

Artist's Conception

# City of Merced Public Financing And Economic Development Authority

Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011



### **G Street Undercrossing Project**

The conversion of the City's G Street at-grade railroad crossing to an undercrossing has been a long-term goal of the City of Merced. The Merced Vision 2015 General Plan describes how long freight trains have created significant traffic congestion and delays for vehicles waiting for them to pass, especially during peak hours, along the major north-south routes of G, M and R Streets.

The construction phase of the project began in July 2010 and is expected to be completed in December 2011. The undercrossing will eliminate the delay motorists and trucks experience, which will help save fuel and improve air quality by reducing greenhouse gas emissions.

**PUBLIC FINANCING  
AND ECONOMIC  
DEVELOPMENT  
AUTHORITY  
OF THE  
CITY OF MERCED  
Merced, California**

*Basic Financial Statements  
and Independent Auditor's Reports*

*For the year ended June 30, 2011*



**Public Financing and Economic Development Authority of the City of Merced**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

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## INDEPENDENT AUDITOR'S REPORT

To the Directors  
of the Public Financing and Economic Development Authority of the City of Merced  
Merced, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Public Financing and Economic Development Authority of the City of Merced (Authority), a component unit of the City of Merced, California (City), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregated remaining fund information of the Authority as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with generally accepted accounting principles in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedules of Revenues Expenditures and Changes in Fund Balances - Budget and Actual for the general fund and each major special revenue fund, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of

To the Directors  
of the Public Financing and Economic Development Authority of the City of Merced  
Merced, California  
Page 2

preparing the information and comparing the information for consistency with management's response 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2012, on our consideration of the Authority'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* and should be considered in assessing the results of our audit.

*Ballina LLP*

Roseville, California  
March 30, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Public Financing and Economic Development Authority of the City of Merced (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the Authority's Basic Financial Statements, which follow this discussion.

### FINANCIAL HIGHLIGHTS

- \$742,932 was spent on capital projects.
- As shown on the Statement of Net Assets, the assets of the Authority exceeded its liabilities by \$39.9 million.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority'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 required supplementary information and other supplementary information.

**Government-wide Financial Statements** – The Government-wide Financial Statements are designed to provide readers with a broad overview of the Authority's finances.

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

The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported when 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. compensated absences).

Both of the government-wide financial statements distinguish functions of the Authority that are principally supported by 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 Authority include general government and capital outlay.

**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 Authority, 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 Authority can be divided into two categories: governmental 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Authority maintains eight 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 major funds. All funds except the Authority’s debt service fund are considered to be major funds.

The Authority adopts an annual appropriated budget for all its funds. Budgetary comparisons have been provided in the Required Supplementary Information for the General Fund and Major Special Revenue Funds to demonstrate compliance with the budget.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Authority’s programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to Basic Financial Statements** – The notes to basic financial statements 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 Authority’s budgetary control and accounting.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, liabilities exceeded assets by \$39.9 million.

### Summary of Net Assets

	2011	2010
Current and other assets	\$ 25,063,951	\$ 7,464
Capital assets	15,180,112	
Total assets	<u>40,244,063</u>	<u>7,464</u>
Long-term liabilities	153,490	
Other liabilities	137,396	
Total liabilities	<u>290,886</u>	
Net assets:		
Invested in capital assets, net of debt	15,180,112	
Restricted	2,869,142	7,464
Unrestricted	21,903,923	
Total net assets	<u>\$ 39,953,177</u>	<u>\$ 7,464</u>

**Analysis of the Authority's Operations** – The following table provides a summary of the Authority's operations for the year ended June 30, 2011.

### Statement of Activities

	2011	2010
<b>Revenues and Special Items</b>		
Program revenues:		
Charges for services	\$ 204,636	\$
Capital grants and contributions	1,675,179	
General revenues:		
Special items	39,969,240	
Other	196,073	102
Total revenues	<u>42,045,128</u>	<u>102</u>
<b>Expenses</b>		
Governmental activities:		
General government	2,099,415	
Total expenses	<u>2,099,415</u>	
<b>Increase in net assets</b>	<u>\$ 39,945,713</u>	<u>\$ 102</u>

The Authority's revenues and special items were \$42 million. This included special items of \$39.9 million.

The Authority's expenses for the year totaled \$2 million, which included \$742,932 in project costs.

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

**Governmental funds** - The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements.

At June 30, 2011, the Authority's governmental funds reported a combined ending fund balance of \$21.5 million. Special items increased the Authority's fund balance by \$22.8 million.

## BUDGETARY HIGHLIGHTS

During the fiscal year the Authority's Board approved budgetary revisions for supplemental appropriations and special items, which increased appropriations in individual funds.

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets** - The Authority's investment in capital assets as of June 30, 2011, was \$15.1, net of depreciation. This investment in capital assets includes other improvements.

