

**MENDOCINO-LAKE
COMMUNITY COLLEGE DISTRICT**

UKIAH, CALIFORNIA

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2018**



**COSSOLIAS | WILSON
DOMINGUEZ | LEAVITT**
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Mendocino-Lake Community College District (District), as of and for the year ended June 30, 2018; and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2018; and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principles

As discussed in Note 13 to the financial statements, the District implemented the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 75, "Accounting for Financial Reporting for Postemployment Benefits Other than Pensions". This Statement replaces the requirements of GASB Statements No. 45, "Accounting and Reporting for Employers Post-Employment Benefits Other than Pensions", as amended, and GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans." Note disclosures and required supplementary information requirements about OPEB are also discussed. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 4 through 14 and the Other Required Supplementary Information listed in the table of contents to 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, and other supplementary information as listed in the table of contents are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information and the schedule of expenditures of federal awards is the responsibility of management and was derived from, and relates directly, to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The District organizational structure has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2018 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

CWDL, Certified Public Accountants

December 5, 2018
San Diego, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Mendocino-Lake Community College District (District) for the year ended June 30, 2018. 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. The District adopted these new standards beginning with the 2002/03 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 Position
- The Statement of Revenue, Expenses and Changes in Net Position
- The Statement of Cash Flows

The Mendocino College Foundation, Inc. (Foundation) was established as a legally separate nonprofit 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.

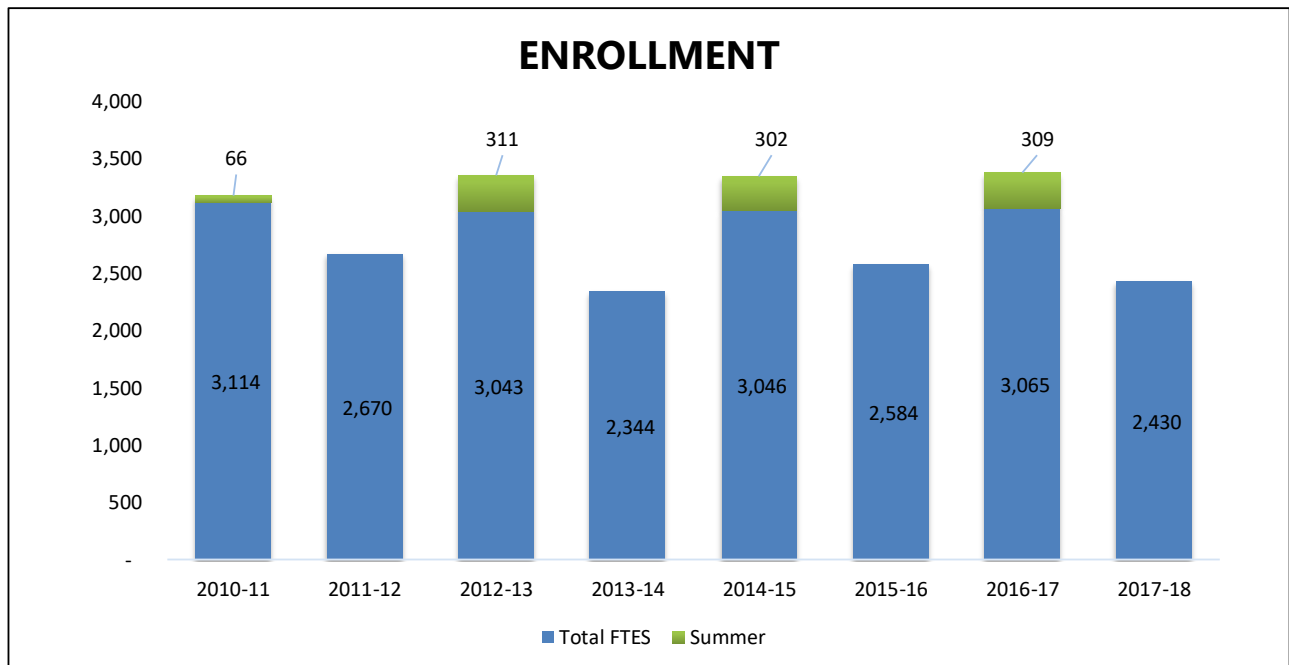
**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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 encompassed 30 construction and renovation projects. The District established a Bond Implementation Planning Committee (BIPC) which planned and implemented 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. All funds were expended as of June 30, 2015, primarily on re-roofing multiple buildings, remodels and renovations, upgrading the computer system, construction of a new Library/Learning Resource Center, constructing a new Maintenance/Warehouse, the purchase of land, and the construction of new centers in Willits and Lakeport. On September 15, 2015, the District refinanced the General Obligation Bonds in the aggregate principal amount of \$48,627,448. The District advance refunded a portion of the District’s outstanding Series A and Series B Bonds, and paid the costs of issuing the bonds.

Enrollment Highlights

The District reported 2,430 total full-time equivalent students (FTES) on the 2017-18 Final Apportionment Attendance Report (CCFS-320). This is a decrease of 635 FTES from the 2016-17 FTES of 3,065. This decrease is partially the result of reporting 309 summer 2017 FTES in 2016/17 which would normally have been reported in 2017/18. The following chart shows the enrollment history and reflects the impact of summer FTES reporting.



**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Statement of Net Position

The statement of net position includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net position – the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources – is one way to measure the financial health of the District.

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2018	2017	Change
Current assets	\$ 19,190,396	\$ 12,380,411	\$ 6,809,985
Non-current assets	87,644,147	93,758,375	(6,114,228)
Deferred outflow of resources	10,929,590	8,081,842	2,847,748
Total Assets and Deferred Outflows of Resources	117,764,133	114,220,628	3,543,505
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Current liabilities	8,537,608	6,872,578	1,665,030
Non-current liabilities	116,357,246	104,709,593	11,647,653
Deferred inflows of resources	2,236,012	1,433,864	802,148
Total Liabilities and Deferred Inflows of Resources	127,130,866	113,016,035	14,114,831
NET POSITION			
Invested in capital assets, net of related debt	2,737,643	16,517,802	(13,780,159)
Restricted	6,889,344	5,224,927	1,664,417
Unrestricted	(18,993,720)	(20,538,136)	1,544,416
Total Net Position	\$ (9,366,733)	\$ 1,204,593	\$ (10,571,326)

- 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, 2018, 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 and cash equivalents consist 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.

	2018	2017	Change
Capital Assets not being depreciated	\$ 7,545,440	\$ 7,574,958	\$ (29,518)
Capital Assets being depreciated	120,073,103	119,616,266	456,837
Accumulated depreciation	(39,974,396)	(37,061,185)	(2,913,211)
Total Capital Assets	\$ 87,644,147	\$ 90,130,039	\$ (2,485,892)

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Statement of Net Position, continued

- 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 (\$84.9 million), solar loan (\$0.9 million), accrued vacation and load banking payable (\$1.1 million), OPEB obligation (\$5.9 million), and PERS and STRS pension liability (\$24.7 million).
- Net position is classified into three categories: net investment in capital assets, restricted, and unrestricted. Net investment in capital assets consist of land, buildings, construction in progress, and equipment less related debt. Restricted includes \$6.9 million designated as reserved for capital assets, debt service and other special purpose.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents the operating results of the District, as well as the nonoperating revenues and expenses. State general apportionment, while budgeted for operations, is considered nonoperating revenues according to generally accepted accounting principles.

OPERATING REVENUES	2018	2017	Change
Tuition and fees (net)	\$ 1,240,355	\$ 1,304,744	\$ (64,389)
Grants and contracts	10,386,058	7,950,613	2,435,445
Auxiliary enterprise sales, net	66,131	49,532	16,599
Total Operating Revenues	11,692,544	9,304,889	2,387,655
OPERATING EXPENSES			
Salaries and benefits	29,248,785	23,990,431	5,258,354
Supplies, materials, and other operating expenses	6,742,372	5,886,183	856,189
Payments to students	434,744	485,656	(50,912)
Depreciation	2,913,211	2,909,838	3,373
Total Operating Expenses	39,339,112	33,272,108	6,067,004
Operating Loss	(27,646,568)	(23,967,219)	(3,679,349)
NON-OPERATING REVENUES (EXPENSES)			
State apportionments, noncapital	8,199,695	10,345,924	(2,146,229)
Education protection account revenues, noncapital	3,171,659	3,087,760	83,899
Local property taxes, noncapital	10,081,432	9,457,094	624,338
State taxes and other revenues, noncapital	1,854,622	731,447	1,123,175
Financial aid revenues	6,672,019	6,517,346	154,673
Financial aid expenses	(6,672,019)	(6,517,346)	(154,673)
Investment income	135,598	60,406	75,192
Interest expense	(4,189,136)	(4,255,187)	66,051
Other non-operating revenues	2,402,460	683,244	1,719,216
Total Non-Operating Revenues (Expenses)	21,656,330	20,110,688	1,545,642
OTHER REVENUES (EXPENSES)			
State apportionments, capital	292,169	103,617	188,552
Local property taxes and revenues, capital	2,828,225	-	2,828,225
CHANGE IN NET POSITION	(2,869,844)	(3,752,914)	883,070
NET POSITION -- BEGINNING OF YEAR	1,204,593	6,562,759	(5,358,166)
PRIOR PERIOD ADJUSTMENT (SEE NOTE 17)	(7,701,482)	(1,605,252)	(6,096,230)
NET POSITION -- END OF YEAR	\$ (9,366,733)	\$ 1,204,593	\$ (10,571,326)

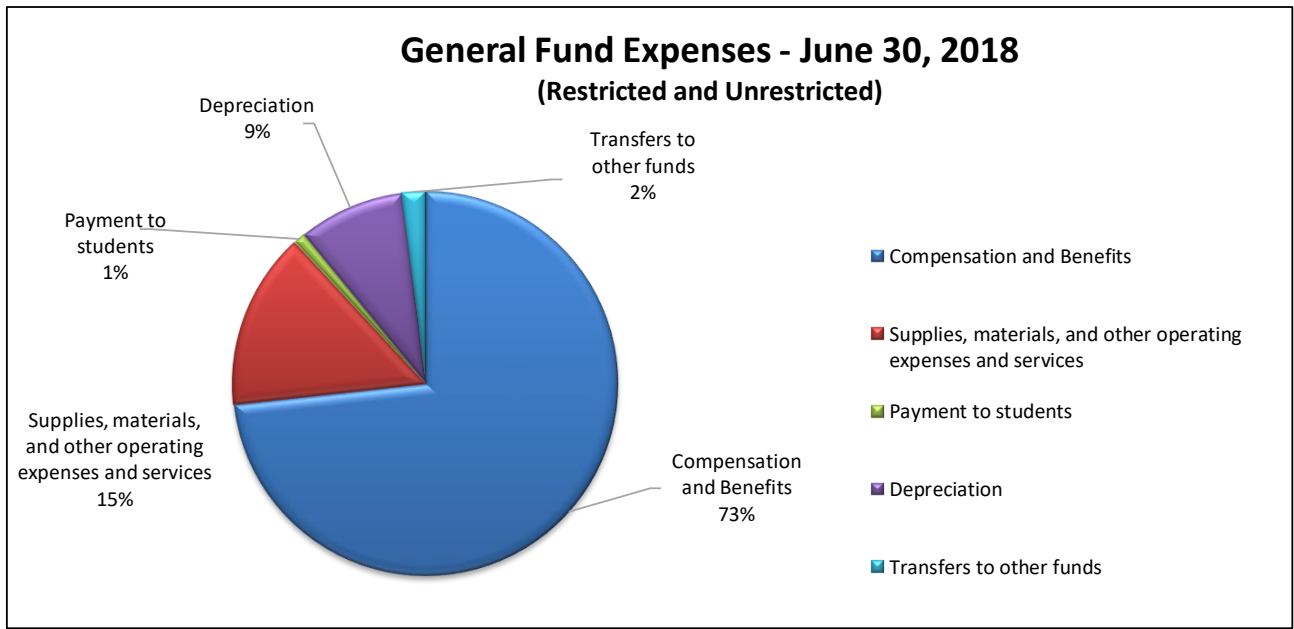
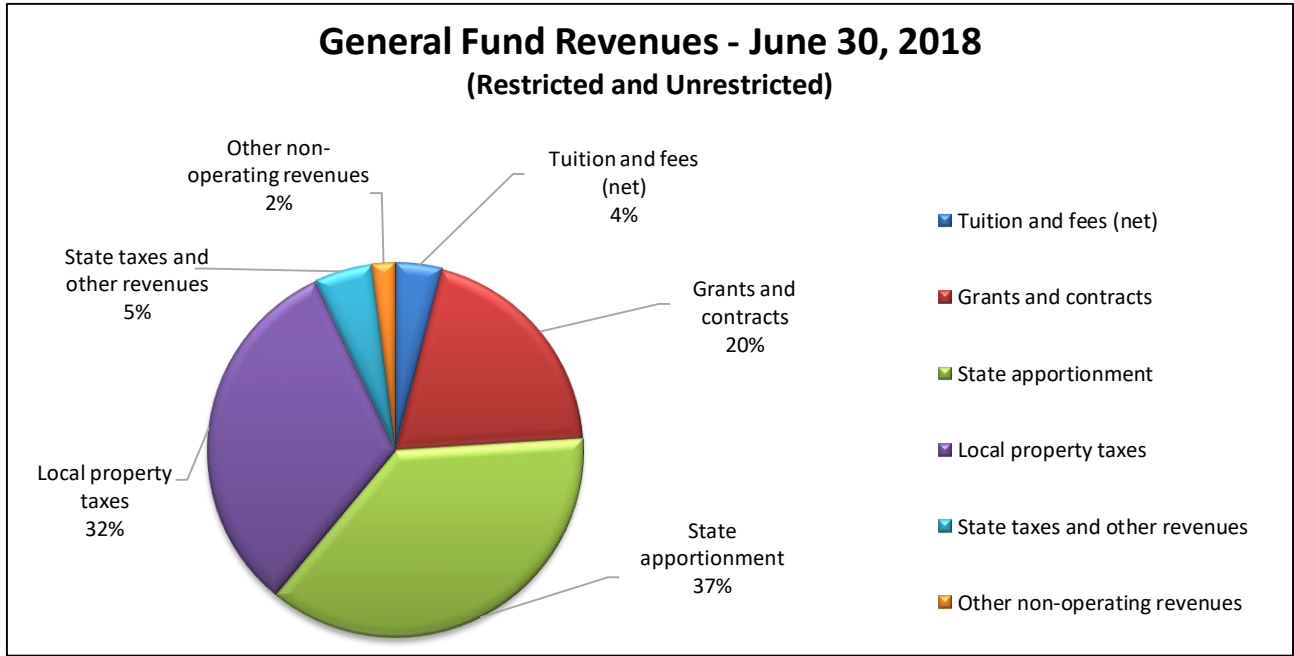
- Net tuition and fees total \$1.2 million and consist of enrollment fees, non-resident tuition, and all other fees. Enrollment fees are set by the state for all community colleges.
- Grants and contracts, noncapital consists of revenues provided for restricted purposes from federal, state and local sources.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Statement of Revenues, Expenses, and Changes in Net Position, continued

