

**MERCED COMMUNITY
COLLEGE DISTRICT**

MERCED, CALIFORNIA

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

YEAR ENDED JUNE 30, 2015

MERCED COMMUNITY COLLEGE DISTRICT

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MERCED COMMUNITY COLLEGE DISTRICT

ORGANIZATION YEAR ENDED JUNE 30, 2015

DESCRIPTION OF DISTRICT

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

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

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Dennis Jordan	President	December 2018
Joe Gutierrez	Vice President	December 2018
Gary Arzamendi	Clerk	December 2016
Cindy Lashbrook	Trustee	December 2018
Wayne Hicks	Trustee	December 2016
Jean Upton	Trustee	December 2016
Leonel Villarreal	Trustee	December 2018

ADMINISTRATION

Dr. Ronald C. TaylorSuperintendent/President, Merced College
Dr. Joanne Schultz Vice President, Administrative Services
Dr. Mary K. Gilliland.....Vice President, Instruction
Chris Vitelli..... Vice President, Student Personnel Services

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of the Merced Community College District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of the Merced Community College District, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2015 the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Supplementary Information Section, as listed in the table of contents, is presented for purposes of additional analysis, and is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office, and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Gilbert Associates, Inc.

**GILBERT ASSOCIATES, INC.
Sacramento, California**

December 18, 2015

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2015

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. The District also has classes available at other locations outside of their two main campuses for students at the high school in Delhi, Dos Palos, and Mariposa, as well as classes for employees of the Valley State Prison and the Central California Women's Facility located in Chowchilla. We invite you to learn more about us and our services to students and the community at www.mccd.edu.

ACCOUNTING STANDARDS

In June 1999, the Governmental Accounting Standards' Board (GASB) released Statement No. 34, "Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments," which changed the reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statement and Management's Discussion and Analysis - Public Colleges and Universities – an amendment of GASB N. 34*, which applies these reporting standards to public colleges and universities. The 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 District's Financial Report for the fiscal year that ended June 30, 2015. The annual report consists of three basic financial statements, plus notes, that provide information on the District as a whole:

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

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

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

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

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

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2015

FINANCIAL AND ENROLLMENT HIGHLIGHTS

The 2015 state budget bill, SB 852, was signed by Governor Jerry Brown on June 20, 2014. For the fourth consecutive year, the State budget was passed on time. The approved budget assumed total General Fund expenditures of \$108 billion, \$12 billion more than in 2014. Despite higher than anticipated revenues in 2015, the adopted state budget was based on the Governor's more conservative forecast.

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

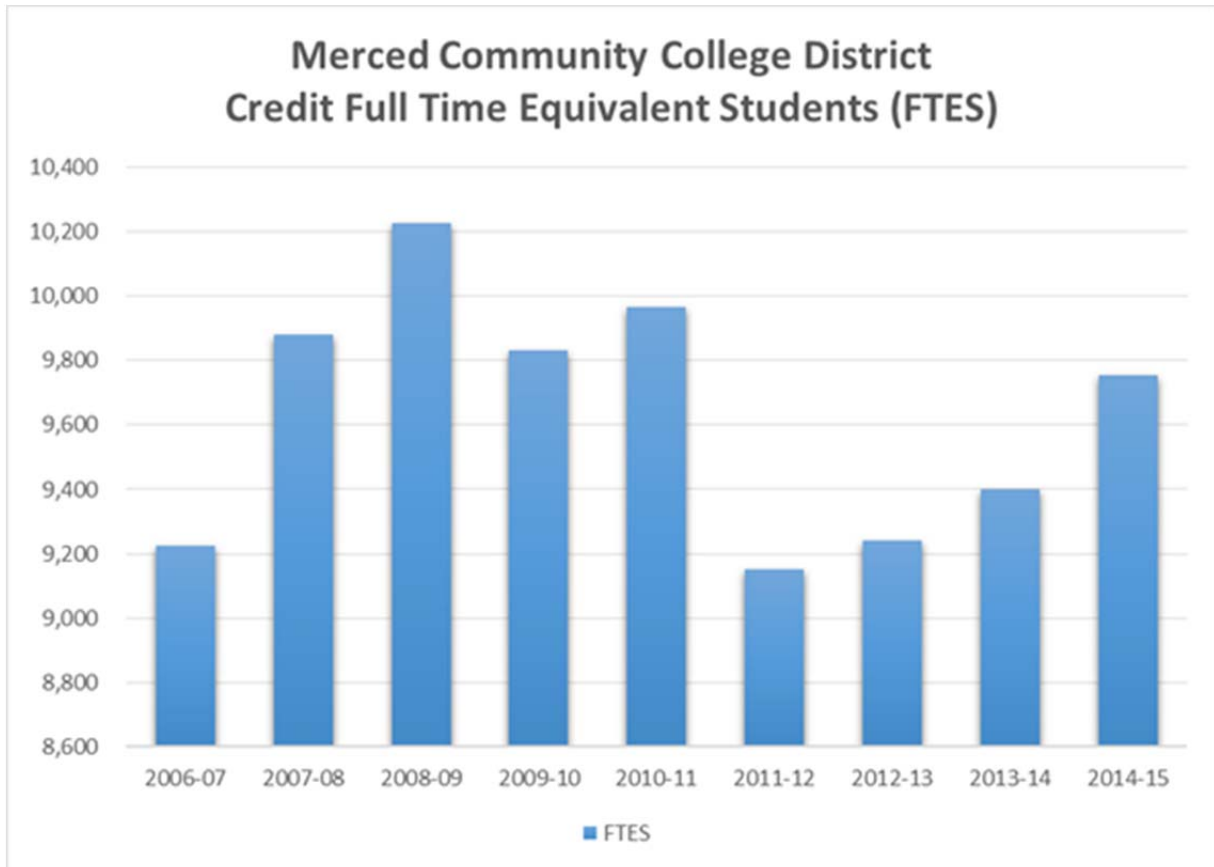
- 0.85% Cost-of-Living Adjustment (COLA)
- 2.75% increase in funding for enrollment restoration/access
- Reduction of outstanding State apportionment deferrals to \$94 million
- \$100 million increase to the Student Success and Support Program
- Maintained the Mandated Block Grant, allowing districts to elect to receive \$28 per FTES for compliance with mandates in lieu of filing reimbursement claims
- Provided one-time funding of \$148 million for Scheduled Maintenance and Instructional Equipment
- \$32.7 million for Proposition 39 projects

On September 2, 2014, the District presented to the Board of Trustees its annual budget. The 2015 adopted budget estimated Unrestricted General Fund Revenues of \$53.7 million and \$54.6 million Unrestricted General fund Expenditures, resulting in a projected net loss of \$900K for the fiscal year. The projected net loss, coupled with a beginning fund balance of \$4.7 million, would result in an ending fund balance of \$3.8 million, or 7.03%. At year end, actual figures for revenue were 0.4% higher than the amount estimated at the time of the adopted budget, while expenditures were 0.6% less than estimated. The net effect of the combined increase in revenues and decrease in expenditures left an ending Unrestricted General Fund balance of \$4.4 million, or 8.05%.

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2015

In 2014-15, the District reported 9,754 credit and non-credit resident FTES. See the below chart for a historical perspective on the changes in FTES over the past 9 years.



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

GASB 68 establishes standards for measuring and recognizing unfunded pension liabilities, deferred outflows and inflows of resources, and expense for the State of California’s public employee pension systems, CalPERS and CalSTRS. The District’s proportionate share of the combined CalPERS and CalSTRS net pension liability was \$38 million, as of the measurement date of June 30, 2015. The implementation of GASB 68 is the reason for the large negative balance in the unrestricted net position shown on the statement of net position for 2015 (\$41 million).

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2015

For the year ended June 30, 2015, the District recognized pension expense and revenue of \$1.3M for the State's proportionate share of the CalSTRS pension expense associated with the District.

GASB 68 affects multiple areas of the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position. Because neither CalSTRS nor CalPERS provided the information for fiscal year 2013-14, the District was unable to show the effect of GASB 68 on the summary financial statements for 2014. This impacts the comparability between 2015 and 2014, as presented on the following pages.

To illustrate one impact of the implementation, the chart below shows the District's Net Position with and without the effect of GASB 68.

	Net Position with GASB 68 2015	Net Position without GASB 68 2015	Net Position without GASB 68 2014
NET POSITION			
Net investment in capital assets	62,618,201	62,618,201	65,819,037
Restricted	7,840,833	7,840,833	6,706,021
Unrestricted (deficit)	(41,123,348)	3,957,393	4,578,319
TOTAL NET POSITION	\$ 29,335,686	\$ 74,416,427	\$ 77,103,377

There is a plan to fully fund the CalSTRS unfunded pension liability. Legislation was enacted to increase employer contribution rates over the next six years, more than doubling the 2015 rate of 8.88%. In addition, employee contributions will increase over the next two years from the 2015 rate of 8.15% to 10.25%. The rate increases will remain in effect for at least thirty years, at which time the liability is projected to be fully funded. CalPERS sets its own rates and is addressing its unfunded liability by increasing employer contribution rates over the next several years, nearly doubling the 2015 rate of 11.771%

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2015

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.