### Capital Assets

	2011	2010
Capital assets nondepreciable:		
Land and improvements	\$ 1,373,341	\$
Construction in progress	2,361,541	
Other capital assets:		
Building and structures	11,216,098	
Machinery and equipment	2,695	
Other Improvements	630,030	
Less accumulated depreciation	(403,593)	
Total	\$ 15,180,112	\$

The significant change to capital assets during the fiscal year included the following:

- Conveyance of assets from the Redevelopment Agency of the City of Merced (Agency).

Additional information on the Authority's capital assets can be found in the Notes to the Basic Financial Statements.

**Long-term debt** - At the end of the current fiscal year, the Authority had no outstanding debt.

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

- The Authority will continue to facilitate the economic development, infrastructure improvements and financing for the City of Merced and Parking Authority of the City of Merced.

#### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview for those with an interest in the Authority'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, Public Financing and Economic Development Authority of the City of Merced, 678 West 18<sup>th</sup> Street, Merced, CA, 95340.



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## BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**Public Financing and Economic Development Authority of Merced**  
**Statement of Net Assets**  
**June 30, 2011**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash, cash equivalents and investments	\$ 11,639,442
Accounts receivable	351
Interest receivable	134,784
Due from other governments	672,918
Due from the Redevelopment Agency of Merced	135,696
Land held for resale	4,125,285
Total current assets	<u>16,708,476</u>
Noncurrent assets:	
Notes receivable, net of allowance for uncollectible portion	6,094,881
Advances to the City of Merced	2,260,594
Capital assets, nondepreciable	3,734,882
Capital assets, depreciable, net	11,445,230
Total noncurrent assets	<u>23,535,587</u>
<b>Total assets</b>	<u>40,244,063</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued expenses	72,497
Unearned revenues	64,899
Compensated absences, due within one year	3,350
Total current liabilities	<u>140,746</u>
Noncurrent liabilities:	
Compensated absences, due in more than one year	50,360
Other postemployment benefits	99,780
Total long-term liabilities	<u>150,140</u>
<b>Total liabilities</b>	<u>290,886</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	15,180,112
Restricted for low and moderate housing	2,869,142
Unrestricted	21,903,923
<b>Total net assets</b>	<u>\$ 39,953,177</u>

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



**Public Financing and Economic Development Authority of Merced**  
**Statement of Activities and Changes in Net Assets**  
**For the year ended June 30, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Total</u>	
<b>Governmental activities:</b>					<b>Governmental Activities</b>
General government	\$ 2,099,415	\$ 204,636	\$ 1,675,179	\$ 1,879,815	\$ (219,600)
<b>Total governmental activities</b>	<u>\$ 2,099,415</u>	<u>\$ 204,636</u>	<u>\$ 1,675,179</u>	<u>\$ 1,879,815</u>	<u>(219,600)</u>
<b>General revenues and special items:</b>					
					50,911
					145,162
					39,969,240
					<u>40,165,313</u>
					<u>39,945,713</u>
<b>Net Assets:</b>					
					7,464
					<u>\$ 39,953,177</u>

The accompanying notes are an integral part of these financial statements

FUND FINANCIAL STATEMENTS

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**Public Financing and Economic Development Authority of Merced**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**

	Major Funds		
	General	Project Area 2 Housing	Gateway Housing
<b>ASSETS</b>			
Cash, cash equivalents and investments	\$ 77,903	\$ 199,898	\$ 10,383
Accounts receivable	351		
Interest receivable	21,340	3,368	91,309
Due from other governments			
Due from the Redevelopment Agency of Merced		101,841	33,855
Land held for resale	468,219	1,877,550	514,257
Notes receivable, net of allowance	2,663,853	2,358,513	1,072,515
Advance to City of Merced			
<b>Total assets</b>	<b>\$ 3,231,666</b>	<b>\$ 4,541,170</b>	<b>\$ 1,722,319</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable and accrued expenses	\$ 19,816		
Deferred revenues	51,217	2,230,681	1,163,666
<b>Total liabilities</b>	<b>71,033</b>	<b>2,230,681</b>	<b>1,163,666</b>
<b>Fund balances:</b>			
Nonspendable	3,080,855	1,877,550	514,257
Restricted		432,939	44,396
Assigned	79,778		
Unassigned			
<b>Total fund balances</b>	<b>3,160,633</b>	<b>2,310,489</b>	<b>558,653</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,231,666</b>	<b>\$ 4,541,170</b>	<b>\$ 1,722,319</b>

