Matson & Isom

Mendocino-Lake Community College District

Ukiah, California

Financial Statements and Supplementary Information with Independent Auditors' Reports

June 30, 2012 and 2011

TABLE OF CONTENTS

June 30, 2012 and 2011

INDEPENDENT AUDITORS' REPORT

MATSON & ISOM

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 (the District) as of and for the years ended June 30, 2012 and 2011, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012, 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 11 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 accompanying financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards 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 is also not a required part of the financial statements. 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 basic 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 30, 2012
Redding, California

MANAGEMENTS' DISCUSSION AND ANALYSIS
(Required Supplementary Information)

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2012. 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

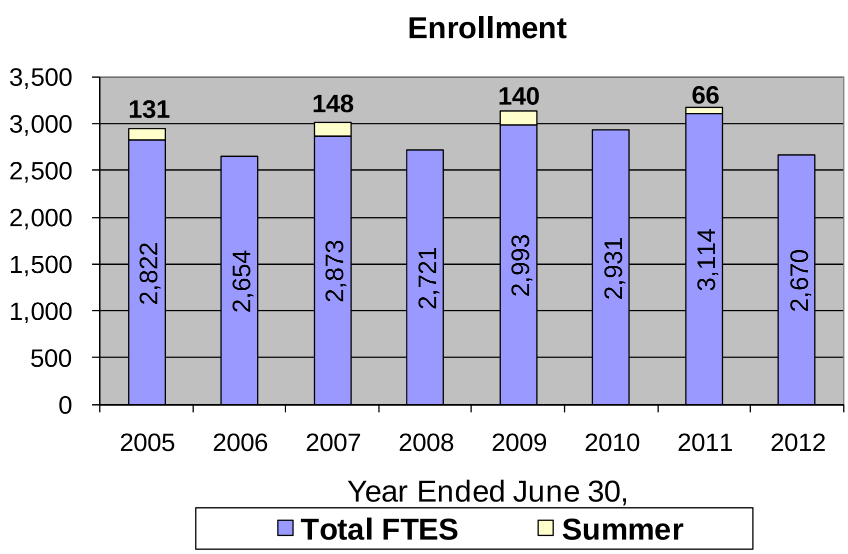
The Mendocino College Foundation, Inc. (Foundation) was established as a legally separate not-for-profit corporation to support the District and its students. It provides scholarships for the benefit of district students and contributes directly to the District. The Foundation is considered a component unit for financial reporting purposes 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. 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, 2012, $49,935,685 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 planning and construction of new centers in Willits and Lakeport.

Enrollment Highlights

The District reported 2,670 total full-time equivalent students (FTES) on the 2011/12 Final Apportionment Attendance Report (CCFS-320). This is a decrease of 444 FTES from the 2010/11 FTES of 3,114. This decrease is partially the result of reporting 66 of Summer 2011 FTES in 2010/11 which would normally have been reported in 2011/12. This decrease did not result in a loss of 2011/12 apportionment funding due to the stability portion of the funding formula. The following chart shows the enrollment history and reflects the impact of summer FTES reporting.



Statement of Net Assets

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

	2012 (in thousands)	2011 (in thousands)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 0	$649
Restricted cash and cash equivalents	1,304	936
Investments	1,139	1,135
Receivables	5,131	4,047
Inventory and other assets	0	96
Total Current Assets	$7,574	$6,863
Noncurrent Assets		
Capital Assets, non-depreciable	$39,786	$27,223
Capital Assets, depreciable	37,190	33,645
Restricted cash and cash equivalents	22,798	4,684
Deferred charges, net	1,793	477
Total Noncurrent Assets	$101,567	$66,029
TOTAL ASSETS	$109,141	$72,892
LIABILITIES		
Current Liabilities:		
Accounts payable	$2,334	$2,543
Deferred revenue	1,137	1,020
Amounts held for others	436	441
Long-term debt, current portion	983	795
Total Current Liabilities	$4,890	$4,800
Noncurrent Liabilities:		
Compensated absences and capital lease	$4,262	$4,679
General obligation bonds	68,285	29,225
Total Noncurrent Liabilities	$72,547	$33,905
TOTAL LIABILITIES	$77,437	$38,705
NET ASSETS		
Invested in Capital Assets	$26,186	$27,398
Restricted, expendable	4,133	4,424
Unrestricted	1,385	2,365
TOTAL NET ASSETS	$31,704	$34,187
TOTAL LIABILITIES AND NET ASSETS	$109,141	$72,892

- Cash and cash equivalents consist of cash in the Mendocino County Treasury and investments in the Local Agency Investment Fund (LAIF).

- Receivables consist mainly of amounts due as of June 30, 2012 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 General Obligation Bond proceeds issued as Series A and B 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 the state or granting agency.

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

	July 1, 2011	Additions	Transfers	June 30, 2012
Non-Depreciable Assets	$27,222,808	$17,329,971	($4,766,560)	$39,786,219
Depreciable Assets	55,455,855	160,902	$4,766,560	60,383,317
Accumulated Depreciation	21,810,700	1,382,305		23,193,005
Depreciable Assets, net	$33,645,155	($1,221,403)	$0	$37,190,312

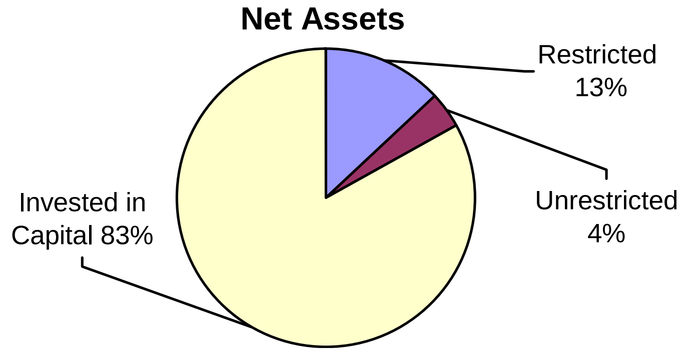
- Cash deficiency is a result of the deferral of $961 million in 2011/12 community college apportionment funding which was paid in July and October of 2012. For the college, the deferral amounted to $3.7 million.

- Accounts payable consist primarily of payables to vendors and accrued payroll ($2.3 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 ($68.58 million), capital lease ($3.88 million), accrued vacation and load banking payable ($760,000) and OPEB obligation ($310,000).

- 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.



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

	2012 (in thousands)	2011 (in thousands)
REVENUE		
Operating revenues:		
Net tuition and fees	$984	$946
Grants and Contracts, non-capital	10,414	10,558
Auxiliary enterprise sales and charges	33	62
Total operating revenues	$11,431	$11,565
Total operating expenses	31,679	31,597
OPERATING INCOME (LOSS)	(20,248)	(20,032)
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, non-capital	11,783	11,983
Local property taxes	7,910	8,025
State taxes and other revenues	595	517
Investment income, non-capital	176	45
Other non-operating revenues (expenses),net	(2,699)	(479)
NON-OPERATING INCOME (LOSS)	17,765	20,090
INCOME (LOSS) before other revenues	(2,483)	59
State apportionments, capital	0	19
NET ASSETS		
Net assets – beginning of year	34,187	34,110
Net assets – end of year	$31,704	$34,187

- Net tuition and fees total $980,000 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 ($11.78 million). State apportionment revenue reported is exclusive of regular enrollment fees and property taxes, which are reported separately.

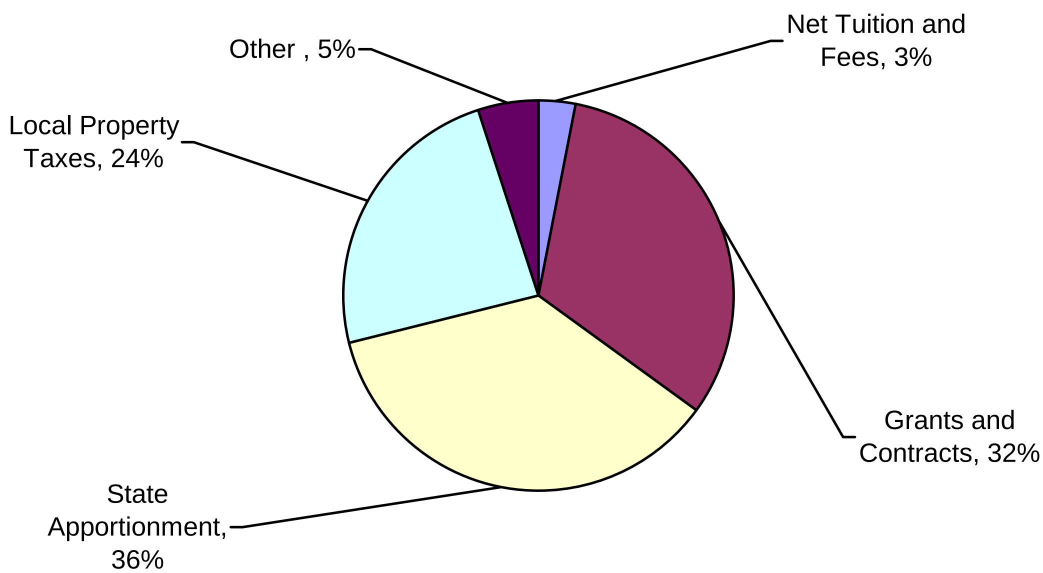
- Local property tax revenues totaled $7.9 million from those portions of Lake and Mendocino counties that lie within the District boundaries. Increases/decreases in property tax revenue reduce/increase the District's state apportionment revenue.

