Matson & Isom

Mendocino-Lake Community College District

Ukiah, California

Financial Statements and Supplementary Information with Independent Auditors' Reports

June 30, 2014

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MATSON & ISOM

INDEPENDENT AUDITORS' REPORT

To 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 Mendocino-Lake Community College District (the District), as of and for the year ended June 30, 2014, 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

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 of 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, 2014, 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.

INDEPENDENT AUDITORS' REPORT
Continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 as supplementary information in the table of contents and the schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2014, 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.

Matson and Isom

December 2, 2014
Redding, California

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Mendocino-Lake Community College District for the year ended June 30, 2014. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes which follow this section.

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

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

Reporting Highlights

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

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

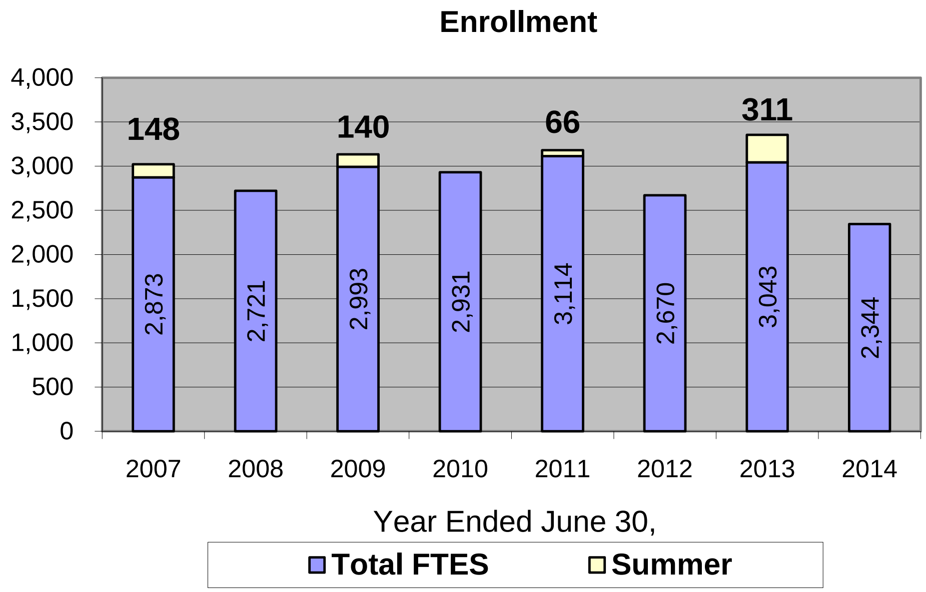
The Mendocino College Foundation, Inc. (Foundation) was established as a legally separate not-for-profit corporation to support the District and its students. It provides scholarships for the benefit of district students and contributes directly to the District. The Foundation is considered a component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

General Obligation Bonds

On November 7, 2006, the voters of the Mendocino-Lake Community College District approved the issuance of up to $67,500,000 in general obligation bonds: Measure "W". On March 29, 2007, the District issued the first series (Series A) of bonds in the amount of $30 million. On August 16, 2011, the District issued the second and final series (Series B) of bonds in the amount of $37.5 million. Measure W encompasses thirty construction and renovation projects. The District established a Bond Implementation Planning Committee (BIPC) which has been planning and implementing bond projects. A Citizen's Bond Oversight Committee (CBOC) was formed in December 2006, as required by law, to ensure that bond proceeds are expended only for the purposes set forth in Measure W. As of June 30, 2014, $69,544,068 of funds were expended, 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, and the purchase of land and the construction of new centers in Willits and Lakeport.

Enrollment Highlights

The District reported 2,344 total full-time equivalent students (FTES) on the 2013/14 Final Apportionment Attendance Report (CCFS-320). This is a decrease of 699 FTES from the 2012/13 FTES of 3,043. This decrease is partially the result of reporting 311 of Summer 2013 FTES in 2012/13 which would normally have been reported in 2013/14. The following chart shows the enrollment history and reflects the impact of summer FTES reporting.



Statement of Net Position

The Statement of Net Position includes all assets and liabilities 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 liabilities – is one way to measure the financial health of the District.

	2014 (in thousands)	2013 (in thousands)
ASSETS		
Current Assets:		
Cash and cash equivalents	$0	$0
Restricted cash and cash equivalents	983	477
Investments	1,145	1,143
Receivables	4,016	5,482
Inventory and other assets	0	1
Total Current Assets	$6,144	$7,103
Noncurrent Assets:		
Capital Assets, non-depreciable	$7,545	$7,757
Capital Assets, depreciable	90,465	88,913
Restricted cash and cash equivalents	2,890	6,454
Total Noncurrent Assets	$100,900	$103,124
TOTAL ASSETS	$107,044	$110,227
LIABILITIES		
Current Liabilities:		
Accounts payable	$1,454	$2,267
Deferred revenue	778	1,009
Amounts held for others	418	459
Long-term debt, current portion	1,096	1,115
Total Current Liabilities	$3,746	$4,850
Noncurrent Liabilities:		
Compensated absences and capital lease	$3,681	$4,137
General obligation bonds	71,325	69,799
Total Noncurrent Liabilities	$75,006	$73,936
TOTAL LIABILITIES	$78,752	$78,786
NET POSITION		
Invested in Capital Assets	$29,590	$30,981
Restricted, expendable	4,999	4,224
Unrestricted	(6,297)	(3,764)
TOTAL NET POSITION	$28,292	$31,441
TOTAL LIABILITIES AND NET POSITION	$107,044	$110,227

- 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, 2014, from state and federal grants and general apportionment wherein the District has earned funds that were not yet received as of the fiscal year end.

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

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

	July 1, 2013	Additions	Deductions	Transfers	June 30, 2014
Non-Depreciable Assets	$7,757,126	$0	$0	($211,686)	$7,545,440
Depreciable Assets	$114,637,044	$4,160,914	($181,794)	$211,686	$118,827,850
Accumulated Depreciation	$25,723,514	$2,821,409	($181,794)	0	$28,363,129
Depreciable Assets, net	$88,913,530	$1,339,505	$0	$211,686	$90,464,721

- Cash deficiency is a result of the deferral of $600 million in 2013/14 community college apportionment funding which was paid in July 2014. For the college, the deferral amounted to $2.3 million. Due to the improving State economy, deferrals are likely to be eliminated in 2014/15.

