



MATSON  
& ISOM

MERCED COMMUNITY  
COLLEGE DISTRICT  
MEASURES H AND J BOND FUNDS

**Merced, California**

FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITORS' REPORTS

**June 30, 2012**

# TABLE OF CONTENTS

June 30, 2012

*Merced Community College District  
Measures H and J Bond Funds*

	<b>Page Number</b>
Independent Auditors' Report	1
 <b>FINANCIAL SECTION</b>	
Statement of Net Assets	3
Statement of Revenues, Expenses, and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to the Financial Statements	6
 <b>OTHER REPORT</b>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	16



MATSON  
& ISOM

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Merced Community College District  
Merced, California

We have audited the accompanying statement of net assets of the Measures H and J Bond Funds (the Measures) of Merced Community College District (the District) as of June 30, 2012, and the related statements of revenues, expenses, and changes in net assets; and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in note 1, the financial statements present only the Measures and do not purport to, and do not, present fairly, the financial position of the District as of June 30, 2012, and the changes in its financial position and cash flows of the District in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measures as of June 30, 2012, and the changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

*Matson and Isom*

November 16, 2012  
Chico, California

**FINANCIAL SECTION**

**STATEMENT OF NET ASSETS***Merced Community College District  
Measures H and J Bond Funds*

June 30, 2012

**ASSETS****NONCURRENT ASSETS**

Restricted cash and investments	\$ 11,616,950
Deferred charges	1,373,761
Capital assets - net	42,628,328

**Total Noncurrent Assets** 55,619,039**Total Assets** \$ 55,619,039**LIABILITIES AND NET ASSETS****CURRENT LIABILITIES**

Accounts payable	\$ 37,463
Accrued interest payable	815,154
Current portion long-term liabilities	985,000

**Total Current Liabilities** 1,837,617**NONCURRENT LIABILITIES**

Long-term liabilities	47,053,884
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**Total Liabilities** 48,891,501**NET ASSETS**

Restricted for Measures H and J Bonds	6,727,538
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**Total Liabilities and Net Assets** \$ 55,619,039*The accompanying notes are an integral part of these financial statements.*

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

*Merced Community College District  
Measures H and J Bond Funds*

Year Ended June 30, 2012

<b>OPERATING EXPENSES</b>	
Depreciation	\$ 1,013,695
<b>Operating Loss</b>	<b>(1,013,695)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Supplies, materials, and other expenses and services	(62,556)
Amortization of deferred charges	(95,705)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(158,261)</b>
<b>Loss Before Other Revenues, Expenses, Gains, or Losses</b>	<b>(1,171,956)</b>
Local property taxes and revenues - capital	2,822,331
Investment income - capital	49,311
Interest expense - capital	(1,932,230)
<b>Changes in Net Assets</b>	<b>(232,544)</b>
<b>Net Assets - Beginning of Year</b>	<b>6,960,082</b>
<b>Net Assets - End of Year</b>	<b>\$ 6,727,538</b>

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

**STATEMENT OF CASH FLOWS***Merced Community College District  
Measures H and J Bond Funds*

Year Ended June 30, 2012

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Proceeds from capital debt	\$ 13,074,984
Purchases of capital assets	(76,636)
Principal paid on capital debt	(13,780,000)
Interest paid	(2,040,523)
Interest on investments	49,311
Amortization of deferred charges	(175,872)
Local property taxes and other revenues for capital purposes	2,846,691
Other expenses	(27,149)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(129,194)</b>
<b>Net Decrease in Cash and Investments</b>	<b>(129,194)</b>
<b>Cash and Investments - Beginning of Year</b>	<b>11,746,144</b>
<b>Cash and Investments - End of Year</b>	<b>\$ 11,616,950</b>

**RECONCILIATION OF NET OPERATING LOSS TO  
CASH FLOWS FROM OPERATING ACTIVITIES**

Operating loss	\$ (1,013,695)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	1,013,695
<b>Net Cash Provided by Operating Activities</b>	<b>\$ -</b>

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

**1. ORGANIZATION AND NATURE OF ACTIVITIES**

**Definition of the Reporting Entity** Merced Community College District (the District) is a political subdivision of the State of California and provides higher education in portions of three counties. The District consists of one community college with two branches located throughout the service area (the Primary Institution). These financial statements present only the Measures H and J Bond Funds (the Measures), which consist of the building fund and the bond debt service fund. These financial statements do not include financial data for the remainder of the District's funds and component unit, which accounting principles generally accepted in the United States of America require to be presented with the financial statements of the District.

