

**MERCED COMMUNITY
COLLEGE DISTRICT
MEASURES H AND J
BOND FUNDS**

MERCED, CALIFORNIA

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED JUNE 30, 2020

**MERCED COMMUNITY COLLEGE DISTRICT
MEASURES H AND J BOND FUNDS**

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INDEPENDENT AUDITOR'S REPORT

**Citizens' Oversight Committee
and Board of Trustees
Merced Community College District
Merced, California**

Report on the Financial Statements

We have audited the accompanying financial statements of the Measures H and J Bond Funds (the Bond Funds) of the Merced Community College District (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bond Funds of the District, as of June 30, 2020, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measures H and J Bond Funds and do not purport to, and do not present fairly the financial position of the District as of June 30, 2020, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Gilbert CPAs

GILBERT CPAs
Sacramento, California

January 20, 2021

FINANCIAL STATEMENTS

**MERCED COMMUNITY COLLEGE DISTRICT
MEASURES H AND J BOND FUNDS**

**BALANCE SHEETS
JUNE 30, 2020**

	<u>Measure H</u>	<u>Measure J</u>	<u>Total</u>
ASSETS:			
Restricted cash and cash equivalents	\$ 7,592,861	\$ 315,406	\$ 7,908,267
Due from District	<u>227,696</u>	<u> </u>	<u>227,696</u>
 Total assets	 <u>\$ 7,820,557</u>	 <u>\$ 315,406</u>	 <u>\$ 8,135,963</u>
LIABILITIES:			
Accounts payable	<u>\$ 384,803</u>	<u> </u>	<u>\$ 384,803</u>
FUND BALANCE:			
Restricted fund balance	<u>7,435,754</u>	<u>\$ 315,406</u>	<u>7,751,160</u>
 Total liabilities and fund balance	 <u>\$ 7,820,557</u>	 <u>\$ 315,406</u>	 <u>\$ 8,135,963</u>

**MERCED COMMUNITY COLLEGE DISTRICT
MEASURES H AND J BOND FUNDS**

**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
YEAR ENDED JUNE 30, 2020**

	<u>Measure H</u>	<u>Measure J</u>	<u>Total</u>
REVENUES:			
Interest and other income	\$ 143,690	\$ 6,956	\$ 150,646
EXPENDITURES:			
Other operating expenses and services	500	1,981	2,481
Capital outlay	1,019,733		1,019,733
Total expenditures	1,020,233	1,981	1,022,214
Change in fund balance	(876,543)	4,975	(871,568)
RESTRICTED FUND BALANCE - BEGINNING OF YEAR	<u>8,312,297</u>	<u>310,431</u>	<u>8,622,728</u>
RESTRICTED FUND BALANCE - END OF YEAR	<u>\$ 7,435,754</u>	<u>\$ 315,406</u>	<u>\$ 7,751,160</u>

MERCED COMMUNITY COLLEGE DISTRICT MEASURES H AND J BOND FUNDS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

1. ORGANIZATION AND NATURE OF ACTIVITIES

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.

These financial statements present only the District's Measures H and J Bond Funds (the Bond Funds), which were established to account for the expenditures of the proceeds of the General Obligation Bonds Election of 2002. These financial statements do not include financial data for the remainder of the District's funds and component unit, which accounting principles generally accepted in the United States of America require to be presented with the financial statements of the District.

The Measure H Proposition 39 Bond Measure (Measure H) is a facilities and equipment bond measure for the School Facilities Improvement District No. 1 (Merced campus area), adopted by the District's Board of Trustees and passed by the voters on November 5, 2002. Measure H authorized up to \$53,500,000 in bond issues, which were issued as follows:

- On June 19, 2003, the District issued the 2003 Series of the 2002 School Facilities Improvement District 1 General Obligation Bonds in the amount of \$20,000,000, with interest rates ranging from 2.5% to 5.0%. The bonds matured August 1, 2012.
- 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%. The District paid the final installment during the fiscal year ended June 30, 2017.
- 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 District 1 General Obligation Bonds. The bonds mature through August 1, 2027.
- 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 2.0% to 5.0%, to partially advance refund the 2006 Series of the 2002 School Facilities Improvement District 1 General Obligation Bonds. The bonds mature through August 1, 2031.

