MERCED COMMUNITY COLLEGE DISTRICT

MERCED, CALIFORNIA

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION WITH INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2019

MERCED COMMUNITY COLLEGE DISTRICT

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MERCED COMMUNITY COLLEGE DISTRICT

ORGANIZATION
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DESCRIPTION OF DISTRICT

The District, a political subdivision of the State of California, was established on July 1, 1963. Its territories encompass portions of Merced, Madera, and Fresno counties. There were no changes in boundaries during the fiscal year.

The District provides higher education instruction for the first and second years of college education and vocations training at Merced Community College.

BOARD OF TRUSTEES

Name	Office	Term Expires
Carmen Ramirez	President	December 2020
Ernie Ochoa	Vice President	December 2020
Joe Gutierrez	Clerk	December 2022
Mario Mendoza	Trustee	December 2022
Sue Chappell	Trustee	December 2022
Jean Upton	Trustee	December 2020
John Pedrozo	Trustee	December 2022

ADMINISTRATION

Chris Vitelli, Ed.M. .... Superintendent/President, Merced College

Joe Allison, CPA .... Vice President, Administrative Services

Kelly Fowler .... Vice President, Instruction

Dr. Michael McCandless .... Vice President, Student Services

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Trustees
Merced Community College District
Merced, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of the Merced Community College District (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District'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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. 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.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of the Merced Community College District, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity 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 the Management's Discussion and Analysis, the Schedule of Changes in the District's Net OPEB Liability and Related Ratios, the Schedules of the District's Proportionate Share of the Net Pension Liability, and the Schedules of the District's Contributions, 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Supplementary Information Section, as listed in the table of contents, is presented for purposes of additional analysis, and is required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office, and is not a required part of the basic financial statements.

This supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2019, on our consideration of the District'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 District's internal control over financial reporting and compliance.

Gilbert CPAs

GILBERT CPAs
Sacramento, California

December 18, 2019

INTRODUCTION TO THE BASIC FINANCIAL STATEMENTS

Merced Community College District ("the District") was formed in 1962. The District is located in Merced, California and has two campuses for students. The main campus is located in the city of Merced itself, with a satellite campus located in Los Banos, California. The District also has classes available at other locations outside of their two main campuses for students at the high schools in Merced, Atwater, Delhi, Dos Palos, and Mariposa, as well as classes for inmates of the Valley State Prison and the Central California Women's Facility located in Chowchilla. We invite you to learn more about us and our services to students and the community at www.mccd.edu.

ACCOUNTING STANDARDS

The following management's discussion and analysis provides an overview of the financial position and activities of the District's Financial Report for the fiscal year that ended June 30, 2019. This discussion has been prepared by management, and should be read in conjunction with the financial statements and notes thereto which follow this section.

The District is reporting according to the standards of Governmental Accounting Standards Board Statements (GASB) No. 34 and 35 using the Business Type Activity (BTA) model. The California Community College Chancellor’s Office, through its Fiscal Accountability Standards Committee, recommended that all community college districts use the reporting standards under the BTA model.

The annual report consists of three basic financial statements, plus notes, that provide information on the District as a whole:

The Statement of Net Position presents the District’s assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Changes in total net position are based on the activities presented in the Statement of Revenues, Expenses, and Changes in Net Position.

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred by the District.

The Statement of Cash Flows presents information about the cash activities of the District during the year.

Notes to the Basic Financial Statements provide additional information crucial for the review of the financial statements.

Each of these statements will be reviewed and significant events discussed.

FINANCIAL AND ENROLLMENT HIGHLIGHTS

The 2018-19 state budget bill was signed by Governor Jerry Brown on June 27, 2018. The approved budget assumed total General Fund expenditures of $138.7 billion, $13.7 billion more than in 2017-18. While maintaining fiscal prudence, the Budget focuses state spending on the Governor's key priorities, investing in education being one of them.

The adopted state budget also had the following impact on community colleges:

- Cost of Living Adjustment (COLA) of 2.71%

- $522.8 million to implement a new student-centered funding formula

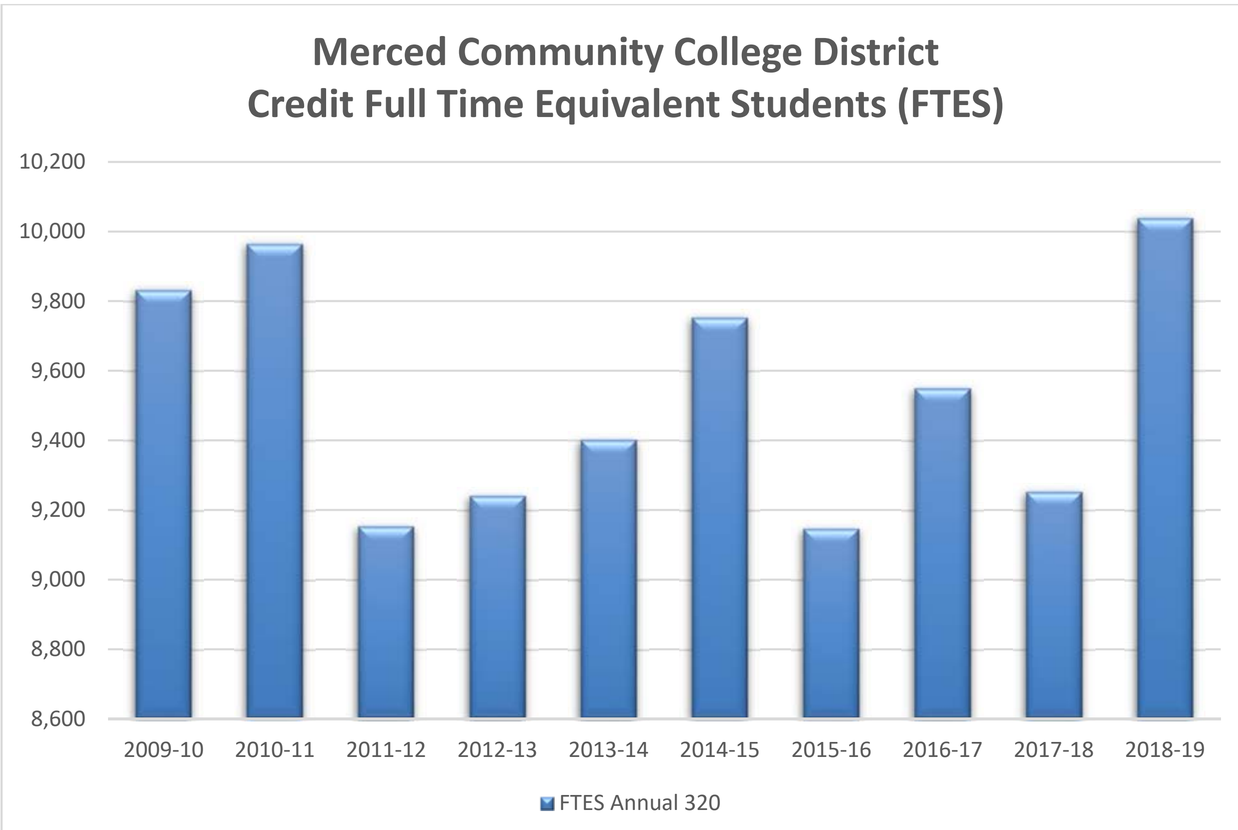
- $40.7 million to consolidate two existing financial aid programs and establish the Student Success Completion Grant

- $46 million to support the implementation of the California College Promise

- $28.5 million for physical plant and instructional support.

On September 11, 2018, the District presented to the Board of Trustees its annual budget. The 2018-19 adopted budget estimated Unrestricted Operating General Fund Revenues of $66.3 million and $66 million Unrestricted Operating General Fund Expenditures, resulting in a projected net revenue of $297 thousand for the fiscal year. The projected net revenue, coupled with a beginning fund balance of $4.8 million, would result in an ending fund balance of $5.1 million. At year end, actual figures for revenue and expenditures were both 4% higher than the amount estimated at the time of the adopted budget. The net effect of the combined increase in revenues and expenditures resulted in a net increase of $116 thousand, leaving an ending Unrestricted Operating General Fund balance of $4.9 million.

In 2018-19, the District reported 10,038 credit and non-credit resident FTES. See the below chart for a historical perspective on the changes in FTES over the past 10 years.



In 2017-18, the District implemented GASB 75 (Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions). GASB 75 improves accounting and financial reporting by state and local governments for other postemployment benefits (OPEB) by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. It requires the District to report an OPEB liability for the difference between the present value of projected OPEB benefits for past service and restricted resources held in trust for the payment of benefits.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* was implemented during the fiscal year ended June 30, 2015. The primary objective of these statements are to improve accounting and financial reporting by state and local governments for unfunded pension liabilities and to disclose any financial support for pensions that is provided by entities outside of the District.

GASB 68 establishes standards for measuring and recognizing unfunded pension liabilities, deferred outflows and inflows of resources, and expenses for the State of California's public employee pension systems, CalPERS and CalSTRS. The District's proportionate share of the combined CalPERS and CalSTRS net pension liability was $63.6 million, as of the measurement date of June 30, 2018. The pension liability is one of the primary reasons for the large negative balance in the unrestricted net position shown on the statement of net position for 2019 ($93.6 million).

There is a plan to fully fund the CalSTRS unfunded pension liability. Legislation was enacted to increase employer contribution rates over seven years beginning in 2014-15. The rate will more than double going from 8.25% to 18.4%. The employer contribution rate for 2018-19 was 16.28%. Employee contributions increased from the 2014-15 rate of 8.15% to 10.25% in 2016-17. The rate increases will remain in effect for at least thirty years, at which time the liability is projected to be fully funded.

CalPERS sets its own rates and is addressing its unfunded liability by increasing employer contribution rates over the next several years, nearly doubling the 2014-15 rate of 11.771%. The employer contribution rate for 2018-19 was 18.062%.

STATEMENT OF NET POSITION

The Statement of Net Position presents information on the District's 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 District is improving or deteriorating.

STATEMENT OF NET POSITION

	2019	2018	$ Change	% Change
ASSETS				
Current and other assets	$ 39,627,129	$ 38,572,502	$ 1,054,627	3%
Noncurrent assets:				
Capital assets, net	97,107,876	97,403,694	(295,818)	0%
TOTAL ASSETS	136,735,005	135,976,196	758,809	1%
DEFERRED OUTFLOWS OF RESOURCES	22,793,182	23,356,256	(563,074)	-2%
LIABILITIES				
Current liabilities:				
Current liabilities	15,626,651	16,138,770	(512,119)	-3%
Long-term liabilities, noncurrent portion	159,551,548	159,613,383	(61,835)	0%
TOTAL LIABILITIES	175,178,199	175,752,153	(573,954)	0%
DEFERRED INFLOWS OF RESOURCES	4,076,208	3,549,330	526,878	15%
NET POSITION				
Net investment in capital assets	64,752,535	64,013,467	739,068	1%
Restricted	9,133,395	7,681,374	1,452,021	19%
Unrestricted (deficit)	(93,612,150)	(91,663,872)	(1,948,278)	2%
TOTAL NET POSITION	$(19,726,220)	$(19,969,031)	$ 242,811	-1%

Assets

Total Assets increased approximately $759 thousand, a percentage increase of 1%. The major changes affecting total assets are listed below:

Current and Other Assets increased by approximately $1 million, a percentage increase of 3%. This increase is primarily due to accounts receivable increase in Grants & Categorical and student accounts.

