MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEARS ENDED JUNE 30, 2010 AND 2009

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

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INTRODUCTION

AUDIT OBJECTIVES

The financial and compliance audits of the Mendocino-Lake Community College District had the following objectives:

> To determine the fairness of presentation of the District's financial statements in accordance with accounting principles generally accepted in the United States of America.
>
> To evaluate the adequacy of the systems and provisions affecting compliance with applicable federal and California laws and regulations, with which noncompliance would have a material effect on the District's financial statements and allowability of program expenditures for federal and California financial assistance programs.
>
> To evaluate the adequacy of the internal control structure sufficient to meet the requirements of auditing standards generally accepted in the United States of America for the purpose of formulating an opinion on the basic financial statements taken as a whole and sufficient to ensure compliance with federal and state regulations.
>
> To determine whether financial and financially related reports to state and federal agencies are presented fairly.
>
> To recommend appropriate actions to correct any noted areas where internal control compliance with applicable federal and state regulations could be improved.

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Mendocino-Lake Community College District
Ukiah, California

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Mendocino-Lake Community College District (District) as of and for the years ended June 30, 2010 and 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 standards prescribed by the California Department of Finance. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 and the discretely presented component unit of the District as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows thereof for the years 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 30, 2010, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 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 the 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.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The remaining supplementary information as listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Schedule of State Awards, which is presented for purpose of additional analysis as required by the California Community Colleges Chancellor's Office, are not a required part of the basic financial statements of the District. 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Nystrom & Company LLP

November 30, 2010

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Mendocino-Lake Community College District for the year ended June 30, 2010. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes which follow this section.

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments," which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities," which applies the new reporting standards to public colleges and universities. Mendocino-Lake Community College District (District) adopted these new standards beginning with the 2002/2003 fiscal year.

The California Community College Chancellor's Office, through its Fiscal and Accountability Standards Committee, has recommended that all state community college districts follow the new standards under the Business Type Activity (BTA) model. To comply with the recommendation of the Chancellor's Office and to report in a manner consistent with other community college districts, the District has adopted the BTA reporting model for these financial statements.

Reporting Highlights

Two years of financial data is presented in this Management Discussion and Analysis section, for comparative purposes. The annual report consists of three basic financial statements that provide information about the District as a whole:

- The Statement of Net Assets
- The Statement of Revenue, Expenses and Changes in Net Assets
- The Statement of Cash Flows

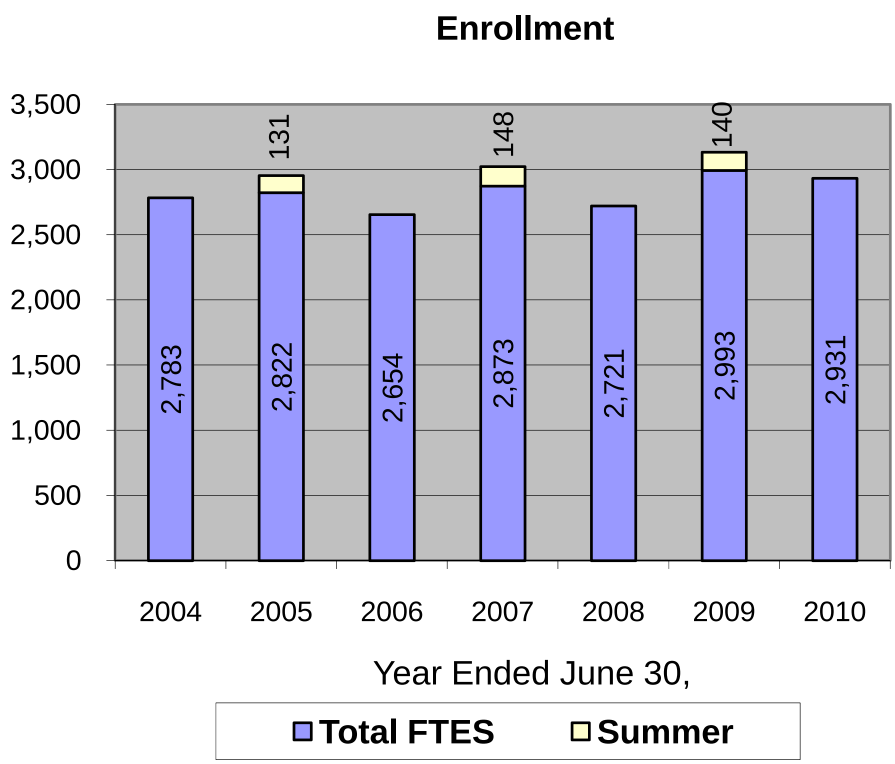
The Mendocino College Foundation, Inc. (Foundation) was established as a legally separate not-for-profit corporation to support the District and its students. It provides scholarships for the benefit of district students and contributes directly to the District. The Foundation is considered a component unit for financial reporting purpose and is presented separately from the District's financial data. The Foundation financial statements are included within this audit document. The Foundation's independently audited annual financial statements may also be obtained from the Foundation Office on the Ukiah campus.

General Obligation Bonds

On November 7, 2006, the voters of the Mendocino-Lake Community College District approved the issuance of up to $67,500,000 in general obligation bonds: Measure "W". On March 29, 2007 the District issued the first series (Series A) of bonds in the amount of $30 million. The bonds were issued at a premium resulting in proceeds of $32,150,108. The $2.1 million in premium covered the costs of issuance and a deposit to the debt service fund, leaving $30 million available for bond projects. Measure W encompasses thirty construction and renovation projects. The District established a Bond Implementation Planning Committee (BIPC) which has been planning and implementing bond projects. A Citizen's Bond Oversight Committee (CBOC) was formed in December 2006, as required by law, to ensure that bond proceeds are expended only for the purposes set forth in Measure W. As of June 30, 2010, $18,364,367 of funds were expended, primarily on re-roofing multiple buildings, remodels and renovations, upgrading the computer system, planning and construction of a new Library/Learning Resource Center, constructing a new Maintenance/Warehouse, and purchasing land in Willits and Lakeport.

Enrollment Highlights

The District reported 2,931 total full-time equivalent students (FTES) on the 2009/10 Final Apportionment Attendance Report (CCFS-320). This is a decrease of 202 FTES from the 2008/09 FTES of 3,133. This decrease is partially the result of reporting 140 of Summer 2009 FTES in 2008/09 which would normally have been reported in 2009/10. The decline in reported enrollment did not result in a lower base FTES because the Community College funding mechanism contains a one year hold harmless provision for declines, known as Budget Stability. The following chart shows the enrollment history and reflects the impact of summer FTES reporting.



Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net assets – the difference between assets and liabilities – are one way to measure the financial health of the District.

	2010 (in thousands)	2009 (in thousands)
ASSETS		
Current Assets		
Cash and cash equivalents	$0	$731
Restricted cash and cash equivalents	146	1,166
Investments	1,129	1,122
Receivables	4,040	3,097
Inventory and other assets	244	46
Total Current Assets	$5,559	$6,163
Noncurrent Assets		
Capital Assets, non-depreciable	$14,058	$11,010
Capital Assets, depreciable	35,092	27,087
Restricted cash and cash equivalents	18,013	29,385
Deferred costs, net	501	524
Total Noncurrent Assets	$67,663	$68,007
TOTAL ASSETS	$73,222	$74,169
LIABILITIES		
Current Liabilities:		
Accounts payable	$2,191	$1,206
Deferred revenue	411	1,172
Amounts held for others	454	387
Claims payable	0	228
Long-term debt, current portion	1,232	700
Total Current Liabilities	$4,288	$3,692
Noncurrent Liabilities:		
Compensated absences	$5,369	$5,836
Long-term liabilities; noncurrent portion	29,456	30,350
Total Noncurrent Liabilities	$34,824	$36,186
TOTAL LIABILITIES	$39,112	$39,879
NET ASSETS		
Invested in Capital Assets	$27,924	$29,278
Restricted, expendable	4,300	3,716
Unrestricted	1,885	1,296
TOTAL NET ASSETS	$34,109	$34,291
TOTAL LIABILITIES AND NET ASSETS	$73,222	$74,169

- Cash and cash equivalents consist of cash in the Mendocino County Treasury and investments in Local Agency Investment Fund (LAIF). While the District did have a positive cash balance overall, the District did experience a cash deficiency in unrestricted cash of ($690,198).

- Receivables consist mainly of amounts due as of June 30, 2010 from state and federal grants and general apportionment wherein the District has earned funds that were not yet received as of the fiscal year end.

- Restricted cash consists primarily of the balance of the $30 million in General Obligation Bond proceeds issued as Series A of a $67.5 million voter approved bond measure, Measure W**.** Restricted cash and cash equivalents also consists of Student Health fees and revolving cash. Restricted cash is cash for payment of obligations subject to the restrictions imposed by state or granting agency.

- Capital assets, net, is the net historical value of land, buildings, construction in progress and equipment less accumulated depreciation. The detail of this total net value can be found in the notes of the financial statements.

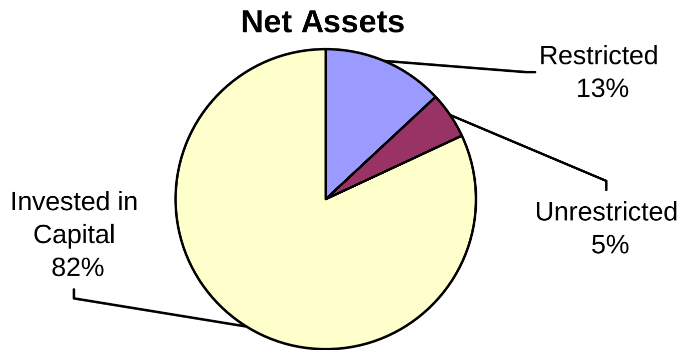
	July 1, 2009	Additions	Transfers	June 30, 2010
Non-Depreciable Assets	$11,009,905	$6,522,101	($3,473,974)	$14,058,032
Depreciable Assets	45,901,907	6,054,492	3,473,974	55,430,373
Accumulated Depreciation	(18,814,759)	(1,524,111)		(20,338,870)
Depreciable Assets, net	$27,087,148	$4,530,381	3,473,974	$35,091,503

- Accounts payable consist primarily of payables to vendors and accrued payroll ($2.2 million).

- Deferred revenue relates to federal, state and local program funds received but not yet earned as of the end of the fiscal year. Most grant funds are earned when expended up to the award amount.

- Noncurrent liabilities represent debt to be paid in one year or later. The major components are general obligation bonds ($30.27 million), capital lease ($4.9 million), and accrued vacation and load banking payable ($0.81 million).

- Net Assets are classified into three categories: Capital Assets, Restricted Assets, and Unrestricted Assets. Capital Assets consist of land, buildings, construction in progress, and equipment. Restricted Assets include $1.42 million of funds designated in the Special Reserve fund to cover accrued vacation liability, load banking, and a self insurance reserve.



Statement of Revenues, Expenditures, and Changes in Net Assets

The Statement of Revenues, Expenditures, and Changes in Net Assets presents the operating results of the District, as well as the non-operating revenues and expenses. State general apportionment, while budgeted for operations, is considered non-operating revenues according to generally accepted accounting principles.

Statement of Revenues, Expenses and Changes in Net Assets

	2010 (in thousands)	2009 (in thousands)
REVENUE		
Operating revenues:		
Net tuition and fees	$1,064	$1,039
Grants and Contracts, non-capital	8,425	6,962
Auxiliary enterprise sales and charges	86	1,033
Total operating revenues	$9,575	$9,034
Total operating expenses	29,703	30,112
OPERATING INCOME (LOSS)	(20,128)	(21,078)
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, non-capital	11,663	11,999
Local property taxes	7,932	7,854
State taxes and other revenues	529	389
Investment income, non-capital	96	573
Other non-operating revenues (expenses),net	(312)	(121)
NON-OPERATING INCOME (LOSS)	19,908	20,694
INCOME (LOSS) before other revenues	(220)	(384)
State apportionments, capital	39	193
NET ASSETS		
Net assets – beginning of year	34,291	34,482
Net assets – end of year	$34,110	$34,291

- Net tuition and fees total $1.06 million and consist of enrollment fees, non-resident tuition, and all other fees. Enrollment fees are set by the state for all community colleges.

- Grants and contracts, non-capital consists of revenues provided for restricted purposes from federal, state and local sources.

- State apportionments, non-capital revenue consists of general state apportionment ($11.66 million). State apportionment revenue reported is exclusive of regular enrollment fees and property taxes, which are reported separately.

