

**MERCED COMMUNITY
COLLEGE DISTRICT**

MERCED, CALIFORNIA

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

YEAR ENDED JUNE 30, 2022

MERCED COMMUNITY COLLEGE DISTRICT

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MERCED COMMUNITY COLLEGE DISTRICT

ORGANIZATION YEAR ENDED JUNE 30, 2022

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>
John Pedrozo	President	December 2022
Joe Gutierrez	Vice President	December 2022
Mario Mendoza	Clerk	December 2022
Ernie Ochoa	Trustee	December 2024
Sue Chappell	Trustee	December 2022
Kory Benson	Trustee	December 2024
Carmen Ramirez	Trustee	December 2024

ADMINISTRATION

Chris Vitelli, Ed.D.	Superintendent/President, Merced College
Joe Allison, CPA.....	Vice President, Administrative Services
Karissa Morehouse.....	Vice President, Instruction
Michael McCandless, Ed.D.	Vice President, Student Services
Kelly Avila.....	Vice President, Human Resources
Arlis Bortner.....	Vice President, Information Technology Services
Jill Cunningham.....	Vice President, External Relations

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 Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Merced Community College District (the District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a

guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, 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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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, as listed in the table of contents, 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 (Uniform Guidance)*, and the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2022 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, 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 the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Gilbert CPAs

**GILBERT CPAs
Sacramento, California**

December 6, 2022

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2022

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, 2022. 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, 2022

FINANCIAL AND ENROLLMENT HIGHLIGHTS

The 2021-22 state budget bill was signed by Governor Gavin Newsom on July 12, 2021. The approved budget assumed total General Fund expenditures of \$196 billion, \$62.4 billion increase from 2020-21. This budget reflected a correction to the overestimated deficit of the prior year, along with the substantial recovery to the state's finances that occurred towards the end of the 2021 fiscal year. The Budget focuses state spending on the Governor's key priorities, supporting education being one of them.

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

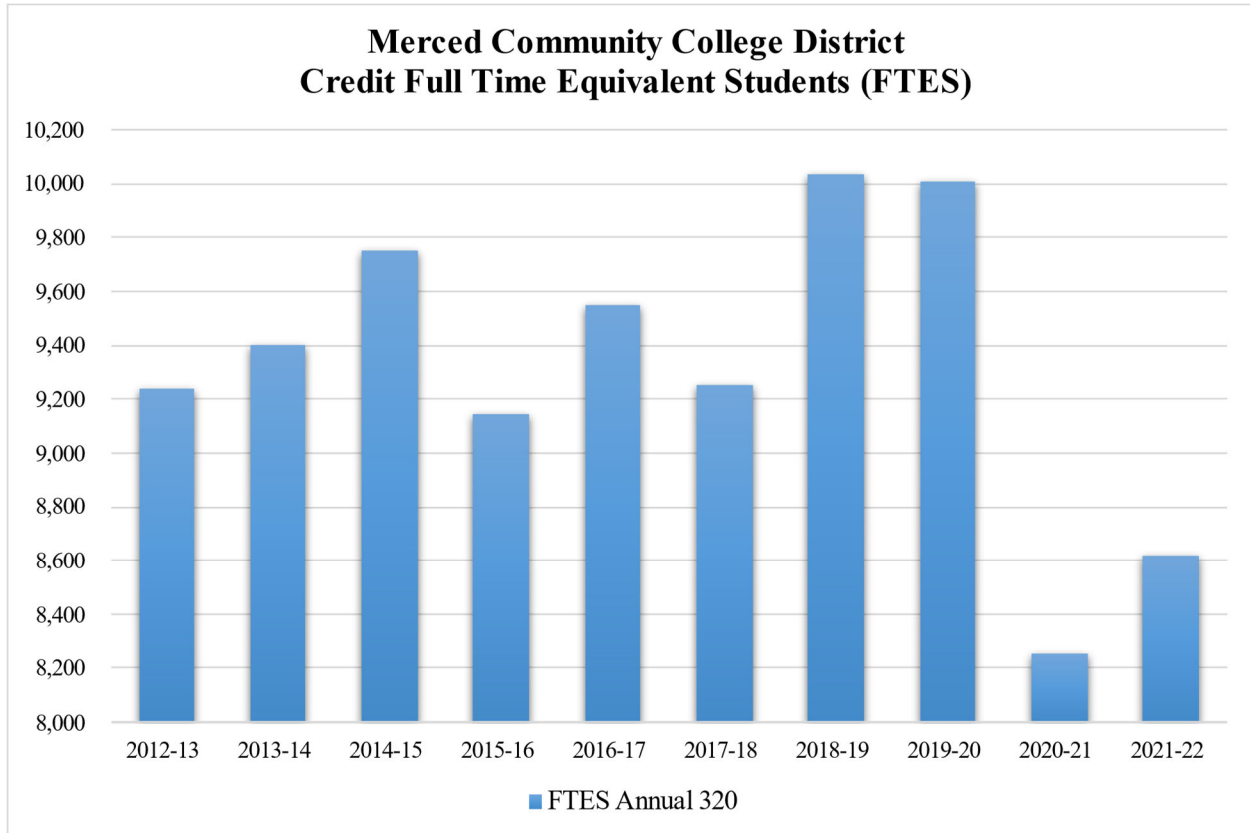
- 5.07% Cost of Living Adjustment (COLA) to the Student Centered Funding Formula (SCFF)
- \$1.5 billion in payments for 2020-21 budget deferrals
- \$511 million in funding for physical plant and instructional support
- COVID-19 Emergency Conditions Allowance to protect districts continuing to experience declining enrollments caused by the coronavirus disease 2019 (COVID-19) pandemic.

On September 14, 2021, the District presented to the Board of Trustees its annual budget. The 2021-22 adopted budget estimated Unrestricted Operating General Fund Revenues of \$79.8 million and \$78.7 million Unrestricted Operating General Fund Expenditures, resulting in a projected net revenue of \$1.1 million for the fiscal year. The projected net revenue, coupled with an estimated beginning fund balance of \$11.7 million, would result in an ending fund balance of \$12.7 million. At year end, actual figures for revenue was \$78.4 million or 1.7% lower and expenditures were \$75.8 million or 3.7% lower than the amount estimated at the time of the adopted budget. The net effect of the combined decrease in revenues and expenditures resulted in a net increase of \$2.6 million, leaving an ending Unrestricted Operating General Fund balance of \$13.5 million.

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2022

In 2021-22, the District reported 8,619 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, 2022

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 \$43.7 million, as of the measurement date of June 30, 2021. 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 2022 (\$89.2 million).

Legislation was enacted to increase employer contribution rates over seven years which began in 2014-15. The employer contribution rate for 2021-22 was 16.92%. In May 2022, an employer contribution rate of 19.1% was adopted. The rate allows the continual elimination of the employer share of the unfunded actuarial obligation by 2046 and provides rate stability going forward. Employee contributions increased from the 2014-15 rate of 8.15% to 10.25% in 2016-17. This rate 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, more than doubling the 2014-15 rate of 11.771%. The employer contribution rate for 2021-22 was 22.91%.

The CalPERS and CalSTRS rates in 2019-20, 2020-21 and 2021-22 were reduced due to a \$2.3 billion payment from the state of California. This short-term rate relief is not scheduled to continue in 2022-23.

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2022

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>2022</u>	<u>2021</u>	<u>\$ Change</u>	<u>% Change</u>
ASSETS				
Current assets:				
Current and other assets	\$ 70,441,979	\$ 46,672,509	\$ 23,769,470	51%
Noncurrent assets:				
Capital assets, net	<u>117,823,723</u>	<u>99,312,085</u>	<u>18,511,638</u>	<u>19%</u>
TOTAL ASSETS	<u>188,265,702</u>	<u>145,984,594</u>	<u>42,281,108</u>	<u>29%</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>24,923,321</u>	<u>25,400,132</u>	<u>(476,811)</u>	<u>-2%</u>
LIABILITIES				
Current liabilities	28,396,958	17,931,803	10,465,155	58%
Long-term liabilities, noncurrent portion	<u>145,698,655</u>	<u>170,016,727</u>	<u>(24,318,072)</u>	<u>-14%</u>
TOTAL LIABILITIES	<u>174,095,613</u>	<u>187,948,530</u>	<u>(13,852,917)</u>	<u>-7%</u>
DEFERRED INFLOWS OF RESOURCES	<u>29,383,261</u>	<u>1,175,190</u>	<u>28,208,071</u>	<u>2400%</u>
NET POSITION				
Net investment in capital assets	84,198,530	68,183,425	16,015,105	23%
Restricted	14,701,829	11,741,945	2,959,884	25%
Unrestricted (deficit)	<u>(89,190,210)</u>	<u>(97,664,364)</u>	<u>8,474,154</u>	<u>-9%</u>
TOTAL NET POSITION (DEFICIT)	<u>\$ 9,710,149</u>	<u>\$(17,738,994)</u>	<u>\$ 27,449,143</u>	<u>155%</u>

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2022

Assets

Total Assets increased approximately \$42.3 million, a percentage increase of 29%. The major changes affecting total assets are listed below:

Current and Other Assets increased by approximately \$23.8 million, a percentage increase of 51%. This increase is primarily due to a new bond issuance, from the 2022 voter approved measure, and State funding receivable for approved construction projects.