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

Major Funds				Non Major Fund	
Project Area 2 Capital Improvement Capital Projects	Project Area 2 Capital Improvement Housing Projects	Gateway Capital Improvement Capital Projects	Gateway Capital Improvement Housing Projects	Debt Service	Total
\$ 364,321	\$ 3,642,670	\$ 4,824,194	\$ 2,512,553	\$ 7,520	\$ 11,639,442
					351
3,966	7,469	5,043	2,285	4	134,784
672,918					672,918
					135,696
	216,705	521,035	527,519		4,125,285
					6,094,881
2,260,594					2,260,594
<u>\$ 3,301,799</u>	<u>\$ 3,866,844</u>	<u>\$ 5,350,272</u>	<u>\$ 3,042,357</u>	<u>\$ 7,524</u>	<u>\$ 25,063,951</u>
\$ 33,142	\$ 15,920	\$ 3,619			\$ 72,497
			64,899		3,510,463
<u>33,142</u>	<u>15,920</u>	<u>3,619</u>	<u>64,899</u>		<u>3,582,960</u>
2,260,594	216,705	521,035	527,519		9,215,220
				7,524	484,859
1,008,063	3,634,219	4,825,618	2,449,939		15,631,836
<u>3,268,657</u>	<u>3,850,924</u>	<u>5,346,653</u>	<u>2,977,458</u>	<u>7,524</u>	<u>21,480,991</u>
<u>\$ 3,301,799</u>	<u>\$ 3,866,844</u>	<u>\$ 5,350,272</u>	<u>\$ 3,042,357</u>	<u>\$ 7,524</u>	<u>\$ 25,063,951</u>



**Public Financing and Economic Development Authority of Merced**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Assets**  
**June 30, 2011**

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**Total Fund Balances - Total Governmental Funds** \$ 21,480,991

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital assets used in Governmental Activities are not current financial resources and therefore are not reported in the governmental funds:

Non-depreciable	\$ 3,734,882	
Depreciable, net of accumulated depreciation	11,445,230	15,180,112

Deferred revenues recorded in the governmental funds resulting from activities in which revenues were earned but funds were not available are reclassified as revenues in the Government-Wide Financial Statements	3,445,564
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:

Compensated absences	(53,710)	
Other postemployment benefits	(99,780)	(153,490)

**Net assets of governmental activities** \$ 39,953,177

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

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**Public Financing and Economic Development Authority of Merced**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2011**

	Major Funds		
	General	Project Area 2 Housing	Gateway Housing
<b>REVENUES:</b>			
Charges for services	\$ 147,354		
Intergovernmental	148,084	1,216,905	224,510
Rental income	39,286		
Investment earnings	443	4,468	1,103
Notes receivable interest and repayments	474	14,470	
Other revenues		669	
<b>Total revenues</b>	<b>335,641</b>	<b>1,236,512</b>	<b>225,613</b>
<b>EXPENDITURES:</b>			
Current operating:			
General government	417,400	147,997	82,150
Project costs			
<b>Total expenditures</b>	<b>417,400</b>	<b>147,997</b>	<b>82,150</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(81,759)</b>	<b>1,088,515</b>	<b>143,463</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Sale of capital assets			
Transfers in			
Transfers out		(852,719)	(269,376)
<b>Total other financing sources (uses)</b>	<b>--</b>	<b>(852,719)</b>	<b>(269,376)</b>
Special items	3,242,392	2,074,693	684,566
<b>Net change in fund balances</b>	<b>3,160,633</b>	<b>2,310,489</b>	<b>558,653</b>
<b>FUND BALANCES:</b>			
Beginning of year			
End of year	<b>\$ 3,160,633</b>	<b>\$ 2,310,489</b>	<b>\$ 558,653</b>

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

Major Funds				Non Major Fund	
Project Area 2 Capital Improvement Projects	Project Area 2 Capital Improvement Housing Projects	Gateway Capital Improvement Projects	Gateway Capital Improvement Housing Projects	Debt Service	Total
					\$ 147,354
85,680					1,675,179
					39,286
4,823	19,110	14,396	6,508	60	50,911
					14,944
		1,325			1,994
90,503	19,110	15,721	6,508	60	1,929,668
6,583	3,758				660,894
481,896	80,566	100,055	80,415		742,932
488,479	84,324	103,061	80,415		1,403,826
(397,976)	(65,214)	(87,340)	(73,907)	60	525,842
			145,162		145,162
	852,719		269,376		1,122,095
					(1,122,095)
--	852,719	--	414,538		145,162
3,666,633	3,063,419	5,433,993	2,636,827		20,802,523
3,268,657	3,850,924	5,346,653	2,977,458	60	21,473,527
				7,464	7,464
\$ 3,268,657	\$ 3,850,924	\$ 5,346,653	\$ 2,977,458	\$ 7,524	\$ 21,480,991

**Public Financing and Economic Development Authority of Merced**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes**  
**in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets**  
**For the year ended June 30, 2011**

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**Net Change in Fund Balances - Total Governmental Funds** \$ 21,473,527

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets, infrastructure and other related capital asset additions	15,722,211	
Current year depreciation	(311,902)	15,410,309

Loss on disposal of capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, the loss was not reported as expenditures in the Governmental funds. (230,197)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the Governmental funds. This is the amount by which current year revenues exceeded prior year revenues. 1,058

Amounts included in special items that do not provide current financial resources and are not recognized in the Governmental funds. 3,444,506

Some expenses or uses of financing resources reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Governmental funds.

