

**MERCED COMMUNITY
COLLEGE DISTRICT**

MERCED, CALIFORNIA

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION WITH
INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED JUNE 30, 2020

MERCED COMMUNITY COLLEGE DISTRICT

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MERCED COMMUNITY COLLEGE DISTRICT

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MERCED COMMUNITY COLLEGE DISTRICT

ORGANIZATION YEAR ENDED JUNE 30, 2020

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

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

ADMINISTRATION

Chris Vitelli, Ed.D.Superintendent/President, Merced College
Joe Allison, CPA..... Vice President, Administrative Services
Kelly FowlerVice President, Instruction
Michael McCandless, Ed.D. Vice President, Student Services

AUXILIARY ORGANIZATIONS IN GOOD STANDING

<u>Auxiliary Name</u>	<u>Establishment Date</u>	<u>Current Master Agreement Date</u>	<u>Auxiliary Director's Name</u>
Merced College Foundation	November 9, 1973	January 5, 2010	Jill Cunningham

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, 2020, 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.

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, 2020, 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 Pension 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 February 1, 2021, 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 solely 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.

A handwritten signature in black ink that reads "Gilbert CPAs". The signature is written in a cursive, slightly slanted style.

**GILBERT CPAs
Sacramento, California**

February 1, 2021

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020

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, 2020. 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.

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020

FINANCIAL AND ENROLLMENT HIGHLIGHTS

The 2019-20 state budget bill was signed by Governor Gavin Newsom on June 27, 2019. The approved budget assumed total General Fund expenditures of \$148 billion, \$10 billion more than in 2018-19. 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:

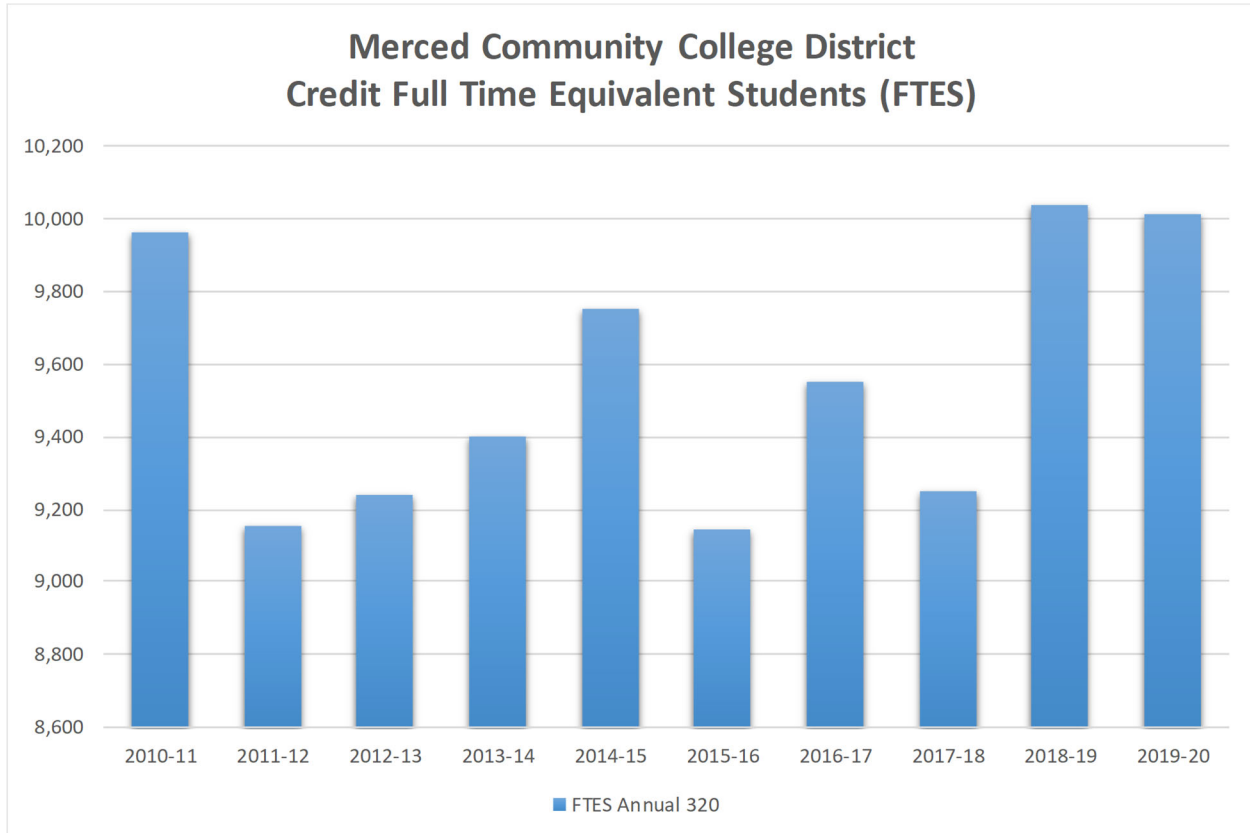
- Cost of Living Adjustment (COLA) of 3.26%
- \$265 million increase in the Student Centered Funding Formula (SCFF)
- \$43 million to expand the California Promise Program to provide two free years of education to first-time students.
- \$13.5 million for physical plant and instructional support.

On September 10, 2019, the District presented to the Board of Trustees its annual budget. The 2019-20 adopted budget estimated Unrestricted Operating General Fund Revenues of \$70.7 million and \$70.6 million Unrestricted Operating General Fund Expenditures, resulting in a projected net revenue of \$163 thousand for the fiscal year. The projected net revenue, coupled with a beginning fund balance of \$4.9 million, would result in an ending fund balance of \$5 million. At year end, actual figures for revenue was \$73.1 million or 3.3% higher and expenditures were \$69 million or 2.1% lower than the amount estimated at the time of the adopted budget. The net effect of the combined increase in revenues and decrease in expenditures resulted in a net increase of \$4 million, leaving an ending Unrestricted Operating General Fund balance of \$8.9 million.

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020

In 2019-20, the District reported 10,011 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.

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020

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 \$69.3 million, as of the measurement date of June 30, 2019. 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 2020 (\$94.9 million).

There is a plan to fully fund the CalSTRS unfunded pension liability. Legislation was enacted to increase employer contribution rates over seven years which began in 2014-15. The rate will more than double going from 8.25% to 18.4%. The employer contribution rate for 2019-20 was 17.10%. 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 2019-20 was 19.721%.

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020

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

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>
ASSETS				
Current and other assets	\$ 42,012,574	\$ 39,627,129	\$ 2,385,445	6%
Noncurrent assets:				
Capital assets, net	<u>98,304,966</u>	<u>97,107,876</u>	<u>1,197,090</u>	<u>1%</u>
TOTAL ASSETS	<u>140,317,540</u>	<u>136,735,005</u>	<u>3,582,535</u>	<u>3%</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>24,740,385</u>	<u>22,793,182</u>	<u>1,947,203</u>	<u>9%</u>
LIABILITIES				
Current liabilities:				
Current liabilities	17,802,720	15,626,651	2,176,069	14%
Long-term liabilities, noncurrent portion	<u>165,288,554</u>	<u>159,551,548</u>	<u>5,737,006</u>	<u>4%</u>
TOTAL LIABILITIES	<u>183,091,274</u>	<u>175,178,199</u>	<u>7,913,075</u>	<u>5%</u>
DEFERRED INFLOWS OF RESOURCES	<u>2,844,891</u>	<u>4,076,208</u>	<u>(1,231,317)</u>	<u>-30%</u>
NET POSITION				
Net investment in capital assets	66,422,098	64,752,535	1,669,563	3%
Restricted	7,575,792	9,133,395	(1,557,603)	-17%
Unrestricted (deficit)	<u>(94,876,130)</u>	<u>(93,612,150)</u>	<u>(1,263,980)</u>	<u>1%</u>
TOTAL NET POSITION (DEFICIT)	<u>\$(20,878,240)</u>	<u>\$(19,726,220)</u>	<u>\$ (1,152,020)</u>	<u>6%</u>

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020

Assets

Total Assets increased approximately \$3.6 million, a percentage increase of 3%. The major changes affecting total assets are listed below:

Current and Other Assets increased by approximately \$2.4 million, a percentage increase of 6%. This increase is primarily due to the Apportionment accrual in accounts receivable.

