

MERCED COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

JUNE 30, 2013



San Diego
Los Angeles
San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**MERCED COMMUNITY COLLEGE DISTRICT
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FOR THE YEAR ENDED JUNE 30, 2013**

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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*Licensed by the California
State Board of Accountancy*

The Board of Trustees
Merced Community College District
Merced, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of the business-type activity, and the aggregate discretely presented component units and the fiduciary funds of the Merced Community College District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Merced Community College District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity, the aggregate discretely presented component units and the fiduciary funds of Merced Community College District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 4 through 13 and the schedule of funding progress on page 40 be presented to supplement the basic financial statements. Such information, although not 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 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 Merced Community College District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013 on our consideration of Merced Community College District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Merced Community College District internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California
December 13, 2013

**MERCED COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

INTRODUCTION TO THE BASIC FINANCIAL STATEMENTS

Merced Community College District ("the District") was established 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. Merced College also has classes available at other locations outside of their two main campuses for students at the high school in Delhi, Dos Palos, and Mariposa, as well as classes for employees 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

In June 1999, the Governmental Accounting Standards' Board (GASB) released Statement No. 34, "Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments," which changed the reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, "Basic Financial Statement and Management's Discussion and Analysis for Public Colleges and Universities," which applies these reporting standards to public colleges and universities. The Merced Community College District continues to present its financial statements in this reporting format.

The following management's discussion and analysis provides an overview of the financial position and activities of the Merced Community College District's Financial Report for the fiscal year that ended June 30, 2013. The previous year's financial statements that provide information on the District as a whole:

The Statement of Net Position
The Statement of Revenues, Expenses and Changes in Net Position
The Statement of Cash Flows

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

FINANCIAL AND ENROLLMENT HIGHLIGHTS

The 2012-13 state budget bill, AB 1464, was signed by Governor Jerry Brown on June 27, 2012. For the second consecutive year, the State budget was passed on time and with no Republican votes. The approved budget assumed total General Fund expenditures of \$91.3 billion, \$4 billion more than in 2011-12 but still \$11 billion below the 2007-08 fiscal year. In January 2012, the budget deficit was estimated at \$9.2 billion. However, the Governor's May Revision projected a \$15.7 billion shortfall. The adopted State budget closed this gap through a combination of spending cuts, funding shifts, and the assumption of voter approval of the Governor's property tax ballot initiative (Proposition 30).

**MERCED COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

FINANCIAL AND ENROLLMENT HIGHLIGHTS (continued)

Proposition 30 was successfully approved by voters in November 2012, avoiding nearly \$6 billion in midyear reductions. This initiative raises income taxes on high-income taxpayers for seven years and increases the state sales tax by one-quarter percent for four years, and is intended to provide dedicated funding to K-14 education.

In addition to assuming passage of Proposition 30, the adopted State budget also had the following impact on community colleges:

- No Cost-of-Living Adjustment (COLA)
- No base workload reductions
- Provided \$50 million in growth/restoration funding
- Provided \$159.9 million to partially reduce the State apportionment deferral, reducing total deferrals from \$961 million to \$801.1 million
- Featured no policy changes to categorical programs
- Provided full hold harmless protection from potential shortages in Redevelopment Agency-related revenues
- Created a Mandates Block Grant, allowing districts to elect to receive \$28 per FTES for compliance with mandates in lieu of filing reimbursement claims
- Provided for the extension of categorical flexibility provisions adopted in 2009-10 for two additional years, through 2014-15

If voters had not approved Proposition 30, automatic budget reductions would have been triggered. Community colleges would have been impacted as follows:

- Loss of \$50 million in growth/restoration funds
- No reduction in apportionment deferrals
- Base reduction of \$338.6 million (7.3% workload reduction)
- Slowed growth in the Proposition 98 guarantee

On September 4, 2012, the District presented to the Board of Trustees its annual budget. The 2012-13 adopted budget estimated \$48,169,479 in federal, state and local revenues; adding to the beginning fund balance of \$7,760,083, for a total of \$55,929,562 in available Unrestricted General Fund dollars. Unrestricted General Fund expenditures were estimated at \$52,312,585, leaving a projected ending balance of \$3,616,977 or 6.9%. At year end, actual figures for revenue were 4.04% higher than the amount estimated at the time of the adopted budget, while expenditures were .04% less than estimated. The primary reason for the increased revenue was additional state apportionment funding resulting from the passage of Proposition 30 plus a deficit factor that was lower than originally anticipated. The net effect of the combined increase in revenues and decrease in expenditures left an ending balance of \$5,661,014 or 10.8%.

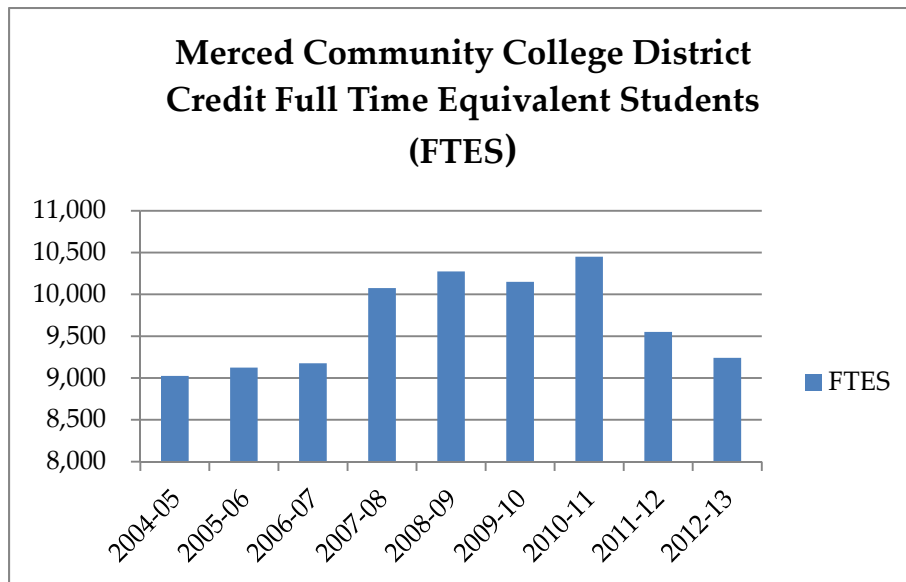
**MERCED COMMUNITY COLLEGE DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

FINANCIAL AND ENROLLMENT HIGHLIGHTS (continued)

As previously mentioned, the State budget did not contain a statutory Cost-of-Living Adjustment (COLA). It is important to note that the District received a COLA of 5.92% in 2006-07 which amounted to \$2,294,044 and 4.53% in 2007-08 which amounted to \$1,945,254. When community colleges do not receive a COLA as per statute, as in 2008-09, 2009-10, 2010-11, 2011-12, and now in the 2012-13 fiscal year, it negatively impacts their ability to deliver instructional programs and services.

The District, using the Community College’s League of California 2012-13 Tax and Revenue Anticipation Notes (TRANs) program, issued a TRANs in July 2011, and a mid-year TRANs in March 2013. In addition, the District entered into a short-term borrowing agreement with Merced County to address temporary cash flow concerns. These transactions were made necessary due to ongoing cash deferrals from the state, plus the deferred payment of Proposition 30 funds from the Education Protection Account (EPA) until June 2013. Cash flow is expected to greatly improve in 2013-14 and beyond, as apportionment deferrals have been significantly reduced and disbursements from the EPA will be made on a quarterly basis.

In 2012-2013, the District reported 9,241 credit and non-credit resident FTES. See the below chart for a historical perspective on the changes in FTES over the past 8 years.



**MERCED COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

STATEMENT OF NET POSITION

The Statement of Net Position presents information on the District's assets and liabilities, with the difference of the two 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.

	2013	2012	\$ Change	% Change
ASSETS				
Current assets	\$ 27,297,377	\$ 27,395,653	\$ (98,276)	-0.4%
Non-current assets	121,393,472	120,071,490	1,321,982	1.1%
Total Assets	148,690,849	147,467,143	1,223,706	0.8%
LIABILITIES				
Current liabilities	15,594,764	12,954,454	2,640,310	20.4%
Non-current liabilities	50,397,060	51,887,094	(1,490,034)	-2.9%
Total Liabilities	65,991,824	64,841,548	1,150,276	1.8%
NET POSITION				
Invested in capital assets, net of related debt	67,673,267	65,815,166	1,858,101	2.8%
Restricted	6,931,961	10,764,334	(3,832,373)	-35.6%
Unrestricted	8,093,797	6,046,095	2,047,702	33.9%
Total Net Position	\$ 82,699,025	\$ 82,625,595	\$ 73,430	0.1%

Assets

Total Assets increased approximately \$1.2 million, a percentage increase of 0.8%. The major changes affecting total assets are listed below:

- Current and other assets decreased by \$98,276 over the prior year.
- Net capital assets increased by approximately \$2 million primarily due to GASB 62 capitalized interest costs.

Liabilities

Total liabilities increased by approximately \$1.1 million; an increase of 1.8%. The major changes affecting total liabilities are listed below:

- Current and other liabilities increased approximately \$2.64 million. This was primarily an increase in TRANs and other internal short-term borrowings to address the ongoing state apportionment cash deferrals. The internal borrowings were repaid in July 2013 and the TRANs will be repaid in December 2013.
- Non-current liabilities decreased \$1.49 million. This was primarily due to principal payments made on general obligation bonds.

**MERCED COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

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.