- State apportionments, noncapital revenue consists of general state apportionment and Proposition 30 Education Protection Account funds (\$11.4 million). State apportionment revenue reported is exclusive of regular enrollment fees and property taxes, which are reported separately.
- Local property tax revenues totaled \$12.9 million. Increases/decreases in property tax revenue reduce/increase the District's state apportionment revenue.
- State taxes and other revenues consist primarily of state lottery and mandate revenues.
- 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 scheduled maintenance funds.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**



**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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.

	2018	2017	Change
CASH PROVIDED BY (USED IN)			
Operating activities	\$ (23,605,686)	\$ (19,369,453)	\$ (4,236,233)
Noncapital financing activities	26,321,526	24,741,600	1,579,926
Capital financing activities	455,851	(3,224,121)	3,679,972
Investing activities	119,004	51,803	67,201
Net Increase in Cash and Cash Equivalents	\$ 3,290,695	\$ 2,199,829	\$ 1,090,866

The primary cash receipts from operating activities consist of grants, contracts, and student fees. The primary cash outlays include payment of salaries, 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 Mendocino County Treasury and the Local Agency Investment Fund of the State of California.

State Economy and Mendocino-Lake Community College District Budget

- The economic position of the District is closely tied to that of the state of California. The District receives 46% of its unrestricted general fund revenue funding through state general apportionments and 41% from local property taxes. These two sources, along with enrollment fees, provide 90% of the District’s general-purpose revenue, the main source of support for California community colleges.
- The Governor’s 2018/19 budget for community colleges contained a Cost of Living Adjustment (COLA) of 2.71%.
- The 2018/19 state budget included a new formula for calculating General Apportionment. The Student Centered Funding Formula (SCFF) fundamentally changed the basis for the calculation from solely based on Full Time Equivalent Student (FTES) to a combination of FTES, student need, and student success outcomes. The new SCFF will be phased in over three years and when fully implemented results in a final calculation based 60% on FTES, 20% based on student need, and 20% based on student success outcomes.
- The Governor’s 2018/19 budget for community colleges is favorable. However, the Governor’s 2019/20 budget is still unknown. More information will be released in January 2019 in the Governor’s Budget Workshop.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Financial Challenges Facing the District

1. FUND BALANCES

The General Fund and Health Fund are the two operating budgets of the District. Due to the small size of the District, the two funds experience a degree of uncertainty and volatility over time. In years of high health claims, the General Fund has supplemented the Health Fund. In years of cuts to the General Fund, the Health Fund has supplemented the General Fund. The chart below illustrates the transfers between the two funds over the years.

Fiscal Year	6/30/XX Fund Balance	Transfers In From Other Funds	Transfers Out to 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	\$ -	\$ -
2012/13	\$ 1,557,570	\$ -	\$ -
2013/14	\$ 1,559,338	\$ -	\$ 175,000
2014/15	\$ 1,307,710	\$ -	\$ 400,000
2015/16	\$ 1,854,703	\$ -	\$ -
2016/17	\$ 1,900,732	\$ -	\$ -
2017/18	\$ 1,518,191	\$ -	\$ -

Since 2010/11, the contributions to the Health Fund have exceeded the medical claims expensed from the fund which has resulted in an accumulation of reserves. The District has transferred a portion of these reserves to the Special Reserve Fund to begin to fund the District's GASB 75 OPEB Liability. This liability is to fund health benefits for retirees. \$1,151,732 was transferred in 17/18 to partially fund the liability. The 2018/19 Adopted Budget includes an additional transfer of \$768,890 from the Health Fund to the Special Reserve Fund for this same purpose. With this transfer taken into account, the Health Fund still has a prudent budgeted ending balance in 2018/19 of \$750,000.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

2. ESCALATION OF HEALTH BENEFIT COSTS

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 \$80,000 specific deductible, in addition to a \$225,000 aggregate corridor.

The District experienced favorable health claims in recent years with contributions exceeding expenditures, resulting in an ending fund balance in the Health Fund of \$1.9 million. For this reason, health benefits are budgeted in 2018/19 at \$1,400 per employee per month, which is \$200 less than the amount budgeted in 2017/18.

3. APPORTIONMENT FUNDING

As stated previously, a new Student Centered Funding Formula for the calculation of General Apportionment was created by the state in 2018/19. The impact to funding for the District is unknown at this time. Additional information is currently being provided by the California Community Colleges Chancellor's Office which is providing clarification as to the data elements that will be used as a basis for the formula. The implementing legislation included a three year phase in and hold harmless, which could pose a financial challenge to the District in 2021/22 when the formula is fully implemented and the hold harmless provisions have expired.

4. GASB 75 – RETIREE HEALTH BENEFITS

The actuarial study required by GASB 75 to project the District's future Retiree Health funding obligations was updated in November 2018 and included a "Total OPEB Liability (TOL)" of \$5,856,986. The District was required to comply with GASB 75 beginning with the 2017/18 fiscal year. The District has established membership in the Community College League of California (CCLC) Joint Powers Authority (JPA). As of June 30, 2018, the District has not made a deposit to the CCLC (irrevocable) Trust Fund for Retiree Health Benefits.

As of June 30, 2018, the District does have \$2,269,108 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 75 Trust Fund in the future.

5. PENSIONS

The District's net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the state, actuarially determined. At June 30, 2018, the District's portion of PERS and STRS liability was \$24,681,919.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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 Assistant Superintendent/Vice President of Administrative Services, Mendocino-Lake Community College District at 1000 Hensley Creek Road, Ukiah, California, 95482

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
STATEMENT OF NET POSITION – DISTRICT
JUNE 30, 2018

ASSETS

Current Assets:

Cash and cash equivalents	\$ 8,495,595
Restricted cash and cash equivalents	6,689,429
Investments	1,178,401
Accounts receivable, net	2,801,471
Prepaid expenditures and other assets	25,500
Total Current Assets	19,190,396

Noncurrent Assets:

Capital assets, net	87,644,147
Total Noncurrent Assets	87,644,147

TOTAL ASSETS

106,834,543

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on refunding	3,335,970
Deferred outflows related to pensions	7,593,620
	10,929,590

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

\$ 117,764,133

LIABILITIES

Current Liabilities:

Accounts payable and accrued expenses	\$ 4,665,812
Unearned revenue	2,230,905
Amounts held in trust for others	547,607
Long-term debt, current portion	1,093,284
Total Current Liabilities	8,537,608

Noncurrent Liabilities:

Compensated absences	1,067,506
Net OPEB liability	5,856,986
Net pension liability	24,681,919
Long-term debt, non-current portion	84,750,835
Total Noncurrent Liabilities	116,357,246

TOTAL LIABILITIES

124,894,854

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	2,236,012
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NET POSITION

Net investment in capital assets	2,737,643
Restricted for:	
Debt service	1,836,881
Capital projects	927,846
Special purpose	4,124,617
Unrestricted	(18,993,720)
TOTAL NET POSITION	(9,366,733)

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

\$ 117,764,133

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – DISTRICT
FOR THE YEAR ENDED JUNE 30, 2018**

OPERATING REVENUES

Tuition and fees (gross)	\$ 3,205,820
Less: Scholarship discounts and allowances	(1,965,465)
Net tuition and fees	<u>1,240,355</u>
Grants and contracts, noncapital:	
Federal	1,560,981
State	5,027,083
Local	3,797,994
Auxiliary enterprise sales, net	<u>66,131</u>
TOTAL OPERATING REVENUES	<u><u>11,692,544</u></u>

OPERATING EXPENSES

Salaries	17,862,235
Employee benefits	11,386,550
Supplies, materials, and other operating expenses and services	6,742,372
Financial aid expenses	434,744
Depreciation	<u>2,913,211</u>
TOTAL OPERATING EXPENSES	<u><u>39,339,112</u></u>

OPERATING INCOME (LOSS)

(27,646,568)

NON-OPERATING REVENUES (EXPENSES)

State apportionments, noncapital	8,199,695
Education protection account revenues, noncapital	3,171,659
Local property taxes, noncapital	10,081,432
State taxes and other revenues, noncapital	1,854,622
Financial aid revenues	6,672,019
Financial aid expenses	(6,672,019)
Investment income	135,598
Interest expense	(4,189,136)
Other non-operating revenues	<u>2,402,460</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u><u>21,656,330</u></u>

INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES

(5,990,238)

State apportionments, capital	292,169
Local property taxes and revenues, capital	<u>2,828,225</u>

CHANGE IN NET POSITION

(2,869,844)

NET POSITION -- BEGINNING OF YEAR

1,204,593

PRIOR PERIOD ADJUSTMENT (SEE NOTE 17)

(7,701,482)

NET POSITION -- END OF YEAR

\$ (9,366,733)

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS – DISTRICT
FOR THE YEAR ENDED JUNE 30, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 1,363,836
Grants and contracts	10,039,499
Payments to or on behalf of employees	(28,466,017)
Payments to vendors for supplies and services	(5,577,825)
Payment to students	(1,031,310)
Other receipts	66,131
Net Cash Used by Operating Activities	<u>(23,605,686)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State apportionments	8,325,614
Education protection account revenue	3,171,659
Property taxes	10,081,432
State taxes and other revenues	2,340,361
Other non-operating	2,402,460
Net Cash Provided by Non-capital Financing Activities	<u>26,321,526</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Acquisition and construction of capital assets	(427,319)
State revenue, capital projects	292,169
Local revenue, capital	2,828,225
Principal paid on capital debt	(1,213,759)
Interest paid on capital debt	(1,023,465)
Net Cash Provided by Capital Financing Activities	<u>455,851</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income	119,004
Net Cash Provided by Investing Activities	<u>119,004</u>

NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	3,290,695
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	11,894,329
CASH & CASH EQUIVALENTS, END OF YEAR	<u>\$ 15,185,024</u>

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS – DISTRICT
FOR THE YEAR ENDED JUNE 30, 2018**

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES**

Operating loss	\$ (27,646,568)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation expense	2,913,211
Changes in Assets and Liabilities:	
Receivables, net	(471,762)
Prepaid items	(14,256)
Deferred outflows of resources	(2,948,078)
Accounts payable and accrued liabilities	1,186,205
Deferred revenue	(362,486)
Amounts held for others	14,604
Compensated absences	92,803
Net OPEB liability	73,812
Net pension liability	2,754,681
Deferred inflows of resources	802,148
Total Adjustments	<u>4,040,882</u>
Net Cash Flows From Operating Activities	<u>\$ (23,605,686)</u>

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
STATEMENT OF FINANCIAL POSITION - FOUNDATION
JUNE 30, 2018**

ASSETS	
Cash and cash equivalents	\$ 2,963
Investments	
Evelyn Foote Fund	1,359,244
Foundation Trust Fund	5,370,079
Halliday Fund	246,760
Salmen Fund	52,452
Perpetual Fund	590,194
Adopt A Fifth Grader Fund	438,610
Bogner Fund	46,775
Coast Center Fund	247,072
Investment property held for sale	583,500
Notes receivable	347,617
Assets held by others	379,404
Other assets	3,880
Capital assets:	
Land	1,104,370
Infrastructure	33,278
Total Assets	\$ 10,806,198
LIABILITIES	
Accounts payable	\$ 4,428
Deferred revenue	21,236
Total Liabilities	25,664
NET ASSETS	
Unrestricted net assets	7,332,369
Temporarily restricted net assets	1,305,032
Permanently restricted net assets	2,143,133
Total Net Assets	10,780,534
Total Liabilities and Net Assets	\$ 10,806,198

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

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
STATEMENT OF ACTIVITIES - FOUNDATION
FOR THE YEAR ENDED JUNE 30, 2018**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Special events (Gala):				
Gross revenue	\$ 123,443	\$ -	\$ -	\$ 123,443
Event expenses	(60,807)	-	-	(60,807)
Total Special Events	62,636	-	-	62,636
Contributions	22,818	379,220	77,508	479,546
Investment return:				
Interest and dividends	121,608	48,305	-	169,913
Net investment realized and unrealized gains	660,698	337,010	-	997,708
Unrealized gain on property held for sale	389,780	-	-	389,780
Net assets released from restrictions	417,177	(417,177)	-	-
Total Revenues, Gains, and Other Support	1,674,717	347,358	77,508	2,099,583
EXPENSES				
Program expenses:				
Scholarships - Foote Fund	44,750	-	-	44,750
Scholarships - General	228,484	-	-	228,484
Support of Mendocino - Lake Community College District	149,929	-	-	149,929
Total Program Services	423,163	-	-	423,163
Supporting services:				
Management and general	354,644	-	-	354,644
Fundraising	192,973	-	-	192,973
Total Program Services	547,617	-	-	547,617
Total Expenses	970,780	-	-	970,780
Change in Net Assets	703,937	347,358	77,508	1,128,803
Net Assets - Beginning of Year	6,628,432	957,674	2,065,625	9,651,731
Net Assets - End of Year	\$ 7,332,369	\$ 1,305,032	\$ 2,143,133	\$ 10,780,534

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS - FOUNDATION
FOR THE YEAR ENDED JUNE 30, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 1,128,803
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Interest and dividends	(169,913)
Realized and unrealized net gain on investments	(793,913)
Unrealized gain on property held for sale	(389,780)
Changes in:	
Other assets	10,561
Assets held by others	(30,785)
Accounts payable	(8,040)
Deferred revenue	(17,104)
Net Cash Used by Operating Activities	<u>(270,171)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Net investment activity	<u>246,180</u>
Net Cash Provided by Investing Activities	<u>246,180</u>
Net increase (decrease) in cash and cash equivalents	(23,991)
Cash and Cash Equivalents - Beginning of Year	<u>26,954</u>
Cash and Cash Equivalents - End of Year	<u>\$ 2,963</u>

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

For financial reporting purposes, the District includes all funds, agencies, and authorities that are controlled by, or dependent on, the District's executive and legislative branches. Control by, or dependence on, the District was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the District, obligations of the District to finance any deficits that may occur, or receipt of significant subsidies from the District.

As a result, the financial statements of the District include the financial activities of the District and the combined totals of the trust and agency funds, which represent the various scholarships and student organizations within the District.

The District identified the Mendocino College Foundation (Foundation) as its only potential component unit. The District and the Foundation have financial and operational relationships that meet the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) for inclusion of the Foundation as a component unit of the District. Accordingly, the financial activities of the Foundation as a component unit have been included in the financial statements of the District.

The following are those aspects of the relationship between the District and the Foundation as the component unit that satisfies the GASB:

Accountability: The District is able to impose its will upon the Foundation. The Foundation provides specific financial benefits, or imposes specific financial burdens, on the District.

Scope of Public Service: The Foundation is a nonprofit public benefit corporation incorporated under the laws of the state of California. The Foundation was formed to promote and assist the educational services of the District.

Discrete Presentation: For financial presentation purposes, the Foundation's financial activities have been discretely presented with the financial activities of the District.

Basis of Presentation and Accounting 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.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

Exceptions to the accrual basis of accounting are as follows:

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

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 include 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.

Accounts Receivable Accounts receivable consists 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. The allowance is based upon management's estimates and analysis. The allowance was estimated at \$131,431 for student receivables as of June 30, 2018.

Prepaid Expenses Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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. Claims payables are included in accounts payable in the statement of net position.

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.

Advances From Grantors and Students Advances from grantors and students include 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. Advances from grantors and students also include amounts received from grant and contract sponsors that have not yet been earned.

Amounts Held in Trust for Others Amounts held in trust for others represent funds held by the District for the associated student trust fund and the scholarship and loan trust fund.

Compensated Absences Compensated absences 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. Compensated absences are included in other long-term liabilities in the statement of net position.

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, if the employee is a member of California Public Employees' Retirement System (CalPERS) or California State Teachers' Retirement System (CalSTRS).

Long-Term Liabilities Bond premiums are deferred and amortized over the life of the bonds using the straight-line method, which does not differ materially from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year incurred. Amortization of bond premium and discount costs was \$109,831 for the year ended June 30, 2018.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Pension For purposes of measuring the net pension liability, deferred outflows of resources/deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Teachers' Retirement Plan (STRP) and California Public Employees' Retirement System (CalPERS) and additions to/deductions from STRP's and CalPERS's fiduciary net position have been determined on the same basis as they are reported by California State Teachers' Retirement System (CalSTRS) and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable with the benefit terms. Investments are reported at fair value.

Fair Value Measurements The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs.

Deferred Outflows/Inflows of Resources In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period which will only be recognized as an outflow of resources (expense) in the future. District pension contributions, subsequent to the measurement date, are reported as deferred outflows of resources in the government-wide statement of net position. District contributions, subsequent to the measurement date, will be amortized during the next fiscal year.

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and would only be recognized as an inflow of resources (revenue) at that time.

Changes in proportion and differences between District contributions and proportionate share of pension contributions, the District's proportionate share of the net difference between projected and actual earnings on pension plan investments, changes in assumptions, and the differences between the District expected and actual experience are reported as deferred inflows of resources or deferred outflows of resources in the government-wide statement of net position. These amounts are amortized over the estimated service lives of the pension plan participants.

The District also has a deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Net Position The District's net position is classified as follows:

Net Investment in Capital Assets: 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 net investment in capital assets.

Restricted Net Position - Expendable: Restricted expendable net position represents resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.

Unrestricted Net Position: Unrestricted net position represents 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 towards 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, 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, such as state appropriations, financial aid, 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 position. 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.

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.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

Property Taxes Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent if paid after December 10 and April 10, 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, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, 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 CalSTRS and CalPERS on behalf of all community college districts in California. The amount reported in the basic financial statements as of June 30, 2018, was \$589,336.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Discretely Presented Component Unit – Foundation

Organization The Foundation was founded during the 1984-85 year to strengthen student services by providing student scholarships, enriching instruction and basic skills, as well as enhancing program and staff development. The goal is to promote and develop a mutually beneficial relationship between the College and the community. Because of the education nature of activities, the District has been granted tax-exempt status under Section 501(c)(3) of the *Internal Revenue Code*.

Basis of Presentation and Accounting 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.

Use of 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 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.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Discretely Presented Component Unit – Foundation, continued

Investments Investments held in brokerage accounts are reported at fair value based on quoted market prices and investments in property held for sale are reported at fair value based on property appraisals. All realized and unrealized gains or losses are reported in the statement of activities.

Fair Value Measurements The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs.

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) and Sonoma State University Academic Foundation (SSUAF) 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. The SSUAF is the trustee for the Halliday Trust which will terminate in 2019. The Foundation is a 50% beneficiary of the trust.

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.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Discretely Presented Component Unit – Foundation, continued

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 annual inflation-protected rate of return, over time, of approximately 8% for the Foundation Trust Fund and 7% for the Evelyn Foote Fund. 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. Where a distribution percentage is used, it shall be applied to the respective 20-quarters rolling average Fair Market Value of that Holding Accounts as of December 31 of the prior fiscal year for all accounts that have been established for 6 years or more and 12-quarters rolling average Fair Market Value of that Holding Accounts as of December 31 of the prior fiscal year for all accounts established less than 6 years. 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 Accounting Standards Codification (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.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Discretely Presented Component Unit – Foundation, continued

During the year, the Foundation received services meeting these criteria from the District in the form of accounting and administrative services as well as use of facilities. The value of these services is not included in the financial statements as management believes the value is not material to the financial statements as a whole. The Foundation did not receive any other services during the year that met the criteria for recognition in these financial statements.

Volunteers also provided their time and performed a variety of tasks that assisted the Foundation with specific program services and fundraising. Although such donated services do not meet the criteria for recognition in the financial statements, they are essential to the success of the Foundation’s mission and programs.

Income Taxes The Foundation operates under Section 501(c)(3) of the *Internal Revenue Code* and Section 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).

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

The cash and cash equivalents are displayed on the statement of net position as follows:

	District	Foundation
Cash and cash equivalents	\$ 8,495,595	\$ 2,963
Restricted cash and cash equivalents	6,689,429	-
Investments	1,178,401	8,934,686
Total Deposits and Investments	\$ 16,363,425	\$ 8,937,649

The carrying amounts of the District’s and Foundation’s deposits are summarized as follows:

	District	Foundation
Cash in county treasury	\$ 14,336,509	\$ -
Cash on hand and in banks	848,515	2,963
Totals	\$ 15,185,024	\$ 2,963

As provided for by *California Education Code*, Section 41001, a significant portion of the District’s cash balances of most funds is deposited with the Mendocino County Treasurer for the purpose of increasing interest earned through County investment activities. The County Treasury’s Pooled Money Investment account’s weighted average maturities was less than one year at June 30, 2018.

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.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS, continued

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, all of the District's bank balances at June 30, 2018, 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 investing in the following:

Local Agency Investment Fund (LAIF)

Mendocino County Treasury

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

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS, continued

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

Cash Equivalents:

- Treasury Bills
- Money Market Funds
- Commercial Paper
- Bankers’ 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)

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS, continued

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.

The District’s and Foundation’s investments are as follows:

	District	Foundation
Investment in LAIF	\$ 1,178,401	\$ -
Money market funds	-	205,259
Fixed income	-	1,670,510
Equities	-	5,845,811
Exchange traded funds	-	606,604
Other assets	-	606,502
Totals	\$ 1,178,401	\$ 8,934,686

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS, continued

The District invests funds in the State Treasurer's Pooled Money Investment Account (PMIA) through 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, LAIF invests in various structured notes and mortgage-backed securities, such as collateralized mortgage obligations. As of June 30, 2018, 1.85% 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, California 94209. PMIA's weighted average maturities was 193 days at June 30, 2018.

Interest Rate Risk

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 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), the District will not be able to recover the value of its cash and investments or collateral securities that are in the possession of another party.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS, continued

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*.