Change in compensated absences	(53,710)	
Change in OPEB liability	(99,780)	(153,490)

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**Change in Net Assets of Governmental Activities** **\$ 39,945,713**

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

**Public Financing and Economic Development Authority of Merced**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2011**

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash, cash equivalents and investments	\$ 303,346
Accounts receivable	1,945,619
Deposits	<u>76,633</u>
<b>Total assets</b>	<u><u>\$ 2,325,598</u></u>
<b>LIABILITIES</b>	
<b>Liabilities:</b>	
Accounts payable and accrued expenses	\$ 989,145
Due to the Redevelopment Agency of Merced	956,474
Deposits	<u>379,979</u>
<b>Total liabilities</b>	<u><u>\$ 2,325,598</u></u>

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



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**Public Financing and Economic Development Authority of the City of Merced**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Public Financing and Economic Development Authority (Authority) of the City of Merced 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 Authority's accounting policies are described below.

**A. Reporting Entity**

The Authority, a blended component unit of the City of Merced (City), was originally created in August 1987 but had expired by its terms. The Authority was recreated January 1, 2003 by the formation of the City of Merced Public Financing Authority Joint Exercise of Powers Agreement between the City of Merced and its Redevelopment Agency (Agency).

On January 31, 2011, the agreement was amended to change the name of the Authority to the Public Financing and Economic Development Authority of the City of Merced and to modify its powers to include the areas of economic development, affordable housing, infrastructure improvements and financing. In April 2011, the agreement was amended a second time to add the Parking Authority of the City of Merced (Parking Authority) as a member.

The Authority is governed by a Board of Directors consisting of members of the City Council, members of the Agency and member of the Parking Authority. All powers of the Authority are vested in the governing board. The Authority exercises governmental functions in planning and carrying out financing and economic development projects.

The Authority can facilitate the development of on and off-site improvements, acquire and sell property, construct public buildings, finance other programs, issue debt and provide services. The Authority furnishes the necessary staff services associated with or required to conduct planning, construction and installation of authorized public capital improvements for the members.

A blended component unit, the Authority, is a legally separate organization for which the primary government, the City, is financially accountable; and which the nature and significance of the Authority's relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

The Annual Financial Report of the City includes the financial transactions of the Authority and can be obtained from the Finance Department, City of Merced, 678 West 18<sup>th</sup> Street, Merced, California.

**Public Financing and Economic Development Authority of the City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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

*B. Government-Wide and Fund Financial Statements*

The Government-Wide Financial Statements, the Statement of Net Assets and the Statement of Activities, report information on all of the non-fiduciary activities of the Authority.

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 or segment. 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 or segment. Other items not included among Program Revenues are reported instead as General Revenues.

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

As a general rule, the effect of interfund activity has been eliminated from the Government-Wide Financial Statements. All internal balances in the Statement of Net Assets have been eliminated.

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

The Authority's Government-Wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

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

Interest associated with the current fiscal period is considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

**Public Financing and Economic Development Authority of the City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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

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

The Authority reports the following major governmental funds:

1. The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
2. The Project Area 2 Low and Moderate Income Housing Special Revenue Fund accounts for Project Area 2 Housing revenue sources. This revenue includes Housing loan repayments.
3. The Gateway Low and Moderate Income Housing Special Revenue Fund accounts for Gateway Housing revenue sources. This revenue includes Housing loan repayments.
4. The Project Area 2 Capital Improvement Capital Projects Fund accounts for the financial resources used in the acquisition and construction of major capital facilities.
5. The Project Area 2 Capital Improvement Housing Projects accounts for the financial resources used in the acquisition and construction of housing projects.
6. The Gateway Capital Improvement Capital Projects accounts for the financial resources used in the acquisition and construction of major capital facilities.
7. The Gateway Capital Improvement Housing Projects accounts for the financial resources used in the acquisition and construction of housing projects.

Additionally, the Authority reports the following fund type:

The Agency Funds are used to account for the resources held by the Authority in a purely custodial capacity. Included in the agency funds are deposits from external organizations and special purpose accounts for local community groups.

*D. Cash, Cash Equivalents, and Investments*

The City pools cash resources from all funds including those of the Authority in order to facilitate the management of cash and achieve the goal of obtaining the highest yield with the greatest safety and least risk. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

**Public Financing and Economic Development Authority of the City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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

*D. Cash, Cash Equivalents, and Investments, Continued*

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. Interest earned on investments is allocated to all funds on the basis of daily cash and investment balances.