	2013	2012	\$ Change	% Change
OPERATING REVENUES				
Student Tuition and Fees	\$ 11,726,582	\$ 9,660,803	\$ 2,065,779	21.4%
Less: Scholarship discount & allowance	(7,628,838)	(6,136,340)	(1,492,498)	24.3%
Net tuition & fees	4,097,744	3,524,463	573,281	16.3%
Grants and Contracts, noncapital:				
Federal	1,670,779	1,198,233	472,546	39.4%
State	5,006,961	5,074,444	(67,483)	-1.3%
Local	1,418,917	1,128,904	290,013	25.7%
Internal Service Sales and Charges	2,179,688	2,167,591	12,097	0.6%
Subtotal	10,276,345	9,569,172	707,173	7.4%
TOTAL OPERATING REVENUES	14,374,089	13,093,635	1,280,454	9.8%
OPERATING EXPENSES				
Salaries	36,604,069	34,584,564	2,019,505	5.8%
Benefits	17,425,119	16,140,802	1,284,317	8.0%
Supplies, materials, & other operating expenses	8,260,325	10,974,938	(2,714,613)	-24.7%
Depreciation	3,871,618	3,871,818	(200)	0.0%
TOTAL OPERATING EXPENSES	66,161,131	65,572,122	589,009	0.9%
OPERATING LOSS	(51,787,042)	(52,478,487)	691,445	-1.3%
NONOPERATING REVENUES/(EXPENSES)				
State apportionments, non-capital	29,031,100	35,943,840	(6,912,740)	-19.2%
Local property taxes	7,519,085	7,392,481	126,604	1.7%
Federal financial aid, grants and contracts, noncapital	21,750,308	22,738,655	(988,347)	-4.3%
State taxes & other revenues	9,465,308	3,235,939	6,229,369	192.5%
Investment income	200,501	216,740	(16,239)	-7.5%
Financial aid expense	(21,400,743)	(24,081,670)	2,680,927	-11.1%
Interest expense	(2,448,684)	(2,148,547)	(300,137)	14.0%
TOTAL NONOPERATING REVENUES (EXPENSES)	44,116,875	43,297,438	819,437	1.9%
LOSS BEFORE OTHER REVENUES AND LOSSES	(7,670,167)	(9,181,049)	1,510,882	-16.5%
OTHER REVENUES AND (LOSSES)				
Local property taxes and revenues, capital	3,070,508	2,822,331	248,177	8.8%
Local revenues, grants and gifts, capital	103,483	72,752	30,731	42.2%
Other revenue/(losses)	2,032,312	(9,506)	2,041,818	-21479.3%
TOTAL OTHER REVENUES AND LOSSES	5,206,303	2,885,577	2,320,726	80.4%
CHANGE IN NET POSITION	(2,463,864)	(6,295,472)	3,831,608	-60.9%
BEGINNING NET POSITION	82,625,595	88,921,067	(6,295,472)	-7.1%
ADJUSTMENT FOR RESTATEMENT (see Note 16)	2,537,294	-	2,537,294	100.0%
NET ASSETS, AS RESTATED	85,162,889	88,921,067	(3,758,178)	-4.2%
ENDING NET POSITION	\$ 82,699,025	82,625,595	73,430	0.1%

**MERCED COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (continued)

Operating Revenues

Total Operating Revenues increased approximately \$1.2 million, a percentage increase of 9.8%.

- Net tuition and fees experienced an increase of \$573 thousand, approximately 16.3%. Fee revenue increased by \$2 million due to the state legislature increasing enrollment fees. This revenue was offset by a \$1.5 million increase in scholarship discounts and allowances from the increased demand for student financial aid with the BOGG waivers.
- Non capital grants and contracts increased \$2.6 million, an increase of 27.7%. Factors contributing to this include increased activity for the Department of Labor TAACCCT grant at \$.45 million, as well as other grants such as HSI STEM and CAMPIS through the Department of Education.

Operating Expenses

Total Operating Expenses increased by 0.9%, approximately \$589 thousand. Items of significance affecting the changes include:

- Salaries and benefits increased by approximately \$3.3 million, a percentage increase of 6.5%. This reflects employee step and column increases and health benefit cost increases.
- Supplies, materials, and other operating expenses decreased by \$2.7 million, a drop of 24.7%. This was primarily due to the completion of an energy conservation project in 2011-12, resulting in a decrease in expenditures for contract services in 2012-13. In addition, the District continued taking steps to reduce discretionary spending in this specific area. Finally, the District reduced the allocation of one-time resources from the District's reserves from approximately \$700 thousand in 2011-12 to slightly over \$200 thousand in 2012-13. One-time funds allocated via this process are used for improving instruction and student services programs as well as generating additional FTES growth.

Non-Operating Revenues (Expenses)

Non-Operating Revenues increased by \$819 thousand, a 1.9% increase, mainly due to the following:

- State apportionments decreased by \$6.9 million, 19.2%, due to the state providing the allocation of Education Protection Account (EPA) funds derived from the passage of Proposition 30. These funds are categorized separately from state apportionments, as state taxes and other revenues.
- State taxes and other revenues increased \$6.2 million, 192.5%, with the allocation of Education Protection Account (EPA) funds derived from the passage of Proposition 30.
- Financial aid expense decreased \$2.7 million, 11%, due to recent changes enacted in the federal eligibility requirements for students.

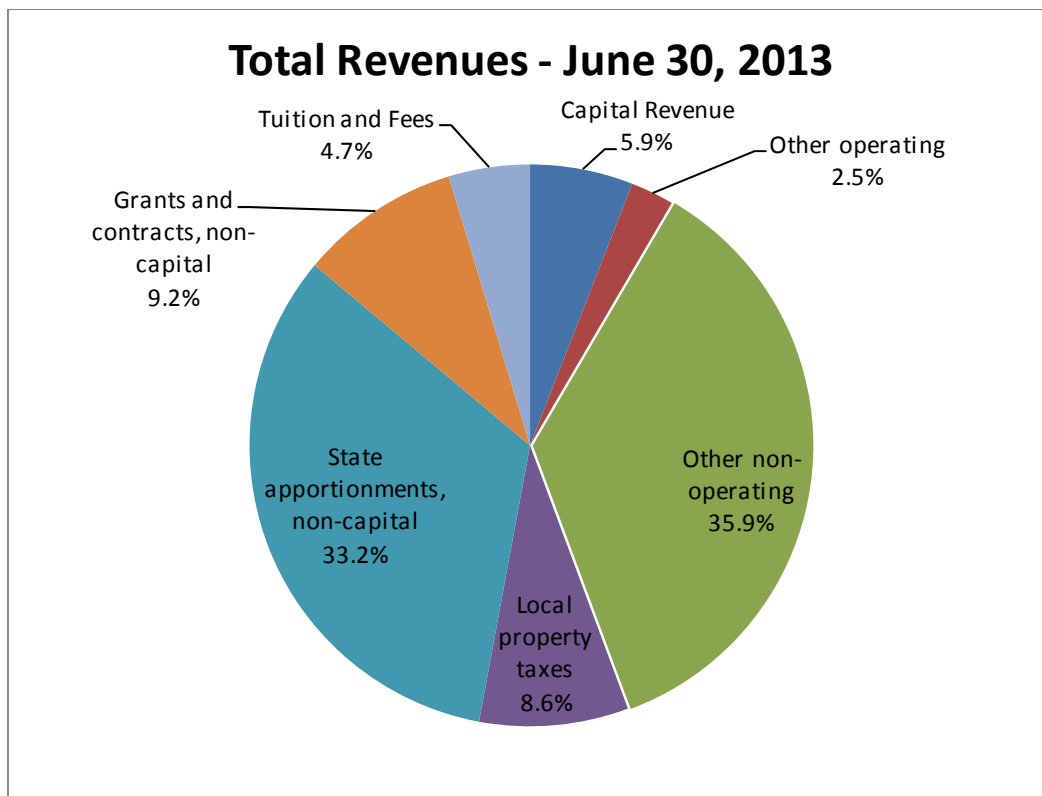
MERCED COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2013

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (continued)

Other Revenues (Losses)

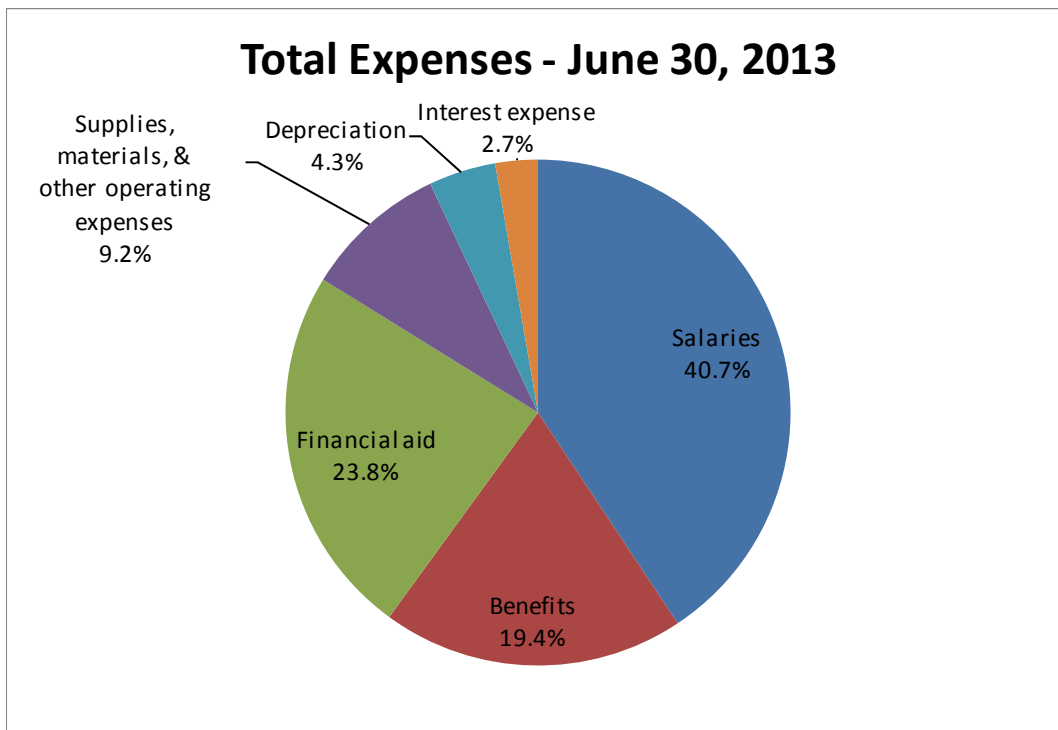
Other Revenues and Losses increased by 80.4%, approximately \$2 million.

