

**MENDOCINO-LAKE COMMUNITY
COLLEGE DISTRICT**

Ukiah, California

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITORS' REPORTS**

June 30, 2011 and 2010

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Community College District*

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INDEPENDENT AUDITORS' REPORT

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

Formerly



Nystrom & Company LLP
CERTIFIED PUBLIC ACCOUNTANTS

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, 2011 and 2010, 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, 2011 and 2010, 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 28, 2011, 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.

INDEPENDENT AUDITORS' REPORT

Continued

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.

Matson and Isom

November 28, 2011

MANAGEMENTS' DISCUSSION AND ANALYSIS
(Required Supplementary Information)

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011 and 2010

*Mendocino-Lake
Community College District*

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, 2011. 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

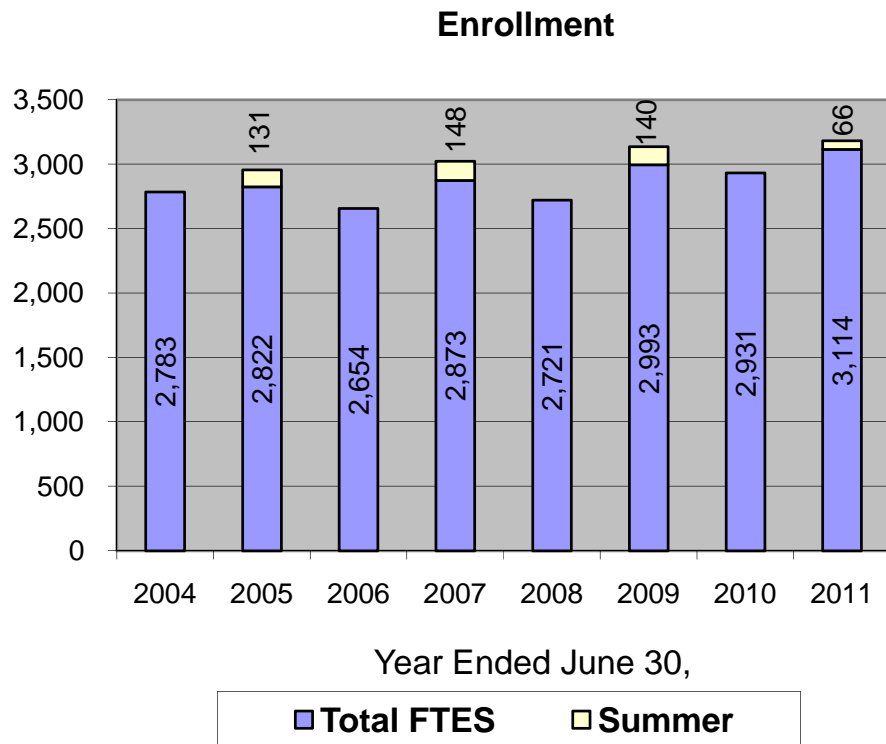
The Mendocino College Foundation, Inc. (Foundation) was established as a legally separate not-for-profit corporation to support the District and its students. It provides scholarships for the benefit of district students and contributes directly to the District. The Foundation is considered a component 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. On August 16, 2011 the District issued the second and final series (Series B) of bonds in the amount of \$37.5 million. 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, 2011, \$31,953,266 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 3,114 total full-time equivalent students (FTES) on the 2010/11 Final Apportionment Attendance Report (CCFS-320). This is an increase of 183 FTES from the 2009/10 FTES of 2,931. This increase is partially the result of reporting 66 of Summer 2011 FTES in 2010/11 which would normally have been reported in 2011/12. The following chart shows the enrollment history and reflects the impact of summer FTES reporting.



**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2011 and 2010

*Mendocino-Lake
Community College District*

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.

June 30	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 649	\$ -
Restricted cash and cash equivalents	936	146
Investments	1,135	1,129
Receivables	4,047	4,040
Inventory and other assets	96	244
Total Current Assets	6,863	5,559
NONCURRENT ASSETS		
Capital assets - non-depreciable	27,223	14,058
Capital assets - depreciable	33,645	35,092
Restricted cash and cash equivalents	4,684	18,013
Deferred costs - net	477	501
Total Noncurrent Assets	66,029	67,664
Total Assets	\$ 72,892	\$ 73,223
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 2,543	\$ 2,191
Deferred revenue	1,020	411
Amounts held for others	441	454
Claims payable	-	-
Long-term debt - current portion	795	1,232
Total Current Liabilities	4,799	4,288
NONCURRENT LIABILITIES		
Compensated absences and capital lease	4,679	5,369
General obligation bonds	29,225	29,456
Total Noncurrent Liabilities	33,904	34,825
Total Liabilities	38,703	39,113
NET ASSETS		
Invested in capital assets	27,398	27,924
Restricted - expendable	4,424	4,300
Unrestricted	2,365	1,885
Total Net Assets	34,187	34,109
Total Liabilities and Net Assets	\$ 72,890	\$ 73,222

**MANAGEMENT’S DISCUSSION
AND ANALYSIS**

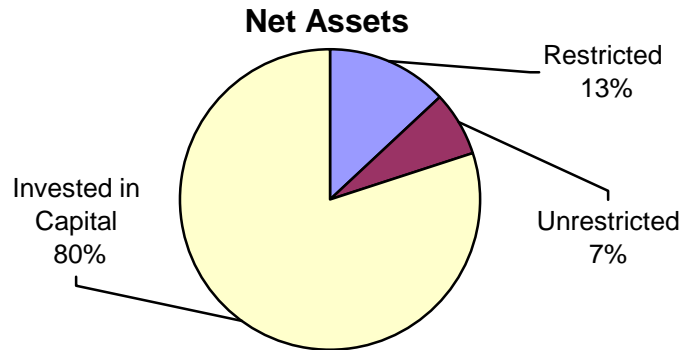
June 30, 2011 and 2010

*Mendocino-Lake
Community College District*

- Cash and cash equivalents consist of cash in the Mendocino County Treasury and investments in Local Agency Investment Fund (LAIF).
- Receivables consist mainly of amounts due as of June 30, 2011 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.

June 30	July 1, 2010	Additions	Transfers	June 30, 2011
Non-Depreciable Assets	\$ 14,508,032	\$ 13,164,776	\$ -	\$ 27,672,808
Depreciable assets	\$ 55,430,373	\$ 25,482	\$ -	\$ 55,455,855
Accumulated depreciation	20,337,870	1,471,830	-	21,809,700
Depreciable Assets - Net	\$ 35,092,503	\$ (1,446,348)	\$ -	\$ 33,646,155

- Accounts payable consist primarily of payables to vendors and accrued payroll (\$2.5 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 (\$29.37 million), capital lease (\$4.5 million), and accrued vacation and load banking payable (\$0.8 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 \$1.41 million of funds designated in the Special Reserve fund to cover accrued vacation liability, load banking, and a self insurance reserve.



**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2011 and 2010

*Mendocino-Lake
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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

For the Years Ended June 30	2011	2010
REVENUE		
OPERATING REVENUE		
Net tuition and fees	\$ 946	\$ 1,064
Grants and contracts - noncapital	10,558	8,425
Auxiliary enterprise sales and charges	62	86
Total Operating Revenues	11,566	9,575
Operating expenses	31,597	29,371
Operating Income (Loss)	(20,031)	(19,796)
NONOPERATING REVENUES (EXPENSES)		
State apportionments - noncapital	11,983	11,663
Local property taxes	8,025	7,932
State taxes and other revenues	517	529
Investment income - noncapital	45	96
Other nonoperating revenues (expenses) - net	(479)	(643)
Nonoperating Income (Loss)	20,091	19,577
Income (loss) before other revenues	60	(219)
State apportionments - capital	19	39
Net Assets - Beginning of Year	34,110	34,291
Net Assets - End of Year	\$ 34,189	\$ 34,111

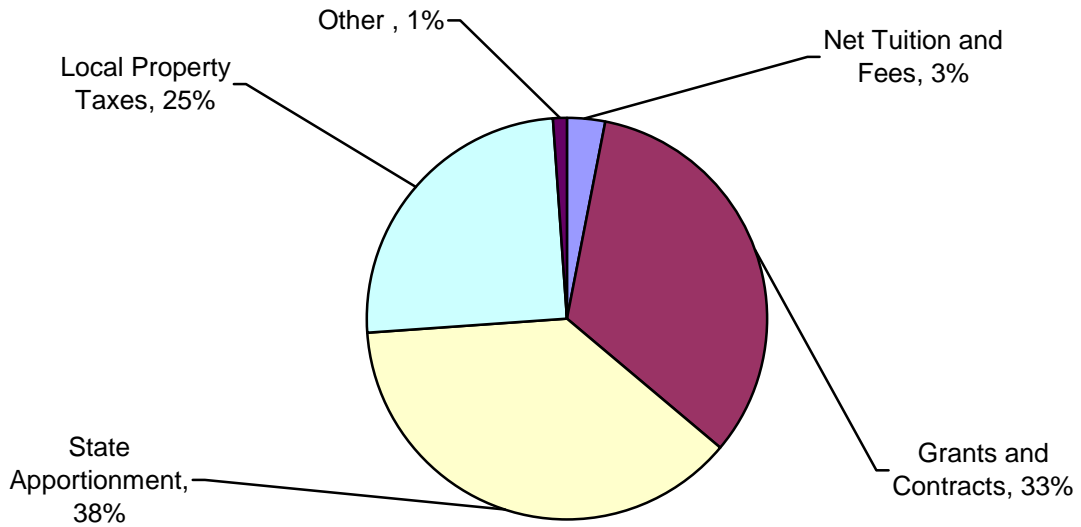
**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2011 and 2010