Net Capital Assets increased by approximately \$1.2 million, a percentage increase of 1%.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources increased by \$1.9 million and deferred inflows of resources decreased by \$1.2 million. The changes to deferred outflows are primarily related to changes in assumptions and changes in proportion for OPEB reporting with a measurement date of June 30, 2019. The changes to deferred inflows are primarily related to changes in assumptions and changes in proportion for pension reporting with a measurement date of June 30, 2019. This is discussed in more detail in Note 8 and Note 9 of the financial statements.

Liabilities

Total Liabilities increased by \$7.9 million a percentage increase of 5%. The major changes affecting total liabilities are listed below:

Current Liabilities increased by \$2.2 million, or 14%. The primary reasons are due to increased unearned revenue in grants and categorical of \$1.4 million and an increase in accounts payable for capital projects of \$385 thousand.

The noncurrent portion of long-term liabilities increased by \$5.7 million, a percentage increase of 4%. The primary factor for this increase is the change in the net pension liability, due to changes in assumptions in the current 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 2020 (\$94.9 million).

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020

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

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>
OPERATING REVENUES				
Net tuition and fees	\$ 5,064,761	\$ 5,133,789	\$ (69,028)	-1%
Grants and contracts, noncapital	45,690,457	43,151,811	2,538,646	6%
Auxiliary enterprise sales and charges	725,480	1,901,413	(1,175,933)	-62%
TOTAL OPERATING REVENUES	<u>51,480,698</u>	<u>50,187,013</u>	<u>1,293,685</u>	<u>3%</u>
TOTAL OPERATING EXPENSES	<u>123,169,913</u>	<u>114,577,659</u>	<u>8,592,254</u>	<u>7%</u>
OPERATING LOSS	<u>(71,689,215)</u>	<u>(64,390,646)</u>	<u>(7,298,569)</u>	<u>11%</u>
NON-OPERATING REVENUES (EXPENSES)				
State apportionments, noncapital	46,095,580	36,095,136	10,000,444	28%
Education protection account	4,703,647	9,580,944	(4,877,297)	-51%
Local property taxes	14,330,589	13,843,296	487,293	4%
State taxes and other revenues	1,981,281	2,059,154	(77,873)	-4%
Other non-operating revenues (expenses)	(669,451)	(653,718)	(15,733)	-2%
TOTAL NON-OPERATING REVENUES	<u>66,441,646</u>	<u>60,924,812</u>	<u>5,516,834</u>	<u>9%</u>
GAIN (LOSS) BEFORE CAPITAL REVENUES	(5,247,569)	(3,465,834)	(1,781,735)	51%
Local property taxes and revenues, capital	3,924,418	3,590,387	334,031	9%
Local revenues, grants and gifts, capital	171,131	118,258	52,873	45%
INCREASE (DECREASE) IN NET POSITION	(1,152,020)	242,811	(1,394,831)	-574%
NET POSITION (DEFICIT) -- BEGINNING OF YEAR	(19,726,220)	(19,969,031)	242,811	-1%
NET POSITION (DEFICIT) -- END OF YEAR	<u><u>\$(20,878,240)</u></u>	<u><u>\$(19,726,220)</u></u>	<u><u>\$ (1,152,020)</u></u>	<u><u>6%</u></u>

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020

Operating Revenues

Total operating revenues increased by \$1.3 million, a percentage increase of 3%. The primary factor for this increase was due to the receipt of CARES Act funding.

Operating Expenses

Total operating expenses increased by \$8.6 million, or 7%, primarily due to \$1.6 million in increases in employee salaries from normal and negotiated increases, \$2.2 million due to an increase in student financial assistance and \$4.6 million due to changes in the valuation of long-term pension and benefit liabilities.

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, 2020, the District had approximately \$98.3 million invested in net capital assets. Total capital assets of \$177.6 million consist of land, construction in progress, buildings and improvements, vehicles, information technology equipment, and other office equipment. These assets have accumulated depreciation of approximately \$79.3 million. Depreciation expense of \$4.3 million was recorded in 2020.

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

	<u>2020</u>	<u>2019</u>	<u>Net Change</u>
Land and construction in progress	\$ 5,514,388	\$ 2,704,317	\$ 2,810,071
Buildings and equipment	172,081,589	169,896,771	2,184,818
Accumulated Depreciation	<u>(79,291,011)</u>	<u>(75,493,212)</u>	<u>(3,797,799)</u>
Total Capital Assets	<u>\$ 98,304,966</u>	<u>\$ 97,107,876</u>	<u>\$ 1,197,090</u>

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020

Debt Administration

At June 30, 2020, the District had approximately \$169.8 million in outstanding debt, an increase of 3.8% from prior year.

	<u>2020</u>	<u>2019</u>	<u>Net Change</u>
General obligation bonds	\$ 35,330,000	\$ 37,460,000	\$ (2,130,000)
Bond issuance premium	1,422,085	1,569,865	(147,780)
Compensated absences	1,395,658	1,246,243	149,415
Capital leases	2,521,753	3,077,141	(555,388)
Solar Energy Project	1,541,337	111,006	1,430,331
Net pension liability	69,329,822	63,642,728	5,687,094
Net OPEB obligation	<u>58,229,620</u>	<u>56,523,976</u>	<u>1,705,644</u>
Total Long-term Liabilities	<u>\$169,770,275</u>	<u>\$163,630,959</u>	<u>\$ 6,139,316</u>

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.

Due to the historic COVID-19 health pandemic, the 2020-21 state budget went from a planned \$6 billion surplus to a projected \$54 billion deficit within the same year. The state initially proposed to address the significant shortfall by implementing 8% funding reductions across the community college system. In order to prevent these budget reductions, the 2020-21 State Budget Act ultimately included approximately \$1.5 billion in payment deferrals from 2020-21 to 2021-22. Midway through 2020-21, the state's General Fund continues to enjoy much stronger than expected revenue. If the higher than projected revenue levels are sustained through the end of the fiscal year, it may allow for the deferrals to be paid off much sooner than anticipated.

The COVID-19 pandemic significantly impacted state and community college district budgets. In response, relief funding was provided by way of the federal CARES Act and the state COVID-19 Response Block Grant. These additional funding sources allowed Merced College to provide professional development training for faculty to assist in the transition to remote instruction, and enhance activities that directly support student learning while mitigating learning loss brought on by the pandemic.

The state legislature continues its investment in student equity, access and success by continuing to provide funding for the California Promise Program. This program allows for the waiver of enrollment fees for first-time, full-time students for each of their first and second academic years.

The state implemented the new 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 2023-24, and clarifying the definition of a transfer student.