- Accounts payable consist primarily of payables to vendors and accrued payroll ($1.45 million).

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

- Noncurrent liabilities represent debt to be paid in one year or later. The major components are general obligation bonds ($69.8 million), capital lease ($2.4 million), accrued vacation and load banking payable ($0.8 million), OPEB obligation ($0.5 million), and the Energy Projects loan ($0.37 million).

- Net Position (formerly Net Assets) is classified into three categories: Capital Assets, Restricted Assets, and Unrestricted Assets. Capital Assets consist of land, buildings, construction in progress, and equipment. Restricted Assets include $1.3 million designated in the Special Reserve fund to cover accrued vacation liability, load banking, and a self-insurance reserve.

Statement of Revenues, Expenditures, and Changes in Net Position

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

Statement of Revenues, Expenses, and Changes in Net Position

	2014 (in thousands)	2013 (in thousands)
REVENUE		
Operating revenues:		
Net tuition and fees	$1,228	$1,170
Grants and Contracts, non-capital	3,447	3,517
Auxiliary enterprise sales and charges	50	40
Total operating revenues	$4,726	$4,727
Total operating expenses	26,938	27,659
OPERATING INCOME (LOSS)	(22,213)	(22,932)
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, non-capital	11,901	11,159
Local property taxes	8,263	6,295
State taxes and other revenues	668	444
Investment income, non-capital	12	10
Other non-operating revenues (expenses),net	1,632	1,200
NON-OPERATING INCOME (LOSS)	22,475	19,108
INCOME (LOSS) before other revenues	263	(3,824)
Local property taxes, capital	196	2,271
Interest expense, capital asset related debt	(3,622)	(1,684)
Investment income, capital	14	73
NET POSITION		
Net Position – beginning of year	31,441	34,605
Net Position – end of year	$28,292	$31,441

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

- State apportionments, non-capital revenue consists of general state apportionment and Proposition 30 Education Protection Account funds ($9.8 million). State apportionment revenue reported is exclusive of regular enrollment fees and property taxes, which are reported separately.

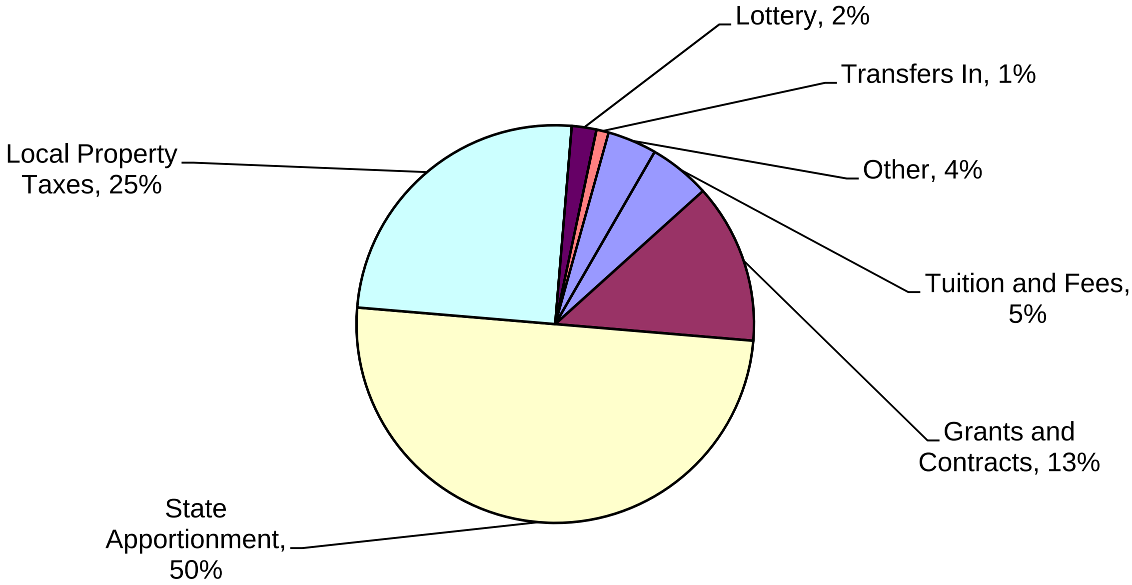
- Local property tax revenues totaled $8.2 million from those portions of Lake and Mendocino counties that lie within the District boundaries. Increases/decreases in property tax revenue reduce/increase the District's state apportionment revenue.

- State taxes and other revenues consist primarily of state lottery revenue ($580,000).

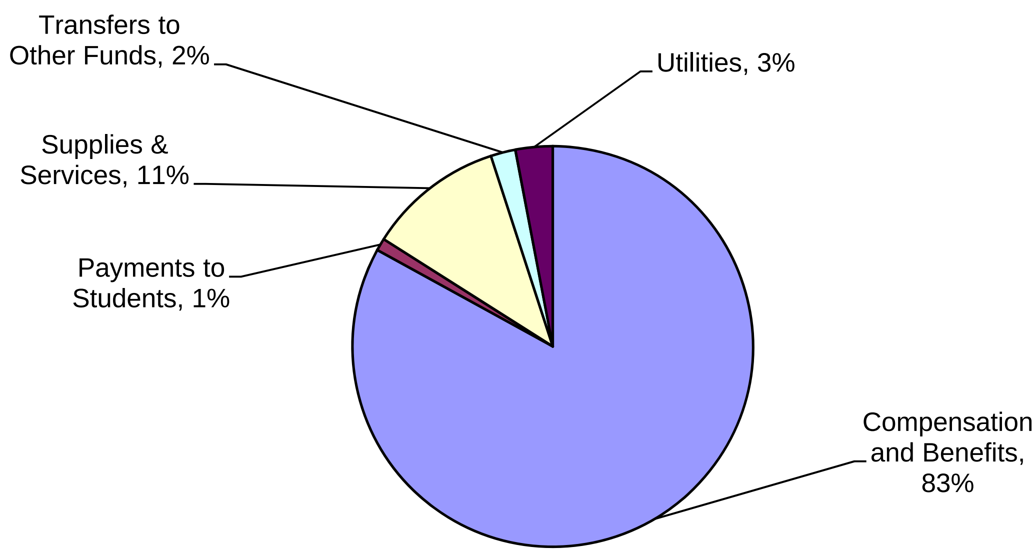
- Investment income is derived from interest received on funds on deposit at the Mendocino County Treasury and the Local Agency Investment Fund (LAIF), which is operated by the State of California.