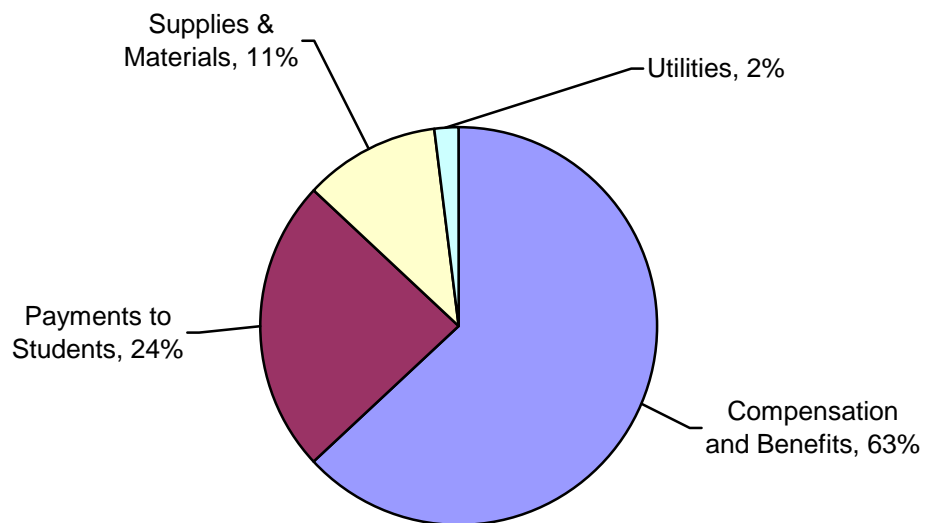
*Mendocino-Lake
Community College District*

- Net tuition and fees total \$0.95 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 (\$11.98 million). State apportionment revenue reported is exclusive of regular enrollment fees and property taxes, which are reported separately.
- Local property tax revenues totaled \$8.02 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 (\$0.52 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



**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2011 and 2010

*Mendocino-Lake
Community College District*

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.

<u>For the Years Ended June 30</u>	<u>2011</u>	<u>2010</u>
Net cash provided (used) by:		
Operating activities	\$ (17,999)	\$ (19,728)
Noncapital financing activities	19,332	18,242
Capital and related financing activities	(13,252)	(11,726)
Investing activities	40	88
Net Increase (Decrease) in Cash	(11,879)	(13,124)
Cash - Beginning of Year	18,158	31,282
Cash - End of Year	\$ 6,279	\$ 18,158

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 38% of its funding through state general apportionments and 25% 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 2011/12 budget for community colleges contained no Cost of Living Adjustment (COLA), making this the fourth consecutive year with no COLA.
- Reports on the State of California Budget for the foreseeable future are not favorable.

The impact of the State of California economic situation 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 2012 in the Governor's Budget.

**MANAGEMENT’S DISCUSSION
AND ANALYSIS**

June 30, 2011 and 2010

*Mendocino-Lake
Community College District*

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 \$551,242 during 2010/11 to \$3,408,720, or 17.9% of total General Fund expenditures. This increase was largely due to the District holding many positions vacant and all employees agreeing to a 4% reduction in salary for 12 months.
- Health Fund – The Health Fund ending balance has been generally 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	6/30/XX Fund Balance	Transfers In from Other Funds
2000/01	\$48,852	
2001/02	\$282,972	\$440,025
2002/03	\$171,379	
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
2010/11	\$49,189	

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.

**MANAGEMENT’S DISCUSSION
AND ANALYSIS**

June 30, 2011 and 2010

*Mendocino-Lake
Community College District*

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%
2010/11	(6.03%)	0%
TOTAL INCREASE (Compounded)	281.76%	32.27%

For the years 1999/2000 through 2010/11, the compound increase in Health Benefit costs was 281.76% 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 nine times the rate at which the COLA has increased.

Health benefits are budgeted in 2011/12 at \$1,936 per employee per month, a 10% increase over the amount budgeted per month of \$1,760 in 2010/11.

3) APPORTIONMENT BASE FUNDING

An out-year exposure created by the “FTES Shift” discussed previously is the District must report 3,114 FTES in 2012/13 to avoid a loss of apportionment revenue in 2012/13. Any level of workload production less than 3,114 FTES will be considered “Decline”, and will result in a corresponding loss of apportionment revenue below prior funding levels. For 2011/12, the District will receive stability funding for any FTES reported below 3,114 which will result in no loss of apportionment revenue.

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 June 2011. 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, 2011, the District has not made a deposit to the CCLC GASB 45 (irrevocable) Trust Fund for Retiree Health Benefits.

As of June 30, 2011, the District does have \$1,412,559 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.

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2011 and 2010

*Mendocino-Lake
Community College District*

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.

FINANCIAL SECTION

STATEMENTS OF NET ASSETS

*Mendocino-Lake
Community College District*

June 30	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 649,202	\$ -
Restricted cash and cash equivalents	936,315	145,641
Investments	1,134,898	1,129,379
Accounts receivable	4,046,946	4,040,115
Deposits and prepaid expenses	95,871	243,796
Total Current Assets	6,863,232	5,558,931
NONCURRENT ASSETS		
Restricted cash and cash equivalents	4,683,768	18,012,633
Nondepreciable capital assets	27,222,808	14,058,032
Depreciable capital assets - net	33,645,155	35,091,503
Deferred costs - net	477,027	500,665
Total Noncurrent Assets	66,028,758	67,662,833
Total Assets	\$ 72,891,990	\$ 73,221,764
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 2,543,221	\$ 2,191,057
Deferred revenue	1,020,010	410,713
Amounts held for others	441,422	454,402
Long-term debt - current portion	145,000	815,000
Other long-term liabilities - current portion	650,423	416,621
Total Current Liabilities	4,800,076	4,287,793
NONCURRENT LIABILITIES		
Long-term debt - noncurrent portion	29,225,196	29,455,657
Other long-term liabilities	4,679,403	5,368,725
Total Noncurrent Liabilities	33,904,599	34,824,382
Total Liabilities	38,704,675	39,112,175
NET ASSETS		
Investments in capital assets - net of related debt	27,398,314	27,924,467
Restricted - expendable	4,423,797	4,299,770
Unrestricted	2,365,204	1,885,352
Total Net Assets	34,187,315	34,109,589
Total Liabilities and Net Assets	\$ 72,891,990	\$ 73,221,764

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

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

*Mendocino-Lake
Community College District*

For the Years Ended June 30	2011	2010
OPERATING REVENUES		
Tuition and fees	\$ 2,051,346	\$ 1,966,093
Scholarship discounts and allowances	1,105,407	901,735
Net Tuition and Fees	945,939	1,064,358
Grants and contracts - noncapital:		
Federal	8,023,866	5,211,101
State	2,298,124	2,986,991
Local	235,688	226,538
Auxiliary enterprise sales and charges	61,663	86,435
Total Operating Revenues	11,565,280	9,575,423
OPERATING EXPENSES		
Salaries	13,907,905	13,801,768
Employee benefits	5,111,653	5,407,607
Payments to students	7,220,878	4,601,853
Supplies, materials, and other operating expenses and services	3,223,899	3,377,993
Utilities	660,899	657,980
Depreciation	1,471,830	1,524,111
Total Operating Expenses	31,597,064	29,371,312
Operating Loss	(20,031,784)	(19,795,889)
NONOPERATING REVENUES (EXPENSES)		
State apportionments - noncapital	11,983,125	11,663,041
Local property taxes	8,024,695	7,932,060
State taxes and other revenues	516,722	528,526
Investment income	45,168	95,790
Interest expense	(1,540,911)	(1,708,424)
Other nonoperating revenues	1,061,619	1,065,246
Total Nonoperating Revenues (Expenses)	20,090,418	19,576,239
Income/(Loss) Before Other Revenues and Expenses	58,634	(219,650)
State apportionments and grants - capital	19,092	38,651
Change in Net Assets	77,726	(180,999)
Net Assets - Beginning of Year	34,109,589	34,290,588
Net Assets - End of Year	\$ 34,187,315	\$ 34,109,589

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

STATEMENTS OF CASH FLOWS

*Mendocino-Lake
Community College District*

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For the Years Ended June 30	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 887,687	\$ 993,006
Federal grants and contracts	7,918,290	5,138,618
State grants and contracts	2,994,619	2,122,514
Local grants and contracts	229,934	218,717
Payments to/on behalf of employees	(13,989,379)	(13,827,550)
Payments for benefits	(4,949,088)	(5,832,679)
Payments for scholarships and grants	(7,210,831)	(4,601,853)
Payments to suppliers	(3,273,684)	(3,398,312)
Payments for utilities	(660,899)	(657,980)
Auxiliary enterprise sales and charges	66,772	98,087
Other receipts (payments)	(12,156)	19,399
Net Cash Used by Operating Activities	(17,998,735)	(19,728,033)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State apportionments - noncapital	12,235,347	10,956,188
Local property taxes - noncapital	5,701,216	5,637,150
State taxes and other revenues	413,588	528,526
Other receipts (payments)	972,104	1,120,482
Net Cash Provided by Noncapital Financing Activities	19,322,255	18,242,346
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State apportionments - capital	19,092	38,651
Local property taxes - capital	2,323,479	2,294,910
Purchases of capital assets	(12,687,505)	(11,738,105)
Principal paid on long-term debt	(1,231,621)	(700,000)
Interest paid on long-term debt	(1,675,603)	(1,621,992)
Net Cash Used by Capital and Related Financing Activities	(13,252,158)	(11,726,536)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(5,519)	(7,362)
Interest on investments	45,168	95,790
Net Cash Provided by Investing Activities	39,649	88,428
Net Increase (Decrease) in Cash and Cash Equivalents	(11,888,989)	(13,123,795)
Cash and Cash Equivalents - Beginning of Year	18,158,274	31,282,069
Cash and Cash Equivalents - End of Year	\$ 6,269,285	\$ 18,158,274

