MERCED COMMUNITY
COLLEGE DISTRICT

MERCED, CALIFORNIA

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION WITH
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2017

MERCED COMMUNITY COLLEGE DISTRICT

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MERCED COMMUNITY COLLEGE DISTRICT

ORGANIZATION
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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

Name	Office	Term Expires
Joe Gutierrez	President	December 2018
Cindy Lashbrook	Vice President	December 2018
Carmen Ramirez	Clerk	December 2020
Ernie Ochoa	Trustee	December 2020
Dennis Jordan	Trustee	December 2018
Jean Upton	Trustee	December 2020
Leonel Villarreal	Trustee	December 2018

ADMINISTRATION

Chris Vitelli, Ed.M. .... Superintendent/President, Merced College

Dr. Joanne Schultz .... Vice President, Administrative Services

Dr. Brian Ellison .... Vice President, Instruction

Dr. Michael McCandless .... Vice President, Student Personnel Services

FINANCIAL SECTION

Gilbert Associates, Inc.
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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, 2017, 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.

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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, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis, the Schedule of Funding Progress for Other Postemployment Benefits, the Schedules of the District's Proportionate Share of the Net Pension Liability, and the Schedules of the District's Contributions 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 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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, 2017, 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, 2017

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, 2017. 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.

FINANCIAL AND ENROLLMENT HIGHLIGHTS

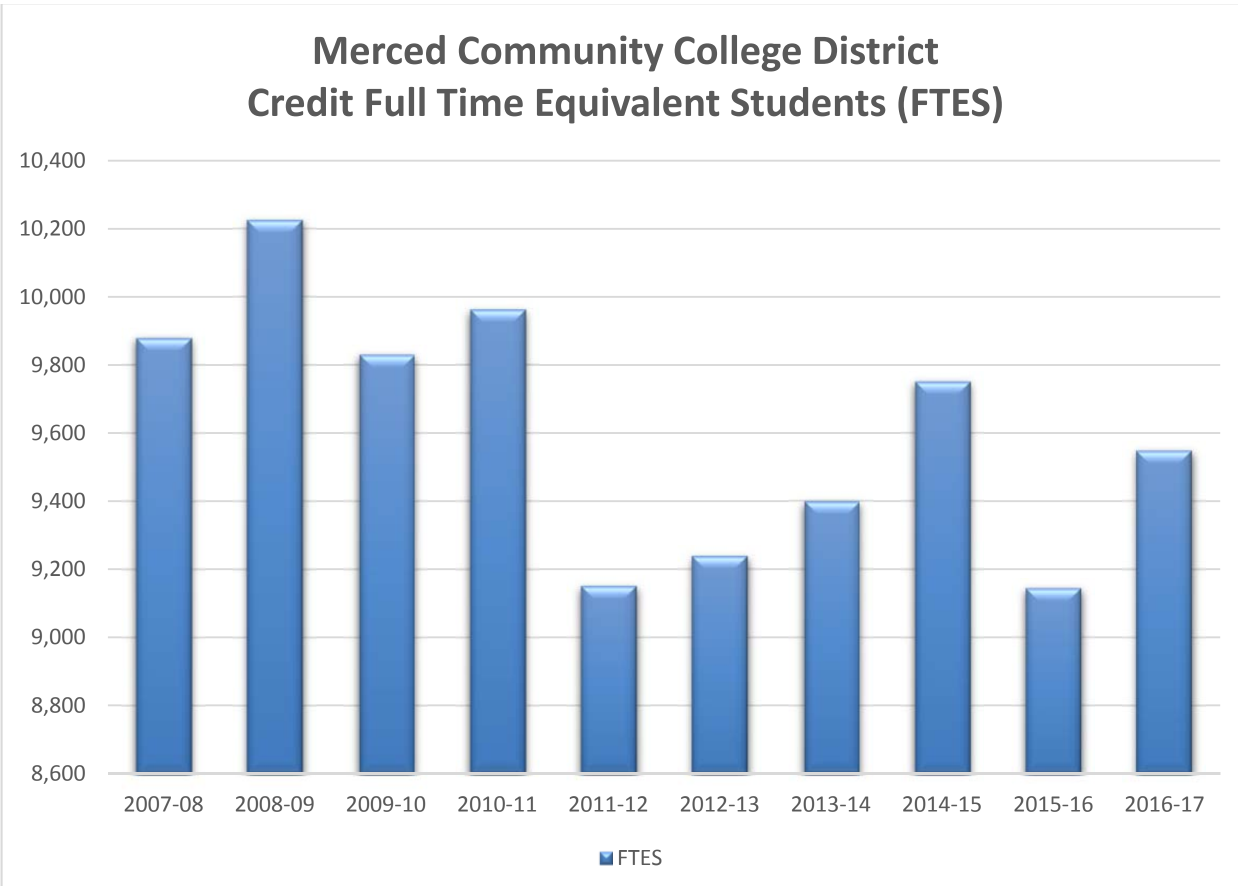
The 2016-17 state budget bill, SB 826, was signed by Governor Jerry Brown on June 27, 2016. For the sixth consecutive year, the state budget was passed on time. The approved budget assumed total General Fund expenditures of $122.5 billion, $7.5 billion more than in 2015-16. Despite higher than anticipated revenues in the past few years, the adopted state budget was based on the Governor's more conservative forecast.

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

- No Cost-of-Living Adjustment (COLA)
- 2% increase in funding for enrollment restoration/access
- 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 $184.6 million for Scheduled Maintenance and Instructional Equipment
- Additional one-time funding of $105.5 million to further reduce prior year outstanding mandate claims reimbursement
- $75 million to increase base allocation apportionment funding
- $31.7 million for potential property tax deficit (one-time funds)

On September 13, 2016, the District presented to the Board of Trustees its annual budget. The 2016-17 adopted budget estimated Unrestricted General Fund Revenues of $59.2 million and $59.5 million Unrestricted General fund Expenditures, resulting in a projected net loss of $239 thousand for the fiscal year. The projected net loss, coupled with a beginning fund balance of $4.8 million, would result in an ending fund balance of $4.6 million. At year end, actual figures for revenue and expenditures were both 1% higher than the amount estimated at the time of the adopted budget. The net effect of the combined increase in revenues and expenditures resulted in a net loss of $279 thousand, leaving an ending Unrestricted General Fund balance of $4.5 million.

In 2016-17, the District reported 9,550 credit and non-credit resident FTES. See the below chart for a historical perspective on the changes in FTES over the past 10 years.



GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* was implemented during the fiscal year ended June 30, 2015. The primary objective of these statements are to improve accounting and financial reporting by state and local governments for unfunded pension liabilities and to disclose any financial support for pensions that is provided by entities outside of the District.

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 $53.8 million, as of the measurement date of June 30, 2016. The pension liability is the primary reason for the large negative balance in the unrestricted net position shown on the statement of net position for 2017 ($37 million).