- State apportionments, capital consists primarily of state scheduled maintenance funds.

General Fund Revenues
(Restricted and Unrestricted)



General Fund Expenses
(Restricted and Unrestricted)



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.

	2014 (in thousands)	2013 (in thousands)
Net Cash Provided (Used) By:		
Operating activities	$(19,482)	$(20,516)
Non-capital financing activities	23,918	18,839
Capital and related financing activities	(7,516)	(15,575)
Investing activities	23	80
Net increase (decrease) in cash	(3,058)	(17,172)
Cash – beginning of the fiscal year	6,930	24,102
Cash – end of the fiscal year	$3,873	$6,930

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

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

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

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

State Economy and Mendocino-Lake Community College Budget

- The economic position of the District is closely tied to that of the State of California. The District receives 59% of its unrestricted general fund revenue funding through state general apportionments and 29% from local property taxes. These two sources, along with enrollment fees, provide 92% of the District's general purpose revenue, the main source of support for California community colleges.

- The Governor's 2014/15 budget for community colleges contained a Cost of Living Adjustment (COLA) of 0.85%; this was the second increase (1.57% in 2013/14) after five consecutive years with no COLA.

- Reports on the State of California Budget indicate a moderate economic recovery is underway.

The impact of the State of California economic situation on California Community Colleges and the District are unknown at this time. In the coming years, potential adverse impacts on community colleges could come in the form of low or no COLA and growth revenue. Another possibility is a system wide property tax shortfall which would result in a deficit coefficient on computational revenue. Such a deficit impacts the District at approximately $180,000 per one percent deficit factor. More information will be released in January 2015 in the Governor's Budget.

Financial Challenges Facing the District

1) FUND BALANCES

Our two operating budgets, the General Fund and Health Fund, have experienced a degree of uncertainty in recent years.

- General Fund – The General Fund unrestricted ending balance decreased $89,043 during 2013/14 to $1,784,920, or 8.7% of total General Fund expenditures. However, transfers of $325,000 were made from the Special Reserve Fund and the Health Benefits Fund into the General Fund. Without these transfers the general fund reserve would have been 7.1%, which is below the 8% parameter set by the Board of Trustees.

- Health Fund – The Health Fund ending balance had been generally in decline since 2001/02, despite several lump sum transfers from other Funds which were over and above normal "contributions" from the Funds which contain staff salary and benefit costs (General, Child Development, and Bond Funds). A decrease in health costs over the past two years has resulted in a $1.5 million reserve in the Health Fund.

Fiscal Year	6/30/XX Fund Balance	Transfers In from Other Funds	Transfer out to General Fund
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

The condition of the Fund Balance of these two funds must be considered together, because the General Fund is the only source of on-going revenues available to backfill Health Fund deficits. Transfers from the Health Fund to the General Fund are a one-time source of funds and cannot be sustained over the long term. $175,000 was transferred from the Health Fund to the General Fund in 2013/14 and an additional $550,000 is budgeted to be transferred in 2014/15 to maintain a 8% General Fund reserve.

2) ESCALATION OF HEALTH BENEFIT COSTS

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

Fiscal Year	% Change in Health Costs	% COLA Received
1999/00	28.2%	1.41%
2000/01	18.8%	4.17%
2001/02	12.1%	3.82%
2002/03	8.3%	2.00%
2003/04	2.8%	0%
2004/05	22.3%	2.41%
2005/06	16.1%	4.23%
2006/07	-5.15%	5.92%
2007/08	26.7%	4.53%
2008/09	7.11%	0%
2009/10	16.94%	0%
2010/11	-6.03%	0%
2011/12	-15.55%	0%
2012/13	11.22%	0%
2013/14	-9.39%	1.57%
TOTAL INCREASE (Compounded)	224.90%	34.35%

For the years 1999/2000 through 2013/14, the compound increase in Health Benefit costs was 224.90% while the COLA revenue provided to fund those and other costs has had a compound increase of 34.35%. Health Benefit costs has increased over that period 6.5 times the rate at which the COLA has increased.

The District experienced favorable health claims in years 2011/12, 2012/13, and 2013/14 with contributions exceeding expenditures, resulting in an ending fund balance in the Health Fund of $1.5 million. For this reason, health benefits are budgeted in 2014/15 at $1,650 per employee per month, a reduced level from the amount budgeted per month in 2013/14 of $1,700. However, in 2014/15 there is a budgeted transfer in the amount of $550,000 from the Health Benefit Fund to the General Fund in order to maintain a general fund reserve of 8%. This transfer leaves a budgeted ending fund balance of $1.0 million in the Health Benefits Fund.

3) APPORTIONMENT BASE FUNDING

The college reported 2,344 FTES in 2013/14. This was 699 FTES less than the 3,043 FTES the college reported in 2012/13. The college received stability funding in 2013/14 for the 699 FTES below its base of 3,043 FTES. In 2014/15 the college must serve 3,043 FTES in order to not lose apportionment funding. Based on current enrollment declines, the college chose to budget revenue based on 2,900 FTES. This difference of 143 FTES will reduce general apportionment by $668,000 causing a deficit in the General Fund. $550,000 is budgeted to be transferred to the general fund, from the Health Benefit Fund to maintain a general fund reserve of 8%. The college must either increase revenues or decrease expenditures in 2015/16 to balance the budget.