	2015	2014	\$ Change	% Change
ASSETS				
Current and other assets	\$ 32,114,115	\$ 36,500,838	\$ (4,386,723)	-12%
Capital assets, net	103,353,097	107,041,904	(3,688,807)	-3%
TOTAL ASSETS	135,467,212	143,542,742	(8,075,530)	-6%
DEFERRED OUTFLOWS OF RESOURCES	4,571,881		4,571,881	100%
LIABILITIES				
Current liabilities	13,259,867	15,548,385	(2,288,518)	-15%
Long-term liabilities, noncurrent portion	86,937,628	50,890,980	36,046,648	71%
TOTAL LIABILITIES	100,197,495	66,439,365	33,758,130	51%
DEFERRED INFLOWS OF RESOURCES	10,505,912		10,505,912	100%
NET POSITION				
Net investment in capital assets	62,618,201	65,819,037	(3,200,836)	-5%
Restricted	7,840,833	6,706,021	1,134,812	17%
Unrestricted (deficit)	(41,123,348)	4,578,319	(45,701,667)	-998%
TOTAL NET POSITION	\$ 29,335,686	\$ 77,103,377	\$ (47,767,691)	-62%

Assets

Total Assets decreased approximately \$8 million, a percentage decrease of 6%. The major changes affecting total assets are listed below:

Current and Other Assets decreased by approximately \$4.4 million, a percentage decrease of 12%. This decrease is primarily due to a significant reduction in state apportionment deferrals, which reduced Accounts Receivable by \$6.1 million. The reduction in deferrals also resulted in an increase in Cash and Cash Equivalents by \$1.5 million.

Net Capital Assets decreased by approximately \$3.7 million, a percentage decrease of 3%. This reduction was the result of capital asset adjustments and accumulated depreciation.

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2015

Deferred Outflows of Resources

Deferred outflows of resources increased by \$4.6 million primarily due to the implementation of GASB 68, which is discussed in more detail in Note 7 of the financial statements. This represents the District contributions to CalPERS and CalSTRS in 2015, which are not credited against the pension liabilities until the subsequent fiscal year.

Liabilities

Total Liabilities increased by almost \$34 million, a percentage increase of 51%. The major changes affecting total liabilities are listed below:

Current Liabilities decreased by \$2.3 million, or 15%. The District did not participate in the Tax Revenue Anticipation Note (TRAN) program in 2015, resulting in a reduction of \$5.5 million. Conversely, unearned revenue for scheduled maintenance, Proposition 39 energy projects, and various categorical programs increased by approximately \$1.4 million. The District fully expects to earn these funds in 2016 as projects are completed and program services are provided. In addition, the current portion of long-term liabilities increased by \$1.6 million, primarily due to the inclusion of compensated absences in this classification. In prior years, this item was not reflected as due within one year but will be recorded as such going forward.

The noncurrent portion of long-term liabilities increased by \$36 million, a percentage increase of 71%. The primary factor for this significant increase is the implementation of GASB 68. The increase reflects the District's proportionate share of the actuarial determined CalPERS and CalSTRS pension liabilities (\$12 million and \$25 million, respectively).

Deferred Inflows of Resources

Deferred inflows of resources increased by \$10.5 million solely due to the implementation of GASB 68. This represents the District's proportionate share of the changes in the actuarial assumptions as determined by CalPERS and CalSTRS.

Net Position

The decrease in total assets combined with the net impact of implementation of GASB 68 accounts for the significant decrease in net position of \$48 million, or 62%. This decrease primarily impacted unrestricted net position, while the reduction of net investment in capital assets was largely the result of accumulated depreciation.

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2015

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.

	2015	2014	\$ Change	%Change
OPERATING REVENUES				
Net tuition and fees	4,116,406	4,011,566	104,840	3%
Grants and contracts, noncapital:	12,533,200	9,147,905	3,385,295	37%
Auxiliary enterprise sales and charges	2,573,759	2,540,127	33,632	1%
TOTAL OPERATING REVENUES	19,223,365	15,699,598	3,523,767	22%
TOTAL OPERATING EXPENSES	73,997,952	69,413,812	4,584,140	7%
OPERATING LOSS	(54,774,587)	(53,714,214)	(1,060,373)	2%
NON-OPERATING REVENUES (EXPENSES)				
State apportionments, noncapital	29,295,488	30,693,873	(1,398,385)	-5%
Education protection account	9,139,897	7,463,558	1,676,339	22%
Local property taxes	9,256,949	8,425,958	830,991	10%
State taxes and other revenues	2,085,178	2,578,002	(492,824)	-19%
Other non-operating revenues (expenses)	(1,248,504)	(2,025,138)	776,634	-38%
TOTAL NON-OPERATING REVENUES (EXPENSES)	48,529,008	47,136,253	1,392,755	3%
GAIN (LOSS) BEFORE CAPITAL REVENUES	(6,245,579)	(6,577,961)	332,382	-5%
Local property taxes and revenues, capital	3,298,403	3,041,361	257,042	8%
Local revenues, grants and gifts, capital	85,723	144,533	(58,810)	-41%
DECREASE IN NET POSITION	(2,861,453)	(3,392,067)	530,614	-16%
NET POSITION -- BEGINNING OF YEAR, as previously reported	77,103,377	82,699,025	(5,595,648)	-7%
Correction of an error		(2,203,581)	2,203,581	
Cumulative effect of change in accounting principle	(44,906,238)		(44,906,238)	
NET POSITION -- BEGINNING OF YEAR, as restated	32,197,139	80,495,444	(48,298,305)	-60%
NET POSITION -- END OF YEAR	\$ 29,335,686	\$ 77,103,377	(47,767,691)	-62%

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2015

Operating Revenues

Total operating revenues increased by \$3.5 million, a percentage increase of 22%. This increase is primarily due to an increase in state grants and contracts of \$3.3 million.

Operating Expenses

Total operating expenses increased by \$4.6 million, or 7%, mainly due to increases in employee benefits (\$3 million) and accumulated depreciation (\$2.5 million).

Net Position

The cumulative effect of change in accounting principles for 2015 (\$45 million) was the result of recording the District's proportionate share of the CalPERS and CalSTRS pension liability due to the implementation of GASB 68.

District's Fiduciary Responsibility

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2015, the District had approximately \$103 million invested in net capital assets. Total capital assets of \$164 million consist of land, construction in progress, buildings and improvements, vehicles, data processing equipment, and other office equipment. These assets have accumulated depreciation of approximately \$61 million. Depreciation expense of \$6.5 million was recorded in 2015.

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

	2015	2014	Net Change
Land and construction in progress	\$ 2,339,578	\$ 2,199,302	\$ 140,276
Buildings and equipment	161,688,033	159,064,853	2,623,180
Accumulated Depreciation	(60,674,514)	(54,222,251)	(6,452,263)
Total Capital Assets	\$ 103,353,097	\$ 107,041,904	\$ (3,688,807)

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2015

At June 30, 2015, the District had \$91 million in outstanding debt. The increase in debt was primarily due to the net impact of GASB 68. The District reduced its Net Other Post-Employment Benefits (OPEB) obligation by transferring \$291,223 to an irrevocable trust as of June 2015. Additional OPEB funding will be set aside for potential transfer in 2016. A comparison is summarized below:

	2015	2014 ⁽¹⁾	Net Change
General obligation bonds	\$ 44,260,000	\$ 44,912,577	\$ (652,577)
Bond issuance premium	2,222,973	1,193,516	1,029,457
Compensated absences	1,035,360	958,520	76,840
Capital leases	4,138,212	4,895,635	(757,423)
Early retirement incentive	1,920,568	1,183,632	736,936
Net pension liability	37,695,055	47,818,104	(10,123,049)
Net OPEB obligation	(146,009)	291,223	(437,232)
Total Long-term Liabilities	\$ 91,126,159	\$ 101,253,207	\$ (10,127,048)

⁽¹⁾ Restated

MERCED COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2015

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 continues to show strength in growth but lags the country in unemployment numbers. Job gains have out-paced the national averages but the San Joaquin Valley lags and is only adding just under 2%. 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 international factors are weighing heavily. The strong dollar is holding down exports and is a factor in the overall slow-down in job creation. The California economy is plodding painfully forward but economists are already warning that a new economic down-turn could happen as early as 2018. The ability of the State to fund education and other programs is largely dependent on the strength of the State's economy and that remains uncertain. The effects of Proposition 30, the tax initiative, have buoyed state revenues and have positively impacted Proposition 98 by providing large one-time funding. However, these taxes are due to sunset over the next two years.

