

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

**County of Merced
Merced, California**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

June 30, 2004

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Measures H and J Bond Funds

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INDEPENDENT AUDITORS' REPORT

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, 2004, and the related statements of revenue, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 opinion.

As discussed in note 1, the financial statements present only the Measures and are not intended to present the financial position and results of operations 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, 2004, and the results of its operations and its cash flows 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 January 18, 2005, 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, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.

The District has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not be required to a part of, the basic financial statements.

Matson and Isom

January 18, 2005

FINANCIAL SECTION

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

June 30, 2004

ASSETS**CURRENT ASSETS**

Accounts receivable - net \$ 266,441

Total Current Assets 266,441**NONCURRENT ASSETS**

Restricted cash and cash equivalents 24,579,205

Deferred charges 565,389

Capital assets - net 2,318,146

Due from other funds 325,172

Total Assets \$ 28,054,353**LIABILITIES AND NET ASSETS****CURRENT LIABILITIES**

Accounts payable \$ 90,043

Accrued interest payable 419,511

Current portion long-term liabilities 1,465,000

Total Current Liabilities 1,974,554**NONCURRENT LIABILITIES**

Long-term liabilities 24,241,972

NET ASSETS

Restricted for Measures H and J Bonds 1,837,827

Total Liabilities and Net Assets \$ 28,054,353*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, 2004

OPERATING EXPENSES	
Depreciation	\$ -
Operating Loss	-
NON-OPERATING REVENUES (EXPENSES)	
Investment income - capital	256,836
Amortization of deferred charges	(21,520)
Interest expense	(1,025,123)
Total Non-operating Revenues (Expenses)	(789,807)
Loss Before Other Revenues, Expenses, Gains, or Losses	(789,807)
Local property taxes and revenues	2,586,294
Increase in Net Assets	1,796,487
Net Assets - Beginning of Year	41,340
Net Assets - End of Year	\$ 1,837,827

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, 2004

CASH FLOWS FROM OPERATING ACTIVITIES	\$ -
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(2,143,217)
Interest paid	(1,228,333)
Interest on investments	256,836
Local property taxes and other revenues for capital purposes	2,319,853
Net Cash Flows From Capital and Related Financing Activities	(794,861)
Net Decrease in Cash and Cash Equivalents	(794,861)
Cash and Cash Equivalents - Beginning of Year	25,374,066
Cash and Cash Equivalents - End of Year	\$ 24,579,205
RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating loss	\$ -
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation expense	-
Net Cash Flows From Operating Activities	\$ -

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) provides higher education in the greater Merced area, which consists of portions of three counties. The District consists of one community college, with two branches located throughout the service area. The financial statements present only the Measure H and Measure J Funds (the Measures) within the District.

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. 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 \$20,000,000 and \$5,140,000 for the Merced and Los Banos Campus Areas, respectively. The \$25,140,000 of current interest bonds are financed over 24 years with principal payments due each August 1 beginning August 1, 2004. Interest payments will be made semiannually each February 1 and August 1 beginning February 1, 2004.

The Merced County Board of Supervisors and the Madera County Board of Supervisors 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 Merced County Board of Supervisors and the Fresno County Board of Supervisors are empowered and obligated to levy property taxes, without limitation as to rate or amount (except for certain property which is taxable at limited rates), for payment of principal and maturity value of and interest on the Los Banos Campus Area bonds. The District has established separate capital project funds and separate debt service funds to account for the activities of the Measures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation The District implemented Governmental Accounting Standards Board (GASB) No. 34 entitled, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB No. 35 entitled, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, GASB No. 37 entitled, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB No. 38 entitled, *Certain Financial Statement Note Disclosures*. GASB No. 34 established new financial reporting requirements for all state and local governments. The financial statement presentation required by GASB Nos. 34 and 35 provides a comprehensive, entity-wide perspective of the District's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required. GASB No. 37 clarifies certain provisions of GASB No. 34, and GASB No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

Basis of Accounting For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. 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 accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB and, where applicable, Financial Accounting Standards Board (FASB) statements issued through 1989.

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, which is consistent with generally accepted accounting principles.

Restricted Cash and Cash Equivalents The District considers demand deposits and all highly liquid investments purchased with an original maturity of three months or less to be 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 non-current assets, is classified as a non-current asset in the statement of net assets.

In accordance with 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 Education Code Section 81965, the District maintains the bond capital project funds in the California Asset Management Program, a California common law trust. These funds are restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, State registered warrants, notes, or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Information regarding the amount of dollars invested in derivatives with the County was not available.