4) GASB 45 – RETIREE HEALTH BENEFITS

The actuarial study required by GASB 45 to project the District's future Retiree Health funding obligations was updated in December 2013 and included an actuarial accrued liability (AAL) of $6,342,577. The District was required to comply with GASB 45 beginning with the 2008/09 fiscal year. The District has established membership in the Community College League of California (CCLC) GASB 45 Joint Powers Authority (JPA). As of June 30, 2014, the District has not made a deposit to the CCLC GASB 45 (irrevocable) Trust Fund for Retiree Health Benefits.

As of June 30, 2014, the District does have $1,277,487 reserved for all self-insurance issues in the District's Special Reserve Fund. Any portion of these funds could be deposited in the CCLC GASB 45 Trust Fund in the future.

PURPOSE OF THIS DISCUSSION AND ANALYSIS

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

FINANCIAL SECTION

June 30, 2014

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ -
Restricted cash and cash equivalents	982,533
Investments	1,145,343
Accounts receivable	4,015,743
Total Current Assets	6,143,619
NONCURRENT ASSETS	
Restricted cash and cash equivalents	2,890,342
Nondepreciable capital assets	7,545,440
Depreciable capital assets - net	90,464,721
Total Noncurrent Assets	100,900,503
Total Assets	107,044,122
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	1,453,829
Advances from grantors and students	777,911
Amounts held in trust for others	418,265
Long-term debt - current portion	413,501
Other long-term liabilities - current portion	695,926
Total Current Liabilities	3,759,432
NONCURRENT LIABILITIES	
Long-term debt - noncurrent portion	71,325,144
Other long-term liabilities	3,667,198
Total Noncurrent Liabilities	74,992,342
Total Liabilities	78,751,774
NET POSITION	
Net investment in capital assets	29,589,695
Restricted - expendable	4,999,378
Unrestricted	(6,296,725)
Total Net Position	$ 28,292,348

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Mendocino-Lake Community College District

Year Ended June 30, 2014	
OPERATING REVENUES	
Tuition and fees	$ 3,084,763
Scholarship discounts and allowances	1,856,422
Net Tuition and Fees	1,228,341
Grants and contracts - noncapital:	
Federal	572,244
State	2,508,508
Local	366,495
Auxiliary enterprise sales and charges	49,929
Total Operating Revenues	4,725,517
OPERATING EXPENSES	
Salaries	14,760,169
Employee benefits	5,350,928
Supplies, materials, and other operating expenses and services	3,250,850
Utilities	747,488
Payments to students	7,346
Depreciation	2,821,409
Total Operating Expenses	26,938,190
Operating Loss	(22,212,673)
NONOPERATING REVENUES (EXPENSES)	
State apportionments - noncapital	9,049,545
Education protection account revenues - noncapital	2,851,146
Local property taxes - noncapital	8,263,155
State taxes and other revenues - noncapital	668,290
Financial aid revenues - federal	6,911,059
Financial aid revenues - state	318,559
Financial aid disbursements	(7,229,618)
Investment income - noncapital	11,606
Other nonoperating revenues - noncapital	1,631,539
Total Nonoperating Revenues (Expenses)	22,475,281
Income (Loss) Before Other Revenues and Expenses	262,608
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	
State apportionments - capital	196,286
Interest expense - capital asset-related debt	(3,621,603)
Investment income - capital	13,878
Total Other Revenues, Expenses, Gains, or Losses	(3,411,439)
Change in Net Position	(3,148,831)
Net Position - Beginning of Year	31,441,179
Net Position - End of Year	$ 28,292,348

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

Year Ended June 30, 2014	
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 1,062,004
Federal grants and contracts	659,693
State grants and contracts	2,376,440
Local grants and contracts	363,141
Payments to/on behalf of employees	(14,530,226)
Payments for benefits	(5,350,928)
Payments for scholarships and grants	(17,492)
Payments to suppliers	(3,312,062)
Payments for utilities	(747,488)
Auxiliary enterprise sales and charges	49,929
Other receipts (payments)	(35,504)
Net Cash Used by Operating Activities	(19,482,493)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State apportionments - noncapital	9,882,655
Education protection account revenues - noncapital	2,851,146
Local property taxes - noncapital	8,263,155
State taxes and other revenues	1,289,562
Other receipts (payments)	1,631,539
Net Cash Provided by Noncapital Financing Activities	23,918,057
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(4,464,331)
Principal paid on long-term debt	(1,114,917)
Interest paid on long-term debt	(2,132,910)
State apportionments - capital	196,286
Net Cash Used by Capital and Related Financing Activities	(7,515,872)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(2,757)
Interest on investments	25,484
Net Cash Provided by Investing Activities	22,727
Net Decrease in Cash and Cash Equivalents	(3,057,581)
Cash and Cash Equivalents - Beginning of Year	6,930,456
Cash and Cash Equivalents - End of Year	$ 3,872,875

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

Year Ended June 30, 2014

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	$ (22,212,673)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	2,821,409
Changes in:	
Accounts receivable	11,740
Deposits and prepaid expenses	1,663
Accounts payable	(58,820)
Advances from grantors and students	(230,750)
Amounts held in trust for others	(40,950)
Compensated absences	61,541
Other postemployment benefit/obligation	164,347
Net Cash Used by Operating Activities	$ (19,482,493)
COMPONENTS OF CASH AND CASH EQUIVALENTS	
Cash and cash equivalents	$ -
Restricted cash and cash equivalents - current	982,533
Restricted cash and cash equivalents - noncurrent	2,890,342
Total Cash and Cash Equivalents	$ 3,872,875

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

June 30, 2014

ASSETS	
Cash and cash equivalents	$ 90,838
Investments	7,661,248
Assets held by others	316,377
Other assets	2,835
Land	921,365
Infrastructure	33,278
Total Assets	$ 9,025,941
LIABILITIES	
LIABILITIES	
Accounts payable	$ 1,237
Deferred revenue	35,800
Total Liabilities	37,037
NET ASSETS	
Unrestricted net assets	6,932,999
Temporarily restricted net assets	552,233
Permanently restricted net assets	1,503,672
Total Net Assets	8,988,904
Total Liabilities and Net Assets	$ 9,025,941