- State taxes and other revenues consist primarily of state lottery revenue ($590,000).

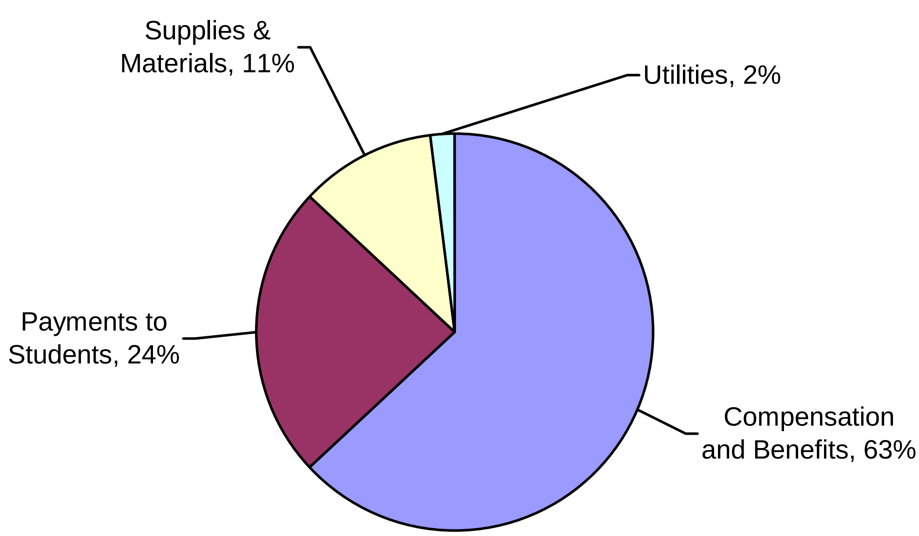
- Investment income is derived from interest received on funds on deposit at the Mendocino County Treasury and the Local Agency Investment Fund (LAIF), which is operated by the State of California.

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

Revenues



Expenses



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.

	2012 (in thousands)	2011 (in thousands)
Net Cash Provided (Used) By:		
Operating activities	$(18,339)	$(17,999)
Non-capital financing activities	17,813	19,322
Capital and related financing activities	18,186	(13,252)
Investing activities	172	40
Net increase (decrease) in cash	17,832	(11,889)
Cash – beginning of the fiscal year	6,269	18,158
Cash – end of the fiscal year	$24,102	$6,269

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 36% of its funding through state general apportionments and 24% 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 2012/13 budget for community colleges contained no Cost of Living Adjustment (COLA), making this the fifth 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 2013 in the Governor's Budget.

Financial Challenges Facing the District

1) FUND BALANCES

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

- General Fund – The General Fund unrestricted ending balance decreased $339,733 during 2011/12 to $3,068,996, or 15.5% of total General Fund expenditures.

- 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	
2011/12	$1,116,042	

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

2) ESCALATION OF HEALTH BENEFIT COSTS

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

Fiscal Year	% Change in 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%
2011/12	(15.55%)	0%
TOTAL INCREASE (Compounded)	222.39%	32.27%

For the years 1999/2000 through 2011/12, the compound increase in Health Benefit costs was 222.39% while the COLA revenue provided to fund those and other costs has had a compound increase of 32.27%. Health Benefit costs has increased over that period nearly seven times the rate at which the COLA has increased.

The District experienced a good year in 2011/12, with contributions exceeding expenditures, resulting in an ending fund balance in the Health Fund of $1.1 million. For this reason, health benefits are budgeted in 2012/13 at $1,936 per employee per month, the same level as the amount budgeted per month in 2011/12.

3) APPORTIONMENT BASE FUNDING

An out-year exposure created by the “FTES Shift” discussed previously is the District must report 3,097 FTES in 2012/13 to avoid a loss of apportionment revenue in 2012/13. For 2011/12, the District received stability funding for 427 FTES reported below 3,097 which resulted in no loss of apportionment revenue. Stability funding is granted for one year only, any level of workload production less than 3,097 FTES in 2012/13 will be considered “Decline”, and will result in a corresponding loss of apportionment revenue below prior funding levels.

4) GASB 45 – RETIREE HEALTH BENEFITS

The actuarial study required by GASB 45 to project the District's future Retiree Health funding obligations was updated in June 2011 and included an actuarial accrued liability (AAL) of $6,236,312. 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, 2012, the District has not made a deposit to the CCLC GASB 45 (irrevocable) Trust Fund for Retiree Health Benefits.

As of June 30, 2012, the District does have $1,418,441 reserved for all self-insurance issues in the District's Special Reserve Fund. Any portion of these funds could be deposited in the CCLC GASB 45 Trust Fund in the future.

PURPOSE OF THIS DISCUSSION AND ANALYSIS

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

FINANCIAL SECTION

June 30	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ -	$ 649,202
Restricted cash and cash equivalents	1,303,555	936,315
Investments	1,139,156	1,134,898
Accounts receivable	5,131,231	4,046,946
Deposits and prepaid expenses	-	95,871
Total Current Assets	7,573,942	6,863,232
NONCURRENT ASSETS		
Restricted cash and cash equivalents	22,798,046	4,683,768
Nondepreciable capital assets	39,786,219	27,222,808
Depreciable capital assets - net	37,190,312	33,645,155
Deferred charges - net	1,792,434	477,027
Total Noncurrent Assets	101,567,011	66,028,758
Total Assets	$ 109,140,953	$ 72,891,990
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 2,333,288	$ 2,543,221
Deferred revenue	1,137,182	1,020,010
Amounts held for others	436,224	441,422
Long-term debt - current portion	290,000	145,000
Other long-term liabilities - current portion	692,943	650,423
Total Current Liabilities	4,889,637	4,800,076
NONCURRENT LIABILITIES		
Long-term debt - noncurrent portion	68,285,198	29,225,196
Other long-term liabilities	4,261,931	4,679,403
Total Noncurrent Liabilities	72,547,129	33,904,599
Total Liabilities	77,436,766	38,704,675
NET ASSETS		
Investments in capital assets - net of related debt	26,186,347	27,398,314
Restricted - expendable	4,133,242	4,423,797
Unrestricted	1,384,598	2,365,204
Total Net Assets	31,704,187	34,187,315
Total Liabilities and Net Assets	$ 109,140,953	$ 72,891,990

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years Ended June 30	2012	2011
OPERATING REVENUES		
Tuition and fees	$ 2,650,812	$ 2,051,346
Scholarship discounts and allowances	1,666,418	1,105,407
Tuition and Fees - Net	984,394	945,939
Grants and contracts - noncapital:		
Federal	7,782,503	8,023,866
State	2,417,926	2,298,124
Local	213,130	235,688
Auxiliary enterprise sales and charges	32,760	61,663
Total Operating Revenues	11,430,713	11,565,280
OPERATING EXPENSES		
Salaries	13,935,067	13,907,905
Employee benefits	5,202,674	5,111,653
Payments to students	7,138,484	7,220,878
Supplies, materials, and other operating expenses and services	3,342,454	3,223,899
Utilities	677,657	660,899
Depreciation	1,382,305	1,471,830
Total Operating Expenses	31,678,641	31,597,064
Operating Loss	(20,247,928)	(20,031,784)
NONOPERATING REVENUES (EXPENSES)		
State apportionments - noncapital	11,782,928	11,983,125
Local property taxes	7,909,961	8,024,695
State taxes and other revenues	594,782	516,722
Investment income	175,890	45,168
Interest expense	(3,650,528)	(1,540,911)
Other nonoperating revenues	951,767	1,061,619
Total Nonoperating Revenues (Expenses)	17,764,800	20,090,418
Income (Loss) Before Other Revenues and Expenses	(2,483,128)	58,634
State apportionments and grants - capital	-	19,092
Change in Net Assets	(2,483,128)	77,726
Net Assets - Beginning of Year	34,187,315	34,109,589
Net Assets - End of Year	$ 31,704,187	$ 34,187,315

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

Years Ended June 30	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 1,083,745	$ 887,687
Federal grants and contracts	7,781,603	7,918,290
State grants and contracts	2,462,920	2,994,619
Local grants and contracts	212,476	229,934
Payments to/on behalf of employees	(13,647,336)	(13,989,379)
Payments for benefits	(5,075,244)	(4,949,088)
Payments for scholarships and grants	(7,113,225)	(7,210,831)
Payments to suppliers	(3,391,956)	(3,273,684)
Payments for utilities	(677,657)	(660,899)
Auxiliary enterprise sales and charges	32,760	66,772
Other receipts (payments)	(7,404)	(12,156)
Net Cash Used by Operating Activities	(18,339,318)	(17,998,735)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State apportionments - noncapital	10,642,324	12,235,347
Local property taxes - noncapital	5,616,795	5,701,216
State taxes and other revenues	602,429	413,588
Other receipts (payments)	951,767	972,104
Net Cash Provided by Noncapital Financing Activities	17,813,315	19,322,255
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State apportionments - capital	-	19,092
Local property taxes - capital	2,293,166	2,323,479
Purchases of capital assets	(17,964,677)	(12,687,505)
Principal paid on long-term debt	(1,765,423)	(1,231,621)
Interest paid on long-term debt	(1,876,171)	(1,675,603)
Bond proceeds from Series B general obligation bond	37,499,792	-
Net Cash Provided (Used) by Capital and Related Financing Activities	18,186,687	(13,252,158)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(4,258)	(5,519)
Interest on investments	175,890	45,168
Net Cash Provided by Investing Activities	171,632	39,649
Net Increase (Decrease) in Cash and Cash Equivalents	17,832,316	(11,888,989)
Cash and Cash Equivalents - Beginning of Year	6,269,285	18,158,274
Cash and Cash Equivalents - End of Year	$ 24,101,601	$ 6,269,285