**Measure H:** The Measure H is a facilities and equipment bond measure for the School Facilities Improvement District No. 1 (Merced campus area), adopted by the Board of Trustees of the District, and passed by voters on November 5, 2002, authorizing the issuance and sale of general obligation bonds of \$53,500,000. On June 19, 2003, the District issued current interest bonds in the amount \$20,000,000 for the Merced campus. The \$20,000,000 of current interest bonds are financed over 24 years with principal payments due annually on August 1 and began on August 1, 2004. Interest payments are made semiannually on February 1 and August 1 and began on February 1, 2004. On February 28, 2012, the District partially advance refunded the outstanding balance of the Improvement District's general obligation bonds election of 2002, Series 2003. The \$10,070,000 of advance refunded bonds are financed over 16 years with principal payments due annually on August 1 and began on August 1, 2012. Interest payments are made semiannually on February 1 and August 1 and began on August 1, 2012. On August 1, 2006, the District issued serial and term bonds in the amounts of \$9,870,000 and \$14,130,000, respectively. The serial bonds are financed over 19 years with the principal payments due annually on August 1 and began on August 1, 2007. Interest payments are made semiannually on February 1 and August 1 and began on February 1, 2007. The \$14,130,000 of term bonds are subject to six yearly mandatory sinking-fund redemptions, each due on August 1 beginning in 2026.

**Measure J:** The Measure J is a facilities and equipment bond measure for the School Facilities Improvement District No. 2 (Los Banos campus area), adopted by the Board of Trustees of the District, and passed by voters on November 5, 2002, authorizing the issuance and sale of general obligation bonds of \$11,930,000. On June 19, 2003, the District issued current interest bonds in the amount of \$5,140,000 for the Los Banos campus. The \$5,140,000 of current interest bonds are financed over 24 years with principal payments due annually on August 1 and began on August 1, 2004. Interest payments are made semiannually on February 1 and August 1, and began on February 1, 2004. On August 1, 2005, the District issued serial and term bonds in the amounts of \$3,025,000 and \$3,765,000, respectively. The serial bonds are financed over 24 years with the principal payments due annually on August 1 and began on August 1, 2007. Interest payments will be made semiannually on February 1 and August 1 and began on February 1, 2006. The \$3,765,000 of term bonds are subject to five yearly mandatory sinking-fund redemptions, each due on August 1 beginning in 2025. On November 16, 2006, the District refunded portions of series 2003 and series 2005 bonds in the amount of \$10,740,000.



The County Board of Supervisors of Merced and Madera counties are empowered and obligated to levy property taxes, without limitation as to rate or amount (except for certain property which is taxable at limited rates), for payment of principal and maturity value of and interest on the Merced campus area bonds. The County Board of Supervisors of Merced and Fresno counties are empowered and obligated to levy property taxes, without limitation as to rate or amount (except for certain property which is taxable at limited rates), for payment of principal and maturity value of and interest on the Los Banos campus area bonds.

The accompanying financial statements present only the Measures of the District. The District has established separate capital project funds and separate debt service funds to account for the activities of the Measures.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The District has elected to apply all Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989, unless FASB conflicts with Governmental Accounting Standards Board (GASB). The District has not elected to apply FASB pronouncements issued after that date. The budgetary and financial accounts of the District are recorded and maintained in accordance with the *Budget and Accounting Manual*, issued by the Chancellor's Office of the California Community Colleges.