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

Year Ended June 30, 2014	
CHANGES IN UNRESTRICTED NET ASSETS	
REVENUES, GAINS, AND OTHER SUPPORT	
Special events (Gala):	
Gross revenue	$ 9,960
Less: Event expenses	(7,785)
Total Special Events	2,175
Contributions	28,643
Interest and dividends	200,968
Net realized gains (losses)	31,231
Net unrealized gains (losses)	497,872
Interest on bank deposits	408
Total Revenues, Gains, and Other Support	761,297
Net Assets Released From Restriction	223,771
EXPENSES	
Program services:	
Scholarships	207,167
Support of District	144,585
Total Program Services	351,752
Supporting services:	
Management and general	130,269
Fundraising	153,470
Total Supporting Services	283,739
Total Expenses	635,491
Change in Unrestricted Net Assets	$ 349,577

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

Year Ended June 30, 2014	
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
REVENUES AND GAINS	
Contributions	$ 232,676
Interest and dividends	31,790
Net realized gains (losses)	15,503
Net unrealized gains (losses)	97,797
Total Revenues and Gains	377,766
Net Assets Released From Restriction	(223,771)
Change in Temporarily Restricted Net Assets	153,995
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	
Contributions	153,613
Change in Permanently Restricted Net Assets	153,613
Change in Net Assets	657,185
Net Assets - Beginning of Year	8,331,719
Net Assets - End of Year	$ 8,988,904

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

Year Ended June 30, 2014	
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 657,185
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Less: Reinvested dividends	(232,758)
Less: Realized and unrealized gain/loss on investments	(642,403)
Less: Noncash contribution (gift annuity)	(20,993)
Changes in:	
Accounts receivable	27,814
Other assets	(2,835)
Assets held by others	(25,445)
Accounts payable	(3,639)
Deferred revenue	35,800
Net Cash Used by Operating Activities	(207,274)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	433,850
Purchase of investments	(157,380)
Net Cash Provided by Investing Activities	276,470
Net Change in Cash	69,196
Cash - Beginning of Year	21,642
Cash - End of Year	$ 90,838
NONCASH TRANSACTIONS	
Interest and Dividends - Reinvested	$ 232,758

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Foundation was established as a legally separate, not-for-profit corporation to support the District and its students. It contributes to various scholarship funds for the benefit of District students and contributes directly to the District. The funds contributed by the Foundation to the District are significant to the District’s financial statements. Therefore, the District has classified the Foundation as a component unit that will be discretely presented in the District’s annual financial statements. The Foundation also issues a stand-alone audited financial report, which can be obtained from the Business Office of the District.

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

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

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

Exceptions to the accrual basis of accounting are as follows:

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

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

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

Restricted Cash and Cash Equivalents Restricted cash and cash equivalents 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.

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

Accounts Receivable Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of California. Accounts receivable also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Losses on uncollectible accounts receivable are recognized when such losses become known or indicated. No allowance for losses has been reflected at June 30, 2014, as management believes all accounts are fully collectible.

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

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

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

Capitalized interest consisted of the following at June 30, 2014:

Interest incurred	$ 4,073,682
Less: Amount expensed	3,621,603
Amount to be Capitalized	452,079
Reduced by interest earned	6,041
Capitalized Interest - Net	$ 446,038

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 includes 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 represents 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.

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

Long-Term Liabilities Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year incurred. Amortization of bond premium and discount costs was $133,392 for the year ended June 30, 2014.

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 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 toward restricted resources, and then toward unrestricted resources.

Classification of Revenues The District has classified its revenues as either operating or non-operating. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, local property taxes, and investment income. Revenues are classified according to the following criteria:

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as; (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises; and (3) most federal, state, and local grants and contracts, and federal appropriations.

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

Scholarship Discounts and Allowances Student tuition and fee revenue are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net 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.

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

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

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

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

On-Behalf Payments GASB Statement 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third-party recipient for the employees of another legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) on behalf of all community college districts in California. Payment amounts have not been reported in the basic financial statements as management believes they are immaterial to the financial statements taken as a whole.

DISCRETELY PRESENTED COMPONENT UNIT – FOUNDATION

Organization The Mendocino College Foundation, Inc. (the Foundation), a component unit included in the reporting entity of the Mendocino-Lake Community College District (the District), is a nonprofit organization. It was founded during the 1984-1985 year to strengthen student services by providing student scholarships, enriching instruction and basic skills, as well as enhancing program and staff development. Its goal is to promote and develop a mutually beneficial relationship between the College and the community. Because of the education nature of its activities, it has been granted tax-exempt status under Section 501(c)(3) of the *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 generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Investments Investments 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.

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.

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

Spending Policy: The Foundation has a policy of appropriating for distribution each year 5% for the Foundation Trust Fund and 4% for the Evelyn Foote Fund. These percentages are applied to each fund's 12-quarter rolling average fair market value. In establishing this policy, the Foundation considers the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3% annually, which is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

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

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

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

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 aforementioned 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).

FASB ASC 740-10 clarifies the accounting for uncertainty in income taxes recognized in the Foundation's financial statements in accordance with FASB ASC 740 and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC 740-10 also provides guidance on derecognition and measurement of a tax position taken or expected to be taken in a tax return.

The Foundation files exempt organization returns in the U.S. federal jurisdiction and the State of California. The Foundation's federal exempt organization returns for tax years 2010 and beyond remain subject to examination by the Internal Revenue Service. The Foundation's California exempt organization returns for tax years 2009 and beyond remain subject to examination by the Franchise Tax Board.

The Foundation did not have unrecognized tax benefits as of June 30, 2014, and does not expect this to change significantly over the next 12 months. In connection with the adoption of FASB ASC 740-10, the Foundation will recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of June 30, 2014, the Foundation did not accrue interest or penalties related to uncertain tax positions.