- Other revenue (losses) increased by \$2 million, resulting from proceeds of a capital lease plus the sale of District's former Los Banos campus property.



MERCED COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2013

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (continued)



District's Fiduciary Responsibility

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

**MERCED COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2013, the District had approximately \$109.1 million invested in net capital assets. Total capital assets of \$159.4 million consist of land, construction in progress, buildings and improvements, vehicles, data processing equipment, and other office equipment. These assets have accumulated depreciation of \$50.4 million. In FY 2012-2013, there were capital asset additions in the amount of \$8.7 million. Deletions of \$2.4 million of completed construction in progress moved to building assets. Depreciation expense of \$4.2 million was recorded for FY 2012-2013.

Note 4 to the financial statements provides additional information on capital assets. A comparison of capital assets net of depreciation is summarized below:

	2013	2012	Net Change
Land and construction in progress	\$ 2,931,417	\$ 4,568,171	\$ (1,636,754)
Buildings and equipment	156,544,455	148,656,788	7,887,667
Accumulated depreciation	(50,374,270)	(46,144,180)	(4,230,090)
Total Capital Assets	\$ 109,101,602	\$ 107,080,779	\$ 2,020,823

Debt

At June 30, 2013, the District had \$51.9 million in debt. While debt for lease agreements decreased, a debt for other post-employment benefits was realized with the completion of a new actuarial valuation. Funding for this debt was set aside and will be transferred into the trust in FY 2013-2014. A comparison is summarized below:

	2013	2012	Net Change
General obligation bonds	\$ 45,469,180	\$ 46,765,000	\$ (1,295,820)
Bond issuance premium	1,233,700	1,273,884	(40,184)
Compensated absences	945,561	980,666	(35,105)
Capital leases	3,314,216	3,997,861	(683,645)
Net OPEB obligation	937,924	858,537	79,387
Total Long-term Liabilities	\$ 51,900,581	\$ 53,875,948	\$ (1,975,367)

**MERCED COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

ECONOMIC OUTLOOK AND FACTORS AFFECTING NEXT YEAR'S BUDGET

With the passage of Proposition 30 or the Educational Protection Act (EPA), the state budget as a whole is improving. For the first time in five years, the 2013-2014 state budget for the Community College System includes a cost of living adjustment (COLA) of 1.57% and 1.63% for growth funding statewide. Along with the increases in funding, the legislation also created a number of changes that added uncertainty for Community Colleges, in particular. The system went from a three pronged funding formula to five. Apportionment, enrollment fees and property taxes are still the backbone of funding but EPA and revenue from the dissolved redevelopment agencies have added a complexity and another level of uncertainty. When revenues do not come in as projected, Community Colleges do not have the same backfill guarantee that the K-12 system enjoys. On the positive side, while the 2012-2013 transition year created cash flow difficulties, for the fiscal year 2013-2014 the state has evened out the payment streams so that at least cash flow will be improved.

The system also will receive the restoral of some of the categorical funding and much needed scheduled maintenance and instructional equipment block grant dollars. Even when no funding was available, Merced College continued to plan and prioritize needs so the college will be well positioned to effectively utilize these increased funding sources.

The 2013-2014 budget is still projected to be a deficit budget but with rigorous budget cuts, the gap is closing and the Fund Balance remains in excess of the Board required 6%. In 2013-2014, the District offered a Supplemental Employee Retirement Program and did a campus wide campaign to develop additional reduction scenarios. These efforts should produce additional savings and further close the budget gap next year and beyond.

Another element of the state budget was Proposition 39 which will infuse funding into the system to increase energy efficiency and ultimately reduce utility costs to each District. There are stringent requirements but the Community College System has shown excellent leadership in energy efficiency programs so our funding will be released as soon a project can be identified. Merced College has already implemented several energy conservation programs and will utilize support from both Pacific Gas & Electric and Merced Irrigation District to develop the project list.

In general the debt of the District is low with the exception of Other Post-Employment Benefits (OPEB). Over the past few years of budget cuts, it has been difficult to fund this liability. However the District has set up an Irrevocable Trust that has approximately \$2 million invested and has additionally set aside \$4.2 million for future payments.

The early state revenue projections indicate that there may be additional one time funding coming to Community Colleges. There are no state spending plans to address any overages but it has been suggested that more deferral buy down will occur along with the possibility of some additional one time funding opportunities for Districts.

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, 2013**

ASSETS	Primary Government	Foundation
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,303,582	\$ 1,708,409
Accounts receivable	18,925,918	1,062,960
Prepaid expenses	93,466	-
Inventory	435,124	-
Amounts held in trust	1,512,354	-
Due from fiduciary funds	26,933	-
Total Current Assets	27,297,377	2,771,369
NONCURRENT ASSETS		
Restricted cash and cash equivalents	10,944,104	-
Deferred charges	1,347,766	-
Long-term investments	-	3,607,618
Capital assets, net of accumulated depreciation	109,101,602	-
Total Noncurrent Assets	121,393,472	3,607,618
TOTAL ASSETS	148,690,849	6,378,987
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	4,865,153	53,664
Tax revenue anticipation notes (TRANS)	5,000,000	-
Accrued salaries and related benefits	446,482	-
Deferred revenue	3,779,608	-
Current Portion - Long-term liabilities	1,503,521	-
Total Current Liabilities	15,594,764	53,664
NONCURRENT LIABILITIES		
Noncurrent portion - Long-term liabilities	50,397,060	-
TOTAL LIABILITIES	65,991,824	53,664
NET POSITION		
Net investment in capital assets	67,673,267	-
Restricted for:		
Capital projects	2,629,724	-
Debt service	2,345,064	-
Educational programs	1,957,173	-
Nonexpendable	-	2,935,425
Expendable	-	3,144,287
Unrestricted	8,093,797	245,611
TOTAL NET POSITION	\$ 82,699,025	\$ 6,325,323

See accompanying notes to the financial statements.

**MERCED COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

	Primary Government	Foundation
OPERATING REVENUES		
Student Tuition and Fees	\$ 11,726,582	\$ -
Less: Scholarship discount & allowance	(7,628,838)	-
Net tuition & fees	4,097,744	-
Grants and Contracts, noncapital:		
Federal	1,670,779	-
State	5,006,961	-
Local	1,418,917	-
Internal Service Sales and Charges	2,179,688	-
Subtotal	10,276,345	-
TOTAL OPERATING REVENUES	14,374,089	-
OPERATING EXPENSES		
Salaries	36,604,069	-
Benefits	17,425,119	-
Supplies, materials, & other operating expenses	8,260,325	330,642
Depreciation	3,871,618	-
Payments to students	-	265,817
TOTAL OPERATING EXPENSES	66,161,131	596,459
OPERATING LOSS	(51,787,042)	(596,459)
NONOPERATING REVENUES/(EXPENSES)		
State apportionments, non-capital	29,031,100	-
Local property taxes	7,519,085	-
State taxes & other revenues	9,465,308	-
Investment income	200,501	93,618
Financial aid revenues	21,750,308	-
Financial aid expenses	(21,400,743)	-
Interest expense	(2,448,684)	-
Other nonoperating revenues	-	751,375
TOTAL NONOPERATING REVENUES (EXPENSES)	44,116,875	844,993
GAIN/(LOSS) BEFORE OTHER REVENUES	(7,670,167)	248,534
OTHER REVENUES		
Local property taxes and revenues, capital	3,070,508	-
Local revenues, grants and gifts, capital	103,483	-
Other revenue	2,032,312	-
TOTAL OTHER REVENUES	5,206,303	-
CHANGE IN NET POSITION	(2,463,864)	248,534
BEGINNING NET POSITION	82,625,595	6,076,789
ADJUSTMENT FOR RESTATEMENT (see Note 16)	2,537,294	-
NET ASSETS, AS RESTATED	85,162,889	6,076,789
ENDING NET POSITION	\$ 82,699,025	6,325,323

See accompanying notes to the financial statements.

**MERCED COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 3,672,839
Federal grants and contracts	1,584,043
State grants and contracts	4,942,288
Local grants and contracts	1,219,104
Payments to or on behalf of employees	(34,605,169)
Payments for benefits	(17,421,935)
Payments to vendors for supplies and services	(7,849,128)
Student loans/grants	(92,500)
Auxiliary enterprise sales and charges	2,166,454
Net Cash Used by Operating Activities	<u>(46,384,004)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State apportionments and receipts	29,909,347
Property taxes	7,570,710
State taxes and other revenues	8,715,587
Financial aid disbursements	(21,400,743)
Financial aid receipts	21,750,308
Other receipts/(payments)	-
Net Cash Provided by Non-capital Financing Activities	<u>46,545,209</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Acquisition and construction of capital assets	(3,773,062)
Proceeds from issuance of TRANs	1,132,343
Principal paid on capital debt	(1,295,820)
Interest paid on capital debt	(1,979,214)
Interest received on capital debt	31,670
Local property taxes and other revenues, capital	3,070,508
Net Cash Used by Capital Financing Activities	<u>(2,813,575)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income	<u>168,831</u>
Net Cash Provided/(Used) by Investing Activities	<u>1,238,805</u>

NET DECREASE IN CASH & CASH EQUIVALENTS (1,413,565)

CASH & CASH EQUIVALENTS, BEGINNING OF YEAR 18,661,251

CASH & CASH EQUIVALENTS, END OF YEAR \$ 17,247,686

See accompanying notes to the financial statements.