The Measure J Proposition 39 Bond Measure (Measure J) is a facilities and equipment bond measure for the School Facilities Improvement District No. 2 (Los Banos campus area), adopted by the District's Board of Trustees and passed by the voters on November 5, 2002, authorizing issuance and sale of general obligation bonds of \$11,930,000.

- On June 19, 2003, the District issued the 2003 Series of the 2002 School Facilities Improvement District 2 General Obligation Bonds in the amount of \$5,140,000 with interest rates ranging from 2.5% to 5.0%. The bonds matured August 1, 2012.

MERCED COMMUNITY COLLEGE DISTRICT MEASURES H AND J BOND FUNDS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

- On August 1, 2005, the District issued the 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 3.6% to 5.0%. The bonds matured August 1, 2015.
- 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%, to advance refund a portion of the 2003 Series and 2005 Series of the 2002 Schools Facilities Improvement District 2 General Obligation Bonds. The bonds mature through August 1, 2025.

The County Board of Supervisors of Merced and Madera counties are empowered and obligated to levy property taxes, without limitation as to rate or amount (except for certain property which is taxable at limited rates), for payment of principal and maturity value of and interest on the Merced campus area bonds. The County Board of Supervisors of Merced and Fresno Counties are empowered and obligated to levy property taxes, without limitation as to rate or amount (except for certain property which is taxable at limited rates), for payment of principal and maturity value of and interest on the Los Banos campus area bonds. The District has established separate debt service funds to account for the collection and remittance of bond principal and interest payments. Additional information on the bonds' payment schedules can be found in the District's 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).

Measurement focus and basis of accounting – Measurement focus indicates the type of resources being measured, while the basis of accounting indicates the timing of transactions or events for recognition in the financial statements. The Bond Funds are governmental funds, and have been presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available, and are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when the related liability is incurred.

Cash and cash equivalents – For the purpose of the financial statements, cash equivalents are defined as financial instruments with an original maturity of three months or less. Funds invested in the Merced County Treasury and California Asset Management Program are considered cash equivalents.

Restricted cash and cash equivalents – Cash that is externally restricted to purchase or construct capital or other assets is classified as a restricted asset in the balance sheets.

MERCED COMMUNITY COLLEGE DISTRICT MEASURES H AND J BOND FUNDS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

Restricted fund balance – Restricted fund balance includes resources which are legally or contractually restricted by external third parties. Fund balance is restricted for capital projects of the Bond Funds in accordance with the project list for the 2002 General Obligation Bonds.

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 expenditures during the reporting period. Actual results could differ from those estimates.

Encumbrances – Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30, 2020.

3. RESTRICTED CASH AND EQUIVALENTS

The Bond Funds' cash and equivalents at June 30, 2020, consist of \$1,170,913 held in the County Treasury investment pool and \$6,737,354 held in the California Asset Management Program. All cash held in the Bond Funds is considered restricted, as it is restricted for specific purposes in accordance with Measures H and J and the bond issuances.

Cash in County Treasury – In accordance with Education Code Section 41001, the Bond Funds maintain substantially all of their cash in the Merced County Treasury (the Treasury). The 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 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 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).

**MERCED COMMUNITY COLLEGE DISTRICT
MEASURES H AND J BOND FUNDS**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

Investments authorized by debt agreements – Investment 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 Bond Funds did not directly enter into any derivative investments. Information regarding the amount invested in derivatives by the County Treasury and CAMP was not available.

Interest rate risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2020, weighted average maturity of the investments contained in the County Treasury and the CAMP investment pools is approximately 432 and 53 days, respectively.

Credit risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County Treasury investment pool does not have a rating provided by a nationally recognized statistical rating organization. The CAMP investment pool is rated AAAM by Standard and Poor's as of June 30, 2020.

Custodial credit risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Education Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits that are made by 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.

OTHER REPORT

**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

**Citizens' Oversight Committee
and 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 Measures H and J Bond Funds (the Bond Funds) of the Merced Community College District (the District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated January 20, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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



GILBERT CPAs
Sacramento, California

January 20, 2021