2. CASH AND INVESTMENTS

The cash and cash equivalents as of June 30, 2014, is displayed on the statement of net position as follows:

CURRENT	
Cash and cash equivalents	$ -
Restricted cash and cash equivalents	982,533
Investments	1,145,343
NONCURRENT	
Restricted cash and cash equivalents	2,890,342
Total Cash and Investments	$ 5,018,218
FOUNDATION	
Cash and cash equivalents	$ 90,838
Investments	7,661,248
Total Cash and Investments	$ 7,752,086

At June 30, 2014, the carrying amount of the District's and Foundation's deposits are summarized as follows:

District:	
Cash in County treasury	$ 1,923,877
Cash on hand and in banks	1,948,998
Total Deposits	$ 3,872,875
Foundation:	
Cash in County treasury	$ 90,838
Total Deposits	$ 90,838

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 accounts weighted average maturities was 0.777 years at June 30, 2014.

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

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

All cash held by financial institutions is collateralized by securities that are held by the broker or dealer, or by its trust department or agent, but not in the District's name. In addition, $497,672 of the District bank balances at June 30, 2014, is insured.

Investments

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

- Local Agency Investment Fund (LAIF)
- County Treasurer
- Time Certificates of Deposit further limited to:
  - $100,000 per financial institution
  - Financial institutions insured by:
    - Federal Savings and Loan Insurance Corporation and/or
    - Federal Deposit Insurance Corporation
  - Financial institutions that are licensed
  - Financial institutions with offices within California
- Other high quality investments as allowed by state law

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

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

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

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

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

REITs (Real Estate Investment Trusts)

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

As of June 30, 2014, the District's and Foundation's investments are as follows:

District:	
Investment in LAIF	$ 1,145,343
Total Investments	$ 1,145,343
Foundation:	
Money market funds	$ 8,827
Mutual funds	6,329,921
Total Investments	$ 6,338,748

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

In accordance with authorized investment laws, the State Treasurer's Investment Pool (LAIF) invests in various structured notes and mortgage-backed securities, such as collateralized mortgage obligations. As of June 30, 2014, 1.86% of LAIF's investment portfolio was invested in structured notes and other asset-backed securities. (Copies can be obtained from the Local Agency Investment Fund, P.O. Box 942809, Sacramento, CA 94209.) PMIA's weighted average maturities was 283.71 days at June 30, 2014.

Risk Information

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

Credit Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk

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

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

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

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2014:

Tuition and fees	$ 270,303
Federal grants and contracts	435,865
State grants and contracts	112,732
State apportionment	2,675,931
State taxes and other revenue	520,912
Total	$ 4,015,743

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014, is summarized as follows:

	Balance June 30, 2013	Additions	Deductions	Transfers	Balance June 30, 2014
NONDEPRECIATED CAPITAL ASSETS					
Land	$ 7,545,440	$ -	$ -	$ -	$ 7,545,440
Construction in progress	211,686	-	-	(211,686)	-
Total Nondepreciated Capital Assets	7,757,126	-	-	(211,686)	7,545,440
DEPRECIATED CAPITAL ASSETS					
Buildings and improvements	108,835,593	3,650,477	(181,794)	211,686	112,515,962
Equipment	5,801,451	510,437	-	-	6,311,888
Total Depreciated Capital Assets	114,637,044	4,160,914	(181,794)	211,686	118,827,850
Less: Accumulated depreciation	25,723,514	2,821,409	(181,794)	-	28,363,129
Total Capital Assets - Net	$ 88,913,530	$ 1,339,505	$ -	$ 211,686	$ 90,464,721

In June 2013, the Foundation purchased 398 acres, commonly known as the Evans property, which directly adjoins the main campus of Mendocino College in Ukiah. With this addition to the Foundation's existing land holdings, the Foundation now owns over 1,100 acres or 11 parcels of real property in and around Orr Springs Road in Ukiah, California that collectively have a fair market value of $2.6M. 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 original cost or value at the original date of donation. The fair market of the parcels included in property held for sale is $1,322,500 and the carrying value of the property which will be retained for the future growth of the college is $921,365. In addition, a road has been built on the retained property totaling $33,278 that has been capitalized as infrastructure.

5. ACCOUNTS PAYABLE

Accounts payable at June 30, 2014, consisted of the following:

Accrued payroll and related liabilities	$ 202,300
Accrued interest	826,617
Construction projects	59,236
Vendor and other payables	365,676
Total	$ 1,453,829

6. ADVANCES FROM GRANTORS AND STUDENTS

Advances from grantors and students at June 30, 2014, consisted of the following:

Tuition and fees	$ 276,390
Trust account	104,905
Federal grants and contracts	168
State grants and contracts	391,002
Local grants and contracts	5,446
Total	$ 777,911

7. LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2014:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014
LONG-TERM DEBT				
General Obligation Bonds - Series A	$ 28,831,413	$ -	$ 379,131	$ 28,452,282
General Obligation Bonds - Series B	41,247,834	2,072,790	34,261	43,286,363
Total Long-Term Debt	$ 70,079,247	$ 2,072,790	$ 413,392	$ 71,738,645
OTHER LONG-TERM LIABILITIES				
Capital lease	$ 3,191,333	$ -	$ 738,143	$ 2,453,190
Compensated absences	815,026	61,541	-	876,567
Other postemployment benefit obligation	498,052	164,347	-	662,399
Energy projects loan	467,742	-	96,774	370,968
Total Other Long-Term Liabilities	$ 4,972,153	$ 225,888	$ 834,917	$ 4,363,124

Long-term liabilities consisted of the following obligations at June 30, 2014:

GENERAL OBLIGATION BONDS	
2007 General Obligation Bond, Series A, issued in the original amount of $30,000,000. Final maturity in 2031. Interest rates range from 4.00% to 5.00%.	$ 26,900,000
2011 General Obligation Bond, Series B, issued in the original amount of $37,499,792, including current interest bonds and capital appreciation bonds. Final maturity in 2051. Interest rates range from 2.00% to 11.750%.	42,015,840
Subtotal	68,915,840
Premium on 2007 General Obligation Bonds - Series A	1,552,282
Premium on 2011 General Obligation Bonds - Series B	1,270,523
Net General Obligation Bonds	71,738,645
Less: Current portion	413,501
Total Long-Term Debt - Noncurrent Portion	$ 71,325,144