*D. 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 fund balance account in the applicable Governmental Funds to indicate that they are not expendable available financial resources and not in spendable form. Any unpaid interest due to lack of funds in the borrowing fund increases the principal owed and is reported in the lending fund as deferred revenue. 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.

*F. 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 Authority and developers. The land held for resale is recorded at the lower of cost or estimated net realizable value.

*G. Capital Assets*

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Authority policy has set the capitalization threshold for reporting capital assets at \$5,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Building and structures	15-20 years
Improvements other than buildings	15 years
Machinery and Equipment	5 years
Infrastructure	10-40 years

The Authority defines infrastructure as the basic physical assets that allow the Authority to function. The assets include: highways, bridges, sidewalks, drainage systems, lighting systems, streets, fences, retaining walls, and pavement.

*H. Compensated Absences*

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

**Public Financing and Economic Development Authority of the City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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

*I. Net Assets and Fund Equity*

**Government-Wide Financial Statements**

In the Government-Wide Financial Statements, net assets may be classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that was used as the acquisition, construction, or improvement of the assets.

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

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Authority’s policy is to apply restricted net assets first.

**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 Authority, 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 Authority’s Board of Directors 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 Authority’s intent to be used for specific purposes. The intent can be established at either the highest level of decision making or by a body or an official designated for that purpose.

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

**Public Financing and Economic Development Authority of the City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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

*I. Net Assets and Fund Equity* (continued)

The Authority's Board establishes, modifies or rescinds fund balance restrictions, commitments and assignments by Board action, which includes passage of a resolution adopting the budget and appropriating revenue for the fiscal year.

*J. Use of Estimates*

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosed contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

*K. New Pronouncements*

In 2011, the Authority adopted new accounting standards in order to conform to the following GASB Statement:

- Governmental Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of this statement are effective for financial statement periods beginning after June 15, 2010. GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications are described in the Fund Financial Statement section of this footnote.

**2. CASH AND INVESTMENTS**

The Authority's share of the City's pooled cash and investments at June 30, 2011, was \$11,942,788. The City's annual financial report contains further details regarding cash and investments and can be obtained from the City's Finance Department located at the City of Merced Civic Center.

**Public Financing and Economic Development Authority of the City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**3. NOTES RECEIVABLE**

Notes receivable consist of loans to developers for Authority housing projects. These loans are evidenced by promissory notes. At June 30, 2011, the Authority had the following types of notes receivable outstanding:

<b>Deferred Loans Receivable</b> - Loans to property owners for housing projects and rehabilitation loans. Repayment is subject to a future event.	\$ 3,080,067
<b>Project Loans Receivable</b> - Loans to property owners for acquisition and/or improvements.	2,663,853
<b>Housing Loans Receivable</b> - Loans to property owners for rehabilitation of housing projects.	350,961
<b>Total</b>	<u><u>\$ 6,094,881</u></u>

A summary of the individually significant notes receivable in each type as of June 30, 2011, is as follows:

*Deferred Loans Receivable*

*Merced Laurel Glen*

2000-01 \$130,000 non-interest loan. Annual principal payments to be made beginning in the tenth year for twenty years. \$ 130,000

*Central Valley Coalition For Affordable Housing*

2002-03 \$1,000,000 non-interest loan until certificate of occupancy is issued; after which payments to be made monthly based on residual receipts. 1,000,000

*Merced Lofts, LLC*

2001-02 \$1,298,250 non-interest loan until certificate of occupancy is issued; after which payments to be made annually based on net cash flows. 1,298,250

Other Deferred Loans to Property Owners for Housing Loans	651,817
<b>Total Deferred Loans Receivable</b>	<u><u>\$ 3,080,067</u></u>



**Public Financing and Economic Development Authority of the City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**3. NOTES RECEIVABLE, Continued**

1995-96 \$160,000 note bearing interest at 6% per annum for 20 years.  
 Monthly principal and interest payments to be made. The note is  
 secured with a Deed of Trust. 51,217

*Kamson, Inc.*

1997-98 \$360,000 note bearing interest at 6% per annum for 20 years.  
 Monthly principal and interest payments in the amount of \$1,995 to be  
 made. The note is secured with a Deed of Trust. 247,619

*Christine McFadden*

1999-00 \$110,560 note bearing interest at 8% per annum for 10 years.  
 The note is secured with a Deed of Trust. 6,685

*Merced Lofts, LLC*

2002-03 \$250,000 non-interest loan until certificate of occupancy is  
 issued; after which payments to be made monthly over a period of ten  
 years at 5.75% interest. The balance due after ten years shall be made as  
 a balloon payment. 250,000

*Merced Senior Investors*

2001-02 \$1,334,346 loan to be repaid from net cash flow no later than  
 May 1 of each year. 861,251

*Mondo Building, LLC*

2002-03 \$1,200,000 loan to be repaid from net cash flow no later than  
 May 1 of each year. 1,200,000

Total Project Loans Receivable \$ 2,663,853

**Public Financing and Economic Development Authority of the City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**3. NOTES RECEIVABLE, Continued**

**Housing Loans Receivable**

*Central Valley Coalition for Affordable Housing*

1995 \$30,000 loan bearing interest at 6% per annum for 20 years.