Net Capital Assets increased by approximately \$18.5 million, a percentage increase of 19%. This is due to new building construction and expansion to technology infrastructure.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources decreased by approximately \$.5 million and deferred inflows of resources increased by \$28.2 million. The changes to deferred inflows are primarily related to the net differences between projected and actual investment earnings of pension plan investments and OPEB investments with a measurement date of June 30, 2021. This is discussed in more detail in Note 8 and Note 9 of the financial statements.

Liabilities

Total Liabilities decreased by \$13.9 million, a percentage decrease of 7%. The major changes affecting total liabilities are listed below:

Current liabilities increased by \$10.5 million, a percentage increase of 58%. The increase is primarily due to deferred revenue for restricted programs and grants.

The noncurrent portion of long-term liabilities decreased by \$24.3 million, a percentage decrease of 14%. The primary factor for this decrease is the change in the net pension liability, due to changes in the District's proportionate share of each Plan.

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 2022 (\$89.2 million).

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2022

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>2022</u>	<u>2021</u>	<u>\$ Change</u>	<u>% Change</u>
OPERATING REVENUES				
Net tuition and fees	\$ 3,722,255	\$ 4,014,896	\$ (292,641)	-7%
Grants and contracts, noncapital	78,203,703	47,485,849	30,717,854	65%
Auxiliary enterprise sales and charges	<u>393,087</u>	<u>471,414</u>	<u>(78,327)</u>	<u>-17%</u>
TOTAL OPERATING REVENUES	<u>82,319,045</u>	<u>51,972,159</u>	<u>30,346,886</u>	<u>58%</u>
TOTAL OPERATING EXPENSES	<u>132,444,071</u>	<u>121,793,316</u>	<u>10,650,755</u>	<u>9%</u>
OPERATING LOSS	<u>(50,125,026)</u>	<u>(69,821,157)</u>	<u>19,696,131</u>	<u>-28%</u>
NON-OPERATING REVENUES (EXPENSES)				
State apportionments, noncapital	35,338,665	36,508,980	(1,170,315)	-3%
Education protection account	19,647,326	15,876,401	3,770,925	24%
Local property taxes	16,380,915	14,850,763	1,530,152	10%
State taxes and other revenues	2,479,121	2,209,252	269,869	12%
Other non-operating revenues (expenses)	<u>(804,016)</u>	<u>(896,504)</u>	<u>92,488</u>	<u>10%</u>
TOTAL NON-OPERATING REVENUES	<u>73,042,011</u>	<u>68,548,892</u>	<u>4,493,119</u>	<u>7%</u>
GAIN (LOSS) BEFORE CAPITAL REVENUES	22,916,985	(1,272,265)	24,189,250	-1901%
Local property taxes and revenues, capital	4,350,403	3,944,988	405,415	10%
Local revenues, grants and gifts, capital	<u>181,755</u>	<u>193,434</u>	<u>(11,679)</u>	<u>-6%</u>
INCREASE (DECREASE) IN NET POSITION	27,449,143	2,866,157	24,582,986	858%
NET POSITION (DEFICIT) -- BEGINNING OF YEAR	<u>(17,738,994)</u>	<u>(20,605,151)</u>	<u>2,866,157</u>	<u>-14%</u>
NET POSITION (DEFICIT) -- END OF YEAR	<u>\$ 9,710,149</u>	<u>\$ (17,738,994)</u>	<u>\$ 27,449,143</u>	<u>155%</u>

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2022

Operating Revenues

Total operating revenues increased by \$30.3 million, a percentage increase of 58%. The net increase is mostly due to revenue from Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) funds under the Higher Education Emergency Relief Fund (HEERF) program.

Operating Expenses

Total operating expenses increased by \$10.7 million, or 9%, primarily due to construction costs for the new Ag/IT building.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2022, the District had approximately \$117.8 million invested in net capital assets. Total capital assets of \$205.8 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 \$88 million. Depreciation expense of \$4.4 million was recorded in 2022.

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

	<u>2022</u>	<u>2021</u>	<u>Net Change</u>
Land and construction in progress	\$ 23,007,932	\$ 5,616,704	\$ 17,391,228
Buildings and equipment	182,777,764	177,632,116	5,145,648
Accumulated Depreciation	<u>(87,961,973)</u>	<u>(83,549,114)</u>	<u>(4,412,859)</u>
Total Capital Assets	<u>\$117,823,723</u>	<u>\$ 99,699,706</u>	<u>\$ 18,124,017</u>

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2022

Debt Administration

At June 30, 2022, the District had approximately \$151.5 million in outstanding debt, a decrease of 14% from prior year.

	<u>2022</u>	<u>2021</u>	<u>Net Change</u>
General obligation bonds	\$ 39,825,000	\$ 32,970,000	\$ 6,855,000
Bond issuance premium	2,243,258	1,274,305	968,953
Compensated absences	1,749,920	1,645,312	104,608
Finance purchases	1,341,340	1,943,470	(602,130)
Lease liability	296,807	387,621	(90,814)
Solar Energy Project	1,615,382	1,615,382	-
Energy Service Contract	3,820,094	1,208,923	2,611,171
Net pension liability	43,686,093	76,461,489	(32,775,396)
Net OPEB obligation	<u>56,882,884</u>	<u>58,030,395</u>	<u>(1,147,511)</u>
Total Long-term Liabilities	<u>\$151,460,778</u>	<u>\$175,536,897</u>	<u>\$(24,076,119)</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.

Through the first quarter of the 2022-23 fiscal year, overall state revenues have been notably weaker than originally estimated when the 2022 Budget Act was adopted in June, approximately \$5 billion below projections. The Legislative Analyst's Office (LAO) attributes much of the revenue decrease to historically high inflation coupled with large interest rate increases. This economic environment has contributed to a rapidly declining state budget outlook, while increasing the threat of a potential recession. Although the current economic environment poses a substantial risk to state revenues, the state's economic forecast does not specifically assume that a recession will occur, which would result in more significant revenue declines.

The current economic outlook highlights the importance of preparing for economic downturns during stronger fiscal times. With that in mind, the 2022-23 Budget Act included block grant funding intended to support district activities over the next several years. For community colleges, the state provided \$650 million to fund student support, reengagement strategies, professional development, technology, equipment, and other specified activities. The block grant is provided on a one-time basis, but represents an additional resource to supplement other district funding for the next several years

In response to the disruptions of the COVID-19 pandemic, the state made providing fiscal stability a top priority. While the temporary protections under the COVID-19 Emergency Conditions Allowance (ECA) expire at the end of 2022-23, the Governor's Budget extended the revenue protections in a modified form to avoid creating sharp fiscal declines in future years. As such, a district's 2024-25 funding would represent its new "floor", or minimum revenue amount. In addition, as part of the 2022-23 ECA application process, districts had to certify that their Board of Trustees will adopt a policy to maintain an unrestricted general fund reserve balance of no less than two months of general fund operating expenditures. This policy must be adopted prior to February 28, 2023.

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2022

The state legislature continues its investment in student equity, access and success by providing additional funding for the California Promise Program. Originally, this program allowed for the waiver of enrollment fees for first-time, full-time students for each of their first and second academic years. The program has now been expanded to include other non-first-time students as well.

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 remains at 70% for student enrollment, 20% for low-income students, and 10% 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, and clarifying the definition of a transfer student. The 2022-23 Budget Act permanently reset the hold harmless base year from 2017-18 to 2024-25.