GASB 68, Accounting and Financial Reporting for Pensions, became effective in the 2015 fiscal year. The new standard requires the reporting of annual pension costs using an actuarially determined method and a net position liability is expected to result. The District participates in state employee pension plans, CalPERS and CalSTRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2015. To address the underfunding issues, the pension plans intend to raise employer rates in future years and the increases are currently estimated to be approximately \$3 million over the next 5 years. The next GASB pronouncements 73, 74, and 75 will result in further downward impact on the financial statements as the full OPEB liability is recorded.

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 not have to utilize TRAN funding to address cash flow shortages.

All of these factors were considered in preparing the District budget for the 2016 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, 2015

	Primary Institution	Foundation
ASSETS		
Current assets:		
Cash and equivalents	\$ 12,282,498	\$ 1,413,169
Accounts receivable	7,198,673	14,124
Inventory	630,191	
Prepaid expenses and other assets	740,389	
Total current assets	20,851,751	1,427,293
Noncurrent assets:		
Long-term investments		4,411,516
Restricted cash and equivalents	11,262,364	
Pledged receivable, net		729,925
Nondepreciable capital assets	2,339,578	
Depreciable capital assets, net	101,013,519	
Total noncurrent assets	114,615,461	5,141,441
TOTAL ASSETS	135,467,212	6,568,734
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	1,451,655	
Deferred outflows of resources related to pensions	3,120,226	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	4,571,881	
LIABILITIES		
Current liabilities:		
Accounts payable	3,016,285	16,666
Due to the Foundation	13,713	
Due to the Fiduciary Fund	19,038	
Interest payable	662,278	
Unearned revenue	5,360,022	
Long-term liabilities due within one year	4,188,531	
Total current liabilities	13,259,867	16,666
Long-term liabilities due in more than one year	86,937,628	
TOTAL LIABILITIES	100,197,495	16,666
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	10,505,912	
NET POSITION		
Net investment in capital assets	62,618,201	
Restricted for:		
Nonexpendable:		
Scholarships		2,809,512
Expendable:		
Scholarships and loans		3,634,583
Capital projects	2,753,034	
Debt service	2,815,038	
Other special purposes	2,272,761	
Unrestricted (deficit)	(41,123,348)	107,973
TOTAL NET POSITION	\$ 29,335,686	\$ 6,552,068

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

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEAR ENDED JUNE 30, 2015

	Primary Institution	Foundation
OPERATING REVENUES		
Tuition and fees (gross)	\$ 12,157,332	
Less: scholarship discounts and allowances	(8,040,926)	
Net tuition and fees	4,116,406	
Grants and contracts, noncapital:		
Federal	2,139,051	
State	9,174,901	
Local	1,219,248	
Contributions		\$ 761,479
Auxiliary enterprise sales and charges	2,573,759	
TOTAL OPERATING REVENUES	19,223,365	761,479
OPERATING EXPENSES		
Salaries	35,684,345	
Employee benefits	21,474,023	
Supplies, materials, and other operating expenses and services	10,362,727	46,937
Depreciation	6,476,857	
Scholarships and student programs		704,261
TOTAL OPERATING EXPENSES	73,997,952	751,198
OPERATING GAIN (LOSS)	(54,774,587)	10,281
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, noncapital	29,295,488	
Education protection account	9,139,897	
Local property taxes	9,256,949	
State taxes and other revenues	2,085,178	
Investment income	105,192	55,406
Interest expense	(1,464,320)	
Other non-operating revenues	23,428	
Financial aid revenues	22,310,562	
Financial aid expenses	(22,223,366)	
TOTAL NON-OPERATING REVENUES (EXPENSES)	48,529,008	55,406
GAIN (LOSS) BEFORE CAPITAL REVENUES	(6,245,579)	65,687
Local property taxes and revenues, capital	3,298,403	
Local revenues, grants and gifts, capital	85,723	
INCREASE (DECREASE) IN NET POSITION	(2,861,453)	65,687
NET POSITION -- BEGINNING OF YEAR, as previously reported	77,103,377	6,788,556
Cumulative effect of change in accounting principle/prior period adjustment	(44,906,238)	(302,175)
NET POSITION -- BEGINNING OF YEAR, as restated	32,197,139	6,486,381
NET POSITION -- END OF YEAR	\$ 29,335,686	\$ 6,552,068

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

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2015

	Primary Institution	Foundation
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 4,261,006	
Federal grants and contracts	2,191,541	
State grants and contracts	10,418,162	
Local grants and contracts	4,612,769	
Contributions		\$ 745,816
Payments to suppliers	(10,453,955)	(41,927)
Payments to/on behalf of employees	(56,607,321)	
Payments to/on behalf of students		(704,261)
Auxiliary enterprise sales and charges	2,622,819	
Net cash used by operating activities	(42,954,979)	(372)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State apportionments and receipts	32,750,890	
Education protection account receipts	9,139,897	
Local property and state taxes, lottery and other state receipts	11,342,127	
Financial aid receipts	22,310,562	
Financial aid payments	(22,223,366)	
Investment income	105,192	231,230
Payments on tax revenue anticipation notes	(5,500,000)	
Other noncapital receipts	23,428	
Net cash provided by noncapital financing activities	47,948,730	231,230
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(2,801,830)	
Proceeds from sale of capital assets	37,177	
Principal paid on capital debt	(2,110,000)	
Interest paid on capital debt	(1,442,421)	
Local property taxes and other revenues for capital	3,384,126	
Net cash used by noncapital financing activities	(2,932,948)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		466,258
Purchases of investments		(843,062)
Net cash used by noncapital financing activities		(376,804)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	2,060,803	(145,946)
CASH AND EQUIVALENTS -- BEGINNING OF YEAR	21,484,059	1,559,115
CASH AND EQUIVALENTS -- END OF YEAR	\$ 23,544,862	\$ 1,413,169

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

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS (Continued) YEAR ENDED JUNE 30, 2015

	Primary Institution	Foundation
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and equivalents	\$ 12,282,498	\$ 1,413,169
Restricted cash and equivalents	11,262,364	
Total cash and equivalents	\$ 23,544,862	\$ 1,413,169
 RECONCILIATION OF NET OPERATING GAIN (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating gain (loss)	\$ (54,774,587)	\$ 10,281
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	6,476,857	
Gain on disposal of capital assets	(23,397)	
Amortization of bond premium	(2,401)	
Cost of issuance paid directly from bond proceeds	280,203	
Changes in assets and liabilities:		
Accounts receivable, net	3,446,011	16,437
Pledges receivable		(32,100)
Inventory	(630,191)	
Prepaid expenses and other assets	159,994	
Deferred outflows of resources related to pensions	(3,120,226)	
Accounts payable	124,564	5,010
Due to the Foundation	13,713	
Due to the Fiduciary Fund	35,347	
Unearned revenue	1,387,861	
Deferred inflows of resources related to pensions	10,505,912	
Compensated absences	76,840	
Postemployment benefits	(437,232)	
Net pension liability	(7,211,183)	
Supplemental early retirement incentive	736,936	
Net cash used by operating activities	\$ (42,954,979)	\$ (372)
 NONCASH FINANCING AND INVESTING ACTIVITIES		
Bond proceeds paid directly to advance refund escrow agent	\$ 23,116,858	

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

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2015

	<u>Trust Fund</u>
	<u>Associated Students Fund</u>
ASSETS	
Cash and equivalents	\$ 195,494
Accounts receivable	739
Due from the primary institution	<u>19,038</u>
TOTAL ASSETS	<u>215,271</u>
NET POSITION - RESTRICTED	<u>\$ 215,271</u>

MERCED COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2015**

	<u>Trust Fund</u>
	<u>Associated Students Fund</u>
ADDITIONS	
Other income	\$ 45,538
TOTAL ADDITIONS	<u>45,538</u>
DEDUCTIONS	
Supplies and materials	20,637
Other operating expenses and services	23,039
Other outgot	<u>2,789</u>
TOTAL DEDUCTIONS	<u>46,465</u>
DECREASE IN NET POSITION	(927)
NET POSITION -- BEGINNING OF YEAR	<u>216,198</u>
NET POSITION -- END OF YEAR	<u>\$ 215,271</u>

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

1. ORGANIZATION AND NATURE OF ACTIVITIES

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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

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

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

Current Year GASB Implementation – For the year ended June 30, 2015, the District implemented GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71 (GASB 71) *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The primary objectives of GASB 68 and GASB 71 are to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. They require employers to report a net pension liability for the difference between the present value of projected pension benefits for past service and restricted resources held in trust for the payment of benefits. The Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note 7 explains the effect of the current year GASB implementation.

Since GASB 68 requires retroactive application, beginning net position is reduced by the net pension liability offset by the related deferred outflows of resources as of June 30, 2014. As a result, for the year ended June 30, 2015, the beginning net position decreased by \$44,906,238 as the cumulative effect of a change in accounting principles.

