

# MERCED COMMUNITY COLLEGE DISTRICT

## AUDIT REPORT

JUNE 30, 2014



San Diego

Los Angeles

San Francisco  
Bay Area

christy  white  
A PROFESSIONAL  
ACCOUNTANCY CORPORATION *associates*

**MERCED COMMUNITY COLLEGE DISTRICT  
TABLE OF CONTENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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**FINANCIAL SECTION**

|                                                                  |    |
|------------------------------------------------------------------|----|
| Independent Auditors' Report .....                               | 1  |
| Management's Discussion and Analysis.....                        | 4  |
| Basic Financial Statements                                       |    |
| Statement of Net Position .....                                  | 13 |
| Statement of Revenues, Expenses and Changes in Net Position..... | 14 |
| Statement of Cash Flows.....                                     | 15 |
| Statement of Fiduciary Net Position.....                         | 17 |
| Statement of Changes in Fiduciary Net Position.....              | 18 |
| Discretely Presented Component Unit                              |    |
| Statement of Financial Position.....                             | 19 |
| Statement of Activities .....                                    | 20 |
| Notes to Financial Statements .....                              | 21 |

**REQUIRED SUPPLEMENTARY INFORMATION**

|                                                  |    |
|--------------------------------------------------|----|
| Schedule of Funding Progress .....               | 41 |
| Notes to Required Supplementary Information..... | 42 |

**SUPPLEMENTARY INFORMATION**

|                                                                                                        |    |
|--------------------------------------------------------------------------------------------------------|----|
| History and Organization .....                                                                         | 43 |
| Schedule of Expenditures of Federal Awards .....                                                       | 44 |
| Schedule of State Financial Assistance .....                                                           | 45 |
| Schedule of Workload Measure for State General Apportionment Annual (Actual) Attendance.....           | 46 |
| Reconciliation of Annual Financial and Budget Report (CCFS-311) with District Accounting Records ..... | 47 |
| Reconciliation of the ECS 84362 (50 Percent Law) Calculation .....                                     | 48 |
| Details of Education Protection Account .....                                                          | 49 |
| Notes to Supplementary Information.....                                                                | 50 |

**MERCED COMMUNITY COLLEGE DISTRICT  
TABLE OF CONTENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

---

**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* ..... 51  
Report on Compliance For Each Major Federal Program; and Report on Internal Control Over Compliance Required by OMB Circular A-133 ..... 53  
Report on State Compliance..... 55

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Summary of Auditors' Results ..... 57  
Schedule of Findings and Questioned Costs Related to the Financial Statements..... 58  
Schedule of Findings and Questioned Costs Related to Federal Awards ..... 59  
Schedule of Findings and Questioned Costs Related to State Awards..... 60  
Status of Prior Year Findings and Questioned Costs ..... 61

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

Christy White, CPA

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

John Whitehouse, CPA

Heather Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

### Corporate Office:

2727 Camino Del Rio South  
Suite 219  
San Diego, CA 92108

toll-free: 877.220.7229  
tel: 619.270.8222  
fax: 619.260.9085  
www.christywhite.com

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, 2014, 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, 2014, 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 12 and the schedule of funding progress on page 42 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.

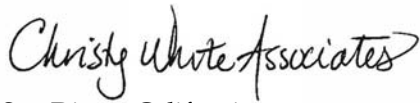
#### *Supplementary Information*

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, 2014 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, 2014

**MERCED COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014**

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**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](http://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, 2014. 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 2013-14 state budget bill, AB 110, was signed by Governor Jerry Brown on June 27, 2013. For the third consecutive year, the State budget was passed on time. The approved budget assumed total General Fund expenditures of \$96.3 billion, \$5 billion more than in 2012-13 but still \$6 billion below the 2007-08 fiscal year. Despite passage of Proposition 30 and higher than anticipated tax receipts, the adopted state budget was based on the Governor's more conservative revenue projections.



**MERCED COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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**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. This funding is a temporary increase to allow the economy to rise to the needed levels to support the state budget. The governor has handed out this temporary funding in categorical increases and one time funding to ease any roll back that might occur.

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

- 1.57% Cost-of-Living Adjustment (COLA)
- 1.63% increase in funding for enrollment restoration/access
- \$30 million to reduce outstanding State apportionment deferrals, reducing total deferrals to \$592 million
- \$50 million to fund an augmentation of the Student Success and Support categorical program
- Maintained the Mandated Block Grant, allowing districts to elect to receive \$28 per FTES for compliance with mandates in lieu of filing reimbursement claims
- Provided one-time funding of \$30 million for Scheduled Maintenance and Instructional Equipment

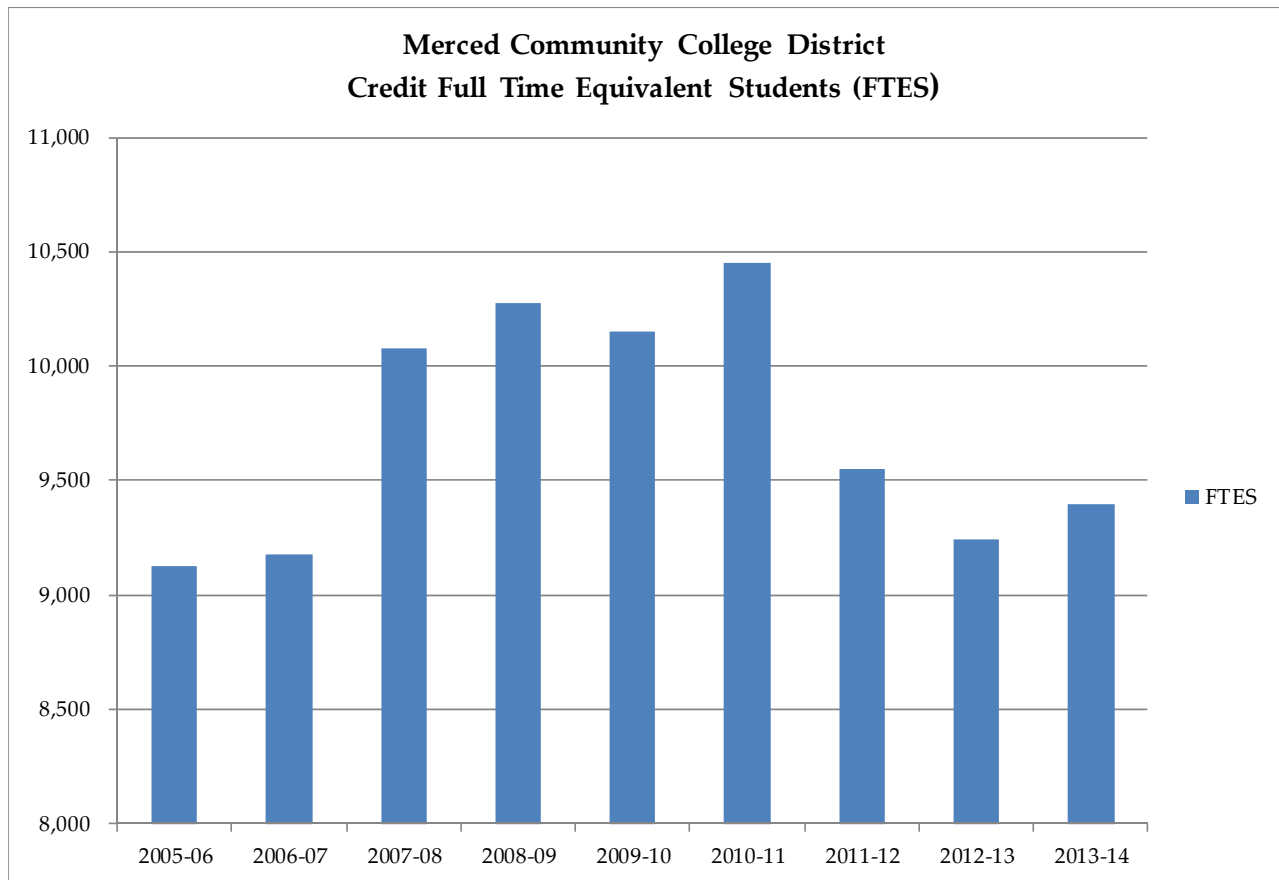
On September 3, 2013, the District presented to the Board of Trustees its annual budget. The 2013-14 adopted budget estimated Unrestricted General Fund Revenues of \$51,656,471 and \$53,115,722 Unrestricted General fund Expenditures, resulting in a projected net loss of \$1,459,251 for the fiscal year. The projected net loss, coupled with a beginning fund balance of \$5,661,014, would result in an ending fund balance of \$4,201,763, or 7.9%. at year end, actual figures for revenue were 0.6% higher than the amount estimated at the time of the adopted budget, while expenditures were 0.3% less than estimated. The net effect of the combined increase in revenues and decrease in expenditures left an ending Unrestricted General Fund balance of \$4,725,146 or 8.9%.

**MERCED COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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**FINANCIAL AND ENROLLMENT HIGHLIGHTS (continued)**

In 2013-14, the District reported 9,401 credit and non-credit resident FTES. See the below chart for a historical perspective on the changes in FTES over the past 9 years.