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020

In order to maintain fiscal stability and guard against FTES declines in 2020-21, the state will continue to provide the COVID-19 Emergency Conditions Allowance. This protection allows districts the opportunity to elect to use their actual 2019-20 FTES for apportionment funding in 2020-21. Although Merced College continues to support 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 2020-21 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, 2020

	Primary Institution	Foundation
ASSETS		
Current assets:		
Cash and equivalents	\$ 17,345,010	\$ 1,126,853
Accounts receivable	13,200,567	
Due from District		14,443
Prepaid expenses and other assets	46,883	
Total current assets	30,592,460	1,141,296
Noncurrent assets:		
Long-term investments		5,729,414
Restricted cash and equivalents	11,420,114	
Pledged receivable, net		913,980
Nondepreciable capital assets	5,514,388	
Depreciable capital assets, net	92,790,578	
Total noncurrent assets	109,725,080	6,643,394
TOTAL ASSETS	140,317,540	7,784,690
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	1,024,700	
Deferred outflows of resources related to pensions	17,524,205	
Deferred outflows of resources related to OPEB	6,191,480	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	24,740,385	
LIABILITIES		
Current liabilities:		
Accounts payable and interest payable	5,636,871	7,968
Due to the Foundation and Fiduciary Fund	118,835	
Unearned revenue	7,565,293	
Long-term liabilities due within one year	4,481,721	
Total current liabilities	17,802,720	7,968
Long-term liabilities due in more than one year		
Net pension liability	69,329,822	
Net OPEB liability	58,229,620	
Other long-term liabilities	37,729,112	
TOTAL LIABILITIES	183,091,274	7,968
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	2,821,294	
Deferred inflows of resources related to OPEB	23,597	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,844,891	
NET POSITION (DEFICIT)		
Net investment in capital assets	66,422,098	
Restricted for:		
Nonexpendable: Scholarships		3,028,714
Expendable:		
Scholarships and loans		4,489,886
Capital projects	2,465,011	
Debt service	2,932,378	
Other special purposes	2,178,403	
Unrestricted (deficit)	(94,876,130)	258,122
TOTAL NET POSITION (DEFICIT)	\$ (20,878,240)	\$ 7,776,722

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, 2020

	Primary Institution	Foundation
OPERATING REVENUES		
Tuition and fees (gross)	\$ 12,463,727	
Less: scholarship discounts and allowances	(7,398,966)	
Net tuition and fees	5,064,761	
Grants and contracts, noncapital:		
Federal	21,298,594	
State	22,721,142	
Local	1,670,721	
Contributions		\$ 1,014,819
Auxiliary enterprise sales and charges	725,480	
TOTAL OPERATING REVENUES	51,480,698	1,014,819
OPERATING EXPENSES		
Salaries	46,015,655	
Employee benefits	35,105,027	
Supplies, materials, and other operating expenses and services	13,023,789	430,317
Depreciation	4,283,270	
Financial aid expenses	24,742,172	
Scholarships and student programs		583,663
TOTAL OPERATING EXPENSES	123,169,913	1,013,980
OPERATING INCOME (LOSS)	(71,689,215)	839
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, noncapital	46,095,580	
Education protection account	4,703,647	
Local property taxes	14,330,589	
State taxes and other revenues	1,981,281	
Investment income	481,623	151,841
Interest expense	(1,300,953)	
Other non-operating revenues (expenses)	149,879	(12,826)
TOTAL NON-OPERATING REVENUES	66,441,646	139,015
GAIN (LOSS) BEFORE CAPITAL REVENUES	(5,247,569)	139,854
Local property taxes and revenues, capital	3,924,418	
Local revenues, grants and gifts, capital	171,131	
INCREASE (DECREASE) IN NET POSITION	(1,152,020)	139,854
NET POSITION (DEFICIT) -- BEGINNING OF YEAR	(19,726,220)	7,636,868
NET POSITION (DEFICIT) -- END OF YEAR	\$ (20,878,240)	\$ 7,776,722

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

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2020

	Primary Institution
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 5,303,564
Federal grants and contracts	1,411,320
State grants and contracts	18,531,387
Local grants and contracts	1,191,757
Payments to suppliers	(11,967,985)
Payments to/on behalf of employees	(76,904,829)
Auxiliary enterprise sales and charges	741,734
Net cash used by operating activities	<u>(61,693,052)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State apportionments and receipts	42,976,265
Education protection account receipts	4,703,647
Local property and state taxes, lottery and other state receipts	16,311,870
Investment income	481,623
Other noncapital disbursements	128,403
Net cash provided by noncapital financing activities	<u>64,601,808</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(5,550,870)
Proceeds from capital debt	1,430,331
Principal paid on capital debt	(2,685,388)
Interest paid on capital debt	(1,335,182)
Local property taxes and other revenues for capital	4,095,549
Net cash used by noncapital financing activities	<u>(4,045,560)</u>
NET DECREASE IN CASH AND EQUIVALENTS	(1,136,804)
CASH AND EQUIVALENTS -- BEGINNING OF YEAR	<u>29,901,928</u>
CASH AND EQUIVALENTS -- END OF YEAR	<u>\$ 28,765,124</u>

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

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS (Continued) YEAR ENDED JUNE 30, 2020

	Primary Institution
RECONCILIATION TO STATEMENT OF NET POSITION	
Cash and equivalents	\$ 17,345,010
Restricted cash and equivalents	<u>11,420,114</u>
Total cash and equivalents	<u>\$ 28,765,124</u>
RECONCILIATION OF NET OPERATING GAIN (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (71,689,215)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	4,283,270
Loss on disposal of capital assets	70,510
Amortization of bond premium	(147,780)
Amortization of deferred amount on refunding	85,391
Changes in assets and liabilities:	
Accounts receivable, net	(600,282)
Prepaid expenses and other assets	197,348
Deferred outflows of resources related to pensions	(193,719)
Deferred outflows of resources related to OPEB	(1,838,875)
Accounts payable	787,946
Due to the Foundation	(16,929)
Due to the Fiduciary Fund	11,707
Interfund services provided	21,476
Unearned revenue	1,025,264
Deferred inflows of resources related to pensions	(1,226,575)
Deferred inflows of resources related to OPEB	(4,742)
Compensated absences	149,415
Net OPEB liability	1,705,644
Net pension liability	<u>5,687,094</u>
Net cash used by operating activities	<u>\$ (61,693,052)</u>

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2020

	<u>Trust Funds</u>
ASSETS	
Cash and equivalents	\$ 205,589
Accounts receivable	31
Prepaid expenses	12,205
Due from the primary institution	<u>104,392</u>
TOTAL ASSETS	<u>322,217</u>
LIABILITIES	
Payables	2,916
Unearned revenue	<u>46,212</u>
TOTAL LIABILITIES	<u>49,128</u>
NET POSITION - RESTRICTED	
Amounts held in trust for student groups	<u>\$ 273,089</u>

MERCED COMMUNITY COLLEGE DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2020

	Trust Funds
ADDITIONS	
Student fees	\$ 123,582
Interest	5,076
Other revenues	15,155
TOTAL ADDITIONS	143,813
DEDUCTIONS	
Salaries	26,484
Employee benefits	21,619
Supplies and materials	44,230
Other operating expenses and services	20,933
Other outgoing	9,538
TOTAL DEDUCTIONS	122,804
INCREASE IN NET POSITION	21,009
NET POSITION -- BEGINNING OF YEAR	252,080
NET POSITION -- END OF YEAR	\$ 273,089

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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 fiduciary funds. These funds account 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 funds:

Trust Funds– These funds include the Associated Students and the Student Representation Fee funds. 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. The Student Representation Fee Fund accounts for the student representation fee assessment, which is used by students for legislative advocacy.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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 California Community Colleges Promise 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 County bills and collects the taxes for the District. Tax revenues are recognized by the District when received.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

Future Accounting Pronouncements – In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, amended by Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* which extended the required implementation for the District during the year ending June 30, 2021. 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*, amended by Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* which extended the required implementation for the District during the year ending June 30, 2022. 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, 2020, are classified in the accompanying financial statements as follows:

Statement of Net Position of the Primary Government:	
Cash and equivalents	\$ 17,345,010
Restricted cash and equivalents	11,420,114
Statement of Fiduciary Net Position:	
Cash and equivalents	<u>205,589</u>
Total cash and equivalents	<u>\$ 28,970,713</u>

Cash and equivalents as of June 30, 2020, consist of the following:

Cash and equivalents in County Treasury	\$ 21,213,431
Deposits with financial institutions	1,012,428
Cash on hand	7,500
Cash and equivalents in CAMP	<u>6,737,354</u>
Total cash and equivalents	<u>\$ 28,970,713</u>

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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, 2020, the weighted average maturity of the investments contained in the County Treasury and the CAMP investment pools is approximately 432 and 53 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, 2020.