Monthly principal and interest payments to be made. The note is secured with a Deed of Trust.

\$ 9,156

*Daniel and Ida Hanson*

1997-98 \$94,902 note bearing interest at 5% per annum with the first payment due January 1, 1998. Monthly interest payments for the first 60 months. Monthly principal and interest payments for the remaining 360 months. The note is secured with a Deed of Trust.

78,391

*Central Valley Coalition for Affordable Housing*

1998-99 \$80,000 loan bearing interest at 5% per annum for 20 years.

Monthly principal and interest to be made. The note is secured with a Deed of Trust.

40,285

*Central Valley Coalition for Affordable Housing*

2001-02 \$65,000 loan bearing interest at 5% per annum for 20 years.

Monthly principal and interest to be made. The note is secured with a Deed of Trust.

52,388

Other Loans to Property Owners

170,741

Total Housing Loans Receivable

\$ 350,961

**4. DEFERRED REVENUE**

At June 30, 2011, deferred revenues were recorded in the Fund Financial Statements because the funds were not available to finance expenditures of the current period or revenue recognition criteria had not yet been met. The full amount was recognized as revenues in the Government-Wide Financial Statements. A summary of deferred revenues at June 30, 2011, is as follows:

	Fund Statements	Government- Wide
	Governmental Funds	Governmental Activities
Notes receivable:		
Principal	\$ 3,354,413	\$
Interest	91,151	
Contributed land held for resale	64,899	64,899
Totals	<u>\$ 3,510,463</u>	<u>\$ 64,899</u>

**Public Financing and Economic Development Authority of the City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**5. CAPITAL ASSETS**

*A. Government-Wide Financial Statements*

At June 30, 2011, the Authority's capital assets consisted of the following:

	Balance July 1, 2010	Additions	Retirements	Reclassification	Balance June 30, 2011
Capital assets, not being depreciated:					
Land		\$ 1,093,282		\$ 280,059	\$ 1,373,341
Construction in progress		3,370,633	(729,033)	(280,059)	2,361,541
Total capital assets, not being depreciated		4,463,915	(729,033)		3,734,882
Capital assets, being depreciated:					
Structures and improvements		11,216,098			11,216,098
Equipment		2,695			2,695
Other improvements		630,030			630,030
Total capital assets, being depreciated		11,848,823			11,848,823
Less accumulated depreciation for:					
Structures and improvements		(303,769)			(303,769)
Equipment		(2,695)			(2,695)
Other improvements		(97,129)			(97,129)
Total accumulated depreciation		(403,593)			(403,593)
Total capital assets, being depreciated		11,445,230			11,445,230
Governmental activities capital assets, net		\$ 15,909,145	\$ (729,033)		\$ 15,180,112

Depreciation expense for capital assets of the Governmental Activities for the year ended June 30, 2011 was \$311,902.

**6. COMPENSATED ABSENCES**

The Agency'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.

A summary of changes in compensated absences for the year ended June 30, 2011, is as follows:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year	Due in More than One Year
Governmental Activities		\$ 53,710		\$ 53,710	\$ 3,350	\$ 50,360

**Public Financing and Economic Development Authority of the City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**7. CLASSIFICATION OF FUND BALANCES**

Details of the fund balance classifications of the governmental funds as of June 30, 2011 are as follows:

	General	Project Area 2 Housing	Gateway Housing	Project Area 2 Capital Improvement Capital Projects	Project Area 2 Capital Improvement Housing Projects	Gateway Capital Improvement Capital Projects	Gateway Capital Improvement Housing Projects	Non-Major Fund	Total
<b>Nonspendable:</b>									
Land held for resale	\$ 468,219	\$ 1,877,550	\$ 514,257		\$ 216,705	\$ 521,035	\$ 527,519		\$ 4,125,285
Advance to City of Merced				2,260,594					2,260,594
Total Nonspendable	468,219	1,877,550	514,257	2,260,594	216,705	521,035	527,519		6,385,879
<b>Restricted for:</b>									
Low and moderate housing		432,939	44,396						477,335
Debt Service								7,524	7,524
Total Restricted		432,939	44,396					7,524	484,859
<b>Assigned for:</b>									
Capital projects				1,008,063	3,634,219	4,825,618	2,449,939		11,917,839
Contracts	12,620								12,620
Capital assets									
Total Assigned	12,620			1,008,063	3,634,219	4,825,618	2,449,939		11,930,459
<b>Unassigned</b>	2,679,794								2,679,794
Total Fund Balance	\$ 3,160,633	\$ 2,310,489	\$ 558,653	\$ 3,268,657	\$ 3,850,924	\$ 5,346,653	\$ 2,977,458	\$ 7,524	\$ 21,480,991