Fair Value Measurements

The District's and Foundation's investment in LAIF and the County Treasurer's investment pool is measured at fair value. At June 30, 2018, LAIF value of \$1,178,401 and County Treasurer's pool value of \$14,336,509 are valued using quoted prices for similar instruments in active markets and quoted prices for identical or similar instruments in markets that are not active (level 2 inputs).

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

Tuition and fees	\$	555,010
Federal grants and contracts		430,867
State grants and contracts		1,107,583
State apportionment		326,599
State taxes and other revenues		381,412
Total	\$	<u>2,801,471</u>

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 – CAPITAL ASSETS

Capital assets activity is summarized as follows:

	Beginning Balance July 1, 2017	Additions	Deductions	Ending Balance June 30, 2018
Capital assets not being depreciated				
Land	\$ 7,545,440	\$ -	\$ -	\$ 7,545,440
Construction in progress	29,518	-	29,518	-
Total capital assets not being depreciated	<u>7,574,958</u>	<u>-</u>	<u>29,518</u>	<u>7,545,440</u>
Capital assets being depreciated				
Buildings and improvements	113,051,578	284,057	-	113,335,635
Equipment	6,564,688	172,780	-	6,737,468
Total capital assets being depreciated	<u>119,616,266</u>	<u>456,837</u>	<u>-</u>	<u>120,073,103</u>
Total capital assets	<u>127,191,224</u>	<u>456,837</u>	<u>29,518</u>	<u>127,618,543</u>
Less: accumulated depreciation	<u>37,061,185</u>	<u>2,913,211</u>	<u>-</u>	<u>39,974,396</u>
Net Capital Assets	<u>\$ 90,130,039</u>	<u>\$ (2,456,374)</u>	<u>\$ 29,518</u>	<u>\$ 87,644,147</u>

Foundation

As of June 30, 2018, the Foundation owns approximately 423 acres of real property which surrounds the main campus of Mendocino-Lake Community College District at 1000 Hensley Creek Road, Ukiah, California. In June 2017, the Foundation purchased one acre of land for \$25,000 and recorded the purchase as a capital asset at the original cost. The Foundation intends to sell certain parcels and retain others for the expansion and growth of Mendocino College. As a result of the intentions to sell certain parcels, the Foundation has reclassified those parcels to Investment Property Held for Sale in the Statement of Financial Position in the current year. The remaining parcels are included in Capital Assets and are reported at reported at original cost or value at the original date of donation. The fair market of the parcels include in property held for sale is \$583,500 and the carrying value of the property which will be retained for the future growth of the college is \$1,104,370. In addition, a road has been built on the retained property totaling \$33,278 that has been capitalized as infrastructure.

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable consisted of the following:

Accrued payroll and related liabilities	\$ 455,407
Accrued interest	774,319
Construction projects	118,235
Vendor and other payables	3,317,851
Totals	<u>\$ 4,665,812</u>

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – ADVANCES FROM GRANTORS AND STUDENTS

Advance from grantors and students consisted of the following:

Tuition and fees	\$ 1,739,277
Trust accounts	203,053
State and local grants	288,575
Totals	<u>\$ 2,230,905</u>

NOTE 7 – LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities:

	Restated				
	Balance			Balance	Due Within
	July 1, 2017	Additions	Reductions	June 30, 2018	One Year
General obligation bonds					
General Obligation Bonds - Series A	\$ 625,000	\$ -	\$ 625,000	\$ -	\$ -
General Obligation Bonds - Series B	28,208,765	945,210	12,661	29,141,314	45,181
2015 Refunding Bonds	50,771,817	1,345,812	-	52,117,629	660,000
Unamortized premium	3,761,711	-	114,150	3,647,561	-
Total long-term debt	<u>83,367,293</u>	<u>2,291,022</u>	<u>751,811</u>	<u>84,906,504</u>	<u>705,181</u>
Other long-term liabilities:					
Solar loan	1,310,853	-	373,238	937,615	388,103
Compensated absences	974,703	92,803	-	1,067,506	-
Net OPEB liability	5,783,174	73,812	-	5,856,986	-
Net pension liability	21,927,238	2,754,681	-	24,681,919	-
Energy projects loan	88,710	-	88,710	-	-
Total other long-term liabilities	<u>30,084,678</u>	<u>2,921,296</u>	<u>461,948</u>	<u>32,544,026</u>	<u>388,103</u>
Total long-term liabilities	<u>\$ 113,451,971</u>	<u>\$ 5,212,318</u>	<u>\$ 1,213,759</u>	<u>\$ 117,450,530</u>	<u>\$ 1,093,284</u>

Long-term liabilities consisted of the following obligations:

GENERAL OBLIGATION BONDS

2011 General Obligation Bonds, Series B, issued in the original amount of \$37,499,792, including current interest bonds and capital appreciation bonds.

Final maturity is in 2051. Interest rate ranges from 2.00% to 11.75%. \$ 29,141,314

2015 General Obligation Refunding Bonds, issued in the original amount of \$48,627,448, including current interest bonds and capital appreciation bonds.

Final maturity is in 2051. Interest rate ranges from 8.00% to 16.00%. 52,117,629

Subtotal 81,258,943

Unamortized premium on general obligation bonds 3,647,561

Subtotal - General Obligation Bonds \$ 84,906,504

OTHER FINANCING

2009 Solar Loan, issued in the original amount of \$4,951,320. Final maturity in February 2021. Interest rate is 5.02%. \$ 937,615

Total Other Financing 937,615

Total Long-Term Debt 85,844,119

Current portion 1,093,284

Total Long-Term Debt - Noncurrent Portion \$ 1,093,284

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – LONG-TERM LIABILITIES, continued

The annual debt service requirements to maturity on the 2011 general obligation bonds, series B, are as follows:

Fiscal Year	Principal	Interest	Accreted Interest	Total
2019	\$ 45,181	\$ 738,491	\$ 54,819	\$ 838,491
2020	12,092	738,491	17,908	768,491
2021	89,893	738,491	160,108	988,491
2022	117,081	936,216	247,919	1,301,216
2023	18,600	1,133,941	46,400	1,198,941
2024-2028	295,848	6,707,481	1,139,152	8,142,481
2029-2033	1,443,107	8,892,456	2,166,893	12,502,456
2034-2038	3,432,342	8,067,481	6,717,659	18,217,481
2039-2043	16,392,813	3,574,734	6,412,187	26,379,734
2044-2048	333,032	-	4,209,671	4,542,703
2049-2052	1,258,119	-	19,347,090	20,605,209
Accretion	5,703,207	-	(5,703,207)	-
Total	\$ 29,141,314	\$ 31,527,785	\$ 34,816,598	\$ 95,485,697

The annual debt service requirements to maturity on the 2015 general obligation refunding bonds are as follows:

Fiscal Year	Principal	Interest	Accreted Interest	Total
2019	\$ 660,000	\$ 1,106,675	\$ -	\$ 1,766,675
2020	920,000	1,070,475	-	1,990,475
2021	915,000	1,024,600	-	1,939,600
2022	1,025,000	976,100	-	2,001,100
2023	1,165,000	921,350	-	2,086,350
2024-2028	8,310,000	3,512,375	-	11,822,375
2029-2033	10,668,649	948,038	281,351	11,898,038
2034-2038	3,707,330	-	6,227,670	9,935,000
2039-2043	4,252,693	-	10,552,307	14,805,000
2044-2048	10,730,210	-	37,873,849	48,604,060
2049-2052	6,083,567	-	30,006,777	36,090,344
Accretion	3,680,180	-	(3,680,180)	-
Total	\$ 52,117,629	\$ 9,559,613	\$ 81,261,775	\$ 142,939,016

Accretion

General obligation bonds as of June 30, 2018, have been increased by \$2,291,022 to include accumulated accretion of the capital appreciation bonds. Annual accretion is recognized as interest in the statement of activities.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 – LONG-TERM LIABILITIES, continued

Solar Loan

The annual debt service requirements to maturity on the 2009 solar loan obligation are as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 345,889	\$ 42,214	\$ 388,103
2020	379,473	24,088	403,561
2021	212,253	5,126	217,379
Total	\$ 937,615	\$ 71,428	\$ 1,009,043

Energy Project Loan Obligation

The final maturity on \$88,710 for the 2013 energy projects loan matured during the year ending June 30, 2018.

Refunded Debt

In prior years, the District defeased general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements.

The District recognized a financial statement loss of \$3,536,630 on the above refunding which is being amortized over the life of the new debt. The amortized balance as of June 30, 2018 is \$3,335,970.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 – EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and Classified employees are members of the California Public Employees' Retirement System (CalPERS).

For the fiscal year ending June 30, 2018, the District reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 13,817,755	\$ 4,404,126	\$ 1,898,346	\$ 1,269,185
CalPERS	10,864,164	3,189,494	337,666	2,088,612
Total	\$ 24,681,919	\$ 7,593,620	\$ 2,236,012	\$ 3,357,797

California State Teachers' Retirement System (CalSTRS)

Plan Description Certificated employees of the District participate in the STRP, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. Benefit provisions are established by state statute, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues publicly available financial reports that can be obtained at www.calstrs.com.

Benefits Provided The STRP provides retirement, disability, and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP. The District contributes exclusively to the STRP Defined Benefit Program; thus disclosures are not included for the other plans.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 – EMPLOYEE RETIREMENT SYSTEMS, continued

California State Teachers’ Retirement System (CalSTRS), continued

STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	STRP Defined Benefit Plan	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%*
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

*The rate imposed on CalSTRS 2% at 62 members assuming no change in the normal cost of benefits.

Contributions Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above, and the District's total contributions were \$1,793,190.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions At June 30, 2018, the District reported a net pension liability for its proportionate share of the net pension liability that reflected a reduction for state pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the District, were as follows:

District's proportionate share of the net pension liability	\$ 13,817,755
State's proportionate share of the net pension liability associated with the District	8,174,534
Total	<u>\$ 21,992,289</u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts and the State, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2017 and June 30, 2016, was 0.015 percent and 0.016 percent, respectively, resulting in a net decrease in the proportionate share of 0.001 percent.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 – EMPLOYEE RETIREMENT SYSTEMS, continued

California State Teachers’ Retirement System (CalSTRS), continued

For the year ended June 30, 2018, the District recognized pension expense of \$1,269,185. In addition, the District recognized pension expense and revenue of \$430,234 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on plan investments	\$ -	\$ 536,186
Differences between expected and actual experience	51,099	263,133
Changes in assumptions	2,559,837	-
Net changes in proportionate share of net pension liability	-	1,099,027
District contributions subsequent to the measurement date	1,793,190	-
Total	<u>\$ 4,404,126</u>	<u>\$ 1,898,346</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to pensions will be recognized as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (1,584)
2020	(1,584)
2021	(1,582)
2022	(100,347)
2023	382,531
Thereafter	435,156
	<u>\$ 712,590</u>

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 – EMPLOYEE RETIREMENT SYSTEMS, continued

California State Teachers’ Retirement System (CalSTRS), continued

Actuarial Assumptions Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010, through June 30, 2015
Actuarial cost method	Entry Age Normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary investment practice, a best estimate range was determined assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independent from year to year to develop expected percentile for the long-term distribution of annualized returns.

The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return*
Global Equity	47%	6.30%
Fixed Income	12%	0.30%
Real Estate	13%	5.20%
Private Equity	13%	9.30%
Cash/Liquidity	2%	-1.00%
Absolute Return/Risk Mitigation Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
	100%	

*20-year geometric average

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 – EMPLOYEE RETIREMENT SYSTEMS, continued

California State Teachers’ Retirement System (CalSTRS), continued

Discount Rate The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers were made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10%) and assumes that contributions, benefit payments, and administrative expenses occur midyear. Based on those assumptions, the STRP’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.10%, as well as the District’s proportionate share of the net pension liability if it was calculated using a discount rate that is one percentage point lower (6.10%) or one percentage point higher (8.10%) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
Plan's net pension liability	\$ 20,288,851	\$ 13,817,755	\$ 8,566,022

Pension Plan Fiduciary Net Position Detailed information about the pension plan’s fiduciary net position is available in CalSTRS’ separately issued Comprehensive Annual Financial Report (CAFR).