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, 2020, the District's bank balances were exposed to custodial credit risk in the amount of \$767,841.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2020:

Statement of Net Position of the Primary Government	
Federal grants and contracts	\$ 833,995
State grants, contracts and general apportionment	4,605,387
Local grants, contracts and students	<u>7,761,185</u>
Total	<u>\$ 13,200,567</u>
Statement of Fiduciary Net Position:	
Local sources	<u>\$ 31</u>
Total	<u><u>\$ 31</u></u>

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020, was as follows:

	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Deductions/ Transfers</u>	<u>Balance June 30, 2020</u>
Capital assets, not being depreciated:				
Land	\$ 1,333,366			\$ 1,333,366
Construction in progress	<u>1,370,951</u>	<u>\$ 3,342,335</u>	<u>\$ (532,264)</u>	<u>4,181,022</u>
Total capital assets, not being depreciated	<u>2,704,317</u>	<u>3,342,335</u>	<u>(532,264)</u>	<u>5,514,388</u>
Capital assets, being depreciated:				
Improvement of sites	14,497,469	405,646		14,903,115
Buildings	131,513,832	1,432,467		132,946,299
Furniture and equipment	<u>23,885,470</u>	<u>902,686</u>	<u>(555,981)</u>	<u>24,232,175</u>
Total capital assets, being depreciated	<u>169,896,771</u>	<u>2,740,799</u>	<u>(555,981)</u>	<u>172,081,589</u>
Less accumulated depreciation for:				
Improvement of sites	(11,510,602)	(166,405)		(11,677,007)
Buildings	(48,458,940)	(2,620,536)	(414)	(51,079,890)
Furniture and equipment	<u>(15,523,670)</u>	<u>(1,496,329)</u>	<u>485,885</u>	<u>(16,534,114)</u>
Total accumulated depreciation	<u>(75,493,212)</u>	<u>(4,283,270)</u>	<u>485,471</u>	<u>(79,291,011)</u>
Total capital assets, being depreciated, net	<u>94,403,559</u>	<u>(1,542,471)</u>	<u>(70,510)</u>	<u>92,790,578</u>
Total capital assets, net	<u>\$ 97,107,876</u>	<u>\$ 1,799,864</u>	<u>\$ (602,774)</u>	<u>\$ 98,304,966</u>

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, 2020, the principal balance outstanding was \$6,580,000.

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, 2020, the principal balance outstanding was \$8,815,000.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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, 2020, the 2014 Issue principal balance outstanding was \$19,935,000.

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

<u>Year Ending June 30, 2020</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 2,360,000	\$ 1,339,875	\$ 3,699,875
2022	2,645,000	1,229,400	3,874,400
2023	2,935,000	1,101,275	4,036,275
2024	3,250,000	961,175	4,211,175
2025	3,465,000	823,500	4,288,500
2026-2030	14,660,000	2,222,985	16,882,985
2031-2032	<u>6,015,000</u>	<u>204,820</u>	<u>6,219,820</u>
Totals	<u>\$ 35,330,000</u>	<u>\$ 7,883,030</u>	<u>\$ 43,213,030</u>

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, 2020, 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:

<u>Year Ending June 30, 2020</u>	<u>Payments</u>
2021	\$ 676,203
2022	676,203
2023	676,203
2024	204,718
2025	204,718
2026-2027	<u>359,173</u>
Total	2,797,218
Less amount representing interest	<u>(275,465)</u>
Present value of net minimum lease payments	<u>\$ 2,521,753</u>

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, 2020, the District had

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

expenditures for the project and therefore had drawdowns totaling \$1,541,337 of the loan. The remaining amount of the draw-down loan, \$86,263, is expected to be used by December 2020 once the project is completed. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Payments</u>
2022	\$ 87,978
2023	87,978
2024	87,978
2025	87,978
2026	87,978
2027-2031	439,892
2032-2036	439,892
2037-2039	<u>307,926</u>
Total	<u>\$ 1,627,600</u>

A schedule of changes in long-term obligations for the year ended June 30, 2020 is shown below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 37,460,000		\$ (2,130,000)	\$ 35,330,000	\$ 2,360,000
Premium on bonds	1,569,865		(147,780)	1,422,085	147,780
Compensated absences	1,246,243	\$ 149,415		1,395,658	1,395,658
Capital leases	3,077,141		(555,388)	2,521,753	578,283
Solar Energy Project	<u>111,006</u>	<u>1,430,331</u>		<u>1,541,337</u>	
Totals	<u>\$ 43,464,255</u>	<u>\$ 1,579,746</u>	<u>\$ (2,833,168)</u>	<u>\$ 42,210,833</u>	<u>\$ 4,481,721</u>

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 (IAC). 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, 2020.

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.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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 16.15% of covered payroll over the seven-year period. The District's required contribution rate for the year ended June 30, 2020, was 17.10% of annual pay. District contributions to the CalSTRS Plan were \$4,236,229 for the year ended June 30, 2020.

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 5.811% in 2019-20. The increased contributions end as of fiscal year end June 30, 2046. The State contribution rate for the period ended June 30, 2019, was 10.328% of the District's 2014-15 creditable CalSTRS compensation.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

In addition to AB1469, California Senate Bill 90 (SB 90) signed June 27, 2019, appropriated from the State's General Fund \$1,117,000,000 in contributions on-behalf of school employers for the 2019-20 fiscal year to be transferred to the CalSTRS Plan. Furthermore, SB 90 will appropriate contributions for the 2020–21 fiscal year, such that it will result in school employers having to contribute 0.70 percentage point less in the 2020–21 fiscal year. The District's proportionate share of the State's SB90 on-behalf contribution to the CalSTRS Plan for the period ended June 30, 2020 was \$728,653.

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, 2018, and rolling forward the total pension liability to the measurement date of June 30, 2019. The financial reporting actuarial valuation 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

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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, 2019, are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term * Expected Real Rate of Return</u>
Global Equity	47.00%	4.80%
Fixed Income	12.00%	1.30%
Real Estate	13.00%	3.60%
Private Equity	13.00%	6.30%
Risk Mitigating Strategies	9.00%	1.80%
Inflation Sensitive	4.00%	3.30%
Cash / Liquidity	2.00%	-0.40%
Total	<u>100.00%</u>	

*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. PEPR 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 PEPR, 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

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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, 2020, was 19.721% of annual pay. District contributions to the CalPERS Plan were \$3,224,613 for the year ended June 30, 2020.

Actuarial Assumptions

For the measurement period ended June 30, 2019 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2018 total pension liability. The June 30, 2019 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, 2018 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015.

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.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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, 2020, 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	\$ 37,932,720
CalPERS Plan	31,397,102
Total District net pension liability	69,329,822
State's proportionate share of CalSTRS net pension liability associated with the District	20,796,658
Total	\$ 90,126,480

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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, 2019, 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, 2019, was 0.042% and 0.1077% for the CalSTRS and CalPERS Plans, respectively, which was an increase of 0.003% and 0.0034%, respectively, from its proportion measured as of June 30, 2018 for CalSTRS and CalPERS Plans, respectively.