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

STATEMENTS OF CASH FLOWS

For the Years Ended June 30	2011	2010
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (20,031,784)	\$ (19,795,889)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	1,471,830	1,524,111
Changes in:		
Accounts receivable	(66,404)	(291,057)
Deposits and prepaid expenses	147,925	(197,437)
Accounts payable	(77,720)	4,674
Deferred revenue	609,297	(760,993)
Amounts held for others	(12,980)	66,968
Claims payable	-	(227,635)
Compensated absences	(15,166)	(63,149)
Other postemployment benefit/obligation	(23,733)	12,374
Net Cash Used by Operating Activities	\$ (17,998,735)	\$ (19,728,033)
COMPONENTS OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 649,202	\$ -
Restricted cash and cash equivalents - current	936,315	145,641
Restricted cash and cash equivalents - noncurrent	4,683,768	18,012,633
Total Cash and Cash Equivalents	\$ 6,269,285	\$ 18,158,274

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

**STATEMENTS OF
FINANCIAL POSITION –
COMPONENT UNIT**

*Mendocino-Lake
Community College District*

June 30	2011	2010
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 85,466	\$ 60,648
Investments	6,154,005	5,472,283
Accounts receivable	16,654	-
Assets held by others	98,307	56,282
Land	733,196	733,196
Infrastructure	33,278	33,278
Total Assets	\$ 7,120,906	\$ 6,355,687
LIABILITIES		
LIABILITIES		
Accounts payable	\$ 12,377	\$ 2,593
Deferred revenue	500	-
Total Liabilities	\$ 12,877	\$ 2,593
NET ASSETS		
Unrestricted	5,849,270	5,298,093
Temporarily restricted	300,910	167,177
Permanently restricted	957,849	887,824
Total Net Assets	7,108,029	6,353,094
Total Liabilities and Net Assets	\$ 7,120,906	\$ 6,355,687

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

**STATEMENTS OF ACTIVITIES –
COMPONENT UNIT**

*Mendocino-Lake
Community College District*
Page 1 of 2

For the Years Ended June 30	2011	2010
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES, GAINS, AND OTHER SUPPORT		
Special events:		
Gross revenue	\$ 119,052	\$ 45,504
Less: Event expenses	(38,398)	(15,721)
Total Special Events	80,654	29,783
Contributions	25,852	6,515
Interest and dividends	143,192	137,615
Net realized gains (losses)	61,440	(32,327)
Net unrealized gains (losses)	557,520	322,122
Interest on bank deposits	153	337
Total Revenues, Gains, and Other Support	868,811	464,045
Net Assets Released From Restriction	209,031	84,874
EXPENSES		
Program services:		
Scholarships	130,720	167,001
Support of District	153,700	148,500
Total Program Services	284,420	315,501
Supporting services:		
Management and general	185,877	85,119
Fundraising	56,368	19,928
Total Supporting Services	242,245	105,047
Total Expenses	526,665	420,548
Change in Unrestricted Net Assets	\$ 551,177	\$ 128,371

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

**STATEMENTS OF ACTIVITIES –
COMPONENT UNIT**

*Mendocino-Lake
Community College District
Page 2 of 2*

For the Years Ended June 30	2011	2010
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
REVENUES AND GAINS		
Contributions	\$ 211,694	\$ 72,601
Interest and dividends	23,474	24,808
Net realized gains (losses)	3,581	(55,321)
Net unrealized gains (losses)	104,015	132,548
Total Revenues and Gains	342,764	174,636
Net Assets Released From Restriction	(209,031)	(84,874)
Change in Temporarily Restricted Net Assets	133,733	89,762
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	70,025	31,417
Change in Permanently Restricted Net Assets	70,025	31,417
Change in Net Assets	754,935	249,550
Net Assets - Beginning of Year	6,353,094	6,103,544
Net Assets - End of Year	\$ 7,108,029	\$ 6,353,094

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

**STATEMENTS OF CASH FLOWS –
COMPONENT UNIT**

*Mendocino-Lake
Community College District*

For the Years Ended June 30	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 754,935	\$ 249,550
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Less: Reinvested dividends	(166,666)	(162,423)
Subtract/add net realized gain/loss on investments	(65,021)	87,648
Subtract/add net unrealized gain/loss on investments	(661,535)	(454,670)
Less: Noncash contribution (gift annuity)	(42,025)	(3,417)
Changes in:		
Accounts receivable	(16,654)	275
Accounts payable	9,784	(4,184)
Deferred revenue	500	-
Net Cash Used by Operating Activities	(186,682)	(287,221)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	452,000	2,984,992
Purchase of investments	(240,500)	(2,674,617)
Loan repayment from the District	-	10,883
Net Cash Provided by Investing Activities	211,500	321,258
Net Increase in Cash	24,818	34,037
Cash - Beginning of Year	60,648	26,611
Cash - End of Year	\$ 85,466	\$ 60,648

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

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, Inc. (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.

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.

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2011 and 2010

*Mendocino-Lake
Community College District*

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*.

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, 2011 and 2010, 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.

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.

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2011 and 2010

*Mendocino-Lake
Community College District*

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.

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 \$23,638 for the years ended June 30, 2011 and 2010, 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 of 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.

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2011 and 2010

*Mendocino-Lake
Community College District*

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.

Nonoperating 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.

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.

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2011 and 2010

*Mendocino-Lake
Community College 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. Payment amounts have not been reported in the basic financial statements as management believes they are immaterial to the financial statements taken as a whole..

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

DISCRETELY PRESENTED COMPONENT UNIT – FOUNDATION

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.

**NOTES TO THE FINANCIAL
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June 30, 2011 and 2010

*Mendocino-Lake
Community College District*

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.

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.

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 three 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 Policy 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.

**NOTES TO THE FINANCIAL
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June 30, 2011 and 2010

*Mendocino-Lake
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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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010

*Mendocino-Lake
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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.

2. CASH AND INVESTMENTS

The cash and cash equivalents as of June 30, 2011 and 2010, are displayed on the statement of net assets as follows:

	2011	2010
CURRENT		
Cash and cash equivalents	\$ 649,202	\$ -
Restricted cash and cash equivalents	936,315	145,641
Investments	1,134,898	1,129,379
NONCURRENT		
Restricted cash and cash equivalents	4,683,768	18,012,633
Total Cash and Investments	\$ 7,404,183	\$ 19,287,653
FOUNDATION		
Cash and cash equivalents	\$ 85,466	\$ 60,648
Investments	6,154,005	5,472,283
Total Cash and Investments	\$ 6,239,471	\$ 5,532,931

At June 30, 2011 and 2010, the carrying amount of the District's and Foundation's deposits are summarized as follows:

	2011	2010
District:		
Cash in County Treasury	\$ 4,158,084	\$ 17,803,898
Cash on hand and in banks	2,111,201	354,376
Total Deposits	\$ 6,269,285	\$ 18,158,274
Foundation:		
Cash in County Treasury	\$ 85,466	\$ 60,648
Total Deposits	\$ 85,466	\$ 60,648

**NOTES TO THE FINANCIAL
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June 30, 2011 and 2010

*Mendocino-Lake
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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 0.843 and 0.997 years at June 30, 2011 and 2010, 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, \$369,533 and \$213,047 of the District bank balances at June 30, 2011 and 2010, 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:
 - \$100,000 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

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

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- 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.

As of June 30, 2011 and 2010, the District’s and Foundation’s investments are as follows:

	2011	2010
District:		
Investment in LAIF	\$ 1,134,898	\$ 1,129,379
Total Investments	\$ 1,134,898	\$ 1,129,379
Foundation:		
Money market funds	\$ 107,435	\$ 179,612
Mutual funds	6,046,570	5,292,671
Total Investments	\$ 6,154,005	\$ 5,472,283

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, 2011 and 2010, 5.01% and 5.42%, 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 280.44 days and 235.59 days at June 30, 2011 and 2010, 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.

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Credit Risk

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 of Credit Risk

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 a 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

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*.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2011 and 2010:

	2011	2010
Tuition and fees	\$ 238,480	\$ 179,640
Federal grants and contracts	425,156	313,159
State grants and contracts	122,051	221,375
State apportionment	2,848,781	3,101,003
State taxes and other revenue	198,253	95,119
Auxiliaries	-	5,109
Other	214,225	124,710
Total	\$ 4,046,946	\$ 4,040,115

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4. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2011 and 2010, is summarized as follows:

	Balance June 30, 2010	Additions	Deductions	Transfers	Balance June 30, 2011
NONDEPRECIATED CAPITAL ASSETS					
Land	\$ 5,357,772	\$ 2,172,668	\$ -	\$ -	\$ 7,530,440
Equipment in progress	1,177,539	138,626	-	-	1,316,165
Construction in progress	7,522,721	10,853,482	-	-	18,376,203
Total Nondepreciated Capital Assets	14,058,032	13,164,776	-	-	27,222,808
DEPRECIATED CAPITAL ASSETS					
Buildings and improvements	51,272,744	-	-	-	51,272,744
Equipment	4,157,629	25,482	-	-	4,183,111
Total Depreciated Capital Assets	55,430,373	25,482	-	-	55,455,855
Less: Accumulated depreciation	20,338,870	1,471,830	-	-	21,810,700
Total Capital Assets - Net	\$ 35,091,503	\$ (1,446,348)	\$ -	\$ -	\$ 33,645,155

	Balance June 30, 2009	Additions	Deductions	Transfers	Balance June 30, 2010
NONDEPRECIATED CAPITAL 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
Total Nondepreciated Capital Assets	11,009,905	6,522,101	-	(3,473,974)	14,058,032
DEPRECIATED CAPITAL 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
Total Depreciated Capital Assets	45,901,907	6,054,492	-	3,473,974	55,430,373
Less: Accumulated depreciation	18,814,759	1,524,111	-	-	20,338,870
Total 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 years ended June 30, 2011 and 2010.