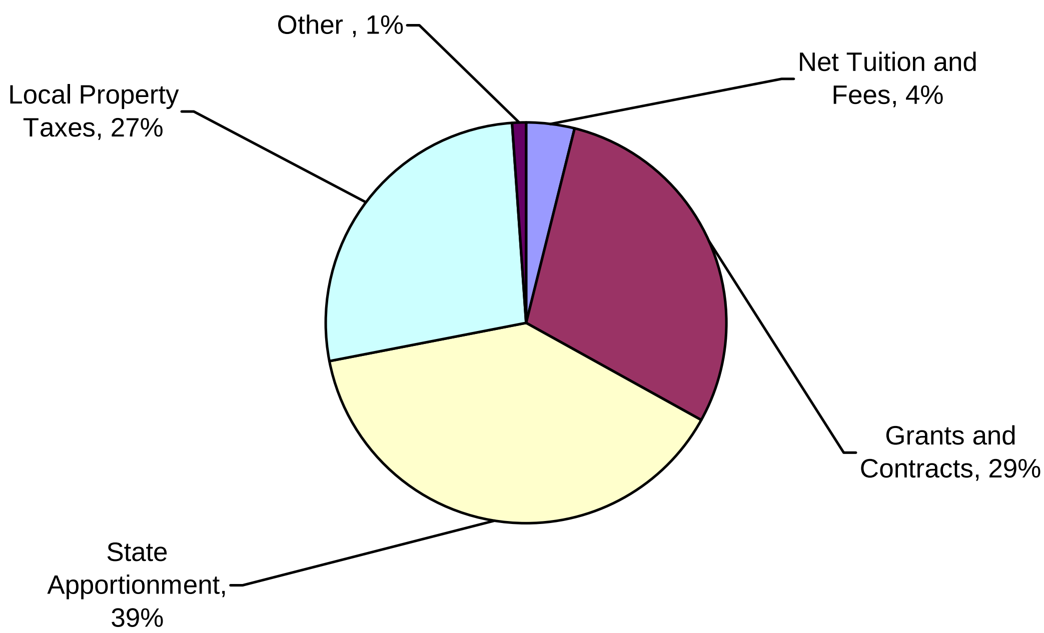
- Local property tax revenues totaled $7.93 million from those portions of Lake and Mendocino counties that lie within the District boundaries. Increases/decreases in property tax revenue reduce/increase the District's state apportionment revenue.

- State taxes and other revenues consist primarily of state lottery revenue ($0.53 million).

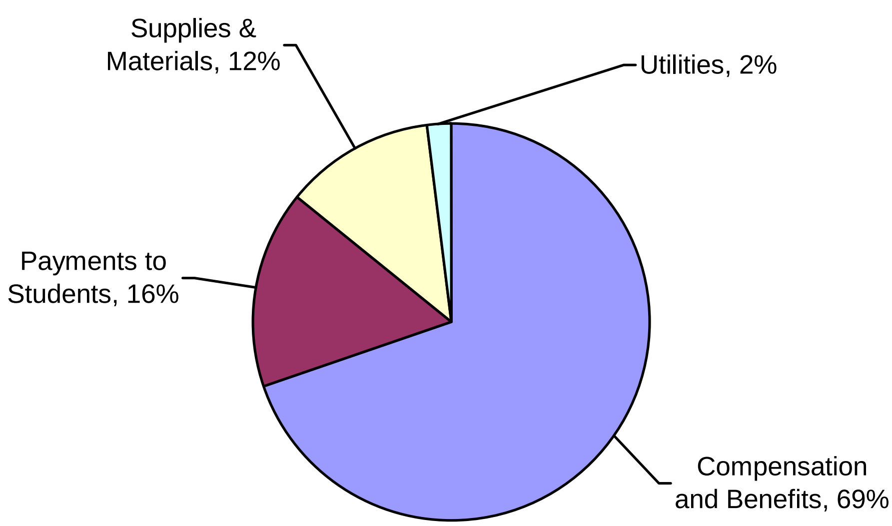
- Investment income is derived from interest received on funds on deposit at the Mendocino County Treasury and the Local Agency Investment Fund (LAIF), which is operated by the State of California.

- State apportionments, capital consists primarily of state community college construction act and scheduled maintenance funds.

Revenues



Expenses



Operating Expenses (by natural classification)

	2010 (in thousands)	2009 (in thousands)
Instructional Activities	$9,669	$10,281
Academic Support	2,858	2,226
Student Services	3,419	3,388
Plant Operations & Maintenance	2,245	2,639
Planning Policy Making/General Support	3,668	3,997
Community Services	109	78
Ancillary/Auxiliary Operations	1,021	2,165
Student Aid	4,433	3,312
Physical property/acquisitions	755	993
Depreciation	1,524	1,033
TOTAL OPERATING EXPENSES	$29,701	$30,112

Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments that occurred during the fiscal year. This statement also helps users assess the District's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing, if any.

	2010 (in thousands)	2009 (in thousands)
Net Cash Provided (Used) By:		
Operating activities	$(19,728)	$(18,590)
Non-capital financing activities	18,242	19,007
Capital and related financing activities	(11,726)	1,661
Investing activities	88	549
Net increase (decrease) in cash	(13,124)	2,627
Cash – beginning of the fiscal year	31,282	28,655
Cash – end of the fiscal year	$18,158	$31,282

The primary cash receipts from operating activities consist of grants, contracts, and student fees. The primary cash outlays include payment of wages, benefits, supplies and contracted services.

General apportionment is the primary source of non-capital financing. The two main components of general apportionment are state apportionment and property taxes.

The main capital activities are purchases of capital assets, such as land, buildings, and equipment.

Cash from investing activities includes interest on cash deposits in the Treasury of the County of Mendocino and the Local Agency Investment Fund of the State of California.

State Economy and Mendocino-Lake Community College Budget

- The economic position of the District is closely tied to that of the State of California. The District receives 39% of its funding through state general apportionments and 27% from local property taxes. These two sources, along with enrollment fees, provide the District's general purpose revenue, the main source of support for California community colleges.

- The Governor's 2010/11 budget for community colleges contained no Cost of Living Adjustment (COLA), making this the third consecutive year with no COLA.

- Reports on the State of California Budget for the foreseeable future are not favorable.

  The State is currently facing a $25 billion deficit over the next eighteen months. The impact on California Community Colleges and the District are unknown at this time. In the coming years, potential adverse impacts on community colleges could come in the form of low or no COLA and growth revenue. Another possibility is a system wide property tax shortfall which would result in a deficit coefficient on computational revenue. Such a deficit impacts the District at approximately $180,000 per one percent deficit factor. More information will be released in January 2011 in the Governor's Budget.

Financial Challenges Facing the District

1) FUND BALANCES

   While the General Fund continues to maintain a prudent reserve, our two operating budgets, the General Fund and Health Fund, have experienced a degree of uncertainty in recent years.

   - General Fund – The General Fund unrestricted ending balance increased $174,203 during 2009/10 to $2,857,479, or 14.8% of total General Fund expenditures. This increase was largely due to the District holding 18 positions vacant and all employees agreeing to a 4% reduction in salary for 18 months.

   - Health Fund – The Health Fund ending balance has been in decline since 2001/02, despite several lump sum transfers from other Funds which were over and above normal "contributions" from the Funds which contain staff salary and benefit costs (General, Child Development, and Bond Funds):

Fiscal Year	Audited 6/30/XX Fund Balance	Transfers In from Other Funds
2000/01	$48,852	
2001/02	$282,972	$440,025
2002/03	$171,379	

Fiscal Year	Audited 6/30/XX Fund Balance	Transfers In from Other Funds
2003/04	$13,963	
2004/05	($288,703)	$150,000
2005/06	($466,491)	$400,000
2006/07	($104,117)	$200,000
2007/08	$54,889	$150,000
2008/09	($80,289)	
2009/10	$16,304	$500,000

The condition of the Fund Balance of these two funds must be considered together, because the General Fund is the only source of on-going revenues available to backfill Health Fund deficits.

2) ESCALATION OF HEALTH BENEFIT COSTS

The cost of our Health Benefit program has increased at a much higher rate than our COLA revenue has in recent years. COLA revenue is provided to districts in order to support increases in operating expenses, including health benefit costs.

Fiscal Year	% Increase Health Costs	% COLA Received
1999/00	28.2%	1.41%
2000/01	18.8%	4.17%
2001/02	12.1%	3.82%
2002/03	8.3%	2.00%
2003/04	2.8%	0%
2004/05	22.3%	2.41%
2005/06	16.1%	4.23%
2006/07	(5.15%)	5.92%
2007/08	26.7%	4.53%
2008/09	7.11%	0%
2009/10	16.94%	0%
TOTAL INCREASE (Compounded)	306.25%	32.27%

For the years 1999/00 through 2009/10, the compound increase in Health Benefit costs was 306.25% while the COLA revenue provided to fund those and other costs has had a compound increase of 32.27%. Health Benefit costs have increased over that period nearly ten times the rate at which the COLA has increased.

Health benefits are budgeted in 2010/11 at $1,760 per employee per month, approximately the same as the actual cost per month of $1,783 experienced in 2009/10.

3) APPORTIONMENT BASE FUNDING

An out-year exposure created by the "FTES Shift" discussed previously is the District must report 2,994 FTES in 2010/11 to avoid a loss of apportionment revenue in 2010/11. Any level of workload production less than 2,994 FTES will be considered "Decline", and will result in a corresponding loss of apportionment revenue below prior funding levels.

4) GASB 45 – RETIREE HEALTH BENEFITS

The actuarial study required by GASB 45 to project the District's future Retiree Health funding obligations was updated in April 2008. The District was required to comply with GASB 45 beginning with the 2008/09 fiscal year. The District has established membership in the Community College League of California (CCLC) GASB 45 Joint Powers Authority (JPA). As of June 30, 2010, the District has not made a deposit to the CCLC GASB 45 (irrevocable) Trust Fund for Retiree Health Benefits.

As of June 30, 2010, the District does have $1,416,019 reserved for all self-insurance issues in the District's Special Reserve Fund. Any portion of these funds could be deposited in the CCLC GASB 45 Trust Fund in the future.

PURPOSE OF THIS DISCUSSION AND ANALYSIS

This financial report is designed to provide interested parties with a general overview of the District's finances in GASB 35 format and to demonstrate the District's accountability for the money it receives. If you have questions about this report or desire additional financial information, contact the Vice President of Administrative Services, Mendocino-Lake Community College District at 1000 Hensley Creek Road, Ukiah, California, 95482.

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MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

STATEMENTS OF NET ASSETS

	June 30, 2010	June 30, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ -	$ 731,105
Restricted cash and cash equivalents	145,641	1,165,697
Investments	1,129,379	1,122,017
Accounts receivable	4,040,115	3,097,441
Deposits and prepaid expenses	243,796	46,359
Total current assets	5,558,931	6,162,619
Noncurrent assets:		
Restricted cash and cash equivalents	18,012,633	29,385,267
Nondepreciable capital assets	14,058,032	11,009,905
Depreciable capital assets, net	35,091,503	27,087,148
Deferred costs, net	500,665	524,303
Total noncurrent assets	67,662,833	68,006,623
Total assets	$ 73,221,764	$ 74,169,242
LIABILITIES		
Current liabilities:		
Accounts payable	$ 2,191,057	$ 1,205,685
Deferred revenue	410,713	1,171,706
Amounts held for others	454,402	387,434
Claims payable	-	227,635
Long-term debt, current portion	815,000	700,000
Other long-term liabilities, current portion	416,621	-
Total current liabilities	4,287,793	3,692,460
Noncurrent liabilities:		
Long-term debt, noncurrent portion	29,455,657	30,350,073
Other long-term liabilities	5,368,725	5,836,121
Total noncurrent liabilities	34,824,382	36,186,194
Total liabilities	39,112,175	39,878,654
NET ASSETS		
Investments in capital assets, net of related debt	27,924,467	29,278,059
Restricted - expendable	4,299,770	3,716,293
Unrestricted	1,885,352	1,296,236
Total net assets	34,109,589	34,290,588
Total liabilities and net assets	$ 73,221,764	$ 74,169,242

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

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS

	Years Ended June 30, 2010	2009
OPERATING REVENUES		
Tuition and fees	$ 1,966,093	$ 1,825,000
Less: scholarship discount and allowance	901,735	785,857
Net tuition and fees	1,064,358	1,039,143
Grants and contracts, non-capital:		
Federal	5,211,101	3,737,021
State	2,986,991	3,138,124
Local	226,538	87,170
Auxiliary enterprise sales and charges	86,435	1,033,022
Total operating revenues	9,575,423	9,034,480
OPERATING EXPENSES		
Salaries	13,801,768	14,600,974
Employee benefits	5,739,250	5,317,212
Payments to students	4,601,853	3,311,849
Supplies, materials, and other operating expenses and services	3,377,993	4,869,836
Utilities	657,980	979,531
Depreciation	1,524,111	1,032,917
Total operating expenses	29,702,955	30,112,319
OPERATING LOSS	(20,127,532)	(21,077,839)
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, non-capital	11,663,041	11,998,645
Local property taxes	7,932,060	7,854,393
State taxes and other revenues	528,526	389,089
Investment income	95,790	572,717
Interest expense	(1,708,424)	(1,392,131)
Other non-operating revenues	1,396,889	1,271,196
Total non-operating revenues (expenses)	19,907,882	20,693,909
LOSS BEFORE OTHER REVENUES	(219,650)	(383,930)
State apportionments, capital	38,651	192,574
CHANGE IN NET ASSETS	(180,999)	(191,356)
NET ASSETS, BEGINNING OF YEAR	34,290,588	34,481,944
NET ASSETS, END OF YEAR	$ 34,109,589	$ 34,290,588