For the measurement period June 30, 2019, the District recognized pension expense of \$16,647,356 and revenue of \$4,919,713 for support provided by the State. At June 30, 2020, 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	\$ 2,376,450	\$ (1,068,900)
Changes in assumptions	6,292,260	(1,461,180)
Changes in proportion	1,030,285	
Change in proportionate share of contributions	364,368	
Net differences between projected and actual investment earnings of pension plan investments		(291,214)
District contributions subsequent to measurement date	7,460,842	
Total	\$ 17,524,205	\$ (2,821,294)

The \$7,460,842 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, 2021. Other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2021	\$ 3,631,295
2022	281,790
2023	1,356,834
2024	1,526,055
2025	175,193
Thereafter	270,902

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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	\$ 56,484,960	\$ 37,932,720	\$ 22,549,380
	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	\$ 45,256,858	\$ 31,397,102	\$ 19,899,477

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

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

Employees Covered

As of the June 30, 2019 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	417
Total	662

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, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2019, 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:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Assumed Gross Return</u>
US Large Cap	29.00%	7.795%
US Small Cap	13.00%	7.795%
All Foreign Stock	9.00%	7.795%
Other Fixed Income	49.00%	3.250%
Total	100.00%	

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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:

	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability (TOL) (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net OPEB Liability (a)-(b)</u>
Balance at June 30, 2019 (Measurement date June 30, 2018)	\$ 60,140,569	\$ 3,616,593	\$ 56,523,976
Changes recognized for the measurement period:			
Service cost	786,853		786,853
Interest on TOL	3,502,094		3,502,094
Expected Investment Income		216,837	(216,837)
Contributions—employer		4,352,605	(4,352,605)
Contributions—employee			
Benefit payments	(4,352,605)	(4,352,605)	
Experience (Gains)/Losses	1,962,712		1,962,712
Investment (Gains)/Losses		2,929	(2,929)
Administrative expense		(5,276)	5,276
Expected Minus Actual Benefit Payments	21,080		21,080
Net changes	<u>1,920,134</u>	<u>214,490</u>	<u>1,705,644</u>
Balance at June 30, 2020 (Measurement date June 30, 2019)	<u>\$ 62,060,703</u>	<u>\$ 3,831,083</u>	<u>\$ 58,229,620</u>

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:

	<u>Discount Rate -1% (5.00%)</u>	<u>Current Discount Rate (6.00%)</u>	<u>Discount Rate +1% (7.00%)</u>
Net OPEB liability	\$ 63,286,363	\$ 58,299,620	\$ 53,793,196

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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 <u>-1% (3.00%)</u>	Health Care Trend Rate <u>(4.00%)</u>	Health Care Trend Rate <u>+1% (5.00%)</u>
Net OPEB liability	\$ 53,793,125	\$ 58,299,620	\$ 63,119,622

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, 2020, the District recognized OPEB expense of \$4,274,230. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
OPEB contributions subsequent to measurement date	\$ 4,412,203	
Differences between expected and actual experience	1,779,277	
Net difference between projected and actual earnings on OPEB plan investments	<u> </u>	\$ (23,597)
Total	<u>\$ 6,191,480</u>	<u>\$ (23,597)</u>

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

The \$4,412,203 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2019 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized as follows:

<u>Year Ended June 30</u>		
2021	\$	196,844
2022		196,844
2023		196,845
2024		203,930
2025		204,515
Thereafter		756,702

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.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

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, 2020	June 30, 2020
	SELF	ASCIP
Total Assets and Deferred Outflows	\$ 174,933,796	\$ 537,482,511
Total Liabilities and Deferred Inflows	(141,257,884)	(313,116,798)
Net Position	<u>\$ 33,675,912</u>	<u>\$ 224,365,713</u>
Total Revenues	\$ 77,945,029	\$ 294,192,490
Total Expenses	<u>(64,133,389)</u>	<u>(271,188,222)</u>
Net Decrease in Net Position	<u>\$ 13,811,640</u>	<u>\$ 23,004,268</u>

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.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

13. RISKS AND UNCERTAINTIES

On March 13, 2020, the District experienced disruption to its campuses as they were required by public health orders to close and move to virtual learning format in response to the Coronavirus/COVID-19 pandemic. Although the disruption is expected to be temporary, the District anticipates some financial impact due to the pandemic. However, the financial impact and duration cannot be reasonably estimated at this time.

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*

	<u>2019</u>	<u>2018</u>	<u>2017</u>
TOTAL OPEB LIABILITY			
Service cost	\$ 786,853	\$ 765,794	\$ 745,298
Interest on TOL	3,502,094	3,504,490	3,502,044
Experience (Gains)/Losses	1,962,712		
Expected Minus Actual Benefit Payments	21,080		
Benefit payments	<u>(4,352,605)</u>	<u>(4,309,964)</u>	<u>(4,144,196)</u>
NET CHANGE IN TOTAL OPEB LIABILITY	1,920,134	(39,680)	103,146
TOTAL OPEB LIABILITY, Beginning	<u>60,140,569</u>	<u>60,180,249</u>	<u>60,077,103</u>
TOTAL OPEB LIABILITY, Ending (a)	<u>62,060,703</u>	<u>60,140,569</u>	<u>60,180,249</u>
PLAN FIDUCIARY NET POSITION			
Contributions—employer	4,352,605	4,309,964	4,563,789
Contributions—employee			
Net investment income	219,766	238,146	265,219
Benefit payments	(4,352,605)	(4,309,964)	(4,144,196)
Administrative expense	<u>(5,276)</u>	<u>(500)</u>	<u>(5,265)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	214,490	237,646	679,547
PLAN FIDUCIARY NET POSITION, Beginning	<u>3,616,593</u>	<u>3,378,947</u>	<u>2,699,400</u>
PLAN FIDUCIARY NET POSITION, Ending (b)	<u>3,831,083</u>	<u>3,616,593</u>	<u>3,378,947</u>
DISTRICT'S NET OPEB LIABILITY, Ending (a) - (b)	<u>\$ 58,229,620</u>	<u>\$ 56,523,976</u>	<u>\$ 56,801,302</u>
Plan fiduciary net position as a percentage of the total OPEB liability	6.2%	6.0%	5.6%
Covered-employee payroll	\$ 32,791,744	\$ 30,840,458	\$ 30,548,193
District's net OPEB liability as a percentage of covered-employee payroll	177.6%	183.3%	185.9%

Notes to Schedule:

There were no changes to benefit terms or assumptions during the measurement periods ending June 30, 2017, 2018 and 2019.

* Fiscal year 2018 was the 1st year of implementation, therefore only three 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					
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.042%	0.039%	0.040%	0.041%	0.042%	0.043%
District's proportionate share of the net pension liability	\$ 37,932,720	\$ 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	<u>20,796,658</u>	<u>20,753,098</u>	<u>21,778,811</u>	<u>19,018,100</u>	<u>14,923,484</u>	<u>15,190,963</u>
Total	<u>\$ 58,729,378</u>	<u>\$ 56,596,828</u>	<u>\$ 58,770,811</u>	<u>\$ 52,179,310</u>	<u>\$ 43,199,564</u>	<u>\$ 40,318,873</u>
District's covered-employee payroll	\$ 23,934,884	\$ 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	158%	162%	171%	157%	144%	130%
Plan fiduciary net position as a percentage of the total pension liability	73%	71%	69%	70%	74%	77%

Notes to Schedule:

Change of benefit terms – For the measurement date ended June 30, 2019, 2018, 2017, 2016, 2015 and 2014, there were no changes to the benefit terms.