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

Years Ended June 30	2012	2011
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (20,247,928)	$ (20,031,784)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	1,382,305	1,471,830
Changes in:		
Accounts receivable	48,672	(66,404)
Deposits and prepaid expenses	126,590	147,925
Accounts payable	(51,882)	(77,720)
Deferred revenue	117,172	609,297
Amounts held for others	(5,198)	(12,980)
Compensated absences	(34,625)	(15,166)
Other postemployment benefit/obligation	325,576	(23,733)
Net Cash Used by Operating Activities	$ (18,339,318)	$ (17,998,735)
COMPONENTS OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	$ -	$ 649,202
Restricted cash and cash equivalents - current	1,303,555	936,315
Restricted cash and cash equivalents - noncurrent	22,798,046	4,683,768
Total Cash and Cash Equivalents	$ 24,101,601	$ 6,269,285

NONCASH INVESTING AND FINANCING ACTIVITIES

During the current year, the District issued general obligation bonds with a cost of issuance of $1,370,451.

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

June 30	2012	2011
ASSETS		
Cash and cash equivalents	$ 80,967	$ 85,466
Investments	6,180,529	6,154,005
Accounts receivable	17,365	16,654
Assets held by others	110,651	98,307
Land	733,196	733,196
Infrastructure	33,278	33,278
Total Assets	$ 7,155,986	$ 7,120,906
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 12,278	$ 12,377
Deferred revenue	-	500
Total Liabilities	12,278	12,877
NET ASSETS		
Unrestricted	5,704,102	5,849,270
Temporarily restricted	310,335	300,910
Permanently restricted	1,129,271	957,849
Total Net Assets	7,143,708	7,108,029
Total Liabilities and Net Assets	$ 7,155,986	$ 7,120,906

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

STATEMENTS OF ACTIVITIES – COMPONENT UNIT – MENDOCINO COLLEGE FOUNDATION, INC.

Years Ended June 30	2012	2011
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES, GAINS, AND OTHER SUPPORT		
Special events (Gala):		
Gross revenue	$ 84,317	$ 119,052
Less: Event expenses	(33,908)	(38,398)
Total Special Events	50,409	80,654
Contributions	17,445	25,852
Interest and dividends	135,093	143,192
Net realized gains (losses)	111,218	61,440
Net unrealized gains (losses)	(73,146)	557,520
Interest on bank deposits	352	153
Total Revenues, Gains, and Other Support	241,371	868,811
Net Assets Released From Restriction	223,023	209,031
EXPENSES		
Program services:		
Scholarships	157,418	130,720
Support of District	167,175	153,700
Total Program Services	324,593	284,420
Supporting services:		
Management and general	213,187	185,877
Fundraising	71,782	56,368
Total Supporting Services	284,969	242,245
Total Expenses	609,562	526,665
Change in Unrestricted Net Assets	$ (145,168)	$ 551,177

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

Years Ended June 30		2012		2011
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS				
REVENUES AND GAINS				
Contributions	$	191,622	$	211,694
Interest and dividends		24,227		23,474
Net realized gains (losses)		2,232		3,581
Net unrealized gains (losses)		14,367		104,015
Total Revenues and Gains		232,448		342,764
Net Assets Released From Restriction		(223,023)		(209,031)
Change in Temporarily Restricted Net Assets		9,425		133,733
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS				
Contributions		171,422		70,025
Change in Permanently Restricted Net Assets		171,422		70,025
Change in Net Assets		35,679		754,935
Net Assets - Beginning of Year		7,108,029		6,353,094
Net Assets - End of Year	$	7,143,708	$	7,108,029

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

STATEMENTS OF CASH FLOWS – COMPONENT UNIT – MENDOCINO COLLEGE FOUNDATION, INC.

Years Ended June 30	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 35,679	$ 754,935
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Less: Reinvested dividends	(159,320)	(166,666)
Subtract/add net realized and unrealized gain/loss on investments	(54,671)	(726,556)
Less: Noncash contribution (gift annuity)	(12,344)	(42,025)
Changes in:		
Accounts receivable	(711)	(16,654)
Accounts payable	(99)	9,784
Deferred revenue	(500)	500
Net Cash Used by Operating Activities	(191,966)	(186,682)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	553,143	452,000
Purchase of investments	(365,676)	(240,500)
Net Cash Provided by Investing Activities	187,467	211,500
Net Change in Cash	(4,499)	24,818
Cash - Beginning of Year	85,466	60,648
Cash - End of Year	$ 80,967	$ 85,466

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity Mendocino-Lake Community College District (the 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. (the 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 Statement Nos. 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.

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, 2012 and 2011, 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.

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 $55,044 and $23,638 for the years ended June 30, 2012 and 2011, 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.

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, and (3) most federal, state, and local grants and contracts, and federal appropriations.
>
> *Nonoperating Revenues*: Nonoperating 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, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Mendocino and the County of Lake bill and collect the taxes for the District.

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

The budget is revised during the year to incorporate categorical funds that are awarded during the year and miscellaneous changes to the spending plans. The District's governing board approves revisions to the budget.

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

DISCRETELY PRESENTED COMPONENT UNIT – FOUNDATION

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

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

Unrestricted Net Assets: Net assets not subject to donor-imposed stipulations.

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

Permanently Restricted Net Assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

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

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 the Community College League of California (the 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.

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.

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, 2012 and 2011, are displayed on the statement of net assets as follows:

	2012	2011
CURRENT		
Cash and cash equivalents	$ (620,669)	$ 649,202
Restricted cash and cash equivalents	1,924,224	936,315
Investments	1,139,156	1,134,898
NONCURRENT		
Restricted cash and cash equivalents	22,798,046	4,683,768
Total Cash and Investments	$ 25,240,757	$ 7,404,183
FOUNDATION		
Cash and cash equivalents	$ 80,967	$ 85,466
Investments	6,180,529	6,154,005
Total Cash and Investments	$ 6,261,496	$ 6,239,471

At June 30, 2012 and 2011, the carrying amount of the District's and Foundation's deposits are summarized as follows:

	2012	2011
District:		
Cash in County treasury	$ 22,360,428	$ 4,158,084
Cash on hand and in banks	1,741,173	2,111,201
Total Deposits	$ 24,101,601	$ 6,269,285
Foundation:		
Cash in County treasury	$ 80,967	$ 85,466
Total Deposits	$ 80,967	$ 85,466

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 accounts weighted average maturities were 0.830 and 0.843 years at June 30, 2012 and 2011, 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, $396,448 and $369,533 of the District bank balances at June 30, 2012 and 2011, 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

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, 2012 and 2011, the District's and Foundation's investments are as follows:

	2012	**2011**
District:		
Investment in LAIF	$ 1,139,156	$ 1,134,898
Total Investments	$ 1,139,156	$ 1,134,898
Foundation:		
Money market funds	$ 56,059	$ 107,435
Mutual funds	6,124,470	6,046,570
Total Investments	$ 6,180,529	$ 6,154,005

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, 2012 and 2011, 3.47% and 5.01%, 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 351.97 days and 280.44 days at June 30, 2012 and 2011, respectively.

Risk Information

Interest rate risk is the risk that changes in interest rates that 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.

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% 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% 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% 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, 2012 and 2011:

	2012	2011
Tuition and fees	$ 175,365	$ 238,480
Federal grants and contracts	430,801	425,156
State grants and contracts	130,849	122,051
State apportionment	3,989,385	2,848,781
State taxes and other revenue	404,831	412,478
Total	$ 5,131,231	$ 4,046,946

4. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2012 and 2011, is summarized as follows:

	Balance June 30, 2011	Additions	Deductions	Transfers	Balance June 30, 2012
NONDEPRECIATED CAPITAL ASSETS					
Land	$ 7,530,440	$ 15,000	$ -	$ -	$ 7,545,440
Equipment in progress	1,316,165	81,241	-	-	1,397,406
Construction in progress	18,376,203	17,233,730	-	(4,766,560)	30,843,373
Total Nondepreciated Capital Assets	27,222,808	17,329,971	-	(4,766,560)	39,786,219
DEPRECIATED CAPITAL ASSETS					
Buildings and improvements	51,272,744	110,459	-	4,766,560	56,149,763
Equipment	4,183,111	50,443	-	-	4,233,554
Total Depreciated Capital Assets	55,455,855	160,902	-	4,766,560	60,383,317
Less: Accumulated depreciation	21,810,700	1,382,305	-	-	23,193,005
Total Capital Assets - Net	$ 33,645,155	$ (1,221,403)	$ -	$ 4,766,560	$ 37,190,312

	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

There was no activity in the Foundation’s capital assets for the years ended June 30, 2012 and 2011.