Merced College projects to maintain a balanced budget as well as sustain a fund balance that remains well above the board required 6% level for the 2022-23 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, 2022**

	Primary Institution	Foundation
ASSETS		
Current assets:		
Cash and equivalents	\$ 33,803,057	\$ 1,928,342
Accounts receivable	16,399,463	
Due from the Foundation	71,795	
Pledged receivable, current		150,000
Prepaid expenses and other assets	306,684	
Total current assets	<u>50,580,999</u>	<u>2,078,342</u>
Noncurrent assets:		
Long-term investments		6,158,377
Restricted cash and equivalents	19,860,980	
Pledged receivable, net		1,929,876
Nondepreciable capital assets	23,007,932	
Depreciable capital assets, net	94,815,791	
Total noncurrent assets	<u>137,684,703</u>	<u>8,088,253</u>
TOTAL ASSETS	<u>188,265,702</u>	<u>10,166,595</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	853,918	
Deferred outflows of resources related to pensions	16,651,331	
Deferred outflows of resources related to OPEB	7,418,072	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>24,923,321</u>	
LIABILITIES		
Current liabilities:		
Accounts payable and interest payable	10,730,181	9,877
Due to District		71,795
Unearned revenue	11,904,654	
Long-term liabilities due within one year	5,762,123	
Total current liabilities	<u>28,396,958</u>	<u>81,672</u>
Long-term liabilities due in more than one year:		
Net pension liability	43,686,093	
Net OPEB liability	56,882,884	
Other long-term liabilities	45,129,678	
TOTAL LIABILITIES	<u>174,095,613</u>	<u>81,672</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	26,879,625	
Deferred inflows of resources related to OPEB	2,503,636	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>29,383,261</u>	
NET POSITION		
Net investment in capital assets	84,198,530	
Restricted for:		
Nonexpendable: Scholarships		3,077,444
Expendable:		
Scholarships and loans		6,694,047
Capital projects	7,626,577	
Debt service	4,522,635	
Other special purposes	2,552,617	
Unrestricted (deficit)	<u>(89,190,210)</u>	<u>313,432</u>
TOTAL NET POSITION	<u>\$ 9,710,149</u>	<u>\$ 10,084,923</u>

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, 2022

	Primary Institution	Foundation
OPERATING REVENUES		
Tuition and fees (gross)	\$ 10,035,245	
Less: scholarship discounts and allowances	(6,312,990)	
Net tuition and fees	3,722,255	
Grants and contracts, noncapital:		
Federal	43,106,868	
State	33,725,853	
Local	1,370,982	
Contributions		\$ 2,506,958
Auxiliary enterprise sales and charges	393,087	
TOTAL OPERATING REVENUES	82,319,045	2,506,958
OPERATING EXPENSES		
Salaries	48,233,667	
Employee benefits	22,380,505	
Supplies, materials, and other operating expenses and services	26,118,228	406,009
Depreciation	4,439,863	
Financial aid expenses	31,271,808	
Scholarships and student programs		818,734
TOTAL OPERATING EXPENSES	132,444,071	1,224,743
OPERATING INCOME (LOSS)	(50,125,026)	1,282,215
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, noncapital	35,338,665	
Education protection account	19,647,326	
Local property taxes	16,380,915	
State taxes and other revenues	2,479,121	
Investment income (loss)	235,146	(826,565)
Interest expense	(1,574,738)	
Other non-operating revenues	535,576	(338,513)
TOTAL NON-OPERATING REVENUES (EXPENSES)	73,042,011	(1,165,078)
GAIN BEFORE CAPITAL REVENUES	22,916,985	117,137
Local property taxes and revenues, capital	4,350,403	
Local revenues, grants and gifts, capital	181,755	
INCREASE IN NET POSITION	27,449,143	117,137
NET POSITION (DEFICIT) -- BEGINNING OF YEAR	(17,738,994)	9,967,786
NET POSITION -- END OF YEAR	\$ 9,710,149	\$ 10,084,923

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

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2022

	Primary Institution
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 4,145,114
Federal grants and contracts	14,978,337
State grants and contracts	35,166,211
Local grants and contracts	1,111,033
Payments to suppliers	(22,283,050)
Payments to/on behalf of employees	(75,895,369)
Auxiliary enterprise sales and charges	473,903
Net cash used by operating activities	<u>(42,303,821)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State apportionments and receipts	41,831,415
Education protection account receipts	19,647,326
Local property and state taxes, lottery and other state receipts	18,860,036
Investment income	235,146
Other noncapital disbursements	197,063
Net cash provided by noncapital financing activities	<u>80,770,986</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(21,358,010)
Proceeds from capital debt	10,616,733
Proceeds from financing debt	1,402,248
Principal paid on capital debt	(3,247,130)
Interest paid on capital debt	(1,510,196)
Principal paid on lease liability	(90,814)
Local property taxes and other revenues for capital	4,532,157
Net cash used by noncapital financing activities	<u>(9,655,012)</u>
NET INCREASE IN CASH AND EQUIVALENTS	28,812,153
CASH AND EQUIVALENTS -- BEGINNING OF YEAR	<u>24,851,884</u>
CASH AND EQUIVALENTS -- END OF YEAR	<u>\$ 53,664,037</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, 2022

	Primary Institution
RECONCILIATION TO STATEMENT OF NET POSITION	
Cash and equivalents	\$ 33,803,057
Restricted cash and equivalents	<u>19,860,980</u>
Total cash and equivalents	<u>\$ 53,664,037</u>
RECONCILIATION OF NET OPERATING GAIN (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (50,125,026)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	4,439,862
Loss on disposal of capital assets	3,054
Amortization of bond premium	(147,780)
Amortization of deferred amount on refunding	85,391
Changes in assets and liabilities:	
Accounts receivable, net	(1,182,886)
Prepaid expenses and other assets	(198,558)
Deferred outflows of resources related to pensions	1,859,537
Deferred outflows of resources related to OPEB	(1,468,117)
Accounts payable	4,030,682
Due to the Foundation	(68,622)
Interfund services provided	338,513
Unearned revenue	5,740,357
Deferred inflows of resources related to pensions	25,704,435
Deferred inflows of resources related to OPEB	2,503,636
Compensated absences	104,608
Net OPEB liability	(1,147,511)
Net pension liability	<u>(32,775,396)</u>
Net cash used by operating activities	<u>\$ (42,303,821)</u>

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

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.

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.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

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. Accounts receivable at June 30, 2022 are presented net of estimated uncollectable student accounts of \$1,333,519.

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

Leases – The District recognizes leases with an initial, individual value of \$50,000 or more and when the lease terms include a noncancellable period of more than one year.

Lessee: The District recognizes a lease liability and an intangible right-to-use lease asset (lease asset) at the commencement of a lease and initially measures them at the present value of payments expected to be made during the lease term. The lease liability is reduced by the principal portion of lease payments made and the lease asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

The District estimates its incremental borrowing rate as the discount rate for expected lease payments and the noncancelable period for its leases. Additionally, the District monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease liability if certain changes occur that are expected to significantly affect their lease liability.

Lease assets are reported with depreciable capital assets and lease liabilities are reported with long-term debt on the statement of net position.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

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, 2022

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.

Change in accounting principle – For the year ended June 30, 2022, the District implemented GASB Statement No. 87, *Leases*. GASB Statement No. 87 enhances the relevance and consistency of information of the District's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

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. These changes were incorporated in the District's 2022 financial statements, with long-term liabilities and depreciable capital assets being restated as of July 1, 2021 by \$387,621, which represents the net present value of the right-to-use lease assets and related lease liability.

Future accounting pronouncements - In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs)* (GASB 94), which is required to be implemented by the District during the year ending June 30, 2023. The primary objective of this Statement is to improve financial reporting by addressing issues related to these arrangements. Establishing the definitions of PPPs and APAs and providing uniform guidance on accounting and financial reporting for transactions that meet those definitions will provide more relevant and reliable information for financial statement users and create greater consistency in practice. Management is in the process of evaluating the impact this statement will have on the District's future financial statements.

3. CASH AND EQUIVALENTS

Cash and equivalents as of June 30, 2022, are classified in the accompanying financial statements as follows:

Cash and equivalents	\$ 33,803,057
Restricted cash and equivalents	<u>19,860,980</u>
Total cash and equivalents	<u>\$ 53,664,037</u>

Cash and equivalents as of June 30, 2022, consist of the following:

Cash and equivalents in County Treasury	\$ 43,859,568
Deposits with financial institutions	3,579,911
Cash on hand	7,500
Cash and equivalents in CAMP	<u>6,217,058</u>
Total cash and equivalents	<u>\$ 53,664,037</u>

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.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

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

California Asset Management Program

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

Investments Authorized by the District's Investment Policy

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

<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

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

Investments Authorized by Debt Agreements

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

Derivative Investments

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair values to changes in market interest rates. As of June 30, 2022, the weighted average maturity of the investments contained in the County Treasury and the CAMP investment pools is approximately 586 and 28 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, 2022.

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, 2022, the District's bank balances were exposed to custodial credit risk in the amount of \$3,294,935.

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30, 2022:

Federal grants and contracts	\$ 2,991,148
State grants, contracts and general apportionment	6,977,682
Local grants, contracts and students	<u>6,430,633</u>
Total	<u>\$ 16,399,463</u>

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022, was as follows:

	Balance July 1, 2021 (as restated)	Additions/ Transfers	Deductions/ Transfers	Balance June 30, 2022
Capital assets, not being depreciated:				
Land	\$ 1,333,366			\$ 1,333,366
Construction in progress	4,283,338	\$ 17,403,412	\$ (12,184)	21,674,566
Total capital assets, not being depreciated	<u>5,616,704</u>	<u>17,403,412</u>	<u>(12,184)</u>	<u>23,007,932</u>
Capital assets, being depreciated/ amortized:				
Improvement of sites	16,547,643			16,547,643
Buildings	135,568,979	2,618,923		138,187,902
Right-to-use leased equipment	387,621			387,621
Furniture and equipment	25,127,873	2,556,782	(30,057)	27,654,598
Total capital assets, being depreciated/amortized	<u>177,632,116</u>	<u>5,175,705</u>	<u>(30,057)</u>	<u>182,777,764</u>
Less accumulated depreciation/amortization for:				
Improvement of sites	(11,904,191)	(249,888)		(12,154,079)
Buildings	(53,632,800)	(2,599,498)		(56,232,298)
Right-to-use leased equipment		(91,061)		(91,061)
Furniture and equipment	(18,012,123)	(1,499,415)	27,003	(19,484,535)
Total accumulated depreciation/amortization	<u>(83,549,114)</u>	<u>(4,439,862)</u>	<u>27,003</u>	<u>(87,961,973)</u>
Total capital assets, being depreciated/amortized, net	<u>94,083,002</u>	<u>735,841</u>	<u>(3,054)</u>	<u>94,815,791</u>
Total capital assets, net	<u>\$ 99,699,706</u>	<u>\$ 18,139,253</u>	<u>\$ (15,238)</u>	<u>\$ 117,823,723</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, 2022, the principal balance outstanding was \$4,850,000.