**MERCED COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES**

Operating loss	\$ (51,787,042)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation expense	3,871,618
Changes in Assets and Liabilities:	
Accounts receivables, net	(710,381)
Inventory	98,661
Prepaid expenses	(3,790)
Accounts payable	2,410,097
Accrued salaries and related benefits	3,184
Deferred revenue	(231,246)
Compensated absences	(35,105)
Total Adjustments	<u>5,403,038</u>
Net Cash Flows From Operating Activities	<u>\$ (46,384,004)</u>

See accompanying notes to the financial statements.

**MERCED COMMUNITY COLLEGE DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013**

	Associated Students Government Funds	Scholarship and Loan Trust Fund	Foundation Administration Trust Fund
ASSETS			
Cash and cash equivalents	\$ 194,794	\$ 655,128	\$ 1,053,281
Investments	-	2,709,902	749,148
Accounts receivable	1,647	874	1,002,233
Due from other funds	4,336	5,271	54,582
Total Assets	200,777	3,371,175	2,859,244
LIABILITIES			
Accounts payable	-	522	20,902
Due to other funds	-	26,398	5,842
Total Liabilities	-	26,920	26,744
NET ASSETS			
Restricted Net Assets	200,777	3,344,255	2,832,500
Total Net Assets	\$ 200,777	\$ 3,344,255	\$ 2,832,500

See accompanying notes to the financial statements.

**MERCED COMMUNITY COLLEGE DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

	Associated Students Government Funds	Scholarship and Loan Trust Fund	Foundation Administration Trust Fund
Additions			
Other financing sources	\$ 5,000	\$ 2,161	\$ 32,357
Other income	26,170	355,108	455,368
Total Additions	<u>31,170</u>	<u>357,269</u>	<u>487,725</u>
Deductions			
Supplies and materials	10,861	-	499
Other operating expenses and services	7,757	27,706	457,330
Other outgo	510	265,817	2,013
Total Deductions	<u>19,128</u>	<u>293,523</u>	<u>459,842</u>
CHANGE IN NET ASSETS	<u>12,042</u>	<u>63,746</u>	<u>27,883</u>
NET ASSETS, BEGINNING OF YEAR	<u>188,735</u>	<u>3,280,509</u>	<u>2,804,617</u>
NET ASSETS, END OF YEAR	<u>\$ 200,777</u>	<u>\$ 3,344,255</u>	<u>\$ 2,832,500</u>

See accompanying notes to the financial statements.

MERCED COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Merced Community College District (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 considered its financial and operational relationships with potential component units under the reporting entity definition of GASB Statement No. 14, *The Financial Reporting Entity*. The basic, but not the only, criterion for including another organization in the District's reporting entity for financial reports is the ability of the District's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one entity is dependent on another and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the District's power and includes, but is not limited to: financial interdependency; selection of governing authority; designation of management; ability to significantly influence operations; and accountability for fiscal matters.

Based upon the requirements of GASB Statement No. 14, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the District, including their ongoing financial support to the District or its other component units. A legally separate, tax-exempt organization should be reported as a component unit of the District if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the District, its component units, or its constituents.
2. The District, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the District, or its component units, is entitled to, or has the ability to otherwise access, are significant to the District.

MERCED COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

A. **Reporting Entity (*continued*)**

Based upon the application of the criteria listed above, the Merced College Foundation has been included through discrete presentation:

The Foundation is a separate not-for-profit corporation. The foundation Board of Governors are appointed independent of any District Board of Trustee's elections. The Foundation's Board is responsible for approving its own budgets and accounting and finance related activities, however, the District's governing board has fiscal responsibility over the Foundation.

Separate financial information for the Foundation may be obtained through the District.

B. **Financial Statement Presentation**

The accompanying financial statements have been prepared in conformity with accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis – for State and Local Governments* and including Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis of Public College and Universities*, issued in June and November 1999 and *Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the District's financial activities. The entity-wide perspective replaces the fund-group perspective previously required.

Fiduciary activities are excluded from the basic financial statements.

C. **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

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

For internal accounting purposes, the budgetary and financial accounts of the District have been recorded and maintained in accordance with the Chancellor's Office of the California Community College's Budget and Accounting Manual.

MERCED COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Accounting (*continued*)

To ensure compliance with the California Education Code, the financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations and equities.

By State law, the District's Governing Board must approve a budget no later than September 15. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements. Budgets for all governmental funds were adopted on a basis consistent with generally accepted accounting principles (GAAP).

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. Expenditures cannot legally exceed appropriations by major object account.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities and that Use Proprietary Fund Accounting*, the District follows all GASB statements issued prior to November 30, 1989 until subsequently amended, superseded or rescinded. The District has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 unless FASB conflicts with GASB. The District has elected to not apply FASB pronouncements issued after the applicable date.

D. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash in the Merced County Treasury and investments in the California Asset Management Program are recorded at fair value in accordance with the requirements of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*.

E. Accounts Receivable

Accounts receivable consists primarily of amounts due from the federal government, state, and local governments, or private sources, in connection with reimbursement of allowable expenses made pursuant to the District's grant and contracts.

F. Inventory

Inventories are presented at the lower of cost or market using the average cost method and are expensed when used. Inventory consists of expandable instructional, custodial, health and other supplies held for consumption.

MERCED COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

G. Prepaid Expenses

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which goods or services are consumed.

H. Restricted Cash and Cash Equivalents

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

I. 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 is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 10 years for site improvements, 8 years for vehicles, 10 years for equipment, 5 years for library books and 5 years for technology. Land and construction in progress are considered nondepreciable capital assets; therefore no depreciation is computed.

J. Accounts Payable

Accounts payable consists of amounts due to vendors.

K. Accrued Liabilities

Accrued liabilities consist of salaries and benefits payable, deferred summer pay and load banking. Load banking hours consist of hours worked by instructors in excess of a full-time load which they may carryover for future paid time off.

MERCED COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

L. Deferred Revenue

Tuition and fees received prior to June 30 for classes and programs offered in the subsequent fiscal year are reported as deferred revenue.

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenses have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenses.

M. Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, accumulated unpaid employee vacation benefits are recognized as a liability of the District as compensated absences in the Statement of Net Position.

Sick leave benefits are accumulated without limit for each employee. Accumulated employee sick leave benefits are not recognized as a liability of the District. The District's policy is to record sick leave as an operating expense in the period taken; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires and within the constraints of the appropriate retirement systems.

N. Net Position

Invested in capital assets, net of related debt: 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 invested in capital assets, net of related debt.

Restricted Net Position for: capital projects, scholarships, and other special purposes: Restricted expendable Net Position include resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties or by enabling legislation adopted by the District. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available.

Restricted Net Position – nonexpendable: Nonexpendable restricted Net Position consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The District has no restricted Net Position – nonexpendable. However, the component units do have nonexpendable restricted Net Position.

Unrestricted Net Position: Unrestricted Net Position represent resources available to be used for transactions relating to the general operations of the District and may be used at the discretion of the governing board as designated, to meet current expenses for specific future purposes.

MERCED COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

O. General Apportionments and Property Taxes

The District's general apportionment is received from a combination of local property taxes, state apportionments, and other local sources.

The Counties are responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the Counties. Secured property taxes attach as an enforceable lien on property as of March 1. Property taxes on the secured roll are due on November 1 and February 1 and become delinquent after December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The following counties bill and collect the taxes for the District: Fresno, Madera, and Merced counties.

Secured property taxes are recorded as revenue when apportioned in the fiscal year of the levy. The Counties apportion secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll, approximately October 1 of each year.

Property taxes are recorded as local revenue sources by the District. The California Community Colleges Chancellor's Office reduces the District's entitlement by the District's local property tax revenue and student fees. The balance is paid from the State's General Fund and is referred to as the state apportionment. The District's base revenue is the amount of general purpose tax revenue, per full-time equivalent student (FTES), that the District is entitled to by law.

P. On-Behalf Payments

GASB Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance, requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditure by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers Retirement Systems (STRS) on behalf of all Community Colleges in California. The amount of on-behalf payments made for the District is estimated at \$833,653 for STRS for the year ended June 30, 2013. This amount has been reflected in the basic financial statements as a component of non-operating revenue and employee benefit expense.

MERCED COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Q. Classification of Revenues

The District has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as student fees, net of scholarship discounts and allowances, and most federal, state and local grants and contracts.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as state apportionment, property taxes, state taxes, non-capital federal grants and contracts investment income, and other revenue sources.

R. Scholarship Discount and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the District, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants and other federal, state or nongovernmental programs are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance, included in the Board of Governors (BOG) waivers.

S. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

MERCED COMMUNITY COLLEGE DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2013

NOTE 2 – CASH AND INVESTMENTS

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies; medium term corporate notes; shares of beneficial interest issued by diversified management companies; certificates of participation; obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury – The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair market value of the District’s investment in the pool is reported in the accompanying financial statements at amounts based upon the District’s pro-rata share of the fair market value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	40%	10%
Negotiable Certificates of Deposit	5 years	40%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

**MERCED COMMUNITY COLLEGE DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2013**

NOTE 2 – CASH AND INVESTMENTS (continued)

General Authorizations (continued)

Authorized Under 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. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

Summary of Cash and Investments

Cash and investments as of June 30, 2013, consist of the following:

Cash on hand and in banks	\$ 207,140
Cash in Merced County Investment Pool	10,739,188
Investments	6,301,358
Cash in trust	1,512,354
Total Cash and Investments	\$ 18,760,040

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair market value to changes in market interest rates. The District manages its exposure to interest rate risk by primarily investing in the County Investment Pool and in other investment agreements.