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

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

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

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 THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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

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

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

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

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

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

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

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

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

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Additional factors involved in the calculation of the District's pension expense and net pension liability include the differences between expected and actual experience, changes in assumptions, differences between projected and actual investment earnings, changes in proportion, and differences between the District's contributions and proportionate share of contributions. These factors are recorded as deferred outflows and inflows of resources and amortized over various periods. See Note 7 for further details related to these pension deferred outflows and inflows.

Pensions – Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement Plan (the CalSTRS Plan), and classified employees are members of the Schools Pool (the CalPERS Plan), collectively referred to as the Plans. For purposes of measuring the net pension liability, pension expense, and deferred outflows/inflows of resources related to pensions, information about the fiduciary net position of the District's portions of the Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

- Net investment in capital assets – This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.
- Restricted net position – expendable – Restricted expendable net position includes resources that the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- Unrestricted net position (deficit) – Unrestricted net position (deficit) represents resources derived from student tuition and fees, state apportionments, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose. Unrestricted net position includes amounts internally designated for District obligations.

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

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

- Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises; (3) most Federal, State, and local grants and contracts and Federal appropriations.
- Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB, such as State appropriations and investment income.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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

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

Future Accounting Pronouncements – In June of 2015, the GASB issued GASB Statement 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, with required implementation for the District during the year ended June 30, 2018. The primary objective of GASB 75 is to improve accounting and financial reporting by state and local governments for other postemployment benefits (OPEB) by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. It will require employers to report a net OPEB liability for the difference between the present value of projected pension benefits for past service and restricted resources held in trust for the payment of benefits. The Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. GASB 75 is required to be implemented retroactively and will require a restatement of beginning net position.

3. CASH AND EQUIVALENTS

Cash and equivalents as of June 30, 2015, are classified in the accompanying financial statements as follows:

Statement of Net Position of the Primary Government:	
Cash and equivalents	\$ 12,282,498
Restricted cash and equivalents	11,262,364
Statement of Fiduciary Net Position:	
Cash and equivalents	<u>195,494</u>
Total cash and equivalents	<u>\$ 23,740,356</u>

Cash and equivalents as of June 30, 2015, consist of the following:

Cash and equivalents in County Treasury	\$ 17,134,818
Deposits with financial institutions	282,883
Cash on hand	15,584
Cash and equivalents in CAMP	<u>6,307,071</u>
Total cash and equivalents	<u>\$ 23,740,356</u>

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Cash in County Treasury

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

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

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

California Asset Management Program

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

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Investments Authorized by the District's Investment Policy

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

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

Investments Authorized by Debt Agreements

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

Derivative Investments

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

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair values to changes in market interest rates. As of June 30, 2015, the weighted average maturity of the investments contained in the County Treasury and the CAMP investment pools is approximately 522 and 32 days, respectively.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County Treasury investment pool does not have a rating provided by a nationally recognized statistical rating organization. The CAMP investment pool is rated AAAM by Standard and Poor's as of June 30, 2015.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Education Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits that are made by a state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amounts deposited by the public agencies.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2015:

Statement of Net Position of the Primary Government	
Federal grants and contracts	\$ 486,826
State grants, contracts and general apportionment	2,083,425
Local grants, contracts and students	<u>4,628,422</u>
Total	<u>\$ 7,198,673</u>
Statement of Fiduciary Net Position:	
Local sources	<u>\$ 739</u>
Total	<u>\$ 739</u>

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2015</u>
Capital assets, not being depreciated:				
Land	\$ 1,670,258			\$ 1,670,258
Construction in progress	529,044	\$ 164,658	\$ (24,382)	669,320
Total capital assets, not being depreciated	<u>2,199,302</u>	<u>164,658</u>	<u>(24,382)</u>	<u>2,339,578</u>
Capital assets, being depreciated:				
Improvement of sites	13,171,120		(32,810)	13,138,310
Buildings	130,332,174	1,706,891		132,039,065
Furniture and equipment	15,561,559	987,473	(38,374)	16,510,658
Total capital assets, being depreciated	<u>159,064,853</u>	<u>2,694,364</u>	<u>(71,184)</u>	<u>161,688,033</u>
Less accumulated depreciation for:				
Improvement of sites	(9,756,947)	(389,721)		(10,146,668)
Buildings	(34,017,470)	(4,823,266)		(38,840,736)
Furniture and equipment	(10,447,834)	(1,263,870)	24,594	(11,687,110)
Total accumulated depreciation	<u>(54,222,251)</u>	<u>(6,476,857)</u>	<u>24,594</u>	<u>(60,674,514)</u>
Total capital assets, being depreciated, net	<u>104,842,602</u>	<u>(3,782,493)</u>	<u>(46,590)</u>	<u>101,013,519</u>
Total capital assets, net	<u>\$ 107,041,904</u>	<u>\$ (3,617,835)</u>	<u>\$ (70,972)</u>	<u>\$103,353,097</u>

6. LONG TERM OBLIGATIONS

General Obligation Bonds

On August 1, 2005, the District issued 2005 Series of the 2002 School Facilities Improvement District 2 General Obligation Bonds in the amount of \$6,790,000, with interest rates ranging from 2.72% to 5.0%. As of June 30, 2015, the principal balance outstanding was \$135,000.

On August 1, 2006, the District issued the 2006 Series of the 2002 School Facilities Improvement District 1 General Obligation Bonds in the amount of \$24,000,000, with interest rates ranging from 4.125% to 5.0%. As of June 30, 2015, the principal balance outstanding was \$710,000.

On November 16, 2006, the District issued the 2006 General Obligation Refunding Bonds in the amount of \$10,740,000, with interest rates ranging from 3.5% to 5.0%. As of June 30, 2015, the principal balance outstanding was \$9,420,000.

On February 28, 2012, the District issued 2012 General Obligation Refunding Bonds in the amount of \$13,070,000, with interest rates ranging from 2.0% to 4.0%, to advance refund a portion of the 2003 Series of the 2002 Schools Facilities Improvement General Obligation Bonds. As of June 30, 2015, the principal balance outstanding was \$12,030,000.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

On August 1, 2014, the District issued 2014 General Obligation Refunding Bonds (2014 Issue) in the amount of \$21,965,000, with interest rates ranging from 2% to 5%, to partially advance refund the 2006 Series of the 2002 School Facilities Improvement District 1 General Obligation Bonds (Defeased Bonds.) The District completed the refunding to reduce debt service payments by \$2,588,884 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$2,003,448 in aggregate. The District defeased the bonds by placing proceeds of the 2014 Issue in an irrevocable escrow account to provide for future debt service, accordingly the assets and liabilities for the Defeased Bonds are not included in the Statement of Net Position. On June 30, 2015, \$22,430,162 was held in escrow, which, together with the interest income earned, are expected to be sufficient to retire all Defeased Bonds including principal and accrued interest expense on August 1, 2016. As of June 30, 2015, the 2014 Issue principal balance outstanding was \$21,965,000.

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

<u>Year Ending June 30, 2015</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,685,000	\$ 1,633,996	\$ 3,318,996
2017	1,480,000	1,637,750	3,117,750
2018	1,715,000	1,577,025	3,292,025
2019	1,920,000	1,518,225	3,438,225
2020	2,130,000	1,445,375	3,575,375
2021-2025	14,655,000	5,541,374	20,196,374
2026-2030	14,660,000	2,288,225	16,948,225
2031-2032	<u>6,015,000</u>	<u>204,820</u>	<u>6,219,820</u>
Totals	<u>\$ 44,260,000</u>	<u>\$ 15,846,790</u>	<u>\$ 60,106,790</u>

Capital Leases

The District leases equipment under agreements which provide for title to pass upon expiration of the lease period. The assets acquired under these agreements are included in capital assets, see Note 5. The interest cost incurred during the year ended June 30, 2015, was charged to expenses. Future minimum lease payments are as follows:

<u>Year Ending June 30, 2015</u>	<u>Payments</u>
2016	\$ 862,638
2017	868,356
2018	788,685
2019	629,343
2020	204,718
2021-2025	1,023,590
2026-2030	<u>359,173</u>
Total	4,736,503
Less amount representing interest	<u>(598,291)</u>
Present value of net minimum lease payments	<u>\$ 4,138,212</u>

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Supplemental Early Retirement Incentive

During the years ended June 30, 2014 and 2015, the District entered into agreements to offer early retirement incentives to eligible faculty, classified staff and management. Future payments of \$554,119 will be made annually through June 1, 2018 and \$258,211 on June 1, 2019.