There is a plan to fully fund the CalSTRS unfunded pension liability. Legislation was enacted to increase employer contribution rates over seven years beginning in 2014-15. The rate will more than double going from 8.25% to 19.10%. The employer contribution rate for 2016-17 was 12.58%. Employee contributions will increase from the 2014-15 rate of 8.15% to 10.25% by 2016-17. 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 2014-15 rate of 11.771%. The employer contribution rate for 2016-17 was 13.888%.

STATEMENT OF NET POSITION

The Statement of Net Position presents information on the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

STATEMENT OF NET POSITION

	2017	2016	$ Change	% Change
ASSETS				
Current and other assets	$ 39,460,451	$ 42,766,557	$ (3,306,106)	-8%
Capital assets, net	99,364,691	100,520,131	(1,155,440)	-1%
TOTAL ASSETS	138,825,142	143,286,688	(4,461,546)	-3%
DEFERRED OUTFLOWS OF RESOURCES	12,696,703	5,985,740	6,710,963	112%
LIABILITIES				
Current liabilities	16,979,757	17,660,305	(680,548)	-4%
Long-term liabilities, noncurrent portion	97,691,140	90,639,306	7,051,834	8%
TOTAL LIABILITIES	114,670,897	108,299,611	6,371,286	6%
DEFERRED INFLOWS OF RESOURCES	3,071,335	5,499,303	(2,427,968)	-44%
NET POSITION				
Net investment in capital assets	63,467,098	62,328,136	1,138,962	2%
Restricted	7,571,571	7,302,811	268,760	4%
Unrestricted (deficit)	(37,259,056)	(34,157,433)	(3,101,623)	9%
TOTAL NET POSITION	$ 33,779,613	$ 35,473,514	$ (1,693,901)	-5%

Assets

Total Assets decreased approximately $4.5 million, a percentage decrease of 3%. The major changes affecting total assets are listed below:

Current and Other Assets decreased by approximately $3.3 million, a percentage decrease of 8%. This decrease is primarily due to the spending of one-time funding of $2.8 million. These funds were spent on priority projects identified by the District.

Net Capital Assets decreased by approximately $1.2 million, a percentage decrease of 1%. This reduction was primarily the result of accumulated depreciation.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources increased by $6.7 million and deferred inflows of resources decreased by $2.4 million primarily due to lower actual earnings compared to projected earnings on pension plan investments during the measurement period of the net pension liability (June 30, 2016), which is discussed in more detail in Note 8 of the financial statements.

Liabilities

Total Liabilities increased by $6.4 million, a percentage increase of 6%. The major changes affecting total liabilities are listed below:

Current Liabilities decreased by $.7 million, or 4%. Unearned revenue for scheduled maintenance, Proposition 39 energy projects, and various categorical programs decrease by approximately $2 million. Accounts Payable for various categorical programs increased by $1.2 million.

The noncurrent portion of long-term liabilities increased by $7.1 million, a percentage increase of 8%. The primary factor for this increase is the change in the net pension liability, which increased primarily due to lower actual earnings compared to projected earnings on pension plan investments during the measurement period of the net pension liability (June 30, 2016). The net pension liability of $53.8 million reflects the District's proportionate share of the actuarial determined CalPERS and CalSTRS net pension liabilities ($20.7 million and $33.1 million, respectively). Refer to Note 8 of the financial statements for additional discussion.

Net Position

The pension liability is the primary reason for the large negative balance in the unrestricted net position shown on the statement of net position for 2017 ($37 million).

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position present information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as revenues pertaining to receivables and expenses pertaining to earned, but unused, compensated balances.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	2017	2016	$ Change	% Change
OPERATING REVENUES				
Net tuition and fees	$ 4,650,404	$ 4,376,083	$ 274,321	6%
Grants and contracts, noncapital:	18,540,318	16,024,264	2,516,054	16%
Auxiliary enterprise sales and charges	2,586,095	2,830,955	(244,860)	-9%
TOTAL OPERATING REVENUES	25,776,817	23,231,302	2,545,515	11%
TOTAL OPERATING EXPENSES	84,658,343	78,436,207	6,222,136	8%
OPERATING LOSS	(58,881,526)	(55,204,905)	(3,676,621)	7%
NON-OPERATING REVENUES (EXPENSES)				
State apportionments, noncapital	33,286,313	33,223,796	62,517	0%
Education protection account	7,498,737	8,513,020	(1,014,283)	-12%
Local property taxes	11,621,110	10,914,452	706,658	6%
State taxes and other revenues	2,772,521	7,459,512	(4,686,991)	-63%
Other non-operating revenues (expenses)	(1,215,634)	(1,988,610)	772,976	-39%
TOTAL NON-OPERATING REVENUES	53,963,047	58,122,170	(4,159,123)	-7%
GAIN (LOSS) BEFORE CAPITAL REVENUES	(4,918,479)	2,917,265	(7,835,744)	-269%
Local property taxes and revenues, capital	3,152,413	3,146,112	6,301	0%
Local revenues, grants and gifts, capital	72,165	74,451	(2,286)	-3%
INCREASE (DECREASE) IN NET POSITION	(1,693,901)	6,137,828	(7,831,729)	-271%
NET POSITION -- BEGINNING OF YEAR	35,473,514	29,335,686	6,137,828	21%
NET POSITION -- END OF YEAR	$ 33,779,613	$ 35,473,514	$ (1,693,901)	-5%

Operating Revenues

Total operating revenues increased by $2.5 million, a percentage increase of 11%. This increase is primarily due to an increase in state grants and contracts of equal amount.

Operating Expenses

Total operating expenses increased by $6.2 million, or 8%, mainly due to increases in employee salaries and benefits ($4.3 million) and operating expenses ($2.1 million), coupled with a reduction of accumulated depreciation of $.2 million.

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, 2017, the District had approximately $99.4 million invested in net capital assets. Total capital assets of $166.4 million consist of land, construction in progress, buildings and improvements, vehicles, data processing equipment, and other office equipment. These assets have accumulated depreciation of approximately $67 million. Depreciation expense of $4.3 million was recorded in 2017.

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

	2017	2016	Net Change
Land and construction in progress	$ 2,511,070	$ 2,343,648	$ 167,422
Buildings and equipment	163,868,690	161,026,691	2,841,999
Accumulated Depreciation	(67,015,069)	(62,850,208)	(4,164,861)
Total Capital Assets	$ 99,364,691	$100,520,131	$ (1,155,440)

Debt Administration

At June 30, 2017, the District had approximately $101.9 million in outstanding debt. The increase in debt was primarily due to the increase in Net Pension Liability. A comparison is summarized below:

	2017	2016	Net Change
General obligation bonds	$ 41,095,000	$ 42,575,000	$ (1,480,000)
Bond issuance premium	1,865,425	2,038,218	(172,793)
Compensated absences	1,036,715	1,074,918	(38,203)
Capital leases	2,649,554	3,408,915	(759,361)
Early retirement incentive	812,330	1,366,449	(554,119)
Net pension liability	53,839,525	43,797,404	10,042,121
Net OPEB obligation	575,855	419,593	156,262
Total Long-term Liabilities	$101,874,404	$ 94,680,497	$ 7,193,907

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 a steady growth as it has in recent years. Unemployment rates are low but underemployment continues to be an issue. Employment growth in California has slowed from recent years, which is consistent with an expected slowing of national job growth and a cooling of growth in California technology jobs. While economists were predicting a downturn as early as 2018, that prediction has been moved out to 2020. The ability of the State to fund education and other programs is largely dependent on the strength of the State's economy and the capital gains of the highest wage earners. The effects of Proposition 30, the tax initiative, have buoyed up the state revenue and have positively impacted Proposition 98 providing large one time funding, however the sales tax portion has already sunset but the income tax was successful on the November ballot.