5. ACCOUNTS PAYABLE

Accounts payable at June 30, 2012 and 2011, consisted of the following:

	2012	2011
Accrued payroll and related liabilities	$ 8,326	$ 11,546
Accrued interest	835,450	565,896
Construction projects	1,143,765	1,617,569
Vendor and other payables	345,747	348,210
Total	$ 2,333,288	$ 2,543,221

6. DEFERRED REVENUE

Deferred revenue at June 30, 2012 and 2011, consisted of the following:

	2012	2011
Tuition and fees	$ 243,664	$ 207,428
Trust account	80,443	55,184
Federal grants and contracts	11,166	6,421
State grants and contracts	793,037	739,245
Local grants and contracts	8,872	9,526
Other	-	2,206
Total	$ 1,137,182	$ 1,020,010

7. LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the years ended June 30, 2012 and 2011:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
LONG-TERM DEBT				
General Obligation Bonds - Series A	$ 29,370,196	$ -	$ 234,619	$ 29,135,577
General Obligation Bonds - Series B	-	40,441,027	1,001,406	39,439,621
Total Long-Term Debt	$ 29,370,196	$ 40,441,027	$ 1,236,025	$ 68,575,198
OTHER LONG-TERM LIABILITIES				
Capital lease	$ 4,534,699	$ -	$ 650,423	$ 3,884,276
Compensated absences	795,127	-	34,625	760,502
Other postemployment benefit obligation	(15,480)	325,576	-	310,096
Total Other Long-Term Liabilities	$ 5,314,346	$ 325,576	$ 685,048	$ 4,954,874

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011
LONG-TERM DEBT				
General Obligation Bonds - Series A	$ 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 Long-Term Liabilities	$ 5,785,346	$ -	$ 471,000	$ 5,314,346

Long-term liabilities consisted of the following obligations at June 30, 2012 and 2011:

	2012	2011
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%.	$ 27,390,000	$ 27,535,000
2011 General Obligation Bond, Series B, issued in the original amount of $37,499,792, including current interest bonds and capital appreciation bonds. Final maturity in 2051. Interest rates range from 2.00% to 11.750%.	38,100,576	-
Subtotal	65,490,576	27,535,000
Premium on 2007 General Obligation Bonds - Series A	1,745,577	1,835,196
Premium on 2011 General Obligation Bonds - Series B	1,339,045	-
Net General Obligation Bonds	68,575,198	29,370,196
Less: Current portion	290,000	145,000
Total Long-Term Debt - Noncurrent Portion	$ 68,285,198	$ 29,225,196

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

Year Ending June 30	Principal	Interest	Bonds Total	Bond Premium	Total
2013	$ 290,000	$ 2,000,082	$ 2,290,082	$ 128,425	$ 2,418,507
2014	280,000	1,989,482	2,269,482	133,392	2,402,874
2015	413,501	1,998,180	2,411,681	138,829	2,550,510
2016	475,001	1,980,680	2,455,681	144,759	2,600,440
2017	573,255	2,021,306	2,594,561	150,217	2,744,778
2018-2022	4,746,908	10,280,774	15,027,682	743,682	15,771,364
2023-2027	8,279,447	11,568,058	19,847,505	641,037	20,488,542
2028-2032	14,409,542	11,194,274	25,603,816	350,463	25,954,279
2033-2037	6,248,739	27,820,056	34,068,795	171,306	34,240,101
2038-2042	18,742,028	25,770,251	44,512,279	171,306	44,683,585
2043-2047	5,005,106	54,580,561	59,585,667	171,306	59,756,973
2048-2052	4,456,265	74,131,181	78,587,446	139,900	78,727,346
Total	$ 63,919,792	$ 225,334,885	$ 289,254,677	$ 3,084,622	292,339,299
Less: Current interest (excluding accretion of $1,570,784)					(223,764,101)
Net Principal					$ 68,575,198

Accretion

General Obligation Bonds as of June 30, 2012, have been increased by $1,570,784 to include accumulated accretion of the capital appreciation bonds. Annual accretion is recognized as interest in the statement of activities.

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%.	$ 3,884,276

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

Year Ending June 30	Principal	Interest	Total
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	285,250	73,699	358,949
2018-2021	1,310,853	130,143	1,440,996
Total	$ 3,884,276	$ 720,232	$ 4,604,508

Other Postemployment Benefits (OPEB) Obligation

The District's actuarially determined annual required contributions for the years ended June 30, 2012 and 2011, was $640,341 and $639,984, respectively, and contributions made by the District during the years were $314,765 and $679,197, respectively, which resulted in a net OPEB obligation liability of $310,096 for June 30, 2012, and asset of $15,480 for June 30, 2011. 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 (CalSTRS), and classified employees are members of the Public Employees' Retirement System (CalPERS).

California State Teachers' Retirement System

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% or more in a full-time equivalent position, participate in the defined benefit plan (the DB Plan). Part-time educators hired under a contract of less than 50% or on an hourly or daily basis without contract may elect membership in the cash balance benefit program (the CB Benefit Program). Since January 1, 1999, both of these plans have been part of the State Teachers' Retirement System. The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for CalSTRS. Copies of the CalSTRS annual financial report may be obtained from the CalSTRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

CalSTRS provides retirement, disability, and death benefits, and depending on which component of the Plan 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 2% 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% 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% of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90% of final compensation. After five years of credited service, members become 100% vested in retirement benefits earned to date. If a members' employment is terminated, the accumulated member contributions are refundable.

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

Funding Policy

Active plan members are required to contribute 8.00% 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, 2012 and 2011, 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, 2012, 2011, and 2010 were $578,523, $561,057, and $565,974, respectively, 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 5.5040% of covered members' gross salaries. The contribution for the years ended June 30, 2012, 2011, and 2010, are estimated to have been $345,759, $326,994, and $331,643, 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

Plan Description

All full-time classified employees participate in the CalPERS, a cost-sharing, 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. 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% 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% 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 7.00% 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 years ended June 30, 2012 and 2011, was 10.923% and 10.707%, 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, 2012, 2011, and 2010, were $588,919, $563,050, and $512,775, respectively, 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, 2012, 2011, and 2010.

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).

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.

Year Ended	Deposits/ (Claims Payable) Beginning Balance	Current-Year Claims and Changes in Estimates	Current-Year Claim Payments	Deposits/ (Claims Payable) Ending Balance
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
June 30, 2012	$ 80,391	$ (1,938,590)	$ 1,812,000	$ (46,199)

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 11 community college districts throughout Northern California.

Until June 30, 1994, the District participated in the 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 JPA'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 1994-95 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.

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)

The District provides postemployment healthcare 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 consisted of 20 retirees receiving benefits and 178 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, 2012 and 2011, the District contributed $314,765 and $679,197, 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 costs 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.

	2012	2011
Annual required contribution	$ 640,341	$ 639,984
Contributions made	(314,765)	(679,197)
Increase (Decrease) in Net OPEB Obligation	325,576	(39,213)
Net OPEB Obligation - Beginning of Year	(15,480)	23,733
Net OPEB Obligation (Asset) - End of Year	$ 310,096	$ (15,480)

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal 2012, 2011, and 2010, is as follows:

Year Ended	**Annual OPEB Cost**	**Actual Employer Contributions**	**Percentage Contributed**	**Net Ending OPEB Obligation (Asset)**
June 30, 2010	$ 470,447	$ 458,073	97.37%	$ 23,733
June 30, 2011	$ 639,984	$ 679,197	106.13%	$ (15,480)
June 30, 2012	$ 640,341	$ 314,765	49.16%	$ 310,096

Funded Status and Funding Progress

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

	January 1, 2011
Actuarial accrued liability (AAL)	$ 6,236,312
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability	$ 6,236,312
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active members)	$ 10,218,222
UAAL as a Percentage of Covered Payroll	61.03%

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 June 13, 2011, 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.

12. COMMITMENTS

The District has outstanding construction commitments related to the Proposition 39 Bond Funds of $10,007,978 at June 30, 2012.

13. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The object of this statement is to establish a framework of detailing: 1) where deferred outflows of resources and deferred inflows of resources, as well as assets and liabilities, should be displayed; and 2) how these elements should be reported. These two objects will result in the standardizing of the presentation of deferred balances and their effects on a government's net position. The provisions of GASB Statement No. 63 are effective for financial statements for periods beginning after December 15, 2011. The District has not yet determined the effect this statement will have on its financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements.* That Statement supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations;
2. Accounting Principles Board Opinions; and
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

The provisions of GASB Statement No. 62 are effective for financial statements for the period beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The District has not yet determined the effect this Statement will have on its financial statements.