5. ACCOUNTS PAYABLE

Accounts payable at June 30, 2011 and 2010, consist of the following:

	2011	2010
Accrued payroll and related liabilities	\$ 11,546	\$ 38,641
Accrued interest	565,896	638,765
Construction projects	1,617,569	1,114,816
Vendor and other payables	348,210	398,835
Total	\$ 2,543,221	\$ 2,191,057

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6. DEFERRED REVENUE

Deferred revenue at June 30, 2011 and 2010, consist of the following:

	2011	2010
Tuition and fees	\$ 207,428	\$ 206,840
Trust account	55,184	45,137
Federal grants and contracts	6,421	-
State grants and contracts	739,245	142,074
Local grants and contracts	9,526	15,280
Other	2,206	1,382
Total	\$ 1,020,010	\$ 410,713

7. LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the years ended June 30, 2011 and 2010:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011
LONG-TERM DEBT				
General obligation bonds	\$ 30,270,657	\$ -	\$ 900,461	\$ 29,370,196
OTHER LONG-TERM LIABILITIES				
Capital lease	4,951,320	-	416,621	4,534,699
Compensated absences	810,293	-	15,166	795,127
Other postemployment benefit obligation	23,733	-	39,213	(15,480)
Total Other Long-Term Liabilities	\$ 5,785,346	\$ -	\$ 471,000	\$ 5,314,346

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010
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 postemployment benefit obligation	11,359	12,374	-	23,733
Total Long-Term Liabilities	\$ 5,836,121	\$ 12,374	\$ 63,149	\$ 5,785,346

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Long-term debt consists of the following obligations at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
GENERAL OBLIGATION BONDS		
2007 General Obligation Bond, Series A, issued in the original amount of \$30,000,000. Final maturity in 2031. Interest rates range from 4.00% to 5.00%.	\$ 27,535,000	\$ 28,350,000
Premium on general obligation bonds	<u>1,835,196</u>	<u>1,920,657</u>
Net General Obligation Bonds	29,370,196	30,270,657
Less: Current portion	<u>145,000</u>	<u>815,000</u>
Total Long-Term Debt - Noncurrent Portion	<u>\$ 29,225,196</u>	<u>\$ 29,455,657</u>

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

Year Ending June 30	Bonds			Bond	Total
	Principal	Interest	Total	Premium	
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	440,000	1,309,550	1,749,550	110,498	1,860,048
2017-2021	3,880,000	6,104,125	9,984,125	577,774	10,561,899
2022-2026	7,130,000	4,744,250	11,874,250	502,141	12,376,391
2027-2031	11,955,000	2,392,375	14,347,375	257,301	14,604,676
2032	3,135,000	78,375	3,213,375	-	3,213,375
Total	<u>\$ 27,535,000</u>	<u>\$ 19,995,975</u>	<u>\$ 47,530,975</u>	<u>\$ 1,835,196</u>	49,366,171
Less: Current interest					(19,995,975)
Net Principal					<u>\$ 29,370,196</u>

Capital Lease Obligation

2009 Capital Lease issued in the original amount of \$4,951,320. Final maturity in February 2021. Interest rate is 5.02%.	<u>\$ 4,534,699</u>
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The annual debt service requirements to maturity on the capital lease obligation are as follows:

Year Ending June 30	Principal	Interest	Total
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	257,941	87,267	345,208
2017-2021	<u>1,596,103</u>	<u>203,842</u>	<u>1,799,945</u>
Total	<u>\$ 4,534,699</u>	<u>\$ 933,093</u>	<u>\$ 5,467,792</u>

Other Postemployment Benefits (OPEB) Obligation

The District's actuarially determined annual required contributions for the years ended June 30, 2011 and 2010, was \$639,984 and \$470,447, respectively, and contributions made by the District during the years were \$679,197 and \$458,073, respectively, which resulted in a net OPEB obligation asset of \$15,480 for June 30, 2011, and liability of \$23,733 for June 30, 2010. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefit plan.

8. EMPLOYEE RETIREMENT SYSTEMS

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.

California State Teachers' Retirement System (CalSTRS)

Plan Description

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.

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.

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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.

Funding Policy

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, 2011 and 2010, 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.

The District's contributions to CalSTRS for the fiscal years ended June 30, 2011, 2010, and 2009, were \$561,057, \$565,974, and \$597,233, and equaled 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, 2011, 2010, and 2009, are estimated to have been \$326,994, \$331,643 and \$314,481, respectively. The payment amounts have not been reported in the basic financial statements as management believes they are immaterial to the financial statements taken as a whole.

California Public Employees' Retirement System (CalPERS)

Plan Description

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 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.

Funding Policy

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, 2011 and 2010, was 10.707% and 9.709%, respectively, of annual payroll. The contribution requirements of the plan members are established by State statutes.

The District's contributions to CalPERS for the fiscal years ended June 30, 2011, 2010, and 2009, were \$563,050, \$512,775, and \$520,037, and equaled 100% of the required contribution for each year.

A State of California contribution on behalf of the District to CalPERS was not required for the years ended June 30, 2011, 2010, and 2009.

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.

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 \$25,000,000 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).

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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.

<u>Year Ended</u>	<u>Deposits/ (Claims Payable) Beginning Balance</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Current Year Claim Payments</u>	<u>Deposits/ (Claims Payable) Ending Balance</u>
June 30, 2009	\$ (211,659)	\$ (2,990,977)	\$ 2,975,001	\$ (227,635)
June 30, 2010	\$ (227,635)	\$ (3,555,524)	\$ 4,026,115	\$ 242,956
June 30, 2011	\$ 242,956	\$ (2,562,565)	\$ 2,400,000	\$ 80,391

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.

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11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)

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

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 27 retirees receiving benefits and 188 active plan members.

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, 2011 and 2010, the District contributed \$679,197 and \$458,073, respectively to the Plan.

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.

	2011	2010
Annual required contribution	\$ 639,984	\$ 470,447
Contributions made	(679,197)	(458,073)
Increase (Decrease) in Net OPEB Obligation	(39,213)	12,374
Net OPEB Obligation - Beginning of Year	23,733	11,359
Net OPEB Obligation (Asset) - End of Year	\$ (15,480)	\$ 23,733

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The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal 2011 and 2010 is as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contributions</u>	<u>Percentage Contributed</u>	<u>Net Ending OPEB Obligation (Asset)</u>
June 30, 2009	\$ 470,447	\$ 459,088	97.59%	\$ 11,359
June 30, 2010	\$ 470,447	\$ 458,073	97.37%	\$ 23,733
June 30, 2011	\$ 639,984	\$ 679,197	106.13%	\$ (15,480)

Funded Status and Funding Progress

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

	<u>January 1, 2011</u>
Actuarial accrued liability (AAL)	\$ 6,236,313
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability	\$ 6,236,313
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active members)	\$ 9,778,171
UAAL as a Percentage of Covered Payroll	63.78%

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.

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.

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12. COMMITMENTS

The District has outstanding construction commitments related to the Proposition 39 Bond Funds of \$10,387,081 at June 30, 2011.

13. TEMPORARILY RESTRICTED NET ASSETS - FOUNDATION

Temporarily restricted net assets consist of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
YVONNE SLIGH BOOK AWARD		
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
ADOPT A FIFTH GRADER		
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 \$25 while in the fifth grade and \$500 upon graduation from high school, or \$1,000 if they enroll at Mendocino College as a full-time student after graduating high school.	40,650	24,425
KOENINGER FUND		
The Koeninger 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.	17,000	19,000
NURSING SCHOLARSHIP FUND		
The Nursing Scholarship 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	7,665
ESL BOOK VOUCHERS		
Established in Fall 2011 through a donation from the American Association of University Women, Ukiah Branch, ESL Book Award funds are available to students enrolled in ESL (English as a Second Language) courses at Mendocino College. Students must be nominated by their instructor. Awards are given in voucher form and are limited to one student per semester to purchase or rent books at the Mendocino College bookstore.	600	-
Balance Forward	<u>\$ 65,915</u>	<u>\$ 57,871</u>

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STATEMENTS**

June 30, 2011 and 2010

*Mendocino-Lake
Community College District*

	<u>2011</u>	<u>2010</u>
Balance Brought Forward	\$ 65,915	\$ 57,871
BISTRIN SCHOLARSHIP		
The Bistrin Scholarship was created in 2011 when Mendocino College Foundation Director Harry Bistrin passed away and donations were received in his memory. The first Bistrin Scholarship will be awarded for the 2012-13 academic year.	839	-
MENDOCINO COLLEGE ATHLETICS BOOSTER AFFILIATE ORGANIZATION		
The Mendocino College Athletic Boosters became an Affiliate of the Mendocino College Foundation on March 2, 2010. The Athletic Booster's purpose is to organize and conduct activities that will promote and assist the athletic programs of Mendocino College. The Boosters will establish partnerships with other community organizations within the Lake and Mendocino County areas to help promote and support College athletic programs.	29,707	-
MENDOCINO COLLEGE FRIENDS OF THE LIBRARY AFFILIATE ORGANIZATION		
The Mendocino College Friends of the Library became an Affiliate of the Mendocino College Foundation in June 2004. The Friends of the Library's purpose is to organize and conduct activities at the college, its centers, and in the community that will promote and assist the educational and service programs of Mendocino College, as well as establish partnerships with existing organizations in the Mendocino-Lake Community College District.	1,997	-
HULDA AND ALFRED WEGER SCHOLARSHIP		
See note 14 Endowments for explanation.	1,075	-
EVELYN FOOTE TRUST		
See note 14 Endowments for explanation.	201,377	109,306
Total Temporarily Restricted Net Assets	<u>\$ 300,910</u>	<u>\$ 167,177</u>