**MERCED COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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**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.

|                                  | 2014                 | 2013                 | \$ Change             | % Change     |
|----------------------------------|----------------------|----------------------|-----------------------|--------------|
| <b>ASSETS</b>                    |                      |                      |                       |              |
| Current assets                   | \$ 25,768,674        | \$ 27,297,377        | \$ (1,528,703)        | -5.6%        |
| Non-current assets               | 117,774,068          | 121,393,472          | (3,619,404)           | -3.0%        |
| <b>Total Assets</b>              | <b>143,542,742</b>   | <b>148,690,849</b>   | <b>(5,148,107)</b>    | <b>-3.5%</b> |
| <b>LIABILITIES</b>               |                      |                      |                       |              |
| Current liabilities              | 15,548,385           | 15,594,764           | (46,379)              | -0.3%        |
| Non-current liabilities          | 50,890,980           | 50,397,060           | 493,920               | 1.0%         |
| <b>Total Liabilities</b>         | <b>66,439,365</b>    | <b>65,991,824</b>    | <b>447,541</b>        | <b>0.7%</b>  |
| <b>NET POSITION</b>              |                      |                      |                       |              |
| Net investment in capital assets | 65,819,037           | 67,673,267           | (1,854,230)           | -2.7%        |
| Restricted                       | 6,706,021            | 6,931,961            | (225,940)             | -3.3%        |
| Unrestricted                     | 4,578,319            | 8,093,797            | (3,515,478)           | -43.4%       |
| <b>Total Net Position</b>        | <b>\$ 77,103,377</b> | <b>\$ 82,699,025</b> | <b>\$ (5,595,648)</b> | <b>-6.8%</b> |

*Assets*

Total Assets decreased approximately \$5.1 million, a percentage decrease of 3.5%. The major changes affecting total assets are listed below:

Current Assets decreased by approximately \$1.5 million, a percentage decrease of 5.6%. This decrease is primarily due to a significant reduction in state apportionment deferrals, which reduced Accounts Receivable by \$4.8.

Non-current Assets decreased by approximately \$3.6 million, a percentage decrease of 3%. The major changes affecting Non-current Assets are listed below:

- Net capital assets decreased by approximately \$2.1 million primarily due to accumulated depreciation.
- Adjustment of \$1.3 million due to the elimination of amortization of debt issuance costs, per Note 18 on Page 41 of this report.

*Net Position*

The decrease in total assets combined with the slight increase in total liabilities resulted in an overall decrease in Net Position of approximately \$5.6 million, or 6.8%. This decrease primarily impacted unrestricted net position, as restricted net position remained relatively flat. In addition, the reduction of net investment in capital assets was largely the result of accumulated depreciation. The variance in unrestricted net position between 2014 and 2013 is also impacted by the prior year restatement of \$2.2 million, as reflected in Note 18 on Page 41. This adjustment reduces the variance between the two fiscal years.

**MERCED COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

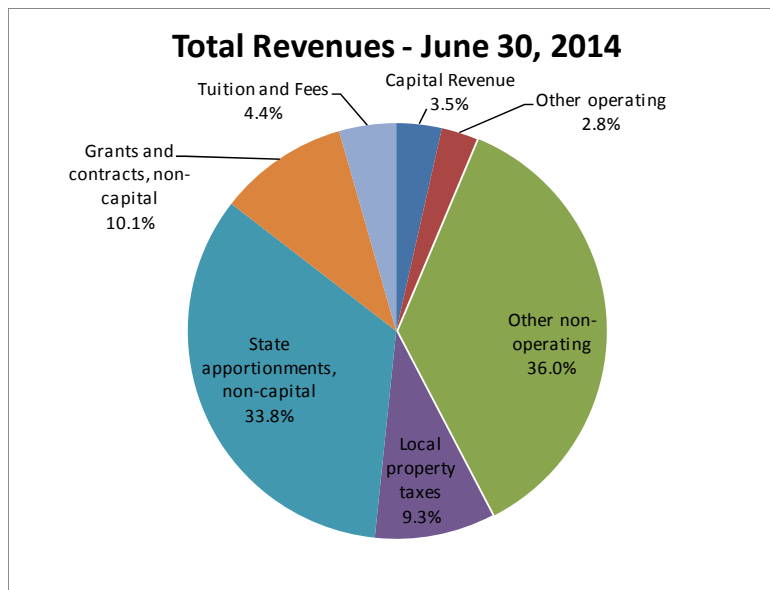
The Statement of Revenues, Expenses and Changes in Net Position present information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related 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.

|                                                         | 2014                 | 2013                 | \$ Change             | % Change      |
|---------------------------------------------------------|----------------------|----------------------|-----------------------|---------------|
| <b>OPERATING REVENUES</b>                               |                      |                      |                       |               |
| Student Tuition and Fees                                | \$ 12,010,355        | \$ 11,726,582        | \$ 283,773            | 2.4%          |
| Less: Scholarship discount & allowance                  | (7,998,789)          | (7,628,838)          | (369,951)             | 4.8%          |
| Net tuition & fees                                      | 4,011,566            | 4,097,744            | (86,178)              | -2.1%         |
| Grants and Contracts, noncapital:                       |                      |                      |                       |               |
| Federal                                                 | 2,340,012            | 1,670,779            | 669,233               | 40.1%         |
| State                                                   | 5,864,212            | 5,006,961            | 857,251               | 17.1%         |
| Local                                                   | 943,681              | 1,418,917            | (475,236)             | -33.5%        |
| Internal Service Sales and Charges                      | 2,540,127            | 2,179,688            | 360,439               | 16.5%         |
| Subtotal                                                | 11,688,032           | 10,276,345           | 1,411,687             | 13.7%         |
| <b>TOTAL OPERATING REVENUES</b>                         | <b>15,699,598</b>    | <b>14,374,089</b>    | <b>1,325,509</b>      | <b>9.2%</b>   |
| <b>OPERATING EXPENSES</b>                               |                      |                      |                       |               |
| Salaries                                                | 34,869,934           | 35,091,715           | (221,781)             | -0.6%         |
| Benefits                                                | 18,262,933           | 17,425,119           | 837,814               | 4.8%          |
| Supplies, materials, & other operating expenses         | 12,432,964           | 9,772,679            | 2,660,285             | 27.2%         |
| Depreciation                                            | 3,847,981            | 3,871,618            | (23,637)              | -0.6%         |
| <b>TOTAL OPERATING EXPENSES</b>                         | <b>69,413,812</b>    | <b>66,161,131</b>    | <b>3,252,681</b>      | <b>4.9%</b>   |
| <b>OPERATING LOSS</b>                                   | <b>(53,714,214)</b>  | <b>(51,787,042)</b>  | <b>(1,927,172)</b>    | <b>3.7%</b>   |
| <b>NONOPERATING REVENUES/(EXPENSES)</b>                 |                      |                      |                       |               |
| State apportionments, non-capital                       | 30,693,873           | 29,031,100           | 1,662,773             | 5.7%          |
| Local property taxes                                    | 8,425,958            | 7,519,085            | 906,873               | 12.1%         |
| Federal financial aid, grants and contracts, noncapital | 22,498,175           | 21,750,308           | 747,867               | 3.4%          |
| State taxes & other revenues                            | 10,041,560           | 9,465,308            | 576,252               | 6.1%          |
| Investment income                                       | 149,296              | 200,501              | (51,205)              | -25.5%        |
| Financial aid expense                                   | (22,634,363)         | (21,400,743)         | (1,233,620)           | 5.8%          |
| Interest expense                                        | (2,038,246)          | (2,448,684)          | 410,438               | -16.8%        |
| <b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>           | <b>47,136,253</b>    | <b>44,116,875</b>    | <b>3,019,378</b>      | <b>6.8%</b>   |
| <b>LOSS BEFORE OTHER REVENUES AND LOSSES</b>            | <b>(6,577,961)</b>   | <b>(7,670,167)</b>   | <b>1,092,206</b>      | <b>-14.2%</b> |
| <b>OTHER REVENUES AND (LOSSES)</b>                      |                      |                      |                       |               |
| Local property taxes and revenues, capital              | 3,041,361            | 3,070,508            | (29,147)              | -0.9%         |
| Local revenues, grants and gifts, capital               | 137,835              | 103,483              | 34,352                | 33.2%         |
| Other revenue/(losses)                                  | 6,698                | 2,032,312            | (2,025,614)           | -99.7%        |
| <b>TOTAL OTHER REVENUES AND LOSSES</b>                  | <b>3,185,894</b>     | <b>5,206,303</b>     | <b>(2,020,409)</b>    | <b>-38.8%</b> |
| <b>CHANGE IN NET POSITION</b>                           | <b>(3,392,067)</b>   | <b>(2,463,864)</b>   | <b>(928,203)</b>      | <b>37.7%</b>  |
| <b>BEGINNING NET POSITION</b>                           | <b>82,699,025</b>    | <b>82,625,595</b>    | <b>73,430</b>         | <b>0.1%</b>   |
| <b>ADJUSTMENT FOR RESTATEMENT (see Note 18)</b>         | <b>(2,203,581)</b>   | <b>2,537,294</b>     | <b>(4,740,875)</b>    |               |
| <b>BEGINNING NET POSITION, AS RESTATED</b>              | <b>80,495,444</b>    | <b>85,162,889</b>    | <b>(4,667,445)</b>    | <b>-5.5%</b>  |
| <b>ENDING NET POSITION</b>                              | <b>\$ 77,103,377</b> | <b>\$ 82,699,025</b> | <b>\$ (5,595,648)</b> | <b>-6.8%</b>  |

**MERCED COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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



*Operating Revenues*

Total Operating Revenues increased approximately \$1.3 million, a percentage increase of 9.2%. This increase is primarily due to increases in federal (\$669k) and state (\$857k) grants and contracts, as well as bookstore sales (\$360k).