Changes in assumptions – For the measurement date ended June 30, 2019, 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 six 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					
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.1077%	0.104%	0.106%	0.1047%	0.1053%	0.1107%
District's proportionate share of the net pension liability	\$ 31,397,102	\$ 27,798,998	\$ 25,410,037	\$ 20,678,315	\$ 15,521,324	\$ 12,567,145
District's covered-employee payroll	\$ 14,920,807	\$ 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	210%	202%	184%	162%	134%	108%
Plan fiduciary net position as a percentage of the total pension liability	70%	71%	72%	74%	79%	83%

Notes to Schedule:

Change of benefit terms – For the measurement date ended June 30, 2019, 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, 2019, 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 six 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					
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 4,236,229	\$ 3,896,304	\$ 3,200,236	\$ 2,718,478	\$ 2,268,381	\$ 1,739,206
Contributions in relation to the contractually required contributions	<u>(4,236,229)</u>	<u>(3,896,304)</u>	<u>(3,200,236)</u>	<u>(2,718,478)</u>	<u>(2,268,381)</u>	<u>(1,739,206)</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
District's covered-employee payroll	\$ 24,775,773	\$ 23,934,884	\$ 22,179,621	\$ 21,690,641	\$ 21,110,849	\$ 19,627,455
Contributions as a percentage of covered-employee payroll	17.10%	16.28%	14.43%	12.53%	10.75%	8.86%

* Fiscal year 2015 was the 1st year of implementation, therefore only six 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					
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 3,224,613	\$ 2,694,577	\$ 2,135,151	\$ 1,911,785	\$ 1,464,028	\$ 1,381,020
Contributions in relation to the contractually required contributions	<u>(3,224,613)</u>	<u>(2,694,577)</u>	<u>(2,135,151)</u>	<u>(1,911,785)</u>	<u>(1,464,028)</u>	<u>(1,381,020)</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
District's covered-employee payroll	\$ 16,397,178	\$ 14,920,807	\$ 13,747,179	\$ 13,790,329	\$ 12,795,195	\$ 11,614,639
Contributions as a percentage of covered-employee payroll	19.67%	18.06%	15.53%	13.86%	11.44%	11.89%

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

SUPPLEMENTARY INFORMATION SECTION

MERCED COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020**

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	\$ 414,330
Federal Work Study Program	84.033	N/A	464,548
Direct Student Loan Program	84.268	N/A	219,942
Pell Grant Program	84.063	N/A	<u>17,706,315</u>
Subtotal Student Financial Assistance Programs Cluster			<u>18,805,135</u>
Career and Technical Education:			
Passed through the California Department of Education (CDE):			
Perkins Title 1, Part C	84.048A	19-C01-031	401,905
Passed through the California Department of Education (CDE):			
Career Technical Education Transitions	84.051	19-C01-031	46,195
Childcare Access Means Parents in School	84.335A	P335A180083	154,351
Passed through Merced County Office of Education:			
Merced Scholars Charter School	84.282	N/A	<u>1,074</u>
Education Stabilization Funds:			
COVID-19 Higher Education Emergency Relief Fund (HEERF) - Institutional Portion	84.425F	N/A	58,987
COVID-19 Higher Education Emergency Relief Fund (HEERF) - Student Portion	84.425E	N/A	1,108,250
COVID-19 Higher Education Emergency Relief Fund (HEERF) - Minority Serving Institutions	84.425L	N/A	<u>84,145</u>
Subtotal Education Stabilization Fund			<u>1,251,382</u>
Total U.S. Department of Education			<u>20,660,042</u>
U.S. Department of Veterans Affairs:			
Veterans Affair ARF	64.unknown	N/A	<u>2,700</u>

MERCED COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Program Expenditures
U.S. Department of Health and Human Services:			
477 Cluster:			
Passed through the California Department of Education:			
CDC General Child Care & Dev Programs (CCTR)	93.575	CCTR-9144	156,523
Passed through the Yosemite Community College District:			
Child Development Training Consortium	93.575	18-19-3970	14,040
Passed through the California Community College Chancellor's Office:			
Temporary Assistance to Needy Families (TANF)	93.558	N/A	<u>77,443</u>
Subtotal 477 Cluster			<u>248,006</u>
Passed through the Madera County Office of Education:			
Medi-Cal Administrative Activities (MAA) - Medicaid Cluster	93.778	N/A	<u>799</u>
Passed through Merced County Mental Health:			
Mental Health	93.958	2017139	<u>76,488</u>
Passed through the Merced County Office of Education:			
Head Start Cluster	93.600	N/A	<u>317,031</u>
Total U.S. Department of Health and Human Services			<u>642,324</u>
U.S. Department of Agriculture:			
Passed Through California Department of Education:			
Child Care Federal Food Program	10.558	N/A	<u>48,963</u>
U.S. Department of Labor:			
Passed Through Employment Development Department:			
Merced College Work Readiness and Preparation - WIOA Cluster	17.258	K9113033	<u>19,167</u>
Total Expenditures of Federal Awards			<u>\$ 21,373,196</u>

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE YEAR ENDED JUNE 30, 2020

Program Title	Entitlements		Program Revenues			Program Expenditures
	Current Year	Unearned Revenue and Cash Received	Accounts Receivable	Unearned/Payables	Total	
CATEGORICAL APPORTIONMENTS:						
EOPS/CARE	\$ 321,023	\$ 321,023		\$ 40,924	\$ 280,099	\$ 280,099
EOPS (E)	1,355,746	1,355,230	\$ 516	103,031	1,252,715	1,252,715
Student Success Completion	2,731,506	2,731,506		98,619	2,632,887	2,632,887
State DSPS	875,494	875,494		36,964	838,530	838,530
BFAP	419,918	418,578	1,340		419,918	419,918
California College Promise	604,822	654,321	20	100,054	554,287	554,287
Classified Professional Development		50,283		50,283		
Mental Health Support		60,195		5,561	54,634	54,634
RN Economic Development	230,309	252,543	78	14,143	238,478	238,478
Certified Nurse Assistant Program		71,507		5,914	65,593	65,593
Equal Employment Opportunity	50,000	69,832		39,659	30,173	30,173
Financial Aid Technology	49,150	155,206		74,408	80,798	80,798
Guided Pathways	322,749	790,572		583,285	207,287	207,287
NextUp	424,440	424,440		63,183	361,257	361,257
Adult Education Block Grant Program	594,847	847,700	439	145,961	702,178	702,178
Student Equity	3,987,574	4,409,595	510	883,090	3,527,015	3,527,015
Physical Plant & Instructional Support	121,689	217,145		64,473	152,672	152,672
Student Hunger at Community College	48,667	127,508		88,088	39,420	39,420
Veterans Resource Center	60,741	85,134	1,072	58,297	27,909	27,909
Improving Online CTE Pathways	500,000	47,493	263,634		311,127	311,127
Strong Workforce Program	1,862,989	2,630,722	86,628	1,430,888	1,286,462	1,286,462
CalWORKs	460,591	459,722	869	14,643	445,948	445,948
Subtotal	<u>15,022,255</u>	<u>17,055,749</u>	<u>355,106</u>	<u>3,901,468</u>	<u>13,509,387</u>	<u>13,509,387</u>
CATEGORICAL PROGRAM ALLOWANCES:						
Puente Project	1,500	1,500			1,500	1,500
Cal Grant	2,343,239	2,304,917	54,445	16,033	2,343,329	2,343,329
CDC Block Grant	464,849	464,849			464,849	464,849
CDC Family Services	87,450	18,874	52,830		71,704	71,704
CDC MCOE Kids First		9,526		9,526		
CDC Preschool Program	401,210	377,973	25,091		403,064	403,064
CDC MCOE RTT-ELC QRIS	7,568	49,694		48,460	1,234	1,234
Child Care Food Program	5,359	2,885			2,885	2,885
Early Childhood Mentors	3,989	3,989		112	3,877	3,877
Veteran Students Success & Completion Grant		19,025		8,478	10,547	10,547
CVHEC	5,000	495			495	495
Song-Brown Training		53,535	45,000		98,535	98,535
Song-Brown RN Special Program	160,000	40,000		3,408	36,592	36,592
Agriculture, Water & Environmental Tech (AWET)	5,000	5,000		1,397	3,603	3,603
RHTLE (DSN & IRI)	200,000	250,800		44,166	206,634	206,634
CA Department of Corrections & Rehab	113,636	45,454		7,500	37,954	37,954
Subtotal	<u>3,798,800</u>	<u>3,648,516</u>	<u>177,366</u>	<u>139,080</u>	<u>3,686,802</u>	<u>3,686,802</u>
Total	<u>\$ 18,821,055</u>	<u>\$ 20,704,265</u>	<u>\$ 532,472</u>	<u>\$ 4,040,548</u>	<u>\$ 17,196,189</u>	<u>\$ 17,196,189</u>

