan Net Pension Liability/(Asset) as				
a Percentage of Covered Payroll	313.81%	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.

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes that occurred after June 20, 2016 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: In 2017, the accounting discount rate reduced from 7.65% to 7.15%. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5% (net of administrative expense) to 7.65% (without a reduction for pension plan administrative expense.). In 2014, amounts reported were based on the 7.5% discount rate.

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2018

3. SCHEDULE OF PLAN CONTRIBUTIONS

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) - *Miscellaneous Plan*

	2018	2017	2016	2015 ⁽¹⁾
Actuarially determined contribution	\$ 3,336,237	\$ 2,989,612	\$ 2,847,440	\$ 2,585,409
Contributions in relation to the actuarially determined contributions	(3,336,237)	(2,989,612)	(2,847,440)	(2,585,409)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll ⁽²⁾	\$17,055,850	\$16,516,474	\$15,970,003	\$16,286,485
Contributions as a percentage of covered payroll	19.56%	18.10%	17.83%	15.87%

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

⁽²⁾ Payroll from 2017 was assumed to increase by the 3% payroll assumption.

Notes to schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2016-17 were from the June 30, 2014 funding valuation report:

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	See June 30, 2014 Funding Valuation report
Asset Valuation Method	Market value of assets
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2018

3. SCHEDULE OF PLAN CONTRIBUTIONS, Continued

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) - *Safety Plan*

	2018	2017	2016	2015 ⁽¹⁾
Actuarially determined contribution	\$ 3,786,577	\$ 3,498,832	\$ 3,149,784	\$ 2,907,155
Contributions in relation to the actuarially determined contributions	(3,786,577)	(3,498,832)	(2,847,440)	(2,585,409)
Contribution deficiency (excess)	\$ -	\$ -	\$ 302,344	\$ 321,746
Covered payroll ⁽²⁾	\$11,868,357	\$12,534,855	\$11,867,192	\$11,774,532
Contributions as a percentage of covered payroll	31.90%	27.91%	26.54%	24.69%

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

⁽²⁾ Payroll from 2017 was assumed to increase by the 3% payroll assumption.

Notes to schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2016-17 were from the June 30, 2014 funding valuation report:

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	See June 30, 2014 Funding Valuation report
Asset Valuation Method	Market value of assets
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2018

4. SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

Measurement Period (1)	<u>2017</u>
Total OPEB liability	
Service cost	\$ 877,000
Interest on total pension liability	1,133,000
Changes in assumptions	(2,937,000)
Differences between expected and actual experience	(2,947,000)
Benefit payments, including refunds of employee contributions	<u>(1,427,000)</u>
Net change in total OPEB liability	(5,301,000)
Total OPEB liability - beginning	39,594,000
Total OPEB liability - ending (a)	<u>\$34,293,000</u>
 Plan fiduciary net position	
Contributions - employer	\$ 1,427,000
Contributions - employee	-
Net investment income (2)	181,000
Benefit payments, including refunds of employee contributions	<u>(1,427,000)</u>
Net change in plan fiduciary net position	181,000
Plan fiduciary net position - beginning	1,725,000
Plan fiduciary net position - ending (b)	<u>\$ 1,906,000</u>
Net OPEB liability - ending (a) - (b)	<u>\$32,387,000</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	5.56%
 Covered - employee payroll	\$12,558,000
 Net OPEB liability/(asset) as a percentage of covered-employee payroll	257.90%

(1) Historical information is required only for measurement periods for which GASB 75 is applicable.

(2) Net of administrative expenses.

City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2018

5. SCHEDULE OF CONTRIBUTIONS - OPEB

	2018
Actuarially determined contribution	<u>\$ 2,370,000</u>
Contributions in relation to the actuarially determined contribution	<u>(1,585,000)</u>
Contribution deficiency/ (excess)	<u>785,000</u>
Covered-employee payroll	<u>\$11,909,000</u>
Contributions as a percentage of covered-employee payroll	13.31%

Fiscal year 2018 was the 1st year of implementation.

Notes to schedule:

Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018 were from the June 30, 2017 actuarial valuation.

Methods and assumptions used to determine contributions:

Valuation date	June 30, 2017
Actuarial cost method	Entry age, level percentage of payroll
Amortization method	Level dollar amortization. 30-year fixed (closed) period for initial 6/30/2008 UAAL. 20 years remaining on 6/30/2018
Asset valuation method	Market value, no smoothing
Inflation	2.75%
Payroll growth	3.00%
Investment rate of return	3.75%
Healthcare cost-trend rates	7.50% initial, decreasing per year to ultimate rate of 4.00%
Retirement Age	Based on CalPERS 1997-2011 experience study
Mortality	Mortality rates were based on CalPERS 1997-2011 experience study, with adjustments for mortality improvements based on MP-16

SUPPLEMENTARY INFORMATION

This page intentionally left blank

City of Merced
Supplementary Information
General Fund Combining Balance Sheet
For the year ended June 30, 2018