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 – EMPLOYEE RETIREMENT SYSTEMS, continued

California Public Employees’ Retirement System (CalPERS)

Plan Description Qualified employees are eligible to participate in the School Employer Pool (SEP) and the Safety Risk Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plans regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety. These report(s) and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or age 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	15.53%	15.53%

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 – EMPLOYEE RETIREMENT SYSTEMS, continued

California Public Employees’ Retirement System (CalPERS), continued

Contributions Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above, and the total District contributions were \$5,181,100.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$10,864,164. The net pension liability was measured as of June 30, 2017. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts, actuarially determined. The District’s proportionate share for the measurement periods of June 30, 2017 and June 30, 2016, was 0.046 percent and 0.46 percent, respectively, resulting in a minimal change in the proportionate share.

For the year ended June 30, 2018, the District recognized pension expense of \$2,088,612. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on plan investments	\$ 222,577	\$ -
Differences between expected and actual experience	433,203	-
Changes in assumptions	1,573,319	176,886
Net changes in proportionate share of net pension liability	4,539	160,780
District contributions subsequent to the measurement date	955,856	-
Total	\$ 3,189,494	\$ 337,666

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018**

NOTE 8 – EMPLOYEE RETIREMENT SYSTEMS, continued

California Public Employees’ Retirement System (CalPERS), continued

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to pensions will be recognized as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 735,098
2020	731,082
2021	634,461
2022	(204,669)
	\$ 1,895,972

Actuarial Assumptions Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997, through June 30, 2011
Actuarial cost method	Entry Age Normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 – EMPLOYEE RETIREMENT SYSTEMS, continued

California Public Employees’ Retirement System (CalPERS), continued

The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns.

The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Real Return Years 1 - 10*	Real Return Years 11+**
Global Equity	47%	4.90%	5.38%
Fixed Income	19%	0.80%	2.27%
Inflation Assets	6%	0.60%	1.39%
Private Equity	12%	6.60%	6.63%
Real Estate	11%	2.80%	5.21%
Infrastructure and Forestland	3%	3.90%	5.36%
Liquidity	2%	-0.40%	-0.90%
	100%		

*An expected inflation of 2.5% used for this period

**An expected inflation of 3.0% used for this period

Discount Rate The discount rates used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate, the amortization and smoothing periods recently adopted by the CalPERS Board were used. Projections of expected benefit payments and contributions were performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liabilities.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.15%, as well as the District’s proportionate share of the net pension liability if it was calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Plan's net pension liability	\$ 15,984,667	\$ 10,864,164	\$ 6,616,278

Pension Plan Fiduciary Net Position Detailed information about the pension plan’s fiduciary net position is available in CalPERS’ separately issued Comprehensive Annual Financial Report (CAFR).

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 – STATE AND FEDERAL ALLOWANCES, AWARDS, AND GRANTS

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements will not be material.

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District provides for these risks through combinations of self-insurance mechanisms and the purchase of commercial insurance. The District established the self-insurance reserve to account for and finance uninsured risks of loss. The self-insurance program provides coverage up to a maximum of \$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 \$80,000 specific deductible, in addition to a \$225,000 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, 2016	\$ (267,646)	\$ (2,318,929)	\$ 2,194,106	\$ (392,469)
June 30, 2017	\$ (392,469)	\$ (2,559,947)	\$ 2,403,393	\$ (549,023)
June 30, 2018	\$ (549,023)	\$ (1,960,179)	\$ 2,028,151	\$ (481,051)

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – RISK MANAGEMENT, continued

Joint Powers Authorities

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

NCCCSIA arranges and provides for the operation of a common risk management program covering property, liability, and workers' compensation exposures. The membership includes 11 community college districts throughout Northern California.

Until June 30, 1994, the District participated in 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.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018**

NOTE 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 (Plan) is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical, dental, vision and prescription insurance benefits to eligible retirees and their spouses. The following is a summary of the current retiree benefit plan:

	Certificated	Classified	Management
Benefit types provided	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision
Duration of Benefits	To age 65	To age 65	To age 65
Required Service	20 years	20 years	20 years
Minimum Age	55	55	55
Dependent Coverage	Yes	Yes	Yes
College Contribution %	100%	100%	100%
College Cap	None	None	None

*Those hired prior to July 1, 2011 qualify for District-paid retiree benefits after 15 years of service.

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 year ended June 30, 2018, the District contributed \$469,912 to the Plan.

Employees Covered by Benefit Term

The following is a table of plan participants at June 30, 2018:

	Number of Participants
Inactive Employees/Dependents Receiving Benefits	29
Active Employees	117
	<u>146</u>

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB), continued

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	June 30, 2018
Measurement date	June 30, 2018
Fiscal year	July 1st to June 30th
Actuarial cost methods	Entry age normal cost method
Inflation rate	2.75%
Investment rate of return	3.80%
Discount rate	3.80%
Health care cost trend rate	4.00%
Payroll increase	2.75%
Mortality	For certificated employees the 2009 CalSTRS mortality tables were used. For classified employees the 2014 CalPERS active mortality for miscellaneous employees were used.

Changes in the Net OPEB Liability

	Increase/(Decrease)		
	Total OPEB Liability (a)	Fiduciary Net Position (b)	Total OPEB Liability (a) - (b)
Balance July 1, 2017	\$ 5,783,174	\$ -	\$ 5,783,174
Changes for the year:			
Service cost	326,852	-	326,852
Interest	216,872	-	216,872
Employer contributions	-	469,912	(469,912)
Benefit payments	(469,912)	(469,912)	-
Net change	73,812	-	73,812
Balance June 30, 2018	\$ 5,856,986	\$ -	\$ 5,856,986

Fiduciary net position as a percentage of the total net OPEB liability at June 30, 2018 was 51.76%.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB), continued

Sensitivity of the net pension liability to assumptions

The following presents the net OPEB liability calculated using the discount rate of 3.0 percent. The schedule also shows what the net OPEB liability would be if it were calculated using a discount rate that is 1 percent lower (2.80 percent) and 1 percent higher (4.80 percent):

	Discount Rate 1% Lower (2.80%)	Current Discount Rate (3.80%)	Discount Rate 1% Higher (4.80%)
Net OPEB liability	TBD	\$ 5,856,986	TBD

The following table presents the net OPEB liability calculated using the health care cost trend rate of 4.0 percent. The schedule also shows what the net OPEB liability would be if it were calculated using a health care cost trend rate that is 1 percent lower (3.0 percent) and 1 percent higher (5.0 percent):

	Healthcare Cost Trent Rates 1% Lower (3.00%)	Healthcare Cost Trent Rates Current Rate (4.00%)	Healthcare Cost Trent Rates 1% Higher (5.00%)
Net OPEB liability	TBD	\$ 5,856,986	TBD

NOTE 12 – COMMITMENTS

The District has no outstanding construction commitments for the year ending June 30, 2018.

NOTE 13 – IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

Change in Accounting Principles

GASB Statement No. 75 In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB Statement No. 75 replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple- Employer Plans*, for OPEB. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The District's has implemented GASB Statement No. 75 for the year ended June 30, 2018.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 – IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS, continued

New Accounting Pronouncements

GASB Statement No. 83 – In November 2016, the GASB issued Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged; however, no such asset retirement obligations are known at this time.

NOTE 14 – TEMPORARILY RESTRICTED NET ASSETS – FOUNDATION

Temporarily restricted net assets consisted of the following:

Adopt A Fifth Grader	\$	373,830
Koeninger Fund		20,000
Nursing Scholarship Fund		15,000
Bistrin Scholarship		28,073
Foundation Affiliate Organizations		92,438
Mary Oosting Fine Arts Scholarship		27,000
Various Scholarships		41,055
Halliday Perpetual Scholarship		72,261
Evelyn Foote Trust		555,703
Salmen Family Scholarship		13,952
Boger		7,522
Coast Center		41,198
Larue Korbin Scholarship		12,000
Baltrami Perpetual Scholarship		5,000
Total Temporarily Restricted Net Assets	\$	<u>1,305,032</u>

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 15 – PERMANENTLY RESTRICTED NET ASSETS – FOUNDATION

Permanently restricted net assets consisted of the following:

Evelyn Foote Trust	\$	803,542
Gift Annuity		175,609
Hulda and Alfred Weger Scholarship		25,000
Salmen Family Scholarship		38,500
Albert Beltrami Perpetual Internship Scholarship		50,000
Les Gregg Family Scholarship		25,000
Joe and Dorothy Halliday Scholarship		174,500
Joe and Dorothy Halliday Scholarship #2		203,795
Fetzer Nursing Scholarship		50,000
Wallace Meek Perez Scholarship		26,600
John Bogner Fine Arts Scholarship		39,254
Robert and Maryls Blanc Scholarship		25,000
Laure Korbin Scholarship		101,000
Coast Center		205,873
Coast Center Perpetual Scholarship		27,233
Siveria-Cleary Family Scholarship		25,000
Mendocino College Coast Center Art and Science Scholarships		25,000
Natalie McCoy Scholarships		9,400
Tom Goforth Perpetual Scholarship		37,827
Jeff Banks Perpetual Scholarships		37,500
Floyd Ross Scholarship		37,500
Total Permanently Restricted Net Assets	\$	<u>2,143,133</u>

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 15 – PERMANENTLY RESTRICTED NET ASSETS – FOUNDATION, continued

Endowment net asset composition by type of fund is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Foundation Trust Fund	\$ 5,217,647	\$ 138,757	\$ 13,675	\$ 5,370,079
Evelyn Foote Fund	-	555,703	803,542	1,359,245
Halliday Fund	-	72,261	174,500	246,761
Halliday Fund #2	-	-	203,795	203,795
Salmen Fund	-	13,952	38,500	52,452
Perpetual Fund	-	101,809	488,385	590,194
AAFG Fund	64,780	373,830	-	438,610
Bogner Fund	-	7,522	39,254	46,776
Coast Center Fund	-	41,198	205,873	247,071
Gift Annuity Fund	-	-	175,609	175,609
Total Endowment of June 30, 2018	\$ 5,282,427	\$ 1,305,032	\$ 2,143,133	\$ 8,730,592
Endowment Net Assets - Beginning of Year	\$ 4,955,803	\$ 957,674	\$ 2,065,625	\$ 7,979,102
Contributions	22,818	379,220	77,508	479,546
Interest and Dividends	121,608	48,305	-	169,913
Net realized and unrealized gains (losses)	660,698	337,010	-	997,708
Amounts appropriated for expenditures	(478,500)	(417,177)	-	(895,677)
Endowment New Assets - End of Year	\$ 5,282,427	\$ 1,305,032	\$ 2,143,133	\$ 8,730,592

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, 2018.

NOTE 16 – FAIR VALUE MEASUREMENTS – FOUNDATION

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the year ended June 30, 2018.

Money Market Funds: These assets are valued at the net asset value (NAV), generally \$1 per share, and are reported on the active market on which securities are traded.

Equity Securities, and Exchange Traded Funds: Each investor will typically receive units of participation or shares. These shares are valued daily, based on the underlying securities owned, and are usually publicly traded equity securities. Equity securities are instruments that signify an ownership position in a corporation and represents a claim on its proportional share in the Foundation's assets and profits. Ownership is determined by the number of shares an investor owns divided by the total number of shares outstanding. Equity securities, and exchange traded funds are valued daily based on the closing market price in the active exchange markets.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 16 – FAIR VALUE MEASUREMENTS – FOUNDATION

Bonds: Corporate, municipal bonds and U.S. treasury bonds are generally valued by a computerized pricing service or, for less actively traded issues, by utilizing a yield-based matrix system to arrive at an estimated market value. Each bond series has a unique set of variables including coupon payment, number of payments, interest rate, and the maturity value. These factors are used to determine the estimated market value and can be determined daily.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair values of assets measured on a recurring basis are as follows:

	Fair Value	Level 1	Level 2	Level 3
Money market deposit	\$ 205,259	\$ 205,259	\$ -	\$ -
US treasury bonds	152,079	-	152,079	-
Corporate bonds	1,001,461	-	1,001,461	-
Municipal bonds	516,970	-	516,970	-
Exchange traded funds:				
Equity	606,604	606,604	-	-
Equity securities	5,845,811	5,845,811	-	-
Other	23,002	23,002	-	-
Total	\$ 8,351,186	\$ 6,680,676	\$ 1,670,510	\$ -

NOTE 17 – PRIOR-PERIOD ADJUSTMENTS

The beginning net position decreased by \$7,701,482. This was due to adjustments made to bring on the net OPEB liabilities following the District's implementation of GASB Statements No. 75 during the year ended June 30, 2018. The total decrease to beginning net position was \$4,648,030. See Note 13, Impact of Recently Issued Accounting Standards, Change in Accounting Principles for further details on the implementation of GASB Statements No. 75. In addition, the District decreased beginning net position by \$3,053,452 due to an error identified with the calculation of accretion for the general obligation refunding bonds.