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, 2022, the principal balance outstanding was \$7,090,000.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

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, 2022, the 2014 Issue principal balance outstanding was \$18,385,000.

On July 21, 2021 the District issued the Election of 2002 General Obligation Bonds, Series 2021 in the amount of \$9,500,000 maturing through August 2032 and bearing interest rates ranging from 2% to 5%. The bonds were issued to finance the acquisition, construction, modernization and equipping of District sites and facilities and pay the costs of issuance of the bonds. As of June 30, 2022, the principal balance outstanding was \$9,500,000.

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

<u>Year Ending June 30, 2022</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 2,935,000	\$ 1,375,425	\$ 4,310,425
2024	3,250,000	1,235,324	4,485,324
2025	3,915,000	1,086,400	5,001,400
2026	4,140,000	917,012	5,057,012
2027	2,905,000	762,847	3,667,847
2028-2032	18,270,000	2,017,170	20,287,170
2033	4,410,000	44,100	4,454,100
Totals	<u>\$ 39,825,000</u>	<u>\$ 7,438,278</u>	<u>\$ 47,263,278</u>

Finance Purchases

The District finances the purchase of equipment under agreements which provide for title to pass upon expiration of the finance 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, 2022 was charged to expenses. The District entered into a finance purchase agreement during the 2011-2012 fiscal year with a gross amount of \$2,388,404 for the asset financed. The District entered into a finance purchase agreement during the 2018-2019 fiscal year with a gross amount of \$2,168,446 for the asset financed. Future minimum payments are as follows:

<u>Year Ending June 30, 2022</u>	<u>Payments</u>
2023	\$ 676,203
2024	204,718
2025	204,718
2026	204,718
2027	154,455
Total	1,444,812
Less amount representing interest	(103,472)
Present value of net minimum payments	<u>\$ 1,341,340</u>

Lease liability

During previous fiscal years, the District entered into lease agreements for the right-to-use equipment.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

An initial lease liability was recorded in the amount of \$387,621 at the beginning of the fiscal year ended June 30, 2022. As of June 30, 2022, the value of the lease liability was \$296,807. The District is a lessee under these two agreements. One has a lease term of 5 years with a \$2,593 monthly payment and the other has a lease term of 4 years with a monthly payment of \$5,027. For purposes of discounting future payments on the lease, the District used a discount rate of .20%. The right-to-use asset as of the year ended June 30, 2022 was \$296,560 and is being amortized over the remaining term of the lease. The future minimum principal and interest lease payments as of June 20, 2022, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 90,931	\$ 510	\$ 91,441
2024	91,113	328	91,441
2025	86,268	146	86,414
2026	28,495	29	28,524
Totals	<u>\$ 296,807</u>	<u>\$ 1,013</u>	<u>\$ 297,820</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 December 2022. The loan payments, and therefore payment term, is based on the estimated energy cost savings to be achieved by the project. As of June 30, 2022, the District had expenditures for the project and therefore had drawdowns totaling \$1,615,382 of the loan. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Payments</u>
2023	\$ 84,880
2024	84,880
2025	84,880
2026	84,880
2027	84,880
2028-2032	424,400
2033-2037	424,400
2038-2042	342,182
Total	<u>\$ 1,615,382</u>

Energy Service Contract

During the year ended June 30, 2021, the District signed a contract with Johnson Controls Inc. (JCI), whereby JCI will complete several energy-saving capital improvement projects in District buildings, and the District will pay for those improvements over a 20-year period beginning December 1, 2021. As of June 30, 2022, all of the 6 projects listed in the contract were complete and in-use by the District. The costs associated with these projects, totaling \$3,706,354, are included in capital assets as of June 30, 2022.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

The contract with JCI stipulates that the obligation of the District to make payments under the contract is subject to the approval of the District's governing body of an annual budget which authorizes appropriated funds for contract payments. If payments are not budgeted, the District must return all improvement measures to JCI, and the agreement will be terminated. The District currently intends to include payments in its annual budgets according to the payment schedule in the contract.

Future minimum payments are as follows:

<u>Year Ending June 30,</u>	<u>Payments</u>
2023	\$ 181,941
2024	203,473
2025	228,295
2026	271,334
2027	260,863
2028-2032	1,433,128
2033-2037	1,623,307
2038-2042	<u>1,591,379</u>
Total	5,793,720
Less amount representing interest	<u>(1,973,626)</u>
Present value of net minimum payments	<u>\$ 3,820,094</u>

A schedule of changes in long-term obligations for the year ended June 30, 2022 is shown below:

	<u>Beginning Balance (as restated)</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 32,970,000	\$ 9,500,000	\$ (2,645,000)	\$ 39,825,000	\$ 2,935,000
Premium on bonds	1,274,305	1,116,733	(147,780)	2,243,258	249,302
Compensated absences	1,645,312	104,608		1,749,920	1,749,920
Finance purchases	1,943,470		(602,130)	1,341,340	626,969
Lease Liability	387,621		(90,814)	296,807	90,931
Solar Energy Project	1,615,382			1,615,382	84,880
Energy Service Contract	<u>1,208,923</u>	<u>2,651,319</u>	<u>(40,148)</u>	<u>3,820,094</u>	<u>25,121</u>
Totals	<u>\$ 41,045,013</u>	<u>\$ 13,372,660</u>	<u>\$ (3,525,872)</u>	<u>\$ 50,891,801</u>	<u>\$ 5,762,123</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

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

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, 2022.

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

8. RETIREMENT PLANS

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Benefits Provided

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

Contributions

Assembly Bill 1469 (AB 1469), signed into law as a part of the State of California's (the State) 2014-15 budget, increases contributions to the CalSTRS Plan from members, employers, and the State over the next seven years, effective July 1, 2014. School employer contributions will increase from 8.25% to a total of 20.25% of covered payroll over the seven-year period. The District's required contribution rate for the year ended June 30, 2022, was 16.92% of annual pay. District contributions to the CalSTRS Plan were \$4,019,483 for the year ended June 30, 2022.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

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 6.311% in 2021-22. The increased contributions end as of fiscal year end June 30, 2046. The State contribution rate for the period ended June 30, 2021, was 10.828% of the District's 2014-15 creditable CalSTRS compensation.

In addition to AB1469, California Senate Bill 90 (Chapter 33, Statutes of 2019) and California Assembly Bill 84 (Chapter 16, Statutes of 2020) were signed into law in June 2019 and June 2020, respectively. These Statutes provided supplemental contributions to the CalSTRS Plan along with supplemental contribution rate relief to employers through fiscal year 2021-22.

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, 2020, and rolling forward the total pension liability to the measurement date of June 30, 2021. 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 law as described above under contributions. 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.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

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 January 2020 in conjunction with the most recent experience study. For each current and future valuation, CalSTRS consulting actuary reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2021, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term * Expected Real Rate of Return
Public Equity	42.00%	4.80%
Fixed Income	12.00%	1.30%
Real Estate	15.00%	3.60%
Private Equity	13.00%	6.30%
Risk Mitigating Strategies	10.00%	1.80%
Inflation Sensitive	6.00%	3.30%
Cash / Liquidity	2.00%	-0.40%
Total	100.00%	

*20-year geometric average

California Public Employees' Retirement System (CalPERS)

Plan Description

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

Benefits Provided

The benefits for the CalPERS Plan are established by contract, in accordance with the provisions of the California Public Employees' Retirement Law (PERL). The benefits are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. 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.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

Contributions

Section 20814(c) of the PERL requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Contribution rates for the CalPERS Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The CalPERS Plan's actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District's required contribution rate for the year ended June 30, 2022, was 22.91% of annual pay. District contributions to the CalPERS Plan were \$4,027,225 for the year ended June 30, 2022.

Actuarial Assumptions

For the measurement period ended June 30, 2021 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2020 total pension liability. The June 30, 2021 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

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 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, 2022

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 ACFR, 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, 2022, 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	\$ 19,568,440
CalPERS Plan	24,117,653
Total District net pension liability	43,686,093
State's proportionate share of CalSTRS net pension liability associated with the District	9,815,299
Total	\$ 53,501,392

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

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, 2021, 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 for the measurement period June 30, 2021, was 0.043% and 0.1186% for the CalSTRS and CalPERS Plans, respectively, which was an increase of 0.000% and 0.0052%, respectively, from its proportion measured as of June 30, 2020 for CalSTRS and CalPERS Plans, respectively.