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

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	$ 993,006	$ 1,173,036
Federal grants and contracts	5,138,618	3,764,208
State grants and contracts	2,122,514	3,772,295
Local grants and contracts	218,717	110,271
Payments to/on behalf of employees	(13,827,550)	(14,540,715)
Payments for benefits	(5,832,679)	(4,986,755)
Payments for scholarships and grants	(4,601,853)	(3,311,849)
Payments to suppliers	(3,398,312)	(4,720,604)
Payments for utilities	(657,980)	(979,531)
Auxiliary enterprise sales and charges	98,087	1,159,337
Other receipts (payments)	19,399	(29,319)
Net cash used by operating activities	(19,728,033)	(18,589,626)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State apportionments, non-capital	10,956,188	11,851,277
Local property taxes	5,637,150	5,818,113
State taxes and other revenues	528,526	389,089
Other receipts (payments)	1,120,482	948,901
Net cash provided by non-capital financing activities	18,242,346	19,007,380
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
State apportionments, capital	38,651	192,574
Local property taxes	2,294,910	2,155,969
Capital lease proceeds	-	4,951,320
Purchases of capital assets	(11,738,105)	(4,048,227)
Principal paid on long-term debt	(700,000)	(165,000)
Interest paid on capital debt	(1,621,992)	(1,425,550)
Net cash provided (used) by capital and related financing activities	(11,726,536)	1,661,086
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(7,362)	(24,154)
Interest on investments	95,790	572,717
Net cash provided by investing activities	88,428	548,563
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,123,795)	2,627,403
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	31,282,069	28,654,666
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 18,158,274	$ 31,282,069

(Continued on following page)

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

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2010	2009
COMPONENTS OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	$ -	$ 731,105
Restricted cash and cash equivalents, current	145,641	1,165,697
Restricted cash and cash equivalents, noncurrent	18,012,633	29,385,267
Total cash and cash equivalents	$ 18,158,274	$ 31,282,069
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (20,127,532)	$ (21,077,839)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	1,524,111	1,032,917
On behalf payments	331,643	314,481
(Increase) decrease in:		
Accounts receivable	(291,057)	187,801
Deposits and prepaid expenses	(197,437)	(6,768)
Inventories	-	115,140
Increase (decrease) in:		
Accounts payable	4,674	41,881
Deferred revenue	(760,993)	701,946
Amounts held for others	66,968	25,601
Claims payable	(227,635)	15,976
Compensated absences	(63,149)	47,879
Other post employment benefits	12,374	11,359
Net cash used by operating activities	$ (19,728,033)	$ (18,589,626)

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

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

DISCRETELY PRESENTED COMPONENT UNIT
MENDOCINO COLLEGE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	June 30, 2010	June 30, 2009
ASSETS:		
Cash and cash equivalents	$ 60,648	$ 26,611
Investments	5,472,283	5,253,213
Accounts receivable	-	275
Loan receivable from District	-	10,883
Assets held by others	56,282	52,865
Land	733,196	733,196
Infrastructure	33,278	33,278
Total assets	$ 6,355,687	$ 6,110,321
LIABILITIES:		
Accounts payable	$ 2,593	$ 6,777
Total liabilities	2,593	6,777
NET ASSETS:		
Unrestricted net assets	5,298,093	5,169,722
Temporarily restricted net assets	167,177	77,415
Permanently restricted net assets	887,824	856,407
Total net assets	6,353,094	6,103,544
Total liabilities and net assets	$ 6,355,687	$ 6,110,321

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

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

DISCRETELY PRESENTED COMPONENT UNIT
MENDOCINO COLLEGE FOUNDATION

STATEMENTS OF ACTIVITIES

	Years Ended June 30, 2010	2009
CHANGE IN UNRESTRICTED NET ASSETS:		
Revenues and gains		
Special events:		
Gross revenue	$ 45,504	$ -
Less: event expenses	(15,721)	-
Total special events	29,783	-
Contributions	6,515	57,135
Interest and dividends	137,615	198,342
Net realized gains (losses)	(32,327)	(340,766)
Net unrealized gains (losses)	322,122	(604,650)
Interest on bank deposits	337	-
Total revenues and gains	464,045	(689,939)
Net assets released from restrictions	84,874	83,750
Expenses:		
Program:		
Scholarships	167,001	144,789
Support of District	148,500	61,600
Total program expenses	315,501	206,389
Supporting services:		
Management and general	85,119	89,052
Fundraising	19,928	28,852
Total supporting services expenses	105,047	117,904
Total expenses	420,548	324,293
Change in unrestricted net assets	128,371	(930,482)

(Continued on following page)

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

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

DISCRETELY PRESENTED COMPONENT UNIT
MENDOCINO COLLEGE FOUNDATION

STATEMENTS OF ACTIVITIES

	Years Ended June 30, 2010	2009
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:		
Revenues and gains:		
Contributions	72,601	15,000
Interest and dividends	24,808	38,921
Net realized gains (losses)	(55,321)	(6,821)
Net unrealized gains (losses)	132,548	(169,737)
Total revenues and gains	174,636	(122,637)
Net assets released from restrictions	(84,874)	(83,750)
Change in temporarily restricted net assets	89,762	(206,387)
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS:		
Revenues and gains:		
Contributions	31,417	21,865
Increase in permanently restricted net assets	31,417	21,865
CHANGE IN NET ASSETS	249,550	(1,115,004)
NET ASSETS, BEGINNING OF YEAR	6,103,544	7,218,548
NET ASSETS, END OF YEAR	$ 6,353,094	$ 6,103,544

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

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

DISCRETELY PRESENTED COMPONENT UNIT
MENDOCINO COLLEGE FOUNDATION

STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 249,550	$ (1,115,004)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Less reinvested dividends	(162,423)	(236,466)
Subtract/add net realized gain/loss on investments	87,648	347,587
Subtract/add net unrealized gain/loss on investments	(454,670)	774,387
Less non-cash contribution (gift annuity)	(3,417)	(21,865)
(Increase) decrease in accounts receivable	275	4,681
Increase/(decrease) in accounts payable	(4,184)	(2,434)
Net cash used by operating activities	(287,221)	(249,114)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	2,984,992	701,250
Purchase of investments	(2,674,617)	(506,000)
Loan repayment from Mendocino-Lake Community College District	10,883	9,981
Net cash provided by investing activities	321,258	205,231
NET INCREASE (DECREASE) IN CASH	34,037	(43,883)
CASH, BEGINNING OF YEAR	26,611	70,494
CASH, END OF YEAR	$ 60,648	$ 26,611

SUPPLEMENTAL DISCLOSURE:

The Foundation did not pay interest or taxes during the years ended June 30, 2010 and 2009.

NON-CASH INVESTING ACTIVITIES:

During the years ended June 30, 2010 and 2009, the Foundation earned $162,423 and $236,466, respectively, of dividends which were automatically reinvested in the respective mutual funds.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Mendocino-Lake Community College District (District) is a community college governed by an elected seven-member Board of Trustees. The District provides educational services in the counties of Mendocino and Lake in the State of California. The District consists of one community college located in Ukiah, California and centers in Lakeport and Willits.

The District identified the Mendocino College Foundation (Foundation) as its only component unit. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 as amended by GASB Statement No. 39. The three criteria for requiring a legally separate, tax-exempt organization to be discretely presented as a component unit are the “direct benefit” criterion, the “entitlement/ability to access” criterion, and the “significance” criterion.

The Foundation was established as a legally separate, not-for-profit corporation to support the District and its students. It contributes to various scholarship funds for the benefit of District students and contributes directly to the District. The funds contributed by the Foundation to the District 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. The Foundation also issues a stand-alone audited financial report, which can be obtained from the Business Office of the District.

BASIS OF PRESENTATION AND ACCOUNTING

The financial statement presentation required by GASB Statements No. 34, 35, 37, 38, and 39 provides a comprehensive, entity-wide perspective of the District’s overall financial position, results of operations and cash flows, and replaces the fund-group perspective previously required. The District now follows the “business-type activities” reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the District’s financial activities.

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has elected to follow GASB pronouncements and not Financial Accounting Standards Board (FASB) pronouncements after November 30, 1989.

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION AND ACCOUNTING (Continued)

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities (BTA). Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of the related cash flows. All significant intra-agency transactions have been eliminated.

Exceptions to the accrual basis of accounting are as follows:

> In accordance with industry standards provided by the California Community Colleges Chancellor's Office, summer session tuition and fees received before year-end are recorded as deferred revenue as of June 30 with the revenue being reported in the fiscal year in which the program is predominantly conducted.

The financial accounts of the District are recorded and maintained in accordance with the *California Community Colleges Budget and Accounting Manual*.

CASH AND CASH EQUIVALENTS

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested in the County Treasurer's investment pool are considered cash equivalents.

RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents includes amounts restricted for the repayment of debt, for use in the acquisition or construction of capital assets, for restricted programs, for any other restricted purpose, or in any funds restricted in purpose per the *California Community Colleges Budget and Accounting Manual*.

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, provides that amounts held in external investment pools be reported at fair value. However, cash in the county treasury and investments in the Local Agency Investment Fund (LAIF) are recorded at the value of the pool shares held, which approximates the fair value of the underlying cash and investments of the pools.

All other investments are reported at fair value based on quoted market prices with realized and unrealized gains or losses reported in the statement of activities.

ACCOUNTS RECEIVABLE

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of California. Accounts receivable also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Losses on uncollectible accounts receivable are recognized when such losses become known or indicated. No allowance for losses has been reflected at June 30, 2010 and 2009, as management believes all accounts are fully collectible.

DEPOSITS/CLAIMS PAYABLE

As discussed more fully in Note 10, the District is partially self-insured for health benefits provided to employees and retirees. The District uses a third-party to administer the health benefits plan. Claims are expensed as incurred. The District deposits funds with the third-party administrator to pay claims, to the extent cumulative payments to the administrator are less than cumulative paid and unpaid claims, payments are recorded as a reduction of Claims Payable. Alternatively, should cumulative payments to the administrator exceed cumulative paid and unpaid claims, the excess is reported as Deposits.

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Where historical cost is not available, estimated historical cost is based on replacement cost reduced for inflation. Capitalized equipment includes all items with a unit cost of $20,000 or more and estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 15 years for portable buildings, 10 years for site improvements, and 3 - 10 years for equipment.

DEFERRED REVENUE

Deferred revenue includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year that relate to the subsequent accounting period. Deferred revenue also includes amounts received from grant and contract sponsors that have not yet been earned.

AMOUNTS HELD FOR OTHERS

Amounts held for others represents funds held by the District for the associated student trust fund and the scholarship and loan trust fund.

COMPENSATED ABSENCES

Compensated absence costs are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year-end as liabilities of the District. The District also participates in and accrues “load banking” with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District’s policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LONG-TERM LIABILITIES

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt using the straight line method which does not differ materially from the effective interest method. Amortization of issuance costs was $23,638 and $23,639 for the years ended June 30, 2010 and 2009, respectively.

NET ASSETS

Net assets represent the difference between assets and liabilities. The District's net assets are classified as follows:

- *Invested in capital assets, net of related debt* – 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 invested in capital assets, net of related debt.

- *Restricted net assets – expendable* – Restricted expendable net assets represent resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.

- *Unrestricted net assets* – Unrestricted net assets represent 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.

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 toward restricted resources, and then towards unrestricted resources.

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CLASSIFICATION OF REVENUES

The District has classified its revenues as either operating or non-operating. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, local property taxes, and investment income. Revenues are classified 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, and (4) interest on institutional student loans.

- Non-operating revenues – Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources described in GASB Statement No. 34, such as state appropriations and investment income.

SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenue are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances represent the difference between stated charges for goods and services provided by the District and the amount that is paid by students and/or third parties making payments on the students' behalf.

Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as operating revenues (Grants) and operating expenses (Payments to Students) in the District's financial statements.

STATE APPORTIONMENTS

Certain current year apportionments from the State are based on various financial and statistical information of the previous year as well as State budgets and other factors outside the District's control. In February, subsequent to the year end, the State performs a recalculation based on actual financial and statistical information for the year just completed. The District's policy is to estimate the recalculation correction to apportionment, if any, based on factors it can reasonably determine such as local property tax revenue received and reductions in FTES. Any additional corrections determined by the State are recorded in the year computed by the State.

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

PROPERTY TAXES

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent if paid after December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County of Mendocino and the County of Lake bill and collect the taxes for the District.

BUDGET 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 that are awarded during the year and miscellaneous changes to the spending plans. The District's governing board approves revisions to the budget.