Net Capital Assets decreased by approximately $296 thousand, a percentage decrease of less than 1%.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources decreased by $600 thousand and deferred inflows of resources increased by $500 thousand. The changes are primarily related to changes in assumptions and changes in proportion for pension reporting with a measurement date of June 30, 2018. This is discussed in more detail in Note 8 of the financial statements.

Liabilities

Total Liabilities decreased by $600 thousand, a percentage decrease of less than 1%. The decrease is primarily due to reduction in deferred restricted revenue from prior year.

Net Position

The OPEB and Pension liabilities are the primary reasons for the large negative balance in the unrestricted net position shown on the Statement of Net Position for 2019 ($93.6 million).

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position present information showing how the District's net position changed during the most recent fiscal year. All changes in net position 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 result in cash flows in future fiscal periods, such as revenues pertaining to receivables and expenses pertaining to earned, but unused, compensated balances.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	2019	2018	$ Change	% Change
OPERATING REVENUES				
Net tuition and fees	$ 5,133,789	$ 4,755,229	$ 378,560	8%
Grants and contracts, noncapital	43,151,811	42,021,582	1,130,229	3%
Auxiliary enterprise sales and charges	1,901,413	2,372,584	(471,171)	-20%
TOTAL OPERATING REVENUES	50,187,013	49,149,395	1,037,618	2%
TOTAL OPERATING EXPENSES	114,577,659	109,932,878	4,644,781	4%
OPERATING LOSS	(64,390,646)	(60,783,483)	(3,607,163)	6%
NON-OPERATING REVENUES (EXPENSES)				
State apportionments, noncapital	36,095,136	33,990,723	2,104,413	6%
Education protection account	9,580,944	8,215,991	1,364,953	17%
Local property taxes	13,843,296	12,300,014	1,543,282	13%
State taxes and other revenues	2,059,154	2,174,668	(115,514)	-5%
Other non-operating revenues (expenses)	(653,718)	(1,104,672)	450,954	41%
TOTAL NON-OPERATING REVENUES	60,924,812	55,576,724	5,348,088	10%
GAIN (LOSS) BEFORE CAPITAL REVENUES	(3,465,834)	(5,206,759)	1,740,925	-33%
Local property taxes and revenues, capital	3,590,387	3,598,969	(8,582)	0%
Local revenues, grants and gifts, capital	118,258	97,205	21,053	22%
INCREASE (DECREASE) IN NET POSITION	242,811	(1,510,585)	1,753,396	-116%
NET POSITION -- BEGINNING OF YEAR	(19,969,031)	(18,458,446)	(1,510,585)	8%
NET POSITION -- END OF YEAR	$(19,726,220)	$(19,969,031)	$ 242,811	-1%

Operating Revenues

Total operating revenues increased by $1 million, a percentage increase of 2%. Increases were mostly in enrollment, non-resident fees and state grants which were offset slightly by a decrease in auxiliary enterprise revenues due to the outsourcing of the District bookstore toward the end of the fiscal year.

Operating Expenses

Total operating expenses increased by $4.6 million, or 4%, due to increases in employee salaries and benefits of $4.6 million.

District's Fiduciary Responsibility

The District is the trustee, or fiduciary, for certain amounts held on behalf of students, clubs, and donors for student loans and scholarships. The District's fiduciary activities are reported in a separate statement of fiduciary net position. These activities are excluded from the District's other financial statements because these assets cannot be used to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2019, the District had approximately $97.1 million invested in net capital assets. Total capital assets of $172.6 million consist of land, construction in progress, buildings and improvements, vehicles, data processing equipment, and other office equipment. These assets have accumulated depreciation of approximately $75.5 million. Depreciation expense of $4.2 million was recorded in 2019.

Note 5 to the financial statements provides additional information on capital assets. A comparison of capital assets net of depreciation is summarized below:

	2019	2018	Net Change
Land and construction in progress	$ 2,704,317	$ 2,898,011	$ (193,694)
Buildings and equipment	169,896,771	165,868,128	4,028,643
Accumulated Depreciation	(75,493,212)	(71,362,445)	(4,130,767)
Total Capital Assets	$ 97,107,876	$ 97,403,694	$ (295,818)

Debt Administration

At June 30, 2019, the District had approximately $163.6 million in outstanding debt, a decrease of less than 1% from prior year.

	2019	2018	Net Change
General obligation bonds	$ 37,460,000	$ 39,380,000	$ (1,920,000)
Bond issuance premium	1,569,865	1,717,645	(147,780)
Compensated absences	1,246,243	1,167,027	79,216
Capital leases	3,077,141	1,944,917	1,132,224
Early retirement incentive	-	258,211	(258,211)
Solar Energy Project	111,006	-	111,006
Net pension liability	63,642,728	62,402,037	1,240,691
Net OPEB obligation	56,523,976	56,801,302	(277,326)
Total Long-term Liabilities	$163,630,959	$163,671,139	$ (40,180)

ECONOMIC OUTLOOK AND FACTORS AFFECTING NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

The consensus among economists is that the California economy will continue to grow in the coming years, although at a slower rate than it has in recent years. However, by the end of the 2019-20 fiscal year, the United States will have matched the longest economic recovery in modern history. Therefore, it is critical that the state continue increasing both the Rainy Day Fund and the Safety Net Reserve Fund, which will help mitigate the impact of the pending economic downturn. At this time, California is in a better position to weather a recession than at any other time in recent history.

The state legislature continues its investment in student equity, access and success by providing additional funds in the state budget to expand the California Promise Program. This program allows for the waiver of enrollment fees for first-time, full-time students for a second academic year.

The state implemented a new Student-Centered Funding Formula (SCFF) in 2018-19 to replace the decades-old apportionment formula, which relied entirely on the number of students enrolled at a particular point in time. In addition to student enrollment, the new formula provides funding for additional factors, such as the number of low-income students enrolled plus the number of students who meet certain student success metrics. The funding split will continue to be transitioned in phases to eventually reflect 60% for student enrollment, 20% for low-income students, and 20% for student success, plus additional funding for those low-income students who meet the student success metrics. Revisions were made to the formula in 2019-20, including implementation of a three-year average for all student success metrics, extending the hold harmless provision through 2021-22, and clarifying the definition of a transfer student. Although Merced College fully supports the framework of the SCFF, there is still much uncertainty as to its long-term impact. Additionally, fixed costs continue to increase, especially for CalPERS and CalSTRS. Merced College projects to maintain a balanced budget as well as sustain a fund balance that remains above the board required 6% level for the 2019-20 fiscal year.

All of these factors were considered in preparing the District budget for the 2019-20 fiscal year.

REQUEST FOR INFORMATION

The financial report is designed to provide a general overview of the District's finances. Questions concerning this report or requests for additional financial information should be addressed to the Merced Community College District, Director of Business & Fiscal Services, 3600 M St., Merced, CA 95348-2806.

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2019

	Primary Institution	Foundation
ASSETS		
Current assets:		
Cash and equivalents	$ 18,196,037	$ 1,612,857
Accounts receivable	9,480,970	
Due from District		31,372
Prepaid expenses and other assets	244,231	
Total current assets	27,921,238	1,644,229
Noncurrent assets:		
Long-term investments		5,163,052
Restricted cash and equivalents	11,705,891	
Pledged receivable, net		873,786
Nondepreciable capital assets	2,704,317	
Depreciable capital assets, net	94,403,559	
Total noncurrent assets	108,813,767	6,036,838
TOTAL ASSETS	136,735,005	7,681,067
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	1,110,091	
Deferred outflows of resources related to pensions	17,330,486	
Deferred outflows of resources related to OPEB	4,352,605	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	22,793,182	
LIABILITIES		
Current liabilities:		
Accounts payable and interest payable	4,883,154	44,199
Due to the Foundation and Fiduciary Fund	124,057	
Unearned revenue	6,540,029	
Long-term liabilities due within one year	4,079,411	
Total current liabilities	15,626,651	44,199
Long-term liabilities due in more than one year		
Net pension liability	63,642,728	
Net OPEB liability	56,523,976	
Other long-term liabilities	39,384,844	
TOTAL LIABILITIES	175,178,199	44,199
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	4,047,869	
Deferred inflows of resources related to OPEB	28,339	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	4,076,208	
NET POSITION (DEFICIT)		
Net investment in capital assets	64,752,535	
Restricted for:		
Nonexpendable: Scholarships		2,949,232
Expendable:		
Scholarships and loans		4,409,253
Capital projects	4,279,340	
Debt service	2,450,619	
Other special purposes	2,403,436	
Unrestricted (deficit)	(93,612,150)	278,383
TOTAL NET POSITION (DEFICIT)	$ (19,726,220)	$ 7,636,868

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

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2019

	Primary Institution	Foundation
OPERATING REVENUES		
Tuition and fees (gross)	$ 12,453,272	
Less: scholarship discounts and allowances	(7,319,483)	
Net tuition and fees	5,133,789	
Grants and contracts, noncapital:		
Federal	19,364,881	
State	22,256,869	
Local	1,530,061	
Contributions		$ 868,528
Auxiliary enterprise sales and charges	1,901,413	
TOTAL OPERATING REVENUES	50,187,013	868,528
OPERATING EXPENSES		
Salaries	43,328,472	
Employee benefits	29,236,787	
Supplies, materials, and other operating expenses and services	15,337,461	251,045
Depreciation	4,197,134	
Financial aid expenses	22,477,805	
Scholarships and student programs		643,540
TOTAL OPERATING EXPENSES	114,577,659	894,585
OPERATING LOSS	(64,390,646)	(26,057)
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, noncapital	36,095,136	
Education protection account	9,580,944	
Local property taxes	13,843,296	
State taxes and other revenues	2,059,154	
Investment income	539,538	504,109
Interest expense	(1,387,203)	
Other non-operating revenues (expenses)	193,947	(445,777)
TOTAL NON-OPERATING REVENUES	60,924,812	58,332
GAIN (LOSS) BEFORE CAPITAL REVENUES	(3,465,834)	32,275
Local property taxes and revenues, capital	3,590,387	
Local revenues, grants and gifts, capital	118,258	
INCREASE (DECREASE) IN NET POSITION	242,811	32,275
NET POSITION (DEFICIT) -- BEGINNING OF YEAR	(19,969,031)	7,604,593
NET POSITION (DEFICIT) -- END OF YEAR	$ (19,726,220)	$ 7,636,868