Specific Identification and Credit Risk

Information about the sensitivity of the fair market values of the District’s investments to market interest rate fluctuations is indicated by the following schedule that shows the distribution of the District’s investment by maturity. 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. Presented below is the minimum rating required by the California Government Code, the District’s investment policy, or debt agreements, and the actual rating as of the year-end for each investment type. Since all District investment holdings are governmental securities, per California Government Code there is no minimum legal rating.

Investment or Deposit Type	Fair Market Value	Days to Maturity	Minimum Legal Rating	Rating 6/30/2013
Merced County Investment Pool	\$ 10,723,079	506	Not Applicable	At Least A
California Asset Management Program	6,301,358	N/A	Not Applicable	AAAm
	\$ 17,024,437			

MERCED COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2013

NOTE 2 – CASH AND INVESTMENTS (*continued*)

General Authorizations (*continued*)

Concentration of Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2013, the District's bank balance of \$207,140 was not exposed to custodial credit risk because deposits up to \$250,000 per bank are covered under the FDIC insurance limit, and the remaining, had there been any, would have been collateralized with securities held by the pledging financial institution's trust department or agency.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2013 consisted of the following:

Federal	\$	645,932
State		14,496,615
Local		3,783,371
Total	\$	<u>18,925,918</u>

The state portion of accounts receivable included \$12,804,434 of apportionment receivables which have been received in full as of December 13, 2013, the date of this report.

**MERCED COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 4 – CAPITAL ASSETS

The following provides a summary of changes in capital assets for the year ended June 30, 2013:

	Balance July 01, 2012	Additions	Deductions	Adjustment for GASB 62	Balance June 30, 2013
Capital Assets not being Depreciated					
Land	\$ 1,670,258	\$ -	\$ -	\$ -	\$ 1,670,258
Construction in progress	2,897,913	769,863	2,406,617	-	1,261,159
Total Capital Assets not being Depreciated	4,568,171	769,863	2,406,617	-	2,931,417
Capital Assets being Depreciated					
Site improvements	12,977,042	8,350	-	185,728	13,171,120
Buildings and improvements	123,080,284	4,541,852	-	2,710,038	130,332,174
Furniture & equipment	12,599,462	441,699	-	-	13,041,161
Total Capital Assets being Depreciated	148,656,788	4,991,901	-	2,895,766	156,544,455
Total Capital Assets	153,224,959	5,761,764	2,406,617	2,895,766	159,475,872
Less Accumulated Depreciation					
Site improvements	8,946,569	389,355	-	31,668	9,367,592
Buildings & improvements	28,462,630	2,672,228	-	326,804	31,461,662
Furniture & equipment	8,734,981	810,035	-	-	9,545,016
Total Accumulated Depreciation	46,144,180	3,871,618	-	358,472	50,374,270
Net Capital Assets	\$ 107,080,779	\$ 1,890,146	\$ 2,406,617	\$ 2,537,294	\$ 109,101,602

Depreciation expense for the year ended June 30, 2013 is \$3,871,618.

NOTE 5 – TAX AND REVENUE ANTICIPATION NOTES

On February 28, 2013, the District issued \$5,000,000 of TRANs at an interest rate of 2.00% due on December 27, 2013. These TRANs were issued under the authority of the California Government Code. Proceeds from the issuance of TRANs were used to meet fiscal 2012-13 expenditures, including operating expenditures, capital expenditures, and the discharge of other obligations or indebtedness of the District. TRANs are general obligations of the District and are payable from taxes, revenues, cash receipts, and other monies received by the District.

**MERCED COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 6 – LONG TERM OBLIGATIONS

A schedule of changes in long-term obligations for the year ended June 30, 2013 is shown below:

	Balance			Balance		Due Within
	July 01, 2012	Additions	Deductions	June 30, 2013	One Year	
Long-Term Obligations						
General obligation bonds	\$ 46,765,000	\$ -	\$ 1,295,820	\$ 45,469,180	\$ 1,025,000	
Premium on bonds	1,273,884	-	40,184	1,233,700	40,184	
Compensated absences	980,666	-	35,105	945,561	-	
Capital leases	3,997,861	-	683,645	3,314,216	438,337	
Net OPEB obligation	858,537	79,387	-	937,924	-	
Totals	\$ 53,875,948	\$ 79,387	\$ 2,054,754	\$ 51,900,581	\$ 1,503,521	

NOTE 7 – CAPITAL LEASES

The District leases equipment under agreements which provide for title to pass upon expiration of the lease period. The assets acquired under these agreements are included in capital assets, see Note 4. The interest cost incurred during the year ended June 30, 2013, was charged to expenses. Future minimum lease payments are as follows:

Fiscal Year Ending	Lease Payment
June 30,	
2014	\$ 438,337
2015	430,828
2016	438,012
2017	443,730
2018	364,060
2019-2023	1,023,590
2024-2027	768,609
Total	\$ 3,907,166
Less amount representing interest	592,950
Present value of net minimum lease payments	\$ 3,314,216

MERCED COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 8 – GENERAL OBLIGATION BONDS

The general obligation bonds payable at June 30, 2013 are comprised of the following issuances:

On June 19, 2003, \$20,000,000 of Measure H General Obligation Bonds were sold. The issuance consisted of current interest bonds with interest rates ranging from 2.50 percent to 5.00 percent and maturing through August 1, 2027.

On June 19, 2003, \$5,140,000 of Measure J General Obligation Bonds were sold. The issuance consisted of current interest bonds with interest rates ranging from 2.50 percent to 4.50 percent and maturing through August 1, 2027.

On August 1, 2005, \$6,790,000 of Measure J General Obligation Bonds were sold. The issuance consisted of current interest bonds with interest rates ranging from 3.63 percent to 5.00 percent and maturing through August 1, 2015.

On August 1, 2006, \$24,000,000 of Measure H General Obligation Bonds were sold. The issuance consisted of current interest bonds with interest rates ranging from 4.50 percent to 5.00 percent and maturing through August 1, 2031.

On November 16, 2006, \$10,740,000 of Measure J General Obligation Bonds were sold. The issuance consisted of current interest bonds with interest rates ranging from 3.50 percent to 5.00 percent and maturing through August 1, 2025.

On February 28, 2012, \$13,070,000 of Measure H General Obligation Bonds were sold. The issuance consisted of current interest bonds with interest rates ranging from 2.00 percent to 4.00 percent and maturing through August 1, 2031.

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

Year Ending, June 30	Annual Principal Payment	Annual Interest Payment	Total Annual Debt Service
2014	\$ 1,025,000	\$ 2,129,963	\$ 3,154,963
2015	1,195,000	1,551,665	2,746,665
2016	1,375,000	2,172,615	3,547,615
2017	1,480,000	2,252,505	3,732,505
2018	1,670,000	2,187,247	3,857,247
2019-2023	11,434,180	10,689,891	22,124,071
2024-2028	15,965,000	5,670,193	21,635,193
2029-2032	11,325,000	1,309,997	12,634,997
	<u>\$ 45,469,180</u>	<u>\$ 27,964,076</u>	<u>\$ 73,433,256</u>

MERCED COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 9 – LEASE REVENUE BONDS

The District and the State of California have entered into a financing arrangement under which the State provides 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 the State General Fund revenues appropriated to the Board of Governors’ of the California Community College 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 semiannual installment payment, the District would be responsible for the payments attributable to the District’s facilities. Approximately \$9,028,000 of the project costs were appropriated in the 2001-02 year. No amounts had been accrued for any contingent payments at June 30, 2013.

The IAC is included in the District’s statement of net assets. The Board leases to the District the facilities constructed with these bonds. Annual installments on the lease range from \$195,890 to \$617,100 beginning March 15, 2006, through September 15, 2031. Upon full repayment of the associated bonds, title to the facilities shall transfer to the District.

NOTE 10 – OPERATING LEASES

The District has entered into various operating leases with lease terms in excess of one year. None of these agreements contains purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days’ written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

Future minimum lease payments are as follows:

Fiscal Year Ending June 30,	Lease Payment*
2014	\$ 65,750
2015	48,622
Total	<u>\$ 114,372</u>

*Lease payments include principal and interest amounts.

MERCED COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 11 – EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the Public Employees' Retirement System (PERS).

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teacher's Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 100 Waterfront Place, West Sacramento, CA 95605.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute a statutorily determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-2013 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Public Employees' Retirement Systems (PERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

CalPERS issues a separate comprehensive annual financial report that includes required supplementary information. Copies of the CalPERS' annual financial report maybe be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2012-13 was 11.447% of annual payroll. The contribution requirements of the plan members are established and may be amended by the State statute. As of January 1, 2013 Public Employees' Pension Reform Act (PERPA) Classified employees pay 6%.

**MERCED COMMUNITY COLLEGE DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2013**

NOTE 11 – EMPLOYEE RETIREMENT PLANS (continued)

Contribution to STRS and PERS

The District’s contributes to STRS and PERS for each of the last three fiscal years are as follows:

Year Ended June 30,	STRS		PERS	
	Required Contribution	Percent Contributed	Required Contribution	Percent Contributed
2011	\$ 1,631,169	100%	\$ 1,200,502	100%
2012	\$ 1,587,443	100%	\$ 1,280,754	100%
2013	\$ 1,611,820	100%	\$ 1,299,881	100%

NOTE 12 – DEFERRED COMPENSATION PLANS

The District 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 were 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 employers account. In accordance with GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, plan balances and activities are not reflected in the District’s financial statements.

NOTE 13 – POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description

The District administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides health, dental, and vision benefits to eligible retirees and their dependents in accordance with provisions established through negotiations between the District and the bargaining unions representing employees. Plan provisions are renegotiated each three-year bargaining period. The District reports the financial activity of the plan as a trust fund in these financial statements and no separate financial report is prepared.