ON-BEHALF PAYMENTS

GASB Statement 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) on behalf of all Community College Districts in California. These payments are included in employee benefits expense and other non-operating revenues.

RECLASSIFICATIONS

Certain reclassifications have been made to prior year amounts to conform with current year presentation.

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DISCRETELY PRESENTED COMPONENT UNIT – FOUNDATION

ORGANIZATION

The Mendocino College Foundation, Inc. (Foundation), a component unit included in the reporting entity of the Mendocino-Lake Community College District (District), is a non-profit organization. It was founded during the 1984/1985 year to strengthen student services by providing student scholarships, enriching instruction and basic skills, as well as enhancing program and staff development. Its goal is to promote and develop a mutually beneficial relationship between the College and the community. Because of the education nature of its activities, it has been granted tax exempt status under section 501(c)(3) of the U.S. Internal Revenue Code.

BASIS OF PRESENTATION

These financial statements, which are presented on the accrual basis of accounting, have been prepared to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions into three classes - unrestricted, temporarily restricted or permanently restricted, as follows:

- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations.

- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or the passage of time. When the time restriction stipulation ends or when funds are expended for intended purposes, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

INCOME TAXES

The Foundation operates under Section 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code and is exempt from federal and state income taxes. Accordingly, no provision for income taxes is included in the financial statements. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Funds invested in the County Treasurer's investment pool are considered cash equivalents and are recorded at the value of the pool shares held, which approximates the fair value of the underlying cash and investments of the pool.

INVESTMENTS

Investments are reported at fair value based on quoted market prices with realized and unrealized gains or losses reported in the statement of activities.

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LOAN TO DISTRICT

This amount consisted of a non-interest bearing loan to the District for stadium seating. The loan was repaid in full during the year from the proceeds of athletic event ticket sales.

CAPITAL ASSETS

Expenditures for maintenance and repairs are charged to expense as incurred. Major improvements are capitalized. Property and equipment are recorded at cost on the date of acquisition or fair value at time of donation.

ASSETS HELD BY OTHERS

Assets held by others represent amounts held by Community College League of California (League) for the Foundation. The League facilitated two gift annuities for the Foundation. The amount recorded approximates the net present value of the future benefit to be received by the Foundation.

ENDOWMENT INVESTMENT AND SPENDING POLICIES

The Foundation’s endowment consists of the Evelyn Foote Fund and gift annuities that will create a perpetual scholarship fund when the Foundation receives the residual of the annuities, sometime in the future. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as enacted by the State of California, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment.

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ENDOWMENT INVESTMENT AND SPENDING POLICIES (Continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation’s investment policies.

Investment Return Objectives, Risk Parameters and Strategies – The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return, over time, of approximately 8% for the Foundation Trust Fund and 7% for the Evelyn Foote Fund annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy – The Foundation has a policy of appropriating for distribution each year 5% for the Foundation Trust Fund and 4% for the Evelyn Foote Fund. These percentages are applied to each fund’s 12-quarter rolling average fair market value. In establishing this policy, the Foundation considers the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ENDOWMENT INVESTMENT AND SPENDING POLICIES (Continued)

Spending Policy (Continued)

current spending policy to allow its endowment funds to grow at a nominal average rate of 3% annually, which is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

CONTRIBUTIONS

The Foundation recognizes contributions from unconditional promises to give when such promises are made if the amounts can be reasonably determined. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions are available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give that are to be received in future years are discounted at the Foundation's risk free rate of return.

DONATED ASSETS

Donated marketable securities and other noncash donations (gift annuities) are recorded as contributions at their estimated fair values at the date of donation.

DONATED SERVICES

Donated services are recognized as contributions in accordance with FASB ASC Subtopic 958-605, *Not-for-Profit Entities – Revenue Recognition*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS

The cash and investments as of June 30, 2010 and 2009, are displayed on the statement of net assets as follows:

	June 30, 2010	June 30, 2009
District:		
Current:		
Cash and cash equivalents	$ -	$ 731,105
Restricted cash and cash equivalents	145,641	1,165,697
Investments	1,129,379	1,122,017
Noncurrent:		
Restricted cash and cash equivalents	18,012,633	29,385,267
Total cash and investments	$ 19,287,653	$ 32,404,086
Foundation:		
Cash and cash equivalents	$ 60,648	$ 26,611
Investments	5,472,283	5,253,213
Total cash and investments	$ 5,532,931	$ 5,279,824

Deposits – At June 30, 2010 and 2009, the carrying amount of the District's and Foundation's deposits are summarized as follows:

	June 30, 2010	June 30, 2009
District:		
Cash in County Treasury	$ 17,803,898	$ 25,835,682
Cash on hand and in banks	354,376	5,446,387
Total deposits	$ 18,158,274	$ 31,282,069
Foundation:		
Cash in County Treasury	$ 60,648	$ 26,611
Total deposits	$ 60,648	$ 26,611

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS
(Continued)

As provided for by *Education Code*, Section 41001, a significant portion of the District's cash balances of most funds is deposited with the Mendocino County Treasurer for the purpose of increasing interest earned through County investment activities. The County Treasury's Pooled Money Investment account's weighted average maturities was 0.997 and 0.50 years at June 30, 2010 and 2009, respectively.

Copies of the County's audited financial statements can be obtained from the Mendocino County Auditor-Controller's Office, 501 Low Gap Road, Ukiah, California 95482.

The pooled treasury has regulatory oversight from the Mendocino County Treasury Oversight Committee in accordance with *California Government Code* requirements.

All cash held by financial institutions is collateralized by securities that are held by the broker or dealer, or by its trust department or agent, but not in the District's name. In addition, $213,047 and $240,321 of the District bank balances at June 30, 2010 and 2009, respectively, are insured.

Investments – The District's investment policy is consistent with California Government Code as it relates to investment vehicles. The District's investment policy authorizes it to invest in the following:

- Local Agency Investment Fund (LAIF)
- County Treasurer
- Time Certificates of Deposit further limited to:
    - One hundred thousand dollars per financial institution
    - Financial institutions insured by:
        - Federal Savings and Loan Insurance Corporation and/or
        - Federal Deposit Insurance Corporation
    - Financial institutions that are licensed
    - Financial institutions with offices within California
- Other high quality investments as allowed by state law

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS
(Continued)

The Foundation's investment policy specifies the following allowable assets:

Cash Equivalents:
- Treasury Bills
- Money Market Funds
- Commercial Paper
- Banker's Acceptance
- Repurchase Agreements
- Certificates of Deposits

Fixed Income Securities:
- U.S. Government and Agency Securities
- Corporate Notes and Bonds
- Preferred Stock
- Fixed Income Securities of Foreign Governments and Corporations

Equity Securities:
- Common Stock
- Convertible Notes and Bonds
- Convertible Preferred Stock
- Stocks of Non U.S. Companies

Mutual Funds:
- Mutual Funds which invest in securities allowed in this policy

REITs (Real Estate Investment Trusts)

The Foundation's policy limits investments in bonds to those rated BBB (or equivalent) or better, and commercial paper investments to those with A1 (or equivalent) or better ratings. Both of these limits can be overridden by approval of the Foundation's Finance Committee. Money market funds selected shall contain securities whose credit ratings at the absolute minimum would be rated investment grade by Standard and Poor's, and/or Moody's.

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS
(Continued)

As of June 30, 2010 and 2009, the District's and Foundation's investments are as follows:

	June 30, 2010	June 30, 2009
District:		
Investment in LAIF	$ 1,129,379	$ 1,122,017
Total investments	$ 1,129,379	$ 1,122,017
Foundation:		
Money market funds	$ 179,612	$ 279,456
Mutual funds	5,292,671	4,973,757
Total investments	$ 5,472,283	$ 5,253,213

The District invests funds in the State Treasurer's Pooled Money Investment Account (PMIA) through the Local Agency Investment Fund (LAIF), a voluntary program created by statute in 1977. The PMIA has regulatory oversight from the Pooled Money Investment Board and an in-house Investment Committee. The Local Agency Investment Advisory Board has oversight of LAIF. The fair value of the District's position in the pool is materially equivalent to the value of pool shares.

In accordance with authorized investment laws, the State Treasurer's Investment Pool (LAIF) invests in various structured notes and mortgage-backed securities, such as collateralized mortgage obligations. As of June 30, 2010 and 2009, 5.42% and 13.23%, respectively, of LAIF's investment portfolio was invested in structured notes and other asset-backed securities. (Copies can be obtained from the Local Agency Investment Fund, P.O. Box 942809, Sacramento, CA 94209.) PMIA's weighted average maturities was 235.59 days and 223.17 days at June 30, 2010 and 2009, respectively.

Risk Information – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. California Government Code Section 53601 limits the District's investments to maturities of five years.

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS
(Continued)

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. This is measured by ratings assigned by nationally-recognized organizations. The District's investment policy addresses credit risk by limiting its investment types as noted above to investments authorized by California Government Code. The District's investment in the county investment pool and LAIF funds are unrated.

Concentration risk is defined as positions of 5% or more in the securities of a single issuer. The District's investment policy allows investments in single issuer greater than 5%. However, the District complies with California Government Codes related to the concentration of investments and there are no investments with any one issuer greater than 5 percent of total investments.

Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g., financial institution, broker-dealer) to a transaction, a government will not be able to recover the value of its cash and investments or collateral securities that are in the possession of another party.

For deposits, the *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an entity's deposits. California law also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an entity's total deposits.

For investments, the District addresses this risk by limiting its investment types as noted above to investments authorized by *California Government Code*.

(Continued on following page)

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2010 and 2009, consist of the following:

District:	June 30, 2010	June 30, 2009
Tuition and fees	$ 179,640	$ 18,120
Federal grants and contracts	313,159	240,676
State grants and contracts	221,375	152,669
State apportionment	3,196,122	2,489,269
Auxiliaries	5,109	16,761
Other	124,710	179,946
Total	$ 4,040,115	$ 3,097,441

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, is summarized as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable assets:					
Land	$ 4,326,950	$ 1,030,822	$ -	$ -	$ 5,357,772
Equipment in progress	3,409,483	495,642	-	(2,727,586)	1,177,539
Construction in progress	3,273,472	4,995,637	-	(746,388)	7,522,721
Nondepreciable capital assets	$ 11,009,905	$ 6,522,101	$ -	$ (3,473,974)	$ 14,058,032
Depreciable assets:					
Buildings and improvements	$ 44,540,888	$ 5,985,468	$ -	$ 746,388	$ 51,272,744
Equipment	1,361,019	69,024	-	2,727,586	4,157,629
	45,901,907	6,054,492	-	3,473,974	55,430,373
Less accumulated depreciation:					
Buildings and improvements	17,942,913	1,084,296	-	-	19,027,209
Equipment	871,846	439,815	-	-	1,311,661
	18,814,759	1,524,111	-	-	20,338,870
Depreciable capital assets, net	$ 27,087,148	$ 4,530,381	$ -	$ 3,473,974	$ 35,091,503

There was no activity in the Foundation capital assets for the year ended June 30, 2010.

(Continued on following page)

NOTE 4 CAPITAL ASSETS
(Continued)

Capital asset activity for the year ended June 30, 2009, is summarized as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable assets:					
Land	$ 4,291,778	$ 35,172	$ -	$ -	$ 4,326,950
Equipment in progress	2,188,989	1,220,494	-	-	3,409,483
Construction in progress	712,045	2,561,427	-	-	3,273,472
Nondepreciable capital assets	$ 7,192,812	$ 3,817,093	$ -	$ -	$ 11,009,905
Depreciable assets:					
Buildings and improvements	$ 44,419,012	$ 121,876	$ -	$ -	$ 44,540,888
Equipment	1,087,035	273,984	-	-	1,361,019
	45,506,047	395,860	-	-	45,901,907
Less accumulated depreciation:					
Buildings and improvements	17,029,607	913,306	-	-	17,942,913
Equipment	752,235	119,611	-	-	871,846
	17,781,842	1,032,917	-	-	18,814,759
Depreciable capital assets, net	$ 27,724,205	$ (637,057)	$ -	$ -	$ 27,087,148

There was no activity in the Foundation capital assets for the year ended June 30, 2009.

