

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

Merced, California

REPORT TO THE BOARD OF TRUSTEES

June 30, 2006



matson and isom

Founded in 1962 by
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Board of Trustees
Merced Community College District
Merced, California

We have audited the financial statements of the Measures H and J Bond Funds (the Measures) of Merced Community College District (the District) for the year ended June 30, 2006, and have issued our report thereon dated October 20, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under United States Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated May 11, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Measures. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the Measures' financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we have advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Measures are described in note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2005-06. We noted no transactions entered into by the Measures during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were management's estimate of the fair value of restricted cash and investments is based on quoted market prices for the underlying securities in the county common investment pool. We evaluated the key factors and assumptions used to develop the estimate and determined that they are reasonable in relation to the financial statements taken as whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). We did not propose any adjusting journal entries.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the Measures' financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Measures H and J Bond Funds of the District's financial statements, or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Trustees, the Bond Oversight Committee, and management of Merced Community College District and is not intended to be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

We would like to take this opportunity to express our appreciation for the cooperation and assistance provided to us during the audit by your staff. We look forward to a continued relationship with Merced Community College District.

Matson and Isom

October 20, 2006