**Restricted Cash and Cash Equivalents** Cash that is externally restricted for contractual obligations such as debt service payments, sinking or reserve funds, or to purchase or construct capital or other noncurrent assets is classified as a noncurrent asset in the statement of net assets.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

In accordance with *California Education Code*, Section 81963, the District maintains the debt service funds in the Merced County Treasury as part of the common investment pool. In accordance with *California Education Code*, Section 81965, the District maintains the bond capital project funds in the California Asset Management Program (CAMP), a California common law trust. These funds are restricted by *California Government Code*, Section 53635, pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes, bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

Investments in the County pool are valued using the amortized cost method (which approximates fair value) and includes accrued interest. The pool has deposits and investments with a weighted-average maturity of less than one year. As of June 30, 2012, the fair value of the County pool is 100.376% of the carrying value and is deemed to not represent a material difference. Information regarding the amount of dollars invested in derivatives with the County was not available. The County investment pool is subject to regulatory oversight by the Treasury Oversight Committee as required by *California Government Code*, Section 27130. The District is considered to be an involuntary participant in the external investment pool.

The District participates in the CAMP as described further in note 6. As of June 30, 2012, the fair value of CAMP is 100.025% of the carrying value and is deemed to not represent a material difference. There are no CAMP funds invested in derivatives as of June 30, 2012. Oversight of CAMP is provided by the Board of Trustees, which consists of seven trustees. The trustees are appointed to the Board of Trustees from members of the governing body, officers, or full-time employees of a public agency that is a participant in the trust and approved annually by the participants. The District is considered to be a voluntary participant in the CAMP investment pool.

The calculation of realized gains and losses is independent of the calculation of the net increase or decrease in the fair value of restricted cash and cash equivalents. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The change in the fair value of investments was insignificant during the year ended June 30, 2012, and there was no significant unrealized gain or loss on investments at June 30, 2012.

***Deferred Charges*** Deferred charges are bond issuance costs and are deferred and amortized over the term of the bonds using the straight-line method as the results are not significantly different from the effective-interest method.

***Capital Assets*** Capital assets are recorded at cost on the date of acquisition, or fair market 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. Renovations to buildings and site improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed on a straight-line basis using the half-year convention over the estimated useful life of the assets: generally 50 years for buildings, 10 years for land improvements, 8 years for vehicles, 10 years for equipment, 5 years for library books, and 5 years for technology equipment. Land and construction in progress are considered nondepreciable capital assets; therefore, no depreciation is computed.

***Bond Premium*** Bond premiums are deferred and amortized over the term of the bonds using the effective-interest method. Bond premiums are recorded as long-term liabilities.

**Net Assets** The District's net assets are classified as follows:

*Restricted for Measures H and J Bonds Funds:* Resources in which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

**Classification of Revenues** The District has classified its revenues as nonoperating revenues according to the following criteria:

*Nonoperating Revenues:* Activities that have the characteristics of nonexchange transactions, such as capital gifts and contributions, and other revenue sources that are defined as nonoperating revenues, such as state appropriations and investment income. This is according to GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*; and GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

**Risk Management** The District retains risk for property damage on the first \$50,000 of each claim. The District retains no risk for liability or workers' compensation claims, and coverage is provided by pooled insurance as a member of a joint powers authority.

Certain liability coverage in excess of \$350,000 and up to \$20,000,000 is provided by pooled insurance as a member of a joint powers authority of California community colleges and school districts. Property damage in excess of \$50,000 and up to \$500,000,000 is provided by pooled insurance as a member of a joint powers authority.

**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 disclosures of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting period. Actual results could differ from those estimates. The Measures' largest source of revenue is property taxes, which are subject to some estimation at the date of the financial statements.

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

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

**Property Tax** The Counties are responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the Counties. Secured property taxes attach as an enforceable lien on property as of March 1. Property taxes on the secured roll are due on November 1 and February 1 and become delinquent after December 10 and April 10, respectively. The following counties bill and collect the taxes for the District: Fresno, Madera, and Merced counties.

Secured property taxes are recorded as revenue when apportioned in the fiscal year of the levy. The County apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the *California Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll, approximately October 1 of each year.