NOTE 5 ACCOUNTS PAYABLE

Accounts payable at June 30, 2010 and 2009, consist of the following:

	June 30, 2010	June 30, 2009
District:		
Accrued payroll and related liabilities	$ 38,641	$ 13,648
Accrued interest	638,765	496,555
Construction projects	1,114,816	276,328
Vendor and other payables	398,835	419,154
Total	$ 2,191,057	$ 1,205,685

(Continued on following page)

NOTE 6 DEFERRED REVENUE

Deferred revenue at June 30, 2010 and 2009, consist of the following:

	June 30, 2010	June 30, 2009
Tuition and fees	$ 251,977	$ 161,809
Trust account	-	48,018
State grants and contracts	142,074	937,845
Local grants and contracts	15,280	23,101
Other	1,382	933
Total	$ 410,713	$ 1,171,706

NOTE 7 LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2010:

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term debt:				
General obligation bonds	$ 31,050,073	$ -	$ 779,416	$ 30,270,657
Other long-term liabilities:				
Capital lease	$ 4,951,320	$ -	$ -	$ 4,951,320
Compensated absences	873,442	-	63,149	810,293
Other post employment benefit obligation	11,359	12,374	-	23,733
Total other long-term liabilities	$ 5,836,121	$ 12,374	$ 63,149	$ 5,785,346

(Continued on following page)

NOTE 7 LONG-TERM LIABILITIES
(Continued)

The following is a summary of changes in long-term liabilities for the year ended June 30, 2009:

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term debt:				
General obligation bonds	$ 31,292,403	$ -	$ 242,330	$ 31,050,073
Other long-term liabilities:				
Capital lease	$ -	$ 4,951,320	$ -	$ 4,951,320
Compensated absences	825,563	47,879	-	873,442
Other post employment benefit obligation	-	11,359	-	11,359
Total other long-term liabilities	$ 825,563	$ 5,010,558	$ -	$ 5,836,121

Long-term debt consists of the following obligations at June 30, 2010:

General Obligation Bonds

	2010	2009
2007 General Obligation Bonds Series A, issued in the original amount of $30,000,000. Final maturity 2031. Interest rates range from 4.00% to 5.00%.	$ 28,350,000	$ 29,050,000
Premium on general obligation bonds	1,920,657	2,000,073
Net general obligation bonds	30,270,657	31,050,073
Less current portion	815,000	700,000
Total noncurrent portion	$ 29,455,657	$ 30,350,073

(Continued on following page)

NOTE 7 LONG-TERM LIABILITIES
(Continued)

The annual debt service requirements to maturity on the long-term debt issues are as follows:

Year Ended June 30,	Bonds Principal	Bonds Interest	Bonds Total	Bond Premium	Total
2011	$ 815,000	$ 1,374,450	$ 2,189,450	$ 85,461	$ 2,274,911
2012	145,000	1,355,250	1,500,250	89,619	1,589,869
2013	210,000	1,348,150	1,558,150	94,164	1,652,314
2014	280,000	1,338,350	1,618,350	99,131	1,717,481
2015	360,000	1,325,550	1,685,550	104,568	1,790,118
2016 – 2020	3,320,000	6,277,675	9,597,675	575,036	10,172,711
2021 – 2025	6,370,000	5,081,750	11,451,750	527,772	11,979,522
2026 – 2030	10,850,000	2,962,500	13,812,500	324,492	14,136,992
2031 – 2032	6,000,000	306,750	6,306,750	20,414	6,327,164
Total	$ 28,350,000	$ 21,370,425	49,720,425	1,920,657	51,641,082
Less interest			21,370,425	-	21,370,425
Net principal			$ 28,350,000	$ 1,920,657	$ 30,270,657

Capital Lease Obligation

2009 Capital Lease issued in the original amount of $4,951,320. Final maturity February, 2021. Interest rate 5.020%.	$ 4,951,320

The annual debt service requirements to maturity on the capital lease obligation are as follows:

Year Ended June 30,	Principal	Interest	Total
2011	$ 416,621	$ 301,154	$ 717,775
2012	650,423	212,861	863,284
2013	692,943	179,243	872,186
2014	738,143	143,429	881,572
2015	599,146	106,451	705,597
2016 – 2020	1,583,078	285,983	1,869,061
2021	270,966	5,126	276,092
Total	$ 4,951,320	$ 1,234,247	$ 6,185,567

(Continued on following page)

NOTE 7 LONG-TERM LIABILITIES
(Continued)

OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

The District's actuarially determined annual required contributions for the years ended June 30, 2010 and 2009, was $470,447 each year, and contributions made by the District during the years were $458,073 and $459,088, respectively, which resulted in a net OPEB obligation of $23,733 and $11,359 for June 30, 2010 and 2009, respectively. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefit plan.

NOTE 8 PENSION PLANS

Qualified employees are covered under cost-sharing multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System, and classified employees are members of the Public Employees' Retirement System.

A. Plan Descriptions and Provisions

1. *State Teachers' Retirement System (STRS)*

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more in a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). Since January 1, 1999, both of these plans have been part of the State Teachers' Retirement Plan (STRP), a cost-sharing, multiple-employer contributory public employee retirement system. The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

(Continued on following page)

NOTE 8 PENSION PLANS
(Continued)

A. Plan Descriptions and Provisions (Continued)

1. *State Teachers' Retirement System (STRS)*

The STRP, a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRP the employee is in, post-retirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for “normal” retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. While early retirement can reduce the 2 percent factor used at age 60, service of 30 or more years will increase the percentage age factor to be applied.

Disability benefits are generally the maximum of 50 percent of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90 percent of final compensation. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member’s employment is terminated, the accumulated member contributions are refundable.

The features of the CB Benefit Program include immediate vesting, variable contribution rates that can be bargained, guaranteed interest rates, and flexible retirement options. Participation in the CB benefit plan is optional; however, if the employee selects the CB benefit plan and their basis of employment changes to half time or more, the member will automatically become a member of the DB Plan.

2. *California Pubic Employees' Retirement System (CalPERS)*

All full-time classified employees participate in the CalPERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The Mendocino-Lake Community

(Continued on following page)

NOTE 8 PENSION PLANS
(Continued)

A. Plan Descriptions and Provisions (Continued)

2. *California Pubic Employees' Retirement System (CalPERS)* (Continued)

College District is part of a "cost-sharing" pool within CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit.

Retirement compensation is reduced if the plan is coordinated with Social Security. Retirement after age 55 will increase the percentage rate to a maximum of 2.5 percent at age 63 with an increased rate. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest credited through the date of separation.

The Public Employees' Retirement Law (Part 3 of the *California Government* Code, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

B. Funding Policy

STRS: Active plan members are required to contribute 8.0% of their gross salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Board based upon recommendations made by the consulting actuary. The required employer contribution rate for the fiscal year ended June 30, 2010 and 2009, was 8.25% of annual payroll for regular employees and 8.827% of annual payroll for reduced workload employees. The contribution requirements of the plan members are established by State statutes.

(Continued on following page)

NOTE 8 PENSION PLANS
(Continued)

B. Funding Policy (Continued)

CalPERS: Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2010 and 2009, was 9.709% and 9.428%, respectively, of annual payroll. The contribution requirements of the plan members are established by State statutes.

The District's required contributions for the last four years are as follows:

	Year Ended June 30,			
	2007	2008	2009	2010
STRS	$ 574,379	$ 605,724	$ 597,233	$ 565,974
PERS	424,770	519,780	520,037	512,775
Total	$ 999,149	$ 1,125,504	$ 1,117,270	$ 1,078,749

All contributions were made in accordance with actuarially determined requirements and equal 100% of the required contribution for each year.

The State of California makes contributions to CalSTRS on behalf of the District equaling approximately 4.517% of covered members' gross salaries. The contribution for the years ending June 30, 2010, 2009 and 2008 are estimated to have been $331,643, $314,481 and $275,261, respectively. A contribution to CalPERS was not required for the years ended June 30, 2010, 2009 and 2008. The payment amounts have been reflected in the basic financial statements as a component of employee benefits expense and other non-operating revenues.

NOTE 9 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 disallowance under terms of the grants, management believes that any required reimbursements will not be material.

(Continued on following page)

NOTE 10 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District provides for these risks through combinations of self insurance mechanisms and the purchase of commercial insurance. The District established the self insurance reserve to account for and finance uninsured risks of loss. The self insurance program provides coverage up to a maximum of $5,000,000 for each general liability and property claim. Settled claims resulting from these programs have not exceeded insurance coverage in any of the past three fiscal years.

While the ultimate outcome of the costs of self insurance through year-end is dependent on future developments, management believes that the aggregate amounts paid to the third party administrators together with the reserves on hand and excess coverage as provided are adequate to cover the District's losses, including claims that have been incurred but not reported (IBNR).

Health Benefit Program

The District's health benefits include partially self-funded medical benefits and fully self-funded dental and vision benefits, which are the same for all eligible participants. Stop loss insurance is purchased each year for the partially self-funded medical benefits that provides coverage in excess of a $60,000 specific deductible, in addition to a $100,000 corridor. The District's provision for IBNR claims shown below represents the estimated cost of settling self insurance medical claims. The provision for IBNR claims was established by an outside actuary using accepted actuarial methods, which consider the effects of inflation and other economic factors to determine the ultimate cost.

	Deposits/ (Claims Payable) Beginning Balance	Current Year Claims and Changes in Estimates	Current Year Claim Payments	Deposits/ (Claims Payable) Ending Balance
2009 – 2010	$ (227,635)	$ (3,555,524)	$ 4,026,115	$ 242,956
2008 – 2009	$ (211,659)	$ (2,990,977)	$ 2,975,001	$ (227,635)
2007 – 2008	$ (191,944)	$ (2,877,979)	$ 2,858,264	$ (211,659)

(Continued on following page)

NOTE 10 RISK MANAGEMENT
(Continued)

Joint Powers Authorities

The District participates in two joint powers authority (JPA) entities: the Northern California Community College Self Insurance Authority (NCCCSIA) and the Schools Insurance Group Northern Alliance (SIGNAL). The relationship between the District and the JPAs is such that neither of the JPAs is a component unit of the District for financial reporting purposes. Current condensed financial information relating to these JPAs is not available.

NCCCSIA arranges and provides for the operation of a common risk management program covering property, liability and workers' compensation exposures. The membership includes eleven community college districts throughout Northern California.

Until June 30, 1994, the District participated in Schools Insurance Group Northern Alliance (SIGNAL) which is a Joint Powers Authority organized in accordance with Title 1, Division 7, Chapter 5, Article 1 of the California Government Code. The purpose of the organization is to jointly provide for a self-insurance plan and system for workers' compensation claims against the member public educational agencies. SIGNAL is under the control and direction of a Board of Directors consisting of representatives of the member Districts. An Executive Committee controls the daily operations of SIGNAL independent of any influence by the District beyond the District's participation on the Board of Directors.

Member contributions are based on rates established by the Joint Powers Authority's Board of Directors. The Board sets member contribution rates based on actual historical loss experience statistics. Experience modification factors are computed for each member based on the guidelines of the Workers' Compensation Insurance Rating Bureau of California.

Commencing with the 1994/1995 year, the District elected to transfer workers' compensation coverage from SIGNAL to NCCCSIA. However, the liability for all events incurred prior to July 1, 1994 as well as the District's residual equity to that date remains with SIGNAL.

(Continued on following page)

NOTE 11 POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATION

The District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

A. Plan Description

The Mendocino-Lake Community College District Health Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical insurance benefits to eligible retirees and their spouses. Membership of the Plan consist of 36 retirees receiving benefits and 164 active plan members.

B. Funding Policy

The contribution requirements are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually. For the years ended June 30, 2010 and 2009, the District contributed $458,073 and $459,088, respectively to the Plan.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement No. 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 accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan.

	2010	2009
Annual required contribution	$ 470,447	$ 470,447
Contributions made	(458,073)	(459,088)
Increase in net OPEB obligation	12,374	11,359
Net OPEB obligation, beginning of the year	11,359	-
Net OPEB obligation, end of year	$ 23,733	$ 11,359

(Continued on following page)

NOTE 11 POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATION
(Continued)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal 2010 and 2009 is as follows:

	2010	2009
Annual OPEB cost	$ 470,447	$ 470,447
Percentage of annual OPEB costs contributed	95%	98%
Net OPEB obligation	$ 23,733	$ 11,359

D. Funded status information

The District's funding status information is illustrated as follows:

Actuarial valuation date	January 1, 2008
Actuarial accrued liability (AAL)	$ 4,313,494
Actuarial value of plan assets	$ -
Unfunded AAL (UAAL)	$ 4,313,494
Funded ratio	0%
Covered payroll	$ 9,801,241
UAAL as a percentage of covered payroll	44%

E. Actuarial Methods and Assumptions

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

(Continued on following page)

NOTE 11 POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATION
(Continued)

E. Actuarial Methods and Assumptions (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing benefits costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the April 9, 2008 actuarial valuation, the entry-age normal cost method was used. The actuarial assumptions included a 5.0% discount rate based on the assumption that a substantial portion of the ARC is funded. A 3.0% price inflation and a 3.0% wage inflation assumptions were used as well as an annual cost trend rate of 4.0%. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are a level percent of payroll over a 30-year period.

(Continued on following page)

NOTE 12 FUNCTIONAL EXPENSES

The following represents the functional presentation of total operating expenses of the District. The District allocates expenses to function based on departments as provided for in the *California Community College Budget and Accounting Manual*.