For the measurement period June 30, 2021, the District recognized pension expense of \$3,171,129 and revenue of \$335,844 for support provided by the State. At June 30, 2022, 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	\$ 768,994	\$ (2,139,345)
Changes in assumptions	2,772,640	
Changes in proportion	4,426,489	
Change in proportionate share of contributions	636,500	(5,503)
Net differences between projected and actual investment earnings of pension plan investments		(24,734,777)
District contributions subsequent to measurement date	8,046,708	
Total	\$ 16,651,331	\$ (26,879,625)

The \$8,046,708 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, 2023. Other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2023	\$ (3,505,546)
2024	(3,343,051)
2025	(5,176,695)
2026	(6,411,175)
2027	163,766
Thereafter	(2,301)

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

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	\$ 39,834,340	\$ 19,568,440	\$ 2,748,130
	Discount Rate –1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
District's proportionate share of the CalPERS Plan's net pension liability	\$ 40,665,750	\$ 24,117,653	\$ 10,379,182

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, 2022

Employees Covered

As of the June 30, 2021 actuarial valuation, the following Inactive and active employees were covered by the benefit terms under the OPEB Plan:

Inactive employees receiving benefits	244
Inactive employees entitled to but not receiving benefits	0
Participating active employees	410
Total	654

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, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2021, based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	5.75%
Inflation	2.50%
Salary Increases	2.75%
Investment Rate of Return	5.75%
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%	7.545%
US Small Cap	13.00%	7.545%
All Foreign Stock	9.00%	7.545%
Other Fixed Income	49.00%	3.000%
Total	100.00%	

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

Discount Rate

The discount rate used to measure the total OPEB liability was 5.75 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, 2021 (Measurement date June 30, 2020)	\$ 62,026,071	\$ 3,995,676	\$ 58,030,395
Changes recognized for the measurement period:			
Service cost	1,085,294		1,085,294
Interest on TOL	3,610,816		3,610,816
Expected Investment Income		239,559	(239,559)
Contributions—employer		4,640,611	(4,640,611)
Contributions—employee			
Benefit payments	(4,640,611)	(4,640,611)	
Experience (Gains)/Losses	(2,028,864)		(2,028,864)
Changes in assumptions	1,770,034		1,770,034
Investment (Gains)/Losses		574,380	(574,380)
Administrative expense		(6,061)	6,061
Expected Minus Actual Benefit Payments	(136,302)		(136,302)
Net changes	<u>(339,633)</u>	<u>807,878</u>	<u>(1,147,511)</u>
Balance at June 30, 2022 (Measurement date June 30, 2021)	<u>\$ 61,686,438</u>	<u>\$ 4,803,554</u>	<u>\$ 56,882,884</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% (4.75%)</u>	<u>Current Discount Rate (5.75%)</u>	<u>Discount Rate +1% (6.75%)</u>
Net OPEB liability	\$ 61,944,946	\$ 56,882,884	\$ 52,424,564

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

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	\$ 51,816,198	\$ 56,882,884	\$ 62,688,779

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, 2022, the District recognized OPEB expense of \$4,350,178. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 4,462,170	
Differences between expected and actual experience	1,370,247	\$ (2,071,088)
Changes in assumptions	1,585,655	
Net difference between projected and actual earnings on OPEB plan investments		<u>(432,548)</u>
Total	<u>\$ 7,418,072</u>	<u>\$ (2,503,636)</u>

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

The \$4,462,170 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2021 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2023. Other amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized as follows:

<u>Year Ended June 30</u>		
2023	\$	35,474
2024		42,559
2025		43,141
2026		31,406
2027		146,282
Thereafter		153,404

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, 2022

NATURE OF PARTICIPATION

Property

District Deductible: \$5,000
JPA's Coverage: \$5,001 to \$5,000,000 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 \$50,000,000 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:

	<u>June 30, 2022</u> <u>SELF</u>	<u>June 30, 2022</u> <u>ASCIP</u>
Total Assets and Deferred Outflows	\$ 289,927,212	\$ 525,465,531
Total Liabilities and Deferred Inflows	<u>(218,885,517)</u>	<u>(307,023,691)</u>
Net Position	<u>\$ 71,041,695</u>	<u>\$ 218,441,840</u>
Total Revenues	\$ 141,145,379	\$ 262,403,327
Total Expenses	<u>(110,272,506)</u>	<u>(270,681,932)</u>
Net Increase (decrease) in Net Position	<u>\$ 30,872,873</u>	<u>\$ (8,278,605)</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, 2022

Construction Commitments

The District has construction commitments of approximately \$1,659,581 at June 30, 2022. General obligation bonds have been approved for \$286,597 of such construction commitments.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS YEAR ENDED JUNE 30, 2022 LAST 10 YEARS*

	Fiscal year				
	2022	2021	2020	2019	2018
	Measurement date 2021	Measurement date 2020	Measurement date 2019	Measurement date 2018	Measurement date 2017
TOTAL OPEB LIABILITY					
Service cost	\$ 1,085,294	\$ 1,056,247	\$ 786,853	\$ 765,794	\$ 745,298
Interest on TOL	3,610,816	3,614,178	3,502,094	3,504,490	3,502,044
Changes in assumptions	1,770,034				
Experience (Gains)/Losses	(2,028,864)	(165,607)	1,962,712		
Expected Minus Actual Benefit Payments	(136,302)		21,080		
Benefit payments	<u>(4,640,611)</u>	<u>(4,539,450)</u>	<u>(4,352,605)</u>	<u>(4,309,964)</u>	<u>(4,144,196)</u>
NET CHANGE IN TOTAL OPEB LIABILITY	(339,633)	(34,632)	1,920,134	(39,680)	103,146
TOTAL OPEB LIABILITY, Beginning	<u>62,026,071</u>	<u>62,060,703</u>	<u>60,140,569</u>	<u>60,180,249</u>	<u>60,077,103</u>
TOTAL OPEB LIABILITY, Ending (a)	<u>61,686,438</u>	<u>62,026,071</u>	<u>62,060,703</u>	<u>60,140,569</u>	<u>60,180,249</u>
PLAN FIDUCIARY NET POSITION					
Contributions—employer	4,640,611	4,539,450	4,352,605	4,309,964	4,563,789
Contributions—employee					
Net investment income	813,939	170,986	219,766	238,146	265,219
Benefit payments	(4,640,611)	(4,539,450)	(4,352,605)	(4,309,964)	(4,144,196)
Administrative expense	<u>(6,061)</u>	<u>(6,393)</u>	<u>(5,276)</u>	<u>(500)</u>	<u>(5,265)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	807,878	164,593	214,490	237,646	679,547
PLAN FIDUCIARY NET POSITION, Beginning	<u>3,995,676</u>	<u>3,831,083</u>	<u>3,616,593</u>	<u>3,378,947</u>	<u>2,699,400</u>
PLAN FIDUCIARY NET POSITION, Ending (b)	<u>4,803,554</u>	<u>3,995,676</u>	<u>3,831,083</u>	<u>3,616,593</u>	<u>3,378,947</u>
DISTRICT'S NET OPEB LIABILITY, Ending (a) - (b)	<u>\$ 56,882,884</u>	<u>\$ 58,030,395</u>	<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	7.8%	6.4%	6.2%	6.0%	5.6%
Covered-employee payroll	\$ 35,527,106	\$ 35,369,847	\$ 32,791,744	\$ 30,840,458	\$ 30,548,193
District's net OPEB liability as a percentage of covered-employee payroll	160.1%	164.1%	177.6%	183.3%	185.9%

Notes to Schedule:

Benefits: There were no changes to benefit terms for the years ended June 2017, 2018, 2019, 2020, and 2021.

Assumptions: There were no changes in assumptions during the years ended June 30, 2020, 2019, 2018 and 2017. During the measurement period ended June 30, 2021, the interest rate assumption changed from 6.00% to 5.75%.

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

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY YEAR ENDED JUNE 30, 2022 LAST 10 YEARS*

	CalSTRS Plan							
	Fiscal Year							
	2022	2021	2020	2019	2018	2017	2016	2015
	Measurement date 2021	Measurement date 2020	Measurement date 2019	Measurement date 2018	Measurement date 2017	Measurement date 2016	Measurement date 2015	Measurement date 2014
District's proportion of the net pension liability	0.043%	0.043%	0.042%	0.039%	0.040%	0.041%	0.042%	0.043%
District's proportionate share of the net pension liability	\$ 19,568,440	\$ 41,670,870	\$ 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>9,815,299</u>	<u>22,249,504</u>	<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>\$ 29,383,739</u>	<u>\$ 63,920,374</u>	<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	\$ 24,646,996	\$ 24,775,773	\$ 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	79%	168%	158%	162%	171%	157%	144%	130%
Plan fiduciary net position as a percentage of the total pension liability	87%	73%	73%	71%	69%	70%	74%	77%

Notes to Schedule:

Change of benefit terms – For the measurement date ended June 30, 2021, 2020, 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, 2021, 2020, 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 eight years are shown.