A schedule of changes in long-term obligations for the year ended June 30, 2015 is shown below:

	<u>Beginning Balance, Restated</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 44,912,577	\$ 21,965,000	\$ (22,617,577)	\$ 44,260,000	\$ 1,685,000
Premium on bonds	1,193,516	1,432,061	(402,604)	2,222,973	184,755
Compensated absences	958,520	76,840		1,035,360	1,035,360
Capital leases	4,895,635		(757,423)	4,138,212	729,297
Supplemental early retirement incentive	1,183,632	1,291,055	(554,119)	1,920,568	554,119
Net Pension Liability (Note 7)	47,818,104	3,294,729	(13,417,778)	37,695,055	
Net OPEB obligation (Note 8)	291,223	4,279,978	(4,717,210)	(146,009)	
Totals	<u>\$ 101,253,207</u>	<u>\$32,339,663</u>	<u>\$ (42,466,711)</u>	<u>\$ 91,126,159</u>	<u>\$ 4,188,531</u>

The beginning balance has been increased by the \$47,818,104 for the net pension liability as a result of implementing the GASB 68 and 71 (see Note 2).

7. EMPLOYEE RETIREMENT SYSTEMS

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Benefits Provided

The benefits for the CalSTRS Plan are established by contract, in accordance with the provisions of the State Teachers' Retirement Law. Benefits are based on members' years of service, age, final compensation, and a benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The California Public Employees' Pension Reform Act of 2013 (PEPRA) made significant changes to the benefit structure that primarily affect members first hired to perform CalSTRS creditable activities on or after January 1, 2013. As a result of PEPRA, the CalSTRS Plan has two benefit structures: 1) CalSTRS 2% at 60 – Members first hired on or before December 31, 2012, to

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

perform CalSTRS creditable activities, and 2) CalSTRS 2% at 62 – Members first hired on or after January 1, 2013, to perform CalSTRS creditable activities. The 2 percent, also known as the age factor, refers to the percentage of final compensation received as a retirement benefit for each year of service credit. To be eligible for service retirement, members hired prior to January 1, 2013, must be at least age 60 with a minimum of five years of CalSTRS-credited service, while members hired after January 1, 2013, must be at least age 62 with five years of service.

Contributions

Assembly Bill 1469 (AB 1469), signed into law as a part of the State of California's (the State) 2014-15 budget, increases contributions to the CalSTRS Plan from members, employers, and the State over the next seven years, effective July 1, 2014. School employer contributions will increase from 8.25% to a total of 19.1% of covered payroll over the seven-year period. The District's required contribution rate for the year ended June 30, 2015, was 8.88% of annual pay. District contributions to the CalSTRS Plan were \$1,739,206 for the year ended June 30, 2015.

The State contributes a percentage of the annual earnings of all members of the CalSTRS Plan. AB 1469 increases the State's contribution attributable to the benefits in effect in 1990, but does not change the base rate of 2.017%. Thus the State contribution rate, which in the period ended June 30, 2015, was 3.454% of covered payroll, will increase over the next two years to a total of 6.328%.

Actuarial Assumptions

The total pension liability for the CalSTRS Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to the measurement date of June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Investment Rate of Return	7.60% ⁽¹⁾
Mortality ⁽²⁾	CalSTRS' Membership Data
Post-Retirement Benefit Increase	2% simple

⁽¹⁾ Net of investment expenses, but gross of administrative expenses.

⁽²⁾ CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 – June 30, 2010 Experience Analysis for more information.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Discount Rate

The discount rate used to measure the CalSTRS Plan's total pension liability was 7.60%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60%) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the CalSTRS Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS' general investment consultant as an input to the process. Based on the model from CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are normally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by CalSTRS' general investment consultant is based on CalSTRS' board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the CalSTRS board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term * Expected Real Rate of Return</u>
Global Equity	47.00%	4.50%
Private Equity	12.00%	6.20%
Real Estate	15.00%	4.35%
Inflation Sensitive	5.00%	3.20%
Fixed Income	20.00%	0.20%
Cash / Liquidity	1.00%	0.00%
Total	<u>100.00%</u>	

*10-year geometric average

California Public Employees' Retirement System (CalPERS)

Plan Description

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

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Benefits Provided

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

Contributions

Section 20814(c) of the PERL requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Contribution rates for the CalPERS Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The CalPERS Plan's actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District's required contribution rate for the year ended June 30, 2015, was 11.771% of annual pay. District contributions to the CalPERS Plan were \$1,381,020 for the year ended June 30, 2015.

Actuarial Assumptions

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and June 30, 2014 total pension liability amounts were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies ⁽¹⁾
Investment Rate of Return	7.50% ⁽²⁾
Mortality ⁽³⁾	CalPERS' Membership Data
Post-Retirement Benefit Increase	Up to 2.75% ⁽⁴⁾

⁽¹⁾ Depending on age, service and type of employment

⁽²⁾ Net of pension plan investment and administrative expenses; includes inflation

⁽³⁾ The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, refer to the 2014 experience study report.

⁽⁴⁾ Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates.

Discount Rate

The discount rate used to measure the total pension liability was 7.50% for the CalPERS Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report, *GASB Statements 67 and 68 Crossover Testing Report for Measurement Date June 30, 2014 based on June 30, 2013 Valuations*, that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the CalPERS Plan, the 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular asset liability management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the year ended June 30, 2018. CalPERS will continue to check the materiality of the difference in calculation until such time as CalPERS has changed their methodology.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 – 10^(a)</u>	<u>Real Return Years 11+^(b)</u>
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	<u>100.00%</u>		

^(a) An expected inflation of 2.5% was used for this period.

^(b) An expected inflation of 3.0% was used for this period.

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

As of June 30, 2015, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for the State's pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability:	
CalSTRS Plan	\$ 25,127,910
CalPERS Plan	12,567,145
State's proportionate share of CalSTRS net pension liability associated with the District	<u>15,190,963</u>
Total	<u>\$ 52,886,018</u>

The District's net pension liability is measured as the proportionate share of each Plan's net pension liability. The net pension liabilities of the Plans are measured as of June 30, 2014, and calculated by reducing the total pension liability of each Plan by the respective Plan's fiduciary net position. The District's proportion of each Plan's net pension liability was based on the ratio of the District's actual employer contributions in the measurement period to the total actual employer and State contributions received by the respective Plan in the measurement period. The District's proportionate share of the net pension liability as of June 30, 2014, was 0.043% and 0.1107% for the CalSTRS and CalPERS Plans, respectively.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

For the year ended June 30, 2015, the District recognized pension expense of \$4,611,288 and revenue of \$1,316,559 for support provided by the State. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to measurement date	\$ 3,120,226	
Net differences between projected and actual earnings on plan investments		\$ 10,505,912
Total	\$ 3,120,226	\$ 10,505,912

The \$3,120,226 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2016	\$ (2,626,478)
2017	(2,626,478)
2018	(2,626,478)
2019	(2,626,478)
Total	\$ (10,505,912)

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

The following presents the District's proportionate share of the net pension liability of the Plans as of the measurement date, calculated using the discount rate, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	Discount Rate -1% (6.60%)	Current Discount Rate (7.60%)	Discount Rate +1% (8.60%)
District's proportionate share of the CalSTRS Plan's net pension liability	\$ 36,167,840	\$ 25,127,910	\$ 13,421,160

	Discount Rate -1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate +1% (8.50%)
District's proportionate share of the CalPERS Plan's net pension liability	\$ 22,045,642	\$ 12,567,145	\$ 4,646,906

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

8. OTHER POSTEMPLOYMENT BENEFITS PLAN

In addition to the pension benefits described in Note 7, the District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

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 Merced College Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the District. The District is a member of the California Community College League Retiree Health Benefit Program, which is an investment program used to set aside funds for future retiree benefits in an irrevocable trust (the Investment Trust). Separate financial statements for the Investment Trust can be obtained by contacting the California Community College League Retiree Health Benefit Program at 2017 O Street, Sacramento CA 95811. The District provides benefits on a pay-as-you-go basis, and also makes contributions to the Investment Trust. The contribution requirements of plan members and the District are established and may be amended by the Board and by contractual agreement with employee groups. The District's plan members are not required to contribute to the plan.