*Non-operating Revenues*

Total Non-operating revenues increased approximately \$3 million, or 6.8%, mainly due to the following:

- State apportionments increased by \$1.6 million, 5.7%, due to the state providing a 1.57% Cost of Living Adjustment as well as additional funding for enrollment restoration/access
- Local property taxes increased by \$907k, or 12.1%, as a result of the continuing rise in assessed property valuation levels throughout Merced County

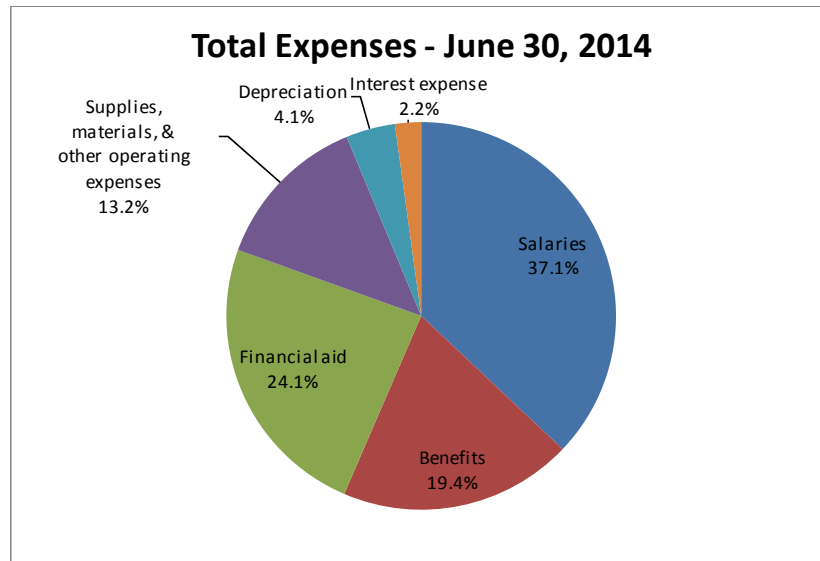
*Other Revenues (Losses)*

Other Revenues and Losses decreased by 99.7%, approximately \$2 million. In the prior year, this category included the proceeds from a capital lease plus the sale of the District's former Los Banos campus property. There were no such transactions in 2013-14.

MERCED COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014

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



*Operating Expenses*

Total Operating Expenses increased approximately \$3.2 million, or 4.9%. The major changes affecting total operating expenses are listed below:

- Benefit costs increased by \$837k primarily due to higher insurance rates for health benefits. In addition, the District paid the first annual installment for the 2013-14 retiree incentive program.
- Supplies, materials, and other operating expenses increased by \$2.6 million. This increase is primarily due to the expense related to the 2013-14 early retirement incentive program plus an increase in general operational expenses in this category.

*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, 2014**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

*Capital Assets*

As of June 30, 2014, the District had approximately \$107 million invested in net capital assets. Total capital assets of \$161.2 million consist of land, construction in progress, buildings and improvements, vehicles, data processing equipment, and other office equipment. These assets have accumulated depreciation of \$54.2 million. Depreciation expense of \$3.8 million was recorded for FY 2013-14.

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

|                                   | <u>2014</u>           | <u>2013</u>           | <u>Net Change</u>     |
|-----------------------------------|-----------------------|-----------------------|-----------------------|
| Land and construction in progress | \$ 2,199,302          | \$ 2,931,417          | \$ (732,115)          |
| Buildings and equipment           | 159,064,853           | 156,544,455           | 2,520,398             |
| Accumulated depreciation          | (54,222,251)          | (50,374,270)          | (3,847,981)           |
| <b>Total Capital Assets</b>       | <b>\$ 107,041,904</b> | <b>\$ 109,101,602</b> | <b>\$ (2,059,698)</b> |

*Debt*

At June 30, 2014, the District had \$53.4 million in debt. The increase in debt was primarily due to a new capital lease for network equipment plus the addition of an early retirement incentive program. The District reduced its Net OPEB obligation by transferring \$858,537 to an irrevocable trust in August 2013. Additional OPEB funding will be set aside for subsequent transfer in FY 2014-15. A comparison is summarized below:

|                                    | <u>2014</u>          | <u>2013</u>          | <u>Net Change</u>   |
|------------------------------------|----------------------|----------------------|---------------------|
| General obligation bonds           | \$ 44,912,577        | \$ 45,469,180        | \$ (556,603)        |
| Bond issuance premium              | 1,193,516            | 1,233,700            | (40,184)            |
| Compensated absences               | 958,520              | 945,561              | 12,959              |
| Capital leases                     | 4,895,635            | 3,314,216            | 1,581,419           |
| Early retirement incentive         | 1,183,632            | -                    | 1,183,632           |
| Net OPEB obligation                | 291,223              | 937,924              | (646,701)           |
| <b>Total Long-term Liabilities</b> | <b>\$ 53,435,103</b> | <b>\$ 51,900,581</b> | <b>\$ 1,534,522</b> |

**MERCED COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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**ECONOMIC OUTLOOK AND FACTORS AFFECTING NEXT YEAR'S BUDGET**

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

The State's economy is expected to grow at a modest rate of about 4% annually over the next two years, according to the UCLA Anderson Economic Forecast for September 2014. In the California forecast, Senior Economist Jerry Nickelsburg writes, "The California economy is moving forward in an expansion from the depths of the Great Recession. But, even though the number of jobs is now higher than any time in the past, the state remains below its potential in output and employment. That we are entering the sixth year of expansion illustrates just how painfully plodding this recovery process has been." The ability of the State to fund education and other programs is largely dependent on the strength of the State's economy and remains uncertain.

GASB 68, Accounting and Financial Reporting for Pensions, will be effective in the following fiscal year, 2014-15. The new standard requires the reporting of annual pension cost using an actuarially determined method and a net position liability is expected to result. The District participates in state employee pension plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability will be reported in the Statement of Net Position as of June 30, 2015. The amount of the liability is unknown at this time but is anticipated to be material to the financial position of the District. To address the underfunding issues, the pension plans intend to raise employer rates in future years and the increased costs could be significant.

Community College funding has become increasingly complex, making it more challenging to estimate the various funding categories and calculate total funding for a given fiscal year. The deficit factors have become larger and districts in general, find it harder to calculate the fiscal impact of this uncertainty. At the same time, the buy down of deferrals has made cash flow predictions a great deal easier. As a result, the District will have to utilize less Tax Revenue Anticipation Notes (TRANS) to cover cash flow shortages.

All of these factors were considered in preparing the District' budget for the 2014-15 fiscal year.

**REQUEST FOR INFORMATION**

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



**MERCED COMMUNITY COLLEGE DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

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| <b>ASSETS</b>                                   | <b><u>Primary Government</u></b> |
|-------------------------------------------------|----------------------------------|
| <b>CURRENT ASSETS</b>                           |                                  |
| Cash and cash equivalents                       | \$ 10,751,895                    |
| Accounts receivable                             | 14,100,086                       |
| Prepaid expenses                                | 389,788                          |
| Inventory                                       | 510,595                          |
| Due from fiduciary funds                        | 16,310                           |
| <b>Total Current Assets</b>                     | <b><u>25,768,674</u></b>         |
| <b>NONCURRENT ASSETS</b>                        |                                  |
| Restricted cash and cash equivalents            | 10,732,164                       |
| Capital assets, net of accumulated depreciation | 107,041,904                      |
| <b>Total Noncurrent Assets</b>                  | <b><u>117,774,068</u></b>        |
| <b>TOTAL ASSETS</b>                             | <b><u>143,542,742</u></b>        |
| <b>LIABILITIES</b>                              |                                  |
| <b>CURRENT LIABILITIES</b>                      |                                  |
| Accounts payable                                | 3,532,100                        |
| Tax revenue anticipation notes (TRANS)          | 5,500,000                        |
| Deferred revenue                                | 3,972,162                        |
| Current Portion - Long-term liabilities         | 2,544,123                        |
| <b>Total Current Liabilities</b>                | <b><u>15,548,385</u></b>         |
| <b>NONCURRENT LIABILITIES</b>                   |                                  |
| Noncurrent portion - Long-term liabilities      | 50,890,980                       |
| <b>TOTAL LIABILITIES</b>                        | <b><u>66,439,365</u></b>         |
| <b>NET POSITION</b>                             |                                  |
| Net investment in capital assets                | 65,819,037                       |
| Restricted for:                                 |                                  |
| Capital projects                                | 2,909,409                        |
| Debt service                                    | 1,596,546                        |
| Educational programs                            | 2,200,066                        |
| Unrestricted                                    | 4,578,319                        |
| <b>TOTAL NET POSITION</b>                       | <b><u>\$ 77,103,377</u></b>      |

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, 2014**

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|                                                 | <u>Primary Government</u> |
|-------------------------------------------------|---------------------------|
| <b>OPERATING REVENUES</b>                       |                           |
| Student Tuition and Fees                        | \$ 12,010,355             |
| Less: Scholarship discount & allowance          | (7,998,789)               |
| Net tuition & fees                              | <u>4,011,566</u>          |
| Grants and Contracts, noncapital:               |                           |
| Federal                                         | 2,340,012                 |
| State                                           | 5,864,212                 |
| Local                                           | 943,681                   |
| Internal Service Sales and Charges              | <u>2,540,127</u>          |
| Subtotal                                        | <u>11,688,032</u>         |
| TOTAL OPERATING REVENUES                        | <u>15,699,598</u>         |
| <b>OPERATING EXPENSES</b>                       |                           |
| Salaries                                        | 34,869,934                |
| Benefits                                        | 18,262,933                |
| Supplies, materials, & other operating expenses | 12,432,964                |
| Depreciation                                    | <u>3,847,981</u>          |
| TOTAL OPERATING EXPENSES                        | <u>69,413,812</u>         |
| <b>OPERATING LOSS</b>                           | <u>(53,714,214)</u>       |
| <b>NONOPERATING REVENUES/(EXPENSES)</b>         |                           |
| State apportionments, non-capital               | 30,693,873                |
| Local property taxes                            | 8,425,958                 |
| State taxes & other revenues                    | 10,041,560                |
| Investment income                               | 149,296                   |
| Financial aid revenues                          | 22,498,175                |
| Financial aid expenses                          | (22,634,363)              |
| Interest expense                                | <u>(2,038,246)</u>        |
| TOTAL NONOPERATING REVENUES (EXPENSES)          | <u>47,136,253</u>         |
| <b>GAIN/(LOSS) BEFORE OTHER REVENUES</b>        | <u>(6,577,961)</u>        |
| <b>OTHER REVENUES</b>                           |                           |
| Local property taxes and revenues, capital      | 3,041,361                 |
| Local revenues, grants and gifts, capital       | 137,835                   |
| Other revenue                                   | <u>6,698</u>              |
| TOTAL OTHER REVENUES                            | <u>3,185,894</u>          |
| <b>CHANGE IN NET POSITION</b>                   | <u>(3,392,067)</u>        |
| <b>BEGINNING NET POSITION</b>                   | <u>82,699,025</u>         |
| <b>ADJUSTMENT FOR RESTATEMENT (see Note 18)</b> | <u>(2,203,581)</u>        |
| <b>NET POSITION, AS RESTATED</b>                | <u>80,495,444</u>         |
| <b>ENDING NET POSITION</b>                      | <u>\$ 77,103,377</u>      |

See accompanying notes to the financial statements.