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

Year Ending June 30	Principal	Interest	Bonds Total	Bond Premium	Total
2015	$ 413,501	$ 1,998,180	$ 2,411,681	$ 138,829	$ 2,550,510
2016	475,001	1,980,680	2,455,681	144,759	2,600,440
2017	573,255	2,021,306	2,594,561	150,217	2,744,778
2018	637,661	2,013,955	2,651,616	150,981	2,802,597
2019	775,181	2,022,560	2,797,741	151,065	2,948,806
2020-2024	6,072,340	10,669,492	16,741,832	718,699	17,460,531
2025-2029	10,154,430	11,949,652	22,104,082	553,010	22,657,092
2030-2034	11,241,732	17,522,160	28,763,892	229,945	28,993,837
2035-2039	6,784,264	31,294,895	38,079,159	171,306	38,250,465
2040-2044	18,822,748	30,978,351	49,801,099	171,306	49,972,405
2045-2049	4,780,578	61,777,687	66,558,265	171,306	66,729,571
2050-2054	2,619,101	47,116,406	49,735,507	71,382	49,806,889
Total	$ 63,349,792	$ 221,345,324	$ 284,695,116	$ 2,822,805	287,517,921
Less: Current interest (excluding accretion of $5,566,048)					(215,779,276)
Net Principal					$ 71,738,645

Accretion

General obligation bonds as of June 30, 2014, have been increased by $5,566,048 to include accumulated accretion of the capital appreciation bonds. Annual accretion is recognized as interest in the statement of activities.

Capital Lease Obligation

2009 capital lease issued in the original amount of $4,951,320. Final maturity in February 2021. Interest rate is 5.02%.	$ 2,453,190

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

Year Ending June 30	Principal	Interest	Total
2015	$ 599,146	$ 106,451	$ 705,597
2016	257,941	87,267	345,208
2017	285,250	73,699	358,949
2018	314,525	58,715	373,240
2019	345,889	42,214	388,103
2020-2021	650,439	29,214	679,653
Total	$ 2,453,190	$ 397,560	$ 2,850,750

Energy Projects Loan Obligation

2013 loan issued in the original amount of $500,000. Final maturity in 2018. The loan is noninterest bearing.	$ 370,968

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

Year Ending June 30	
2015	$ 96,780
2016	96,780
2017	96,780
2018	80,628
Total	$ 370,968

Other Postemployment Benefits (OPEB) Obligation

The District's actuarially determined OPEB costs for the year ended June 30, 2014, was $592,165, and contributions made by the District during the year was $427,818, which resulted in a net OPEB obligation liability of $662,399. See note 11 for additional information regarding the OPEB obligation and the postemployment benefit plan.

8. EMPLOYEE RETIREMENT SYSTEMS

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

California State Teachers' Retirement System

Plan Description

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges, and employed 50% or more in a full-time equivalent position, participate in the defined benefit plan (the DB Plan). Part-time educators hired under a contract of less than 50% or on an hourly or daily basis without contract may elect membership in the cash balance benefit program (the CB Benefit Program). Since January 1, 1999, both of these plans have been part of CalSTRS. The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for CalSTRS. Copies of the CalSTRS annual financial report may be obtained from CalSTRS 100 Waterfront Place, Sacramento, California 95605.

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

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

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

Funding Policy

Active plan members are required to contribute 8.00% of their gross salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Board based upon recommendations made by the consulting actuary. The required employer contribution rate for the fiscal year ended June 30, 2014, was 8.25% of annual payroll for regular employees and 8.827% of annual payroll for reduced workload employees. The contribution requirements of the plan members are established by state statutes.

The District's contributions to CalSTRS for the fiscal years ended June 30, 2014, 2013, and 2012, were $636,894, $626,082, and $578,523, respectively, and equaled 100% of the required contribution for each year.

The State of California makes contributions to CalSTRS on behalf of the District equaling approximately 5.290% of covered members' gross salaries. The contribution for the years ended June 30, 2014, 2013, and 2012, are estimated to have been $370,956, $342,755, and $345,759, respectively. The payment amounts have not been reported in the basic financial statements as management believes they are immaterial to the financial statements taken as a whole.

California Public Employees' Retirement System

Plan Description

All full-time classified employees participate in CalPERS, a cost-sharing, multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0% of final compensation for each year of service credit.

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

The Public Employees' Retirement Law (Part 3 of the *California Government* Code, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from CalPERS 400 Q Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.00% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2014, was 11.442% of annual payroll. The contribution requirements of the plan members are established by state statutes.

The District's contributions to CalPERS for the fiscal years ended June 30, 2014, 2013, and 2012, were $570,875, $606,547, and $588,919, respectively, and equaled 100% of the required contribution for each year.

A State of California contribution on behalf of the District to CalPERS was not required for the years ended June 30, 2014, 2013, and 2012.

9. STATE AND FEDERAL ALLOWANCES, AWARDS, AND GRANTS

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

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District provides for these risks through combinations of self-insurance mechanisms and the purchase of commercial insurance. The District established the self-insurance reserve to account for and finance uninsured risks of loss. The self-insurance program provides coverage up to a maximum of $25,000,000 for each general liability and property claim. Settled claims resulting from these programs have not exceeded insurance coverage in any of the past three fiscal years.

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

Health Benefit Program

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

Year Ended	Deposits/ (Claims Payable) Beginning Balance	Current-Year Claims and Changes in Estimates	Current-Year Claim Payments	Deposits/ (Claims Payable) Ending Balance
June 30, 2012	$ 80,391	$ (1,938,590)	$ 1,812,000	$ (46,199)
June 30, 2013	$ (46,199)	$ (2,621,378)	$ 2,480,000	$ (187,577)
June 30, 2014	$ (187,577)	$ (2,113,044)	$ 2,112,000	$ (188,621)

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.

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)

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

Plan Description

The Mendocino-Lake Community College District Health Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical insurance benefits to eligible retirees and their spouses. Membership of the Plan consisted of 31 retirees receiving benefits and 149 active plan members.

Funding Policy

The contribution requirements are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually. For the year ended June 30, 2014, the District contributed $427,818 to the Plan.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan.