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE YEAR ENDED JUNE 30, 2020

STATE GENERAL APPORTIONMENT <u>Categories</u>	<u>Reported Data*</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
A. Summer Intersession (Summer 2019 Only)			
1. Noncredit	55.60	0.00	55.60
2. Credit	82.53	0.00	82.53
B. Summer Intersession (Summer 2020, Prior to July 1, 2020)			
1. Noncredit	112.51	0.00	112.51
2. Credit	1,071.48	0.00	1,071.48
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses:			
(a) Weekly Census Contact Hours	5,715.92	0.00	5,715.92
(b) Daily Census Contact Hours	558.17	0.00	558.17
2. Actual Hours of Attendance Courses:			
(a) Noncredit	778.71	0.00	778.71
(b) Credit	18.97	0.00	18.97
3. Alternative Attendance Accounting Procedure Courses:			
(a) Weekly Census Procedure Courses	1,395.00	0.00	1,395.00
(b) Daily Census Procedure Courses	221.97	0.00	221.97
(c) Noncredit Independent Study	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
D. Total Full-Time Equivalent Students	<u>10,010.86</u>	<u>0.00</u>	<u>10,010.86</u>
<u>Supplemental Information</u>			
E. In-service Training Courses (FTES)	0.00	0.00	0.00
F. Basic Skills Courses and Immigrant Education (FTES)			
(a) Noncredit	617.04	0.00	617.04
(b) Credit	515.85	0.00	515.85
<u>CCFS 320 Addendum</u>			
CDCP Noncredit FTES			
Centers FTES			
(a) Noncredit	223.91	0.00	223.91
(b) Credit	955.27	0.00	955.27

* FTES reported in the Recal Apportionment Attendance Report (CCFS-320) by the District on November 6, 2020.

MERCED COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION YEAR ENDED JUNE 30, 2020

	Object/TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
ACADEMIC SALARIES							
Instructional Salaries:							
Contract or Regular	1100	\$ 13,259,927		\$ 13,259,927	\$ 13,259,927		\$ 13,259,927
Other	1300	7,352,966		7,352,966	7,352,966		7,352,966
Total Instructional Salaries		<u>20,612,893</u>		<u>20,612,893</u>	<u>20,612,893</u>		<u>20,612,893</u>
Non-Instructional Salaries:							
Contract or Regular	1200				4,452,554		4,452,554
Other	1400				362,056		362,056
Total Non-Instructional Salaries					<u>4,814,610</u>		<u>4,814,610</u>
Total Academic Salaries		<u>20,612,893</u>		<u>20,612,893</u>	<u>25,427,503</u>		<u>25,427,503</u>
CLASSIFIED SALARIES							
Non-Instructional Salaries:							
Regular Status	2100				9,964,868		9,964,868
Other	2300				480,644		480,644
Total Non-Instructional Salaries					<u>10,445,512</u>		<u>10,445,512</u>
Instructional Aides:							
Regular Status	2200	1,104,787		1,104,787	1,104,787		1,104,787
Other	2400	273,737		273,737	273,737		273,737
Total Instructional Aides		<u>1,378,524</u>		<u>1,378,524</u>	<u>1,378,524</u>		<u>1,378,524</u>
Total Classified Salaries		<u>1,378,524</u>		<u>1,378,524</u>	<u>11,824,036</u>		<u>11,824,036</u>
Employee Benefits	3000	10,400,245		10,400,245	21,861,169		21,861,169
Supplies and Materials	4000				473,467		473,467
Other Operating Expenses	5000	89,728		89,728	6,734,188		6,734,188
Equipment Replacement	6420						
TOTAL EXPENDITURES PRIOR TO EXCLUSIONS		<u>32,481,390</u>		<u>32,481,390</u>	<u>66,320,363</u>		<u>66,320,363</u>

MERCED COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION YEAR ENDED JUNE 30, 2020

	Object/TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
EXCLUSIONS							
Activities to Exclude:							
Instructional Staff-Retirees' Benefits and Retirement Incentives	5900	1,990,125		1,990,125	1,990,125		1,990,125
Student Health Services Above Amount Collected	6441						
Student Transportation	6491						
Noninstructional Staff-Retirees' Benefits and Retirement Incentives	6740				2,499,804		2,499,804
Objects to Exclude:							
Rents and Leases	5060				16,180		16,180
Lottery Expenditures:							
Academic Salaries	1000						
Classified Salaries	2000						
Employee Benefits	3000						
Supplies and Materials:							
Software	4100						
Books, Magazines, & Periodicals	4200						
Instructional Supplies & Materials	4300				61,977		61,977
Noninstructional Supplies & Materials	4400				70,518		70,518
Total Supplies and Materials					132,495		132,495
Other Operating Expenses and Services	5000				1,344,637		1,344,637
Capital Outlay:							
Library Books	6300						
Equipment:							
Equipment - Additional	6410				102,508		102,508
Equipment - Replacement	6420						
Total Equipment					102,508		102,508
Total Capital Outlay					102,508		102,508
Other Outgo	7000						
TOTAL EXCLUSIONS		<u>1,990,125</u>		<u>1,990,125</u>	<u>6,085,749</u>		<u>6,085,749</u>
Total for ECS 84362, 50% Law		<u>\$ 30,491,265</u>		<u>\$ 30,491,265</u>	<u>\$ 60,234,614</u>		<u>\$ 60,234,614</u>
Percent of CEE (Instructional Salary Cost / Total CEE)		50.62%			100%		
50% of Current Expense of Education					\$ 30,117,307		

MERCED COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF EDUCATION PROTECTION ACCOUNT EXPENDITURES
TO DISTRICT ACCOUNTING RECORDS
YEAR ENDED JUNE 30, 2020**

Education Protection Act (EPA) Expenditure Report

Activity Classification	Activity Code				Unrestricted
EPA Proceeds:	8630				\$ 4,703,647
Activity Classification	Activity Code	Salaries and Benefits (1000-3000)	Operating Expenses (4000-5000)	Capital Outlay (6000)	Total
Instructional Activities	0100-5900	\$ 4,703,647			4,703,647
Total Expenditures for EPA*		<u>\$ 4,703,647</u>	<u>\$</u>	<u>\$</u>	<u>4,703,647</u>
Revenues less Expenditures					<u>\$</u>

*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, 2020

Fund Balance:

General Fund	\$ 13,317,670
Bond Interest and Redemption Fund	3,028,725
Child Development Fund	
Farm Operation Fund	40,692
Capital Outlay Projects Fund	2,622,118
Revenue Bond Construction Fund	7,751,160
Bookstore Fund	(1,156,799)
Self-Insurance Fund	3,684,209
Associated Students Trust Fund	270,858
Student Financial Aid Fund	
Student Representation Fund	2,231
Scholarship and Loan Trust Fund	4,580,030
Retiree Trust Fund	<u>3,196,691</u>
Total Fund Balances as reported on the Annual Financial and Budget Report (CCFS-311)	37,337,585

Net audit adjustments:

No adjustments were made to the District's Funds	
Total Fund Balance	37,337,585

Reconciliation to Net Position (Deficit):

Governmental Funds Capital Assets, Net	98,288,235
Interest Payable	(579,469)
Net OPEB Liability	(58,229,620)
Deferred Outflows of Resources Related to Pensions	17,524,205
Deferred Outflows of Resources Related to OPEB	6,191,480
Compensated Absences	(1,395,658)
Capital Leases	(2,521,753)
Solar Energy Project	(1,541,337)
Deferred amount on refunding	1,024,700
Net Pension Liability	(69,329,822)
Bonds Payable/Premium	(36,752,085)
Deferred Inflows of Resources Related to Pensions	(2,821,294)
Deferred Inflows of Resources Related to OPEB	(23,597)
Remove Fiduciary Fund Balances	<u>(8,049,810)</u>
Total Net Position (Deficit)	<u>\$ (20,878,240)</u>

MERCED COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

AUDITOR COMMENTS

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

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2020

1. PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The audit of the District for the year ended June 30, 2020, 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, 2020.