**MERCED COMMUNITY COLLEGE DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2014**

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|                                                         | <u>Primary Government</u> |
|---------------------------------------------------------|---------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>             |                           |
| Tuition and fees                                        | \$ 4,011,566              |
| Federal grants and contracts                            | 2,524,596                 |
| State grants and contracts                              | 8,630,945                 |
| Local grants and contracts                              | 3,021,373                 |
| Payments to or on behalf of employees                   | (34,571,276)              |
| Payments for benefits                                   | (17,726,002)              |
| Payments to vendors for supplies and services           | (14,880,614)              |
| Auxiliary enterprise sales and charges                  | 2,540,127                 |
| Net Cash Used by Operating Activities                   | <u>(46,449,285)</u>       |
| <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b> |                           |
| State apportionments and receipts                       | 30,693,873                |
| Property taxes                                          | 8,882,509                 |
| State taxes and other revenues                          | 10,498,111                |
| Financial aid disbursements                             | (22,634,363)              |
| Financial aid receipts                                  | 22,498,175                |
| Net Cash Provided by Non-capital Financing Activities   | <u>49,938,304</u>         |
| <b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>     |                           |
| Acquisition and construction of capital assets          | 377,536                   |
| Proceeds from issuance of TRANs                         | 500,000                   |
| Principal paid on capital debt                          | (1,412,418)               |
| Interest paid on capital debt                           | (2,078,430)               |
| Interest received on capital debt                       | 25,476                    |
| Local property taxes and other revenues, capital        | 3,185,894                 |
| Net Cash Provided by Capital Financing Activities       | <u>598,058</u>            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>             |                           |
| Investment income                                       | 149,296                   |
| Net Cash Provided by Investing Activities               | <u>149,296</u>            |
| <b>NET INCREASE IN CASH &amp; CASH EQUIVALENTS</b>      | 4,236,373                 |
| <b>CASH &amp; CASH EQUIVALENTS, BEGINNING OF YEAR</b>   | <u>17,247,686</u>         |
| <b>CASH &amp; CASH EQUIVALENTS, END OF YEAR</b>         | <u>\$ 21,484,059</u>      |

See accompanying notes to the financial statements.

**MERCED COMMUNITY COLLEGE DISTRICT  
STATEMENT OF CASH FLOWS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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|                                                                                      | <u>Primary Government</u> |
|--------------------------------------------------------------------------------------|---------------------------|
| <b>RECONCILIATION OF OPERATING LOSS TO NET CASH<br/>USED BY OPERATING ACTIVITIES</b> |                           |
| Operating loss                                                                       | \$ (53,714,214)           |
| Adjustments to Reconcile Operating Loss to Net Cash Used by<br>Operating Activities: |                           |
| Depreciation expense                                                                 | 3,847,981                 |
| Changes in Assets and Liabilities:                                                   |                           |
| Accounts receivables, net                                                            | 4,825,832                 |
| Inventory                                                                            | (75,471)                  |
| Prepaid expenses                                                                     | (296,322)                 |
| Accounts payable                                                                     | (1,333,053)               |
| Accrued salaries and related benefits                                                | (446,482)                 |
| Deferred revenue                                                                     | 192,554                   |
| SERP liability                                                                       | 1,183,632                 |
| OPEB liability                                                                       | (646,701)                 |
| Compensated absences                                                                 | 12,959                    |
| Total Adjustments                                                                    | <u>7,264,929</u>          |
| <b>Net Cash Flows From Operating Activities</b>                                      | <u>\$ (46,449,285)</u>    |
| <br><b>NONCASH TRANSACTIONS</b>                                                      |                           |
| On behalf payments for benefits                                                      | <u>\$ 1,001,340</u>       |

See accompanying notes to the financial statements.

MERCED COMMUNITY COLLEGE DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2014

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|                           | <u>Associated Students</u><br><u>Government Funds</u> |
|---------------------------|-------------------------------------------------------|
| <b>ASSETS</b>             |                                                       |
| Cash and cash equivalents | \$ 207,820                                            |
| Accounts receivable       | 446                                                   |
| Due from other funds      | 7,932                                                 |
| <b>Total Assets</b>       | <u>216,198</u>                                        |
| <br>                      |                                                       |
| <b>NET POSITION</b>       |                                                       |
| Restricted Net Position   | <u>216,198</u>                                        |
| <b>Total Net Position</b> | <u>\$ 216,198</u>                                     |

See accompanying notes to the financial statements.

**MERCED COMMUNITY COLLEGE DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2014**

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|                                            | <u>Associated Students<br/>Government Funds</u> |
|--------------------------------------------|-------------------------------------------------|
| <b>Additions</b>                           |                                                 |
| Other financing sources                    | \$ 6,000                                        |
| Other income                               | 40,153                                          |
| <b>Total Additions</b>                     | <u>46,153</u>                                   |
| <br><b>Deductions</b>                      |                                                 |
| Supplies and materials                     | 13,156                                          |
| Other operating expenses and services      | 15,972                                          |
| Other outgo                                | 1,604                                           |
| <b>Total Deductions</b>                    | <u>30,732</u>                                   |
| <br><b>CHANGE IN NET POSITION</b>          | <u>15,421</u>                                   |
| <br><b>NET POSITION, BEGINNING OF YEAR</b> | <u>200,777</u>                                  |
| <br><b>NET POSITION, END OF YEAR</b>       | <u>\$ 216,198</u>                               |

See accompanying notes to the financial statements.

MERCED COMMUNITY COLLEGE DISTRICT  
DISCRETELY PRESENTED COMPONENT UNIT – STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2014

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|                                         | <u>Component Unit</u> |
|-----------------------------------------|-----------------------|
| <b>ASSETS</b>                           |                       |
| <b>CURRENT ASSETS</b>                   |                       |
| Cash and cash equivalents               | \$ 1,559,114          |
| Investments                             | 3,550                 |
| Accounts receivable                     | 1,000,000             |
| Pledges receivable                      | 460,152               |
| Due from other funds                    | 56,521                |
| <b>Total Current Assets</b>             | <u>3,079,337</u>      |
| <b>NONCURRENT ASSETS</b>                |                       |
| Long-term investments                   | <u>3,759,296</u>      |
| <b>Total Noncurrent Assets</b>          | <u>3,759,296</u>      |
| <b>TOTAL ASSETS</b>                     | <u>\$ 6,838,633</u>   |
| <b>LIABILITIES AND NET ASSETS</b>       |                       |
| <b>CURRENT LIABILITIES</b>              |                       |
| Accounts payable                        | \$ 19,011             |
| Due to other funds                      | 31,066                |
| <b>Total Current Liabilities</b>        | <u>50,077</u>         |
| <b>TOTAL LIABILITIES</b>                | <u>50,077</u>         |
| <b>NET ASSETS</b>                       |                       |
| Unrestricted                            | 79,174                |
| Temporarily restricted                  | 3,540,805             |
| Permanently restricted                  | 3,168,577             |
| <b>TOTAL NET ASSETS</b>                 | <u>6,788,556</u>      |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <u>\$ 6,838,633</u>   |

See accompanying notes to the financial statements.

**MERCED COMMUNITY COLLEGE DISTRICT  
DISCRETELY PRESENTED COMPONENT UNIT – STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014**

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|                                            | Component Unit   |                        |                        | Total               |
|--------------------------------------------|------------------|------------------------|------------------------|---------------------|
|                                            | Unrestricted     | Temporarily Restricted | Permanently Restricted |                     |
| <b>SUPPORT AND REVENUES</b>                |                  |                        |                        |                     |
| Contributions                              | \$ 43,171        | \$ 708,204             | \$ -                   | \$ 751,375          |
| Net investment income                      | 1,509            | 452,965                | 233,152                | 687,626             |
| Other revenue                              | 2,449            | -                      | -                      | 2,449               |
| Net assets released from restrictions      |                  |                        |                        |                     |
| Purpose restrictions satisfied             | 764,651          | (764,651)              | -                      | -                   |
| <b>Total Support and Revenues</b>          | <b>811,780</b>   | <b>396,518</b>         | <b>233,152</b>         | <b>1,441,450</b>    |
| <br>                                       |                  |                        |                        |                     |
| <b>EXPENSES</b>                            |                  |                        |                        |                     |
| Program services                           | 777,003          | -                      | -                      | 777,003             |
| Supporting services                        |                  |                        |                        |                     |
| Management and general activities          | 50,178           | -                      | -                      | 50,178              |
| Fundraising                                | 2,467            | -                      | -                      | 2,467               |
| <b>Total Expenses</b>                      | <b>829,648</b>   | <b>-</b>               | <b>-</b>               | <b>829,648</b>      |
| <br>                                       |                  |                        |                        |                     |
| <b>CHANGE IN NET ASSETS</b>                | <b>(17,868)</b>  | <b>396,518</b>         | <b>233,152</b>         | <b>611,802</b>      |
| <br>                                       |                  |                        |                        |                     |
| <b>NET ASSETS - BEGINNING</b>              | <b>245,611</b>   | <b>3,144,287</b>       | <b>2,935,425</b>       | <b>6,325,323</b>    |
| <br>                                       |                  |                        |                        |                     |
| <b>ADJUSTMENT FOR RESTATEMENT</b>          | <b>(148,569)</b> | <b>-</b>               | <b>-</b>               | <b>(148,569)</b>    |
| <br>                                       |                  |                        |                        |                     |
| <b>NET ASSETS - BEGINNING, AS RESTATED</b> | <b>97,042</b>    | <b>3,144,287</b>       | <b>2,935,425</b>       | <b>6,176,754</b>    |
| <br>                                       |                  |                        |                        |                     |
| <b>NET ASSETS - ENDING</b>                 | <b>\$ 79,174</b> | <b>\$ 3,540,805</b>    | <b>\$ 3,168,577</b>    | <b>\$ 6,788,556</b> |

See accompanying notes to the financial statements.