The District's annual OPEB cost 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. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimations are made about the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculation. The schedule of funding progress included in the required supplementary information presents multiyear information regarding whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Actuarial cost method	Entry age normal
Amortization methods	Closed 30 year amortization period for the initial UAAL, 22 years remaining
	Open 30 year amortization period for residual UAAL, 29 years remaining
Actuarial value of assets	5 year smoothing formula with a 20% corridor around market value.
Inflation rate assumption	2.75%
Investment return/discount rate assumption	6.75%
Medical trend assumption	4%
Payroll increase assumption	2.75%
Annual required contribution	\$ 4,279,978
Interest on net OPEB obligation	
Adjustment for current payroll data as per actuary	
Annual OPEB expense	4,279,978
Contributions made	(4,717,210)
Increase (decrease) in OPEB obligation	(437,232)
Net OPEB obligation (asset) at July 1, 2014	291,223
Net OPEB obligation (asset) at June 30, 2015	\$ (146,009)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2015, and the preceding two years were as follows:

Fiscal Year Ended June 30,	Annual OPEB expense	% of Annual OPEB expense contributed	Net OPEB obligation (asset)
2013	\$ 3,891,815	98%	\$ 937,924
2014	\$ 4,292,096	115%	\$ 291,223
2015	\$ 4,279,978	110%	\$ (146,009)

Funded Status and Funding Progress

The funded status of the plan as of the most recent valuation date, December 1, 2013, was as follows:

Actuarial accrued liability (AAL)	\$ 58,241,947
Actuarial value of plan assets	2,077,988
Unfunded actuarial accrued liability (UAAL)	\$ 56,163,959
Funded ratio (actuarial value of plan assets / AAL)	3.57%
Covered payroll (active plan members)	\$ 26,498,359
UAAL as a percentage of covered payroll	212%

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

9. DEFERRED COMPENSATION PLANS

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

10. JOINT POWERS AUTHORITIES AGREEMENTS

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

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

NATURE OF PARTICIPATION

Property

District Deductible: \$5,000
JPA's Coverage: \$5,001 to \$1,000,000 with ASCIP
Excess Insurance: \$1,000,001 to \$500,000,000 with ASCIP

Liability

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

Workers' Compensation

District Deductible: \$0
JPA's Coverage: Statuary

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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

	June 30, 2014 SELF	June 30, 2014 ASCIP
Total Assets	\$ 162,746,000	\$ 338,924,559
Total Liabilities	(118,853,000)	(192,528,306)
Net Position	<u>\$ 43,893,000</u>	<u>\$ 146,396,253</u>
Total Revenues	\$ 11,812,000	\$ 208,452,919
Total Expenses	(4,199,000)	(196,801,424)
Net Increase in Net Position	<u>\$ 7,613,000</u>	<u>\$ 11,651,495</u>

11. LEASE REVENUE BONDS

The District and the State of California have entered into a financing arrangement under which the State provided funds for the construction of the Interdisciplinary Academic Center (IAC). The funds are proceeds of lease revenue bonds issued by the State of California, Public Works Board (the Board). The bonds are a special obligation of the Board payable from State General Fund revenues appropriated to the California Community Colleges Board of Governors who therein make adequate provision in the annual budget of the State for the servicing of such bonds. However, in the unlikely event that the State could not pay the semi-annual installment payment, the District would be responsible for the payments attributable to the District's facilities. No amounts had been accrued for any contingent payments at June 30, 2015.

The IAC is included in the District's capital assets on the Statement of Net Position. The Board leases the facility constructed with these bonds to the District. Upon full repayment of the associated bonds, title to the facility conveys to the District. Approximately \$9,028,000 of the project costs were appropriated in the 2001-02 year. Annual installments on the lease range from \$195,890 to \$617,100 beginning March 15, 2006, through September 15, 2031.

12. TAX REVENUE ANTICIPATION NOTES (TRANS)

Tax revenue anticipation notes are short-term debt instruments. They are issued to eliminate cash flow deficiencies that result from fluctuations in revenue receipts and expenditure disbursements. A summary of the District TRANS activity for the year ended June 30, 2015 is as follows:

	Outstanding June 30, 2014	Additions	Deletions	Outstanding June 30, 2015
March 2014 2.00% TRANS	\$ 5,500,000	\$ _____	\$ 5,500,000	\$ _____

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

13. COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

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

Litigation

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

14. PRIOR PERIOD ADJUSTMENT

Net position of the Foundation at June 30, 2014 have been restated to record a discount on pledges receivable that are estimated to be paid in the year ending June 30, 2023.

The correction of this error resulted in a decrease of pledges receivable and restricted expendable net position as of June 30, 2014. The effect on the change in net position for the year ending June 30, 2014 is not considered significant.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS YEAR ENDED JUNE 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
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%

MERCED COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2015
LAST 10 YEARS***

CalSTRS Plan

	<u>2015</u>
District's proportion of the net pension liability	0.043%
District's proportionate share of the net pension liability	\$ 25,127,910
State's proportionate share of the net pension liability associated with the District	<u>15,190,963</u>
Total	<u>\$ 40,318,873</u>
District's covered-employee payroll	\$ 19,262,257
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	130%
Plan fiduciary net position as a percentage of the total pension liability	77%

CalPERS Plan

	<u>2015</u>
District's proportion of the net pension liability	0.1107%
District's proportionate share of the net pension liability	\$ 12,567,145
District's covered-employee payroll	\$ 11,619,858
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	108%
Plan fiduciary net position as a percentage of the total pension liability	83%

Notes to Schedule:

Change of benefit terms – In 2015, there were no changes to the benefit terms.

Changes in assumptions – In 2015, there were no changes in assumptions.

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS AS OF JUNE 30, 2015 LAST 10 YEARS*

CalSTRS Plan	
	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 1,739,206
Contributions in relation to the contractually required contributions	<u>(1,739,206)</u>
Contribution deficiency (excess)	<u>\$ 0</u>
District's covered-employee payroll	\$ 19,627,455
Contributions as a percentage of covered-employee payroll	8.9%
 CalPERS Plan	
	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 1,381,020
Contributions in relation to the contractually required contributions	<u>(1,381,020)</u>
Contribution deficiency (excess)	<u>\$ 0</u>
District's covered-employee payroll	\$ 11,614,639
Contributions as a percentage of covered-employee payroll	11.9%

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

SUPPLEMENTARY INFORMATION SECTION

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Program Expenditures
U.S. Department of Education:			
Student Financial Assistance Programs Cluster:			
Supplemental Educational Opportunity Grant Program	84.007	N/A	\$ 439,948
Federal Work Study Program	84.033	N/A	464,548
Pell Grant Program	84.063	N/A	<u>20,110,220</u>
Subtotal Student Financial Assistance Programs Cluster			21,014,716
Childcare Access Means Parents in School	84.335A	N/A	131,173
Passed through California State University, Stanislaus:			
Hispanic-Serving Institutions Science, Technology, Engineering & Mathematics Articulation	84.031C	P031C110082	201,416
Passed through the California Department of Education:			
Career Technical Education Transitions	84.051	14-112-031	43,269
Vocational Technical Education Act	84.048A	14-C01-031	369,048
Passed through the MDRC:			
MDRC Learning Communities Demo Grant	84.287	N/A	2,174
Passed through the Merced County Office of Education:			
Merced Scholars Charter School	84.282	N/A	3,080
California Student Opportunity and Access Program (Cal-SOAP-CTE)	84.048	N/A	<u>19,807</u>
Total U.S. Department of Education			<u>21,784,683</u>
Environmental Protection Agency			
Veterans Education	64.XXX	N/A	<u>2,556</u>
U.S. Department of Health and Human Services			
Child Care Development Fund (CCDF) Cluster:			
Passed through the California Department of Education:			
CDC California State Preschool Program (CSPP)	93.596	CCPP-4275	20,189
CDC California State Preschool Program (CSPP)	93.575	CCPP-4275	11,108
CDC General Child Care & Dev Programs (CCTR)	93.596	CCTR-4145	113,953
CDC General Child Care & Dev Programs (CCTR)	93.575	CCTR-4145	62,694
Passed through the Yosemite Community College District:			
CD Training Consortium	93.575	14-15-3970	18,225
Passed through West Ed:			
CDC Program for Infant/Toddler Care (PITC)	93.575	S00025341.0	<u>29,592</u>
Subtotal CCDF Cluster			255,761

See the accompanying notes to supplemental information.

MERCED COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Program Expenditures
Passed through the Chancellor's Office:			
Temporary Assistance to Needy Families (TANF)	93.558	N/A	94,118
Passed through the Madera County Office of Education:			
CDC Medi-Cal Administrative Activities (MAA)	93.778	N/A	49,913
Passed through Merced County Mental Health:			
Mental Health	93.958	ETC10-018/2012010	<u>5,208</u>
Total U.S. Department of Health and Human Services			<u>405,000</u>
U.S. Department of Labor			
Passed through West Hills Community College District:			
Trade Adjustment Assistance Community College and Career Training (TAACCCT)	17.282	TC-22498-11-60-A-6	<u>477,465</u>
U.S. National Science Foundation:			
Passed through the Santa Clarita Community College District:			
CREATE Renewable Energy Regional Center	47.076	1002653	<u>1,559</u>
U.S. Department of Agriculture:			
Passed Through California Department of Education:			
Child Care Federal Food Program	10.558	04364-CACFP-24-CC-IC	<u>70,716</u>
U.S. Department of Commerce:			
Passed through California State University, Fresno Foundation:			
Innovative Manufacturing Collaborative Partnership	11.307	SC360190-14-04	<u>6,505</u>
Total Expenditures of Federal Awards			<u>\$ 22,748,484</u>