Legislative changes in the enrollment process and course repeatability along with limitation in the financial aid terms, created downward pressure on enrollment. Traditionally, reduced unemployment has also, created reduced demand for college courses. All of these created the environment that caused the District to not meet the enrollment cap for 2015-16. Although enrollment numbers increased in 2016-17, there is still much work to be done to continue this upward trend. In the wake of this, Student Services increased outreach efforts and embedded counseling in the area high schools; provided extreme registration so that students could go through the elements of registration and get classes all in one day; streamlined registration priorities for continuing students to ease course selection; and implemented a 15-to-Finish campaign to encourage students to transition through the system in a timely manner.

Instruction has improved the scheduling of classrooms, utilized technology to better manage enrollment trends, expanded waitlists to monitor and respond to demand, developed fast track career technical certificates, expanded off site offerings including prisons, and implemented AB288 to bring college level courses to the local high schools. In an area that has the highest per capita population under 25 and the lowest degree achievement, these efforts should be enough to overcome the effects of the legislative changes and restore enrollment and even produce growth.

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. Additionally, costs are increasing, especially CalPERS and CalSTRS, at a higher rate than new funding can cover. If growth is not achieved, then additional cost cutting strategies will need to be employed for the 2019 fiscal year although the college is still above the board required 6% level for the 2018 fiscal year.

All of these factors were considered in preparing the District budget for the 2018 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, 2017

	Primary Institution	Foundation
ASSETS		
Current assets:		
Cash and equivalents	$ 17,829,212	$ 1,380,956
Accounts receivable	9,740,791	
Due from the Foundation	5,257	
Inventory	586,264	
Prepaid expenses and other assets	206,215	
Total current assets	28,367,739	1,380,956
Noncurrent assets:		
Long-term investments		4,912,597
Restricted cash and equivalents	11,092,712	
Pledged receivable, net		798,623
Nondepreciable capital assets	2,511,070	
Depreciable capital assets, net	96,853,621	
Total noncurrent assets	110,457,403	5,711,220
TOTAL ASSETS	138,825,142	7,092,176
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	1,280,873	
Deferred outflows of resources related to pensions	11,415,830	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	12,696,703	
LIABILITIES		
Current liabilities:		
Accounts payable	4,337,784	28,157
Due to the District		5,257
Due to the Fiduciary Fund	151,166	
Interest payable	666,052	
Unearned revenue	7,641,491	
Long-term liabilities due within one year	4,183,264	
Total current liabilities	16,979,757	33,414
Long-term liabilities due in more than one year		
Net pension liability	53,839,525	
Net OPEB liability	575,855	
Other long-term liabilities	43,275,760	
TOTAL LIABILITIES	114,670,897	33,414
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	3,071,335	
NET POSITION		
Net investment in capital assets	63,467,098	
Restricted for:		
Nonexpendable:		
Scholarships		2,846,977
Expendable:		
Scholarships and loans		4,027,474
Capital projects	2,734,528	
Debt service	1,995,147	
Other special purposes	2,841,896	
Unrestricted (deficit)	(37,259,056)	184,311
TOTAL NET POSITION	$ 33,779,613	$ 7,058,762

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2017

	Primary Institution	Foundation
OPERATING REVENUES		
Tuition and fees (gross)	$ 11,776,811	
Less: scholarship discounts and allowances	(7,126,407)	
Net tuition and fees	4,650,404	
Grants and contracts, noncapital:		
Federal	1,954,434	
State	15,257,211	
Local	1,328,673	
Contributions		$ 785,613
Auxiliary enterprise sales and charges	2,586,095	
TOTAL OPERATING REVENUES	25,776,817	785,613
OPERATING EXPENSES		
Salaries	40,365,793	
Employee benefits	25,065,491	
Supplies, materials, and other operating expenses and services	14,969,783	24,245
Depreciation	4,257,276	
Scholarships and student programs		673,289
TOTAL OPERATING EXPENSES	84,658,343	697,534
OPERATING INCOME (LOSS)	(58,881,526)	88,079
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, noncapital	33,286,313	
Education protection account	7,498,737	
Local property taxes	11,621,110	
State taxes and other revenues	2,772,521	
Investment income	303,029	339,046
Interest expense	(1,494,681)	
Other non-operating revenues (expenses)	80,914	(80,325)
Financial aid revenues	20,554,247	
Financial aid expenses	(20,659,143)	
TOTAL NON-OPERATING REVENUES	53,963,047	258,721
GAIN (LOSS) BEFORE CAPITAL REVENUES	(4,918,479)	346,800
Local property taxes and revenues, capital	3,152,413	
Local revenues, grants and gifts, capital	72,165	
INCREASE (DECREASE) IN NET POSITION	(1,693,901)	346,800
NET POSITION -- BEGINNING OF YEAR	35,473,514	6,711,962
NET POSITION -- END OF YEAR	$ 33,779,613	$ 7,058,762

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

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017

	Primary Institution
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 4,549,700
Federal grants and contracts	2,164,039
State grants and contracts	13,308,499
Local grants and contracts	505,910
Payments to suppliers	(13,678,326)
Payments to/on behalf of employees	(65,136,947)
Auxiliary enterprise sales and charges	2,766,440
Net cash used by operating activities	(55,520,685)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State apportionments and receipts	30,644,700
Education protection account receipts	7,498,737
Local property and state taxes, lottery and other state receipts	14,393,631
Financial aid receipts	20,554,247
Financial aid payments	(20,659,143)
Investment income	303,029
Other noncapital disbursements	(10,752)
Net cash provided by noncapital financing activities	52,724,449
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(3,115,311)
Proceeds from sale of capital assets	979
Principal paid on capital debt	(2,239,361)
Interest paid on capital debt	(1,515,233)
Local property taxes and other revenues for capital	3,224,578
Net cash used by noncapital financing activities	(3,644,348)
NET DECREASE IN CASH AND EQUIVALENTS	(6,440,584)
CASH AND EQUIVALENTS -- BEGINNING OF YEAR	35,362,508
CASH AND EQUIVALENTS -- END OF YEAR	$ 28,921,924

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

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS (Continued)
YEAR ENDED JUNE 30, 2017