The functional expenses classifications for the year ended June 30, 2010 is as follows:

	Salaries	Employee Benefits	Supplies Materials and Other Expenses and Services	Depreciation and Amortization	Total
Instructional activities	$ 6,838,296	$ 2,478,472	$ 352,663	$ -	$ 9,669,431
Academic support	1,554,665	635,146	668,615	-	2,858,426
Student services	2,049,117	867,468	502,108	-	3,418,693
Plant operations and maintenance	898,782	514,748	831,674	-	2,245,204
Planning policy making and general institutional support	1,744,713	983,867	939,691	-	3,668,271
Community services	42,326	14,879	52,120	-	109,325
Ancillary services and auxiliary operations	572,191	221,169	227,902	-	1,021,262
Student Aid	-	-	4,432,896	-	4,432,896
Physical property and related acquisitions	101,678	23,501	630,157	-	755,336
Depreciation and amortization	-	-	-	1,524,111	1,524,111
Total	$ 13,801,768	$ 5,739,250	$ 8,637,826	$ 1,524,111	$ 29,702,955

(Continued on following page)

NOTE 12 FUNCTIONAL EXPENSES
(Continued)

The functional expenses classifications for the year ended June 30, 2009 is as follows:

	Salaries	Employee Benefits	Supplies Materials and Other Expenses and Services	Depreciation and Amortization	Total
Instructional activities	$ 7,406,003	$ 2,252,615	$ 622,771	$ -	$ 10,281,389
Academic support	1,414,610	538,715	272,626	-	2,225,951
Student services	2,172,998	814,087	400,790	-	3,387,875
Plant operations and maintenance	962,467	496,105	1,180,333	-	2,638,905
Planning policy making and general institutional support	1,693,274	910,640	1,393,421	-	3,997,335
Community services	36,715	13,508	27,413	-	77,636
Ancillary services and auxiliary operations	798,367	259,582	1,107,513	-	2,165,462
Student Aid	-	-	3,311,849	-	3,311,849
Physical property and related acquisitions	116,540	31,960	844,500	-	993,000
Depreciation and amortization	-	-	-	1,032,917	1,032,917
Total	$ 14,600,974	$ 5,317,212	$ 9,161,216	$ 1,032,917	$ 30,112,319

NOTE 13 COMMITMENTS

The District has outstanding construction commitments related to the Proposition 39 Bond Funds of $17,516,890 at June 30, 2010.

(Continued on following page)

NOTE 14 TEMPORARILY RESTRICTED NET ASSETS – FOUNDATION

Temporarily restricted net assets consist of the following individual contributions at June 30, 2010:

<u>Yvonne Sligh Book Award</u>		
The Foundation established the Yvonne Sligh Book Award in recognition of Mendocino College librarian Yvonne Sligh's contributions to the college. Eligible students receive a voucher in the amount of $125 to purchase textbooks at the Mendocino College bookstore. To be eligible they cannot be receiving financial aid, a BOG fee waiver, or any other Mendocino College scholarship.	$	6,781
<u>Adopt a Fifth Grader</u>		
The program was established during the 2007/08 fiscal year by donors donating funds to the program. The donors give the Foundation $700 to adopt a fifth grade student. The student will receive $500 upon graduation from high school or $1,000 if they enroll at Mendocino College as a full-time student after graduating high school.		24,425
<u>Koeninger Fund</u>		
The Fund was established during the 2007/08 fiscal year by a donation received from Mary Lou and Wade Koeninger to fund a program whereby each June a fifth grader attending Hopland Elementary is awarded $25. The student will then receive $500 upon graduation from high school, or $1,000 if they enroll at Mendocino College as a full-time student after graduating high school. The donation also funds an annual $500 donation through 2012 for each of the MESA and EOPS programs. In addition, the donation funds an annual $1,000 donation through 2012 to a college activity as chosen by the Superintendent/President of Mendocino College.		19,000
<u>Nursing Scholarship Fund</u>		
The Fund was established by donations from the Kathleen Kohn Fetzer Family Foundation and Doug Atkinson and is restricted for scholarships to nursing students.		7,665

(Continued on following page)

NOTE 14 TEMPORARILY RESTRICTED NET ASSETS – FOUNDATION (Continued)

Evelyn Foote Trust

See Note 6 Endowments for explanation.		109,306
Total temporarily restricted net assets	$	167,177

NOTE 15 ENDOWMENTS – FOUNDATION

Evelyn Foote Trust

Beginning in 1992 and continuing over subsequent years, the Foundation received major contributions from the Evelyn Foote Remainder Annuity Trust for a total amount of $803,542. The trust stipulated that the contributions shall be used to establish a perpetual fund in Ms. Foote's name and income from the fund shall be distributed annually to supplement extracurricular programs or scholarships to benefit District students.

The Foundation has determined the trust document does not consider unrealized gains and losses as income that becomes available for annual distribution.

Gift Annuity

The Foundation is the beneficiary of gift annuities funded during the current and prior years. At the end of the donor's life, the Foundation will receive the residual of the assets used to create the annuities. The amounts have been restricted by the donor to fund a scholarship endowment.

Hulda and Alfred Weger Scholarship

During fiscal year 2009/10, Hulda Weger donated $25,000 to be used for annual scholarships. The $25,000 generates a permanent $1,000 per year scholarship to benefit Ukiah High School graduates who attend Mendocino College.

Anonymous Perpetual Scholarship

In June of 2009, a donor who wished to remain anonymous donated $3,000. The intention is to increase this amount to $25,000 to establish a perpetual scholarship to benefit students in certain science related fields of study. The details of this scholarship are currently being developed.

(Continued on following page)

NOTE 15 ENDOWMENTS – FOUNDATION
(Continued)

Foundation Trust Fund

The Foundation manages the perpetual scholarship funds as well as all the funds described in Note 5 (the temporarily restricted funds) in the Foundation Trust Fund. In addition to these amounts, the Foundation Trust Fund holds other amounts as a general endowment to support the mission of the Foundation. These "other" amounts accumulated in the Foundation Trust Fund resulted from internal designations and not donor-restricted contributions; accordingly these amounts are classified and reported as unrestricted net assets.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Foundation Trust Fund	$ 4,473,564	$ 57,871	$ 28,000	$ 4,559,435
Evelyn Foote Fund	-	109,306	803,542	912,848
Gift Annuity Fund	-	-	56,282	56,282
Total endowment at June 30, 2010	$ 4,473,564	$ 167,177	$ 887,824	$ 5,528,565
Endowment net assets, beginning of year	$ 4,372,256	$ 77,415	$ 856,407	$ 5,306,078
Contributions	-	72,601	31,417	104,018
Interest and dividends	137,615	24,808	-	162,423
Net realized gains/(losses)	(32,327)	(55,321)	-	(87,648)
Net unrealized gains/(losses)	322,122	132,548	-	454,670
Amounts appropriated for expenditure	(326,102)	(84,874)	-	(410,976)
Endowment net assets, end of year	$ 4,473,564	$ 167,177	$ 887,824	$ 5,528,565

From time to time, the fair value of assets associated with individual donor designated endowment funds may fall below the level the donor requires the Foundation to retain, over the long term, as a fund of perpetual duration. There were no deficiencies of this nature at June 30, 2010.

(Continued on following page)

NOTE 16 FAIR VALUE MEASUREMENTS – FOUNDATION

Fair values of assets measured on a recurring basis at June 30, 2010 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 179,612	$ 179,612	$ -	$ -
Mutual funds	5,292,671	5,292,671	-	-
Assets held by others	56,282	-	-	56,282
Total	$ 5,528,565	$ 5,472,283	$ -	$ 56,282

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

July 1, 2009	$ 52,865
Adjustment to present value	3,417
June 30, 2010	$ 56,282

Fair value for the assets held by others (level 3) is determined by management's judgment to approximate the present value of the future distributions expected to be received.

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MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

ORGANIZATION

JUNE 30, 2010

BOARD OF TRUSTEES

Name	Office	Area	Term Expires
Ms. Janet Chaniot	President	Potter Valley	December 2013
Mr. Gerald G. DeChaine	Vice-President	Kelseyville	December 2011
Ms. Joan M. Eriksen	Clerk	Ukiah	December 2011
Mr. Paul Ubelhart	Member	Willits	December 2011
Ms. Ed Haynes	Member	Ukiah	December 2013
Mr. Joel Clark	Member	Hopland	December 2011
Mr. John Tomkins	Member	Lucerne	December 2013

ADMINISTRATION

Name	Office
Ms. Kathryn G. Lehner	Superintendent/President
Mr. Larry Perryman	Vice President of Administrative Services
Ms. Meridith Randall	Vice President of Education and Student Services

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Disbursements/ Expenditures
Department of Agriculture:		
Passed through State Department of Education -		
Child and Adult Care Food Program	10.558	$ 33,615
Forest Reserve	10.665	62,955
Total Department of Agriculture		96,570
Department of Education:		
Financial Aid Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	62,400
Federal Direct Student Loans	84.268	4,151
Federal Work-Study Program	84.033	62,318
Federal Pell Grant Program	84.063	4,002,913
Academic Competitiveness Grants	84.375	29,891
Federal Family Education Loans Program	84.032	-
Passed through State Department of Education -		
Vocational Education - Basic Grants to States	84.048	252,741
Indian Education	84.060	11,150
CAMP	84.149A	156,600
State Fiscal Stabilization Fund - Recovery Act	84.394	115,777
Migrant Education High School Equivalency Program	84.141A	360,711
Total Department of Education		5,058,652
Corporation for National and Community Service:		
Passed through State Department of Education -		
AmeriCorps	94.006	55,879
Total Corporation for National and Community Service		55,879
Total Federal Expenditures		$ 5,211,101

The accompanying notes to the supplementary information are an integral part of this supplementary information.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE AWARDS

YEAR ENDED JUNE 30, 2010

Program Name	Program Revenues: Cash Received	Program Revenues: Increase (Decrease) Accounts Receivable	Program Revenues: (Increase) Decrease in Deferred Revenue	Program Revenues: Total	Total Program Expenditures
DSPS	$ 262,983	$ 28,516	$ -	$ 291,499	$ 291,499
EOPS	253,873	20,609	51,819	326,301	326,301
Child Development Center	365,411	7,217	(13,793)	358,835	358,835
RN Capacity Grant	154,725	(6,007)	-	148,718	148,718
Matriculation	131,144	11,404	-	142,548	142,548
Cal Grant	269,348	3,464	-	272,812	272,812
SFAA	159,915	13,906	-	173,821	173,821
CalWORKs	122,247	10,630	-	132,877	132,877
MESA	89,574	(23,235)	-	66,339	66,339
Foster Parent	93,529	(9,079)	-	84,450	84,450
CARE	38,579	3,355	-	41,934	41,934
IME	8,000		(509)	7,491	7,491
CTE	-	-	690,022	690,022	690,022
Telecommunications	-	-	2,422	2,422	2,422
TANF	85,917	3,340	-	89,257	89,257
Basic Skills	82,800	-	15,218	98,018	98,018
PT Faculty Compensation	52,730	4,585	-	57,315	57,315
All other aid programs	(2,484)	-	4,816	2,332	2,332
Total State Grants Non-Capital	2,168,291	68,705	749,995	2,986,991	2,986,991
Instructional Equipment	-	-	5,231	5,231	5,231
Scheduled Maintenance	-	-	33,420	33,420	33,420
Total State Grants Capital	-	-	38,651	38,651	38,651
Total State Programs	$ 2,168,291	$ 68,705	$ 788,646	$ 3,025,642	$ 3,025,642

The accompanying notes to the supplementary information are an integral part of this supplementary information.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR
STATE GENERAL APPORTIONMENT

ANNUAL (ACTUAL) ATTENDANCE AS OF JUNE 30, 2010

Categories	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2009 Only)			
1. Noncredit	4.76		4.76
2. Credit	133.55		133.55
B. Summer Intersession (Summer 2010 Prior to July 1, 2010)			
1. Noncredit	-		-
2. Credit	5.00		5.00
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	2,161.53		2,161.53
(b) Daily Census Contact Hours	223.99		223.99
2. Actual Hours of Attendance Procedures Courses			
(a) Noncredit	133.62		133.62
(b) Credit	198.92		198.92
3. Alternative Attendance Accounting Procedure			
(a) Weekly Census Procedure Courses	68.33		68.33
(b) Daily Census Procedure Courses	0.81		0.81
(c) Noncredit Independent Study/Distance Education Courses	-		-
D. Total FTES	2,930.51		2,930.51
Supplemental Information (Subset of above information)			
E. In-Service Training Courses (FTES)	-		-
H. Basic Skills Courses and Immigrant Education			
1. Noncredit	93.43		93.43
2. Credit	218.00		218.00

The accompanying notes to the supplementary information
are an integral part of this supplementary information.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL
AND BUDGET REPORT (CCFS-311)
WITH DISTRICT ACCOUNTING RECORDS

YEAR ENDED JUNE 30, 2010

	General Unrestricted Fund	General Restricted Fund	Solar Debt Service Fund	Bond Debt Service Fund
June 30, 2010 Annual Financial and Budget Report (CCFS-311) Fund Balance	$ 2,857,479	$ 189,186	$ 147,969	$ -
Adjustments and reclassifications increasing (decreasing) fund balance:				
Adjustment to record Debt Service Fund for financial statement purposes	-	-	-	1,683,525
Adjustment to remove amounts held for others	-	-	-	-
Adjustment to remove discretely presented component unit from District funds	-	-	-	-
Rounding	(1)	-	-	-
Net adjustments and reclassifications	(1)	-	-	1,683,525
June 30, 2010 District Accounting Records Fund Balance	$ 2,857,478	$ 189,186	$ 147,969	$ 1,683,525

(Continued on following page)

The accompanying notes to the supplementary information
are an integral part of this supplementary information.