REQUIRED SUPPLEMENTARY INFORMATION

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDING JUNE 30, 2018**

	2018
Total OPEB liability	
Service cost	\$ 326,852
Interest on Total OPEB Liability	216,872
Benefit payments	(469,912)
Net change in total OPEB liability	73,812
Total OPEB liability, beginning of year	5,783,174
Total OPEB liability, end of year (a)	\$ 5,856,986
 Plan fiduciary net position	
Employer contributions	\$ 469,912
Benefit payments	(469,912)
Change in plan fiduciary net position	-
Fiduciary trust net position, beginning of year	-
Fiduciary trust net position, end of year (b)	\$ -
 Net OPEB liability(asset), ending (a) - (b)	\$ 5,856,986
 Covered payroll	\$ 12,073,656
 Plan fiduciary net position as a percentage of the total OPEB liability(asset)	0.00%
 Net OPEB liability(asset) as a percentage of covered payroll	48.51%

This is a 10 year schedule, however the information in this schedule is not required to be presented retrospectively.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF CONTRIBUTIONS - OPEB
 FOR THE YEAR ENDING JUNE 30, 2018**

	2018
Actuarially determined contribution	\$ 469,912
Contributions in relations to the actuarially determined contribution	469,912
Contribution deficiency (excess)	\$ -
Covered-employee payroll	\$ 12,073,656
Contribution as a percentage of covered-employee payroll	3.89%

This is a 10 year schedule, however the information in this schedule is not required to be presented retrospectively.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDING JUNE 30, 2018**

CalSTRS	2018	2017	2016	2015
District's proportion of the net pension liability	0.015%	0.016%	0.017%	0.017%
District's proportionate share of the net pension liability	\$ 13,817,755	\$ 12,940,960	\$ 10,221,995	\$ 9,237,911
State's proportionate share of the net pension liability associated with the District	8,174,534	4,694,980	3,959,197	3,740,260
Total	\$ 21,992,289	\$ 17,635,940	\$ 14,181,192	\$ 12,978,171
District's covered - employee payroll	\$ 12,426,819	\$ 6,003,471	\$ 5,596,892	\$ 5,286,430
District's proportionate Share of the net pension liability as percentage of covered-employee payroll	111.19%	215.56%	182.64%	174.75%
Plan fiduciary net position as a percentage of the total pension liability	69.00%	70.00%	74.00%	77.00%
CalPERS	2018	2017	2016	2015
District's proportion of the net pension liability	0.046%	0.046%	0.045%	0.048%
District's proportionate share of the net pension liability	\$ 10,864,164	\$ 8,986,278	\$ 6,280,358	\$ 5,361,828
District's covered - employee payroll	\$ 6,881,613	\$ 5,312,256	\$ 5,098,436	\$ 4,695,673
District's proportionate Share of the net pension liability as percentage of covered-employee payroll	157.87%	169.16%	123.18%	114.19%
Plan fiduciary net position as a percentage of the total pension liability	71.90%	73.90%	79.40%	83.50%

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS – PENSIONS
FOR THE YEAR ENDING JUNE 30, 2018**

CalSTRS	Reporting Fiscal Year			
	2018	2017	2016	2015
Statutorily required contribution	\$ 1,793,190	\$ 1,025,686	\$ 944,450	\$ 705,105
District's contributions in relation to the statutorily required contribution	1,793,190	1,025,686	944,450	705,105
District's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 12,426,819	\$ 6,003,471	\$ 5,596,892	\$ 5,286,430
District's contributions as a percentage of covered-employee payroll	14.43%	17.08%	16.87%	13.34%
CalPERS	Reporting Fiscal Year			
	2018	2017	2016	2015
Statutorily required contribution	\$ 955,856	\$ 810,178	\$ 648,421	\$ 591,245
District's contributions in relation to the statutorily required contribution	955,856	810,178	648,421	591,245
District's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 6,881,613	\$ 5,312,256	\$ 5,098,436	\$ 4,695,673
District's contributions as a percentage of covered-employee payroll	13.89%	15.25%	12.72%	12.59%

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Changes in the Net OPEB Liability and Related Ratios

The Schedule of Changes in Net OPEB liability is presented to illustrate the elements of the District's Net OPEB liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

Schedule of Contributions – OPEB

This schedule presents information on the District's actuarially determined contribution, contributions in relation to the actuarially determined contribution, and any excess or deficiency related to the actuarially determined contribution. In the future, as data becomes available, ten years of information will be presented.

Schedule of Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net positions and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Schedule of Contributions - Pensions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for either CalSTRS or CalPERS.

Changes in Assumptions

The discount rate for CalPERS was 7.65% as of June 30, 2017 and 7.15% as of June 30, 2018. The discount rate for CalSTRS was 7.60% as of June 30, 2017 and 7.10% as of June 30, 2018. The change in discount rate increased the total net pension liability for each plan.

SUPPLEMENTARY INFORMATION

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
DISTRICT ORGANIZATIONAL STRUCTURE
JUNE 30, 2018**

GOVERNING BOARD

NAME	OFFICE	AREA	TERM EXPIRES
Mr. John Tomkins	Member	Lakeport	December 2018
Dr. Ed Haynes	Member	Ukiah	December 2018
Mr. Jason Pinoli	Clerk	Hopland	December 2018
Ms. Janet Chaniot	Member	Potter Valley	December 2018
Ms. Marie Myers	Vice President	Redwood Valley	December 2020
Mr. Dave Geck	President	Kelseyville	December 2020
Mr. Paul Ubelhart	Member	Willits	December 2020

ADMINISTRATION

Dr. Arturo Reyes
Superintendent/President

Ms. Eileen Cichocki
Assistant Superintendent/Vice President, Administrative Services

Ms. Debra Polak
Vice President, Academic Affairs

Mr. Ulises Velasco
Vice President, Student Services

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT –
ANNUAL/ACTUAL ATTENDANCE
JUNE 30, 2018**

The full-time equivalent resident students (FTES) eligible for 2017-18 state apportionment reported to the State of California are summarized below:

CATEGORIES	Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2017 only)			
1. Noncredit	4.28	-	4.28
2. Credit	20.48	-	20.48
B. Summer Intersession (Summer 2018 - Prior to July 1, 2018)			
1. Noncredit	0.44	-	0.44
2. Credit	14.02	-	14.02
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	1,492.73	-	1,492.73
(b) Daily Census Contact Hours	123.91	-	123.91
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	77.28	-	77.28
(b) Credit	202.76	-	202.76
3. Alternative Attendance Accounting Procedure Courses			
(a) Weekly Census Contact Hours	399.93	-	399.93
(b) Daily Census Contact Hours	94.58	-	94.58
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	2,430.41	-	2,430.41
Supplemental Information (subset of above information)			
E. In-service Training Courses	108.72	-	108.72
F. Basic Skills Courses and Immigrant Education			
1. Credit	105.67	-	105.67
2. Noncredit	61.58	-	61.58
Total Basic Skills FTES	167.25	-	167.25

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
STUDENT FINANCIAL ASSISTANCE CLUSTER			
Federal Supplement Education Opportunity Grant (FSEOG)	84.007	*	\$ 105,958
Federal Direct Student Loans	84.268	*	977,616
Federal Work Study Program (FWS)	84.033	*	55,479
Federal Pell Grants (PELL)	84.063	*	4,877,110
Total Student Financial Assistance Cluster			<u>6,016,163</u>
Passed through State Department of Education			
CTEA Title IIC	84.048	*	148,460
CTEA - Transition Objectives	84.048	*	41,592
Bureau of Indian Affairs	84.060	*	2,501
Total Passed through State Department of Education			<u>192,553</u>
Migrant Education College Assistance Program	84.149A	*	370,552
Migrant Education High School Equivalency Program	84.141	*	345,672
Hispanic Serving Institution Program	84.031S	*	456,623
Total U.S. Department of Education			<u>7,381,563</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Eisenhower Transportation Fellowship Program	20.215	*	25,000
Total U.S. Department of Transportation			<u>25,000</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through State Department of Education			
Child and Adult Care Food Program	10.558	04391-CACFP-23-CC-IC	35,311
Forest Reserve	10.665	1500339A	14,549
Total U.S. Department of Agriculture			<u>49,860</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Passed through State Department of Education			
AmeriCorps	94.006	95550001	24,735
Total Corporation for National and Community Service			<u>24,735</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Education			
Foster Parent Training	93.658	*	36,106
Total U.S. Department of Health and Human Services			<u>36,106</u>
NATIONAL ENDOWMENT FOR THE HUMANITIES			
Promotion of the Humanities - Public Programs	45.164	*	24,711
Total National Endowment for the Humanities			<u>24,711</u>
Total Federal Expenditures			<u>\$ 7,541,975</u>

*Pass-Through number is either not available or not applicable

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
SCHEDULE OF REVENUES AND EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDING JUNE 30, 2018

	Program Revenues			
	Cash Received	Accounts Receivable	Deferred Income	Total
Disabled Student Programs and Services	\$ 381,789	\$ -	\$ -	\$ 381,789
Extended Opportunity Programs and Services	548,181	-	-	548,181
Child Development Center	375,200	70,790	-	445,990
Nursing Education	-	188,200	-	188,200
CalGrant	467,017	-	(8,493)	458,524
SFAA	174,446	-	-	174,446
Full Time Student Success Grant	179,866	-	15,134	195,000
CalWORKS	209,977	-	-	209,977
MESA	14,987	59,014	-	74,001
Foster Parent	21,286	23,286	-	44,572
Cooperative Agency Resource Education	68,272	-	-	68,272
Staff Diversity	114,081	-	-	114,081
CTE	473,406	39,997	(81,799)	431,604
TANF	31,481	9,941	-	41,422
Basic Skills	169,241	-	(77,940)	91,301
Instructional Equipment Block Grant	95,187	-	(18,959)	76,228
Student Equity	473,045	-	143,325	616,370
Student Success and Support Program	848,275	-	(63,182)	785,093
Prop 39 - Clean Energy Workforce Grant	(391,763)	705,806	-	314,043
Prop 39 - Energy Project	106,176	-	89,186	195,362
AEBG	1,457,718	-	612,543	2,070,261
Scheduled Maintenance	95,187	-	1,620	96,807
All other aid programs	278,282	9,521	(242,102)	45,701
Total	\$ 6,191,337	\$ 1,106,555	\$ 369,333	\$ 7,667,225

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH AUDITED FINANCIAL STATEMENTS
JUNE 30, 2018**

June 30, 2018	General Fund Unrestricted	General Fund Restricted	Debt Service Fund	Bond Debt Service Fund	Child Development Fund	Capital Outlay Projects Fund
Annual Financial and Budget Report (CCFS-311)						
Fund Balance	\$ 6,559,591	\$ 234,888	\$ -	\$ -	\$ -	\$ 927,846
Adjustments and reclassifications increasing (decreasing) the fund balance:						
Adjustment to record debt service fund	-	-	-	1,836,881	-	-
Reclassification of amounts held for others	-	-	-	-	-	-
Net Adjustments and Reclassifications	-	-	-	1,836,881	-	-
Audited Financial Statements Fund Balance	\$ 6,559,591	\$ 234,888	\$ -	\$ 1,836,881	\$ -	\$ 927,846

June 30, 2018 (continued)	Self- Insurance Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Student Financial Aid Trust Fund	Scholarship and Loan Trust Fund	Total
Annual Financial and Budget Report (CCFS-311)							
Fund Balance	\$ 3,889,729	\$ 151,261	\$ 32,374	\$ 327,691	\$ -	\$ 36,281	\$ 12,159,661
Adjustments and reclassifications increasing (decreasing) the fund balance:							
Agency accounts not included in CCFS-311	-	-	-	-	-	-	1,836,881
Reclassification of amounts held for others	-	(151,261)	(32,374)	(327,691)	-	(36,281)	(547,607)
Net Adjustments and Reclassifications	-	(151,261)	(32,374)	(327,691)	-	(36,281)	1,289,274
Audited Financial Statements Fund Balance	\$ 3,889,729	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,448,935

See accompanying note to supplementary information.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF THE ECS 84362 (50 PERCENT LAW) CALCULATION
JUNE 30, 2018**