	Primary Institution
RECONCILIATION TO STATEMENT OF NET POSITION	
Cash and equivalents	$ 17,829,212
Restricted cash and equivalents	11,092,712
Total cash and equivalents	$ 28,921,924
RECONCILIATION OF NET OPERATING GAIN (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating loss	$ (58,881,526)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	4,257,276
Loss on disposal of capital assets	12,496
Amortization of bond premium	(172,793)
Amortization of deferred amount on refunding	85,391
Changes in assets and liabilities:	
Accounts receivable, net	(613,158)
Inventory	124,481
Prepaid expenses and other assets	1,069
Deferred outflows of resources related to pensions	(6,796,354)
Accounts payable	1,153,411
Due to the Foundation	(44,748)
Due to the Fiduciary Fund	133,427
Interfund services provided	91,666
Unearned revenue	(2,049,416)
Deferred inflows of resources related to pensions	(2,427,968)
Compensated absences	(38,203)
Postemployment benefits	156,262
Net pension liability	10,042,121
Supplemental early retirement incentive	(554,119)
Net cash used by operating activities	$ (55,520,685)

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017

	Trust Fund
	Associated Students Fund
ASSETS	
Cash and equivalents	$ 139,949
Accounts receivable	1,156
Due from the primary institution	151,166
TOTAL ASSETS	292,271
LIABILITIES	
Unearned Revenue	32,286
NET POSITION - RESTRICTED	
Amounts held in trust for student groups	$ 259,985

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

MERCED COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2017

	Trust Fund
	Associated Students Fund
ADDITIONS	
Student fees	$ 114,850
Interest	2,112
Other revenues	38,407
TOTAL ADDITIONS	155,369
DEDUCTIONS	
Supplies and materials	31,210
Other operating expenses and services	62,575
Other outgoing	12,341
TOTAL DEDUCTIONS	106,126
INCREASE IN NET POSITION	49,243
NET POSITION -- BEGINNING OF YEAR	210,742
NET POSITION -- END OF YEAR	$ 259,985

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

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.

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.

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.

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.

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 8 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.

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 may require a restatement of beginning net position.

3. CASH AND EQUIVALENTS

Cash and equivalents as of June 30, 2017, are classified in the accompanying financial statements as follows:

Statement of Net Position of the Primary Government:	
Cash and equivalents	$ 17,829,212
Restricted cash and equivalents	11,092,712
Statement of Fiduciary Net Position:	
Cash and equivalents	139,949
Total cash and equivalents	$ 29,061,873

Cash and equivalents as of June 30, 2017, consist of the following:

Cash and equivalents in County Treasury	$ 22,100,578
Deposits with financial institutions	568,823
Cash on hand	16,444
Cash and equivalents in CAMP	6,376,028
Total cash and equivalents	$ 29,061,873

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.

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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.

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, 2017, the weighted average maturity of the investments contained in the County Treasury and the CAMP investment pools is approximately 527 and 49 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, 2017.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Education Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits that are made by a state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amounts deposited by the public agencies. As of June 30, 2017 the District's bank balances were exposed to custodial credit risk in the amount of $365,744.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2017:

Statement of Net Position of the Primary Government		
Federal grants and contracts	$	199,935
State grants, contracts and general apportionment		4,112,177
Local grants, contracts and students		5,428,679
Total	$	9,740,791
Statement of Fiduciary Net Position:		
Local sources	$	1,156
Total	$	1,156

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	$ 1,670,258			$ 1,670,258
Construction in progress	673,390	$ 167,422		840,812
Total capital assets, not being depreciated	2,343,648	167,422		2,511,070
Capital assets, being depreciated:				
Improvement of sites	13,183,246			13,183,246
Buildings	130,663,871	560,656		131,224,527
Furniture and equipment	17,179,574	2,387,233	$ (105,890)	19,460,917
Total capital assets, being depreciated	161,026,691	2,947,889	(105,890)	163,868,690
Less accumulated depreciation for:				
Improvement of sites	(10,540,946)	(395,872)		(10,936,818)
Buildings	(40,588,773)	(2,663,687)		(43,252,460)
Furniture and equipment	(11,720,489)	(1,197,717)	92,415	(12,825,791)
Total accumulated depreciation	(62,850,208)	(4,257,276)	92,415	(67,015,069)
Total capital assets, being depreciated, net	98,176,483	(1,309,387)	(13,475)	96,853,621
Total capital assets, net	$ 100,520,131	$ (1,141,965)	$ (13,475)	$ 99,364,691

6. LONG TERM OBLIGATIONS

General Obligation Bonds

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 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, 2017, the principal balance outstanding was $8,535,000.

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, 2017, the principal balance outstanding was $10,905,000.

On August 1, 2014, the District issued 2014 General Obligation Refunding Bonds (2014 Issue) in the amount of $21,965,000, with interest rates ranging from 2% to 5%, to partially advance refund the 2006 Series of the 2002 School Facilities Improvement District 1 General Obligation Bonds (Defeased Bonds.) As of June 30, 2017, the 2014 Issue principal balance outstanding was $21,655,000.

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

Year Ending June 30, 2017	Principal	Interest	Total
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	2,360,000	1,356,375	3,716,375
2022	2,645,000	1,245,400	3,890,400
2023-2027	16,200,000	4,183,449	20,383,449
2028-2032	14,125,000	1,249,195	15,374,195
Totals	$ 41,095,000	$ 12,575,044	$ 53,670,044

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, 2017, was charged to expenses. Future minimum lease payments are as follows:

Year Ending June 30, 2017	Payments
2018	$ 788,685
2019	629,343
2020	204,718
2021	204,718
2022	204,718
2023-2027	973,327
Total	3,005,509
Less amount representing interest	(355,955)
Present value of net minimum lease payments	$ 2,649,554

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, 2017 is shown below:

	Beginning Balance, Restated	Additions	Deductions	Ending Balance	Due Within One Year
General obligation bonds	$ 42,575,000		$ (1,480,000)	$ 41,095,000	$ 1,715,000
Premium on bonds	2,038,218		(172,793)	1,865,425	172,793
Compensated absences	1,074,918		(38,203)	1,036,715	1,036,715
Capital leases	3,408,915		(759,361)	2,649,554	704,637
Supplemental early retirement incentive	1,366,449		(554,119)	812,330	554,119
Totals`	$ 50,463,500	$	$ (3,004,476)	$ 47,459,024	$ 4,183,264

7. LEASE REVENUE BONDS

The District and the State of California have entered into a financing arrangement under which the State provided funds for the construction of the Interdisciplinary Academic Center (lAC). 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. Approximately $9,028,000 of the project costs were appropriated in the 2001-02 year. Annual installments on the lease range from $195,890 to $617,100 beginning March 15, 2006, through September 15, 2031. No amounts had been accrued for any contingent payments at June 30, 2017.

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

8. RETIREMENT PLANS

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Benefits Provided

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

Contributions

Assembly Bill 1469 (AB 1469), signed into law as a part of the State of California's (the State) 2014-15 budget, increases contributions to the CalSTRS Plan from members, employers, and the State over the next seven years, effective July 1, 2014. School employer contributions will increase from 8.25% to a total of 19.10% of covered payroll over the seven-year period. The District's required contribution rate for the year ended June 30, 2017, was 12.58% of annual pay. District contributions to the CalSTRS Plan were $2,718,478 for the year ended June 30, 2017.