**3. RESTRICTED CASH AND INVESTMENTS**

The following is a summary of restricted cash and investments at June 30, 2012:

	<b>Fair Value</b>
INVESTMENTS THAT ARE NOT SECURITIES (1)	
County treasurer's investment pool	\$ 5,329,157
California Asset Management Program	6,287,793
<b>Total Restricted Cash and Investments</b>	<b>\$ 11,616,950</b>

- (1) *Investments That are Not Securities* A “security” is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book-entry form. Restricted investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not categorized into custodial credit risk categories.

**Credit Risk – Investments**

*California Government Code*, Section 53601, limits investments in commercial paper to “prime” quality of the highest ranking, or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO), and limits investments in medium-term notes to a rating of A or better. The District has no investment policy that would further limit its investment choices. The District’s investment in the county investment pool is unrated. The District’s investments in CAMP are rated AAAM by Standard & Poor’s indices.

**Interest Rate Risk – Investments**

*California Government Code*, Section 53601, limits the District’s investments to maturities of five years. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investments in the County treasurer’s investment pool and CAMP mature in less than one year.

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2012

*Merced Community College District  
Measures H and J Bond Funds***4. CAPITAL ASSETS**

Changes in capital assets consisted of the following:

	<b>Balance June 30, 2011</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2012</b>
<b>NONDEPRECIATED CAPITAL ASSETS</b>				
Land	\$ 123,806	\$ -	\$ -	\$ 123,806
Construction in progress	414,870	76,636	-	491,506
<b>DEPRECIATED CAPITAL ASSETS</b>				
Buildings and improvements	47,138,176	-	-	47,138,176
<b>Total Capital Assets</b>	<b>47,676,852</b>	<b>76,636</b>	<b>-</b>	<b>47,753,488</b>
<b>LESS: ACCUMULATED DEPRECIATION</b>				
Buildings and improvements	4,111,465	1,013,695	-	5,125,160
<b>Total Capital Assets - Net</b>	<b>\$ 43,565,387</b>	<b>\$ (937,059)</b>	<b>\$ -</b>	<b>\$ 42,628,328</b>

**5. LONG-TERM LIABILITIES**

The long-term liabilities activity for the year ended June 30, 2012, is shown below:

	<b>Balance June 30, 2011</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2012</b>	<b>Current Portion</b>
General obligation bonds payable	\$ 47,475,000	\$ 13,070,000	\$ 13,780,000	\$ 46,765,000	\$ 985,000
Unamortized premiums	1,014,398	435,358	175,872	1,273,884	-
<b>Total Long-Term Liabilities</b>	<b>\$ 48,489,398</b>	<b>\$ 13,505,358</b>	<b>\$ 13,955,872</b>	<b>\$ 48,038,884</b>	<b>\$ 985,000</b>

On February 28, 2012, the District partially advance refunded general obligation bonds totaling \$13,060,000 with the 2012 general obligation refunding bonds totaling \$13,070,000 at a premium of \$435,358. Resources totaling \$13,348,566 were placed in an irrevocable trust for the purpose of generating resources for all future debt services payments.

This advance refunding was undertaken to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding general obligation bonds) of \$1,560,405. As a result of the refunding, total debt service payments over the next 19 years will decrease by \$2,024,433.

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2012

**Merced Community College District  
Measures H and J Bond Funds**

The general obligation bonds payable at June 30, 2012, with outstanding balances are comprised of the following issuances:

Series 2003 general obligation bond for School Facilities Improvement District No. 1, due in annual installments of \$310,000 to \$1,500,000 beginning August 1, 2004, through August 1, 2027, at interest rates ranging from 2.50% to 5.00%.	\$ 355,000
Series 2003 general obligation bond for School Facilities Improvement District No. 2, due in annual installments of \$45,000 to \$440,000 beginning August 1, 2004, through August 1, 2027, at interest from 2.50% to 4.50%.	110,000
Series 2005 general obligation bond for School Facilities Improvement District No. 2, due in annual installments of \$25,000 to \$135,000 beginning August 1, 2007, through August 1, 2015, at interest from 3.625% to 5.00%.	440,000
Series 2006 general obligation bond for School Facilities Improvement District No. 1, due in annual installments of \$70,000 to \$3,210,000 beginning August 1, 2007, through August 1, 2031, at interest from 4.50% to 5.00%.	22,605,000
Series 2006 general obligation refunding bonds for School Facilities Improvement District No. 2, due in annual installments of \$60,000 to \$1,390,000 beginning August 1, 2007, through August 1, 2025, at interest from 3.50% to 5.00%.	10,185,000
Series 2012 general obligation refunding bonds for School Facilities Improvement District No. 1, due in annual installments of \$115,000 to \$1,390,000 beginning August 1, 2012, through August 1, 2027, at interest from 2.00% to 4.00%.	13,070,000
<b>Total</b>	<b>\$ 46,765,000</b>

The amount of interest cost incurred during the year ended June 30, 2012, was \$1,932,230, all of which was charged to expenses.

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

Year Ending June 30	Principal	Interest	Total
2013	\$ 985,000	\$ 1,968,969	\$ 2,953,969
2014	1,025,000	1,937,032	2,962,032
2015	1,195,000	1,892,146	3,087,146
2016	1,375,000	1,840,118	3,215,118
2017	1,480,000	1,790,517	3,270,517
2018-2022	10,540,000	7,862,465	18,402,465
2023-2027	15,980,000	4,857,880	20,837,880
2028-2032	14,185,000	1,534,616	15,719,616
<b>Totals</b>	\$ 46,765,000	\$ 23,683,743	\$ 70,448,743

On February 28, 2012, the District partially advance refunded general obligation bonds totaling \$13,060,000 with the 2012 general obligation refunding bonds totaling \$13,070,000 at a premium of \$435,358. Resources totaling \$13,348,566 were placed in an irrevocable trust for the purpose of generating resources for all future debt services payments.

This advance refunding was undertaken to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding general obligation bonds) of \$1,560,405. As a result of the refunding, total debt service payments over the next 19 years will decrease by \$2,024,433.

**6. JOINT POWERS AGREEMENTS**

The District participates in joint ventures under joint powers agreements with the following joint powers authorities (JPAs): Valley Insurance Program (VIP), Schools Excess Liability Fund (SELF), and Self-Insured Schools of California (SISC III). The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes. The JPAs arrange for and provide property, liability, workers' compensation, dental, vision, and excess liability coverage for their members. Each JPA is governed by a board consisting of representatives from the members. The boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the boards. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA.

The District participates in investment of certain bond proceeds and surplus funds organized by the California Asset Management Program (CAMP). CAMP is a JPA created to provide investment management services for surplus funds and comprehensive investment management, accounting, and arbitrage rebate calculation services for proceeds of tax-exempt financing.

The District participates in the Community College League of California (CCLC) which has established the Retiree Health Benefit Program (RHBP) joint powers agreement. The RHBP is a JPA created to provide funding for postemployment benefits (other than pension benefits) such as medical, dental, vision, life insurance, long-term care, and similar benefits offered by California Community College districts to their employees.

**7. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, to incorporate into GASB's authoritative literature certain accounting and financial reporting guidance. This statement will improve financial reporting by contributing to GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so they derive from a single source. In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, to provide reporting guidance for deferred outflows and inflows of resources. The District's management has not yet determined the impact that implementation of these standards, which is required on July 1, 2012, will have on the District's financial statements, if any.



**OTHER REPORT**



MATSON  
& ISOM

**INDEPENDENT AUDITORS' 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***

To the 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) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

The District's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Measures' 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*.

**INDEPENDENT AUDITORS' 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***

Continued

This report is intended solely for the information and use of the Citizens' Oversight Committee, Board of Trustees, management, and others within the District; and is not intended to be and should not be used by anyone other than these specified parties.

*Matson and Isom*

November 16, 2012  
Chico, California