Eligibility

The District currently provides retiree and dependent health benefits for salaried employees after an annual retiree contribution of \$120 (\$150 for classified retirees) for eligible employees who have retired from service with the District. Classified and management eligible employees hired before February 1, 1989, receive lifetime benefits. Classified and management employees hired after February 1, 1989, and faculty members hired after January 1, 1991, can receive retiree health benefits until age 65. The District’s salaried employees may become eligible for those benefits if they reach normal retirement age while working for the District.

MERCED COMMUNITY COLLEGE DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2013

NOTE 13 – POSTEMPLOYMENT HEALTHCARE BENEFITS (*continued*)

The District provides these benefits through the Community College League of California (CCLC) Retiree Health Benefit Program (RHBP), an agent multiple-employer defined benefit other postemployment (OPEB) plan. RHBP is administered by an elected board.

Retirees and beneficiaries receiving benefits	232
Active plan members	380
Total	612

Funding Policy

The District’s agreement with retired employees is for monthly contributions for members who meet the eligibility criteria of their collective agreement and who retire during the term of the contract. The contribution requirements of the District and plan members are established and may be amended by the District. The District has the right to modify, alter, or amend the plan in whole or in part.

GASB Statement No. 45 requires the actuarial amounts to be calculated using claims cost or age-adjusted premiums that approximate costs for retirees separately from those for active employees. However, the District’s contributions to the RHBP are based on actuarial valuations prepared using the actuarial cost method.

Annual OPEB Cost and Net OPEB Obligation

The District’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize an unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed, and changes in the District’s net OPEB obligation:

Annual required contribution (ARC)	\$ 3,880,667
Interest on net OPEB obligation	60,098
Adjustment to annual required contribution	(48,949)
Annual OPEB cost	3,891,816
Contributions made	3,812,428
Changes in net OPEB obligation	79,387
Net OPEB obligation, beginning of year	858,537
Net OPEB obligation, end of year	\$ 937,924

**MERCED COMMUNITY COLLEGE DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2013**

NOTE 13 – POSTEMPLOYMENT HEALTHCARE BENEFITS (continued)

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 3,515,417	88%	\$ 255,035
June 30, 2011	3,520,876	92%	532,031
June 30, 2012	3,887,502	92%	858,537
June 30, 2013	3,891,815	98%	937,924

Funding Status and Funding Progress

As of December 1, 2011, the most recent actuarial valuation date, the funded ratio was 2.14%. The actuarial value of assets was \$1,167,436. The actuarial liability was \$54,520,628, resulting in an unfunded actuarial accrued liability (UAAL) of \$53,353,192. The covered payroll (annual payroll of active employees covered by the plan) was \$27,110,560, and the ratio of the UAAL to the covered payroll was 196.80%.

Actuarial valuations of an ongoing benefit plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The schedule of employer contribution also presented as required supplementary information, presents trend information about the amounts contributed to the plan by employers in comparison to the annual required contribution (ARC).

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, if any, consistent with the long-term perspective of the calculations.

The actuarial cost method used in determining the benefit obligations is the Entry Age Normal Cost method. The actuarial assumptions included a 7.0 percent investment rate of return (net of administrative expenses) which is a blended rate of the expected long-term investment returns on plan assets and on the employer’s own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 4.0 percent which included a 3.0 percent inflation assumption.

NOTE 14 – JOINT POWERS AGREEMENT

The District is exposed to various risks of loss from property, liability, workers' compensation, dental, vision, and excess liability claims. To provide such coverage for their members, the District participates in joint ventures under joint powers agreements with the following joint powers authorities (JPAs): Valley Insurance Program (VIP), Schools Excess Liability Fund (SELF), and Self-Insured Schools of California (SISC III). The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes. Each JPA is governed by a board consisting of representatives from the members. The boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the boards. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA.

The District participates in investment of certain bond proceeds and surplus funds organized by the CAMP. CAMP is a JPA created to provide investment management services for surplus funds and comprehensive investment management, accounting, and arbitrage rebate calculation services for proceeds of tax-exempt financing.

The District participates in the Community College League of California (CCLC) which has established the Retiree Health Benefit Program (RHBP) joint powers agreement. The RHBP is a JPA created to provide funding for postemployment benefits (other than pension benefits) such as medical, dental, vision, life insurance, long-term care, and similar benefits offered by California Community College districts to their employees.

Separately issued financial statements can be requested from each JPA.

NOTE 15- COMMITMENTS AND CONTINGENCIES

A. 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.

B. Construction Commitments

The District had no outstanding construction commitments as of June 30, 2013.

C. 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 FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 16 – ADJUSTMENT FOR RESTATEMENT

An adjustment of \$2,537,294 to increase beginning net position was made to account for the capitalized interest resulting from the District implementation of GASB Statement No. 62. This new accounting standard requires capitalization of interest expense on bonded debt that had previously been expensed. See note 4 for increase to capital assets.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (Entry Age Normal Cost Method) (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funding Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
8/1/2009	\$ 1,001,490	\$ 52,359,974	\$ 51,358,484	1.91%	\$ 26,853,089	191.26%
12/1/2011	1,167,436	54,520,628	53,353,192	2.14%	27,110,560	196.80%

See accompanying note to required supplementary information.

MERCED COMMUNITY COLLEGE DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - PURPOSE OF SCHEDULE

A. **Schedule of Postemployment Healthcare Benefits Funding Progress**

This schedule is prepared to show information for the most recent actuarial valuation and from the three most recent actuarial valuations in accordance with Statement No. 45 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The schedule is intended to show trends about the funding progress of the District's actuarially determined liability for post-employment benefits other than pensions.

**SUPPLEMENTARY
INFORMATION**

**MERCED COMMUNITY COLLEGE DISTRICT
HISTORY AND ORGANIZATION
JUNE 30, 2013**

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

MEMBER	OFFICE	TERM EXPIRES
Dennis Jordan	President	December 2014
Cindy Lashbrook	Vice President	December 2014
Gary Arzamendi	Clerk	December 2016
Wayne Hicks	Trustee	December 2016
Joe Gutierrez	Trustee	December 2014
Jean Upton	Trustee	December 2016
Les McCabe	Trustee	December 2014

District Executive Officers

Name	Title
Dr. Ronald C. Taylor	Superintendent/President, Merced College
Dr. Joanne Schultz	Vice President, Administrative Services
Dr. Marianne Tortorici*	Vice President, Instruction
Dr. Anne Newins*	Vice President, Student Personnel Services

* Dr. Marianne Tortorici and Dr. Anne Newins retired on June 30, 2013. Dr. Kevin Kistler and Dr. Everett Lovelace started as the Interim Vice President, Instruction and Interim Vice President, Student Personnel Services on July 1, 2013, respectively.

**MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
Direct U.S. Department of Education			
<i>Direct Program</i>			
Federal Supplemental Educational Opportunity Grant	84.007	N/A	\$ 306,300
Federal Work Study Program	84.033	N/A	464,548
Federal Pell Grant	84.063	N/A	19,599,280
<i>Subtotal Student Financial Assistance Cluster</i>			<u>20,370,128</u>
<i>Passed through the California Department of Education</i>			
Veterans Education	84.064	N/A	4,630
MDRC Learning Communities Demo Grant	84.287	N/A	1,836
Childcare Access Means Parents in School	84.335	P335A100268	105,346
Total Direct U.S. Department of Education			<u>20,481,940</u>
U.S. Department of Agriculture			
<i>Passed through the California Department of Education</i>			
Child Care Food	10.558	04364-CACFP-24-CC-IC	64,908
Total U.S. Department of Agriculture			<u>64,908</u>
U.S. Department of Labor			
<i>Passed through the Merced County Office of Education</i>			
Workforce Investment Act - Adult Program	17.258	09-115-11	90,000
Trade Adjustment Assistance Community College Career Training	17.282	TC-22498-11-60-A-6	541,691
Total U.S. Department of Labor			<u>631,691</u>
National Science Foundation			
<i>Passed through the Santa Clarita Community College District</i>			
CREATE Renewable Energy Regional Center	47.076	1002653	16,829
Total U.S. Department of Health and Human Services			<u>16,829</u>
U.S. Department of Education			
<i>Passed through California State University, Stanislaus</i>			
HSI STEM Grant	84.031	P031C110082	131,413
<i>Passed through the California Department of Education</i>			
Career and Technical Education Act - Block Grant	84.048	11-C01-031	355,149
Vocational and Applied Technology Education Act - CTE Transitions	84.051	11-112-530	49,389
CAL-SOAP	84.378	N/A	26,785
<i>Passed through the Merced County Office of Education</i>			
Charter Schools	84.282	N/A	4,230
Total U.S. Department of Education			<u>566,966</u>
U.S. Department of Health and Human Services			
<i>Passed through the Chancellor's Office</i>			
Temporary Assistance for Needy Families	93.558	N/A	100,948
California Trade and Export Promotion	N/A	F11-0070	
<i>Passed through the Yosemite Community College District</i>			
CDC Training Consortium	93.575	11-12-3970	15,975
<i>Passed through the California Department of Education</i>			
CDC PITC Demonstration	93.575	6580-02-200 S11-157	23,895
Merced County Mental Health	93.958	ETC 10-018/2012010	23,436
<i>Passed through the Madem County Office of Education</i>			
CDC MAA	93.778	N/A	62,568
STEP Grant	N/A	N/A	5,942
Foster Care	93.658	N/A	15,585
Total U.S. Department of Health and Human Services			<u>248,349</u>
Total Federal Programs			<u>\$ 22,010,683</u>

See accompanying note to supplementary information.

**MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF STATE FINANCIAL ASSISTANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Program Name	Program Entitlements			Program Revenues				Program Expenditures
	Current Year	Prior-Year Carryover	Total	Cash Received	Accounts Receivable	Deferred Income	Total	
CATEGORICAL APPORTIONMENTS								
EOPS/CARE	\$ 153,529	\$ 1,673	\$ 155,202	\$ 153,529	\$ -	\$ -	\$ 153,529	\$ 153,529
EOPS (E)	844,766	520	845,286	844,766	-	-	844,766	844,766
State DSS	556,382	-	556,382	556,382	-	-	556,382	556,382
BFAP	445,861	-	445,861	445,861	-	6,481	439,380	439,380
RN Economic Development	260,687	71,442	332,129	290,419	41,710	70,799	261,330	261,330
Staff Development Coord	-	7,119	7,119	7,119	-	-	7,119	7,119
Staff Development Faculty	-	11,214	11,214	11,214	-	8,351	2,863	2,863
Faculty and staff diversity	6,142	-	6,142	6,142	-	-	6,142	6,142
Matriculation	398,330	-	398,330	398,330	-	-	398,330	398,330
SSI/Basic Skills	257,841	490,073	747,914	747,914	-	515,682	232,232	232,232
Calworks	333,010	-	333,010	333,010	-	5,239	327,771	327,771
Subtotal	3,256,548	582,041	3,838,589	3,794,687	41,710	606,553	3,229,844	3,229,844
CATEGORICAL PROGRAM ALLOWANCES								
Puente Project	1,500	-	1,500	1,500	-	-	1,500	1,500
CDC Block Grant	303,650	(41)	303,609	295,775	7,834	570	303,039	303,039
CDC Family Services	108,259	-	108,259	48,289	48,645	-	96,933	96,933
CDC MCOE Kids First	15,502	30,529	46,031	42,155	3,876	39,654	6,376	6,376
CDC Preschool Program	204,945	10,246	215,191	196,276	18,915	-	215,191	215,191
CDC Capacity Bldg Grant	-	1,802	1,802	2,508	-	2,508	-	-
Child Care Food Program	3,867	-	3,867	3,867	-	-	3,867	3,867
Early Childhood Mentors	3,900	-	3,900	1,600	2,300	-	3,900	3,900
Valley Sierra Collaborative	83,000	65,013	148,013	102,184	45,830	26,358	121,655	121,655
Transfer articulation	-	392	392	392	-	-	392	392
Workforce Innovation	-	4,014	4,014	4,014	-	1,428	2,586	2,586
VIP/JPA	-	1,957	1,957	1,957	-	1,957	-	-
Career Adv Academy Grant	72,500	-	72,500	52,552	19,948	192	72,308	72,308
Song-Brown Training	60,000	13,112	73,112	58,100	15,012	23,552	49,560	49,560
WPLRC (E)/CITD/RTF	634,956	346,684	981,640	563,657	417,982	124,190	857,450	857,450
YEP Career Pathways	50,000	73,576	123,576	91,076	7,500	56,219	42,357	42,357
Subtotal	1,542,079	547,284	2,089,363	1,465,902	587,843	276,628	1,777,117	1,777,117
Total State Programs	\$ 4,798,627	\$ 1,129,325	\$ 5,927,952	\$ 5,260,589	\$ 629,553	\$ 883,180	\$ 5,006,962	\$ 5,006,962

See accompanying note to supplementary information.

**MERCED COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF WORKLOAD MEASURE FOR STATE GENERAL APPORTIONMENT ANNUAL
 (ACTUAL) ATTENDANCE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Reported and Audited <u>Annual FTES</u>
Credit full-time equivalent student (FTES)	
Weekly census	7,256
Daily census	204
Actual hours of attendance	97
Alternative Attendance Weekly Census	234
Alternative Attendance Daily Census	17
Summer intersession	<u>469</u>
Total credit FTES	8,277
 Non-credit FTES	
Actual hours of attendance	827
Summer intersession	<u>137</u>
Total non-credit FTES	<u>964</u>
 TOTAL FULL TIME EQUIVALENT STUDENTS	<u>9,241</u>
 Basic skills	
Credit	<u>1,582</u>
Non-credit	<u>760</u>
 TOTAL BASIC SKILLS	<u>2,342</u>

See accompanying note to supplementary information.

**MERCED COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH
DISTRICT ACCOUNTING RECORDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

There were no adjustments necessary to reconcile the annual CCFS-311 report with the District accounting records for the fiscal year 2012-13.

**MERCED COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF THE ECS 84362 (50 PERCENT LAW) CALCULATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Object/ TOP Codes	Activity (ESCA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6100			Activity (ESCB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	10,884,714	-	10,884,714	10,884,714	-	10,884,714
Other	1300	4,455,742	-	4,455,742	4,455,742	-	4,455,742
Total Instructional Salaries		15,340,456	-	15,340,456	15,340,456	-	15,340,456
Non-Instructional Salaries							
Contract or Regular	1200	-	-	-	4,300,928	-	4,300,928
Other	1400	-	-	-	316,079	-	316,079
Total Non-Instructional Salaries		-	-	-	4,617,007	-	4,617,007
Total Academic Salaries		15,340,456	-	15,340,456	19,957,463	-	19,957,463
<u>Classified Salaries</u>							
Non-Instructional Salaries							
Regular Status	2100	-	-	-	7,250,681	-	7,250,681
Other	2300	-	-	-	532,748	-	532,748
Total Non-Instructional Salaries		-	-	-	7,783,429	-	7,783,429
Instructional Aides							
Regular Status	2200	964,072	-	964,072	964,072	-	964,072
Other	2400	254,906	-	254,906	254,906	-	254,906
Total Instructional Aides		1,218,978	-	1,218,978	1,218,978	-	1,218,978
Total Classified Salaries		1,218,978	-	1,218,978	9,002,407	-	9,002,407
Employee Benefits	3000	6,589,555	-	6,589,555	14,209,410	-	14,209,410
Supplies and Materials	4000	-	-	-	475,572	-	475,572
Other Operating Expenses	5000	96,548	-	96,548	4,280,846	-	4,280,846
Equipment Replacement	6420	-	-	-	-	-	-
Total Expenditures Prior to Exclusions		23,245,537	-	23,245,537	47,925,698	-	47,925,698
<u>Exclusions</u>							
Activities to Exclude							
Instructional Staff-Retirees' Benefits and Retirement Incentives	5900	1,741,280	-	1,741,280	1,741,280	-	1,741,280
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	-	-	-
Non-instructional Staff-Retirees' Benefits and Retirement Incentiv	6740	-	-	-	2,033,139	-	2,033,139
Object to Exclude							
Rents and Leases	5060	-	-	-	27,759	-	27,759
Lottery Expenditures		-	-	-	-	-	-
Academic Salaries	1000	-	-	-	-	-	-
Classified Salaries	2000	-	-	-	-	-	-
Employee Benefits	3000	-	-	-	-	-	-
Supplies and Materials	4000	-	-	-	-	-	-
Software	4100	-	-	-	-	-	-
Books, Magazines & Periodicals	4200	-	-	-	1,313	-	1,313
Instructional Supplies & Materials	4300	-	-	-	72,239	-	72,239
Non-instructional Supplies & Materials	4400	-	-	-	62,069	-	62,069
Total Supplies and Materials		-	-	-	135,621	-	135,621
Other Operating Expenses and Services	5000	-	-	-	968,081	-	968,081
Capital Outlay	6000	-	-	-	-	-	-
Library Books	6300	-	-	-	141,428	-	141,428
Equipment	6400	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	69,618	-	69,618
Equipment - Replacement	6420	-	-	-	-	-	-
Total Equipment	6420	-	-	-	69,618	-	69,618
Total Capital Outlay		-	-	-	211,046	-	211,046
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		1,741,280	-	1,741,280	5,116,926	-	5,116,926
Total for ECS 84362, 50% Law		21,504,257	-	21,504,257	42,808,772	-	42,808,772
Percent of CEE (Instructional Salary Cost/Total CEE)		50.23%	0.00%	50.23%	100.00%	0.00%	100.00%
50% of Current Expense of Education					21,404,386	-	21,404,386

See accompanying note to supplementary information.

MERCED COMMUNITY COLLEGE DISTRICT
 DETAILS OF EDUCATION PROTECTION ACCOUNT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

EPA Revenue	7,559,196
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Activity Classification	Activity Code	Salaries and Benefits	Operating Expenses	Capital Outlay	Total
		(Obj 1000-3000)	(Obj 4000-5000)	(Obj 6000)	
Instructional Activities	0100-5900	7,559,196	-	-	7,559,196
Total		7,559,196	-	-	7,559,196

MERCED COMMUNITY COLLEGE DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1- PURPOSE OF SCHEDULES

A. **Schedules of Expenditures of Federal Awards and State Financial Assistance**

The audit of the Merced Community College District for the year ended June 30, 2013 was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. The Schedule of Federal Awards and the Schedule of State Financial Assistance is prepared on the modified accrual basis of accounting.

B. **Schedule of Workload Measures for State General Apportionment**

The Schedule of Workload Measures for State General Apportionment represents the basis of apportionment of the Merced Community College District's annual calculation of funding.

C. **Reconciliation of Annual Financial and Budget Report with Audited Fund Balances**

This schedule reports any audit adjustments made to the fund balances of all funds as reported on the Form CCFS-311.

D. **Reconciliation of the ECS 84362 (50 percent law) Calculation**

This schedule reports any audit adjustments made to the reported data to ensure that a minimum of 50 percent of the District's current expense of education is expended for salaries of classroom instructors.

E. **Details of Education Protection Account**

This schedule reports the revenue and expenditure of the District Proposition 30 Education Protection Account.

**OTHER INDEPENDENT
AUDITORS' REPORTS**

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

Independent Auditors' Report

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

Michael Ash, CPA

Heather Daud

Governing Board
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 governmental activities, each major fund, and the aggregate remaining fund information of Merced Community College District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Merced Community College District's basic financial statements, and have issued our report thereon dated December 13, 2013.