The State contributes a percentage of the annual earnings of all members of the CalSTRS Plan. AB 1469 increases the State's contribution attributable to the benefits in effect in 1990, but does not change the base rate of 2.017%. In accordance with AB 1469, the portion of the state appropriation under Education Code Sections 22955(b) that is in addition to the base rate has been replaced by section 22955.1(b) in order to fully fund the benefits in effect as of 1990 by 2046. The additional state contribution increased from 1.437% in 2014-15 to 4.311% in 2016-17. The increased contributions end as of fiscal year 2046-47. The State contribution rate for the period ended June 30, 2017, was 8.828% of the District's 2014-15 creditable CalSTRS compensation.

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, 2015, and rolling forward the total pension liability to the measurement date of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, 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[(1)]	7.60%
Mortality[(2)]	CalSTRS' Membership Data
	2% simple for DB (Annually)
	Maintain 85% purchasing power Level for DB
Post-Retirement Benefit Increase	Not applicable for DBS /CBB

[(1)] Net of investment expenses, but gross of administrative expenses.
[(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 adjusted to fit CalSTRS specific experience through June 30, 2015. See CalSTRS July 1, 2006 – June 30, 2010 Experience Analysis and June 30, 2015 Actuary Program Valuations for more information.

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. The actuarial investment rate of return assumption was adopted by the board on 2012 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2016, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term * Expected Real Rate of Return
Global Equity	47.00%	6.30%
Fixed Income	12.00%	0.30%
Real Estate	13.00%	5.20%
Private Equity	13.00%	9.30%
Absolute Return / Risk Mitigating Strategies	9.00%	2.90%
Inflation Sensitive	4.00%	3.80%
Cash / Liquidity	2.00%	-1.00%
Total	100.00%	

*20-year geometric average

California Public Employees' Retirement System (CalPERS)

Plan Description

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

Benefits Provided

The benefits for the CalPERS Plan are established by contract, in accordance with the provisions of the California Public Employees’ Retirement Law (PERL). The benefits are based on members’ years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. 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 CalPERS-credited 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, 2017, was 13.888% of annual pay. District contributions to the CalPERS Plan were $1,911,785 for the year ended June 30, 2017.

Actuarial Assumptions

For the measurement period ended June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability. The June 30, 2016 total pension liability amounts were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases(1)	Varies
Investment Rate of Return(2)	7.65%
Mortality(3)	CalPERS' Membership Data
Post-Retirement Benefit Increase(4)	Up to 2.75%

(1) Depending on age and service
(2) Net of pension plan investment; 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 April 2014 experience study report.
(4) Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2016 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 7.65% for the CalPERS Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, the amortization and smoothing periods recently adopted by the Board were used. A projection of expected benefit payments and contributions was performed for the Plan to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the CalPERS Plan. The results of the crossover testing for the CalPERS Plan are presented in a detailed report that can be obtained from the CalPERS' website.

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. 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.

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

Asset Class	New Strategic Allocation	Real Return Years 1 – 10[a]	Real Return Years 11+[b]
Global Equity	51.00%	5.25%	5.71%
Global Debt Securities	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	100.00%		

[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, 2017, 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	$ 33,161,210
CalPERS Plan	20,678,315
Total District net pension liability	53,839,525
State's proportionate share of CalSTRS net pension liability associated with the District	19,018,100
Total	$ 72,857,625

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, 2016, 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, 2016, was 0.041% and 0.1047% for the CalSTRS and CalPERS Plans, respectively, which was a decrease of 0.001% and 0.006%, respectively, from its proportion measured as of June 30, 2015 for CalSTRS and CalPERS Plans, respectively.

For the year ended June 30, 2017, the District recognized pension expense of $7,290,247 and revenue of $1,842,186 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 889,366	$ (808,930)
Changes in assumptions		(621,260)
Changes in proportion		(1,623,512)
Change in proportionate share of contributions	51,291	(17,633)
Net differences between projected and actual investment earnings of pension plan investments	5,844,910	
District contributions subsequent to measurement date	4,630,263	
Total	$ 11,415,830	$ (3,071,335)

The $4,630,263 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, 2018. Other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2018	$ 2,587
2019	25,990
2020	2,724,819
2021	1,477,480
2022	(348,773)
Thereafter	(167,870)

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	$ 47,726,460	$ 33,161,210	$ 21,064,160

	Discount Rate –1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
District's proportionate share of the CalPERS Plan's net pension liability	$ 30,852,161	$ 20,678,315	$ 12,206,586

9. OTHER POSTEMPLOYMENT BENEFITS PLAN

In addition to the pension benefits described in Note 8, the District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

The 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.

Actuarial cost method	Entry age normal
Amortization methods	Closed 30 year amortization period Open 30 year amortization period for residual UAAL, 22 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	6.20%
Medical trend assumption	4%
Payroll increase assumption	2.75%

Annual required contribution	$ 4,790,462
Interest on net OPEB obligation	
Adjustment for current payroll data as per actuary	
Annual OPEB expense	4,790,462
Contributions made	(4,634,200)
Increase in OPEB obligation	156,262
Net OPEB obligation (asset) at July 1, 2016	419,593
Net OPEB obligation (asset) at June 30, 2017	$ 575,855

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2017, 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)
2015	$ 4,279,978	110%	$ (146,009)
2016	$ 4,790,462	88%	$ 419,593
2017	$ 4,790,462	97%	$ 575,855

Funded Status and Funding Progress

The funded status of the plan as of the most recent valuation date, December 1, 2015, was as follows:

Actuarial accrued liability (AAL)	$ 61,954,150
Actuarial value of plan assets	2,667,188
Unfunded actuarial accrued liability (UAAL)	$ 59,286,962
Funded ratio (actuarial value of plan assets / AAL)	4%
Covered payroll (active plan members)	$ 29,129,375
UAAL as a percentage of covered payroll	204%

10. DEFERRED COMPENSATION PLANS

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

11. JOINT POWERS AUTHORITIES AGREEMENTS

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

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

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 $600,000,000 with ASCIP

Liability

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

Workers' Compensation

District Deductible:	$0
JPA's Coverage:	Statuary

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

	June 30, 2017 SELF	June 30, 2016 ASCIP
Total Assets and Deferred Outflows	$ 126,580,131	$ 408,305,220
Total Liabilities and Deferred Inflows	(104,151,104)	(223,490,349)
Net Position	$ 22,429,027	$ 184,814,871
Total Revenues	$ 14,641,179	$ 274,047,686
Total Expenses	(13,746,773)	(246,800,516)
Net Increase in Net Position	$ 894,406	$ 27,247,170

12. COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

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

Litigation

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

REQUIRED SUPPLEMENTARY INFORMATION SECTION

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
YEAR ENDED JUNE 30, 2017

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)
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%
12/1/2015	$ 2,667,188	$ 61,954,150	$ 59,286,962	4.31%	$ 29,129,375	204%

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS OF JUNE 30, 2017 LAST 10 YEARS*

CalSTRS Plan

	Measurement Date		
	2016	2015	2014
District's proportion of the net pension liability	0.041%	0.042%	0.043%
District's proportionate share of the net pension liability	$ 33,161,210	$ 28,276,080	$ 25,127,910
State's proportionate share of the net pension liability associated with the District	19,018,100	14,923,484	15,190,963
Total	$ 52,179,310	$ 43,199,564	$ 40,318,873
District's covered-employee payroll	$ 21,110,849	$ 19,627,455	$ 19,262,257
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	157%	144%	130%
Plan fiduciary net position as a percentage of the total pension liability	70%	74%	77%

Notes to Schedule:

Change of benefit terms –There were no changes to the benefit terms.