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010

*Mendocino-Lake
Community College District*

14. ENDOWMENTS – FOUNDATION

Endowments consist of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
EVELYN FOOT 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 student. The Foundation has determined the trust document does not consider unrealized gains and losses as income that becomes available for annual distribution.	\$ 803,542	\$ 803,542
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 donors to fund a scholarship endowment	98,307	56,282
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.	25,000	25,000
SALMEN FAMILY SCHOLARSHIP		
The Salmen family’s perpetual scholarship was established in 2010 to support Mendocino College students pursuing a career in one or more of the following sciences: astronomy, chemistry, computer, physics and math by providing an annual \$1,000 scholarship. Salmen donates \$3,000 annually and a \$3,000 donation is provided by the New York Life Foundation’s matching gift program. The perpetual scholarship should be fully funded by Fall 2015.	6,000	3,000
ALBERT BELTRAMI PERPETUAL INTERNSHIP SCHOLARSHIP		
Established in 2011, this scholarship is for Mendocino College students pursuing a career in local government. The student(s) selected will intern in a local city or county government office and enroll in Mendocino College Work Experience Education for college credit. Participating students receive \$500-\$1,000 for successfully completing the internship and coursework. An additional \$1,000 one-time donation was made to this scholarship for the 2011/2012 academic year.	25,000	-
FOUNDATION TRUST FUND		
The Foundation manages the perpetual scholarship funds as well as all the funds described in Note 13 (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.	-	-
Total Temporarily Restricted Net Assets	<u>\$ 957,849</u>	<u>\$ 887,824</u>

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2011 and 2010

*Mendocino-Lake
Community College District*

Endowment net asset composition by type of fund as of June 30, 2011 and 2010, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Foundation Trust Fund	\$ 4,993,553	\$ 99,533	\$ 56,000	\$ 5,149,086
Evelyn Foote Fund	-	201,377	803,542	1,004,919
Gift Annuity Fund	-	-	98,307	98,307
Total Endowment at June 30, 2011	\$ 4,993,553	\$ 300,910	\$ 957,849	\$ 6,252,312
Endowment net assets - beginning of year	\$ 4,473,564	\$ 167,177	\$ 887,824	\$ 5,528,565
Contributions	-	211,694	70,025	281,719
Interest and dividends	143,192	23,474	-	166,666
Net realized gains (losses)	61,440	3,581	-	65,021
Net unrealized gains (losses)	557,520	104,015	-	661,535
Amounts appropriated for expenditures	(242,163)	(209,031)	-	(451,194)
Endowment Net Assets - End of Year	\$ 4,993,553	\$ 300,910	\$ 957,849	\$ 6,252,312

	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 expenditures	(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, 2011.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010

*Mendocino-Lake
Community College District*

15. FAIR VALUE MEASUREMENTS – FOUNDATION

Fair values of assets measured on a recurring basis at June 30, 2011, are as follows:

Year Ending June 30, 2011	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	\$ 107,435	\$ 107,435	\$ -	\$ -
Mutual funds	6,046,570	6,046,570	-	-
Assets held by others	98,307	-	-	98,307
Total	\$ 6,252,312	\$ 6,154,005	\$ -	\$ 98,307

Year Ending June 30, 2010	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
Contribution	\$ 42,025
Adjustment to present value	-
June 30, 2011	\$ 154,589

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.

SUPPLEMENTARY INFORMATION

ORGANIZATION STRUCTURE

June 30, 2011 and 2010

*Mendocino-Lake
Community College District*

GOVERNING BOARD

Name	Office	Area	Term Expires
Mr. Joel Clark	President	Hopland	December 2015
Mr. Paul Ubelhart	Vice President	Willits	December 2015
Ms. Ed Haynes	Clerk	Ukiah	December 2013
Ms. Janet Chaniot	Member	Potter Valley	December 2013
Mr. David Geck	Member	Kelseyville	December 2015
Ms. Joan M. Eriksen	Member	Ukiah	December 2015
Mr. John Tomkins	Member	Lucerne	December 2013

DISTRICT ADMINISTRATION

Ms. Kathryn G. Lehner
ISuperintendent/President

Mr. Larry Perryman
Vice President, Administrative Services

Ms. Meredith Randall
Vice President, Student Development

Lee Lindsey
Vice President, Education and Student Services

**SCHEDULE OF WORKLOAD
MEASURES FOR STATE GENERAL
APPORTIONMENT**

*Mendocino-Lake
Community College District*

June 30, 2011

The full-time equivalent resident students (FTES) eligible for 2010-11 state apportionment reported to the State of California as of June 30, 2011, are summarized below:

	Reported Data
SUMMER INTERSESSION (Summer 2010 only)	
Noncredit	6
Credit	249
SUMMER INTERSESSION (Summer 2011 - Prior to July 1, 2011)	
Noncredit	-
Credit	72
PRIMARY TERMS (Exclusive of Summer Intersession)	
Census Procedure Courses	
Weekly Census Contact Hours	1,726
Daily Census Contact Hours	192
Actual Hours of Attendance Procedure Courses	
Noncredit	140
Credit	314
Alternative Attendance Accounting Procedure	
Weekly Census Contact Hours	383
Daily Census Contact Hours	32
Noncredit Independent Study/Distance Education Courses	-
Total FTES	3,114

SUPPLEMENTARY INFORMATION (Subset of above information)	
In-Service Training Courses (FTES)	-
BASIC SKILLS COURSES AND IMMIGRANT EDUCATION	
Noncredit	110
Credit	205

See the accompanying notes to the supplementary information.

**SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

June 30, 2011

*Mendocino-Lake
Community College District*

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass Through/ Grant Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF EDUCATION			
Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grants		84.007	\$ 54,600
Federal Direct Student Loans		84.268	1,138,964
Federal Work-Study Program		84.033	54,819
Federal Pell Grant Program		84.063	5,612,531
Academic Competitiveness Grants		84.375	5,200
Total Financial Aid Cluster			<u>6,866,114</u>
Passed Through State Department of Education			
Vocational Education - Basic Grants to States		84.048	249,022
Indian Education			
Migrant Education College Assistance Migrant Program		84.060	4,800
Education Jobs Fund - Recovery Act		84.149A	381,775
Migrant Education High School Equivalency Program		84.410	13,179
		84.141A	366,822
Total U.S. Department of Education			<u>7,881,712</u>
U.S. DEPARTMENT OF COMMERCE			
Broadband Technology Opportunities Program - ARRA		11.557	1,608
Total U.S. Department of Commerce			<u>1,608</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Eisenhower Transportation Fellowship Program		20.215	20,000
Total U.S. Department of Transportation			<u>20,000</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education			
Child and Adult Care Food Program		10.558	31,497
Forest Reserve		10.665	50,814
Total U.S. Department of Agriculture			<u>82,311</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Passed Through State Department of Education			
AmeriCorps		94.006	38,235
Total Corporation for National and Community Service			<u>38,235</u>
Total Expenditures of Federal Awards			<u>8,023,866</u>

See the accompanying notes to the supplementary information.

**SCHEDULE OF EXPENDITURES OF
STATE AWARDS**

June 30, 2011

*Mendocino-Lake
Community College District*

Year Ended June 30, 2011	Program Revenues			
	Cash Received	Accounts Receivable	Deferred Revenue	Total
Disabled students programs and services	\$ 324,895	\$ (28,516)	\$ -	\$ 296,379
Extended opportunity programs and services	306,781	(21,959)	-	284,822
Child Development Center	316,748	42,067	18,793	377,608
RN Capacity Grant	108,708	(7,621)	-	101,087
Matriculation	154,950	(11,404)	-	143,546
CalGrant	229,700	(25,771)	-	203,929
SFAA	180,808	(13,906)	-	166,902
CalWorks	143,979	(10,630)	-	133,349
MESA	50,517	51	-	50,568
Foster Parent	95,815	(10,355)	-	85,460
Cooperative agency resource education	43,193	(3,355)	-	39,838
IME	-	-	609	609
CTE	840,000	-	(644,811)	195,189
Telecommunications	-	-	-	-
TANF	48,081	(3,340)	-	44,741
Basic Skills	97,200	-	14,514	111,714
PT Faculty Compensation	60,900	(4,585)	-	56,315
All other aid programs	4,310	-	1,758	6,068
Total State Grants - Noncapital	3,006,585	(99,324)	(609,137)	2,298,124
Instructional equipment	-	-	649	649
Scheduled maintenance	-	-	18,443	18,443
Total State Grants - Capital	-	-	19,092	19,092
Total State Programs	\$ 3,006,585	\$ (99,324)	\$ (590,045)	\$ 2,317,216

See the accompanying notes to the supplementary information.

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

June 30, 2011

	General Unrestricted Fund	General Restricted Fund	Solar Debt Service Fund	Bond Debt Service Fund	Balance Forward
June 30, 2011, Annual Financial and Budget Report (CCFS-311) Fund Balance	\$ 3,408,721	\$ 210,855	\$ 233,136	\$ -	\$ 3,852,712
Adjustment and reclassifications increasing (decreasing) the fund balance:					
Adjustment to record Debt Service Fund for financial statement purposes	-	-	-	1,819,858	1,819,858
Adjustment to remove amounts held for others	-	-	-	-	-
Adjustment to remove discretely presented component unit from District funds	-	-	-	-	-
Rounding	(1)	(1)	-	-	(2)
Net Adjustments and Reclassifications	(1)	(1)	-	1,819,858	1,819,856
June 30, 2011, District Accounting Records Fund Balance	\$ 3,408,720	\$ 210,854	\$ 233,136	\$ 1,819,858	\$ 5,672,568

See the accompanying notes to the supplementary information.

	Balance Brought Forward	Child Development Fund	Capital Outlay Projects Fund	Revenue Bond Construction Fund	Balance Forward
June 30, 2011, Annual Financial and Budget Report (CCFS-311) Fund Balance	\$ 3,852,712	\$ -	\$ 698,201	\$ 435,246	\$ 4,986,159
Adjustment and reclassifications increasing (decreasing) the fund balance:					
Adjustment to record Debt Service Fund for financial statement purposes	1,819,858	-	-	-	1,819,858
Adjustment to remove amounts held for others	-	-	-	-	-
Adjustment to remove discretely presented component unit from District funds	-	-	-	-	-
Rounding	(2)	-	-	-	(2)
Net Adjustments and Reclassifications	1,819,856	-	-	-	1,819,856
June 30, 2011, District Accounting Records Fund Balance	\$ 5,672,568	\$ -	\$ 698,201	\$ 435,246	\$ 6,806,015

See the accompanying notes to the supplementary information.