Deferred Charges Deferred charges are bond issuance costs and are deferred and amortized over the term of bonds using the straight-line method since 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 land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repair 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 equipment, 5 years for library books, and 3 years for technology equipment.

Bond Premium Bond premiums are deferred and amortized over the term of the bonds using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable.

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 miscellaneous changes to the spending plans. Revisions to the budget are approved by the District's governing board.

Purchase orders, contracts, and other commitments for expenditures are encumbered in order to reserve that portion of the applicable appropriation as an extension of formal budgetary integration. Encumbrances are liquidated when the commitments are paid. Any outstanding encumbrances lapse at June 30 and are generally re-encumbered in the subsequent years.

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.

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

Restricted net assets include resources in which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

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

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as capital gifts and contributions, and other revenue sources that are defined as non-operating revenues, such as State appropriations and investment income, according to GASB No. 9 entitled, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting* and GASB 34.

3. CASH AND INVESTMENTS

The District's cash deposits are classified into three categories of credit risk based upon the following criteria:

<u>Category</u>	<u>Description</u>
1	The deposits are insured or collateralized with securities held by the District or by its agent in the District's name.
2	The deposits are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
3	The deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the District's name.

<u>Description</u>	<u>Categories</u>			<u>Bank</u>	<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>	<u>Amount</u>
INSURED (FDIC)	\$ -	\$ -	\$ -	\$ -	\$ -
UNINSURED	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
County Treasurer's Pooled Funds					1,878,554
California Asset Management Program Pooled Funds					22,700,651
Total Deposits					<u>\$ 24,579,205</u>

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2004:

Local property taxes	\$ 266,441
Total	<u>\$ 266,441</u>

5. CAPITAL ASSETS

Changes in capital assets consist of the following:

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
NONDEPRECIATED CAPITAL ASSETS				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	161,431	2,156,715	-	2,318,146
DEPRECIATED CAPITAL ASSETS				
Site improvements	-	-	-	-
Buildings and improvements	-	-	-	-
Equipment	-	-	-	-
Total Capital Assets	161,431	2,156,715	-	2,318,146
Less: Accumulated depreciation	-	-	-	-
Total Capital Assets - Net	\$ 161,431	\$ 2,156,715	\$ -	\$ 2,318,146

6. LONG-TERM LIABILITIES

The long-term liabilities activity for the year ended June 30, 2004, is shown below:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
General obligation bonds payable	\$ 25,140,000	\$ -	\$ -	\$ 25,140,000	\$ 1,465,000
Unamortized premiums	632,203	-	65,231	566,972	-
Total Long-term Liabilities	\$ 25,772,203	\$ -	\$ 65,231	\$ 25,706,972	\$ 1,465,000

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

	Principal	Interest	Total
2005	\$ 1,465,000	\$ 982,636	\$ 2,447,636
2006	1,705,000	935,086	2,640,086
2007	1,460,000	887,723	2,347,723
2008	575,000	858,748	1,433,748
2009-2013	11,755,000	3,781,926	15,536,926
2014-2018	1,590,000	1,538,267	3,128,267
2019-2023	4,700,000	1,011,297	5,711,297
2024-2028	1,890,000	225,123	2,115,123
Totals	\$ 25,140,000	\$ 10,220,806	\$ 35,360,806

7. COMMITMENTS AND CONTINGENCIES

Construction Project Commitments

The District entered into several construction commitments ranging from \$10,000 to \$806,774 for a total of \$1,325,199. Subsequent to June 30, 2004, the District entered into several additional construction commitments ranging from \$8,000 to \$120,000 for a total of \$160,000.

8. JOINT POWERS AGREEMENT

The District participates in investment of certain bond proceeds and surplus funds organized by the California Asset Management Program (CAMP). CAMP is a joint powers authority created to provide investment management services for surplus funds and comprehensive investment management, accounting and arbitrage rebate calculation services for proceeds of tax-exempt financings. CAMP is independently accountable for their fiscal matters, and is not a component of the District for financial reporting purposes.

OTHER REPORT



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

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, 2004, and have issued our report thereon dated January 18, 2005. 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.

COMPLIANCE

As part of obtaining reasonable assurance about whether the financial statements of the Measures are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements of the Measures and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Citizens' Oversight Committee, Board of Trustees, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Matson and Isom

January 28, 2005