**8. INTERFUND TRANSACTIONS**

**A. Advances between Authority and the City of Merced**

The Authority advanced \$2,407,500 to the City of Merced, Merced Theatre Restoration Capital Project Fund. Source of repayment of the loan is \$2,172,500 in grant funding and \$235,000 in pledges. The balance of the advance at June 30, 2011, was \$2,260,594.

**B. Transfers between Authority Funds**

At June 30, 2011, the Authority had the following transfers:

Transfers Out	Transfers In		
	Major Funds		
	Project Area 2 Capital Improvement Housing Projects	Gateways Capital Improvement Housing Projects	Total
	Major Funds:		
Project Area 2 Housing	\$ 852,719		\$ 852,719
Gateway Housing		269,376	269,376
<b>Total</b>	<b>\$ 852,719</b>	<b>\$ 269,376</b>	<b>\$ 1,122,095</b>

Transfers were made to fund capital outlay projects.

**Public Financing and Economic Development Authority of the City of Merced**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**9. SPECIAL ITEMS**

On January 31, 2011, the Authority accepted certain Agency assets, existing projects in process and associated liability, if any.

**10. RISK MANAGEMENT**

The Authority participates in the City's Risk Management Program. All claims are accounted for in the City's General Liability Insurance and Workers' Compensation Insurance Funds. All claims that were probable liabilities that occurred prior to the year-end and that were estimable were recorded in accordance with GASB Statement No. 10.

**11. OTHER POST EMPLOYMENT HEALTH CARE BENEFITS (OPEB)**

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

**12. OTHER POST EMPLOYMENT HEALTH CARE BENEFITS (OPEB)**

The City's net OPEB cost for the year ended June 30, 2011 is \$5,929,000 of which the Authority's share was \$60,260. The Authority's OPEB cost and liability for fiscal year 2011 were as follows:

OPEB liability transferred from the Redevelopment Agency of Merced	\$ 67,602
Net OPEB cost for 2011	60,260
Contributions	<u>(28,082)</u>
Increased in net OPEB liability	99,780
Net OPEB obligation - beginning of year	
Net OPEB obligation - end of year	<u><u>\$ 99,780</u></u>

The City's Basic Financial Statements contain further details regarding the Net OPEB Obligation and can be obtained from the City's Finance Department located at the City of Merced Civic Center.

REQUIRED SUPPLEMENTARY INFORMATION

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**Public Financing and Economic Development Authority of the City of Merced**  
**Required Supplementary Information**  
**For the year ended June 30, 2011**

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**1. BUDGETARY CONTROL AND ACCOUNTING**

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

1. The annual budget adopted by the Authority Board provides for the general operation of the Authority. The annual budget is adopted by the Authority Board in June of each year for all funds. The resolution sets a combined appropriation of the funds for the operation of the Authority.
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 Authority Board. 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 generally accepted accounting principles (GAAP). Budget appropriations lapse at the end of the fiscal year. Supplemental appropriations were adopted by the Authority Board and have been included in the schedule of revenues, expenditures, and changes in fund balance - budget to actual.

The accompanying Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual for the General Fund, the Project Area 2 Housing Fund and the Gateway Housing Fund present comparisons of the legally-adopted budget with actual data on a basis consistent with generally accepted accounting principles.



**Public Financing and Economic Development Authority of Merced**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2011**

**1. BUDGETARY CONTROL AND ACCOUNTING, Continued**

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

	Budgeted		Actual	Variance
	Original	Final		
<b>REVENUES:</b>				
Charges for services		\$ 147,354	\$ 147,354	
Intergovernmental		152,371	148,084	(4,287)
Rental income		35,380	39,286	3,906
Investment earnings		2,810	443	(2,367)
Notes receivable interest and repayments		52,773	474	(52,299)
<b>Total revenues</b>		<u>390,688</u>	<u>335,641</u>	<u>(55,047)</u>
<b>EXPENDITURES:</b>				
Current operating:				
General government		478,119	417,400	60,719
<b>Total expenditures</b>		<u>478,119</u>	<u>417,400</u>	<u>60,719</u>
<b>REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES</b>		(87,431)	(81,759)	5,672
Special item		3,242,392	3,242,392	
<b>Net Change in fund balance</b>		<u>\$ 3,154,961</u>	<u>3,160,633</u>	<u>\$ 5,672</u>
<b>FUND BALANCE:</b>				
Beginning of year				
End of year			<u>\$ 3,160,633</u>	