	General Fund	Parks and Community Services Fund	Revenue Stabilization Fund	Economic Development Opportunity Fund	Substandard Housing Fund	General Fund Combined
ASSETS						
Cash, cash equivalents and investments	\$13,016,123	\$ 98,637	\$ 2,903,079	\$ 2,126,378	\$ 79,468	\$18,223,685
Restricted cash held by fiscal agents	5,020	-	-	-	-	5,020
Receivables:						
Accounts	859,168	16,657	-	-	-	875,825
Due from other governments	2,630,542	-	-	-	-	2,630,542
Interest	46,443	-	14,016	10,266	-	70,725
Due from other funds	47,034	-	-	-	-	47,034
Inventory	62,499	-	-	-	-	62,499
Advances to other funds	1,710,991	-	-	-	-	1,710,991
Total assets	18,377,820	115,294	2,917,095	2,136,644	79,468	23,626,321
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Accounts payable	189,197	47,249	-	-	46,273	282,719
Payroll liabilities	849,055	45,197	-	-	-	894,252
Deferred Inflow	1,052,090	-	-	-	-	1,052,090
Other liabilities	7,263	-	-	-	-	7,263
Total liabilities	2,097,605	92,446	-	-	46,273	2,236,324
Fund balances:						
Nonspendable	1,773,490	-	-	-	-	1,773,490
Restricted	4,000,000	-	-	3,358	33,195	4,036,553
Assigned	1,802,553	22,848	-	-	-	1,825,401
Unassigned	8,704,172	-	2,917,095	2,133,286	-	13,754,553
Total fund balances	16,280,215	22,848	2,917,095	2,136,644	33,195	21,389,997
Total liabilities, deferred inflows of resources and fund balances	\$18,377,820	\$ 115,294	\$ 2,917,095	\$ 2,136,644	\$ 79,468	\$23,626,321

City of Merced
Supplementary Information
General Fund Combining Statement of Revenues, Expenditures
And changes in Fund Balance
For the year ended June 30, 2018

	General Fund	Parks and Community Services Fund	Revenue Stabilization Fund	Economic Development Opportunity Fund	Substandard Housing Fund	General Fund Combined
REVENUES:						
Taxes	\$31,646,217	\$ -	\$ -	\$ -	\$ -	\$31,646,217
Intergovernmental	356,177	-	-	-	-	356,177
Licenses and permits	21,459	-	-	-	-	21,459
Use of money and property	209,336	3,015	13,930	27,645	-	253,926
Service charges	6,281,727	214,222	-	-	-	6,495,949
Fines, forfeitures and penalties	331,535	-	-	-	-	331,535
Other	765,930	115,147	-	-	-	881,077
Total revenues	<u>39,612,381</u>	<u>332,384</u>	<u>13,930</u>	<u>27,645</u>	<u>-</u>	<u>39,986,340</u>
EXPENDITURES:						
Current operating:						
General government	6,025,386	-	-	155,989	116,805	6,298,180
Public safety	28,002,663	-	-	-	-	28,002,663
Public works	1,649,906	-	-	-	-	1,649,906
Culture and recreation	-	1,508,748	-	-	-	1,508,748
Total current operating	<u>35,677,955</u>	<u>1,508,748</u>	<u>-</u>	<u>155,989</u>	<u>116,805</u>	<u>37,459,497</u>
Capital outlay	104,328	-	-	-	-	104,328
Debt Service:						
Principal	480,000	-	-	-	-	480,000
Interest	288,001	-	-	-	-	288,001
Total expenditures	<u>36,550,284</u>	<u>1,508,748</u>	<u>-</u>	<u>155,989</u>	<u>116,805</u>	<u>38,331,826</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,062,097</u>	<u>(1,176,364)</u>	<u>13,930</u>	<u>(128,344)</u>	<u>(116,805)</u>	<u>1,654,514</u>
OTHER FINANCING SOURCES (USES):						
Proceeds from sale of asset	2,382	195	-	-	-	2,577
Transfers in	578,877	58,347	-	-	-	637,224
Transfers out	(1,862,613)	(8,986)	-	-	-	(1,871,599)
Intrafund transfers	(2,594,733)	1,019,733	997,500	427,500	150,000	-
Total other financing sources (uses)	<u>(3,876,087)</u>	<u>1,069,289</u>	<u>997,500</u>	<u>427,500</u>	<u>150,000</u>	<u>(1,231,798)</u>
NET CHANGE IN FUND BALANCES	<u>(813,990)</u>	<u>(107,075)</u>	<u>1,011,430</u>	<u>299,156</u>	<u>33,195</u>	<u>422,716</u>
FUND BALANCES:						
Beginning of year	17,094,209	129,919	1,905,665	1,837,488	-	20,967,281
End of year	<u>\$16,280,219</u>	<u>\$ 22,844</u>	<u>\$ 2,917,095</u>	<u>\$ 2,136,644</u>	<u>\$ 33,195</u>	<u>\$21,389,997</u>

City of Merced
Supplementary Information
University Capital Fund Balance Sheet
For the year ended June 30, 2018

	Total University Charge	University Capital Charge Wastewater System	University Capital Charge Water System
ASSETS			
Intergovernmental receivable	\$ 6,384,439	\$ 3,256,064	\$ 3,128,375
Total assets	6,384,439	3,256,064	3,128,375
LIABILITIES AND FUND BALANCES			
Accrued interest payable	82,230	41,937	40,293
Bonds payable current	250,000	127,500	122,500
Bonds payable noncurrent	6,052,209	3,086,627	2,965,582
Total liabilities	6,384,439	3,256,064	3,128,375
Total fund balances	-	-	-
Total liabilities and fund balances	\$ 6,384,439	\$ 3,256,064	\$ 3,128,375

City of Merced
Supplementary Information
University Capital Fund Statement of Revenues, Expenses
And Changes in Fund Balance
For the year ended June 30, 2018

	Total University Charge	University Capital Charge Wastewater System	University Capital Charge Water System
OPERATING REVENUES:			
Sewer facility fee	\$ 219,992	\$ 112,196	\$ 107,796
Total operating revenues	219,992	112,196	107,796
NONOPERATING REVENUE (EXPENSES):			
Interest and fiscal agent fees	219,992	112,196	107,796
Total nonoperating (expenses)	219,992	112,196	107,796
Net Income (Loss)	-	-	-
FUND BALANCES:			
Beginning of year	-	-	-
End of year	\$ -	\$ -	\$ -