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY YEAR ENDED JUNE 30, 2022 LAST 10 YEARS*

	CalPERS Plan							
	Fiscal Year							
	2022	2021	2020	2019	2018	2017	2016	2015
	Measurement date 2021	Measurement date 2020	Measurement date 2019	Measurement date 2018	Measurement date 2017	Measurement date 2016	Measurement date 2015	Measurement date 2014
District's proportion of the net pension liability	0.1186%	0.1134%	0.1077%	0.104%	0.106%	0.1047%	0.1053%	0.1107%
District's proportionate share of the net pension liability	\$ 24,117,653	\$ 34,790,619	\$ 31,397,102	\$ 27,798,998	\$ 25,410,037	\$ 20,678,315	\$ 15,521,324	\$ 12,567,145
District's covered-employee payroll	\$ 17,082,394	\$ 16,397,178	\$ 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	141%	212%	210%	202%	184%	162%	134%	108%
Plan fiduciary net position as a percentage of the total pension liability	81%	70%	70%	71%	72%	74%	79%	83%

Notes to Schedule:

Change of benefit terms – For the measurement date ended June 30, 2021, 2020, 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, 2021, 2020, 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 eight years are shown.

MERCED COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS
YEAR ENDED JUNE 30, 2022
LAST 10 YEARS***

	CalSTRS Plan							
	Fiscal Year							
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 4,019,483	\$ 3,980,570	\$ 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>(4,019,483)</u>	<u>(3,980,570)</u>	<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>	<u>\$</u>	<u>\$</u>
District's covered-employee payroll	\$ 23,769,341	\$ 24,646,996	\$ 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	16.91%	16.15%	17.10%	16.28%	14.43%	12.53%	10.75%	8.86%

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

MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS
YEAR ENDED JUNE 30, 2022
LAST 10 YEARS*

	CalPERS Plan							
	Fiscal Year							
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 4,027,225	\$ 3,512,726	\$ 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>(4,027,225)</u>	<u>(3,512,726)</u>	<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>	<u>\$</u>	<u>\$</u>
District's covered-employee payroll	\$ 17,591,702	\$ 17,082,394	\$ 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	22.89%	20.56%	19.67%	18.06%	15.53%	13.86%	11.44%	11.89%

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

SUPPLEMENTARY INFORMATION SECTION

MERCED COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Assistance Listing 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	\$ 396,022
Federal Work Study Program	84.033	N/A	447,115
Direct Student Loan Program	84.268	N/A	210,005
Pell Grant Program	84.063	N/A	<u>12,732,953</u>
Subtotal Student Financial Assistance Programs Cluster			<u>13,786,095</u>
Passed through the California Department of Education (CDE):			
Perkins Title 1, Part C	84.048A	22-C01-530	<u>353,526</u>
Childcare Access Means Parents in School (Ccampis)	84.355A	N/A	<u>213,683</u>
Education Stabilization Funds:			
COVID-19 Higher Education Emergency Relief Fund (HEERF) - Student Portion II	84.425E	N/A	2,019,792
COVID-19 Higher Education Emergency Relief Fund (HEERF) - Student Portion III	84.425E	N/A	11,077,608
COVID-19 Higher Education Emergency Relief Fund (HEERF) - Institutional Portion I	84.425F	N/A	724,949
COVID-19 Higher Education Emergency Relief Fund (HEERF) - Institutional Portion II	84.425F	N/A	6,267,209
COVID-19 Higher Education Emergency Relief Fund (HEERF) - Institutional Portion III	84.425F	N/A	6,309,814
COVID-19 Higher Education Emergency Relief Fund (HEERF) - Minority Serving Institutions I	84.425L	N/A	36,571
COVID-19 Higher Education Emergency Relief Fund (HEERF) - Minority Serving Institutions II	84.425L	N/A	266,363
COVID-19 Higher Education Emergency Relief Fund (HEERF) - Minority Serving Institutions III	84.425L	N/A	<u>1,247,717</u>
Subtotal Education Stabilization Fund			<u>27,950,023</u>
Total U.S. Department of Education			<u>42,303,327</u>
U.S. Department of the Treasury			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	<u>55,988</u>

MERCED COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-Through Identifying Number	Program Expenditures
U.S. Department of Justice			
Office on Violence Against Women	16.588	N/A	<u>48,559</u>
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-1152	53,586
CDC General Child Care & Dev Programs (CCTR)	93.596	CCTR-1152	104,019
COVID-19 Coronavirus Response and Relief Supplemental Appropriations Act of 2021	93.575	15555	26,932
Passed through the Yosemite Community College District:			
Child Development Training Consortium	93.575	21-22-3970	22,538
Passed through the California Community College Chancellor's Office:			
Temporary Assistance to Needy Families (TANF)	93.558	N/A	<u>73,490</u>
Subtotal 477 Cluster			<u>280,565</u>
Passed through Merced County Mental Health:			
Mental Health	93.958	2020154	<u>32,517</u>
Passed through the Merced County Office of Education:			
Head Start Cluster	93.600	N/A	<u>384,891</u>
Passed through the Madera County Office of Education:			
CDC Medi-Cal Administrative Activities, Medicaid Cluster	93.778	N/A	<u>6,430</u>
Total U.S. Department of Health and Human Services			<u>704,403</u>
U.S. Department of Agriculture:			
Passed through California Department of Education:			
Child Care Federal Food Program	10.558	N/A	<u>45,373</u>
Total Expenditures of Federal Awards			<u>\$ 43,157,650</u>

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE YEAR ENDED JUNE 30, 2022

Program Title	Entitlements	Program Revenues				Program Expenditures
	Current Year	Unearned Revenue and Cash Received	Accounts Receivable	Unearned/ Payables	Total	
CATEGORICAL APPORTIONMENTS:						
EOPS/CARE	\$ 370,865	\$ 382,051		\$ 1,321	\$ 380,730	\$ 380,730
EOPS (E)	1,560,165	1,647,946			1,647,946	1,647,946
Student Success Completion	2,767,160	3,267,379		1,680,875	1,586,504	1,586,504
State DSPS	904,378	943,472		160,943	782,529	782,529
Basic Needs and Housing	261,426	261,426		232,998	28,428	28,428
Basic Needs	261,527	261,527		212,086	49,441	49,441
BFAP	439,580	439,580		45,966	393,614	393,614
CalFresh Outreach		37,659		5,315	32,344	32,344
California College Promise	487,173	565,368		27,281	538,087	538,087
CCAP Instructional Materials for Dual Enrollment	62,051	62,051		62,051		
Classified Professional Development		48,919		48,413	506	506
Culturally Competent Faculty Professional Development	50,435	50,435		45,763	4,672	4,672
LGBTQ+	75,533	75,533		75,533		
Mental Health Support	220,286	220,286		31,607	188,679	188,679
RN Economic Development	230,309	267,589		45,052	222,537	222,537
EEO Best Practice	208,333	208,333		208,333		
Equal Employment Opportunity	50,000	99,453		69,750	29,703	29,703
Financial Aid Technology	49,068	89,864		19,465	70,399	70,399
Guided Pathways	129,100	637,167			637,167	637,167
Library Science	10,530	10,530		10,530		
NextUp	495,837	501,850			501,850	501,850
Adult Education Block Grant Program	600,871	756,648		84,959	671,689	671,689
Student Equity	4,150,295	5,014,795		732,446	4,282,349	4,282,349
Physical Plant & Instructional Support	4,327,727	4,327,284		3,353,800	973,484	973,484
Student Hunger at Community College		2,293			2,293	2,293
Veterans Resource Center	60,741	121,204		78,156	43,048	43,048
Strong Workforce Program	2,352,299	3,909,161	\$ 376,813	1,683,174	2,602,800	2,602,800
Student Retention & Outreach	819,620	971,575		456,381	515,194	515,194
CalWORKs	442,635	479,959		60,022	419,937	419,937
Undocumented Resources Liaison	102,755	154,579		110,393	44,186	44,186
Veterans Program 1x		27,114		10,563	16,551	16,551
Subtotal	21,490,699	25,843,030	376,813	9,553,176	16,666,667	16,666,667
CATEGORICAL PROGRAM ALLOWANCES:						
Puente Project	1,500					
Cal Grant	2,479,711	2,460,475	19,236		2,479,711	2,479,711
CCAP Instructional Materials for Dual Enrollment	40,000	40,000			40,000	40,000
CDC Block Grant	490,023	478,900			478,900	478,900
CDC Family Services		22,917	5,390		28,307	28,307
CDC Preschool Program	430,194	416,666			416,666	416,666
CDC CSPP-American Rescue Plan Act (ARPA) - Licensed	6,500					
CDC CSPP - (ARPA)	18,000					
CDC CCTR - ARPA - Licensed	5,000					
CDC CCTR - ARPA	13,800					
CDC MCOE RTT-ELC QRIS	8,536	104			104	104
Child Care Food Program	4,600	2,643			2,643	2,643
Early Childhood Mentors		73				

See the accompanying notes to supplemental information.