MERCED COMMUNITY COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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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, 2014

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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, 2014

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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, 2014

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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, 2014, 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, 2014

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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. Deferred Outflows/Deferred Inflow of Resources

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

N. 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 and included as a portion of the long-term liabilities balance 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.

O. 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

MERCED COMMUNITY COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2014

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

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.

**P. 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.

MERCED COMMUNITY COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2014

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

**Q. 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 \$1,001,340 for STRS for the year ended June 30, 2014. This amount has been reflected in the basic financial statements as a component of non-operating revenue and employee benefit expense.

**R. 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.

**S. 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.

**T. 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, 2014**

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**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<br>Investment Type           | Maximum<br>Remaining<br>Maturity | Maximum<br>Percentage<br>of Portfolio | Maximum<br>Investment in<br>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, 2014**

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**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, 2014, consist of the following:

|                            |                      |
|----------------------------|----------------------|
| Primary government         | \$ 21,484,059        |
| Fiduciary funds            | 207,820              |
| Total Cash and Investments | <u>\$ 21,691,879</u> |
|                            |                      |
| Cash on hand and in banks  | \$ 354,388           |
| Cash in revolving          | 35,122               |
| Investments                | 21,302,369           |
| Total Cash and Investments | <u>\$ 21,691,879</u> |

**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.

MERCED COMMUNITY COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2014

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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, 2014, the District's bank balance of \$146,518 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, 2014 consisted of the following:

|         |    |                   |
|---------|----|-------------------|
| Federal | \$ | 539,316           |
| State   |    | 8,083,824         |
| Local   |    | 5,476,946         |
| Total   | \$ | <u>14,100,086</u> |

**MERCED COMMUNITY COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2014**

**NOTE 4 – CAPITAL ASSETS**

The following provides a summary of changes in capital assets for the year ended June 30, 2014:

|                                            | Balance<br>July 01, 2013 | Adjustment for<br>Restatement | Restated Balance<br>July 01, 2013 | Additions      | Deductions | Balance<br>June 30, 2014 |
|--------------------------------------------|--------------------------|-------------------------------|-----------------------------------|----------------|------------|--------------------------|
| Capital Assets not being Depreciated       |                          |                               |                                   |                |            |                          |
| Land                                       | \$ 1,670,258             | \$ -                          | \$ 1,670,258                      | \$ -           | \$ -       | \$ 1,670,258             |
| Construction in progress                   | 1,261,159                | (855,815)                     | 405,344                           | 123,700        | -          | 529,044                  |
| Total Capital Assets not being Depreciated | 2,931,417                | (855,815)                     | 2,075,602                         | 123,700        | -          | 2,199,302                |
| Capital Assets being Depreciated           |                          |                               |                                   |                |            |                          |
| Site improvements                          | 13,171,120               | -                             | 13,171,120                        | -              | -          | 13,171,120               |
| Buildings and improvements                 | 130,332,174              | -                             | 130,332,174                       | -              | -          | 130,332,174              |
| Furniture & equipment                      | 13,041,161               | -                             | 13,041,161                        | 2,520,398      | -          | 15,561,559               |
| Total Capital Assets being Depreciated     | 156,544,455              | -                             | 156,544,455                       | 2,520,398      | -          | 159,064,853              |
| Total Capital Assets                       | 159,475,872              | -                             | 158,620,057                       | 2,644,098      | -          | 161,264,155              |
| Less Accumulated Depreciation              |                          |                               |                                   |                |            |                          |
| Site improvements                          | 9,367,592                | -                             | 9,367,592                         | 389,355        | -          | 9,756,947                |
| Buildings & improvements                   | 31,461,662               | -                             | 31,461,662                        | 2,555,808      | -          | 34,017,470               |
| Furniture & equipment                      | 9,545,016                | -                             | 9,545,016                         | 902,818        | -          | 10,447,834               |
| Total Accumulated Depreciation             | 50,374,270               | -                             | 50,374,270                        | 3,847,981      | -          | 54,222,251               |
| Net Capital Assets                         | \$ 109,101,602           | (855,815)                     | 108,245,787                       | \$ (1,203,883) | \$ -       | \$ 107,041,904           |

Depreciation expense for the year was \$3,847,981

**NOTE 5 – TAX AND REVENUE ANTICIPATION NOTES**

On March 5, 2014, the District issued \$5,500,000 of TRANs at an interest rate of 2.00% due on December 31, 2014. These TRANs were issued under the authority of the California Government Code. Proceeds from the issuance of TRANs were used to meet fiscal 2013-14 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, 2014**

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**NOTE 6 – LONG TERM OBLIGATIONS**

A schedule of changes in long-term obligations for the year ended June 30, 2014 is shown below:

|                                         | Balance              |                     |                     | Balance              |                     |
|-----------------------------------------|----------------------|---------------------|---------------------|----------------------|---------------------|
|                                         | July 01, 2013        | Additions           | Deductions          | June 30, 2014        | Due Within One Year |
| <b>Long-Term Obligations</b>            |                      |                     |                     |                      |                     |
| General obligation bonds                | \$ 45,469,180        | \$ -                | \$ 556,603          | \$ 44,912,577        | \$ 1,352,577        |
| Premium on bonds                        | 1,233,700            | -                   | 40,184              | 1,193,516            | 40,184              |
| Compensated absences                    | 945,561              | 12,959              | -                   | 958,520              | -                   |
| Capital leases                          | 3,314,216            | 2,002,383           | 420,964             | 4,895,635            | 855,454             |
| Supplemental early retirement incentive | -                    | 1,479,540           | 295,908             | 1,183,632            | 295,908             |
| Net OPEB obligation                     | 937,924              | -                   | 646,701             | 291,223              | -                   |
| Totals                                  | <u>\$ 51,900,581</u> | <u>\$ 3,494,882</u> | <u>\$ 1,960,360</u> | <u>\$ 53,435,103</u> | <u>\$ 2,544,123</u> |

**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, 2014, was charged to expenses. Future minimum lease payments are as follows:

| Fiscal Year Ending                          | Lease Payment       |
|---------------------------------------------|---------------------|
| June 30,                                    |                     |
| 2015                                        | \$ 855,454          |
| 2016                                        | 862,638             |
| 2017                                        | 868,356             |
| 2018                                        | 788,685             |
| 2019                                        | 629,343             |
| 2020-2024                                   | 1,023,590           |
| 2025-2027                                   | 563,891             |
| Total                                       | <u>\$ 5,591,957</u> |
| Less amount representing interest           | <u>(696,322)</u>    |
| Present value of net minimum lease payments | <u>\$ 4,895,635</u> |

**MERCED COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2014**

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**NOTE 8 – GENERAL OBLIGATION BONDS**

The general obligation bonds payable at June 30, 2014 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,<br>June 30 | Annual Principal<br>Payment | Annual Interest<br>Payment | Total Annual Debt<br>Service |
|-------------------------|-----------------------------|----------------------------|------------------------------|
| 2015                    | \$ 1,352,577                | \$ 2,089,381               | \$ 3,441,958                 |
| 2016                    | 1,375,000                   | 1,972,585                  | 3,347,585                    |
| 2017                    | 1,480,000                   | 2,252,505                  | 3,732,505                    |
| 2018                    | 1,670,000                   | 2,187,247                  | 3,857,247                    |
| 2019                    | 1,875,000                   | 2,114,155                  | 3,989,155                    |
| 2020-2024               | 13,055,000                  | 8,810,204                  | 21,865,204                   |
| 2025-2029               | 15,250,000                  | 4,769,395                  | 20,019,395                   |
| 2030-2032               | 8,855,000                   | 719,249                    | 9,574,249                    |
|                         | <u>\$ 44,912,577</u>        | <u>\$ 24,914,721</u>       | <u>\$ 69,827,298</u>         |

**MERCED COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2014**

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**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, 2014.

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<br>Ending June 30, | Lease Payment* |
|--------------------------------|----------------|
| 2015                           | \$ 48,622      |
| Total                          | \$ 48,622      |

\*Lease payments include principal and interest amounts.

**MERCED COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2014**

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**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 2013-2014 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 2013-14 was 11.442% of annual payroll. The contribution requirements of the plan members are established and may be amended by the State statute.

**MERCED COMMUNITY COLLEGE DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2014**

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**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<br>June 30, | STRS                     |                        | PERS                     |                        |
|------------------------|--------------------------|------------------------|--------------------------|------------------------|
|                        | Required<br>Contribution | Percent<br>Contributed | Required<br>Contribution | Percent<br>Contributed |
| 2012                   | \$ 1,587,443             | 100%                   | \$ 1,280,754             | 100%                   |
| 2013                   | \$ 1,611,820             | 100%                   | \$ 1,299,881             | 100%                   |
| 2014                   | \$ 1,588,498             | 100%                   | \$ 1,294,316             | 100%                   |

**NOTE 12 – EARLY RETIREMENT INCENTIVE**

During 2013-14, the District entered into an agreement to offer an early retirement incentive to eligible faculty, classified staff and management, effective July 1, 2013. Future payments of \$295,908 will be made annually through June 1, 2017.