14. TEMPORARILY RESTRICTED NET ASSETS - FOUNDATION

Temporarily restricted net assets consist of the following at June 30, 2012 and 2011:

	2012	2011
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.	$ 61,586	$ 40,650
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.	20,000	17,000
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.	13,165	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.	300	600
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.	1,147	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.	1,296	29,707
Balance Forward	$ 97,494	$ 96,461

		2012		2011
Balance Brought Forward	$	97,494	$	96,461
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.		422		1,997
GEORGE AND RUTH BRADFORD FOUNDATION SCHOLARSHIP				
Due to a generous donation made this year by the George and Ruth Bradford Foundation, we were able to award a schlarship this year in their name to a student who has maintained a 2.5 grade point average and is currently enrolled in 6 or more units or is a graduating high school senior attending the Fall 2012 semester.		1,000		-
LAKE COUNTY FRIENDS OF MENDOCINO COLLEGE AFFILIATE ORGANIZATION				
The Lake County Friends of Mendocino College (LCFMC) became an Affiliate of the Mendocino College Foundation on June 7, 2011. The purpose of the LCFMC is to support the mission and goals of the Foundation and the Mendocino-Lake Community College District ("Mendocino College"), organize and conduct activities in Lake County that will promote and assist the educational and service programs of Mendocino College, and establish partnerships with existing organizations in Lake County whose mission and activities are consistent with the goals and purposes of LCFMC.		4,160		-
SUSTAINALBE TECH PROGRAM				
The Foundation received a one-time designated donation for the Sustainable Tech Program in the current year.		3,000		-
HALLIDAY PERPETUAL SCHOLARSHIP				
See note 14 Endowments for explanation.		1,627		-
HULDA AND ALFRED WEGER SCHOLARSHIP				
See note 14 Endowments for explanation.		-		1,075
EVELYN FOOTE TRUST				
See note 14 Endowments for explanation.		202,632		201,377
Total Temporarily Restricted Net Assets	$	310,335	$	300,910

15. ENDOWMENTS – FOUNDATION

Endowments consisted of the following at June 30, 2012 and 2011:

	2012	2011
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.	110,651	98,307
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.	12,000	6,000
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 2011/12 academic year.	50,000	25,000
LES GREGG FAMILY SCHOLARSHIP		
Mrs. Catherine Gregg and daughter, Leslie Gregg Banta, established a new perpetual scholarship in memory of their late husband and father, longtime Ukiah restaurant owner, Les Gregg. The scholarship is awarded to students enrolled in 6 or more units in the Culinary Arts Management Program at Mendocino College.	25,000	-
Balance Forward	$ 1,026,193	$ 957,849

		2012		2011
Balance Brought Forward	$	1,026,193	$	957,849
JOE AND DOROTHY HALLIDAY SCHOLARSHIP				
In 2011, the Mendocino College Foundation received a generous gift through the estate of Joe and Dorothy Halliday. The Halliday's were loyal and hard working Point Arena residents with ancestral ties to the Mendocino Coastal communities dating back to the late 1800s. The gift will fund three scholarships with an internship component. Priority is given to Point Arena High School graduates. Recipients must demonstrate a high level of community volunteerism and have successfully completed a basic geography examination.		80,000		-
JOHN BOGNER FINE ARTS SCHOLARSHIP				
This perpetual scholarship was established by countless donations from our community to honor and remember beloved community leader and advocate Mr. John Bogner. Theatre and music were a passion of Bogner’s, and it is fitting that this award be given to a student pursuing a career in the fine arts.		23,078		-
Total Permanently Restricted Net Assets	$	1,129,271	$	957,849

Endowment net asset composition by type of fund as of June 30, 2012 and 2011, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Foundation Trust Fund	$ 5,407,186	$ 106,076	$ 135,078	$ 5,648,340
Evelyn Foote Fund	-	202,632	803,542	1,006,174
Halliday Fund	-	1,627	80,000	81,627
Gift Annuity Fund	-	-	110,651	110,651
Total Endowment at June 30, 2012	$ 5,407,186	$ 310,335	$ 1,129,271	$ 6,846,792
Endowment net assets - beginning of year	$ 4,993,553	$ 300,910	$ 957,849	$ 6,252,312
Contributions	17,445	191,622	171,422	380,489
Interest and dividends	135,093	24,227	-	159,320
Net realized gains (losses)	111,218	2,232	-	113,450
Net unrealized gains (losses)	(73,146)	14,367	-	(58,779)
Amounts appropriated for expenditures	223,023	(223,023)	-	-
Endowment Net Assets - End of Year	$ 5,407,186	$ 310,335	$ 1,129,271	$ 6,846,792

	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

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, 2012.

16. FAIR VALUE MEASUREMENTS – FOUNDATION

Fair values of assets measured on a recurring basis at June 30, 2012 and 2011, are as follows:

Year Ending June 30, 2012	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	$ 56,059	$ 56,059	$ -	$ -
Mutual funds	6,124,470	6,124,470	-	-
Assets held by others	110,651	-	-	110,651
Total	$ 6,291,180	$ 6,180,529	$ -	$ 110,651

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

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

July 1, 2010	$ 56,282
Contribution	42,025
Adjustment to present value	-
June 30, 2011	98,307
Contribution	-
Adjustment to present value	12,344
June 30, 2012	$ 110,651

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 SECTION

GOVERNING BOARD

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

DISTRICT ADMINISTRATION

Dr. D. Roe Darnell
Superintendent/President

Mr. Larry Perryman
Vice President, Administrative Services

Vacant
Vice President, Education and Student Services

The full-time equivalent resident students (FTES) eligible for 2011-12 state apportionment reported to the State of California as of June 30, 2012, are summarized below:

	Reported Data
SUMMER INTERSESSION (Summer 2011 only)	
Noncredit	2.44
Credit	183.47
SUMMER INTERSESSION (Summer 2012 - Prior to July 1, 2012)	
Noncredit	-
Credit	-
PRIMARY TERMS (Exclusive of Summer Intersession)	
Census Procedure Courses	
Weekly Census Contact Hours	1,687.18
Daily Census Contact Hours	143.54
Actual Hours of Attendance Procedure Courses	
Noncredit	83.21
Credit	158.66
Alternative Attendance Accounting Procedure	
Weekly Census Contact Hours	387.80
Daily Census Contact Hours	23.86
Noncredit Independent Study/Distance Education Courses	-
Total FTES	2,670.16

SUPPLEMENTARY INFORMATION (Subset of above information)	
IN-SERVICE TRAINING COURSES (FTES)	-
BASIC SKILLS COURSES AND IMMIGRANT EDUCATION	
Noncredit	63.56
Credit	196.82

See the accompanying notes to the supplementary information.

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION		
Financial Aid Cluster		
Federal Supplemental Educational Opportunity Grants	84.007	$ 64,000
Federal Direct Student Loans	84.268	1,326,242
Federal Work-Study Program	84.033	52,110
Federal Pell Grant Program	84.063	5,265,113
Total Financial Aid Cluster		6,707,465
Passed Through State Department of Education		
Vocational Education - Basic Grants to States	84.048	210,028
Indian Education	84.060	4,300
Migrant Education College Assistance Migrant Program	84.149A	382,829
Migrant Education High School Equivalency Program	84.141A	145,244
Total U.S. Department of Education		7,449,866
U.S. DEPARTMENT OF COMMERCE		
Broadband Technology Opportunities Program - ARRA	11.557	804
Total U.S. Department of Commerce		804
U.S. DEPARTMENT OF TRANSPORTATION		
Eisenhower Transportation Fellowship Program	20.215	19,536
Total U.S. Department of Transportation		19,536
U.S. DEPARTMENT OF AGRICULTURE		
Passed Through State Department of Education		
Child and Adult Care Food Program	10.558	31,547
Forest Reserve	10.665	47,933
Total U.S. Department of Agriculture		79,480
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Early Retiree Reinsurance Program	93.546	208,447
Total U.S. Department of Health and Human Services		208,447
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
Passed Through State Department of Education		
AmeriCorps	94.006	24,370
Total Corporation for National and Community Service		24,370
Total Expenditures of Federal Awards		7,782,503

See the accompanying notes to the supplementary information.

SCHEDULE OF EXPENDITURES OF STATE AWARDS

June 30, 2012

	Program Revenues			
	Cash Received	**Accounts Receivable**	**Deferred Revenue**	**Total**
Disabled Student Program and Services	$ 258,468	$ -	$ (6,173)	$ 252,295
Extended Opportunity Programs and Services	293,672	-	-	293,672
Child Development Center	388,740	(55,742)	(5,234)	327,764
RN Capacity Grant	101,087	-	-	101,087
Matriculation	141,463	-	-	141,463
CalGrant	253,924	12,647	-	266,571
SFAA	185,266	-	-	185,266
CalWorks	136,847	-	-	136,847
MESA	50,568	(68)	-	50,500
Foster Parent	84,704	(450)	-	84,254
Cooperative Agency Resource Education	39,838	-	-	39,838
IME	7,850	-	-	7,850
CTE	329,080	41,134	(45,656)	324,558
TANF	43,292	-	-	43,292
Basic Skills	90,000	-	(1,240)	88,760
PT Faculty Compensation	57,315	-	-	57,315
All other aid programs	7,740	11,250	(2,396)	16,594
Total State Grants - Noncapital	$ 2,469,854	$ 8,771	$ (60,699)	$ 2,417,926

See the accompanying notes to the supplementary information.