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE YEAR ENDED JUNE 30, 2015

Program Title	Entitlements	Program Revenues			Total	Program Expenditures
	Current Year	Unearned Revenue and Cash Received	Accounts Receivable	Unearned/Payables		
CATEGORICAL APPORTIONMENTS:						
EOPS/CARE	\$ 153,529	\$ 159,559			\$ 159,559	\$ 159,559
EOPS (E)	1,042,196	1,056,311			1,056,311	1,056,311
State DSPS	836,475	841,164			841,164	841,164
BFAP	442,793	442,793			442,793	442,793
RN Economic Development	294,887	261,774		\$ 6,983	254,791	254,791
Equal Employment Opportunity	5,608	5,757			5,757	5,757
Student Success and Support Program	1,171,835	1,227,807		464,233	763,574	763,574
Student Equity	718,635	718,635		537,849	180,786	180,786
SIE/Library Materials	630,904	696,187		12,450	683,737	683,737
SSI/Basic Skills		836,897		293,372	543,525	543,525
CalWORKs	404,676	404,676		4,764	399,912	399,912
Subtotal	5,701,538	6,651,560		1,319,651	5,331,909	5,331,909
CATEGORICAL PROGRAM ALLOWANCES:						
Puente Project	1,500	1,500			1,500	1,500
Cal Grant	1,700,000	1,753,598	\$ 35,886		1,789,484	1,789,484
CDC Block Grant	209,309	209,309			209,309	209,309
CDC Family Services	64,685	43,340	21,344		64,684	64,684
CDC MCOE Kids First		55,156		55,156		
CDC Preschool Program	195,350	132,120	63,230		195,350	195,350
CDC Capacity Bldg Grant		1,801		1,801		
Child Care Food Program	4,192	4,132	60		4,192	4,192
Early Childhood Mentors	3,800	1,900	1,900		3,800	3,800
Valley Sierra Collaborative	11,353	23,432	11,353	5,108	29,677	29,677
Prop 39 Clean Air	269,370	269,370		175,899	93,471	93,471
Scheduled Maintenance	630,903	808,300		431,592	376,708	376,708
CTE Enhancement	111,697		111,697		111,697	111,697
VIP/JPA	1,412	1,741		328	1,413	1,413
Career Adv Academy Grant	66,700	37,728	29,175		66,903	66,903
Prop 39 (passed through Kern CCD)	44,932		44,932		44,932	44,932
IDRCDA	257,649		258,280	631	257,649	257,649
Economic development:						
AB86 Merced Regional Adult Education Consortium	1,111	195,990	27,080		223,070	223,070
GTLS (DSN & IRI)	185,006	26,248	300,000	14,994	311,254	311,254
RHTLE (DSN & IRI)	194,427	(13,329)	300,000	5,573	281,098	281,098
Subtotal	3,953,396	3,552,336	1,204,937	691,082	4,066,191	4,066,191
Total	\$ 9,654,934	\$ 10,203,896	\$ 1,204,937	\$ 2,010,733	\$ 9,398,100	\$ 9,398,100

See the accompanying notes to supplemental information.

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE YEAR ENDED JUNE 30, 2015

STATE GENERAL APPORTIONMENT

<u>Categories</u>	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
A. Summer Intersession (Summer 2014 Only)			
1. Noncredit	131.76	0.00	131.76
2. Credit	459.61	0.00	459.61
B. Summer Intersession (Summer 2015 – Prior to July 1, 2015)			
1. Noncredit	0.27	0.00	0.27
2. Credit	513.27	0.00	513.27
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses:			
(a) Weekly Census Contact Hours	6,889.80	0.00	6,889.80
(b) Daily Census Contact Hours	364.82	0.00	364.82
2. Actual Hours of Attendance Courses:			
(a) Noncredit	786.42	0.00	786.42
(b) Credit	38.78	0.00	38.78
3. Alternative Attendance Accounting Procedure:			
(a) Weekly Census Procedure Courses	500.35	0.00	500.35
(b) Daily Census Procedure Courses	68.90	0.00	68.90
(c) Noncredit Independent Study	0.00	0.00	0.00
D. Total Full-Time Equivalent Students	<u>9,753.98</u>	<u>0.00</u>	<u>9,753.98</u>
<u>Supplemental Information</u>			
E. In-service Training Courses (FTES)	17.66	0.00	17.66
F. Basic Skills Courses and Immigrant Education (FTES)			
(a) Noncredit	711.62	0.00	711.62
(b) Credit	1,557.57	0.00	1,557.57
<u>CCFS 320 Addendum</u>			
CCDCP Noncredit FTES	619.61	0.00	619.61
Centers FTES			
(a) Noncredit	176.82	0.00	176.82
(b) Credit	1,018.85	0.00	1,018.85

MERCED COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION YEAR ENDED JUNE 30, 2015

	Object/TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
ACADEMIC SALARIES							
Instructional Salaries:							
Contract or Regular	1100	\$ 10,612,469		\$ 10,612,469	\$ 10,612,469		\$ 10,612,469
Other	1300	4,890,735		4,890,735	4,890,735		4,890,735
Total Instructional Salaries		<u>15,503,204</u>		<u>15,503,204</u>	<u>15,503,204</u>		<u>15,503,204</u>
Non-Instructional Salaries:							
Contract or Regular	1200				3,338,242		3,338,242
Other	1400				252,262		252,262
Total Non-Instructional Salaries					<u>3,590,504</u>		<u>3,590,504</u>
Total Academic Salaries		<u>15,503,204</u>		<u>15,503,204</u>	<u>19,093,708</u>		<u>19,093,708</u>
CLASSIFIED SALARIES							
Non-Instructional Salaries:							
Regular Status	2100				6,476,244		6,476,244
Other	2300				614,262		614,262
Total Non-Instructional Salaries					<u>7,090,506</u>		<u>7,090,506</u>
Instructional Aides:							
Regular Status	2200	947,654		947,654	947,654		947,654
Other	2400	251,668		251,668	251,668		251,668
Total Instructional Aides		<u>1,199,322</u>		<u>1,199,322</u>	<u>1,199,322</u>		<u>1,199,322</u>
Total Classified Salaries		<u>1,199,322</u>		<u>1,199,322</u>	<u>8,289,828</u>		<u>8,289,828</u>
Employee Benefits	3000	7,676,183		7,676,183	15,516,388		15,516,388
Supplies and Materials	4000				484,264		484,264
Other Operating Expenses	5000	93,890		93,890	4,850,262		4,850,262
Equipment Replacement	6420						
TOTAL EXPENDITURES PRIOR TO EXCLUSIONS		<u>24,472,599</u>		<u>24,472,599</u>	<u>48,234,450</u>		<u>48,234,450</u>

MERCED COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION YEAR ENDED JUNE 30, 2015

	Object/TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
EXCLUSIONS							
Activities to Exclude:							
Instructional Staff-Retirees' Benefits and Retirement Incentives	5900	2,140,656		2,140,656	2,140,656		2,140,656
Student Health Services Above Amount Collected	6441						
Student Transportation	6491						
Noninstructional Staff-Retirees' Benefits and Retirement Incentives	6740				2,273,365		2,273,365
Objects to Exclude:							
Rents and Leases	5060				25,455		25,455
Lottery Expenditures:							
Academic Salaries	1000						
Classified Salaries	2000						
Employee Benefits	3000						
Supplies and Materials:							
Software	4100						
Books, Magazines, & Periodicals	4200				874		874
Instructional Supplies & Materials	4300				72,000		72,000
Noninstructional Supplies & Materials	4400				76,328		76,328
Total Supplies and Materials					149,202		149,202
Other Operating Expenses and Services	5000				1,090,526		1,090,526
Capital Outlay:							
Library Books	6300						
Equipment:							
Equipment - Additional	6410				55,052		55,052
Equipment - Replacement	6420						
Total Equipment					55,052		55,052
Total Capital Outlay					55,052		55,052
Other Outgo	7000						
TOTAL EXCLUSIONS							
		<u>2,140,656</u>		<u>2,140,656</u>	<u>5,734,256</u>		<u>5,734,256</u>
Total for ECS 84362, 50% Law		<u>\$ 22,331,943</u>		<u>\$ 22,331,943</u>	<u>\$ 42,500,194</u>		<u>\$ 42,500,194</u>
Percent of CEE (Instructional Salary Cost / Total CEE)		52.55%			100%		
50% of Current Expense of Education					\$ 21,250,097		51

MERCED COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF EDUCATION PROTECTION ACCOUNT EXPENDITURES
TO DISTRICT ACCOUNTING RECORDS
YEAR ENDED JUNE 30, 2015**

Prop 30 EPA Expenditure Report

Activity Classification	Activity Code				Unrestricted
EPA Proceeds:	8630				\$ 9,139,897
Activity Classification	Activity Code	Salaries and Benefits (1000-3000)	Operating Expenses (4000-5000)	Capital Outlay (6000)	Total
Instructional Activities	0100-5900	\$ 9,139,897			9,139,897
Total Expenditures for EPA*		<u>\$ 9,139,897</u>	<u>\$</u>	<u>\$</u>	<u>9,139,897</u>
Revenues less Expenditures					<u><u>\$</u></u>

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

MERCED COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH AUDITED FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

	Capital Projects Fund
June 30, 2015 Annual Financial and Budget Report (Form CCFS-311) Fund Balance	\$ 3,360,525
Adjustments and Reclassifications decreasing fund balance:	
Adjustment to defer state apportionment revenue for the Scheduled Maintenance and Proposition 39 Clean Energy cash receipts that had not been expended as of June 30, 2015	<u>(607,491)</u>
June 30, 2015 Adjusted Fund Balance	<u>\$ 2,753,034</u>

There were no other adjustments necessary to reconcile the annual CCFS-311 report with the District accounting records or the fiscal year 2014-15.