**NOTE 13 – 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.



MERCED COMMUNITY COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2014

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NOTE 14 – 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.

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 | 259        |
| Active plan members                           | <u>354</u> |
| Total                                         | <u>613</u> |

**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.

MERCED COMMUNITY COLLEGE DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2014

NOTE 14 – POSTEMPLOYMENT HEALTHCARE BENEFITS (continued)

**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)         | \$ | 4,279,978   |
| Interest on net OPEB obligation            |    | 65,655      |
| Adjustment to annual required contribution |    | (53,537)    |
| Annual OPEB cost                           |    | 4,292,096   |
| Contributions made                         |    | (4,938,797) |
| Changes in net OPEB obligation             |    | (646,701)   |
| Net OPEB obligation, beginning of year     |    | 937,924     |
| Net OPEB obligation, end of year           | \$ | 291,223     |

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, 2012     | \$ 3,887,502     | 92%                                        | \$ 858,537          |
| June 30, 2013     | \$ 3,891,815     | 98%                                        | \$ 937,924          |
| June 30, 2014     | \$ 4,292,095     | 98%                                        | \$ 291,223          |

**Funding Status and Funding Progress**

As of December 1, 2013, the most recent actuarial valuation date, the funded ratio was 3.57%. The actuarial value of assets was \$2,077,988. The actuarial liability was \$58,241,947, resulting in an unfunded actuarial accrued liability (UAAL) of \$56,163,959. The covered payroll (annual payroll of active employees covered by the plan) was \$26,498,359, and the ratio of the UAAL to the covered payroll was 212%.

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

**MERCED COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2014**

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**NOTE 14 – POSTEMPLOYMENT HEALTHCARE BENEFITS (continued)**

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 15 – 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.

MERCED COMMUNITY COLLEGE DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, *continued*  
 JUNE 30, 2014

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NOTE 16- 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 outstanding construction commitments of \$167,063 as of June 30, 2014.

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.

NOTE 17 – SUBSEQUENT EVENTS

On August 26, 2014 the District issued \$21,965,000 of General Obligation Refunding bonds to advance refund a portion of the outstanding General Obligation Bonds, Election 2002, Series 2006 and to pay the costs of issuance of the bonds. The interest rates vary from 2.00% - 5.00% with a final maturing on August 1, 2024.

In addition, on May 16, 2014, the District entered into an agreement to offer an early retirement incentive to eligible faculty, classified staff and management, effective July 1, 2014. Future payments of \$258,211 will be made annually through June 1, 2018.

NOTE 18 – RESTATEMENTS

The following adjustments were made to restate beginning net position:

|                                                  | Primary<br>Government |
|--------------------------------------------------|-----------------------|
| Net Position - Beginning, as Previously Reported | \$ 82,699,025         |
| Restatement                                      | (2,203,581)           |
| Net Position - Beginning, as Restated            | <u>\$ 80,495,444</u>  |

- \$1,347,766 decrease to beginning net position to account for elimination of amortization of debt issuance costs in accordance with GASB Statement No. 65, *Items Previously reported as Assets and Liabilities*.
- \$855,815 decrease to beginning net position to account for previously recognized capital assets that were not removed from construction in progress.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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**MERCED COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF FUNDING PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2014**

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| Actuarial<br>Valuation Date | Actuarial<br>Value of<br>Assets (AVA) | Actuarial Accrued<br>Liability (Entry Age<br>Normal Cost<br>Method) (AAL) | Unfunded Actuarial<br>Accrued Liability<br>(UAAL) | Funding<br>Ratio | Covered<br>Payroll | UAAL as a<br>Percentage of<br>Covered Payroll |
|-----------------------------|---------------------------------------|---------------------------------------------------------------------------|---------------------------------------------------|------------------|--------------------|-----------------------------------------------|
| 8/1/2009                    | \$ 1,001,490                          | \$ 52,359,974                                                             | \$ 51,358,484                                     | 1.91%            | \$ 26,853,089      | 191%                                          |
| 12/1/2011                   | \$ 1,167,436                          | \$ 54,520,628                                                             | \$ 53,353,192                                     | 2.14%            | \$ 27,110,560      | 197%                                          |
| 12/1/2013                   | \$ 2,077,988                          | \$ 58,241,947                                                             | \$ 56,163,959                                     | 3.57%            | \$ 26,498,359      | 212%                                          |

See accompanying note to required supplementary information.

MERCED COMMUNITY COLLEGE DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2014

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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.

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**SUPPLEMENTARY  
INFORMATION**

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**MERCED COMMUNITY COLLEGE DISTRICT  
HISTORY AND ORGANIZATION  
JUNE 30, 2014**

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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**

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

**District Executive Officers**

| <b>Name</b>          | <b>Title</b>                                       |
|----------------------|----------------------------------------------------|
| Dr. Ronald C. Taylor | Superintendent/President, Merced College           |
| Dr. Joanne Schultz   | Vice President, Administrative Services            |
| Dr. Kevin Kistler    | Interim Vice President, Instruction                |
| Dr. Everett Lovelace | Interim Vice President, Student Personnel Services |

**MERCED COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

| GRANTOR/PROGRAM TITLE                                                | Number         | Number               | Expenditures         |
|----------------------------------------------------------------------|----------------|----------------------|----------------------|
| <b>Direct U.S. Department of Education</b>                           |                |                      |                      |
| Direct Program                                                       |                |                      |                      |
| Federal Supplemental Educational Opportunity Grant                   | 84.007         | *                    | \$ 309,700           |
| Federal Work Study Program                                           | 84.033         | *                    | 464,548              |
| Federal Pell Grant                                                   | 84.063         | *                    | 20,602,378           |
| <i>Subtotal Student Financial Assistance Cluster</i>                 |                |                      | <u>21,376,626</u>    |
| Veterans Education                                                   | 84.064         | *                    | 3,246                |
| Childcare Access Means Parents in School                             | 84.335         | P335A100268          | 78,428               |
| <b>Total Direct U.S. Department of Education</b>                     |                |                      | <u>21,458,300</u>    |
| <b>U.S. Department of Agriculture</b>                                |                |                      |                      |
| <i>Passed through the California Department of Education</i>         |                |                      |                      |
| Child Care Food                                                      | 10.558         | 04364-CACFP-24-CC-IC | 67,554               |
| <b>Total U.S. Department of Agriculture</b>                          |                |                      | <u>67,554</u>        |
| <b>U.S. Department of Labor</b>                                      |                |                      |                      |
| <i>Passed through West Hills College</i>                             |                |                      |                      |
| Trade Adjustment Assistance Community College Career Training        | 17.282         | TC-22498-11-60-A-6   | 517,341              |
| <b>Total U.S. Department of Labor</b>                                |                |                      | <u>517,341</u>       |
| <b>National Science Foundation</b>                                   |                |                      |                      |
| <i>Passed through the Santa Clarita Community College District</i>   |                |                      |                      |
| CREATE Renewable Energy Regional Center                              | 47.076         | 1002653              | 3,829                |
| <b>Total National Science Foundation</b>                             |                |                      | <u>3,829</u>         |
| <b>U.S. Department of Commerce</b>                                   |                |                      |                      |
| <i>Passed through California State University, Fresno Foundation</i> |                |                      |                      |
| Innovative Manufacturing Collaborative Partnership (IMCP)            | 11.307         | *                    | 13,495               |
| <b>Total U.S. Department of Commerce</b>                             |                |                      | <u>13,495</u>        |
| <b>U.S. Department of Education</b>                                  |                |                      |                      |
| <i>Passed through California State University, Stanislaus</i>        |                |                      |                      |
| HSI STEM Grant                                                       | 84.031         | P031C110082          | 236,702              |
| <i>Passed through the California Department of Education</i>         |                |                      |                      |
| Career Technical Education Transitions                               | 84.048         | 11-C01-031           | 44,025               |
| Vocational Technology Education Act - CTETransitions                 | 84.051         | 11-112-530           | 446,418              |
| <i>Passed through the Merced County Office of Education</i>          |                |                      |                      |
| Merced Scholars Charter School                                       | 84.282         | *                    | 3,885                |
| MDRC Learning Communities Demo Grant                                 | 84.287         | *                    | 1,478                |
| California Student Opportunity and Access Program (Cal-SOAP-CTE)     | 84.048         | *                    | 18,419               |
| <b>Total U.S. Department of Education</b>                            |                |                      | <u>750,927</u>       |
| <b>U.S. Department of Health and Human Services</b>                  |                |                      |                      |
| <i>Passed through the Chancellor's Office</i>                        |                |                      |                      |
| Temporary Assistance for Needy Families                              | 93.558         | *                    | 100,566              |
| <i>Passed through the Yosemite Community College District</i>        |                |                      |                      |
| CD Training Consortium                                               | 93.575         | 11-12-3970           | 15,200               |
| <i>Passed through the California Department of Education</i>         |                |                      |                      |
| CDC PITC Demonstration                                               | 93.596, 93.575 | 6580-02-200 S11-157  | 62,543               |
| CDC California State Preschool Program CSPP                          | 93.575, 93.596 | *                    | 131,117              |
| <i>Passed through West Ed</i>                                        |                |                      |                      |
| CDC Program for Infant/Toddler Care (PITC)                           | 93.575         | *                    | 31,042               |
| <i>Passed through the Madern County Office of Education</i>          |                |                      |                      |
| CDC MAA                                                              | 93.778         | *                    | 23,175               |
| <i>Passed through Merced County Mental Health</i>                    |                |                      |                      |
| Merced County Mental Health                                          | 93.958         | ETC 10-018/2012010   | 44,234               |
| <b>Total U.S. Department of Health and Human Services</b>            |                |                      | <u>407,877</u>       |
| <b>Total Federal Programs</b>                                        |                |                      | <u>\$ 23,219,323</u> |

See accompanying note to supplementary information.