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

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019

	Primary Institution
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 5,372,592
Federal grants and contracts	1,096,142
State grants and contracts	16,150,997
Local grants and contracts	438,052
Payments to suppliers	(14,473,719)
Payments to/on behalf of employees	(70,838,717)
Auxiliary enterprise sales and charges	2,966,223
Net cash used by operating activities	(59,288,430)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State apportionments and receipts	35,493,402
Education protection account receipts	9,580,944
Local property and state taxes, lottery and other state receipts	15,902,450
Investment income	539,538
Other noncapital disbursements	(260,101)
Net cash provided by noncapital financing activities	61,256,233
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(4,563,439)
Proceeds from sale of capital assets	393,785
Proceeds from captial debt	2,279,452
Principal paid on capital debt	(2,956,222)
Interest paid on capital debt	(1,416,307)
Local property taxes and other revenues for capital	3,708,645
Net cash used by noncapital financing activities	(2,554,086)
NET DECREASE IN CASH AND EQUIVALENTS	(586,283)
CASH AND EQUIVALENTS -- BEGINNING OF YEAR	30,488,211
CASH AND EQUIVALENTS -- END OF YEAR	$ 29,901,928

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS (Continued)
YEAR ENDED JUNE 30, 2019

	Primary Institution
RECONCILIATION TO STATEMENT OF NET POSITION	
Cash and equivalents	$ 18,196,037
Restricted cash and equivalents	11,705,891
Total cash and equivalents	$ 29,901,928
RECONCILIATION OF NET OPERATING GAIN (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	$ (64,390,646)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	4,197,134
Loss on disposal of capital assets	268,338
Amortization of bond premium	(147,780)
Amortization of deferred amount on refunding	85,391
Changes in assets and liabilities:	
Accounts receivable, net	(1,636,247)
Inventory	608,856
Prepaid expenses and other assets	(11,785)
Deferred outflows of resources related to pensions	602,179
Deferred outflows of resources related to OPEB	(124,496)
Accounts payable	607,189
Due to the Foundation	1,340
Due to the Fiduciary Fund	566
Interfund services provided	454,048
Unearned revenue	(1,113,765)
Deferred inflows of resources related to pensions	498,539
Deferred inflows of resources related to OPEB	28,339
Compensated absences	79,216
Net OPEB liability	(277,326)
Net pension liability	1,240,691
Supplemental early retirement incentive	(258,211)
Net cash used by operating activities	$ (59,288,430)

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019

	Trust Fund
	Associated Students Fund
ASSETS	
Cash and equivalents	$ 211,245
Accounts receivable	699
Due from the primary institution	92,685
TOTAL ASSETS	304,629
LIABILITIES	
Payables	2,527
Unearned revenue	50,022
TOTAL LIABILITIES	52,549
NET POSITION - RESTRICTED	
Amounts held in trust for student groups	$ 252,080

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

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2019

	Trust Fund
	Associated Students Fund
ADDITIONS	
Student fees	$ 97,972
Interest	4,951
Other revenues	39,599
TOTAL ADDITIONS	142,522
DEDUCTIONS	
Salaries	8,817
Employee benefits	8,241
Supplies and materials	74,662
Other operating expenses and services	25,653
Other outgoing	9,471
TOTAL DEDUCTIONS	126,844
INCREASE IN NET POSITION	15,678
NET POSITION -- BEGINNING OF YEAR	236,402
NET POSITION -- END OF YEAR	$ 252,080

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

1. ORGANIZATION AND NATURE OF ACTIVITIES

Definition of the Reporting Entity – The Merced Community College District (the District) is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Trustees.

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and Governmental Accounting Standards Board (GASB). The District, based on its evaluation of these criteria, identified the Merced College Foundation (the Foundation) as a component unit.

Discretely Presented Component Unit – The Foundation was established as a legally separate non-profit entity to support the District and its students through fundraising activities. In addition, the Foundation develops and maintains student scholarships and trust accounts for the District students. Furthermore, the funds contributed by the Foundation to the District and its students are significant to the District's financial statements. Therefore, the District has classified the Foundation as a component unit that will be discretely presented in the District's annual financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and *Audits of State and Local Governmental Units*, issued by the American Institute of Certified Public Accountants (AICPA).

Basis of Accounting – For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when an obligation has been incurred. All significant interfund transactions have been eliminated.

The budgetary and financial accounts of the District are recorded and maintained in accordance with the Chancellor's Office of the California Community Colleges' Budget and Accounting Manual, which is consistent with GAAP.

In addition to the District's business-type activities, the District maintains a fiduciary fund. This fund accounts for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are accounted for using the economic resources measurement focus. The District reports the following fiduciary fund:

Trust Fund– This fund is the Associated Students Fund. The amounts reported for the Associated Students Fund represent the combined totals of all accounts for the various student body clubs and activities within the District. Individual totals, by club, are maintained within the Associated Student's accounting system.

Budgets and Budgetary Accounting – By state law, the District's governing board must approve a tentative budget no later than July 1st and adopt a final budget no later than September 15th of each year. A hearing must be conducted for public comments prior to adoption.

The budget is revised during the year to incorporate categorical funds which are awarded during the year and miscellaneous changes to the spending plans. Revisions to the budget are approved by the District's governing board.

Estimates Used in Financial Reporting – In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Equivalents – For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Restricted Cash and Equivalents – Restricted cash and equivalents are those amounts externally restricted as to use pursuant to the requirements of the District's grants, contracts, and debt service requirements.

Accounts Receivable – Accounts receivable consist of amounts due from federal, state and local governments, or private sources, in connection with reimbursement of allowable expenses based on a contract or agreement between the District and the funding source. Additionally, accounts receivable consist of tuition and fee charges to students.

Prepaid Expenses – Prepaid expenses consist of operating expenses for which payment is due in advance and are expensed when the benefit is received.

Capital Assets – Capital assets are recorded at cost at the date of acquisition. Donated capital assets are recorded at their estimated fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Buildings, as well as renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend the asset's life is recorded in operating expense in the year in which the expense was incurred. Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Asset Class	Years
Improvement of Sites	10
Buildings	50
Vehicles	8
Equipment	10
Library Books	5
Technology	5

Unearned Revenue – Unearned revenues include amounts received for tuition and fees prior to the end of the fiscal year, but related to the subsequent accounting period. Unearned revenues also include amounts received from grants, contracts, and certain categorical programs that have not yet been earned.

Compensated Absences – Employee vacation pay is accrued at year-end for financial statement purposes based on vacation time accrued and current pay rates. The liability and expense incurred are recorded at year-end as accrued vacation payable in the balance sheet and as a component of employee benefits. It is the District's policy to record sick leave in the period taken, since the employee's right to sick leave payment does not vest upon termination.

Deferred Outflows/Deferred Inflows of Resources – In addition to assets and liabilities, the balance sheet reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of resources that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Conversely, deferred inflows of resources represent an acquisition of resources that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

The District's deferred amount on refunding, resulting from the difference in the carrying value and reacquisition price of the refunded debt, is reported as a deferred outflow of resources and is amortized over the shorter of the life of the refunded debt or refunding bond.

Contributions made to the District's pension and OPEB plan(s) after the measurement date but before the fiscal year-end are recorded as a deferred outflow of resources and will reduce the net pension liability and net OPEB liability in the next fiscal year.

Additional factors involved in the calculation of the District's pension and OPEB expenses and liabilities include the differences between expected and actual experience, changes in assumptions, differences between projected and actual investment earnings, changes in proportion, and differences between the District's contributions and proportionate share of contributions. These factors are recorded as deferred outflows and inflows of resources and amortized over various periods. See Note 8 for further details related to these pension deferred outflows and inflows. See Note 9 for details related to the OPEB deferred outflows and inflows.

Pensions – Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement Plan (the CalSTRS Plan), and classified employees are members of the Schools Pool (the CalPERS Plan), collectively referred to as the Plans. For purposes of measuring the net pension liability, pension expense, and deferred outflows/inflows of resources related to pensions, information about the fiduciary net position of the District's portions of the Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. 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.

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 District's (OPEB Plan) and additions to/deductions from 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.

Net Position – The District's net position is classified as follows:

- Net investment in capital assets – This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

- Restricted net position – expendable – Restricted expendable net position includes resources that the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

- Unrestricted net position (deficit) – Unrestricted net position (deficit) represents resources derived from student tuition and fees, state apportionments, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose. Unrestricted net position includes amounts internally designated for District obligations.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, and then unrestricted resources as they are needed.

Classification of Revenues – The District has classified its revenues as either operating or non-operating revenues according to the following criteria:

- Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises; (3) most Federal, State, and local grants and contracts and Federal appropriations.

- Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB, such as State appropriations and investment income.

Scholarship Discounts and Allowances and Financial Aid – Student tuition and fee revenues are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. The District offers Board of Governor’s (BOG) grants to qualified students and these tuition waivers are reported as scholarship discounts and allowances. Grants, such as Federal, State, or non-governmental programs, are recorded as operating or non-operating revenues in the District’s financial statements.

Property Taxes – Secured property taxes attach as an enforceable lien on property as of January 1, and are payable in two installments on November 1 and February 1. Unsecured property taxes are payable in one installment on or before August 31. The Counties bills and collects the taxes for the District. Tax revenues are recognized by the District when received.

Future Accounting Pronouncements – In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities,* with required implementation for the District during the year ending June 30, 2020. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

In June 2017, the GASB issued Statement No. 87, *Leases,* with required implementation for the District during the year ending June 30, 2021. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Management is in the process of evaluating the impact these two new statements will have on the District's future financial statements.

3. CASH AND EQUIVALENTS

Cash and equivalents as of June 30, 2019, are classified in the accompanying financial statements as follows:

Statement of Net Position of the Primary Government:	
Cash and equivalents	$ 18,196,037
Restricted cash and equivalents	11,705,891
Statement of Fiduciary Net Position:	
Cash and equivalents	211,245
Total cash and equivalents	$ 30,113,173

Cash and equivalents as of June 30, 2019, consist of the following:

Cash and equivalents in County Treasury	$ 22,750,635
Deposits with financial institutions	726,737
Cash on hand	9,209
Cash and equivalents in CAMP	6,626,592
Total cash and equivalents	$ 30,113,173

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Merced County Treasury (County Treasury). The County Treasury pools these funds with those of other districts in the county and invests the cash. The share of each fund in the pooled cash account is separately accounted for and interest earned is apportioned quarterly to funds that are legally required to receive interest based on the relationship of a fund's daily balance to the total of pooled cash and investments.

Participants' equity in the County Treasury investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed income. This method differs from the fair value method used to value investments in these financial statements in that unrealized gains or losses are not distributed to pool participants.

The County Treasury is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq., and is restricted by Government Code Section 53635, pursuant to Section 53601. The funds maintained by the Treasury are either secured by federal depository insurance or are collateralized.

California Asset Management Program

California Asset Management Program (CAMP) is a California Joint Powers Authority established to provide California public agencies with professional investment services. The CAMP Pool is a permitted investment for all local agencies under California Government Code Section 53601(p). The District's cash and equivalents in CAMP represent unspent bond proceeds restricted for specific purposes under terms of the bond offering.