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.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2020

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, 2020, 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 February 1, 2021.

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) as a basis for designing 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 financial statements. 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**GILBERT CPAs
Sacramento, California**

February 1, 2021

**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, 2020. 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.

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, 2020.

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
Sacramento, California**

February 1, 2021

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, 2020.

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:

- SCFF Data Management Control Environment
- Salaries of Classroom Instructors (50 Percent Law)
- Apportionment for Activities Funded from Other Sources
- Student Centered Funding Formula Base Allocation: FTES

- 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 2020-001, and 2020-002. 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, 2020.



**GILBERT CPAs
Sacramento, California**

February 1, 2021

FINDINGS AND RECOMMENDATIONS SECTION

MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020

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	_____ Yes	_____ No
Significant deficiency(ies) identified?	_____ Yes	_____ No	_____ Yes	_____ None Reported

Noncompliance material to financial statements noted? _____ Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____ Yes	_____ No	_____ Yes	_____ None Reported
Significant deficiency(ies) identified?	_____ Yes	_____ No	_____ 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:

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Cluster</u>
84.063, 84.007, 84.033, 84.268 84.425F, 84.425E, 84.425L	Student Financial Assistance Programs Cluster COVID-19 Higher Education Emergency Relief Fund (HEERF)

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	_____ Yes	_____ None Reported
Significant deficiency(ies) identified?	_____ Yes	_____ No	_____ 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

MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020

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

2020-001 – STUDENT CENTERED FUNDING FORMULA BASE ALLOCATION: FTES – DAILY STUDENT CONTACT HOURS

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 nine daily courses were not reported at the correct amount of contact hours due to human error.

Context:

Out of 25 daily attendance courses tested, nine 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 – 0.77 FTES (*overreported*), 0.23 FTES (*underreported*)

Questioned Costs:

The total overreported daily census FTES for residents in credit courses identified above is 0.77 FTES, which based on the District's funding per credit FTES, is equal to \$3,086.93. The total FTES sample is 52.19 FTES; therefore, 1.48% of the sample was calculated to have an actual overreporting misstatement. With the total population of actual hours of attendance FTES of 566.14 and the \$4,009.00 total credit per FTES, the extrapolation of the error in the audit results in projects approximately 8.35 overstated FTES which is equal to \$33,486.00.

MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020

The total underreported daily census FTES for residents in credit courses identified above is 0.23 FTES, which based on the District's funding per credit FTES, is equal to \$922.07. The total FTES sample is 52.19 FTES; therefore, 0.44% of the sample was calculated to have an actual overreporting misstatement. With the total population of actual hours of attendance FTES of 566.14 and the \$4,009 total credit per FTES, the extrapolation of the error in the audit results in projects approximately 2.49 understated FTES which is equal to \$10,002.31.

The Recal Apportionment Attendance Report (CCFS-320) includes an adjustment for the effect of this finding.

Recommendation:

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

District's Corrective Action Plan:

The District's Corrective Action plan is a team approach that includes the Office of Instruction, Office of Student Services, and Office of Information Technology Services. To establish an internal culture of accountability, several key action items have already been initiated, especially to address contact hours daily census classes. For example, monthly trainings to all Area Coordinators occur each month to review best practices and to establish consistency in scheduling processes. In addition, new strategies are being implanted. This includes representatives from the Office of Student Services and Office of Information Technology Services join the Vice President of Instruction Council each month to discuss and identify appropriate methods of scheduling. Another new strategy is around creating an internal audit report. The Office of Instruction is working closely with the Office of Student Services and Office of Information Technology services to create an internal audit report that pulls a number of randomly sections to be audited, reviewed, and revised regularly.

2020-002 – STUDENT CENTERED FUNDING FORMULA BASE ALLOCATION: FTES – ACTUAL HOURS OF ATTENDANCE

Criteria:

According to California Community Colleges Chancellor's Office Guidance Memorandum, *Attendance Accounting Implications and Guidance (revised)*, dated April 16, 2020, any Actual Hours of Attendance (Positive Attendance) courses that were in progress as of March 13, 2020 that were converted to a distance education mode of instruction that was asynchronous as a result of COVID-19 should use one of the following suggested methods for computing FTES: 1) colleges may calculate the average contact hours generated in the prior three course offerings in the same course or similar course; or 2) for courses that have been offered inconsistently in the past or are new, colleges may use data from a similar course and include a brief explanation of why the course was chosen as similar.

MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020

Condition:

We noted all actual hours of attendance courses converted to a distance education mode of instruction in Spring 2020 Noncredit that were asynchronous were not adjusted to either method suggested by the Chancellor's Office Guidance Memorandum and instead the District used the same method of calculating FTES as prior to March 13, 2020.

Context:

Of a sample of 25 actual hours of attendance courses tested, 13 were from Spring 2020. All 13 Spring Noncredit courses contact hours were incorrectly reported. This incorrect reporting was a result of misunderstanding of the new attendance guidance for actual hours of attendance courses that were converted to an asynchronous mode of distance instruction.

Effect:

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

- Noncredit courses, residents – 0.32 FTES (*underreported*)

Questioned Costs:

The errors identified were corrected in the FY 2019-20 Recal Apportionment Attendance Report (CCFS-320) and, therefore, the full impact of the finding on FTES was corrected by the District. Additionally, due to the errors noted, the District performed a full 100% review of their actual hours of attendance population claimed. A review of the District revised method to calculate actual hours of attendance contact hours was performed, and no further errors were identified. As a result of the correction, the District's FTES increased by 0.32 for nonresident FTES related to these errors.

Recommendation:

We recommend that internal reviews be performed of actual hours of attendance classes to ensure contact hours are properly calculated based on the most recent guidance from the Chancellor's Office, and therefore FTES amounts reported are accurate prior to submission.

District's Corrective Action Plan:

The District's Corrective Action plan is a team approach that includes the Office of Instruction, Office of Student Services, and Office of Information Technology Services. To establish an internal culture of accountability, several key action items have already been initiated, especially to address actual hours of attendance and contact hours. For example, monthly trainings to all Area Coordinators occur each month to review best practices and to establish consistency in scheduling processes. In addition, new strategies are being implanted. This includes representatives from the Office of Student Services and Office of Information Technology Services join the Vice President of Instruction Council each month to discuss and identify appropriate methods of scheduling. Another new strategy is around creating an internal audit report. The Office of Instruction is working closely with the Office of Student Services and Office of Information Technology services to create an internal audit report that pulls a number of randomly sections to be audited, reviewed, and revised regularly.

MERCED COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS YEAR ENDED JUNE 30, 2020

Recommendation	Current Status	District Explanation If Not Implemented
<p>2019-001 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – WEEKLY ATTENDANCE</p> <p>Condition:</p> <p>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).</p> <p>Recommendation:</p> <p>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.</p>	<p>Implemented.</p> <p>No items of noncompliance were noted in the 2020 audit.</p>	
<p>2019-002 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – DAILY ATTENDANCE</p> <p>Condition:</p> <p>We noted twenty-three daily courses were not reported at the correct amount of contact hours due to human error.</p> <p>Recommendation:</p> <p>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.</p>	<p>Not Fully Implemented.</p> <p>See Finding 2020-001.</p>	