**MERCED COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED JUNE 30, 2014**

| Program Name                                    | Program Entitlements |                      |                     | Program Revenues   |                     |                     |                     | Program Expenditures |
|-------------------------------------------------|----------------------|----------------------|---------------------|--------------------|---------------------|---------------------|---------------------|----------------------|
|                                                 | Current Year         | Prior-Year Carryover | Total               | Cash Received      | Accounts Receivable | Deferred Income     | Total               |                      |
| <b>CATEGORICAL APPORTIONMENTS</b>               |                      |                      |                     |                    |                     |                     |                     |                      |
| EOPS/CARE                                       | \$ 147,499           | \$ 49                | \$ 147,548          | \$ 153,578         | \$ -                | \$ 6,030            | \$ 147,548          | \$ 147,548           |
| EOPS (E)                                        | 1,028,081            | -                    | 1,028,081           | 1,042,196          | -                   | 14,115              | 1,028,081           | 1,028,081            |
| State DSS                                       | 668,648              | -                    | 668,648             | 673,337            | -                   | 4,689               | 668,648             | 668,648              |
| BFAP                                            | 443,260              | 6,481                | 449,741             | 449,741            | -                   | -                   | 449,741             | 449,741              |
| WPLRC €/CITD/YEP/RTF                            | -                    | 155,409              | 155,409             | (16,091)           | 171,500             | -                   | 155,409             | 155,409              |
| RN Economic Development                         | 254,113              | 70,799               | 324,912             | 304,319            | 44,480              | 23,887              | 324,912             | 324,912              |
| Staff Development Faculty                       | -                    | 1,636                | 1,636               | 1,636              | -                   | -                   | 1,636               | 1,636                |
| Faculty and staff diversity                     | 5,726                | -                    | 5,726               | 5,875              | -                   | 149                 | 5,726               | 5,726                |
| Matriculation                                   | 480,481              | -                    | 480,481             | 536,454            | -                   | 55,972              | 480,482             | 480,482              |
| SIE/Library Materials                           | 51,890               | -                    | 51,890              | 117,176            | -                   | 65,283              | 51,893              | 51,893               |
| SSI/Basic Skills                                | -                    | 257,841              | 257,841             | 823,546            | -                   | 565,705             | 257,841             | 257,841              |
| Calworks                                        | 423,374              | 5,239                | 428,613             | 428,613            | -                   | -                   | 428,613             | 428,613              |
| Subtotal                                        | <u>3,503,072</u>     | <u>497,454</u>       | <u>4,000,526</u>    | <u>4,520,380</u>   | <u>215,980</u>      | <u>735,830</u>      | <u>4,000,530</u>    | <u>4,000,530</u>     |
| <b>CATEGORICAL PROGRAM ALLOWANCES</b>           |                      |                      |                     |                    |                     |                     |                     |                      |
| Puente Project                                  | 1,500                | -                    | 1,500               | 1,500              | -                   | -                   | 1,500               | 1,500                |
| CDC Block Grant                                 | 163,474              | 570                  | 164,044             | 150,523            | 13,521              | -                   | 164,044             | 164,044              |
| CDC Family Services                             | 96,893               | -                    | 96,893              | 68,763             | 28,130              | -                   | 96,893              | 96,893               |
| CDC MCOE Kids First                             | -                    | -                    | -                   | 51,281             | 3,876               | 55,156              | 1                   | 1                    |
| CDC Preschool Program                           | 162,377              | -                    | 162,377             | 144,531            | 17,846              | -                   | 162,377             | 162,377              |
| CDC Capacity Bldg Grant                         | -                    | -                    | -                   | 1,801              | -                   | 1,801               | -                   | -                    |
| Child Care Food Program                         | 3,982                | -                    | 3,982               | 3,982              | -                   | -                   | 3,982               | 3,982                |
| Early Childhood Mentors                         | 3,900                | -                    | 3,900               | 1,950              | 1,950               | -                   | 3,900               | 3,900                |
| Valley Sierra Collaborative                     | 61,233               | 26,358               | 87,591              | 77,223             | 33,800              | 23,432              | 87,591              | 87,591               |
| Workforce Innovation                            | -                    | 1,428                | 1,428               | 1,428              | -                   | -                   | 1,428               | 1,428                |
| VIP/JPA                                         | 216                  | -                    | 216                 | 1,957              | -                   | 1,741               | 216                 | 216                  |
| Career Adv Academy Grant                        | 74,797               | 192                  | 74,989              | 34,240             | 40,952              | 203                 | 74,989              | 74,989               |
| Song-Brown Training                             | 60,000               | 23,552               | 83,552              | 53,540             | 30,012              | -                   | 83,552              | 83,552               |
| Economic development                            |                      |                      |                     |                    |                     |                     |                     |                      |
| AB86 Merced Regional Adult Education Consortium | 37,733               | -                    | 37,733              | 129,847            | -                   | 92,113              | 37,734              | 37,734               |
| GTLS (DSN & IRI)                                | 173,752              | -                    | 173,752             | 120,000            | 180,000             | 126,248             | 173,752             | 173,752              |
| RHTLE (DSN & IRI)                               | 213,329              | -                    | 213,329             | 120,000            | 180,000             | 86,671              | 213,329             | 213,329              |
| YEP Career Pathways                             | 25,000               | 25,000               | 50,000              | 50,000             | -                   | -                   | 50,000              | 50,000               |
| Subtotal                                        | <u>1,078,186</u>     | <u>77,100</u>        | <u>1,155,286</u>    | <u>1,012,566</u>   | <u>530,087</u>      | <u>387,365</u>      | <u>1,155,288</u>    | <u>1,155,288</u>     |
| Total State Programs                            | <u>\$ 4,581,258</u>  | <u>\$ 574,554</u>    | <u>\$ 5,155,812</u> | <u>\$5,532,946</u> | <u>\$ 746,067</u>   | <u>\$ 1,123,195</u> | <u>\$ 5,155,818</u> | <u>\$ 5,155,818</u>  |

See accompanying note to supplementary information.

**MERCED COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF WORKLOAD MEASURE FOR STATE GENERAL APPORTIONMENT ANNUAL  
(ACTUAL) ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2014**

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|                                                   | Reported and<br>Audited<br>Annual FTES |
|---------------------------------------------------|----------------------------------------|
| <b>Credit full-time equivalent student (FTES)</b> |                                        |
| Weekly census                                     | 7,168.90                               |
| Daily census                                      | 171.54                                 |
| Actual hours of attendance                        | 82.57                                  |
| Alternative Attendance Weekly Census              | 429.33                                 |
| Alternative Attendance Daily Census               | 21.60                                  |
| Summer intersession                               | 572.11                                 |
| Total credit FTES                                 | <u>8,446.05</u>                        |
| <b>Non-credit FTES</b>                            |                                        |
| Actual hours of attendance                        | 820.65                                 |
| Summer intersession                               | 133.97                                 |
| Total non-credit FTES                             | <u>954.62</u>                          |
| <b>TOTAL FULL TIME EQUIVALENT STUDENTS</b>        | <u>9,400.67</u>                        |
| <b>Basic skills</b>                               |                                        |
| Inservice Training Courses                        | 26.40                                  |
| Credit                                            | 735.53                                 |
| Non-credit                                        | 1,798.91                               |
| <b>TOTAL BASIC SKILLS</b>                         | <u>2,560.84</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 YEAR ENDED JUNE 30, 2014

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*There were no adjustments necessary to reconcile the annual CCFS-311 report with the District accounting records or the fiscal year 2013-14.*

**MERCED COMMUNITY COLLEGE DISTRICT  
RECONCILIATION OF THE ECS 84362 (50 PERCENT LAW) CALCULATION  
FOR THE YEAR ENDED JUNE 30, 2014**