Changes in assumptions –There were no changes in assumptions.

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

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS OF JUNE 30, 2017 LAST 10 YEARS*

CalPERS Plan

	Measurement Date		
	2016	2015	2014
District's proportion of the net pension liability	0.1047%	0.1053%	0.1107%
District's proportionate share of the net pension liability	$ 20,678,315	$ 15,521,324	$ 12,567,145
District's covered-employee payroll	$ 12,795,195	$ 11,614,639	$ 11,619,858
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	162%	134%	108%
Plan fiduciary net position as a percentage of the total pension liability	74%	79%	83%

Notes to Schedule:

Change of benefit terms –There were no changes to the benefit terms.

Changes in assumptions – For the measurement date ended June 30, 2015, the discount rate changed from 7.50% (net of administrative expenses in 2014) to 7.65% to correct an adjustment which previously reduced the discount rate for administrative expenses. For the measurement dates ended June 30, 2016 and 2014, there were no changes in assumptions.

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

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
AS OF JUNE 30, 2017
LAST 10 YEARS*

CalSTRS Plan

	Fiscal Year		
	2017	**2016**	**2015**
Contractually required contribution (actuarially determined)	$ 2,718,478	$ 2,268,381	$ 1,739,206
Contributions in relation to the contractually required contributions	(2,718,478)	(2,268,381)	(1,739,206)
Contribution deficiency (excess)	$	$	$
District's covered-employee payroll	$ 21,690,641	$ 21,110,849	$ 19,627,455
Contributions as a percentage of covered-employee payroll	12.5%	10.7%	8.9%

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

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
AS OF JUNE 30, 2017
LAST 10 YEARS*

CalPERS Plan

	Fiscal Year		
	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 1,911,785	$ 1,464,028	$ 1,381,020
Contributions in relation to the contractually required contributions	(1,911,785)	(1,464,028)	(1,381,020)
Contribution deficiency (excess)	$	$	$
District's covered-employee payroll	$ 13,790,329	$ 12,795,195	$ 11,614,639
Contributions as a percentage of covered-employee payroll	13.9%	11.4%	11.9%

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

SUPPLEMENTARY INFORMATION SECTION

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

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	$ 393,000
Federal Work Study Program	84.033	N/A	464,548
Pell Grant Program	84.063	N/A	17,338,862
Subtotal Student Financial Assistance Programs Cluster			18,196,410
Career and Technical Education:			
Passed through the California Department of Education (CDE):			
Perkins Title 1, Part C	84.048A	16-C01-031	368,077
Passed through the California Department of Education (CDE):			
Career Technical Education Transitions	84.051	16-C01-031	43,748
Childcare Access Means Parents in School	84.335A	N/A	237,593
Passed through California State University, Stanislaus:			
Hispanic-Serving Institutions Science, Technology, Engineering & Mathematics Articulation	84.031C	P031C110082-15	5,188
Passed through the MDRC:			
MDRC Learning Communities Demo Grant	84.287	N/A	152
Total U.S. Department of Education			18,851,168
National Science Foundation:			
NSF CSU Stanislaus S-STEM	47.076	1643944	20,000
U.S. Department of Veterans Affairs			
Veterans Education Outreach	64.unknown	N/A	1,350

See the accompanying notes to supplemental information.

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Program Expenditures
U.S. Department of Health and Human Services			
477 Cluster:			
Passed through the California Department of Education:			
CDC General Child Care & Dev Programs (CCTR)	93.596	CCPP-6143	152,770
Passed through the Yosemite Community College District:			
Child Development Training Consortium	93.575	16-17-3970	10,897
Passed through West Ed:			
CDC Program for Infant/Toddler Care (PITC)	93.575	CN150170	29,592
Passed through the California Community College Chancellor's Office:			
Temporary Assistance to Needy Families (TANF)	93.558	N/A	82,360
Subtotal 477 Cluster			275,619
Passed through the Madera County Office of Education:			
Medi-Cal Administrative Activities (MAA)	93.778	N/A	36,468
Passed through the Merced County Department of Public Health:			
Merced County, Department of Public Health (Smoke-Free)	93.331	U58DP005710	18,891
Merced County, Department of Public Health (Healthy Eating)	93.331	U58DP005710	19,934
Subtotal Passed through the Merced County Department of Public Health			38,825
Passed through Merced County Mental Health:			
Mental Health	93.958	2012010	57,096
Passed through the Merced County Office of Education:			
CDC Head Start	93.600	N/A	303,969
Total U.S. Department of Health and Human Services			711,977
U.S. Department of Agriculture:			
Passed Through California Department of Education:			
Child Care Federal Food Program	10.558	N/A	74,772
Total Expenditures of Federal Awards			$ 19,659,267

See the accompanying notes to supplemental information.