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

June 30, 2012

	General Unrestricted Fund	General Restricted Fund	Solar Debt Service Fund	Bond Debt Service Fund	Balance Forward
June 30, 2012, Annual Financial and Budget Report (CCFS-311) Fund Balance	$ 3,068,996	$ 203,470	$ 114,799	$ -	$ 3,387,265
Adjustment and reclassifications increasing (decreasing) the fund balance:					
Audit adjustments	-	-	-	-	-
Adjustment to record Debt Service Fund for financial statement purposes	-	-	-	1,341,455	1,341,455
Adjustment to remove amounts held for others	-	-	-	-	-
Adjustment to remove discretely presented component unit from District funds	-	-	-	-	-
Rounding	-	-	-	-	-
Net Adjustments and Reclassifications	-	-	-	1,341,455	1,341,455
June 30, 2012, District Accounting Records Fund Balance	$ 3,068,996	$ 203,470	$ 114,799	$ 1,341,455	$ 4,728,720

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, 2012, Annual Financial and Budget Report (CCFS-311) Fund Balance	$ 3,387,265	$ -	$ 119,036	$ 20,710,778	$ 24,217,079
Adjustment and reclassifications increasing (decreasing) the fund balance:					
Audit adjustments	-	-	-	(612,272)	(612,272)
Adjustment to record Debt Service Fund for financial statement purposes	1,341,455	-	-	-	1,341,455
Adjustment to remove amounts held for others	-	-	-	-	-
Adjustment to remove discretely presented component unit from District funds	-	-	-	-	-
Rounding	-	-	-	-	-
Net Adjustments and Reclassifications	1,341,455	-	-	(612,272)	729,183
June 30, 2012, District Accounting Records Fund Balance	$ 4,728,720	$ -	$ 119,036	$ 20,098,506	$ 24,946,262

See the accompanying notes to the supplementary information.

	Balance Brought Forward	Associated Students Trust Fund	Student Representation Fee Trust Fund	Self-Insurance Fund	Balance Forward
June 30, 2012, Annual Financial and Budget Report (CCFS-311) Fund Balance	$ 24,217,079	$ 115,087	$ 15,086	$ 2,534,483	$ 26,881,735
Adjustment and reclassifications increasing (decreasing the fund balance:					
Audit adjustments	(612,272)	-	-	-	(612,272)
Adjustment to record Debt Service Fund for financial statement purposes	1,341,455	-	-	-	1,341,455
Adjustment to remove amounts held for others	-	(115,087)	(15,086)	-	(130,173)
Adjustment to remove discretely presented component unit from District funds	-	-	-	-	-
Rounding	-	-	-	(1)	(1)
Net Adjustments and Reclassifications	729,183	(115,087)	(15,086)	(1)	599,009
June 30, 2012, District Accounting Records Fund Balance	$ 24,946,262	$ -	$ -	$ 2,534,482	$ 27,480,744

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, 2012, Annual Financial and Budget Report (CCFS-311) Fund Balance	$ 26,881,735	$ 291,429	$ -	$ 14,623	$ 27,187,787
Adjustment and reclassifications increasing (decreasing the fund balance:					
Audit adjustments	(612,272)	-	-	-	(612,272)
Adjustment to record Debt Service Fund for financial statement purposes	1,341,455	-	-	-	1,341,455
Adjustment to remove amounts held for others	(130,173)	(291,429)	-	(14,623)	(436,225)
Adjustment to remove discretely presented component unit from District funds	-	-	-	-	-
Rounding	(1)	-	-	-	(1)
Net Adjustments and Reclassifications	599,009	(291,429)	-	(14,623)	292,957
June 30, 2012, District Accounting Records Fund Balance	$ 27,480,744	$ -	$ -	$ -	$ 27,480,744

See the accompanying notes to the supplementary information.

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

June 30, 2012

	Balance Brought Forward	Other District	Total
June 30, 2012, Annual Financial and Budget Report (CCFS-311) Fund Balance	$ 27,187,787	$ 7,143,709	$ 34,331,496
Adjustment and reclassifications increasing (decreasing the fund balance:			
Audit adjustments	(612,272)	-	(612,272)
Adjustment to record Debt Service Fund for financial statement purposes	1,341,455	-	1,341,455
Adjustment to remove amounts held for others	(436,225)	-	(436,225)
Adjustment to remove discretely presented component unit from District funds	-	(7,143,709)	(7,143,709)
Rounding	(1)	-	(1)
Net Adjustments and Reclassifications	292,957	(7,143,709)	(6,850,752)
June 30, 2012, District Accounting Records Fund Balance	$ 27,480,744	$ -	$ 27,480,744

See the accompanying notes to the supplementary information.

June 30, 2012	General Unrestricted Fund	General Restricted Fund	Solar Debt Service Fund	Bond Debt Service Fund	Balance Forward
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -
Restricted cash and cash equivalents	-	480,807	-	-	480,807
Investments	-	-	-	-	-
Accounts receivable	4,496,566	573,058	58,300	-	5,127,924
Deposits and prepaid expenses	-	-	-	-	-
Due from Foundation	-	-	-	-	-
Total Current Assets	4,496,566	1,053,865	58,300	-	5,608,731
NONCURRENT ASSETS					
Restricted cash and cash equivalents	-	-	56,499	1,341,455	1,397,954
Total Noncurrent Assets	-	-	56,499	1,341,455	1,397,954
Total Assets	$ 4,496,566	$ 1,053,865	$ 114,799	$ 1,341,455	$ 7,006,685
LIABILITIES					
Cash deficiency	$ 899,954	$ -	$ -	$ -	$ 899,954
Accounts payable	203,430	44,320	-	-	247,750
Deferred revenue	324,107	806,075	-	-	1,130,182
Amounts held for others	-	-	-	-	-
Due to other funds	79	-	-	-	79
Total Liabilities	1,427,570	850,395	-	-	2,277,965
FUND EQUITY					
Fund balances:					
Reserved for special purposes	-	203,470	114,799	1,341,455	1,659,724
Unreserved	3,068,996	-	-	-	3,068,996
Total Fund Equity	3,068,996	203,470	114,799	1,341,455	4,728,720
Total Liabilities and Fund Equity	$ 4,496,566	$ 1,053,865	$ 114,799	$ 1,341,455	$ 7,006,685

See the accompanying notes to the supplementary information.

June 30, 2012	Balance Brought Forward	Child Development Fund	Capital Outlay Projects Fund	Revenue Bond Construction Fund	Balance Forward
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -
Restricted cash and cash equivalents	480,807	4,870	-	-	485,677
Investments	-	-	-	-	-
Accounts receivable	5,127,924	2,759	548	-	5,131,231
Deposits and prepaid expenses	-	-	-	-	-
Due from other funds	-	79	-	-	79
Total Current Assets	5,608,731	7,708	548	-	5,616,987
NONCURRENT ASSETS					
Restricted cash and cash equivalents	1,397,954	-	157,821	21,242,271	22,798,046
Total Noncurrent Assets	1,397,954	-	157,821	21,242,271	22,798,046
Total Assets	$ 7,006,685	$ 7,708	$ 158,369	$ 21,242,271	$ 28,415,033
LIABILITIES					
Cash deficiency	$ 899,954	$ -	$ -	$ -	$ 899,954
Accounts payable	247,750	708	39,333	1,143,765	1,431,556
Deferred revenue	1,130,182	7,000	-	-	1,137,182
Amounts held for others	-	-	-	-	-
Due from other funds	79	-	-	-	79
Total Liabilities	2,277,965	7,708	39,333	1,143,765	3,468,771
FUND EQUITY					
Fund balances:					
Reserved for special purposes	1,659,724	-	119,036	20,098,506	21,877,266
Unreserved	3,068,996	-	-	-	3,068,996
Total Fund Equity	4,728,720	-	119,036	20,098,506	24,946,262
Total Liabilities and Fund Equity	$ 7,006,685	$ 7,708	$ 158,369	$ 21,242,271	$ 28,415,033

See the accompanying notes to the supplementary information.

COMBINING BALANCE SHEETS – DISTRICT FUNDS INCLUDED IN THE REPORTING ENTITY

June 30, 2012	Balance Brought Forward	Self-Insurance Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Balance Forward
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ -	$ 279,285	$ -	$ -	$ 279,285
Restricted cash and cash equivalents	485,677	1,002,323	115,085	15,086	1,618,171
Investments	-	1,139,156	-	-	1,139,156
Accounts receivable	5,131,231	-	-	-	5,131,231
Deposits and prepaid expenses	-	133,801	-	-	133,801
Due from other funds	79	-	-	-	79
Total Current Assets	5,616,987	2,554,565	115,085	15,086	8,301,723
NONCURRENT ASSETS					
Restricted cash and cash equivalents	22,798,046	-	-	-	22,798,046
Total Noncurrent Assets	22,798,046	-	-	-	22,798,046
Total Assets	$ 28,415,033	$ 2,554,565	$ 115,085	$ 15,086	$ 31,099,769
LIABILITIES					
Cash deficiency	$ 899,954	$ -	$ -	$ -	$ 899,954
Accounts payable	1,431,556	20,083	-	-	1,451,639
Deferred revenue	1,137,182	-	-	-	1,137,182
Amounts held for others	-	-	115,085	15,086	130,171
Due from other funds	79	-	-	-	79
Total Liabilities	3,468,771	20,083	115,085	15,086	3,619,025
FUND EQUITY					
Fund balances:					
Reserved for special purposes	21,877,266	2,534,482	-	-	24,411,748
Unreserved	3,068,996	-	-	-	3,068,996
Total Fund Equity	24,946,262	2,534,482	-	-	27,480,744
Total Liabilities and Fund Equity	$ 28,415,033	$ 2,554,565	$ 115,085	$ 15,086	$ 31,099,769

See the accompanying notes to the supplementary information.