## OTHER REPORTS

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Directors  
of the Public Financing and Economic Development Authority of the City of Merced  
Merced, California

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Public Financing and Economic Development Authority of the City of Merced (Authority), a component unit of the City of Merced, California, as of and for the year ended June 30, 2011, and have issued our report thereon dated March 30, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Directors  
of the Public Financing and Economic Development Authority of the City of Merced  
Merced, California  
Page 2

Compliance and Other Matters

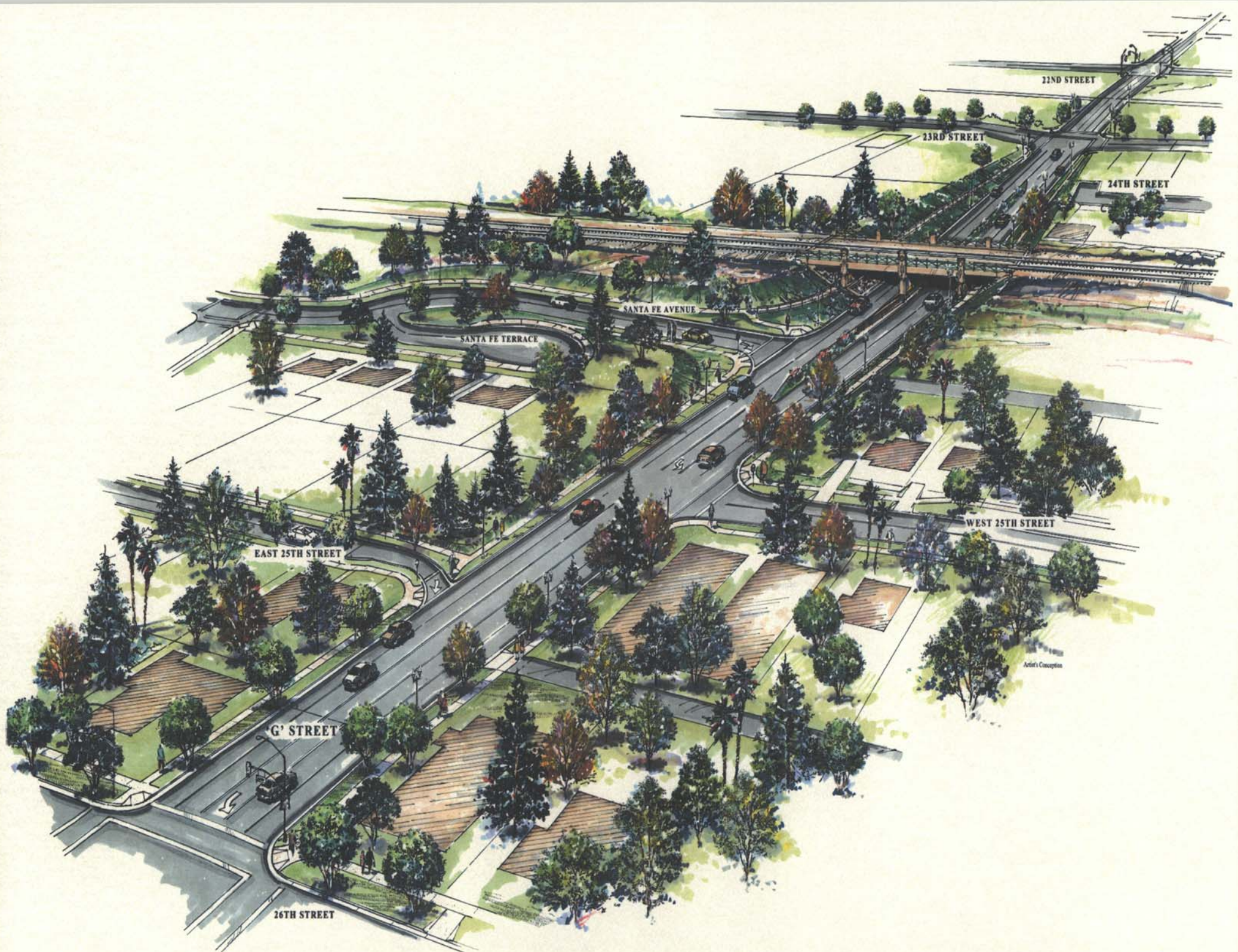
As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, the City of Merced, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Gallina LLP*

Roseville, California  
March 30, 2012





21ST STREET

23RD STREET

24TH STREET

SANTA FE AVENUE

SANTA FE TERRACE

WEST 25TH STREET

EAST 25TH STREET

G' STREET

26TH STREET

Artist's Conception