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE YEAR ENDED JUNE 30, 2022

Program Title	Entitlements	Program Revenues				Program Expenditures
	Current Year	Unearned Revenue and Cash Received	Accounts Receivable	Unearned/Payables	Total	
CDC Emergency Operational Costs Reimbursement (ECR) Food Program	8,885	3,926			3,926	3,926
Formerly Incarcerated County Competency Based Education	515,000	8,167	55,060	7,348	55,060	55,060
CVHEC	1,831	1,831		1,831		
Song-Brown Training	62,500	70,873	12,500		83,373	83,373
Song-Brown RN Special Program	200,000	25,000		17,593	7,407	7,407
Agriculture, Water & Environmental Tech (AWET)		1,397		1,397		
COVID-19 Block Grant		526,229			526,229	526,229
RHTLE (DSN & IRI)	50,000	118,273			118,273	118,273
CA Department of Corrections & Rehab	64,917	64,917			64,917	64,917
Tobacco-Related Disease Research Program (TRDRP) Smoke and Vape Free Scholars Initiative- Smoke-Free Community College Study	1,000	1,000			1,000	1,000
Report Streamlining Pilot Program		57,936		36,550	21,386	21,386
Subtotal	<u>4,401,997</u>	<u>4,301,327</u>	<u>92,186</u>	<u>64,792</u>	<u>4,328,721</u>	<u>4,328,721</u>
Total	<u>\$ 25,892,696</u>	<u>\$ 30,144,357</u>	<u>\$ 468,999</u>	<u>\$ 9,617,968</u>	<u>\$ 20,995,388</u>	<u>\$ 20,995,388</u>

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE YEAR ENDED JUNE 30, 2022

STATE GENERAL APPORTIONMENT	Reported Data	Audit Adjustments	Revised Data
<u>Categories</u>			
A. Summer Intersession (Summer 2021 Only)			
1. Noncredit	149.28	0.00	149.28
2. Credit	981.94	0.00	981.94
B. Summer Intersession (Summer 2022, Prior to July 1, 2022)			
1. Noncredit	43.00	0.00	43.00
2. Credit	98.08	0.00	98.08
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses:			
(a) Weekly Census Contact Hours	1,317.74	0.00	1,317.74
(b) Daily Census Contact Hours	331.48	0.00	331.48
2. Actual Hours of Attendance Courses:			
(a) Noncredit	664.19	0.00	664.19
(b) Credit	102.06	0.00	102.06
3. Alternative Attendance Accounting Procedure Courses:			
(a) Weekly Census Procedure Courses	4,146.38	0.00	4,146.38
(b) Daily Census Procedure Courses	785.15	0.00	785.15
(c) Noncredit Independent Study	0.00	0.00	0.00
D. Total Full-Time Equivalent Students	8,619.30	0.00	8,619.30
<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	668.34	0.00	668.34
(b) Credit	365.26	0.00	365.26
<u>CCFS 320 Addendum</u>			
CDCP Noncredit FTES			
Centers FTES			
(a) Noncredit	140.89	0.00	140.89
(b) Credit	970.20	0.00	970.20

* FTES reported in the Recal Apportionment Attendance Report (CCFS-320) by the District on November 1, 2022.

MERCED COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION YEAR ENDED JUNE 30, 2022

	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799			
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
ACADEMIC SALARIES							
Instructional Salaries:							
Contract or Regular	1100	\$ 12,271,234		\$ 12,271,234	\$ 12,271,234		\$ 12,271,234
Other	1300	7,466,718		7,466,718	7,466,718		7,466,718
Total Instructional Salaries		19,737,952		19,737,952	19,737,952		19,737,952
Non-Instructional Salaries:							
Contract or Regular	1200				4,410,045		4,410,045
Other	1400				311,446		311,446
Total Non-Instructional Salaries					4,721,491		4,721,491
Total Academic Salaries		19,737,952		19,737,952	24,459,443		24,459,443
CLASSIFIED SALARIES							
Non-Instructional Salaries:							
Regular Status	2100				10,176,763		10,176,763
Other	2300				659,127		659,127
Total Non-Instructional Salaries					10,835,890		10,835,890
Instructional Aides:							
Regular Status	2200	1,256,567		1,256,567	1,256,567		1,256,567
Other	2400	259,166		259,166	259,166		259,166
Total Instructional Aides		1,515,733		1,515,733	1,515,733		1,515,733
Total Classified Salaries		1,515,733		1,515,733	12,351,623		12,351,623
Employee Benefits	3000	10,142,454		10,142,454	21,822,733		21,822,733
Supplies and Materials	4000				538,066		538,066
Other Operating Expenses	5000	179,239		179,239	5,992,953		5,992,953
Equipment Replacement	6420						
TOTAL EXPENDITURES PRIOR TO EXCLUSIONS		31,575,378		31,575,378	65,164,818		65,164,818

MERCED COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION YEAR ENDED JUNE 30, 2022

	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	1,853,714		1,853,714	1,853,714		1,853,714
Student Health Services Above Amount Collected	6441						
Student Transportation	6491						
Noninstructional Staff-Retirees' Benefits and Retirement Incentives	6740				2,514,048		2,514,048
Objects to Exclude:							
Rents and Leases	5060				120,352		120,352
Lottery Expenditures:							
Academic Salaries	1000						
Classified Salaries	2000						
Employee Benefits	3000						
Supplies and Materials:							
Software	4100						
Books, Magazines, & Periodicals	4200				76		76
Instructional Supplies & Materials	4300				58,607		58,607
Noninstructional Supplies & Materials	4400				40,051		40,051
Total Supplies and Materials					98,734		98,734
Other Operating Expenses and Services	5000				1,297,682		1,297,682
Capital Outlay:							
Library Books	6300						
Equipment:							
Equipment - Additional	6410				134,829		134,829
Equipment - Replacement	6420						
Total Equipment					134,829		134,829
Total Capital Outlay					134,829		134,829
Other Outgo	7000						
TOTAL EXCLUSIONS		<u>1,853,714</u>		<u>1,853,714</u>	<u>6,019,359</u>		<u>6,019,359</u>
Total for ECS 84362, 50% Law		<u>\$ 29,721,664</u>		<u>\$ 29,721,664</u>	<u>\$ 59,145,459</u>		<u>\$ 59,145,459</u>
Percent of CEE (Instructional Salary Cost / Total CEE)		50.25%			100%		
50% of Current Expense of Education					\$ 29,572,730		

MERCED COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF EDUCATION PROTECTION ACCOUNT EXPENDITURES TO DISTRICT ACCOUNTING RECORDS YEAR ENDED JUNE 30, 2022

Education Protection Act (EPA) Expenditure Report

Activity Classification	Activity Code				Unrestricted
EPA Proceeds:	8630				\$ 19,647,326
Activity Classification	Activity Code	Salaries and Benefits (1000-3000)	Operating Expenses (4000-5000)	Capital Outlay (6000)	Total
Instructional Activities	0100-5900	\$ 19,647,326	_____	_____	19,647,326
Total Expenditures for EPA*		<u>\$ 19,647,326</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>19,647,326</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, 2022

Fund Balance:

General Fund	\$ 17,843,862
Bond Interest and Redemption Fund	4,698,909
Child Development Fund	
Farm Operation Fund	79,353
Capital Outlay Projects Fund	9,050,871
Revenue Bond Construction Fund	13,147,415
Bookstore Fund	(797,437)
Self-Insurance Fund	4,025,750
Associated Students Trust Fund	305,452
Student Financial Aid Fund	
Student Representation Fund	70,511
Scholarship and Loan Trust Fund	4,794,627
Retiree Trust Fund	5,344,932
Total Fund Balances as reported on the Annual Financial and Budget Report (CCFS-311)	<u>58,564,245</u>

Net audit adjustments:

No adjustments were made to the District Funds	
Total Fund Balance	<u>58,564,245</u>

Reconciliation to Net Position (Deficit):

Governmental Funds Capital Assets, Net	117,807,817
Interest Payable	(601,636)
Net OPEB Liability	(56,882,884)
Deferred Outflows of Resources Related to Pensions	16,651,331
Deferred Outflows of Resources Related to OPEB	7,418,072
Compensated Absences	(1,749,920)
Finance Purchases	(1,341,340)
Lease liability	(296,807)
Solar Energy Project	(5,435,476)
Deferred amount on refunding	853,918
Net Pension Liability	(43,686,093)
Bonds Payable/Premium	(42,068,258)
Deferred Inflows of Resources Related to Pensions	(26,879,625)
Deferred Inflows of Resources Related to OPEB	(2,503,636)
Remove Fiduciary Fund Balances	<u>(10,139,559)</u>
Total Net Position (Deficit)	<u>\$ 9,710,149</u>

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2022

1. PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The audit of the District for the year ended June 30, 2022, 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, 2022.