Investments Authorized by the District's Investment Policy

The table below identifies the investment types authorized for the entity by the District's investment policy. This table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds or Notes	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations – CA and Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Bankers' Acceptance	180 days	40%	None
Commercial Paper (pooled and non-pooled)	270 days	25% or 40%	10%
Negotiable Certificates of Deposits	5 years	30%	10%
Non-negotiable Certificates of Deposits	5 years	None	None
Deposit Placement Services	5 years	30%	10%
CD Placement Services	5 years	30%	10%
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds & Money Market Mutual Funds	N/A	20%	10%
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-through Securities	5 years	20%	None
Joint Powers Authority Pool	N/A	None	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Funds (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None
Supranational Obligations	5 years	30%	None

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code.

Derivative Investments

The District did not directly enter into any derivative investments. Information regarding the amount invested in derivatives by the County Treasury and CAMP was not available.

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, the longer the maturity of an investment, the greater the sensitivity of its fair values to changes in market interest rates. As of June 30, 2019, the weighted average maturity of the investments contained in the County Treasury and the CAMP investment pools is approximately 487 and 54 days, respectively.

Credit Risk

Generally, 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. The County Treasury investment pool does not have a rating provided by a nationally recognized statistical rating organization. The CAMP investment pool is rated AAAm by Standard and Poor's as of June 30, 2019.

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 California Education Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits that are made by a 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 governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amounts deposited by the public agencies. As of June 30, 2019, the District's bank balances were exposed to custodial credit risk in the amount of $350,543.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2019:

Statement of Net Position of the Primary Government	
Federal grants and contracts	$ 712,677
State grants, contracts and general apportionment	1,486,072
Local grants, contracts and students	7,282,221
Total	$ 9,480,970
Statement of Fiduciary Net Position:	
Local sources	$ 699
Total	$ 699

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Capital assets, not being depreciated:				
Land	$ 1,670,258	$ 500	$ (337,392)	$ 1,333,366
Construction in progress	1,227,753	411,536	(268,338)	1,370,951
Total capital assets, not being depreciated	2,898,011	412,036	(605,730)	2,704,317
Capital assets, being depreciated:				
Improvement of sites	14,224,035	328,434	(55,000)	14,497,469
Buildings	131,276,961	304,631	(67,760)	131,513,832
Furniture and equipment	20,367,132	3,518,338		23,885,470
Total capital assets, being depreciated	165,868,128	4,151,403	(122,760)	169,896,771
Less accumulated depreciation for:				
Improvement of sites	(11,348,758)	(206,303)	44,459	(11,510,602)
Buildings	(45,883,228)	(2,597,620)	21,908	(48,458,940)
Furniture and equipment	(14,130,459)	(1,393,211)		(15,523,670)
Total accumulated depreciation	(71,362,445)	(4,197,134)	66,367	(75,493,212)
Total capital assets, being depreciated, net	94,505,683	(45,731)	(56,393)	94,403,559
Total capital assets, net	$ 97,403,694	$ 366,305	$ (662,123)	$ 97,107,876

6. LONG TERM OBLIGATIONS

General Obligation Bonds

On November 16, 2006, the District issued the 2006 General Obligation Refunding Bonds in the amount of $10,740,000, with interest rates ranging from 3.5% to 5.0%. As of June 30, 2019, the principal balance outstanding was $7,305,000.

On February 28, 2012, the District issued 2012 General Obligation Refunding Bonds in the amount of $13,070,000, with interest rates ranging from 2.0% to 4.0%, to advance refund a portion of the 2003 Series of the 2002 Schools Facilities Improvement General Obligation Bonds. As of June 30, 2019, the principal balance outstanding was $9,570,000.

On August 1, 2014, the District issued 2014 General Obligation Refunding Bonds (2014 Issue) in the amount of $21,965,000, with interest rates ranging from 2% to 5%, to partially advance refund the 2006 Series of the 2002 School Facilities Improvement District 1 General Obligation Bonds (Defeased Bonds). As of June 30, 2019, the 2014 Issue principal balance outstanding was $20,585,000.

The annual requirements to amortize the general obligation bonds are as follows:

Year Ending June 30, 2019	Principal	Interest	Total
2020	$ 2,130,000	$ 1,445,375	$ 3,575,375
2021	2,360,000	1,356,375	3,716,375
2022	2,645,000	1,245,400	3,890,400
2023	2,935,000	1,120,775	4,055,775
2024	3,250,000	978,149	4,228,149
2025-2029	15,440,000	2,877,138	18,317,138
2030-2032	8,700,000	456,582	9,156,582
Totals	$ 37,460,000	$ 9,479,794	$ 46,939,794

Capital Leases

The District leases equipment under agreements which provide for title to pass upon expiration of the lease period. The assets acquired under these agreements are included in capital assets, see Note 5. The interest cost incurred during the year ended June 30, 2019, was charged to expenses. The District entered into a new capital lease agreement during the 2018-2019 fiscal year with a gross amount of $2,168,446 of the new asset. Future minimum lease payments are as follows:

Year Ending June 30, 2019	Payments
2020	$ 676,203
2021	676,203
2022	676,203
2023	676,203
2024	204,718
2025-2027	563,891
Total	3,473,421
Less amount representing interest	(396,280)
Present value of net minimum lease payments	$ 3,077,141

Supplemental Early Retirement Incentive

During the years ended June 30, 2014 and 2015, the District entered into agreements to offer early retirement incentives to eligible faculty, classified staff and management. During the year ended June 30, 2019, the District made its final payment related to this retirement incentive.

California Energy Commission – Solar Energy Project

During the year ended June 30, 2018, the District signed a contract with the California Energy Commission for a $1,627,600 draw-down loan to finance a solar energy project at the District. The loan carries a 0.00% interest rate. Payments will begin on December 1, 2020, or whenever the related project is complete, whichever is later. The loan payments, and therefore payment term, will be determined based on the energy cost savings achieved by the project. As of June 30, 2019, the District had expenditures for the project and therefore had drawn-down $111,006 of the loan.

A schedule of changes in long-term obligations for the year ended June 30, 2019 is shown below:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
General obligation bonds	$ 39,380,000		$ (1,920,000)	$ 37,460,000	$ 2,130,000
Premium on bonds	1,717,645		(147,780)	1,569,865	147,780
Compensated absences	1,167,027	$ 79,216		1,246,243	1,246,243
Capital leases	1,944,917	2,168,446	(1,036,222)	3,077,141	555,388
Solar Energy Project		111,006		111,006	
Supplemental early retirement incentive	258,211		(258,211)		
Totals`	$ 44,467,800	$ 2,358,668	$ (3,362,213)	$ 43,464,255	$ 4,079,411

7. LEASE REVENUE BONDS

The District and the State of California have entered into a financing arrangement under which the State provided funds for the construction of the Interdisciplinary Academic Center (lAC). The funds are proceeds of lease revenue bonds issued by the State of California, Public Works Board (the Board). The bonds are a special obligation of the Board payable from State General Fund revenues appropriated to the California Community Colleges Board of Governors who therein make adequate provision in the annual budget of the State for the servicing of such bonds. However, in the unlikely event that the State could not pay the semi-annual installment payment, the District would be responsible for the payments attributable to the District's facilities. Approximately $9,028,000 of the project costs were appropriated in the 2001-02 year. Annual installments on the lease range from $195,890 to $617,100 beginning March 15, 2006, through September 15, 2031. No amounts had been accrued for any contingent payments at June 30, 2019.

The IAC is included in the District's capital assets on the Statement of Net Position. The Board leases the facility constructed with these bonds to the District. Upon full repayment of the associated bonds, title to the facility conveys to the District.

8. RETIREMENT PLANS

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District participates in the State Teachers' Retirement Plan (the CalSTRS Plan), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. CalSTRS acts as a common investment and administrative agent for participating public entities within the State of California. CalSTRS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report is available online at www.calstrs.com.

Benefits Provided

The benefits for the CalSTRS Plan are established by contract, in accordance with the provisions of the State Teachers' Retirement Law. Benefits are based on members' years of service, age, final compensation, and a benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The California Public Employees' Pension Reform Act of 2013 (PEPRA) made significant changes to the benefit structure that primarily affect members first hired to perform CalSTRS creditable activities on or after January 1, 2013. As a result of PEPRA, the CalSTRS Plan has two benefit structures: 1) CalSTRS 2% at 60 – Members first hired on or before December 31, 2012, to perform CalSTRS creditable activities, and 2) CalSTRS 2% at 62 – Members first hired on or after January 1, 2013, to perform CalSTRS creditable activities. The 2 percent, also known as the age factor, refers to the percentage of final compensation received as a retirement benefit for each year of service credit. To be eligible for 2% service retirement, members hired prior to January 1, 2013, must be at least age 60 with a minimum of five years of CalSTRS-credited service, while members hired after January 1, 2013, must be at least age 62 with five years of service.

Contributions

Assembly Bill 1469 (AB 1469), signed into law as a part of the State of California's (the State) 2014-15 budget, increases contributions to the CalSTRS Plan from members, employers, and the State over the next seven years, effective July 1, 2014. School employer contributions will increase from 8.25% to a total of 18.40% of covered payroll over the seven-year period. The District's required contribution rate for the year ended June 30, 2019, was 16.28% of annual pay. District contributions to the CalSTRS Plan were $3,896,304 for the year ended June 30, 2019.

The State contributes a percentage of the annual earnings of all members of the CalSTRS Plan. AB 1469 increases the State's contribution attributable to the benefits in effect in 1990, but does not change the base rate of 2.017%. In accordance with AB 1469, the portion of the state appropriation under Education Code Sections 22955(b) that is in addition to the base rate has been replaced by section 22955.1(b) in order to fully fund the benefits in effect as of 1990 by 2046. The additional state contribution increased from 1.437% in 2014-15 to 5.311% in 2018-19. The increased contributions end as of fiscal year end June 30, 2046. The State contribution rate for the period ended June 30, 2018, was 9.328% of the District's 2014-15 creditable CalSTRS compensation.

In addition to AB1469, California Senate Bill 90 (SB 90) signed June 27, 2019, appropriated from the State's General Fund $2,246,000,000 in contributions on-behalf of school employers for the 2018–19 fiscal year to be transferred to the CalSTRS Plan. Furthermore, SB 90 will appropriate contributions for the 2019–20 and 2020–21 fiscal years, such that it will result in school employers having to contribute 1.03 percentage points less than amounts set in existing prescribed schedules in the 2019–20 fiscal year and 0.70 percentage point less in the 2020–21 fiscal year, as specified. The District's proportionate share of the State's SB90 on-behalf contribution to the CalSTRS Plan for the period ended June 30, 2019 was $1,393,254.