Child Development Fund	Capital Outlay Projects Fund	Revenue Bond Construction Fund	Self-Insurance Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund
$ -	$ 1,155,218	$ 13,996,909	$ 1,422,322	$ 138,630	$ 30,169	$ 225,545
-	-	-	-	-	-	-
-	-	-	-	(138,629)	(30,169)	(225,545)
-	-	-	-	-	-	-
-	-	-	1	(1)	-	-
-	-	-	1	(138,630)	(30,169)	(225,545)
$ -	$ 1,155,218	$ 13,996,909	$ 1,422,323	$ -	$ -	$ -

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL
AND BUDGET REPORT (CCFS-311)
WITH DISTRICT ACCOUNTING RECORDS

YEAR ENDED JUNE 30, 2010

	Student Financial Aid Trust Fund	Scholarship and Loan Trust Fund	Other Trust Funds	Total District
June 30, 2010 Annual Financial and Budget Report (CCFS-311) Fund Balance	$ -	$ 60,059	$ 6,353,094	$ 26,576,580
Adjustments and reclassifications increasing (decreasing) fund balance:				
Adjustment to record Debt Service Fund for financial statement purposes	-	-	-	1,683,525
Adjustment to remove amounts held for others	-	(60,059)	-	(454,402)
Adjustment to remove discretely presented component unit from District funds	-	-	(6,353,094)	(6,353,094)
Rounding	-	-	-	(1)
Net adjustments and reclassifications	-	(60,059)	(6,353,094)	(5,123,972)
June 30, 2010 District Accounting Records Fund Balance	$ -	$ -	$ -	$ 21,452,608

The accompanying notes to the supplementary information
are an integral part of this supplementary information.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

COMBINING BALANCE SHEET - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

JUNE 30, 2010

	General Unrestricted Fund	General Restricted Fund	Solar Debt Service Fund	Bond Debt Service Fund
ASSETS				
Cash and cash equivalents	$ -	$ -	$ -	$ -
Restricted cash and cash equivalents	-	371,129	-	-
Investments	-	-	-	-
Accounts receivable	3,857,652	477,521	-	-
Deposits and prepaid expenses	-	840	-	-
Due from other funds	-	-	100,000	-
Total current assets	3,857,652	849,490	100,000	-
Noncurrent assets:				
Restricted cash and cash equivalents	-	-	47,969	1,683,525
Total noncurrent assets	-	-	47,969	1,683,525
Total assets	$ 3,857,652	$ 849,490	$ 147,969	$ 1,683,525
LIABILITIES				
Cash Deficiency	$ 54,135	$ -	$ -	$ -
Accounts payable	193,965	215,541	-	-
Deferred revenue	251,977	444,763	-	-
Amounts held for others	-	-	-	-
Due to other funds	500,097	-	-	-
Total liabilities	1,000,174	660,304	-	-
FUND EQUITY:				
Fund balances:				
Reserved for special purposes	-	189,186	147,969	1,683,525
Unreserved	2,857,478	-	-	-
Total fund equity	2,857,478	189,186	147,969	1,683,525
Total liabilities and fund equity	$ 3,857,652	$ 849,490	$ 147,969	$ 1,683,525

(Continued on following page)

The accompanying notes to the supplementary information
are an integral part of this supplementary information.

Child Development Fund	Capital Outlay Projects Fund	Revenue Bond Construction Fund	Self-Insurance Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund
$ -	$ -	$ -	$ -	$ -	$ -	$ -
10,554	-	-	-	138,629	29,923	225,545
-	-	-	1,129,379	-	-	-
16,357	5,858	-	-	-	246	-
-	-	-	541,407	-	-	-
97	-	-	400,000	-	-	-
27,008	5,858	-	2,070,786	138,629	30,169	225,545
-	1,169,414	15,111,725	-	-	-	-
-	1,169,414	15,111,725	-	-	-	-
$ 27,008	$ 1,175,272	$ 15,111,725	$ 2,070,786	$ 138,629	$ 30,169	$ 225,545
$ -	$ -	$ -	$ 636,063	$ -	$ -	$ -
15,341	1,611	1,114,816	11,018	-	-	-
11,667	18,443	-	1,382	-	-	-
-	-	-	-	138,629	30,169	225,545
-	-	-	-	-	-	-
27,008	20,054	1,114,816	648,463	138,629	30,169	225,545
-	1,155,218	13,996,909	1,422,323	-	-	-
-	-	-	-	-	-	-
-	1,155,218	13,996,909	1,422,323	-	-	-
$ 27,008	$ 1,175,272	$ 15,111,725	$ 2,070,786	$ 138,629	$ 30,169	$ 225,545

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

COMBINING BALANCE SHEET - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

JUNE 30, 2010

	Student Financial Aid Trust Fund	Scholarship and Loan Trust Fund	Total
ASSETS			
Cash and cash equivalents	$ -	$ -	$ -
Restricted cash and cash equivalents	-	60,059	835,839
Investments	-	-	1,129,379
Accounts receivable	-	-	4,357,634
Deposits and prepaid expenses	-	-	542,247
Due from other funds	-	-	500,097
Total assets	-	60,059	7,365,196
Noncurrent assets:			
Restricted cash and cash equivalents	-	-	18,012,633
Total noncurrent assets	-	-	18,012,633
Total assets	$ -	$ 60,059	$ 25,377,829
LIABILITIES			
Cash deficiency	$ -	$ -	$ 690,198
Accounts payable	-	-	1,552,292
Deferred revenue	-	-	728,232
Amounts held for others	-	60,059	454,402
Due to other funds	-	-	500,097
Total liabilities	-	60,059	3,925,221
FUND EQUITY:			
Fund balances:			
Reserved for special purposes	-	-	18,595,130
Unreserved	-	-	2,857,478
Total fund equity	-	-	21,452,608
Total liabilities and fund equity	$ -	$ 60,059	$ 25,377,829

The accompanying notes to the supplementary information
are an integral part of this supplementary information.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN FUND EQUITY - DISTRICT FUNDS INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2010

	General Unrestricted Fund	General Restricted Fund	Solar Debt Service Fund	Bond Debt Service Fund
OPERATING REVENUES				
Tuition and fees	$ 1,847,220	$ 118,873	$ -	$ -
Less: scholarship discount and allowance	901,735	-	-	-
Net tuition and fees	945,485	118,873	-	-
Grants and contracts, non-capital:				
Federal	185,032	770,052	-	-
State	57,315	2,265,184	-	-
Local	147,500	55,114	-	-
Auxiliary enterprise sales and charges	86,435	-	-	-
Total operating revenues	1,421,767	3,209,223	-	-
OPERATING EXPENDITURES/EXPENSES				
Salaries	11,824,324	1,526,182	-	-
Employee benefits	4,186,059	604,967	-	-
Payments to students	25,000	98,057	-	-
Supplies, materials, and other operating expenditures/expenses and services	1,676,084	866,197	-	-
Capital outlay	38,121	140,596	-	-
Utilities	645,725	-	-	-
Total operating expenditures/expenses	18,395,313	3,235,999	-	-
OPERATING INCOME (LOSS)	(16,973,546)	(26,776)	-	-
NON-OPERATING REVENUES (EXPENDITURES)				
State apportionments, non-capital	11,663,041	-	-	-
Local property taxes	5,637,150	-	-	2,294,910
State taxes and other revenues	472,316	56,210	-	-
Investment income, non-capital	8,894	-	2	2,970
Interest expense, capital assets related debt	-	-	(215,492)	(1,406,500)
Debt service - principal	-	-	-	(700,000)
Other non-operating revenues	236,742	-	47,967	-
Total non-operating revenues (expenditures)	18,018,143	56,210	(167,523)	191,380

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Child Development Fund	Capital Outlay Projects Fund	Revenue Bond Construction Fund	Self-Insurance Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund
$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
33,615	-	-	-	-	-	-
345,780	-	-	-	-	-	-
23,924	-	-	-	-	-	-
-	-	-	-	-	-	-
403,319	-	-	-	-	-	-
363,601	1,602	220,597	7,900	-	-	-
176,125	155	73,604	410,062	-	-	-
-	-	-	-	-	-	-
26,910	581	693,902	-	-	-	-
(72)	5,225,572	7,018,533	-	-	-	-
12,255	-	-	-	-	-	-
578,819	5,227,910	8,006,636	417,962	-	-	-
(175,500)	(5,227,910)	(8,006,636)	(417,962)	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
(190)	2,127	74,819	7,168	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
15,630	748,680	-	16,227	-	-	-
15,440	750,807	74,819	23,395	-	-	-

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2010

	General Unrestricted Fund	General Restricted Fund	Solar Debt Service Fund	Bond Debt Service Fund
Income (loss) before other revenues and expenditures	1,044,597	29,434	(167,523)	191,380
OTHER REVENUES AND EXPENDITURES				
State apportionments, capital	-	5,231	-	-
Excess of revenues over (under) expenditures	1,044,597	34,665	(167,523)	191,380
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	315,492	-
Operating transfers out	(870,396)	(5,156)	-	-
Total other financing sources (uses)	(870,396)	(5,156)	315,492	-
Excess of revenues and other financing sources over (under) expenditures and other financing uses	174,201	29,509	147,969	191,380
FUND EQUITY, BEGINNING OF YEAR	2,683,277	159,677	-	1,492,145
FUND EQUITY, END OF YEAR	$ 2,857,478	$ 189,186	$ 147,969	$ 1,683,525

(Continued on following page)

The accompanying notes to the supplementary information
are an integral part of this supplementary information.

Child Development Fund	Capital Outlay Projects Fund	Revenue Bond Construction Fund	Self-Insurance Fund	Associated Student Trust Fund	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund
(160,060)	(4,477,103)	(7,931,817)	(394,567)	-	-	-
-	33,420	-	-	-	-	-
(160,060)	(4,443,683)	(7,931,817)	(394,567)	-	-	-
160,060	-	-	500,000	-	-	-
-	-	-	(100,000)	-	-	-
160,060	-	-	400,000	-	-	-
-	(4,443,683)	(7,931,817)	5,433	-	-	-
-	5,598,901	21,928,726	1,416,890	-	-	-
$ -	$ 1,155,218	$ 13,996,909	$ 1,422,323	$ -	$ -	$ -

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2010

	Student Financial Aid Trust Fund	Scholarship and Loan Trust Fund	Total
OPERATING REVENUES			
Tuition and fees	$ -	$ -	$ 1,966,093
Less: scholarship discount and allowance	-	-	901,735
Net tuition and fees	-	-	1,064,358
Grants and contracts, non-capital:			
Federal	4,222,402	-	5,211,101
State	318,712	-	2,986,991
Local	-	-	226,538
Auxiliary enterprise sales and charges	-	-	86,435
Total operating revenues	4,541,114	-	9,575,423
OPERATING EXPENDITURES/EXPENSES			
Salaries	56,693	-	14,000,899
Employee benefits	5,625	-	5,456,597
Payments to students	4,478,796	-	4,601,853
Supplies, materials, and other operating expenditures/expenses and services	-	-	3,263,674
Capital outlay	-	-	12,422,750
Utilities	-	-	657,980
Total operating expenditures/expenses	4,541,114	-	40,403,753
OPERATING INCOME (LOSS)	-	-	(30,828,330)
NON-OPERATING REVENUES (EXPENDITURES)			
State apportionments, non-capital	-	-	11,663,041
Local property taxes	-	-	7,932,060
State taxes and other revenues	-	-	528,526
Investment income, non-capital	-	-	95,790
Interest expense, capital assets related debt	-	-	(1,621,992)
Debt service - principal	-	-	(700,000)
Other non-operating revenues	-	-	1,065,246
Total non-operating revenues (expenditures)	-	-	18,962,671

(Continued on following page)

The accompanying notes to the supplementary information
are an integral part of this supplementary information.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2010

	Student Financial Aid Trust Fund	Scholarship and Loan Trust Fund	Total
Income (loss) before other revenues and expenditures	-	-	(11,865,659)
OTHER REVENUES AND EXPENDITURES			
State apportionments, capital	-	-	38,651
Excess of revenues over (under) expenditures	-	-	(11,827,008)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	975,552
Operating transfers out	-	-	(975,552)
Total other financing sources (uses)	-	-	-
Excess of revenues and other financing sources over (under) expenditures and other financing uses	-	-	(11,827,008)
FUND EQUITY, BEGINNING OF YEAR	-	-	33,279,616
FUND EQUITY, END OF YEAR	$ -	$ -	$ 21,452,608