	Object/ TOP Codes	Activity (ESCA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6100			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	3,868,914	-	3,868,914	3,917,516	-	3,917,516
Other	1300	3,865,029	-	3,865,029	3,876,216	-	3,876,216
Total Instructional Salaries		7,733,943	-	7,733,943	7,793,732	-	7,793,732
Non-Instructional Salaries							
Contract or Regular	1200	-	-	-	1,347,922	-	1,347,922
Other	1400	-	-	-	165,822	-	165,822
Total Non-Instructional Salaries		-	-	-	1,513,744	-	1,513,744
Total Academic Salaries		7,733,943	-	7,733,943	9,307,476	-	9,307,476
<u>Classified Salaries</u>							
Non-Instructional Salaries							
Regular Status	2100	-	-	-	3,415,580	-	3,415,580
Other	2300	-	-	-	460,996	-	460,996
Total Non-Instructional Salaries		-	-	-	3,876,576	-	3,876,576
Instructional Aides							
Regular Status	2200	517,640	-	517,640	702,137	-	702,137
Other	2400	35,600	-	35,600	35,600	-	35,600
Total Instructional Aides		553,240	-	553,240	737,737	-	737,737
Total Classified Salaries		553,240	-	553,240	4,614,313	-	4,614,313
Employee Benefits	3000	2,694,949	-	2,694,949	6,031,427	-	6,031,427
Supplies and Materials	4000	-	-	-	301,391	-	301,391
Other Operating Expenses	5000	55,946	-	55,946	2,176,260	-	2,176,260
Equipment Replacement	6420	-	-	-	-	-	-
Total Expenditures Prior to Exclusions		11,038,078	-	11,038,078	22,430,867	-	22,430,867
<u>Exclusions</u>							
Activities to Exclude							
Inst. Staff-Retirees' Benefits and Incentives	5900	-	-	-	-	-	-
Std. Health Svcs. Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	1,701	-	1,701
Non-inst.Staff-Retirees' Benefits and Incentives	6740	-	-	-	-	-	-
Object to Exclude							
Rents and Leases	5060	-	-	-	20,902	-	20,902
Lottery Expenditures							
Academic Salaries	1000	-	-	-	-	-	-
Classified Salaries	2000	-	-	-	-	-	-
Employee Benefits	3000	-	-	-	-	-	-
Supplies and Materials	4000						
Software	4100	-	-	-	16,900	-	16,900
Books, Magazines & Periodicals	4200	-	-	-	11,894	-	11,894
Instructional Supplies & Materials	4300	-	-	-	-	-	-
Non-inst. Supplies & Materials	4400	-	-	-	216,539	-	216,539
Total Supplies and Materials		-	-	-	245,333	-	245,333
Other Operating Expenses and Services	5000	-	-	-	316,282	-	316,282
Capital Outlay	6000						
Library Books	6300	-	-	-	-	-	-
Equipment	6400						
Equipment - Additional	6410	-	-	-	-	-	-
Equipment - Replacement	6420	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay		-	-	-	-	-	-
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		\$ -	\$ -	\$ -	\$ 584,218	\$ -	\$ 584,218
Total for ECS 84362, 50% Law		\$ 11,038,078	\$ -	\$ 11,038,078	\$ 21,846,649	\$ -	\$ 21,846,649
Percent of CEE (Instructional Salary Cost/Total CEE)		50.53%	0.00%	50.53%	100.00%	0.00%	100.00%
50% of Current Expense of Education		\$ -	\$ -	\$ -	\$ 10,923,325	\$ -	\$ 10,923,325

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
 DETAILS OF THE EDUCATION PROTECTION ACCOUNT
 JUNE 30, 2018**

EPA Revenue	3,171,659
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Activity Classification	Activity Code	Salaries and Benefits	Operating Expenses	Capital Outlay	Total
		(Obj 1000-3000)	(Obj 4000-5000)	(Obj 6000)	
Instructional Activities	0100-5900	3,171,659	-	-	3,171,659
Total		3,171,659	-	-	3,171,659

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
COMBINING BALANCE SHEET – DISTRICT FUNDS INCLUDED IN THE REPORTING ENTITY
JUNE 30, 2018

	General Fund Unrestricted	General Fund Restricted	Debt Service Fund	Bond Debt Service Fund	Child Development Fund	Capital Outlay Projects Fund	Revenue Bond Constructions Fund	Balance Forward
ASSETS								
Current Assets								
Cash and equivalents	\$ 8,495,595	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,495,595
Restricted cash and equivalents	-	493,524	(1,526)	1,836,881	(41,598)	1,113,136	-	3,400,417
Investments	-	-	-	-	-	-	-	-
Accounts receivable - net	1,085,369	1,598,152	-	-	76,041	-	-	2,759,562
Prepaid expenditures and other assets	8,500	17,000	-	-	-	-	-	25,500
Due from other funds	5,893	-	1,526	-	-	-	-	7,419
Total Current Assets	9,595,357	2,108,676	-	1,836,881	34,443	1,113,136	-	14,688,493
Total Assets	\$ 9,595,357	\$ 2,108,676	\$ -	\$ 1,836,881	\$ 34,443	\$ 1,113,136	\$ -	\$ 14,688,493
LIABILITIES								
Accounts payable	\$ 2,523,043	\$ 284,001	\$ -	\$ -	\$ 28,550	\$ 118,235	\$ -	\$ 2,953,829
Deferred revenue	511,197	1,589,787	-	-	-	67,055	-	2,168,039
Amounts held for others	-	-	-	-	-	-	-	-
Due to other funds	1,526	-	-	-	5,893	-	-	7,419
Total Liabilities	3,035,766	1,873,788	-	-	34,443	185,290	-	5,129,287
FUND EQUITY								
Fund Balances:								
Reserved for debt service	-	-	-	1,836,881	-	-	-	1,836,881
Reserved for special purpose	-	234,888	-	-	-	927,846	-	1,162,734
Unreserved	6,559,591	-	-	-	-	-	-	6,559,591
Total Fund Equity	6,559,591	234,888	-	1,836,881	-	927,846	-	9,559,206
Total Liabilities and Fund Equity	\$ 9,595,357	\$ 2,108,676	\$ -	\$ 1,836,881	\$ 34,443	\$ 1,113,136	\$ -	\$ 14,688,493

See accompanying note to supplementary information.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
COMBINING BALANCE SHEET – DISTRICT FUNDS INCLUDED IN THE REPORTING ENTITY
JUNE 30, 2018

	Balance Brought Forward	Self- Insurance Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Student Financial Aid Trust Fund	Scholarship and Loan Trust Fund	Total
ASSETS								
Current Assets								
Cash and equivalents	\$ 8,495,595	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,495,595
Restricted cash and equivalents	3,400,417	2,711,462	151,261	32,374	328,123	29,511	36,281	6,689,429
Investments	-	1,178,401	-	-	-	-	-	1,178,401
Accounts receivable - net	2,759,562	61	-	-	-	41,848	-	2,801,471
Prepaid expenditures and other assets	25,500	-	-	-	-	-	-	25,500
Due from other funds	7,419	-	-	-	-	-	-	7,419
Total Current Assets	14,688,493	3,889,924	151,261	32,374	328,123	71,359	36,281	19,197,815
Total Assets	\$ 14,688,493	\$ 3,889,924	\$ 151,261	\$ 32,374	\$ 328,123	\$ 71,359	\$ 36,281	\$ 19,197,815
LIABILITIES								
Accounts payable	\$ 2,953,829	\$ 195	\$ -	\$ -	\$ 432	\$ 8,493	\$ -	\$ 2,962,949
Deferred revenue	2,168,039	-	-	-	-	62,866	-	2,230,905
Amounts held for others	-	-	151,261	32,374	327,691	-	36,281	547,607
Due to other funds	7,419	-	-	-	-	-	-	7,419
Total Liabilities	5,129,287	195	151,261	32,374	328,123	71,359	36,281	5,748,880
FUND EQUITY								
Fund Balances:								
Reserved for debt service	1,836,881	-	-	-	-	-	-	1,836,881
Reserved for special purpose	1,162,734	3,889,729	-	-	-	-	-	5,052,463
Undesignated	6,559,591	-	-	-	-	-	-	6,559,591
Total Fund Equity	9,559,206	3,889,729	-	-	-	-	-	13,448,935
Total Liabilities and Fund Equity	\$ 14,688,493	\$ 3,889,924	\$ 151,261	\$ 32,374	\$ 328,123	\$ 71,359	\$ 36,281	\$ 19,197,815

See accompanying note to supplementary information.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY – DISTRICT FUNDS INCLUDED IN THE
REPORTING ENTITY
JUNE 30, 2018

	General Fund Unrestricted	General Fund Restricted	Debt Service Fund	Bond Debt Service Fund	Child Development Fund	Capital Outlay Projects Fund	Revenue Bond Constructions Fund	Balance Forward
OPERATING REVENUES								
Net tuition and fees	\$ 1,030,117	\$ 107,284	\$ -	\$ -	\$ 102,954	\$ -	\$ -	\$ 1,240,355
Grants and Contracts, noncapital								
Federal	21,474	1,504,196	-	-	35,311	-	-	1,560,981
State	-	4,583,844	-	-	443,239	-	-	5,027,083
Local	163,719	36,071	-	-	-	-	-	199,790
Auxiliary enterprise sales, net	66,131	-	-	-	-	-	-	66,131
Total Operating Revenues	1,281,441	6,231,395	-	-	581,504	-	-	8,094,340
OPERATING EXPENDITURES								
Salaries	14,396,851	2,957,320	-	-	401,661	-	-	17,755,832
Employee benefits	6,145,304	1,143,585	-	-	137,494	-	-	7,426,383
Supplies, materials, and other operating expenses and services	2,780,107	2,074,476	-	-	85,563	547,565	-	5,487,711
Payments to students	-	434,744	-	-	-	-	-	434,744
Total Operating Expenses	23,322,262	6,610,125	-	-	624,718	547,565	-	31,104,670
Operating Income (Loss)	(22,040,821)	(378,730)	-	-	(43,214)	(547,565)	-	(23,010,330)
NONOPERATING REVENUES (EXPENDITURES)								
State apportionments, noncapital	8,199,695	-	-	-	-	-	-	8,199,695
Education protection account revenues, noncapital	3,171,659	-	-	-	-	-	-	3,171,659
Local property taxes, noncapital	10,081,432	-	-	-	-	-	-	10,081,432
State taxes and other revenues, noncapital	1,126,537	297,851	-	-	-	-	-	1,424,388
Financial aid revenues	-	-	-	-	-	-	-	-
Financial aid expenses	-	-	-	-	-	-	-	-
Investment income	72,432	-	(3,171)	11,100	(273)	14,658	-	94,746
Interest expense	-	-	-	(1,943,300)	-	-	-	(1,943,300)
Other non-operating revenues	699,689	84,106	-	-	-	-	-	783,795
State apportionments, capital	-	-	-	-	-	292,169	-	292,169
Local property taxes and revenues, capital	-	-	-	2,678,858	-	149,367	-	2,828,225
Total Nonoperating Revenues (Expenditures)	23,351,444	381,957	(3,171)	746,658	(273)	456,194	-	24,932,809
OTHER FINANCING SOURCES (USES)								
Operating transfer in	-	1,588,052	457,056	-	43,487	-	-	2,088,595
Operating transfer out	(500,793)	(1,588,052)	-	-	-	-	-	(2,088,845)
Debt service	-	-	(453,885)	(637,661)	-	-	-	(1,091,546)
Total Other Financing Sources (Uses)	(500,793)	-	3,171	(637,661)	43,487	-	-	(1,091,796)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	809,830	3,227	-	108,997	-	(91,371)	-	830,683
FUND EQUITY -- BEGINNING OF YEAR	5,749,761	231,661	-	1,727,884	-	1,019,217	-	8,728,523
FUND EQUITY -- END OF YEAR	\$ 6,559,591	\$ 234,888	\$ -	\$ 1,836,881	\$ -	\$ 927,846	\$ -	\$ 9,559,206

See accompanying note to supplementary information.

MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY – DISTRICT FUNDS INCLUDED IN THE
REPORTING ENTITY
JUNE 30, 2018

	Balance Brought Forward	Self- Insurance Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Student Financial Aid Trust Fund	Scholarship and Loan Trust Fund	Total
OPERATING REVENUES								
Net tuition and fees	\$ 1,240,355	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,240,355
Grants and Contracts, noncapital								
Federal	1,560,981	-	-	-	-	-	-	1,560,981
State	5,027,083	-	-	-	-	-	-	5,027,083
Local	199,790	3,598,204	-	-	-	-	-	3,797,994
Auxiliary enterprise sales and charges	66,131	-	-	-	-	-	-	66,131
Total Operating Revenues	8,094,340	3,598,204	-	-	-	-	-	11,692,544
OPERATING EXPENDITURES								
Salaries	17,755,832	13,600	-	-	-	-	-	17,769,432
Employee benefits	7,426,383	2,869,059	-	-	-	-	-	10,295,442
Supplies, materials, and other operating expenses and services	5,487,711	93,678	-	-	-	-	-	5,581,389
Payments to students	434,744	-	-	-	-	-	-	434,744
Total Operating Expenses	31,104,670	2,976,337	-	-	-	-	-	34,081,007
Operating Income (Loss)	(23,010,330)	621,867	-	-	-	-	-	(22,388,463)
NONOPERATING REVENUES (EXPENDITURES)								
State apportionments, noncapital	8,199,695	-	-	-	-	-	-	8,199,695
Education protection account revenues, noncapital	3,171,659	-	-	-	-	-	-	3,171,659
Local property taxes, noncapital	10,081,432	-	-	-	-	-	-	10,081,432
State taxes and other revenues, noncapital	1,424,388	-	-	-	-	-	-	1,424,388
Financial aid revenues	-	-	-	-	-	6,672,019	-	6,672,019
Financial aid expenses	-	-	-	-	-	(6,672,019)	-	(6,672,019)
Investment income	94,746	40,852	-	-	-	-	-	135,598
Interest expense	(1,943,300)	-	-	-	-	-	-	(1,943,300)
Other non-operating revenues	783,795	30,613	-	-	-	-	-	814,408
State apportionments, capital	292,169	-	-	-	-	-	-	292,169
Local property taxes and revenues, capital	2,828,225	-	-	-	-	-	-	2,828,225
Total Nonoperating Revenues (Expenditures)	24,932,809	71,465	-	-	-	-	-	25,004,274
OTHER FINANCING SOURCES (USES)								
Operating transfer in	2,088,595	-	-	-	-	-	-	2,088,595
Operating transfer out	(2,088,845)	-	-	-	-	-	-	(2,088,845)
Debt service	(1,091,546)	-	-	-	-	-	-	(1,091,546)
Total Other Financing Sources (Uses)	(1,091,796)	-	-	-	-	-	-	(1,091,796)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	830,683	693,332	-	-	-	-	-	1,524,015
FUND EQUITY -- BEGINNING OF YEAR	8,728,523	3,196,397	-	-	-	-	-	11,924,920
FUND EQUITY -- END OF YEAR	\$ 9,559,206	\$ 3,889,729	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,448,935

See accompanying note to supplementary information.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF FUND EQUITY TO NET POSITION
JUNE 30, 2018**

Total Fund Equity - District Funds Included in the Reporting Entity		\$ 13,448,935
Assets recorded within the statements of net position not included in the District fund financial statements:		
Nondepreciable capital assets	\$ 7,545,440	
Depreciable capital assets	120,073,103	
Accumulated depreciation	<u>(39,974,396)</u>	87,644,147
Unmatured Interest		(774,319)
Deferred outflows recorded within the statement of net position not included in the District fund financial statements:		
Deferred loss on refunding		3,335,970
Deferred outflows from pensions		7,593,620
Liabilities recorded within the statements of net position not recorded in the District fund financial statements:		
Compensated absences		(1,067,506)
Net OPEB liability		(5,856,986)
Net pension liability		(24,681,919)
Long-term debt		(85,844,119)
Claims payable		(928,544)
Deferred inflows recorded within the statement of net position not included in the District fund financial statements:		
Deferred inflows from pensions		<u>(2,236,012)</u>
Net Assets Reported Within the Statements of Net Position		<u>\$ (9,366,733)</u>

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF CHANGE IN FUND EQUITY TO CHANGE IN NET POSITION
JUNE 30, 2018**

Change in Fund Equity - District Funds Included in the Reporting Entity in the Reporting Entity	\$ 1,524,015
Compensated absence expense	(92,803)
Depreciation expense	(2,913,211)
Accretion of general obligation bonds	(2,291,022)
Accrued interest	23,303
Amortization of bond premiums	114,150
Amortization of deferred loss on refunding	(100,330)
Claims expense	21,689
Capital outlay expense	427,319
Pension expense	(608,751)
Other postemployment benefits expense	(73,812)
Principal Payments on debt	<u>1,099,609</u>
Change in Net Position Reported Within the Statement of Revenues, Expenses, and Changes in Net Position	<u>\$ (2,869,844)</u>

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

NOTE 1 – PURPOSE OF SCHEDULES

District Organizational Structure

This schedule provides information about the District's governing board members and administration members.

Schedule of Workload Measures for State General Apportionment – Annual/Actual Attendance

The schedule of workload measures for state general apportionment annualized attendance as of June 30, 2018, represents the basis of apportionment of the District's annual source of funding.

Schedule of Expenditures of Federal Awards

This schedule includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance)*.

Expenditures reported on this schedule are reported on the modified basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The District has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Schedule of Revenues and Expenditures of State Awards

This schedule includes the state activity of the District under categorical programs of the state of California for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of the California Community Colleges Contracted District Audit Manual 2016-17.

Expenses reported on this schedule are reported on the accrual basis of accounting.

Reconciliation of Annual Financial and Budget Report (CCFS-311) With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Form CCFS-311 to the Audited Financial Statements.

Reconciliation of the ECS 84362 (50 Percent Law) Calculation

This schedule provides the information necessary to reconcile the 50% law calculation as reported on the Form CCFS-311 to the audited financial statements.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
NOTES TO THE SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

NOTE 1 – PURPOSE OF SCHEDULES, continued

Details of the Education Protection Account Expenditures

This schedule provides the information necessary to reconcile the Education Protection Account Expenditures reported on the Form CCFS-311 to the audited financial statements.

Reconciliation of Fund Equity to Net Position and Reconciliation of Change in Fund Equity to Change in Net Position

These schedules provide the information necessary to reconcile the supplemental combining financial schedules to the audited financial statements.

NOTE 2 – COMBINING FINANCIAL STATEMENTS SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting The accompanying combining balance sheet – District funds included in the reporting entity; and combining statement of revenues, expenditures/expenses, and changes in fund equity – District funds included in the reporting entity are presented on the modified accrual basis of accounting with the exception of the Classified B.U.M. Benefit Fund and Retirees Benefit Fund, which are presented on the accrual basis of accounting consistent with the presentation in the entity-wide financial statements. 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 advances of revenue on its combining balance sheet. Advances of revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Advances of 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 advances of revenue is removed and revenue is recognized.

NOTE 3 – LOAN PROGRAMS

The District is responsible only for the performance of certain administrative duties with respect to the Federal Direct Loan Program. Accordingly, the value of these outstanding loans is not reflected in the District’s financial statements. It is not practical to determine the balance of loans outstanding to students of the District under this program as of June 30, 2018.

OTHER INDEPENDENT AUDITORS' REPORTS



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

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

We have audited, 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, the financial statements of the business-type activities of Mendocino-Lake Community College District (the District) as of and for the year ended June 30, 2018; and the related notes to the financial statements, which collectively comprise the District's basic financial statements; and have issued our report thereon dated December 5, 2018.

Emphasis of Matter – Change in Accounting Principles

As discussed in Note 13 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CWDL, Certified Public Accountants

December 5, 2018
San Diego, California



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited Mendocino-Lake Community College District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *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, 2018. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of 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, 2018

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect, and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance, and the results of that testing, based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CWDL, Certified Public Accountants

December 5, 2018
San Diego, California



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

Compliance

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 2017-18*, published by the California Community Colleges Chancellor's Office, for the year ended June 30, 2018. The applicable state compliance requirements are identified in the table below.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the District's management.

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 2017-18*, published by the California Community Colleges Chancellor's Office. Those standards and the *California Community Colleges Contracted District Audit Manual 2017-18* 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 occurred. 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.

Opinion

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the programs noted below that were audited for the year ended June 30, 2018.

In addition, we noted one instance of non-compliance that we considered not to be a significant deficiency nor a material weakness in nature. We have summarized this instance at Finding #2018-001. We do not modify our opinion with respect to this finding.

Other Matters

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with State laws and regulations applicable to the following:

- Section 421 – Salaries of Classroom Instructors (50 Percent Law)
- Section 423 – Apportionment for Instructional Service Agreements/Contracts
- Section 424 – State General Apportionment Funding System
- Section 425 – Residency Determination for Credit Courses
- Section 426 – Students Actively Enrolled
- Section 427 – Dual Enrollment (CCAP and Non-CCAP)
- Section 428 – Student Equity
- Section 429 – Student Success and Support Program (SSSP)
- Section 430 – Scheduled Maintenance Program
- Section 431 – Gann Limit Calculation
- Section 435 – Open Enrollment
- Section 439 – Proposition 39 Clean Energy
- Section 440 – Intersession Extension Programs
- Section 444 – Apprenticeship Related and Supplemental Instruction (RSI) Funds
- Section 475 – Disabled Student Programs and Services (DSPS)
- Section 479 – To Be Arranged Hours (TBA)
- Section 490 – Proposition 1D and 51 State Bond Funded Projects
- Section 491 – Education Protection Account Funds

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing over state laws and regulations based on the requirements described in the *California Community Colleges Contracted District Audit Manual (CDAM) 2017-18*. Accordingly, this report is not suitable for any other purpose.

CWDL, Certified Public Accountants

December 5, 2018
San Diego, California

FINDINGS AND QUESTIONED COSTS SECTION

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018**

Section I – Summary of Auditors’ Results

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None Noted</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None Noted</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program of Cluster</u>
84.007, 84.033 84.063, 84.268	Student Financial Aid Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None Noted</u>
Type of auditors' report issued on compliance for State programs:	<u>Unmodified</u>

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
FINANCIAL STATEMENT AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018**

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Government Auditing Standards.

There were no financial statement audit findings or questioned costs identified during 2017-18.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018**

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by the Uniform Guidance (e.g., deficiencies, significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

There were no financial statement audit findings or questioned costs identified during 2017-18.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018**

Section IV – State Award Findings and Questioned Costs

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

FINDING #2018-001 – FORM 700 FILING

Finding: During our review of District Form 700s, we noted that that seven (7) persons, required to file under the Fair Political Practices Commission (FPPC), did not have completed form 700s on file for the 2017-18 fiscal year by the required deadline.

Criteria:

Per AP 2717, Conflict of Interest Code, the following pertains to Form 700s:

- Initial Statements - All designated employees employed by the agency on the effective date of this code, as originally adopted, promulgated and approved by the code reviewing body, shall file statements within 30 days after the effective date of this code. Thereafter, each person already in a position when it is designated by an amendment to this code shall file an initial statement within 30 days after the effective date of the amendment.
- Assuming Office Statements - All persons assuming designated positions after the effective date of this code shall file statements within 30 days after assuming the designated positions, or if subject to State Senate confirmation, 30 days after being nominated or appointed.
- Annual Statements - All designated employees shall file statements no later than April 1.
- Leaving Office Statements - All persons who leave designated positions shall file statements within 30 days after leaving office.

Recommendation:

We recommend the District develop a monitoring system to ensure compliance with filing deadlines.

District Response:

In the past, Mendocino County Office of Education (MCOE) has always provided us a reminder at the beginning of the year that the form 700 was due and the College has always complied with this State compliance requirement. However, MCOE did not provide a reminder this year and the item was unfortunately overlooked until the due date had passed. Once the oversight was brought to the attention of the District, the President's Office immediately had the members of the Board of Trustees and Upper Management complete the necessary forms in order to comply with the requirement.

In order to ensure the District complies with this yearly requirement in a timely manner in the future, the President's Office has now included an entry into the months of February and March of their monthly requirement recap. This recap is reviewed monthly to ensure monthly, quarterly and annual requirements are addressed in a timely fashion. This monthly review will serve as a reminder that the Form 700 is due date is quickly approaching and will allow an ample amount of time for the Trustee's and Upper management to complete and submit their Form 700s prior to the April 1st due date. Using this approach will ensure District compliance with the annual State Form 700 requirement.

**MENDOCINO-LAKE COMMUNITY COLLEGE DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018**

There were no audit findings or questioned costs identified during 2016-17.