Actuarial Assumptions

The total pension liability for the CalSTRS Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to the measurement date of June 30, 2018. The financial reporting actuarial valuation as of June 30, 2018 used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.10%
Consumer Price Inflation	2.75%
Wage Growth	3.50%
Investment Rate of Return[1]	7.10%
Mortality	CalSTRS' Membership Data
	2% simple for DB (Annually)
	Maintain 85% purchasing power Level for DB
Post-Retirement Benefit Increase	Not applicable for DBS /CBB

[1] Net of investment expenses, but gross of administrative expenses.

Discount Rate

The discount rate used to measure the CalSTRS Plan's total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10%) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the CalSTRS Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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. The best-estimate ranges were developed using capital market assumptions from CalSTRS' general investment consultant as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2018, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term * Expected Real Rate of Return
Global Equity	47.00%	6.30%
Fixed Income	12.00%	0.30%
Real Estate	13.00%	5.20%
Private Equity	13.00%	9.30%
Risk Mitigating Strategies	9.00%	2.90%
Inflation Sensitive	4.00%	3.80%
Cash / Liquidity	2.00%	-1.00%
Total	100.00%	

*20-year geometric average

California Public Employees' Retirement System (CalPERS)

Plan Description

The District participates in the Schools Pool (the CalPERS Plan), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report is available online at www.calpers.ca.gov.

Benefits Provided

The benefits for the CalPERS Plan are established by contract, in accordance with the provisions of the California Public Employees' Retirement Law (PERL). The benefits are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. PEPRA made significant changes to the benefit structure that primarily affect members first hired to perform CalPERS creditable activities on or after January 1, 2013. As a result of PEPRA, the CalPERS Plan has two benefit structures: 1) CalPERS 2% at 55 – Members first hired on or before December 31, 2012, to perform CalPERS creditable activities, and 2) CalPERS 2% at 62 – Members first hired on or after January 1, 2013, to perform CalPERS creditable activities. To be eligible for service retirement, members hired prior to January 1, 2013, must be at least age 50 with a minimum of five years of CalPERS-credited service, while members hired after January 1, 2013, must be at least age 52 with a minimum of five years of CalPERS-credited service.

Contributions

Section 20814(c) of the PERL 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. Contribution rates for the CalPERS Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The CalPERS Plan's 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 District's required contribution rate for the year ended June 30, 2019, was 18.062% of annual pay. District contributions to the CalPERS Plan were $2,694,577 for the year ended June 30, 2019.

In addition to District contributions, SB 90, appropriated from the State's General Fund $904,000,000 in contributions on-behalf of school employers for the 2018–19 fiscal year to be transferred to the CalPERS Plan. The District's proportionate share of the State's SB90 on-behalf contribution to the CalPERS plan for the period ended June 30, 2019 was $942,510.

Actuarial Assumptions

For the measurement period ended June 30, 2018 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2017 total pension liability. The June 30, 2018 total pension liability amounts were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases[1]	Varies
Investment Rate of Return	7.15%
Mortality[2]	CalPERS' Membership Data
Post-Retirement Benefit Increase[3]	Up to 2.50%

[1] Varies by entry age and service

[2] The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, refer to the December 2017 CalPERS Experience Study Report (based on CalPERS demographic data from 1997 to 2015) that can be found on CalPERS website.

[3] 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

All other actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015.

Changes in Assumptions

In measurement period ending June 30, 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. The inflation rate for CalPERS was lowered from 2.75% to 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The crossover test results can be found on CalPERS' website.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. 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+ 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

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.

Asset Class[(a)]	New Strategic Allocation	Real Return Years 1 – 10[(b)]	Real Return Years 11+[(c)]
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

(a) In the Plan's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(b) An expected inflation of 2.00% was used for this period.

(c) An expected inflation of 2.92% was used for this period.

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2019, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for the State's pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability:	
CalSTRS Plan	$ 35,843,730
CalPERS Plan	27,798,998
Total District net pension liability	63,642,728
State's proportionate share of CalSTRS net pension liability associated with the District	20,753,098
Total	$ 84,395,826

The District's net pension liability is measured as the proportionate share of each Plan's net pension liability. The net pension liabilities of the Plans are measured as of June 30, 2018, and calculated by reducing the total pension liability of each Plan by the respective Plan's fiduciary net position. The District's proportion of each Plan's net pension liability was based on the ratio of the District's actual employer contributions in the measurement period to the total actual employer and State contributions received by the respective Plan in the measurement period. The District's proportionate share of the net pension liability as of June 30, 2017, was 0.039% and 0.1043% for the CalSTRS and CalPERS Plans, respectively, which was a decrease of 0.001% and 0.0021%, respectively, from its proportion measured as of June 30, 2017 for CalSTRS and CalPERS Plans, respectively.

For the measurement period June 30, 2018, the District recognized pension expense of $11,375,119 and revenue of $2,442,829 for support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,933,551	$ (520,650)
Changes in assumptions	8,344,026	
Changes in proportion		(2,147,009)
Change in proportionate share of contributions	234,014	
Net differences between projected and actual investment earnings of pension plan investments	228,014	(1,380,210)
District contributions subsequent to measurement date	6,590,881	
Total	$ 17,330,486	$ (4,047,869)

The $6,590,881 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2020	$ 3,724,505
2021	2,506,759
2022	(696,347)
2023	309,038
2024	942,066
Thereafter	(94,285)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability of the Plans as of the measurement date, calculated using the discount rate, as well as what the District's proportionate share of 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:

	Discount Rate –1% (6.10%)	Current Discount Rate (7.10%)	Discount Rate +1% (8.10%)
District's proportionate share of the CalSTRS Plan's net pension liability	$ 52,506,870	$ 35,843,730	$ 22,028,370

	Discount Rate –1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
District's proportionate share of the CalPERS Plan's net pension liability	$ 40,474,012	$ 27,798,998	$ 17,283,260

9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

In addition to the pension benefits described in Note 8, the District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District. The Merced College Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical, vision and dental insurance benefits to eligible retirees and, under certain conditions, their spouses and dependents.

The District is a member of the California Community College League Retiree Health Benefit Program, which is an investment program used to set aside funds for future retiree benefits in an irrevocable trust (the Investment Trust). The Investment Trust is used for the purposes of investment and disbursement of funds irrevocably designated by the District to fund future other post-employment benefits (OPEB). The Retiree Health Benefit Program issues a separate financial report that may be obtained by contacting the District.

Benefits Provided

	Faculty	Classified	Management	Board
Benefit types provided	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision
Duration of benefits	To age 65	To age 65	To age 65	Lifetime
Required service	18 years	15 years	15 years	12 years
Minimum age	55	58	58	None
Dependent coverage	Yes	Yes	Yes	Yes
District contribution %	100%	100%	100%	100%
District cap	None	None	None	None

Employees Covered

As of the June 30, 2017 actuarial valuation, the following Inactive and active employees were covered by the benefit terms under the OPEB Plan:

Inactive employees receiving benefits	245
Inactive employees entitled to but not receiving benefits	0
Participating active employees	390
Total	635

Contributions

The District provides benefits on a pay-as-you-go basis, and also makes contributions to the OPEB Trust. The contribution requirements of plan members and the District are established and may be amended by the Board and by contractual agreement with employee groups. The District's plan members are not required to contribute to the plan.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017, based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	6.00%
Inflation	2.75%
Salary Increases	2.75%
Investment Rate of Return	6.00%
Mortality Rate	CalPERS' and CalSTRS' rates
Medical Trend Rates	4.00%
Dental & Vision Trend Rates	4.00%

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 expected 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	Assumed Asset Allocation	Assumed Gross Return
US Large Cap	60.00%	7.795%
US Small Cap	15.00%	7.795%
Long-Term Corporate Bonds	20.00%	5.295%
Short-Term Gov't Fixed	5.00%	3.250%
Total	100.00%	

Discount Rate

The discount rate used to measure the total OPEB liability was 6.0 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made on an ad hoc basis, but in an amount sufficient to fully fund the obligation over a period not to exceed 16 years. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members over a period not to exceed 16 years. Therefore, the long-term assumed investment rate of return was applied to a period not to exceed 16 years of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability

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

	Increase (Decrease)		
	Total OPEB Liability (TOL) (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balance at June 30, 2018 (Measurement date June 30, 2017)	$ 60,180,249	$ 3,378,947	$ 56,801,302
Changes recognized for the measurement period:			
Service cost	765,794		765,794
Interest on TOL	3,504,490		3,504,490
Contributions—employer		4,309,964	(4,309,964)
Contributions—employee			
Actual investment income		238,146	(238,146)
Benefit payments	(4,309,964)	(4,309,964)	
Administrative expense		(500)	500
Net changes	(39,680)	237,646	(277,236)
Balance at June 30, 2019 (Measurement date June 30, 2018)	$ 60,140,569	$ 3,616,593	$ 56,523,976

Sensitivity of the District's Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, as well as what the 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 rate:

	Discount Rate –1% (5.00%)	Current Discount Rate (6.00%)	Discount Rate +1% (7.00%)
Net OPEB liability	$ 61,636,235	$ 56,523,976	$ 52,079,029

Sensitivity of the District's Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the District, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	Health Care Trend Rate – 1% (3.00%)	Health Care Trend Rate (4.00%)	Health Care Trend Rate +1% (5.00%)
Net OPEB liability	$ 51,443,402	$ 56,523,976	$ 62,257,878

OPEB plan fiduciary net position

The Investment Trust issues a separate financial report that may be obtained by contacting the District at 3600 M Street, Merced, CA, 95348.

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net differences between projected and actual earnings on OPEB Trust investments	5 years
All other amounts	Expected average remaining service lives (EARSL) of plan participants

OPEB Expense and Deferred Outflows/Inflows Related to OPEB

For the year ended June 30, 2019, the District recognized OPEB expense of $3,979,122. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 4,352,605	
Net difference between projected and actual earnings on OPEB plan investments		$ (28,339)
Total	$ 4,352,605	$ (28,339)

The $4,352,605 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2018 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized as follows:

Year Ended June 30		
2020	$	(7,085)
2021		(7,085)
2022		(7,085)
2023		(7,084)

10. DEFERRED COMPENSATION PLANS

The District also offers its employees deferred compensation plans in accordance with Internal Revenue Code, Section 457 (457 Plans). The Plans, available to eligible District employees, permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or qualifying event. The assets of the 457 Plans are held in trust as described in the Internal Revenue Code, Section 457, for the exclusive benefit of the employees and their beneficiaries. The Plan administrators are agents of the employer for purposes of providing directions for the investment of funds held in the employer’s account. In accordance with GASB, plan balances and activities are not reflected in the District's financial statements.

11. JOINT POWERS AUTHORITIES AGREEMENTS

The District is a participant in the Schools Excess Liability Fund (SELF). SELF is a joint powers authority (JPA) created to provide services and other items necessary and appropriate for the establishment, operation, and maintenance of a self-funded excess liability fund for public educational agencies, which are parties thereto. Should excess liability claims exceed amounts funded to SELF by all participants, the District may be required to provide additional funding.