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2017

	Entitlements	Program Revenues				
Program Title	**Current Year**	**Unearned Revenue and Cash Received**	**Accounts Receivable**	**Unearned/ Payables**	**Total**	**Program Expenditures**
CATEGORICAL APPORTIONMENTS:						
EOPS/CARE	$ 272,697	$ 272,697			$ 272,697	$ 272,697
EOPS (E)	1,362,545	1,362,545			1,362,545	1,362,545
State DSPS	781,640	784,753			784,753	784,753
BFAP	427,130	427,130			427,130	427,130
RN Economic Development	245,200	225,584	$ 16,446		242,030	242,030
Equal Employment Opportunity	60,000	60,534		$ 44,065	16,469	16,469
Full Time Student Success Grant	506,072	753,572		52,205	701,367	701,367
AEBG Data & Accountability	34,125	34,125		33,467	658	658
Adult Education Block Grant Program	450,534	604,846		450,534	154,312	154,312
Student Success and Support Program	2,393,250	3,805,711		1,060,035	2,745,676	2,745,676
Student Equity	1,390,725	2,243,018		354,042	1,888,976	1,888,976
Physical Plant & Instructional Support	1,550,029	2,023,263		690,480	1,332,783	1,332,783
SSI/Basic Skills	322,335	636,554		322,176	314,378	314,378
Strong Workforce Program	1,304,908	832,791	2	161,209	671,584	671,584
CalWORKs	464,999	468,752		65,479	403,273	403,273
Subtotal	11,566,189	14,535,875	16,448	3,233,692	11,318,631	11,318,631
CATEGORICAL PROGRAM ALLOWANCES:						
Puente Project	4,500	4,500			4,500	4,500
Cal Grant	2,127,601	2,200,755	$ 49,129		2,249,884	2,249,884
CDC Block Grant	215,437	215,437			215,437	215,437
CDC Family Services		46,461		46,461		
CDC Medi-Cal Administrative Activities						
CDC MCOE Kids First		55,156		18,702	36,454	36,454
CDC Preschool Program	319,264	340,748		16,872	323,876	323,876
CDC MCOE RTT-ELC QRIS	11,100	23,512		12,412		
Child Care Food Program	4,391	4,391			4,391	4,391
Early Childhood Mentors	4,900	1,000	3,900	731	4,169	4,169
Innovation & Effectiveness Grant		128,700		4,597	124,103	124,103
CRAECP Train Trainer	10,000	10,062		62	10,000	10,000
CRAECP Ag Edu	369,360	358,797	238,127		596,924	596,924
Central Mother Lode CTE	6,625	3,323	280		3,603	3,603
Valley Sierra Collaborative	15,000	1,264	28,972		30,236	30,236
Prop 39 Clean Air	351,678	459,151		424,685	34,466	34,466
CTE Enhancement		95,693		35,090	60,603	60,603
CTE Data Unlocked Initiative	50,000	50,000		50,000		
Career Adv Academy Grant	54,000		807		807	807
Song-Brown Training	20,000	38,518		715	37,803	37,803
Song-Brown RN Special Program	40,338	23,525	14,504		38,029	38,029
Basic Skills & Student Outcomes Transformation Program (BSSOTP)	600,000	600,000		389,740	210,260	210,260
Prop 39 (passed through Kern CCD)	60,000	59,427		183	59,244	59,244
IDRC Technology	28,689	75,106		28,689	46,417	46,417
Economic development:						
AB86 Merced Regional Adult Education Consortium						
GTLS (DSN & IRI)	300,000	300,000			300,000	300,000
RHTLE (DSN & IRI)	300,000	120,000	208,392		328,392	328,392
CA Dept of Corrections & Rehab		304,385		216,292	88,093	88,093
Subtotal	4,892,883	5,519,911	544,111	1,245,231	4,807,691	4,807,691
Total	$ 16,459,072	$ 20,055,786	$ 560,559	$ 4,478,923	$ 16,126,322	$ 16,126,322

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT
ANNUAL (ACTUAL) ATTENDANCE
YEAR ENDED JUNE 30, 2017

STATE GENERAL APPORTIONMENT

Categories	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2016 Only)			
1. Noncredit	67.89	0.00	67.89
2. Credit	413.48	0.00	413.48
B. Summer Intersession (Summer 2017 – Prior to July 1, 2017)			
1. Noncredit	0.88	0.00	0.88
2. Credit	500.90	0.00	500.90
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses:			
(a) Weekly Census Contact Hours	6,476.59	0.00	6,476.59
(b) Daily Census Contact Hours	178.93	0.00	178.93
2. Actual Hours of Attendance Courses:			
(a) Noncredit	720.13	0.00	720.13
(b) Credit	47.61	0.00	47.61
3. Alternative Attendance Accounting Procedure Courses:			
(a) Weekly Census Procedure Courses	743.13	0.00	743.13
(b) Daily Census Procedure Courses	400.34	0.00	400.34
(c) Noncredit Independent Study	0.00	0.00	0.00
D. Total Full-Time Equivalent Students	9,549.88	0.00	9,549.88
Supplemental Information			
E. In-service Training Courses (FTES)	23.14	0.00	23.14
F. Basic Skills Courses and Immigrant Education (FTES)			
(a) Noncredit	617.53	0.00	617.53
(b) Credit	1,246.97	0.00	1,246.97
CCFS 320 Addendum			
CDCP Noncredit FTES	560.37	0.00	560.37
Centers FTES			
(a) Noncredit	169.51	0.00	169.51
(b) Credit	1,217.87	0.00	1,217.87

See the accompanying notes to supplemental information.

MERCED COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION
YEAR ENDED JUNE 30, 2017

		Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
ACADEMIC SALARIES							
Instructional Salaries:							
Contract or Regular	1100	$ 11,932,629		$ 11,932,629	$ 11,932,629		$ 11,932,629
Other	1300	5,203,398		5,203,398	5,203,398		5,203,398
Total Instructional Salaries		17,136,027		17,136,027	17,136,027		17,136,027
Non-Instructional Salaries:							
Contract or Regular	1200				3,480,426		3,480,426
Other	1400				276,960		276,960
Total Non-Instructional Salaries					3,757,386		3,757,386
Total Academic Salaries		17,136,027		17,136,027	20,893,413		20,893,413
CLASSIFIED SALARIES							
Non-Instructional Salaries:							
Regular Status	2100				7,799,722		7,799,722
Other	2300				551,985		551,985
Total Non-Instructional Salaries					8,351,707		8,351,707
Instructional Aides:							
Regular Status	2200	1,023,097		1,023,097	1,023,097		1,023,097
Other	2400	268,664		268,664	268,664		268,664
Total Instructional Aides		1,291,761		1,291,761	1,291,761		1,291,761
Total Classified Salaries		1,291,761		1,291,761	9,643,468		9,643,468
Employee Benefits	3000	8,315,255		8,315,255	17,451,605		17,451,605
Supplies and Materials	4000				484,647		484,647
Other Operating Expenses	5000	78,099		78,099	5,247,316		5,247,316
Equipment Replacement	6420						
TOTAL EXPENDITURES PRIOR TO EXCLUSIONS		26,821,142		26,821,142	53,720,449		53,720,449

MERCED COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION
YEAR ENDED JUNE 30, 2017

		Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
EXCLUSIONS							
Activities to Exclude:							
Instructional Staff-Retirees' Benefits and Retirement Incentives	5900	1,961,734		1,961,734	1,961,734		1,961,734
Student Health Services Above Amount Collected	6441						
Student Transportation	6491						
Noninstructional Staff-Retirees' Benefits and Retirement Incentives	6740				2,199,927		2,199,927
Objects to Exclude:							
Rents and Leases	5060				17,432		17,432
Lottery Expenditures:							
Academic Salaries	1000						
Classified Salaries	2000						
Employee Benefits	3000						
Supplies and Materials:	4000						
Software	4100						
Books, Magazines, & Periodicals	4200				818		818
Instructional Supplies & Materials	4300				67,380		67,380
Noninstructional Supplies & Materials	4400				72,665		72,665
Total Supplies and Materials					140,863		140,863
Other Operating Expenses and Services	5000				982,387		982,387
Capital Outlay:	6000						
Library Books	6300						
Equipment:	6400						
Equipment - Additional	6410				102,570		102,570
Equipment - Replacement	6420						
Total Equipment					102,570		102,570
Total Capital Outlay					102,570		102,570
Other Outgo	7000						
TOTAL EXCLUSIONS		1,961,734		1,961,734	5,404,913		5,404,913
Total for ECS 84362, 50% Law		$ 24,859,408		$ 24,859,408	$ 48,315,536		$ 48,315,536
Percent of CEE (Instructional Salary Cost / Total CEE)		51.45%			100%		
50% of Current Expense of Education					$ 24,157,768		