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

*Mendocino-Lake
Community College District*
Page 2 of 3

June 30, 2011

	Balance Brought Forward	Associated Students Trust Fund	Student Representation Fee Trust Fund	Self- Insurance Fund	Balance Forward
June 30, 2011, Annual Financial and Budget Report (CCFS-311) Fund Balance	\$ 4,986,159	\$ 118,539	\$ 32,886	\$ 1,461,747	\$ 6,599,331
Adjustment and reclassifications increasing (decreasing the fund balance:					
Adjustment to record Debt Service Fund for financial statement purposes	1,819,858	-	-	-	1,819,858
Adjustment to remove amounts held for others	-	(118,539)	(32,886)	-	(151,425)
Adjustment to remove discretely presented component unit from District funds	-	-	-	-	-
Rounding	(2)	-	-	1	(1)
Net Adjustments and Reclassifications	1,819,856	(118,539)	(32,886)	1	1,668,432
June 30, 2011, District Accounting Records Fund Balance	\$ 6,806,015	\$ -	\$ -	\$ 1,461,748	\$ 8,267,763

See the accompanying notes to the supplementary information.

	Balance Brought Forward	Student Body Center Fee Trust Fund	Student Financial Aid Trust Fund	Scholarship and Loan Trust Fund	Balance Forward
June 30, 2011, Annual Financial and Budget Report (CCFS-311) Fund Balance	\$ 6,599,331	\$ 260,080	\$ -	\$ 29,917	\$ 6,889,328
Adjustment and reclassifications increasing (decreasing the fund balance:					
Adjustment to record Debt Service Fund for financial statement purposes	1,819,858	-	-	-	1,819,858
Adjustment to remove amounts held for others	(151,425)	(260,080)	-	(29,917)	(441,422)
Adjustment to remove discretely presented component unit from District funds	-	-	-	-	-
Rounding	(1)	-	-	-	(1)
Net Adjustments and Reclassifications	1,668,432	(260,080)	-	(29,917)	1,378,435
June 30, 2011, District Accounting Records Fund Balance	\$ 8,267,763	\$ -	\$ -	\$ -	\$ 8,267,763

See the accompanying notes to the supplementary information.

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

June 30, 2011

*Mendocino-Lake
Community College District*

Page 3 of 3

	Balance Brought Forward	Other District	Total
June 30, 2011, Annual Financial and Budget Report (CCFS-311) Fund Balance	\$ 6,889,328	\$ 7,108,029	\$ 13,997,357
Adjustment and reclassifications increasing (decreasing the fund balance:			
Adjustment to record Debt Service Fund for financial statement purposes	1,819,858	-	1,819,858
Adjustment to remove amounts held for others	(441,422)	-	(441,422)
Adjustment to remove discretely presented component unit from District funds	-	(7,108,029)	(7,108,029)
Rounding	(1)	-	(1)
Net Adjustments and Reclassifications	1,378,435	(7,108,029)	(5,729,594)
June 30, 2011, District Accounting Records Fund Balance	\$ 8,267,763	\$ -	\$ 8,267,763

See the accompanying notes to the supplementary information.

**COMBINING BALANCE SHEETS – DISTRICT
FUNDS INCLUDED IN THE REPORTING
ENTITY**

*Mendocino-Lake
Community College District*
Page 1 of 4

June 30, 2011	General Unrestricted Fund	General Restricted Fund	Solar Debt Service Fund	Bond Debt Service Fund	Balance Forward
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 576,333	\$ -	\$ -	\$ -	\$ 576,333
Restricted cash and cash equivalents	-	494,920	-	-	494,920
Investments	-	-	-	-	-
Accounts receivable	3,317,350	534,753	130,571	-	3,982,674
Deposits and prepaid expenses	-	-	-	-	-
Due from Foundation	-	-	-	-	-
Total Current Assets	3,893,683	1,029,673	130,571	-	5,053,927
NONCURRENT ASSETS					
Restricted cash and cash equivalents	-	-	102,565	1,819,858	1,922,423
Total Noncurrent Assets	-	-	102,565	1,819,858	1,922,423
Total Assets	\$ 3,893,683	\$ 1,029,673	\$ 233,136	\$ 1,819,858	\$ 6,976,350
LIABILITIES					
Cash deficiency	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	222,306	63,627	-	-	285,933
Deferred revenue	262,612	755,192	-	-	1,017,804
Amounts held for others	-	-	-	-	-
Due to other funds	45	-	-	-	45
Total Liabilities	484,963	818,819	-	-	1,303,782
FUND EQUITY					
Fund balances:					
Reserved for special purposes	-	210,854	233,136	1,819,858	2,263,848
Unreserved	3,408,720	-	-	-	3,408,720
Total Fund Equity	3,408,720	210,854	233,136	1,819,858	5,672,568
Total Liabilities and Fund Equity	\$ 3,893,683	\$ 1,029,673	\$ 233,136	\$ 1,819,858	\$ 6,976,350

See the accompanying notes to the supplementary information.

**COMBINING BALANCE SHEETS – DISTRICT
FUNDS INCLUDED IN THE REPORTING
ENTITY**

June 30, 2011	Balance Brought Forward	Child Development Fund	Capital Outlay Projects Fund	Revenue Bond Construction Fund	Balance Forward
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 576,333	\$ -	-	\$ -	\$ 576,333
Restricted cash and cash equivalents	494,920	-	-	-	494,920
Investments	-	-	-	-	-
Accounts receivable	3,982,674	58,501	5,744	-	4,046,919
Deposits and prepaid expenses	-	-	-	-	-
Due from other funds	-	45	-	-	45
Total Current Assets	5,053,927	58,546	5,744	-	5,118,217
NONCURRENT ASSETS					
Restricted cash and cash equivalents	1,922,423	-	708,530	2,052,815	4,683,768
Total Noncurrent Assets	1,922,423	-	708,530	2,052,815	4,683,768
Total Assets	\$ 6,976,350	\$ 58,546	\$ 714,274	\$ 2,052,815	\$ 9,801,985
LIABILITIES					
Cash deficiency	\$ -	\$ 14,115	\$ -	\$ -	\$ 14,115
Accounts payable	285,933	44,431	16,073	1,617,569	1,964,006
Deferred revenue	1,017,804	-	-	-	1,017,804
Amounts held for others	-	-	-	-	-
Due from other funds	45	-	-	-	45
Total Liabilities	1,303,782	58,546	16,073	1,617,569	2,995,970
FUND EQUITY					
Fund balances:					
Reserved for special purposes	2,263,848	-	698,201	435,246	3,397,295
Unreserved	3,408,720	-	-	-	3,408,720
Total Fund Equity	5,672,568	-	698,201	435,246	6,806,015
Total Liabilities and Fund Equity	\$ 6,976,350	\$ 58,546	\$ 714,274	\$ 2,052,815	\$ 9,801,985

See the accompanying notes to the supplementary information.

**COMBINING BALANCE SHEETS – DISTRICT
FUNDS INCLUDED IN THE REPORTING
ENTITY**

*Mendocino-Lake
Community College District*
Page 3 of 4

June 30, 2011	Balance Brought Forward	Self- Insurance Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Balance Forward
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 576,333	\$ 86,984	\$ -	\$ -	\$ 663,317
Restricted cash and cash equivalents	494,920	-	118,539	32,859	646,318
Investments	-	1,134,898	-	-	1,134,898
Accounts receivable	4,046,919	-	-	27	4,046,946
Deposits and prepaid expenses	-	255,391	-	-	255,391
Due from other funds	45	-	-	-	45
Total Current Assets	5,118,217	1,477,273	118,539	32,886	6,746,915
NONCURRENT ASSETS					
Restricted cash and cash equivalents	4,683,768	-	-	-	4,683,768
Total Noncurrent Assets	4,683,768	-	-	-	4,683,768
Total Assets	\$ 9,801,985	\$ 1,477,273	\$ 118,539	\$ 32,886	\$ 11,430,683
LIABILITIES					
Cash deficiency	\$ 14,115	\$ -	\$ -	\$ -	\$ 14,115
Accounts payable	1,964,006	13,319	-	-	1,977,325
Deferred revenue	1,017,804	2,206	-	-	1,020,010
Amounts held for others	-	-	118,539	32,886	151,425
Due from other funds	45	-	-	-	45
Total Liabilities	2,995,970	15,525	118,539	32,886	3,162,920
FUND EQUITY					
Fund balances:					
Reserved for special purposes	3,397,295	1,461,748	-	-	4,859,043
Unreserved	3,408,720	-	-	-	3,408,720
Total Fund Equity	6,806,015	1,461,748	-	-	8,267,763
Total Liabilities and Fund Equity	\$ 9,801,985	\$ 1,477,273	\$ 118,539	\$ 32,886	\$ 11,430,683

See the accompanying notes to the supplementary information.