June 30, 2012	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	$ 279,285	$ -	$ -	$ -	$ 279,285
Restricted cash and cash equivalents	1,618,171	291,429	-	14,624	1,924,224
Investments	1,139,156	-	-	-	1,139,156
Accounts receivable	5,131,231	-	-	-	5,131,231
Deposits and prepaid expenses	133,801	-	-	-	133,801
Due from other funds	79	-	-	-	79
Total Current Assets	8,301,723	291,429	-	14,624	8,607,776
NONCURRENT ASSETS					
Restricted cash and cash equivalents	22,798,046	-	-	-	22,798,046
Total Noncurrent Assets	22,798,046	-	-	-	22,798,046
Total Assets	$ 31,099,769	$ 291,429	$ -	$ 14,624	$ 31,405,822
LIABILITIES					
Cash deficency	$ 899,954	$ -	$ -	$ -	$ 899,954
Accounts payable	1,451,639	-	-	-	1,451,639
Deferred revenue	1,137,182	-	-	-	1,137,182
Amounts held for others	130,171	291,429	-	14,624	436,224
Due to other funds	79	-	-	-	79
Total Liabilities	3,619,025	291,429	-	14,624	3,925,078
FUND EQUITY					
Fund balances:					
Reserved for special purposes	24,411,748	-	-	-	24,411,748
Unreserved	3,068,996	-	-	-	3,068,996
Total Fund Equity	27,480,744	-	-	-	27,480,744
Total Liabilities and Fund Equity	$ 31,099,769	$ 291,429	$ -	$ 14,624	$ 31,405,822

See the accompanying notes to the supplementary information.

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

June 30, 2012	General Unrestricted Fund	General Restricted Fund	Solar Debt Service Fund	Bond Debt Service Fund	Balance Forward
OPERATING REVENUES					
Tuition and fees	$ 2,557,974	$ 92,838	$ -	$ -	$ 2,650,812
Less: Scholarship discount and allowance	1,666,418	-	-	-	1,666,418
Net Tuition and Fees	891,556	92,838	-	-	984,394
Grants and contracts - noncapital:					
Federal	57,420	758,441	-	-	815,861
State	57,315	1,724,530	-	-	1,781,845
Local	166,175	16,095	-	-	182,270
Auxiliary enterprise sales and charges	32,760	-	-	-	32,760
Total Operating Revenues	1,205,226	2,591,904	-	-	3,797,130
OPERATING EXPENDITURES/EXPENSES					
Salaries	12,220,694	1,345,383	-	-	13,566,077
Employee benefits	5,010,013	613,581	-	-	5,623,594
Payments to students	-	149,825	-	-	149,825
Supplies, materials, and other services	1,438,800	523,702	-	-	1,962,502
Capital outlay	199,278	61,718	-	-	260,996
Utilities	662,186	-	-	-	662,186
Total Operating Expenditures/Expenses	19,530,971	2,694,209	-	-	22,225,180
Operating Income (Loss)	(18,325,745)	(102,305)	-	-	(18,428,050)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	11,678,915	-	-	-	11,678,915
Local property taxes	5,616,795	-	-	2,293,166	7,909,961
State taxes and other revenues	499,861	94,921	-	-	594,782
Investment income - noncapital	12,339	-	85	6,741	19,165
Interest expense - capital assets related debt	-	-	(212,861)	(1,663,310)	(1,876,171)
Debt service - principal	-	-	(650,423)	(1,115,000)	(1,765,423)
Bond issuance costs	-	-	-	-	-
Other nonoperating revenues	283,958	-	544,862	-	828,820
Total Nonoperating Revenues (Expenditures)	18,091,868	94,921	(318,337)	(478,403)	17,390,049
Excess of Revenues Over (Under) Expenditures/Expenses	(233,877)	(7,384)	(318,337)	(478,403)	(1,038,001)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	190,000	-	200,000	-	390,000
Operating transfers out	(295,847)	-	-	-	(295,847)
Proceeds from general obligation bonds	-	-	-	-	-
Premium on general obligation bonds	-	-	-	-	-
Total Other Financing Sources (Uses)	(105,847)	-	200,000	-	94,153
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	(339,724)	(7,384)	(118,337)	(478,403)	(943,848)
Fund Equity - Beginning of Year	3,408,720	210,854	233,136	1,819,858	5,672,568
Fund Equity - End of Year	$ 3,068,996	$ 203,470	$ 114,799	$ 1,341,455	$ 4,728,720

See the accompanying notes to the supplementary information.

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

June 30, 2012	Balance Brought Forward	Child Development Fund	Capital Outlay Projects Fund	Revenue Bond Construction Fund	Balance Forward
OPERATING REVENUES					
Tuition and fees	$ 2,650,812	$ -	$ -	$ -	$ 2,650,812
Less: Scholarship discount and allowance	1,666,418	-	-	-	1,666,418
Net Tuition and Fees	984,394	-	-	-	984,394
Grants and contracts - noncapital:					
Federal	815,861	31,547	-	-	847,408
State	1,781,845	321,960	-	-	2,103,805
Local	182,270	30,860	-	-	213,130
Auxiliary enterprise sales and charges	32,760	-	-	-	32,760
Total Operating Revenues	3,797,130	384,367	-	-	4,181,497
OPERATING EXPENDITURES/EXPENSES					
Salaries	13,566,077	299,095	-	165,105	14,030,277
Employee benefits	5,623,594	144,301	-	82,366	5,850,261
Payments to students	149,825	-	-	-	149,825
Supplies, materials, and other services	1,962,502	19,971	-	115,543	2,098,016
Capital outlay	260,996	18,295	577,916	17,619,407	18,476,614
Utilities	662,186	15,471	-	-	677,657
Total Operating Expenditures/Expenses	22,225,180	497,133	577,916	17,982,421	41,282,650
Operating Income (Loss)	(18,428,050)	(112,766)	(577,916)	(17,982,421)	(37,101,153)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	11,678,915	-	104,013	-	11,782,928
Local property taxes	7,909,961	-	-	-	7,909,961
State taxes and other revenues	594,782	-	-	-	594,782
Investment income - noncapital	19,165	166	3,651	145,889	168,871
Interest expense - capital assets related debt	(1,876,171)	-	-	-	(1,876,171)
Debt service - principal	(1,765,423)	-	-	-	(1,765,423)
Bond issuance costs	-	-	-	(1,370,451)	(1,370,451)
Other nonoperating revenues	828,820	16,753	81,087	-	926,660
Total Nonoperating Revenues (Expenditures)	17,390,049	16,919	188,751	(1,224,562)	16,371,157
Excess of Revenues Over (Under) Expenditures/Expenses	(1,038,001)	(95,847)	(389,165)	(19,206,983)	(20,729,996)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	390,000	95,847	-	-	485,847
Operating transfers out	(295,847)	-	(190,000)	-	(485,847)
Proceeds from general obligation bonds	-	-	-	37,499,792	37,499,792
Premium on general obligation bonds	-	-	-	1,370,451	1,370,451
Total Other Financing Sources (Uses)	94,153	95,847	(190,000)	38,870,243	38,870,243
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	(943,848)	-	(579,165)	19,663,260	18,140,247
Fund Equity - Beginning of Year	5,672,568	-	698,201	435,246	6,806,015
Fund Equity - End of Year	$ 4,728,720	$ -	$ 119,036	$ 20,098,506	$ 24,946,262

See the accompanying notes to the supplementary information.

June 30, 2012	Balance Brought Forward	Self-Insurance Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Balance Forward
OPERATING REVENUES					
Tuition and fees	$ 2,650,812	$ -	$ -	$ -	$ 2,650,812
Less: Scholarship discount and allowance	1,666,418	-	-	-	1,666,418
Net Tuition and Fees	984,394	-	-	-	984,394
Grants and contracts - noncapital:					
Federal	847,408	208,447	-	-	1,055,855
State	2,103,805	-	-	-	2,103,805
Local	213,130	-	-	-	213,130
Auxiliary enterprise sales and charges	32,760	-	-	-	32,760
Total Operating Revenues	4,181,497	208,447	-	-	4,389,944
OPERATING EXPENDITURES/EXPENSES					
Salaries	14,030,277	10,301	-	-	14,040,578
Employee benefits	5,850,261	(864,249)	-	-	4,986,012
Payments to students	149,825	-	-	-	149,825
Supplies, materials, and other services	2,098,016	17,600	-	-	2,115,616
Capital outlay	18,476,614	4,187	-	-	18,480,801
Utilities	677,657	-	-	-	677,657
Total Operating Expenditures/Expenses	41,282,650	(832,161)	-	-	40,450,489
Operating Income (Loss)	(37,101,153)	1,040,608	-	-	(36,060,545)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	11,782,928	-	-	-	11,782,928
Local property taxes	7,909,961	-	-	-	7,909,961
State taxes and other revenues	594,782	-	-	-	594,782
Investment income - noncapital	168,871	7,019	-	-	175,890
Interest expense - capital assets related debt	(1,876,171)	-	-	-	(1,876,171)
Debt service - principal	(1,765,423)	-	-	-	(1,765,423)
Bond issuance costs	(1,370,451)	-	-	-	(1,370,451)
Other nonoperating revenues	926,660	25,107	-	-	951,767
Total Nonoperating Revenues (Expenditures)	16,371,157	32,126	-	-	16,403,283
Excess of Revenues Over (Under) Expenditures/Expenses	(20,729,996)	1,072,734	-	-	(19,657,262)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	485,847	-	-	-	485,847
Operating transfers out	(485,847)	-	-	-	(485,847)
Proceeds from general obligation bonds	37,499,792	-	-	-	37,499,792
Premium on general obligation bonds	1,370,451	-	-	-	1,370,451
Total Other Financing Sources (Uses)	38,870,243	-	-	-	38,870,243
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	18,140,247	1,072,734	-	-	19,212,981
Fund Equity - Beginning of Year	6,806,015	1,461,748	-	-	8,267,763
Fund Equity - End of Year	$ 24,946,262	$ 2,534,482	$ -	$ -	$ 27,480,744

See the accompanying notes to the supplementary information.