|                                                                    | Object/<br>TOP<br>Codes | Activity (ESCA) ECS 84362 A<br>Instructional Salary Cost AC 0100-5900 &<br>AC 6100 |                      |              | Activity (ESCB) ECS 84362 B Total CEE<br>AC 0100-6799 |                      |              |
|--------------------------------------------------------------------|-------------------------|------------------------------------------------------------------------------------|----------------------|--------------|-------------------------------------------------------|----------------------|--------------|
|                                                                    |                         | Reported<br>Data                                                                   | Audit<br>Adjustments | Revised Data | Reported<br>Data                                      | Audit<br>Adjustments | Revised Data |
| <u>Academic Salaries</u>                                           |                         |                                                                                    |                      |              |                                                       |                      |              |
| Instructional Salaries                                             |                         |                                                                                    |                      |              |                                                       |                      |              |
| Contract or Regular                                                | 1100                    | 10,592,875                                                                         | -                    | 10,592,875   | 10,592,875                                            | -                    | 10,592,875   |
| Other                                                              | 1300                    | 4,837,828                                                                          | -                    | 4,837,828    | 4,837,828                                             | -                    | 4,837,828    |
| Total Instructional Salaries                                       |                         | 15,430,703                                                                         | -                    | 15,430,703   | 15,430,703                                            | -                    | 15,430,703   |
| Non-Instructional Salaries                                         |                         |                                                                                    |                      |              |                                                       |                      |              |
| Contract or Regular                                                | 1200                    | -                                                                                  | -                    | -            | 3,294,940                                             | -                    | 3,294,940    |
| Other                                                              | 1400                    | -                                                                                  | -                    | -            | 196,260                                               | -                    | 196,260      |
| Total Non-Instructional Salaries                                   |                         | -                                                                                  | -                    | -            | 3,491,200                                             | -                    | 3,491,200    |
| Total Academic Salaries                                            |                         | 15,430,703                                                                         | -                    | 15,430,703   | 18,921,903                                            | -                    | 18,921,903   |
| <u>Classified Salaries</u>                                         |                         |                                                                                    |                      |              |                                                       |                      |              |
| Non-Instructional Salaries                                         |                         |                                                                                    |                      |              |                                                       |                      |              |
| Regular Status                                                     | 2100                    | -                                                                                  | -                    | -            | 6,798,376                                             | -                    | 6,798,376    |
| Other                                                              | 2300                    | -                                                                                  | -                    | -            | 603,782                                               | -                    | 603,782      |
| Total Non-Instructional Salaries                                   |                         | -                                                                                  | -                    | -            | 7,402,158                                             | -                    | 7,402,158    |
| Instructional Aides                                                |                         |                                                                                    |                      |              |                                                       |                      |              |
| Regular Status                                                     | 2200                    | 950,086                                                                            | -                    | 950,086      | 950,086                                               | -                    | 950,086      |
| Other                                                              | 2400                    | 288,091                                                                            | -                    | 288,091      | 288,091                                               | -                    | 288,091      |
| Total Instructional Aides                                          |                         | 1,238,177                                                                          | -                    | 1,238,177    | 1,238,177                                             | -                    | 1,238,177    |
| Total Classified Salaries                                          |                         | 1,238,177                                                                          | -                    | 1,238,177    | 8,640,335                                             | -                    | 8,640,335    |
| Employee Benefits                                                  | 3000                    | 6,796,804                                                                          | -                    | 6,796,804    | 14,515,337                                            | -                    | 14,515,337   |
| Supplies and Materials                                             | 4000                    | -                                                                                  | -                    | -            | 513,732                                               | -                    | 513,732      |
| Other Operating Expenses                                           | 5000                    | 118,382                                                                            | -                    | 118,382      | 4,670,114                                             | -                    | 4,670,114    |
| Equipment Replacement                                              | 6420                    | -                                                                                  | -                    | -            | -                                                     | -                    | -            |
| Total Expenditures Prior to Exclusions                             |                         | 23,584,066                                                                         | -                    | 23,584,066   | 47,261,421                                            | -                    | 47,261,421   |
| <u>Exclusions</u>                                                  |                         |                                                                                    |                      |              |                                                       |                      |              |
| Activities to Exclude                                              |                         |                                                                                    |                      |              |                                                       |                      |              |
| Instructional Staff-Retirees' Benefits and Retirement Incentives   | 5900                    | 1,921,950                                                                          | -                    | 1,921,950    | 1,921,950                                             | -                    | 1,921,950    |
| Student Health Services Above Amount Collected                     | 6441                    | -                                                                                  | -                    | -            | -                                                     | -                    | -            |
| Student Transportation                                             | 6491                    | -                                                                                  | -                    | -            | -                                                     | -                    | -            |
| Non-instructional Staff-Retirees' Benefits and Retirement Incentiv | 6740                    | -                                                                                  | -                    | -            | 2,158,310                                             | -                    | 2,158,310    |
| Object to Exclude                                                  |                         |                                                                                    |                      |              |                                                       |                      |              |
| Rents and Leases                                                   | 5060                    | -                                                                                  | -                    | -            | 22,128                                                | -                    | 22,128       |
| Lottery Expenditures                                               |                         | -                                                                                  | -                    | -            | -                                                     | -                    | -            |
| Academic Salaries                                                  | 1000                    | -                                                                                  | -                    | -            | -                                                     | -                    | -            |
| Classified Salaries                                                | 2000                    | -                                                                                  | -                    | -            | -                                                     | -                    | -            |
| Employee Benefits                                                  | 3000                    | -                                                                                  | -                    | -            | -                                                     | -                    | -            |
| Supplies and Materials                                             | 4000                    | -                                                                                  | -                    | -            | -                                                     | -                    | -            |
| Software                                                           | 4100                    | -                                                                                  | -                    | -            | -                                                     | -                    | -            |
| Books, Magazines & Periodicals                                     | 4200                    | -                                                                                  | -                    | -            | 637                                                   | -                    | 637          |
| Instructional Supplies & Materials                                 | 4300                    | -                                                                                  | -                    | -            | 64,496                                                | -                    | 64,496       |
| Non-instructional Supplies & Materials                             | 4400                    | -                                                                                  | -                    | -            | 85,276                                                | -                    | 85,276       |
| Total Supplies and Materials                                       |                         | -                                                                                  | -                    | -            | 150,409                                               | -                    | 150,409      |
| Other Operating Expenses and Services                              | 5000                    | -                                                                                  | -                    | -            | 999,238                                               | -                    | 999,238      |
| Capital Outlay                                                     | 6000                    | -                                                                                  | -                    | -            | -                                                     | -                    | -            |
| Library Books                                                      | 6300                    | -                                                                                  | -                    | -            | 2,544                                                 | -                    | 2,544        |
| Equipment                                                          | 6400                    | -                                                                                  | -                    | -            | -                                                     | -                    | -            |
| Equipment - Additional                                             | 6410                    | -                                                                                  | -                    | -            | 41,790                                                | -                    | 41,790       |
| Equipment - Replacement                                            | 6420                    | -                                                                                  | -                    | -            | -                                                     | -                    | -            |
| Total Equipment                                                    | 6420                    | -                                                                                  | -                    | -            | 41,790                                                | -                    | 41,790       |
| Total Capital Outlay                                               |                         | -                                                                                  | -                    | -            | 44,334                                                | -                    | 44,334       |
| Other Outgo                                                        | 7000                    | -                                                                                  | -                    | -            | -                                                     | -                    | -            |
| Total Exclusions                                                   |                         | 1,921,950                                                                          | -                    | 1,921,950    | 5,296,369                                             | -                    | 5,296,369    |
| Total for ECS 84362, 50% Law                                       |                         | 21,662,116                                                                         | -                    | 21,662,116   | 41,965,052                                            | -                    | 41,965,052   |
| Percent of CEE (Instructional Salary Cost/Total CEE)               |                         | 51.62%                                                                             |                      | 51.62%       | 100.00%                                               |                      | 100.00%      |
| 50% of Current Expense of Education                                |                         |                                                                                    |                      |              | 20,982,526                                            |                      | 20,982,526   |

See accompanying note to supplementary information.

**MERCED COMMUNITY COLLEGE DISTRICT  
 DETAILS OF EDUCATION PROTECTION ACCOUNT  
 FOR THE YEAR ENDED JUNE 30, 2014**

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|             |              |
|-------------|--------------|
| EPA Revenue | \$ 7,463,558 |
|-------------|--------------|

| Activity Classification  | Activity Code | Salaries and Benefits | Operating Expenses | Capital Outlay |              |
|--------------------------|---------------|-----------------------|--------------------|----------------|--------------|
|                          |               | (Obj 1000-3000)       | (Obj 4000-5000)    | (Obj 6000)     | Total        |
| Instructional Activities | 0100-5900     | \$ 7,463,558          | \$ -               | \$ -           | \$ 7,463,558 |
| Total                    |               | \$ 7,463,558          | \$ -               | \$ -           | \$ 7,463,558 |

See accompanying note to supplementary information.

MERCED COMMUNITY COLLEGE DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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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, 2014 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.



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**OTHER INDEPENDENT  
AUDITORS' REPORTS**

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**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

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

John Whitehouse, CPA

Heather Rubio

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, 2014, 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, 2014.

**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.

SAN DIEGO  
LOS ANGELES  
SAN FRANCISCO/BAY AREA

Corporate Office:  
2727 Camino Del Rio South  
Suite 219  
San Diego, CA 92108

toll-free: 877.220.7229  
tel: 619.270.8222  
fax: 619.260.9085  
www.christywhite.com

*Licensed by the California  
State Board of Accountancy*

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.

### **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*.

### **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, 2014

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

Christy White, CPA

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

John Whitehouse, CPA

Heather Rubio

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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, 2014. 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.

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, 2014.

### **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, 2014

## REPORT ON STATE COMPLIANCE

### Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

John Whitehouse, CPA

Heather Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

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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) 2013-14*, issued by the California Community Colleges Chancellor's Office for the year ended June 30, 2014.

#### ***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) 2013-14*, 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, 2014.

### *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 430 – Scheduled Maintenance Program
- Section 431 - Gann Limit Calculation
- Section 435 - Open Enrollment
- Section 438 - Student Fees – Health Fees and Use of Health Fee Funds
- Section 439 – Proposition 39 Clean Energy
- 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) 2013-14*. Accordingly, this report is not suitable for any other purpose.

*Christy White Associates*

San Diego, California  
December 13, 2014

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**SCHEDULE OF FINDINGS  
AND QUESTIONED COSTS**

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**MERCED COMMUNITY COLLEGE DISTRICT  
SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2014**

---

**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<br>to be material weaknesses? | <u>None Reported</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<br>to be material weaknesses?                                    | <u>None Reported</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<br>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> |
| 84.007, 84.033, 84.063 | Student Financial Assistance Cluster      |

|                                                                          |            |
|--------------------------------------------------------------------------|------------|
| Dollar threshold used to distinguish between Type A and Type B programs: | \$ 695,499 |
| 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<br>to be material weaknesses? | <u>None Reported</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, 2014**

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*There were no findings or questioned costs related to the financial statements for the year ended June 30, 2014.*

**MERCED COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

---

*There were no findings or questioned costs related to the federal awards for the year ended June 30, 2014.*

**MERCED COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

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*There were no findings or questioned costs related to the state awards for the year ended June 30, 2014.*

**MERCED COMMUNITY COLLEGE DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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**FINDING 2013-1: INTERNAL CONTROL (AGRICULTURAL 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.

**Current Status:** Corrected.