**COMBINING BALANCE SHEETS – DISTRICT
FUNDS INCLUDED
IN THE REPORTING ENTITY**

*Mendocino-Lake
Community College District*
Page 4 of 4

June 30, 2011	Balance Brought Forward	Student Body Center Fee Trust Fund	Student Financial Aid Trust Fund	Scholarship and Loan Trust Fund	Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 663,317	\$ -	\$ -	\$ -	\$ 663,317
Restricted cash and cash equivalents	646,318	260,080	-	29,917	936,315
Investments	1,134,898	-	-	-	1,134,898
Accounts receivable	4,046,946	-	-	-	4,046,946
Deposits and prepaid expenses	255,391	-	-	-	255,391
Due from other funds	45	-	-	-	45
Total Current Assets	6,746,915	260,080	-	29,917	7,036,912
NONCURRENT ASSETS					
Restricted cash and cash equivalents	4,683,768	-	-	-	4,683,768
Total Noncurrent Assets	4,683,768	-	-	-	4,683,768
Total Assets	\$ 11,430,683	\$ 260,080	\$ -	\$ 29,917	\$ 11,720,680
LIABILITIES					
Cash deficiency	\$ 14,115	\$ -	\$ -	\$ -	\$ 14,115
Accounts payable	1,977,325	-	-	-	1,977,325
Deferred revenue	1,020,010	-	-	-	1,020,010
Amounts held for others	151,425	260,080	-	29,917	441,422
Due to other funds	45	-	-	-	45
Total Liabilities	3,162,920	260,080	-	29,917	3,452,917
FUND EQUITY					
Fund balances:					
Reserved for special purposes	4,859,043	-	-	-	4,859,043
Unreserved	3,408,720	-	-	-	3,408,720
Total Fund Equity	8,267,763	-	-	-	8,267,763
Total Liabilities and Fund Equity	\$ 11,430,683	\$ 260,080	\$ -	\$ 29,917	\$ 11,720,680

See the accompanying notes to the supplementary information.

**COMBINING STATEMENTS OF REVENUES,
EXPENDITURES/EXPENSES AND CHANGES IN
FUND EQUITY – DISTRICT FUNDS INCLUDED
IN THE REPORTING ENTITY**

*Mendocino-Lake
Community College District*
Page 1 of 4

June 30, 2011	General Unrestricted Fund	General Restricted Fund	Solar Debt Service Fund	Bond Debt Service Fund	Balance Forward
OPERATING REVENUES					
Tuition and fees	\$ 1,937,988	\$ 113,358	\$ -	\$ -	\$ 2,051,346
Less: Scholarship discount and allowance	1,105,407	-	-	-	1,105,407
Net Tuition and Fees	832,581	113,358	-	-	945,939
Grants and contracts - noncapital:					
Federal	58,428	1,032,407	-	-	1,090,835
State	56,315	1,612,634	-	-	1,668,949
Local	165,800	28,818	-	-	194,618
Auxiliary enterprise sales and charges	61,663	-	-	-	61,663
Total Operating Revenues	1,174,787	2,787,217	-	-	3,962,004
OPERATING EXPENDITURES/EXPENSES					
Salaries	12,050,715	1,473,298	-	-	13,524,013
Employee benefits	4,541,150	638,689	-	-	5,179,839
Payments to students	-	118,534	-	-	118,534
Supplies, materials, and other services	1,490,882	580,282	-	-	2,071,164
Capital outlay	27,572	6,929	-	-	34,501
Utilities	648,712	-	-	-	648,712
Total Operating Expenditures/Expenses	18,759,031	2,817,732	-	-	21,576,763
Operating Income (Loss)	(17,584,244)	(30,515)	-	-	(17,614,759)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	11,983,125	-	-	-	11,983,125
Local property taxes	5,701,216	-	-	2,323,479	8,024,695
State taxes and other revenues	465,188	51,534	-	-	516,722
Investment income - noncapital	7,525	-	108	2,304	9,937
Interest expense, capital assets related debt	-	-	(241,868)	(1,374,450)	(1,616,318)
Debt service - principal	-	-	(475,906)	(815,000)	(1,290,906)
Other nonoperating revenues	245,476	-	602,833	-	848,309
Total Nonoperating Revenues (Expenditures)	18,402,530	51,534	(114,833)	136,333	18,475,564
Income (Loss) Before Other Revenues and Expenditures/Expenses	818,286	21,019	(114,833)	136,333	860,805
OTHER REVENUES AND EXPENDITURES					
State apportionments - capital	-	649	-	-	649
Excess of Revenues Over (Under) Expenditures/Expenses	818,286	21,668	(114,833)	136,333	861,454
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	-	200,000	-	200,000
Operating transfers out	(267,044)	-	-	-	(267,044)
Total Other Financing Sources (Uses)	(267,044)	-	200,000	-	(67,044)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses					
	551,242	21,668	85,167	136,333	794,410
Fund Equity - Beginning of Year	2,857,478	189,186	147,969	1,683,525	4,878,158
Fund Equity - End of Year	\$ 3,408,720	\$ 210,854	\$ 233,136	\$ 1,819,858	\$ 5,672,568

See the accompanying notes to the supplementary information.

**COMBINING STATEMENTS OF REVENUES,
EXPENDITURES/EXPENSES AND CHANGES IN
FUND EQUITY – DISTRICT FUNDS INCLUDED
IN THE REPORTING ENTITY**

June 30, 2011	Balance Brought Forward	Child Development Fund	Capital Outlay Projects Fund	Revenue Bond Construction Fund	Balance Forward
OPERATING REVENUES					
Tuition and fees	\$ 2,051,346	\$ -	\$ -	\$ -	\$ 2,051,346
Less: Scholarship discount and allowance	1,105,407	-	-	-	1,105,407
Net Tuition and Fees	945,939	-	-	-	945,939
Grants and contracts - noncapital:					
Federal	1,090,835	31,497	-	-	1,122,332
State	1,668,949	373,546	-	-	2,042,495
Local	194,618	41,070	-	-	235,688
Auxiliary enterprise sales and charges	61,663	-	-	-	61,663
Total Operating Revenues	3,962,004	446,113	-	-	4,408,117
OPERATING EXPENDITURES/EXPENSES					
Salaries	13,524,013	314,366	-	154,298	13,992,677
Employee benefits	5,179,839	136,180	-	74,084	5,390,103
Payments to students	118,534	-	-	-	118,534
Supplies, materials, and other services	2,071,164	23,239	3,150	375,555	2,473,108
Capital outlay	34,501	43,915	657,117	12,984,960	13,720,493
Utilities	648,712	12,187	-	-	660,899
Total Operating Expenditures/Expenses	21,576,763	529,887	660,267	13,588,897	36,355,814
Operating Income (Loss)	(17,614,759)	(83,774)	(660,267)	(13,588,897)	(31,947,697)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	11,983,125	-	-	-	11,983,125
Local property taxes	8,024,695	-	-	-	8,024,695
State taxes and other revenues	516,722	-	-	-	516,722
Investment income - noncapital	9,937	(98)	3,040	27,234	40,113
Interest expense, capital assets related debt	(1,616,318)	-	-	-	(1,616,318)
Debt service - principal	(1,290,906)	-	-	-	(1,290,906)
Other nonoperating revenues	848,309	16,828	181,767	-	1,046,904
Total Nonoperating Revenues (Expenditures)	18,475,564	16,730	184,807	27,234	18,704,335
Income (Loss) Before Other Revenues and Expenditures/Expenses	860,805	(67,044)	(475,460)	(13,561,663)	(13,243,362)
OTHER REVENUES AND EXPENDITURES					
State apportionments and grants - capital	649	-	18,443	-	19,092
Excess of Revenues Over (Under) Expenditures/Expenses	861,454	(67,044)	(457,017)	(13,561,663)	(13,224,270)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	200,000	67,044	-	-	267,044
Operating transfers out	(267,044)	-	-	-	(267,044)
Total Other Financing Sources (Uses)	(67,044)	67,044	-	-	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	794,410	-	(457,017)	(13,561,663)	(13,224,270)
Fund Equity - Beginning of Year	4,878,158	-	1,155,218	13,996,909	20,030,285
Fund Equity - End of Year	\$ 5,672,568	\$ -	\$ 698,201	\$ 435,246	\$ 6,806,015

See the accompanying notes to the supplementary information.

**COMBINING STATEMENTS OF REVENUES,
EXPENDITURES/EXPENSES AND CHANGES IN
FUND EQUITY – DISTRICT FUNDS INCLUDED
IN THE REPORTING ENTITY**

June 30, 2011	Balance Brought Forward	Self- Insurance Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Balance Forward
OPERATING REVENUES					
Tuition and fees	\$ 2,051,346	\$ -	\$ -	\$ -	\$ 2,051,346
Less: Scholarship discount and allowance	1,105,407	-	-	-	1,105,407
Net Tuition and Fees	945,939	-	-	-	945,939
Grants and contracts - noncapital:					
Federal	1,122,332	-	-	-	1,122,332
State	2,042,495	-	-	-	2,042,495
Local	235,688	-	-	-	235,688
Auxiliary enterprise sales and charges	61,663	-	-	-	61,663
Total Operating Revenues	4,408,117	-	-	-	4,408,117
OPERATING EXPENDITURES/EXPENSES					
Salaries	13,992,677	9,600	-	-	14,002,277
Employee benefits	5,390,103	(29,255)	-	-	5,360,848
Payments to students	118,534	-	-	-	118,534
Supplies, materials, and other services	2,473,108	-	-	-	2,473,108
Capital outlay	13,720,493	-	-	-	13,720,493
Utilities	660,899	-	-	-	660,899
Total Operating Expenditures/Expenses	36,355,814	(19,655)	-	-	36,336,159
Operating Income (Loss)	(31,947,697)	19,655	-	-	(31,928,042)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	11,983,125	-	-	-	11,983,125
Local property taxes	8,024,695	-	-	-	8,024,695
State taxes and other revenues	516,722	-	-	-	516,722
Investment income - noncapital	40,113	5,055	-	-	45,168
Interest expense, capital assets related debt	(1,616,318)	-	-	-	(1,616,318)
Debt service - principal	(1,290,906)	-	-	-	(1,290,906)
Other nonoperating revenues	1,046,904	14,715	-	-	1,061,619
Total Nonoperating Revenues (Expenditures)	18,704,335	19,770	-	-	18,724,105
Income (Loss) Before Other Revenues and Expenditures/Expenses	(13,243,362)	39,425	-	-	(13,203,937)
OTHER REVENUES AND EXPENDITURES					
State apportionments - capital	19,092	-	-	-	19,092
Excess of Revenues Over (Under) Expenditures/Expenses	(13,224,270)	39,425	-	-	(13,184,845)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	267,044	-	-	-	267,044
Operating transfers out	(267,044)	-	-	-	(267,044)
Total Other Financing Sources (Uses)	-	-	-	-	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	(13,224,270)	39,425	-	-	(13,184,845)
Fund Equity - Beginning of Year	20,030,285	1,422,323	-	-	21,452,608
Fund Equity - End of Year	\$ 6,806,015	\$ 1,461,748	\$ -	\$ -	\$ 8,267,763

See the accompanying notes to the supplementary information.