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

June 30, 2012	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	$ 2,650,812	$ -	$ -	$ -	$ 2,650,812
Less: Scholarship discount and allowance	1,666,418	-	-	-	1,666,418
Net Tuition and Fees	984,394	-	-	-	984,394
Grants and contracts - noncapital:					
Federal	1,055,855	-	6,726,648	-	7,782,503
State	2,103,805	-	314,121	-	2,417,926
Local	213,130	-	-	-	213,130
Auxiliary enterprise sales and charges	32,760	-	-	-	32,760
Total Operating Revenues	4,389,944	-	7,040,769	-	11,430,713
OPERATING EXPENDITURES/EXPENSES					
Salaries	14,040,578	-	52,110	-	14,092,688
Employee benefits	4,986,012	-	-	-	4,986,012
Payments to students	149,825	-	6,988,659	-	7,138,484
Supplies, materials, and other services	2,115,616	-	-	-	2,115,616
Capital outlay	18,480,801	-	-	-	18,480,801
Utilities	677,657	-	-	-	677,657
Total Operating Expenditures/Expenses	40,450,489	-	7,040,769	-	47,491,258
Operating Income (Loss)	(36,060,545)	-	-	-	(36,060,545)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	11,782,928	-	-	-	11,782,928
Local property taxes	7,909,961	-	-	-	7,909,961
State taxes and other revenues	594,782	-	-	-	594,782
Investment income - noncapital	175,890	-	-	-	175,890
Interest expense - capital assets related debt	(1,876,171)	-	-	-	(1,876,171)
Debt service - principal	(1,765,423)	-	-	-	(1,765,423)
Bond issuance costs	(1,370,451)	-	-	-	(1,370,451)
Other nonoperating revenues	951,767	-	-	-	951,767
Total Nonoperating Revenues (Expenditures)	16,403,283	-	-	-	16,403,283
Excess of Revenues Over (Under) Expenditures/Expenses	(19,657,262)	-	-	-	(19,657,262)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	485,847	-	-	-	485,847
Operating transfers out	(485,847)	-	-	-	(485,847)
Proceeds from general obligation bonds	37,499,792	-	-	-	37,499,792
Premium on general obligation bonds	1,370,451	-	-	-	1,370,451
Total Other Financing Sources (Uses)	38,870,243	-	-	-	38,870,243
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	19,212,981	-	-	-	19,212,981
Fund Equity - Beginning of Year	8,267,763	-	-	-	8,267,763
Fund Equity - End of Year	$ 27,480,744	$ -	$ -	$ -	$ 27,480,744

See the accompanying notes to the supplementary information.

RECONCILIATION OF FUND EQUITY TO NET ASSETS

June 30, 2012

Total Fund Equity - District Funds Included in the Reporting Entity		$ 27,480,744
Assets recorded within the GASB 35 Statement of Net Assets not included in the District fund financial statements:		
Nondepreciable capital assets		39,786,219
Depreciable capital assets	$ 60,383,317	
Accumulated depreciation	(23,193,005)	37,190,312
Deferred charges - net		1,792,434
Liabilities recorded within the GASB 35 Statement of Net Assets not recorded in the District fund financial statements:		
Accounts payable - interest payble		(835,450)
Claims payable		(180,000)
Long-term debt		(97,710,775)
Capital lease		(3,884,276)
Compensated absences		(760,502)
Other postemployment benefit obligations		(310,096)
Net Assets Reported Within the GASB 35 Statement of Net Assets		$ 2,568,610

See the accompanying notes to the supplementary information.

RECONCILIATION OF CHANGE IN FUND EQUITY TO CHANGE IN NET ASSETS

June 30, 2012

Change in Fund Equity - District Funds Included in the Reporting Entity	$ 19,212,981
Amortization of bond issuance cost	(55,044)
Amortization of bond premium	121,025
Claims expense	(5,000)
Compensated absence expense	34,625
Depreciation expense	(1,382,305)
Expenses capitalized	17,490,873
Accrued interest expense	(1,840,338)
Debt service principal	1,765,423
Bond proceeds	(37,499,792)
Additional expenses of other postemployment benefits	(325,576)
Net Change in Net Assets Reported Within the Statement of Revenues, Expenses, and Changes in Net Assets	$ (2,483,128)

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 (the District) for the year ended June 30, 2012, was conducted in accordance with OMB Circular A-133, which requires disclosure of the financial activities of all federally funded programs. To comply with OMB 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, 2012, represents the basis of apportionment of the District's annual source of funding.

Reconciliation of Annual Financial and Budget Report (Form 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 Schedule 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.

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

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*

MATSON & ISOM

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 year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 30, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit; and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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

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

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 30, 2012
Redding, California

MATSON & ISOM

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, 2012. 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, 2012.

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 30, 2012
Redding, California

MATSON & ISOM

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

We have audited the Mendocino-Lake Community College District's (the District) compliance with the types of state compliance requirements described in the *California Community Colleges Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's office, for the year ended June 30, 2012. The applicable state compliance requirements are identified in the table below. Compliance with the requirements referred to above is the responsibility of the District's management. Our responsibility is to express an opinion on District's compliance with the state laws and regulations based on our audit.

We conducted our audit 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 *California Community Colleges Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's office. Those standards and the *California Community Colleges Contracted District Audit Manual*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on compliance with the state laws and regulations described in the schedule below. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe 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.

SALARIES OF CLASSROOM INSTRUCTORS: 50 PERCENT LAW
APPORTIONMENT FOR INSTRUCTIONAL SERVICE AGREEMENTS/CONTRACTS
STATE GENERAL APPORTIONMENT FUNDING SYSTEM
RESIDENCY DETERMINATION FOR CREDIT COURSES
STUDENTS ACTIVELY ENROLLED
CONCURRENT ENROLLMENT OF K-12 STUDENTS IN COMMUNITY COLLEGE CREDIT COURSES
GANN LIMIT CALCULATION
CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS (CALWORKS) - USE OF STATE AND FEDERAL TANF FUNDING
OPEN ENROLLMENT
STUDENT FEES - INSTRUCTIONAL AND OTHER MATERIALS
STUDENT FEES - HEALTH FEES AND USE OF HEALTH FEE FUNDS
EXTENDED OPPORTUNITY PROGRAMS AND SERVICES (EOPS) AND COOPERATIVE AGENCIES RESOURCES FOR EDUCATION (CARE)
DISABLED STUDENT PROGRAMS AND SERVICES (DSPS)
CURRICULUM AND INSTRUCTION
TO BE ARRANGED HOURS (TBA)

INDEPENDENT AUDITORS' REPORT ON
STATE COMPLIANCE
Continued

In our opinion, the District complied, in all material respects, with the state laws and regulations referred to above that are applicable to the District for the year ended June 30, 2012, except as described in the accompanying schedule of findings and questioned costs as item 12-1.

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

Matson and Isom

November 30, 2012
Redding, California

SCHEDULE OF FINDINGS AND QUESTIONED COSTS SECTION

SECTION I
SUMMARY OF AUDITORS' 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	Student Financial Assistance Cluster
CFDA No. 84.149A	Migrant Education College Assistance 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	Qualified

SECTION II FINDINGS
FINANCIAL STATEMENTS AUDIT

None.

SECTION III FINDINGS
FEDERAL AWARDS AUDIT

None.

SECTION IV FINDINGS
STATE AWARDS AUDIT

EXTENDED OPPORTUNITY PROGRAMS & SERVICES (EOPS), AND COOPERATIVE AGENCIES RESOURCES FOR EDUCATION (CARE)

12-1

Condition

The District did not hold two advisory committee meetings for the CARE programs during the academic year.

Criteria

For the CARE program, the advisory committee shall meet at least twice during each academic year (CARE Program Guidelines, revised August 1, 2010).

Effect

The purpose of the advisory committee is to assist the District in developing and maintaining adequate programs. By not holding the required advisory committee meetings, the programs may not be operating in an efficient or effective manner.

Recommendation

We recommend that the District establish procedures to ensure that the advisory committees meet the required number of times each academic year.

Response

The District was unable to hold a second Advisory Committee meeting due to workload and budget considerations. We have adjusted the membership to the committee and plan to hold two meetings in the 2012/13 academic year.

None.

None.