The accompanying notes to the supplementary information are an integral part of this supplementary information.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF FUND EQUITY TO NET ASSETS

JUNE 30, 2010

Total Fund Equity - District Funds Included in the Reporting Entity		$ 21,452,608
Assets recorded within the GASB 35 Statement of Net Assets not included in the District fund financial statements:		
Nondepreciable capital assets		16,785,618
Depreciable capital assets	$ 52,702,787	
Accumulated depreciation	(20,066,111)	32,636,676
Deferred costs, net		500,665
Liabilities recorded within the GASB 35 Statement of Net Assets not recorded in the District fund financial statements:		
Accounts payable:		
Interest payable		(638,765)
Claims payable		(298,451)
Long-term debt		(30,270,657)
Capital lease		(4,951,320)
Compensated absences		(810,293)
Other post employment benefit obligations		(23,733)
Net assets reported within the GASB 35 Statement of Net Assets		$ 34,382,348

The accompanying notes to the supplementary information are an integral part of this supplementary information.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF CHANGE IN FUND EQUITY
TO CHANGE IN NET ASSETS

YEAR ENDED JUNE 30, 2010

Total Net Change in Fund Equity - District Funds Included in the Reporting Entity	$(11,827,008)
Amortization of bond issuance cost reported within the GASB 35 Statements	(23,638)
Amortization of bond premium reported within the GASB 35 Statements	79,416
Claims expense reported within GASB 35 Statements	(70,816)
Compensated absence expense addition reported within GASB 35 Statements	63,149
Depreciation expense reported within GASB 35 Statements	(1,251,352)
Expenses capitalized within the GASB 35 Statements	12,576,593
Accrued interest expense for capital asset related debt reported within the GASB 35 Statements	(142,210)
Debt service principle reported within GASB 35 Statements	700,000
Additional expenses of other post employment benefits reported within the GASB 35 Statements	(12,374)
Net change in net assets reported within the GASB 35 Statement of Revenues, Expenses, and Changes in Net Assets	$ 91,760

The accompanying notes to the supplementary information
are an integral part of this supplementary information.

NOTE 1 PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards and Schedule of State Awards

The audit of the Mendocino-Lake Community College District for the year ended June 30, 2010 was conducted in accordance with OMB Circular A-133, which requires disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Expenditures of Federal Awards and Schedule of State Awards were prepared for the District.

These schedules have been prepared on the accrual basis of accounting.

Schedule of Workload Measures for State General Apportionment

The Schedule of Workload Measures for State General Apportionment Annual Attendance as of June 30, 2010, represents the basis of apportionment of the District's annual source of funding.

Reconciliation of Annual Financial and Budget Report (CCFS-311) with District Accounting Records

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Form CCFS-311 to the District Accounting Records.

NOTE 2 FEDERAL FAMILY EDUCATION LOANS PROGRAM

The District granted $781,615 in loans under the Federal Family Education Loan Program.

NOTE 3 COMBINING FINANCIAL STATEMENTS SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying Combining Balance Sheet – District Funds Included in the Reporting Entity, Combining Statement of Revenues, Expenditures/Expenses, and Changes in Fund Equity – District Funds Included in the Reporting Entity, are presented on the modified accrual basis of accounting.

(Continued on following page)

NOTE 3 COMBINING FINANCIAL STATEMENTS SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Basis of Accounting (Continued)

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable" and "available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers property taxes available if they are collected within 60 days after year end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Property taxes, franchise taxes, licenses, interest revenue and charges for services are susceptible to accrual. Other receipts become measurable and available when cash is received by the District and are recognized as revenue at that time.

The District reports deferred revenue on its combining balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

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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*

Board of Trustees
Mendocino-Lake Community College District
Ukiah, California

We have audited the financial statements of the business-type activities and the discretely presented component unit of the Mendocino-Lake Community College District (District) as of and for the years ended June 30, 2010 and 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 30, 2010. We conducted our audits 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 standards prescribed by the California Department of Finance.

Internal Control Over Financial Reporting

In planning and performing our audits, 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 entity'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 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*.

This report is intended solely for the information and use of the Board of Trustees, management, others within the entity, federal awarding agencies, California Community Colleges Chancellor's Office, California Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

November 30, 2010

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Mendocino-Lake Community College District
Ukiah, California

Compliance

We have audited the compliance of Mendocino-Lake Community College District (District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 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, 2010. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2010-1.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2010-1. 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.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the audit committee, Board of Trustees, management, others within the entity, federal awarding agencies, Chancellor's Office, California Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

November 30, 2010

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' REPORT
ON STATE COMPLIANCE REQUIREMENTS

Board of Trustees
Mendocino-Lake Community College District
Ukiah, California

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Mendocino-Lake Community College District (District) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 30, 2010.

Our audit was conducted 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the standards prescribed by the California Department of Finance and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following state laws and regulations in accordance with Section 400 of the Chancellor's Office's *California Community Colleges Contracted District Audit Manual* (CDAM):

ANNUAL COMPLIANCE FOCUS

<u>General Directives Testing Structure</u>

1. State General Apportionment Required Data Elements

<u>Administration Testing Structure</u>

1. Fiscal Operations – Salaries of Classroom Instructors: 50 Percent Law
2. Fiscal Operations – GANN Limit Calculation
3. Apportionments – Residency Determination for Credit Courses
4. Apportionments – Concurrent Enrollment of K-12 Students in Community College Credit Courses

5. Apportionments – Apportionment for Instructional Service Agreements/Contracts

6. Apportionments – Enrollment Fee

7. Apportionments – Students Actively Enrolled

8. Open Enrollment

9. Student Fee – Instructional Materials and Health Fees

Student Services Testing Structure

1. Matriculation – Uses of Matriculation Funds

2. CalWORKs – Use of State and Federal TANF Funding

Facilities

1. Scheduled Maintenance Program

Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our audit.

Our audit was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included 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. Our audit does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, except for the finding 2010-2, described in the accompanying schedule of findings and questioned costs, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2010.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the District's management, the Board of Trustees, and others within the District, California Community Colleges Chancellor's Office, California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

November 30, 2010

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

A. SUMMARY OF AUDITORS' RESULTS

1. The Independent Auditors' Report expresses an unqualified opinion on the financial statements of the Mendocino-Lake Community College District.

2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.

3. No instances of noncompliance material to the financial statements of the Mendocino-Lake Community College District which would be required to be reported in accordance with *Government Auditing Standards,* were disclosed during the audit.

4. One significant deficiency relating to the audit of the major federal award programs is reported in the Independent Auditors' Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133. This deficiency is not reported as a material weakness.

5. The independent auditors' report on compliance for the major federal award programs for the Mendocino-Lake Community College District expresses an unqualified opinion on all major programs.

6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.

7. The programs tested as major programs include: 1) Federal Supplemental Educational Opportunity Grants Program (CFDA 84.007); Federal Family Education Loans Program (CFDA 84.032); Federal Work-Study Program (CFDA 84.033); Federal Pell Grant Program (CFDA 84.063); Federal Direct Student Loans (CFDA 84.268) and Academic Competitiveness Grants (CFDA 84.375). These programs together comprise the student financial aid "cluster" program as defined in the Compliance Supplement. 2) Migrant Education High School Equivalency Program (CFDA 84.141).

8. The threshold used for distinguishing between Type A and B programs was $300,000.

9. Mendocino-Lake Community College District was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

NONE

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2010-1 – Salary Allocation

Criteria or Specific Requirement: OMB Circular A-21 requires that salaries allocated to federal programs be supported by after-the-fact time and effort reports.

Statement of Condition: The District does not have a procedure in place to support salary allocations to federal programs by the use of after-the-fact time and effort reporting.

Questioned Cost: None

Cause of Condition: Management was unaware that this procedure was necessary.

Effect of Condition: The finding represents a systemic problem. Since the procedure was not in place, the issue exists for all federal programs.

Recommendation: The District should develop a procedure to address this finding.

District Response: The District will prepare and implement a procedure to review all salary allocations from federal programs prior to each year's budget creation to ensure accuracy. These allocations will be based on after-the –fact time and effort reports from the individuals whose salaries are partially paid from federal programs. In addition, those individuals will complete time and effort reports on a quarterly basis for review by the District.

D. FINDINGS – STATE COMPLIANCE AUDIT

2010-2 – 50% Law

Criteria or Specific Requirement: California Education Code 84362 requires that a minimum of 50% of Current Expense of Education be expended for Salaries of Classroom Instructors.

Statement of Condition: The District did not meet the 50% state compliance requirement.

Questioned Cost: None

Cause of Condition: District management sited backfilling of categorical programs with General Funds as a significant factor in not meeting the 50% requirement.

Effect of Condition: The District is out of compliance with the 50% Law.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

D. FINDINGS – STATE COMPLIANCE AUDIT
(Continued)

Recommendation: During the budgetary process the District should attempt to ensure that a minimum of 50% of the District's "Current Expenses of Education" be expended for "Salaries of Classroom Instructors" (SCI).

District Response: After completing our CCFS 311 for the 2009/10 fiscal year, we discovered that we were in violation of the 50% law. We immediately informed the Chancellor's office, submitted form CCFS-350 A, met with the leaders of our Academic Senate and faculty bargaining units, and, 30 days later, held a public hearing at the November meeting of our Board of Trustees.

The reasons for being in violation are several and are directly related to the financial recession that the nation and state are experiencing, leading to some painful cost reductions in 2009-10:

- We reduced the number of course sections directly reducing part-time faculty salaries;
- We have held up to 18 vacancies open, seven of which are faculty;
- All employees agreed to a 4% salary reduction over a 18 month period of time;
- We decided to backfill the cuts to categorical programs from the General Fund;
- We had to make a $500,000 emergency transfer from our General Fund to our Health Fund to balance the rising costs of our self-funded health plan which was not reflected in employee benefit activity codes.

The net effect of these actions put us in violation of the 50% law for 2009-10. We have immediately started rectifying the situation by adding back course sections, filling faculty vacancies, and restoring the 4% salary reduction. Our Board of Trustees will consider our findings (forms CCFS-350 B/C) at its December 8, 2010 meeting which we will then submit to the Chancellor's office.

We are in agreement with the auditor's recommendation and will apply the 50% test to all future budgets during the budgetary process in order to identify potential problems with the 50% law before they develop.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2010

A. FINDINGS – FINANCIAL STATEMENT AUDIT

NONE

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

NONE

C. FINDINGS – STATE COMPLIANCE AUDIT

2009-1 – Active Enrollment

Statement of Condition: In the prior year audit, we noted that the District was unable to provide a daily roster for one of the twenty-two courses we sampled for testing. The missing roster was from a course taught on a high school campus. After consideration of this matter, we requested management perform a self-review of all high school campus courses to identify those courses for which census rosters were not received. The results of this self-review identified two additional courses out of a total of forty-five courses taught on high school campuses where the census rosters were not received from the instructor.

Cause of Condition: The majority of instructors of these courses are adjunct instructors who are rarely on the District's main campus. Because of this, District's management has a more difficult time following up with these instructors and motivating them to comply with census procedures.

Effect of Condition: Without the Census roster the District does not have documentation the Chancellor's Office requires to substantiate FTES claimed for apportionment purposes.

Recommendation: We recommended the District review their procedures in order to ensure all census rosters are received timely.

Status: During the current year the District implemented a new online process that allows instructors to clear their rosters within the Datatel System. The new "electronic" submission process and system provides exception reports that allow staff responsible for monitoring census reporting to follow up on missing rosters more timely. During our testing we reviewed exception reports from the system to assure that all Census Rosters had been received.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2010

C. FINDINGS – STATE COMPLIANCE AUDIT
(Continued)

2009-2 – Open Enrollment

Statement of Condition: During our testing of open enrollment requirements, we determined the District had claimed 8.22 FTES from courses held on a high school campus during the hours the high school campus was closed to the general public.

Cause of Condition: The District entered into verbal agreements with the high school principals that the principals would allow anyone enrolled in the course to have access to the classroom.

Effect of Condition: California Education Code section 76002 provides that if FTES are generated by a course held on a high school campus, “the class may not be held during the time the campus is closed to the general public, as defined by the governing board of the school district.” Based on strict interpretation of this section, the District has potentially overstated FTES by 8.22.

Recommendation: We recommended the District review their procedures to ensure FTES generated from classes taught on high school campuses while closed to the public are not claimed for apportionment.

Status: During our current year procedures we noted the District significantly reduced courses offered on high school campuses during hours the high school campus was closed to the general public. We also noted, procedures were implemented to identify FTES from the remaining courses that were held while the high school campus was “closed” to the general public and the District did not claim apportionment for these identified FTES.