MERCED COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF EDUCATION PROTECTION ACCOUNT EXPENDITURES
TO DISTRICT ACCOUNTING RECORDS
YEAR ENDED JUNE 30, 2017

Education Protection Act (EPA) Expenditure Report

Activity Classification	Activity Code				Unrestricted
EPA Proceeds:	8630				$ 7,498,737

Activity Classification	Activity Code	Salaries and Benefits (1000-3000)	Operating Expenses (4000-5000)	Capital Outlay (6000)	Total
Instructional Activities	0100-5900	$ 7,498,737			7,498,737
Total Expenditures for EPA*		$ 7,498,737	$	$	7,498,737
Revenues less Expenditures					$

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

MERCED COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS
TO NET POSITION
YEAR ENDED JUNE 30, 2017

Fund Balance:	
General Fund	$ 11,236,975
Bond Interest and Redemption Fund	2,010,817
Child Development Fund	
Farm Operation Fund	23,570
Capital Outlay Projects Fund	2,734,527
Revenue Bond Construction Fund	8,431,514
Bookstore Fund	(612,990)
Self-Insurance Fund	3,596,605
Associated Students Trust Fund	259,985
Student Financial Aid Fund	
Scholarship and Loan Trust Fund	4,200,440
Retiree Trust Fund	2,858,322
Total Fund Balances as reported on the Annual Financial and Budget Report (CCFS-311)	34,739,765
Net audit adjustments:	
No adjustments were made to the District's Funds	
Total Fund Balance	34,739,765
Reconciliation to Net Position:	
Capital Assets, Net	99,273,683
Deferred Outflows of Resources Related to Pensions	11,415,830
Interest Payable	(666,052)
Net OPEB Liability	(575,855)
Compensated Absences	(1,036,715)
Capital Leases	(2,649,554)
Supplemental Retirement Incentive Liability	(812,330)
Deferred amount on refunding	1,280,873
Net Pension Liability	(53,839,525)
Bonds Payable/Premium	(42,960,425)
Deferred Inflows of Resources Related to Pensions	(3,071,335)
Remove Fiduciary Fund Balances	(7,318,747)
Total Net Position	$ 33,779,613

1. PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The audit of the District for the year ended June 30, 2017, was conducted in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), which requires disclosure of the financial activities of all federally funded programs. To comply with Uniform Guidance, the Schedule of Expenditures of Federal Awards was prepared by the District.

- General – The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the District. The District reporting entity is defined in Note 1 to the District's basic financial statements.
- Basis of Accounting – The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 2 to the District's basic financial statements.
- Indirect Cost Rate – The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.
- Subrecipients – The District did not provide federal awards to subrecipients during the year ended June 30, 2017.

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 Governmental Funds to Net Position

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

OTHER INDEPENDENT AUDITOR'S REPORTS

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

Independent 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, 2017, 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, 2017.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

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Compliance and Other Matters

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

Purpose of Report

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

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

December 18, 2017

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

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 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance 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.

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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, 2017.

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 of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

December 18, 2017

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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, 2017.

Management's Responsibilities

Management is responsible for compliance with the state statutes, regulations, and the terms and conditions of its state awards 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

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- State General Apportionment Funding System
- Residency Determination for Credit Courses
- Students Actively Enrolled
- Dual Enrollment (CCAP and Non-CCAP)
- Student Equity
- Student Success and Support Program (SSSP) Funds
- Scheduled Maintenance Program
- Gann Limit Calculation
- Open Enrollment
- Proposition 39 Clean Energy Fund
- Intersession Extension Programs
- Disabled Student Programs and Services (DSPS)
- To Be Arranged Hours (TBA)
- Proposition 1D and 51 State Bond Funded Projects
- Proposition 55 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 State Compliance Requirements, of the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office and which is described in the accompanying schedule of findings and questioned costs as item 2017-001. 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 Audit Findings and Questioned Costs. This response was not subject 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, 2017.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

December 18, 2017

FINDINGS AND RECOMMENDATIONS SECTION

MERCED COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements were prepared in accordance with GAAP:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	____ Yes	✓ No
Significant deficiency(ies) identified?	____ Yes	✓ None Reported
Noncompliance material to financial statements noted?	____ Yes	✓ No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	____ Yes	✓ No
Significant deficiency(ies) identified?	____ Yes	✓ None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ Yes	✓ No

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000	
Auditee qualified as low-risk auditee?	✓ Yes	____ No

State Awards

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

SECTION II – FINANCIAL STATEMENT FINDINGS

There are no financial statement findings reported.

SECTION III – FEDERAL COMPLIANCE

There are no federal compliance findings reported.

SECTION IV – STATE COMPLIANCE

2017-001 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – DAILY ATTENDANCE

Criteria:

According to California Code of Regulations, Title V, Section 58003.1, credit courses scheduled to meet for five or more days and scheduled regularly with respect to the number of hours each scheduled day (daily census courses), the units of full-time equivalent students (FTES) shall be computed by multiplying the daily student contact hours of active enrollment as of the census days nearest to one-fifth of the length of the course by the number of days the course is scheduled to meet, and dividing by 525.

Condition:

Short-term daily courses with a laboratory component were incorrectly calculated in the District's attendance accounting system, but corrected prior to submission of the Annual Apportionment Attendance Accounting Report (320 Annual Report).

Context:

Fiscal year 2016-17 short-term daily courses with a laboratory component were impacted due to the incorrect calculation in the District's attendance accounting system. Historically, the District manually adjusts FTES for these courses prior to submission of the 320 Annual Report because they are aware of the fact that the system incorrectly calculates FTES for these courses, but this did not occur in fiscal year 2016-17 due to District staffing changes.

Effect:

The District's FTES was corrected to properly calculate FTES for the short-term daily courses with a laboratory component, which audit procedures validated subsequent to the correction.

Questioned Costs:

The accounting method was corrected prior to the FY 2016-17 Annual Apportionment Attendance Accounting Report (320 Annual Report) submission deadline and, therefore, the full impact of the finding on full-time equivalent student (FTES) was captured in the 320 Annual Report. As a result of the correction, the Merced Main Campus FTES increased by 30.05 and decreased by .45 for resident and nonresident FTES, respectively.

Recommendation:

We recommend that an internal review be performed of attendance methods on a periodic basis to ensure FTES is properly calculated, and therefore FTES amounts reported are accurate.

District's Corrective Action Plan:

Administration has taken steps to ensure that attendance methods are periodically reviewed in the future in order to confirm the proper calculation and accurate reporting of FTES.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

There were no findings in the prior year.