The District is a participant in the Alliance of Schools for Cooperative Insurance Program (ASCIP). ASCIP is a JPA established for the purpose of providing the services, facilities, and items necessary and appropriate for the establishment, operation, and maintenance of a self-insurance system for property, liability, and workers' compensation claims and losses against public educational agencies who are members thereof. Should claims exceed amounts funded to ASCIP by all participants, the District may be required to provide additional funding. ASCIP also provides for additional insurance and risk management programs and services as well as a forum for discussion, study, development, and implementation of recommendations of mutual interest regarding self-insurance for losses and other insurance and risk management programs and services.

NATURE OF PARTICIPATION

Property

District Deductible: $5,000
JPA's Coverage: $5,001 to $1,000,000 with ASCIP
Excess Insurance: $1,000,001 to $600,000,000 with ASCIP

Liability

District Deductible: $0
JPA's Coverage: $0 to $5,000,000 with ASCIP
Excess Insurance: $5,000,001 to $55,000,000 with SELF

Workers' Compensation

District Deductible: $0
JPA's Coverage: Statuary

The JPAs are independently accountable for their fiscal matters and are not components of the District for financial reporting purposes. The most current condensed financial information available is as follows:

	June 30, 2019 SELF	June 30, 2019 ASCIP
Total Assets and Deferred Outflows	$ 121,746,875	$ 495,232,790
Total Liabilities and Deferred Inflows	(101,882,603)	(293,871,345)
Net Position	$ 19,864,272	$ 201,361,445
Total Revenues	$ 25,735,366	$ 271,786,016
Total Expenses	(23,968,407)	(274,827,206)
Net Decrease in Net Position	$ (1,766,959)	$ (3,041,190)

12. COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

Litigation

The District is a defendant in various pending liability lawsuits arising in the ordinary course of business. The outcome of the litigation is unknown at the present time, however, in the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the District's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS FOR THE MEASUREMENTS PERIODS ENDED JUNE 30, LAST 10 YEARS*

	2018	2017
TOTAL OPEB LIABILITY		
Service cost	$ 765,794	$ 745,298
Interest	3,504,490	3,502,044
Benefit payments	(4,309,964)	(4,144,196)
NET CHANGE IN TOTAL OPEB LIABILITY	(39,680)	103,146
TOTAL OPEB LIABILITY, Beginning	60,180,249	60,077,103
TOTAL OPEB LIABILITY, Ending (a)	60,140,569	60,180,249
PLAN FIDUCIARY NET POSITION		
Contributions—employer	4,309,964	4,563,789
Contributions—employee		
Net investment income	238,146	265,219
Benefit payments	(4,309,964)	(4,144,196)
Administrative expense	(500)	(5,265)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	237,646	679,547
PLAN FIDUCIARY NET POSITION, Beginning	3,378,947	2,699,400
PLAN FIDUCIARY NET POSITION, Ending (b)	3,616,593	3,378,947
DISTRICT'S NET OPEB LIABILITY, Ending (a) - (b)	$ 56,523,976	$ 56,801,302
Plan fiduciary net position as a percentage of the total OPEB liability	6.0%	5.6%
Covered-employee payroll	$ 30,840,458	$ 30,548,193
District's net OPEB liability as a percentage of covered-employee payroll	183.3%	185.9%

Notes to Schedule:

There were no changes to benefit terms or assumptions during the measurement period ending June 30, 2017 and June 30, 2018.

* Fiscal year 2018 was the 1st year of implementation, therefore only two years are presented.

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS OF JUNE 30, LAST 10 YEARS*

CalSTRS Plan

	Measurement Date				
	2018	**2017**	**2016**	**2015**	**2014**
District's proportion of the net pension liability	0.039%	0.040%	0.041%	0.042%	0.043%
District's proportionate share of the net pension liability	$ 35,843,730	$ 36,992,000	$ 33,161,210	$ 28,276,080	$ 25,127,910
State's proportionate share of the net pension liability associated with the District	20,753,098	21,778,811	19,018,100	14,923,484	15,190,963
Total	$ 56,596,828	$ 58,770,811	$ 52,179,310	$ 43,199,564	$ 40,318,873
District's covered-employee payroll	$ 22,179,621	$ 21,690,641	$ 21,110,849	$ 19,627,455	$ 19,262,257
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	162%	171%	157%	144%	130%
Plan fiduciary net position as a percentage of the total pension liability	71%	69%	70%	74%	77%

Notes to Schedule:

Change of benefit terms – For the measurement date ended June 30, 2018, 2017, 2016, 2015 and 2014, there were no changes to the benefit terms.

Changes in assumptions – For the measurement date ended June 30, 2018, 2016, 2015 and 2014, there were no changes in assumptions. For the measurement date ended June 30, 2017, the consumer price inflation changed from 3.00% to 2.75%, investment rate of return changed from 7.60% to 7.10% and wage growth changed from 3.75% to 3.50%.

* Fiscal year 2015 was the 1st year of implementation, therefore only five years are shown.

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS OF JUNE 30, LAST 10 YEARS*

CalPERS Plan

	Measurement Date				
	2018	**2017**	**2016**	**2015**	**2014**
District's proportion of the net pension liability	0.104%	0.106%	0.1047%	0.1053%	0.1107%
District's proportionate share of the net pension liability	$ 27,798,998	$ 25,410,037	$ 20,678,315	$ 15,521,324	$ 12,567,145
District's covered-employee payroll	$ 13,747,179	$ 13,790,329	$ 12,795,195	$ 11,614,639	$ 11,629,858
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	202%	184%	162%	134%	108%
Plan fiduciary net position as a percentage of the total pension liability	71%	72%	74%	79%	83%

Notes to Schedule:

Change of benefit terms – For the measurement date ended June 30, 2018, 2017, 2016, 2015 and 2014, there were no changes to the benefit terms.

Changes in assumptions – For the measurement date ended June 30, 2015, the discount rate changed from 7.50% (net of administrative expenses in 2014) to 7.65% to correct an adjustment which previously reduced the discount rate for administrative expenses. For the measurement dates ended June 30, 2016 and 2014, there were no changes in assumptions. For the measurement date ended June 30, 2017, the discount rate changed from 7.65% to 7.15%. For the measurement date ended June 30, 2018, the demographic assumptions and inflation rates were changed. The inflation rate was lowered from 2.75% to 2.50%.

* Fiscal year 2015 was the 1st year of implementation, therefore only five years are shown.

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS
AS OF JUNE 30,
LAST 10 YEARS*

CalSTRS Plan

	Fiscal Year				
	2019	**2018**	**2017**	**2016**	**2015**
Contractually required contribution (actuarially determined)	$ 3,896,304	$ 3,200,236	$ 2,718,478	$ 2,268,381	$ 1,739,206
Contributions in relation to the contractually required contributions	(3,896,304)	(3,200,236)	(2,718,478)	(2,268,381)	(1,739,206)
Contribution deficiency (excess)	$	$	$	$	$
District's covered-employee payroll	$ 23,934,884	$ 22,179,621	$ 21,690,641	$ 21,110,849	$ 19,627,455
Contributions as a percentage of covered-employee payroll	16.28%	14.43%	12.53%	10.75%	8.86%

* Fiscal year 2015 was the 1st year of implementation, therefore only five years are shown.

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS
AS OF JUNE 30,
LAST 10 YEARS*

CalPERS Plan

	Fiscal Year				
	2019	**2018**	**2017**	**2016**	**2015**
Contractually required contribution (actuarially determined)	$ 2,694,577	$ 2,135,151	$ 1,911,785	$ 1,464,028	$ 1,381,020
Contributions in relation to the contractually required contributions	(2,694,577)	(2,135,151)	(1,911,785)	(1,464,028)	(1,381,020)
Contribution deficiency (excess)	$	$	$	$	$
District's covered-employee payroll	$ 14,920,807	$ 13,747,179	$ 13,790,329	$ 12,795,195	$ 11,614,639
Contributions as a percentage of covered-employee payroll	18.06%	15.53%	13.86%	11.44%	11.89%

* Fiscal year 2015 was the 1st year of implementation, therefore only five years are shown.

SUPPLEMENTARY INFORMATION SECTION

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Program Expenditures
U.S. Department of Education:			
Student Financial Assistance Programs Cluster:			
Supplemental Educational Opportunity Grant Program	84.007	N/A	$ 395,413
Federal Work Study Program	84.033	N/A	464,548
Pell Grant Program	84.063	N/A	17,164,029
Subtotal Student Financial Assistance Programs Cluster			18,023,990
Career and Technical Education:			
Passed through the California Department of Education (CDE):			
Perkins Title 1, Part C	84.048A	18-C01-031	353,676
Passed through the California Department of Education (CDE):			
Career Technical Education Transitions	84.051	18-C01-031	41,377
Childcare Access Means Parents in School	84.335A	P335A180083	214,366
Passed through Merced County Office of Education			
Merced Scholars Charter School	84.282	N/A	3,392
Total U.S. Department of Education			18,636,801
National Science Foundation:			
NSF CSU Stanislaus S-STEM	47.076	1643944	20,000
U.S. Department of Veterans Affairs			
Veterans Education Outreach	64.unknown	N/A	2,805
U.S. Department of Health and Human Services			
CCDF Cluster:			
Passed through the California Department of Education:			
CDC General Child Care & Dev Programs (CCTR)	93.596	CCTR-8143	107,230
CDC General Child Care & Dev Programs (CCTR)	93.575	CCTR-8143	49,293
Passed through the Yosemite Community College District:			
Child Development Training Consortium	93.575	18-19-3970	17,125
Subtotal CCDF Cluster			173,648
TANF Cluster:			
Passed through the California Community College Chancellor's Office:			
Temporary Assistance to Needy Families (TANF) - TANF Cl	93.558	N/A	83,429

See the accompanying notes to supplemental information.