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, 2022

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.

OTHER INDEPENDENT AUDITOR'S REPORTS

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

**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 and the discretely presented component unit of the Merced Community College District (the District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated December 6, 2022.

Report on 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 or significant deficiencies may exist that were not identified.

Report on 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 This 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

**GILBERT CPAs
Sacramento, California**

December 6, 2022

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

**Board of Trustees
Merced Community College District
Merced, California**

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Merced Community College District’s (the District) compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

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, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District’s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in

internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Gilbert CPAs

**GILBERT CPAs
Sacramento, California**

December 6, 2022

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH APPLICABLE REQUIREMENTS IN ACCORDANCE WITH THE CONTRACTED DISTRICT AUDIT MANUAL

**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, 2022.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above for the fiscal year ended June 30, 2022.

Basis for Opinion on State Compliance

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. Our responsibilities under those standards and the Contracted District Audit Manual are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each applicable state program. Our audit does not provide a legal determination of the District’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District’s state programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Contracted District Audit Manual will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each applicable state program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Contracted District Audit Manual, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses over compliance that we identified during the audit.

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
- SCFF Supplemental Allocation Metrics
- SCFF Success Allocation Metrics
- 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)
- Scheduled Maintenance Program
- Gann Limit Calculation
- Apprenticeship Related and Supplemental Instruction (RSI) Funds
- Disabled Student Programs and Services (DSPS)
- Proposition 1D and 51 State Bond Funded Projects

- Education Protection Account Funds
- Student Representation Fee
- COVID-19 Response Block Grant Expenditures

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 2022-001 and 2022-002. 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.

Gilbert CPAs
**GILBERT CPAs
Sacramento, California**

December 6, 2022

FINDINGS AND RECOMMENDATIONS SECTION

MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:
 Material weakness(es) identified? Yes ✓ No
 Significant deficiency(ies) identified? Yes ✓ None Reported

Noncompliance material to financial statements noted? Yes ✓ No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? Yes ✓ No
 Significant deficiency(ies) identified? Yes ✓ None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes ✓ No

Identification of major programs:

<u>Assistance Listing Numbers</u>	<u>Name of Federal Programs or Cluster</u>
84.425F, 84.425E, 84.425L	COVID-19 Higher Education Emergency Relief Fund (HEERF)

Dollar threshold used to distinguish between Type A and Type B programs: \$1,294,730

Auditee qualified as low-risk auditee? ✓ Yes No

State Awards

Internal control over State programs:
 Material weakness(es) identified? Yes ✓ No
 Significant deficiency(ies) identified? Yes ✓ None Reported

Any audit findings disclosed that are required to be disclosed in accordance with Contracted District Audit Manual? ✓ Yes No

Type of auditor's report issued on compliance for state programs: Unmodified

MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022

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

2022-001 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – WEEKLY CENSUS COURSES

Criteria:

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

Condition:

We noted two weekly courses were not calculated at the correct amount of contact hours in the District's attendance accounting system but corrected prior to submission of the FY 2021-22 Recal Apportionment Attendance Report (CCFS-320).

Context:

Out of 25 weekly classes tested, two courses were identified that were not reported at the correct amount of contact hours. Contact hours were calculated using the incorrect weekly contact hour figure when calculating the total contact hours. This incorrect reporting was a result of human error and a lack of proper review prior to reporting.

Effect:

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

Questioned Costs:

The errors were fully corrected prior to the FY 2021-22 Recal Apportionment Attendance Report (CCFS-320) submissions deadline and, therefore, the full impact of the finding on full-time equivalent student (FTES) was captured in the Recal Apportionment Attendance Report (CCFS-320). As a result of the correction, the District's FTES decreased 14.750 for resident FTES related to these errors.

However, as a result of these errors noted, the District performed a full 100% review of their weekly attendance population claimed. The District identified additional errors within weekly attendance that were unrelated to the errors identified by the auditor. From these corrections and changes, an additional sample of attendance selections were made and tested, resulting in no further errors identified. As a result of these additional errors, the District's FTES decreased by 14.040 for weekly resident FTES.

MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022

This resulted in a total correction of 28.790 weekly resident FTES.

Recommendation:

We recommend that the District remind the individuals responsible for determining the FTES about the methods to calculate contact hours for courses using weekly attendance procedures. Additionally, we recommend that an internal review be performed of weekly classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate.

District's Corrective Action Plan:

To ensure accurate input of weekly attendance courses, the District has implemented a series of checks and balances including but not limited to:

- Run monthly audits of all attendance accounting methods (weekly, daily, and term) by the Office of Instruction Deans and Area Coordinators
- Implemented a quarterly meeting with representatives from Office of Institutional Effectiveness, Admissions and Records and Office of Instruction to review course entry data, clean up errors, and validate data for the 320 Report
- Evaluate the Office of Instruction personnel structure to delineate specific auditing and course review duties in the Area Coordinator role, Dean of Instruction, and Office of Instruction positions

2022-002 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – DAILY CENSUS COURSES

Criteria:

According to California Code of Regulations, 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 four daily 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 FY 2021-22 Recal Apportionment Attendance Report (CCFS-320).

Context:

Out of 25 daily attendance courses tested, three courses were identified that were not reported at the correct amount of contact hours. Additionally, one course did not meet for a minimum of 5 days and therefore, should not have been identified as a daily course, but rather an actual hours of attendance course. These incorrect reporting errors were a result of human error and a lack of proper review prior to reporting.

MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022

Effect:

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

Questioned Costs:

The errors were fully corrected prior to the FY 2021-22 Recal Apportionment Attendance Report (CCFS-320) submissions deadline and, therefore, the full impact of the finding on full-time equivalent student (FTES) was captured in the Recal Apportionment Attendance Report (CCFS-320). As a result of the correction, the District's FTES decreased 3.000 for resident FTES related to these errors.

However, as a result of these errors noted, the District performed a full 100% review of their daily attendance population claimed. The District identified additional errors within daily attendance that were unrelated to the errors identified by the auditor. From these corrections and changes, an additional sample of attendance selections were made and tested, resulting in no further errors identified. As a result of the additional errors, the District's FTES decreased by 7.700 for daily resident FTES.

This resulted in a total correction of 10.700 daily resident FTES.

Recommendation:

We recommend that the District remind instructors about the required methods to calculate contact hours for courses using daily attendance procedures. Additionally, we recommend that an internal review be performed of daily classes to ensure contact hours and requirements for minimum days of attendance are properly calculated, and therefore FTES amounts reported are accurate.

District's Corrective Action Plan:

To ensure accurate input of weekly and daily courses, the District has implemented a series of checks and balances including but not limited to;

- Run monthly audits of all attendance accounting methods (weekly, daily, and term) by the Office of Instruction Deans and Area Coordinators
- Communicating regularly with faculty teaching daily courses on a bi-semester basis to remind them of the process of submitting positive attendance records
- Created a final deadline for all positive attendance records to be submitted by faculty no later than the Tuesday after classes end for data entry
- Implemented a quarterly meeting with representatives from Office of Institutional Effectiveness, Admissions and Records and Office of Instruction to review course entry data, clean up errors, and validate data for the 320 Report
- Evaluate the Office of Instruction personnel structure to delineate specific auditing and course review duties in the Area Coordinator role, Dean of Instruction, and Office of Instruction positions

MERCED COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS YEAR ENDED JUNE 30, 2022

<u>Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
2021-001 – FINANCIAL CLOSE PROCESS – STUDENT ACCOUNTS RECEIVABLE	Implemented.	
Condition: The District’s financial close process was not adequate to present student accounts receivable and unearned revenue in accordance with GAAP.	No items were noted in the 2022 audit.	
<p>Student accounts receivable and unearned revenue included tuition and fees for students who registered prior to year-end for the Fall 2021 term. Although it may be administratively necessary to record student registration in this manner, it will overstate the statement of net position by including receivables that are not related to revenue earned during the year, and unearned revenue that has not been received in cash. This resulted in an audit adjustment that decreased student accounts receivable and unearned revenue by \$2,168,119. Additionally, the District has not historically established an allowance for doubtful accounts and has been writing-off student receivables deemed uncollectable at irregular intervals (every 2-3 years). Given the significance of student accounts receivable, and of student accounts receivable that are over one year old, establishing an allowance is necessary to present receivables in accordance with GAAP, at their net realizable value. This resulted in an audit adjustment that increased the allowance for doubtful accounts by \$904,851.</p>		
Recommendation: We recommend that the District incorporate into its financial close process, procedures to ensure that student accounts receivable and unearned revenue are assessed for overlap, and a gross-down entry is posted or provided to the auditors prior to the start of the financial statement audit.		
Additionally, we recommend that the District establish an allowance for doubtful student accounts and assess student receivables annually for collectability in order to update the allowance and present the receivable in accordance with GAAP. The assessment should be based on historical trends and data.		