Internal Control over Financial Reporting

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

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

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. (Finding #2013-01)

Compliance and Other Matters

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

Merced Community College District's Response to Findings

Merced Community College District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs Merced Community College District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



San Diego, California
December 13, 2013

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133**

Independent Auditors' Report

Governing Board
Merced Community College District
Merced, California

Report on Compliance for Each Major Federal Program

We have audited Merced Community College District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Merced Community College District's major federal programs for the year ended June 30, 2013. Merced Community College District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Merced Community College District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Merced Community College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Merced Community College 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 federal programs for the year ended June 30, 2013/

Report on Internal Control Over Compliance

Management of Merced Community College District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Merced Community College District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Merced Community College District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



San Diego, California
December 13, 2013

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

Michael Ash, CPA

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Governing Board
Merced Community College District
Merced, California

Report on State Compliance

We have audited Merced Community College District's compliance with the types of compliance requirements described in the *California Community Colleges Contracted District Audit Manual (CDAM) 2012-13*, issued by the California Community Colleges Chancellor's Office for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on Merced Community College District's compliance with the requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *California Community Colleges Contracted District Audit Manual (CDAM) 2012-13*, issued by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Merced Community College District compliance with those requirements.

Opinion on State Compliance

In our opinion, Merced Community College District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2013.

Procedures Performed

In connection with the audit referred to above, we selected and tested transactions and records to determine Merced Community College District's compliance with the state laws and regulations applicable to the following items:

- Section 421 – Salaries of Classroom Instructors (50 Percent Law)
- Section 423 - Apportionment for Instructional Service Agreements/Contracts
- Section 424 - State General Apportionment Funding System
- Section 425 - Residency Determination for Credit Courses
- Section 426 - Students Actively Enrolled
- Section 427 - Concurrent Enrollment of K-12 Students in Community College Credit Courses
- Section 431 - Gann Limit Calculation
- Section 433 - CalWORKS
- Section 435 - Open Enrollment
- Section 437 - Student Fees – Instructional and Other Materials
- Section 438 - Student Fees – Health Fees and Use of Health Fee Funds
- Section 474 - Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
- Section 475 - Disabled Student Programs and Services (DSPS)
- Section 479 - To Be Arranged Hours (TBA)
- Section 490 - Proposition 1D State Bond Funded Projects
- Section 491- Proposition 30 Education Protection Account Funds

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing over state laws and regulations based on the requirements described in the *California Community Colleges Contracted District Audit Manual (CDAM) 2012-13*. Accordingly, this report is not suitable for any other purpose.



San Diego, California
December 13, 2013

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**MERCED COMMUNITY COLLEGE DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2013**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>No</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program of Cluster</u>
<u>84.007, 84.033, 84.063, 84.268</u>	<u>Student Financial Aid Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 660,320</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>No</u>
Type of auditors' report issued on compliance for State programs:	<u>Unmodified</u>

**MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO THE FINANCIAL
STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

FINDING #2013-1: INTERNAL CONTROL (AGRICULTURE DEPARTMENT)

Condition: During our audit of the financial statements and in evaluating the internal control environment, we noted the following deficiencies in internal control pertaining to the Agriculture department:

- Incomplete records over cash receipts to enable reconciliation of cash-generating activities with funds deposited.
- Lack of documentation and inconsistent procedures over periodic inventory observations to aide in the safeguarding of Agriculture department assets.
- Breakdowns in segregation of duties over key functions including inventory management and recordkeeping, price setting, marketing and sales, and cash handling and deposit.

Criteria: All District departments should adhere to sound internal control practices to best safeguard District assets and achieve learning outcomes.

Effect: The District is potentially vulnerable to misappropriation of assets.

Recommendation: We recommend that the District implement procedures to ensure that all District departments including the Agriculture department receive guidance and support to successfully implement sound internal controls.

District Response: The District's Agricultural Department has implemented cash receipting processes and procedures for its various sales events. In addition, the District will review and update its cash handling procedures to ensure that all District departments receive proper guidance and support to successfully implement sound internal controls. Also, the Dean of that area is closely reviewing the evaluation, recordkeeping, and price setting processes to explore options for segregation of duties.

**MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

There were no findings or questioned costs related to the federal awards for the year ended June 30, 2013.

**MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

There were no findings or questioned costs related to the state awards for the year ended June 30, 2013.

**MERCED COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

FINDING #2012-1: INTERNAL CONTROL (SEGREGATION OF DUTIES)

Condition: During our audit of the financial statements and in evaluating the internal control environment, we noted that the payroll department has the ability and access to add new employees or make changes to existing employee files in the payroll module.

Criteria: For proper segregation of duties, individuals in the payroll department should not have the ability to create new employee files or make modifications to existing employee files. Access to employee files, including editing rights, should be only for authorized individuals.

Effect: The District is potentially vulnerable to misappropriation of assets by not restricting the access, including editing rights, to employee records to only authorized individuals.

Recommendation: We recommend that the District implement procedures to restrict access, including editing rights, to employee records to only authorized individuals.

District Response: The District is currently taking steps to restrict payroll department access to add and/or change employee files. Procedures are being implemented to provide inquiry-only access to payroll staff.

Current Status: Corrected.

**MERCED COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

FINDING #2012-2: STATE COMPLIANCE (EXTENDED OPPORTUNITY PROGRAMS & SERVICES AND COOPERATIVE AGENCIES RESOURCES FOR EDUCATION)

Condition: The District did not hold two advisory committee meetings for the CARE program during the academic year.

Criteria: For the CARE program, the advisory committee shall meet at least twice during each academic year (CARE Program Guidelines, revised August 1, 2010).

Effect: The purpose of the advisory committee is to assist the District in developing and maintaining adequate programs. By not holding the advisory committee meetings, the programs may not be operating in an efficient or effective manner.

Recommendation: We recommend that the District establish procedures to ensure that the advisory committee for CARE meet the required number of times each academic year.

District Response: The District will ensure that two advisory committee meetings are held for the CARE program each academic year.

Current Status: Corrected.

**MERCED COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

FINDING #2012-3: STATE COMPLIANCE (CONCURRENT ENROLLMENT)

Condition: For one of the 25 students selected for testing, the District did not obtain certification from the K-12 principal that they have not recommended for community college attendance more than five percent of the total number of pupils who completed the grade immediately prior to the time of recommendation.

Criteria: Under *California Education Code*, Section 48800, the governing board of a school district may authorize kindergarten through 12th grade (K-12) students who would benefit from advanced scholastic or vocational work, upon recommendation of the principal of the student's school of attendance, and with parental consent, to attend a community college as special part-time or full-time students to undertake one or more courses of instruction offered at the community college level. For summer session attendance, the District must obtain certification from the K-12 principal that no more than five percent of the pupils have been recommended. (*California Education Code*, Section 48800(d)(2)).

California Education Code, Section 76002(a) specifies that for purposes of receiving state apportionments, a community college district may include concurrently enrolled students who attend a community college with the District pursuant to *California Education Code*, Sections 48800 and 76001 in the District's report of full-time equivalent students (FTES).

Effect: There is a potential for noncompliance with State concurrent enrollment regulations due to lack of effective monitoring of advanced education students.

Recommendation: We recommend that the District establish procedures to obtain the required documentation from all concurrently enrolled students prior to being enrolled or put on a waiting list for a course.

District Response: The District has established a new process that will help ensure that the registration form and K-12 form are received and scanned together. In addition, all intake forms are now being reviewed specifically for K-12 registration and both the registration form and K-12 form are being pulled together and put into a unique folder for scanning.

Current Status: Corrected.

**MERCED COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

FINDING #2012-4: STATE COMPLIANCE (DISABLED STUDENT PROGRAMS AND SERVICES – DSPS)

Condition: During our testing, we discovered that none of the 25 student files selected, included documentation of the services provided by the District.

Criteria: To demonstrate compliance with Title 5, Section 56026, the District should maintain records of the services provided to students with disabilities, including number of hours, pay rate, name of providers, and the identification of the disability and educational limitations requiring the service.

Effect: There is a potential for noncompliance with the Chancellor’s Office Implementing Guidelines for Title 5 Regulations over the DSPS due to lack of effective monitoring and retention of student files.

Recommendation: District should implement tighter internal controls to ensure that proper documentation is received and filed for every student participating in the DSPS program.

District Response: The District has implemented a process to ensure that all DSS student files contain all pertinent information.

Current Status: Corrected.

**MERCED COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2013**

FINDING #2012-5 STATE COMPLIANCE (TO BE ARRANGED HOURS)

Condition: The number of hours of instruction for TBA (To Be Arranged) courses was not listed in the official general catalog for all of the courses selected for testing.

Documentation that demonstrates each student has completed the TBA requirement as appropriate for either weekly or daily census attendance was not maintained for all of the courses selected for testing.

Criteria: A clear description of the course, including the number of TBA hours required, must be published in the official general catalog and/or addenda and listed in the schedule of classes (5 CCR 58104, and TBA Hours Compliance Advice (Legal Advisory 08-02), published October 1, 2008).

If a credit census based course includes required instructional hours for enrolled students that are listed as TBA in the official schedule or addenda, documentation is required to demonstrate that each student has completed the TBA requirement as appropriate for either weekly or daily census attendance accounting procedures (5 CCR 58003.1(b), 58003.1(c): Student Accounting Manual, page 3.3).

Effect: The courses may not be well publicized which may affect the students' selection of courses. The FTES claimed for apportionment may not be accurate.

Recommendation: We recommend that the District update their general catalog to include the number of TBA hours required for all TBA courses.

We recommend that the District maintain attendance records for each course with a TBA component. The record should demonstrate that the students enrolled fulfilled their regularly scheduled TBA responsibilities.

District Response: The District has already re-trained the academic deans regarding compliance with TBA hours and is working with the curriculum chair to ensure that the general catalog includes the number of TBA hours required for all TBA courses. In addition, faculty will receive training regarding documentation needed for TBA courses. This training will assist faculty in developing a process to maintain attendance records for each TBA course.

Current Status: Corrected.