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Program Expenditures
Passed through the Madera County Office of Education:			
Medi-Cal Administrative Activities (MAA) - Medicaid Cluster	93.778	N/A	21,072
Passed through Merced County Mental Health:			
Mental Health	93.958	2017139	27,044
Passed through the Merced County Office of Education:			
CDC Head Start	93.600	N/A	385,835
Total U.S. Department of Health and Human Services			691,028
U.S. Department of Agriculture:			
Passed Through California Department of Education:			
Child Care Federal Food Program	10.558	N/A	77,255
U.S. Department of Labor:			
Passed Through Employment Development Department:			
Merced College Work Readiness and Preparation - WIOA Cluster	17.258	N/A	7,868
Total Expenditures of Federal Awards			$ 19,435,757

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2019

	Entitlements	Program Revenues				
Program Title	**Current Year**	**Unearned Revenue and Cash Received**	**Accounts Receivable**	**Unearned/ Payables**	**Total**	**Program Expenditures**
CATEGORICAL APPORTIONMENTS:						
EOPS/CARE	$ 286,244	$ 286,244			$ 286,244	$ 286,244
EOPS (E)	1,381,988	1,381,988			1,381,988	1,381,988
Student Success Completion	2,601,434	2,712,434			2,712,434	2,712,434
State DSPS	880,883	866,071	$ 14,820		880,891	880,891
BFAP	438,390	438,390			438,390	438,390
Campus Safety Sexual Assault		13,212			13,212	13,212
California College Promise	307,994	307,994		$ 49,519	258,475	258,475
Classified Professional Development	50,283	50,283		50,283		
Mental Health Support	84,934	85,184		60,195	24,989	24,989
RN Economic Development	230,309	252,930		22,312	230,618	230,618
Certified Nurse Assistant Program	90,000	90,000		71,507	18,493	18,493
Equal Employment Opportunity	50,000	65,027		19,832	45,195	45,195
Financial Aid Technology	180,129	286,185		106,056	180,129	180,129
Guided Pathways	387,299	592,151		467,823	124,328	124,328
NextUp	643,840	643,840			643,840	643,840
AEBG Data & Accountability	12,615	34,711			34,711	34,711
Adult Education Block Grant Program	575,750	959,818		344,148	615,670	615,670
Student Equity	3,987,574	4,548,530		422,531	4,125,999	4,125,999
Physical Plant & Instructional Support	240,345	392,554		95,456	297,098	297,098
Student Hunger at Community College	85,313	98,604		78,841	19,763	19,763
Veterans Resource Center	25,465	50,341		25,465	24,876	24,876
Strong Workforce Program	1,230,651	2,581,556	188,457	783,427	1,986,586	1,986,586
CalWORKs	482,878	487,928			487,928	487,928
Subtotal	14,254,318	17,225,975	203,277	2,597,395	14,831,857	14,831,857
CATEGORICAL PROGRAM ALLOWANCES:						
Puente Project	1,500	1,500			1,500	1,500
Cal Grant	2,040,870	2,040,870			2,040,870	2,040,870
CDC Block Grant	364,298	386,080			386,080	386,080
CDC Family Services	131,250	65,761	43,440		109,201	109,201
CDC MCOE Kids First		15,081		9,526	5,555	5,555
CDC Preschool Program	383,897	383,897		1,854	382,043	382,043
CDC MCOE RTT-ELC QRIS	9,703	44,514		42,126	2,388	2,388
Child Care Food Program	5,541	4,496			4,496	4,496
Early Childhood Mentors	3,800	2,622	1,711		4,333	4,333
Veteran Students Success &						
Completion Grant	100,000	60,000	975		60,975	60,975
California Virtual Campus (iHOPE)	15,000	3,940			3,940	3,940
CRAECP Ag Edu	11,662	11,662			11,662	11,662
CVHEC	5,000	4,505			4,505	4,505
Prop 39 Clean Air		563,135			563,135	563,135
Song-Brown Training	120,000	45,000		23,535	21,465	21,465
Transformation Program (BSSOTP)		175,339	300,000		475,339	475,339
Prop 39 (passed through Kern CCD)		35,946			35,946	35,946
Economic development:						
GTLS (DSN & IRI)	35,000	74,064			74,064	74,064
GTLS (ISPIC)		68,349			68,349	68,349
RHTLE (DSN & IRI)	245,500	150,502	37,856		188,358	188,358
Subtotal	3,473,021	4,137,263	383,982	77,041	4,444,204	4,444,204
Total	$ 17,727,339	$ 21,363,238	$ 587,259	$ 2,674,436	$ 19,276,061	$ 19,276,061

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT
ANNUAL (ACTUAL) ATTENDANCE
YEAR ENDED JUNE 30, 2019

STATE GENERAL APPORTIONMENT	Reported Data*	Audit Adjustments	Revised Data
Categories			
A. Summer Intersession (Summer 2018 Only)			
1. Noncredit	138.75	0.00	138.75
2. Credit	375.67	0.00	375.67
B. Summer Intersession (Summer 2019, Prior to July 1, 2019)			
1. Noncredit	42.10	0.00	42.10
2. Credit	816.71	0.00	816.71
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses:			
(a) Weekly Census Contact Hours	5,840.69	0.00	5,840.69
(b) Daily Census Contact Hours	500.98	0.00	500.98
2. Actual Hours of Attendance Courses:			
(a) Noncredit	783.42	0.00	783.42
(b) Credit	44.33	0.00	44.33
3. Alternative Attendance Accounting Procedure Courses:			
(a) Weekly Census Procedure Courses	1,193.10	0.00	1,193.10
(b) Daily Census Procedure Courses	302.43	0.00	302.43
(c) Noncredit Independent Study	0.00	0.00	0.00
D. Total Full-Time Equivalent Students	10,038.18	-	10,038.18
Supplemental Information			
E. In-service Training Courses (FTES)	0.00	0.00	0.00
F. Basic Skills Courses and Immigrant Education (FTES)			
(a) Noncredit	767.00	0.00	767.00
(b) Credit	400.60	0.00	400.60
CCFS 320 Addendum			
CDCP Noncredit FTES			
Centers FTES			
(a) Noncredit	179.07	0.00	179.07
(b) Credit	1,050.52	0.00	1,050.52

* FTES reported in the Recal Apportionment Attendance Report (CCFS-320) by the District on November 1, 2019.

See the accompanying notes to supplemental information.

MERCED COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION
YEAR ENDED JUNE 30, 2019

		Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
ACADEMIC SALARIES							
Instructional Salaries:							
Contract or Regular	1100	$ 12,782,711		$ 12,782,711	$ 12,782,711		$ 12,782,711
Other	1300	6,491,690		6,491,690	6,491,690		6,491,690
Total Instructional Salaries		19,274,401		19,274,401	19,274,401		19,274,401
Non-Instructional Salaries:							
Contract or Regular	1200				4,703,211		4,703,211
Other	1400				328,662		328,662
Total Non-Instructional Salaries					5,031,873		5,031,873
Total Academic Salaries		19,274,401		19,274,401	24,306,274		24,306,274
CLASSIFIED SALARIES							
Non-Instructional Salaries:							
Regular Status	2100				8,580,714		8,580,714
Other	2300				719,546		719,546
Total Non-Instructional Salaries					9,300,260		9,300,260
Instructional Aides:							
Regular Status	2200	1,041,751		1,041,751	1,041,751		1,041,751
Other	2400	162,561		162,561	162,561		162,561
Total Instructional Aides		1,204,312		1,204,312	1,204,312		1,204,312
Total Classified Salaries		1,204,312		1,204,312	10,504,572		10,504,572
Employee Benefits	3000	9,624,179		9,624,179	20,275,263		20,275,263
Supplies and Materials	4000				568,339		568,339
Other Operating Expenses	5000	382,350		382,350	6,391,596		6,391,596
Equipment Replacement	6420						
TOTAL EXPENDITURES PRIOR TO EXCLUSIONS		30,485,242		30,485,242	62,046,044		62,046,044

MERCED COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION
YEAR ENDED JUNE 30, 2019

		Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
EXCLUSIONS							
Activities to Exclude:							
Instructional Staff-Retirees' Benefits and Retirement Incentives	5900	1,942,212		1,942,212	1,942,212		1,942,212
Student Health Services Above Amount Collected	6441						
Student Transportation	6491						
Noninstructional Staff-Retirees' Benefits and Retirement Incentives	6740				2,370,017		2,370,017
Objects to Exclude:							
Rents and Leases	5060				27,394		27,394
Lottery Expenditures:							
Academic Salaries	1000						
Classified Salaries	2000						
Employee Benefits	3000						
Supplies and Materials:	4000						
Software	4100						
Books, Magazines, & Periodicals	4200				1,426		1,426
Instructional Supplies & Materials	4300				95,690		95,690
Noninstructional Supplies & Materials	4400				67,400		67,400
Total Supplies and Materials					164,516		164,516
Other Operating Expenses and Services	5000				1,402,865		1,402,865
Capital Outlay:	6000						
Library Books	6300						
Equipment:	6400						
Equipment - Additional	6410				99,685		99,685
Equipment - Replacement	6420						
Total Equipment					99,685		99,685
Total Capital Outlay					99,685		99,685
Other Outgo	7000						
TOTAL EXCLUSIONS		1,942,212		1,942,212	6,006,689		6,006,689
Total for ECS 84362, 50% Law		$ 28,543,030		$ 28,543,030	$ 56,039,355		$ 56,039,355
Percent of CEE (Instructional Salary Cost / Total CEE)		50.93%			100%		
50% of Current Expense of Education					$ 28,019,678		

MERCED COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF EDUCATION PROTECTION ACCOUNT EXPENDITURES TO DISTRICT ACCOUNTING RECORDS YEAR ENDED JUNE 30, 2019

Education Protection Act (EPA) Expenditure Report

Activity Classification	Activity Code				Unrestricted
EPA Proceeds:	8630				$ 9,580,944
Activity Classification	**Activity Code**	**Salaries and Benefits (1000-3000)**	**Operating Expenses (4000-5000)**	**Capital Outlay (6000)**	**Total**
Instructional Activities	0100-5900	$ 9,580,944			9,580,944
Total Expenditures for EPA*		$ 9,580,944	$	$	9,580,944
Revenues less Expenditures					$

*Total Expenditures for EPA may not include Administrator Salaries and Benefits or other administrative costs.

MERCED COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS
TO NET POSITION
YEAR ENDED JUNE 30, 2019

Fund Balance:	
General Fund	$ 10,812,125
Bond Interest and Redemption Fund	2,593,889
Child Development Fund	
Farm Operation Fund	31,488
Capital Outlay Projects Fund	4,298,185
Revenue Bond Construction Fund	8,622,729
Bookstore Fund	(1,238,646)
Self-Insurance Fund	3,640,885
Associated Students Trust Fund	252,082
Student Financial Aid Fund	
Scholarship and Loan Trust Fund	4,473,198
Retiree Trust Fund	3,163,670
Total Fund Balances as reported on the Annual Financial and Budget Report (CCFS-311)	36,649,605
Net audit adjustments:	
No adjustments were made to the District's Funds	
Total Fund Balance	36,649,605
Reconciliation to Net Position:	
Capital Assets, Net	97,040,808
Deferred Outflows of Resources Related to Pensions	17,330,486
Interest Payable	(613,698)
Net OPEB Liability	(56,523,976)
Deferred Outflows of Resources Related to OPEB	4,352,605
Compensated Absences	(1,246,243)
Capital Leases	(3,077,141)
Deferred amount on refunding	1,110,091
Net Pension Liability	(63,642,728)
Bonds Payable/Premium and other debt	(39,140,871)
Deferred Inflows of Resources Related to Pensions	(4,047,869)
Deferred Inflows of Resources Related to OPEB	(28,339)
Remove Fiduciary Fund Balances	(7,888,950)
Total Net Position	$ (19,726,220)

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

AUDITOR COMMENTS

No adjustments were made to the District’s Fund Financial Statements.

1. PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The audit of the District for the year ended June 30, 2019, was conducted in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), which requires disclosure of the financial activities of all federally funded programs. To comply with Uniform Guidance, the Schedule of Expenditures of Federal Awards was prepared by the District.