**COMBINING STATEMENTS OF REVENUES,
EXPENDITURES/EXPENSES AND CHANGES IN
FUND EQUITY – DISTRICT FUNDS INCLUDED
IN THE REPORTING ENTITY**

June 30, 2011	Balance Brought Forward	Student Body Center Fee Trust Fund	Student Financial Aid Trust Fund	Scholarship and Loan Trust Fund	Total
OPERATING REVENUES					
Tuition and fees	\$ 2,051,346	\$ -	\$ -	\$ -	\$ 2,051,346
Less: Scholarship discount and allowance	1,105,407	-	-	-	1,105,407
Net Tuition and Fees	945,939	-	-	-	945,939
Grants and contracts - noncapital:					
Federal	1,122,332	-	6,901,534	-	8,023,866
State	2,042,495	-	255,629	-	2,298,124
Local	235,688	-	-	-	235,688
Auxiliary enterprise sales and charges	61,663	-	-	-	61,663
Total Operating Revenues	4,408,117	-	7,157,163	-	11,565,280
OPERATING EXPENDITURES/EXPENSES					
Salaries	14,002,277	-	54,819	-	14,057,096
Employee benefits	5,360,848	-	-	-	5,360,848
Payments to students	118,534	-	7,102,344	-	7,220,878
Supplies, materials, and other services	2,473,108	-	-	-	2,473,108
Capital outlay	13,720,493	-	-	-	13,720,493
Utilities	660,899	-	-	-	660,899
Total Operating Expenditures/Expenses	36,336,159	-	7,157,163	-	43,493,322
Operating Income (Loss)	(31,928,042)	-	-	-	(31,928,042)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	11,983,125	-	-	-	11,983,125
Local property taxes	8,024,695	-	-	-	8,024,695
State taxes and other revenues	516,722	-	-	-	516,722
Investment income - noncapital	45,168	-	-	-	45,168
Interest expense, capital assets related debt	(1,616,318)	-	-	-	(1,616,318)
Debt service - principal	(1,290,906)	-	-	-	(1,290,906)
Other nonoperating revenues	1,061,619	-	-	-	1,061,619
Total Nonoperating Revenues (Expenditures)	18,724,105	-	-	-	18,724,105
Income (Loss) Before Other Revenues and Expenditures/Expenses	(13,203,937)	-	-	-	(13,203,937)
OTHER REVENUES AND EXPENDITURES					
State apportionments - capital	19,092	-	-	-	19,092
Excess of Revenues Over (Under) Expenditures/Expenses	(13,184,845)	-	-	-	(13,184,845)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	267,044	-	-	-	267,044
Operating transfers out	(267,044)	-	-	-	(267,044)
Total Other Financing Sources (Uses)	-	-	-	-	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	(13,184,845)	-	-	-	(13,184,845)
Fund Equity - Beginning of Year	21,452,608	-	-	-	21,452,608
Fund Equity - End of Year	\$ 8,267,763	\$ -	\$ -	\$ -	\$ 8,267,763

See the accompanying notes to the supplementary information.

**RECONCILIATION OF FUND EQUITY
TO NET ASSETS**

June 30, 2011

*Mendocino-Lake
Community College District*

Total fund equity - district funds included in the reporting entity		\$ 8,267,763
Assets recorded within the GASB 35 Statement of Net Assets not included in the District fund financial statements:		
Nondepreciable capital assets		27,222,808
Depreciable capital assets	\$ 55,455,855	
Accumulated depreciation	<u>(21,810,700)</u>	33,645,155
Deferred costs - net		477,027
Liabilities recorded within the GASB 35 Statement of Net Assets not recorded in the District fund financial statements:		
Accounts payable - interest payable		(565,896)
Claims payable		(175,000)
Long-term debt		(29,370,196)
Capital lease		(4,534,699)
Compensated absences		(795,127)
Other postemployment benefit obligations		<u>15,480</u>
Net assets reported within the GASB 35 Statement of Net Assets		\$ 34,187,315

See the accompanying notes to the supplementary information.

**RECONCILIATION OF CHANGE IN FUND
EQUITY TO CHANGE IN NET ASSETS**

June 30, 2011

*Mendocino-Lake
Community College District*

Change in fund equity - district funds included in the reporting entity	\$(13,184,845)
Amortization of bond issuance cost	(23,638)
Amortization of bond premium	85,461
Claims expense	123,451
Compensated absence expense	15,166
Depreciation expense	(1,471,830)
Expenses capitalized	13,190,258
Accrued interest expense	13,584
Debt service principle	1,290,906
Additional expenses of other postemployment benefits	39,213
Net change in net assets reported within the Statement of Revenues, Expenses, and Changes in Net Assets	\$ 77,726

See the accompanying notes to the supplementary information.

1. PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State Awards

The audit of the Mendocino-Lake Community College District for the year ended June 30, 2011 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.

The 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, 2011, 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.

2. 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.

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.

**NOTES TO THE SUPPLEMENTARY
INFORMATION**

June 30, 2011 and 2010

*Mendocino-Lake
Community College District*

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.

OTHER REPORTS SECTION



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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**

To the 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 (the District) as of and for the years ended June 30, 2011 and 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 28, 2011. 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.

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

Continued

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.

Matson and Isom

November 28, 2011



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**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**

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

Compliance

We have audited the compliance of Mendocino-Lake Community College District (the 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, 2011. 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, 2011.

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.

**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**

Continued

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.

This report is intended solely for the information and use of the 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.

Matson and Isom

November 28, 2011



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Formerly



Nystrom & Company LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE REQUIREMENTS

To the 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, 2011, and have issued our report thereon dated November 28, 2011.

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)*:

SALARIES OF CLASSROOM INSTRUCTORS: 50 PERCENT LAW
 APPORTIONMENT FOR INSTRUCTIONAL SERVICE AGREEMENTS/CONTRACTS
 STATE GENERAL APPORTIONMENT REQUIRED DATA ELEMENTS
 RESIDENCY DETERMINATION FOR CREDIT COURSES
 STUDENTS ACTIVELY ENROLLED
 CONCURRENT ENROLLMENT OF K-12 STUDENTS IN
 COMMUNITY COLLEGE CREDIT COURSES
 GANN LIMIT CALCULATION
 ENROLLMENT FEE
 CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS (CALWORKS) -
 USE OF STATE AND FEDERAL TANF FUNDING
 OPEN ENROLLMENT
 STUDENT FEES - INSTRUCTIONAL MATERIALS FEES AND HEALTH FEES
 ECONOMIC WORKFORCE DEVELOPMENT (EWD)
 EXTENDED OPPORTUNITY PROGRAMS AND SERVICES (EOPS)
 DISABLED STUDENT PROGRAMS AND SERVICES (DSPS)
 COOPERATIVE AGENCIES RESOURCES FOR EDUCATION (CARE)
 PREFERENCE FOR VETERANS AND QUALIFIED SPOUSES FOR
 FEDERALLY FUNDED QUALIFIED TRAINING PROGRAMS
 TO BE ARANGED HOURS (TBA)

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE REQUIREMENTS

Continued

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, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2011.

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.

Matson and Isom

November 28, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS SECTION

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2011

*Mendocino-Lake
Community College District*

**SECTION I
SUMMARY OF AUDIT RESULTS**

FINANCIAL STATEMENTS

Type of auditors' report issued	Unqualified
Internal control over financial reporting	
Material weaknesses identified?	No
Significant deficiency identified not considered to be a material weakness?	No
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiency identified not considered to be a material weakness?	No
Type of auditors' report issued on compliance for major program	Unqualified
Audit findings disclosed relative to major federal award programs?	No
Identification of major programs	
CFDA Nos. 84.007, 84.268, 84.033, 84.063, 84.375	Student Financial Assistance Cluster
	Migrant Education High School
CFDA No. 84.141	Equivalency Program
	Migrant Education College Assistance
CFDA No. 84.149A	Migrant Program
Threshold for distinguishing types A and B programs	\$300,000
Determined to be a low-risk auditee?	No

STATE AWARDS

Internal control over state programs	
Material weaknesses identified?	No
Significant deficiency identified not considered to be a material weakness?	No
Type of auditors' report issued on compliance for state programs	Unqualified

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2011

*Mendocino-Lake
Community College District*

**SECTION II FINDINGS
FINANCIAL STATEMENTS AUDIT**

None.

**SECTION III FINDINGS
FEDERAL AWARDS AUDIT**

None.

**SECTION IV FINDINGS
STATE AWARDS AUDIT**

None.

None.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2011

*Mendocino-Lake
Community College District*

DEPARTMENT OF EDUCATION (Salary Allocation)

10-1

Significant Deficiency

Condition

The District did not have a procedure in place to periodically complete time and effort reporting in compliance with federal cost circulars.

Criteria

OMB Circular A-21 requires that salaries allocated to federal programs be supported by after-the-fact time and effort reporting.

Effect

The District was not in compliance with requirements prescribed by the federal government when charging salaries to federal grant programs.

Recommendation

The District should develop a procedure to complete time and effort reporting in accordance with OMB Circular A-21.

Action Taken

Fully implemented.