MERCED COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2015

1. PURPOSE OF SCHEDULES

Schedules of Expenditures of Federal Awards

The audit of the District for the year ended June 30, 2015, was conducted in accordance with OMB Circular A-133, which requires disclosure of the financial activities of all federally funded programs. To comply with OMB Circular A-133, the Schedule of Expenditures of Federal Awards was prepared by the District.

- General – The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the District. The District reporting entity is defined in Note 1 to the District's basic financial statements.
- Basis of Accounting – The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 2 to the District's basic financial statements.

Schedule of State Financial Assistance

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

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

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

Reconciliation of the ECS 84362 (50 percent law) Calculation

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

Reconciliation of Education Protection Account Expenditures to District Accounting Records

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

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

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the Form CCFS-311 to the audited financial statements.

OTHER INDEPENDENT AUDITOR'S REPORTS

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of the Merced Community College District (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents, and have issued our report thereon dated December 18, 2015.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as findings number 2015-001 and 2015-002.

Compliance and Other Matters

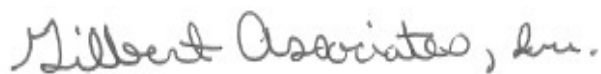
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

District's Responses to Findings

The District's Response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



**GILBERT ASSOCIATES, INC.
Sacramento, California**

December 18, 2015

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

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the Merced Community College District's (the District) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 the District's internal control over compliance.

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

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

Gilbert Associates, Inc.

**GILBERT ASSOCIATES, INC.
Sacramento, California**

December 18, 2015

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

Independent Auditor's Report

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

Report on Compliance with Applicable Requirements

We have audited the Merced Community College District's (the District) compliance with the types of compliance requirements described in Section 400, State Compliance Requirements, of the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office identified in the schedule below for the year ended June 30, 2015.

Management's Responsibilities

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

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

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

- Salaries of Classroom Instructors (50% Law)
- Apportionment for Instructional Service Agreements/Contracts

- State General Apportionment Funding System
- Residency Determination for Credit Courses
- Students Actively Enrolled
- Concurrent Enrollment of K-12 Students in Community College Credit Courses
- Scheduled Maintenance Program
- Gann Limit Calculation
- Open Enrollment
- Student Fees - Health Fees and Use of Health Fee Funds
- Prop 39 Clean Energy Fund
- Intersession Extension Programs
- Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
- Disabled Student Programs and Services (DSPS)
- To Be Arranged Hours (TBA)
- Proposition 1D State Bond Funded Projects
- Proposition 30 Education Protection Account Funds

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with *Contracted District Audit Manual* and which is described in the accompanying schedule of findings and questioned costs as item 2015-003. Our opinion on the types of compliance requirements referred to above is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Opinion on State Compliance

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above for the fiscal year ended June 30, 2015.

Gilbert Associates, Inc.

**GILBERT ASSOCIATES, INC.
Sacramento, California**

December 18, 2015

FINDINGS AND RECOMMENDATIONS SECTION

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? Yes X No
Significant deficiencies identified? X Yes None Reported
Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:
Material weakness(es) identified? Yes X No
Significant deficiencies identified? Yes X None Reported
Type of auditor's report issued on compliance for major programs: Unmodified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)? Yes X No

Identification of major programs

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

Dollar threshold used to distinguish between Type A and Type B programs: \$682,455
Auditee qualified as low-risk auditee? X Yes No

State Awards

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

MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENT FINDINGS

2015-001: INTERNAL CONTROLS OVER THE CAPITAL ASSETS AND REVENUE RECOGNITION

Criteria/Condition:

One element of the District's internal control over financial reporting is the ability to provide financial statements in accordance with Generally Accepted Accounting Principles (GAAP.) This includes internal controls that can detect material misstatements in the financial statements independent of the financial statement audit. Material adjustments arising from the audit of the District are generally an indication that internal controls over financial reporting are not operating effectively. A correction to capital assets balances resulted in an increase of approximately \$1.8 million offset by approximately \$2.2 million of accumulated depreciation. This was discovered because there were differences in the June 30, 2014 audited financial statements and the District's detail listing of capital assets from the accounting system. In addition, we determined that approximately \$607,000 of revenue was recognized that was in fact unearned as of June 30, 2015.

Cause/Effect:

The District's management was able to investigate and resolve the discrepancies and as a result, the financial statements were adjusted. The District lacked adequate procedures in their closing process to detect such errors.

Questioned Costs:

No questioned costs. The misstatements identified were corrected by management.

Recommendation:

We recommend the District develop and implement a procedure to reconcile their capital asset listing to the financial statements at least annually and at all times before the audited financial statements are issued. Additionally, we recommend the District improve their internal control process related to revenue recognition to ensure revenue is reported in the proper accounting period.

Management's Response:

The District has an existing process in place to reconcile its capital asset listing to the financial statements on an annual basis, but management will take additional steps to ensure the process is closely adhered to going forward.

Management also has an existing process in place related to revenue recognition. Additional steps will be taken to ensure that the process is strictly followed so that revenue is reported in the proper accounting period.

MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

2015-002: INVENTORY OF CAPITAL ASSETS

Criteria/Condition:

Government Finance Officers Association (GFOA) recommends that every state and local government periodically inventory its tangible capital assets so that all such assets are accounted for, at least on a test basis, no less often than once every five years. In addition, Federal regulations require a physical inventory of equipment acquired under Federal awards at least every 2 years. The District has not performed a periodic inventory of its tangible capital assets for at least ten years.

Cause:

The District does not have a written policy and procedures for performing a periodic inventory of their capital assets.

Effect:

No inventory system is so reliable as to eliminate completely the need for a periodic physical inventory. Lack of a periodic physical inventory can expose the District to unreliable information on the current balances of the capital asset accounts.

Questioned Costs:

No questioned costs due to the nature of the finding.

Recommendation:

We recommend the District develop and implement a written policy and procedures for performing a periodic inventory of their capital assets.

Management's Response:

The District will work towards developing and implementing a written policy and procedure for performing a periodic inventory of capital assets. In addition, the District is currently in the preliminary stages of conducting a physical inventory of capital assets.

MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

SECTION III – STATE COMPLIANCE

2015-003: INSTRUCTIONAL SERVICE AGREEMENTS

Criteria:

The District has arrangements, “Instructional Service Agreements” (ISAs) with public and private entities. According to *Contracted District Audit Manual* a college and/or district must certify it did not receive full compensation for the direct education costs of the class from any public or private agency, individual, or group of individuals.

Condition/Cause:

The District offered instruction under six ISAs during the P2 reporting period for the year ended June 30, 2015. All six of the ISAs courses did not clearly certify that the District did not receive full compensation for the direct education costs of the class from any public or private agency, individual, or group of individuals.

Effect:

The District was unable to provide certification that they didn’t receive full compensation for the direct education costs of the class from any public or private agency, individual, or group of individuals. This could affect the calculation of funding from the State.

Questioned Costs:

According to *Contracted District Audit Manual*, the Chancellor’s Office will use the fully extrapolated information provided as part of the finding to calculate a dollar amount related to each finding. Effective for the 2014/15 audit period, FTES and Students Served information is required to be reported as Credit, Noncredit, Noncredit CDCP. Additionally, numbers must be reported by Center and Campus. The schedule below includes the required information extrapolated for the entire population of ISAs during the fiscal year ended June 30, 2015:

<u>Center/Campus</u>	<u>Enrollment</u>	<u>Credit FTES</u>	<u>Noncredit FTES</u>	<u>Noncredit CDCP</u>
Kingsview	560	0	223.51	0
Fire Tech	23	1.75	0	0

Recommendation:

We recommend the District review all ISAs and ensure they have performed the necessary certification as listed in the *Contracted District Audit Manual*.

Management’s Response:

Management has taken steps to ensure that all future Instructional Service Agreements will adhere to the requirements of the *Contracted District Audit Manual*.

MERCED COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

SECTION IV - FEDERAL COMPLIANCE

There were no federal compliance findings reported.

MERCED COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no financial statement findings reported in the prior year.

SECTION III – FEDERAL COMPLIANCE

There were no federal compliance findings reported in the prior year.

SECTION IV - STATE COMPLIANCE

There were no state compliance findings reported in the prior year