- General – The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the District. The District reporting entity is defined in Note 1 to the District's basic financial statements.
- Basis of Accounting – The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 2 to the District's basic financial statements.
- Indirect Cost Rate – The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.
- Subrecipients – The District did not provide federal awards to subrecipients during the year ended June 30, 2019.

Schedule of State Financial Assistance

The California Community Colleges Chancellor's Office requires disclosure of the financial activities of all state funded programs. To comply with this requirement, the Schedule of State Financial Assistance is presented.

Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance

Full-time equivalent students (FTES) is a measurement of the number of students attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to community college districts. This schedule provides information regarding the attendance of students based on various methods of accumulating attendance data.

Reconciliation of the ECS 84362 (50 percent law) Calculation

The Reconciliation of ECS 84362 (50 Percent Law) Calculation form shows the annual reported data from the CCFS-311 and any audit adjustments.

Reconciliation of Education Protection Account Expenditures to District Accounting Records

This reconciliation of Education Protection Account Expenditures shows the annual general apportionment and the expenditures the District applied toward the apportionment.

Reconciliation of Governmental Funds to Statement of Net Position

This schedule provides the reconciliation of the adjustments necessary to bring the District's internal fund financial statements, prepared on a modified accrual basis, to the entity-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business type activities reporting model.

Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Financial Statements

This schedule reports any audit adjustments made to the fund balances of all funds as reported on the Annual Financial and Budget Report (Form CCFS-311).

OTHER INDEPENDENT AUDITOR’S REPORTS

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*

Independent Auditor's Report

Members of the Board of Trustees
Merced Community College District
Merced, California

We have audited, in accordance with the 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, the financial statements of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of the Merced Community College District (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents, and have issued our report thereon dated December 18, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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.*

Purpose of Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gilbert CPAs

GILBERT CPAs
Sacramento, California

December 18, 2019

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditor's Report

Members of the Board of Trustees
Merced Community College District
Merced, California

Report on Compliance for Each Major Federal Program

We have audited the Merced Community College District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the District's compliance.

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Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses, or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Gilbert CPAs

GILBERT CPAs
Sacramento, California

December 18, 2019

Relax. We got this.℠

REPORT ON COMPLIANCE WITH APPLICABLE REQUIREMENTS IN ACCORDANCE WITH THE CONTRACTED DISTRICT AUDIT MANUAL

Independent Auditor's Report

Members of the Board of Trustees
Merced Community College District
Merced, California

Report on Compliance with Applicable Requirements

We have audited the Merced Community College District's (the District) compliance with the types of compliance requirements described in Section 400, State Compliance Requirements, of the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office identified in the schedule below for the year ended June 30, 2019.

Management's Responsibilities

Management is responsible for compliance with the state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Section 400, State Compliance Requirements, of the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. Those standards and the *Contracted District Audit Manual* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary under the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance. However, our audit does not provide a legal determination on the District's compliance with those requirements.

In connection with the requirements referred to above, we have selected and tested transactions and records to determine the District's compliance with the applicable programs identified below:

- Salaries of Classroom Instructors (50% Law)
- Apportionment for Activities Funded from Other Sources

2880 Gateway Oaks Drive, Suite 100, Sacramento, CA 95833
Phone 916.646.6464 • Fax 916.929.6836 • GilbertCPA.com

- State General Apportionment Funding System
- Residency Determination for Credit Courses
- Students Actively Enrolled
- Dual Enrollment (CCAP and Non-CCAP)
- Scheduled Maintenance Program
- Gann Limit Calculation
- Open Enrollment
- Proposition 39 Clean Energy Fund
- Apprenticeship Related and Supplemental Instruction (RSI) Funds
- Disabled Student Programs and Services (DSPS)
- To Be Arranged Hours (TBA)
- Proposition 1D and 51 State Bond Funded Projects
- Education Protection Account Funds

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with State Compliance Requirements, of the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office and which are described in the accompanying schedule of findings and questioned costs as items 2019-001, and 2019-002. Our opinion on the types of compliance requirements referred to above is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Audit Findings and Questioned Costs. These responses were not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Opinion on State Compliance

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above for the fiscal year ended June 30, 2019.

Gilbert CPAs

GILBERT CPAs
Sacramento, California

December 18, 2019

FINDINGS AND RECOMMENDATIONS SECTION

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements were prepared in accordance with GAAP:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	____ Yes	✓ No
Significant deficiency(ies) identified?	____ Yes	✓ None Reported
Noncompliance material to financial statements noted?	____ Yes	✓ No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	____ Yes	✓ No
Significant deficiency(ies) identified?	____ Yes	✓ None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ Yes	✓ No

Identification of major programs:

CFDA Numbers	Name of Federal Programs or Cluster
84.063, 84.007, 84.033	Student Financial Assistance Programs Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	750,000	
Auditee qualified as low-risk auditee?	✓ Yes	____ No

State Awards

Internal control over State programs:		
Material weakness(es) identified?	____ Yes	✓ No
Significant deficiency(ies) identified?	____ Yes	✓ None Reported
Any audit findings disclosed that are required to be disclosed in accordance with Contracted District Audit Manual?	✓ Yes	____ No
Type of auditor's report issued on compliance for state programs:	Unmodified	

SECTION II – FINANCIAL STATEMENT FINDINGS

There are no financial statement findings reported.

SECTION III – FEDERAL COMPLIANCE

There are no federal compliance findings reported.

SECTION IV – STATE COMPLIANCE

2019-001 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – WEEKLY ATTENDANCE

Criteria:

According to California Code of Regulations, Title V, Section 58003.1, weekly student contact hours reported for each class should be the product of the number of students actively enrolled at weekly census times the number of units of academic credit associated with the class.

Condition:

We noted two weekly courses were not calculated at the correct amount of contact hours in the District's attendance accounting system but corrected prior to submission of the Annual Attendance Accounting Report (320 Annual Report).

Context:

Out of 25 weekly classes tested, two courses were identified that were not reported at the correct amount of contact hours. Contact hours were calculated using the incorrect weekly contact hour figure when calculating the total contact hours. These errors were determined to be isolated and testing of additional attendance confirmed the isolation. No additional errors were identified.

Effect:

The District's FTES was corrected to properly calculate FTES for the weekly courses using the correct contact hours, which audit procedures validated subsequent to correction.

Questioned Costs:

The errors were corrected prior to the FY 2018-19 Annual Apportionment Attendance Report (320 Annual Report) submission deadline and, therefore, the full impact of the finding on full-time equivalent student (FTES) was captured in the 320 Annual Report. As a result of the correction, the District's FTES increased by 0.11 for resident FTES related to these errors.

However, as a result of these errors noted, the District performed a full 100% review of their weekly attendance population claimed. The District identified additional errors within weekly attendance that were unrelated to the errors identified by the auditor. Consequently, the District reclassified FTES out of weekly attendance into weekly alternative attendance in their Recal Apportionment Attendance Report (CCFS-320).

From these corrections and changes, an additional sample of attendance selections were made and tested, resulting in no further errors identified. As a result of the corrections, the District's FTES decreased by 53.83 resident FTES and the weekly alternative attendance increased by 91.30 resident FTES.

Recommendation:

We recommend that the District perform internal reviews of weekly classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate prior to submission.

District's Corrective Action Plan:

Over the last nine months, the college has actively engaged in a multitude of discussions, workshops, and planning sessions to develop an effective class schedule and audit process. Multiple training workshops that include best practices for class scheduling, contact hour calculations, audit reports, and data entry have been provided to area secretaries, faculty leads, curriculum specialist, and the area deans. These training workshops, discussions, and schedule audits will be ongoing. Part of the schedule development process includes consistent and timely audits as part of the schedule development timeline. This ensures that class schedules are proactively reviewed for errors and allows errors to be corrected in a timely manner. Merced College is on track to establish sound internal audit processes that are wide-spread throughout the campus and no longer solely rests on one person or one position.

2019-002 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – DAILY ATTENDANCE

Criteria:

According to California Code of Regulations (CCR), Title V, Section 58003.1 (c), for credit courses scheduled to meet for five or more days and scheduled regularly with respect to the number of hours each scheduled day, but not scheduled conterminously with the college's primary term established pursuant to subdivision (b), or scheduled during the summer or other intersession, the units of full time equivalent student (FTES), exclusive of independent study and cooperative work-experience education courses, shall be computed by multiplying the daily student contact hours of active enrollment as of the census days nearest to one-fifth of the length of the course by the number of days the course is scheduled to meet, and dividing by 525.

Condition:

We noted twenty-three daily courses were not reported at the correct amount of contact hours due to human error.

Context:

Out of 45 daily attendance courses tested, twenty-three courses were identified that were not reported at the correct amount of contact hours. This incorrect reporting was a result of human error and a lack of proper review prior to reporting.

Effect:

The difference between the reported and recalculated FTES for courses noted:

- Credit courses, residents – 2.45 FTES (*overreported)*, 11.84 FTES *(underreported)*

Questioned Costs:

The errors were fully corrected prior to the FY 2018-19 Recal Apportionment Attendance Report (CCFS-320) submissions deadline and, therefore, the full impact of the finding on full-time equivalent student (FTES) was captured in the Recal Apportionment Attendance Report (CCFS-320). As a result of the correction, the District's FTES increased by 9.39 for resident FTES related to these errors.

However, as a result of these errors noted, the District performed a full 100% review of their daily attendance population claimed. Additional errors were identified by the District during this review related and unrelated to the finding. Consequently, the District reclassified FTES out of daily alternative attendance into Daily attendance. From these corrections and changes, an additional sample of attendance selections were made and tested, resulting in no further errors identified. As a result of these corrections, the District's FTES increased by 176.67 for daily resident FTES and the daily alternative attendance decreased by 177.29 resident FTES.

Recommendation:

We recommend that internal reviews be performed of daily classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate prior to submission.

District's Corrective Action Plan:

Over the last nine months, the college has actively engaged in a multitude of discussions, workshops, and planning sessions to develop an effective class schedule and audit process. Multiple training workshops that include best practices for class scheduling, contact hour calculations, audit reports, and data entry have been provided to area secretaries, faculty leads, curriculum specialist, and the area deans. These training workshops, discussions, and schedule audits will be ongoing. Part of the schedule development process includes consistent and timely audits as part of the schedule development timeline. This ensures that class schedules are proactively reviewed for errors and allows errors to be corrected in a timely manner. Merced College is on track to establish sound internal audit processes that are wide-spread throughout the campus and no longer solely rests on one person or one position.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2019

Recommendation	Current Status	District Explanation If Not Implemented
2018-001 – REPORTING **Condition:** The District submitted its FISAP report on October 12, 2018, which is eleven days past the required deadline. **Recommendation:** We recommend that the District ensure that its policies and procedures surrounding the preparation and submission of the FISAP are updated to facilitate timely reporting.	Implemented; no exceptions noted during 2019 testing.	