Annual required contribution	$ 599,990
Interest on net OPEB obligation	23,657
Adjustment to annual required contribution	(31,482)
Annual OPEB Cost	592,165
Contributions made	(427,818)
Increase (Decrease) in Net OPEB Obligation	164,347
Net OPEB Obligation - Beginning of Year	498,052
Net OPEB Obligation (Asset) - End of Year	$ 662,399

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal years 2014, 2013, and 2012, were as follows:

Year Ended	**Annual OPEB Cost**	**Actual Employer Contributions**	**Percentage Contributed**	**Net Ending OPEB Obligation (Asset)**
June 30, 2012	$ 640,341	$ 314,765	49.16%	$ 310,096
June 30, 2013	$ 635,674	$ 447,718	70.43%	$ 498,052
June 30, 2014	$ 592,165	$ 427,818	72.25%	$ 662,399

Funded Status and Funding Progress

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

	January 1, 2011	**September 1, 2013**
Actuarial accrued liability (AAL)	$ 6,236,312	$ 6,342,577
Actuarial value of plan assets	-	-
Unfunded Actuarial Accrued Liability	$ 6,236,312	$ 6,342,577
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%
Covered payroll (active members)	$ 10,218,222	$ 9,992,370
UAAL as a Percentage of Covered Payroll	61.03%	63.47%

Actuarial Methods and Assumptions

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

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

In the September 1, 2013, actuarial valuation, the entry-age normal cost method was used. The actuarial assumptions included a 4.75% discount rate based on the assumption that a substantial portion of the ARC is funded. A 2.75% price inflation and a 2.75% wage inflation assumption was used as well as an annual cost trend rate of 4.0%. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are a level percent of payroll over a 30-year period.

12. COMMITMENTS

The District has no outstanding construction commitments related to the Proposition 39 Bond.

13. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. This statement will improve accounting and financial reporting by state and local governments for defined benefit pensions and defined contribution pensions. The statement will also improve information provided by state and local governmental employers about financial support for pensions that are provided by other entities. The District's management has not yet determined the impact that implementation of these standards, which is required on July 1, 2014, will have on the District's financial statements, if any.

14. TEMPORARILY RESTRICTED NET ASSETS - FOUNDATION

Temporarily restricted net assets consisted of the following at June 30, 2014:

ADOPT A FIFTH GRADER	
The program was established during the 2007-08 fiscal year by donors donating funds to the program. The donors give the Foundation $700 to adopt a fifth grade student. The student will receive $25 during fifth grade and $500 upon graduation from high school, or $1,000 if they enroll at Mendocino College as a full-time student after graduating high school.	$ 124,297
KOENINGER FUND	
The Koeninger Fund was established during the 2007-08 fiscal year by a donation received from Mary Lou and Wade Koeninger to fund a program whereby each June, a fifth grader attending Hopland Elementary is awarded $25. The student will then receive $500 upon graduation from high school, or $1,000 if they enroll at Mendocino College as a full-time student after graduating high school.	20,000
NURSING SCHOLARSHIP FUND	
The Nursing Scholarship Fund was established by donations from the Kathleen Kohn Fetzer Family Foundation and Doug Atkinson, and is restricted for scholarships to nursing students.	165
ESL BOOK VOUCHERS	
Established in fall 2011 through a donation from the American Association of University Women, Ukiah Branch, ESL Book Award funds are available to students enrolled in ESL (English as a Second Language) courses at Mendocino College. Students must be nominated by their instructor. Awards are given in voucher form and are limited to one student per semester to purchase or rent books at the Mendocino College bookstore.	-
BISTRIN SCHOLARSHIP	
The Bistrin Scholarship was created in 2011 when Mendocino College Foundation Director Harry Bistrin passed away and donations were received in his memory. The first Bistrin Scholarship will be awarded for the 2012-13 academic year.	26,073
Balance Forward	$ 170,535

Balance Brought Forward	$ 170,535
MENDOCINO COLLEGE ATHLETICS BOOSTER AFFILIATE ORGANIZATION	
The Mendocino College Athletic Boosters became an Affiliate of the Mendocino College Foundation on March 2, 2010. The Athletic Booster's purpose is to organize and conduct activities that will promote and assist the athletic programs of Mendocino College. The Boosters will establish partnerships with other community organizations within the Lake and Mendocino County areas to help promote and support college athletic programs.	9,155
MENDOCINO COLLEGE FRIENDS OF THE THEATRE AFFILIATE ORGANIZATION	1,448
MENDOCINO COLLEGE FRIENDS OF THE LIBRARY AFFILIATE ORGANIZATION	
The Mendocino College Friends of the Library became an Affiliate of the Mendocino College Foundation in June 2004. The Friends of the Library's purpose is to organize and conduct activities at the college, its centers, and in the community that will promote and assist the educational and service programs of Mendocino College, as well as establish partnerships with existing organizations in the Mendocino-Lake Community College District.	586
LAKE COUNTY FRIENDS OF MENDOCINO COLLEGE AFFILIATE ORGANIZATION	
The Lake County Friends of Mendocino College (LCFMC) became an Affiliate of the Mendocino College Foundation on June 7, 2011. The purpose of the LCFMC is to support the mission and goals of the Foundation and Mendocino College, organize and conduct activities in Lake County that will promote and assist the educational and service programs of Mendocino College, and establish partnerships with existing organizations in Lake County whose mission and activities are consistent with the goals and purposes of LCFMC.	2,258
YVONNE SLIGH BOOK AWARD	
The Yvonne Sligh Book Award funds student book vouchers in the amount of $150.00. Eligible students do not receive financial aid from Mendocino College and have not received a Mendocino College Foundation Scholarship. This program was established in 2002-2003 by the Mendocino College Foundation and honors late librarian Yvonne Sligh who was employed by the college for 16 years.	-
Balance Forward	$ 183,982

Balance Brought Forward	$ 183,982
HALLIDAY PERPETUAL SCHOLARSHIP	
See note 6 Endowments for explanation.	26,613
EVELYN FOOTE TRUST	
See note 6 Endowments for explanation.	337,575
SALMEN FAMILY SCHOLARSHIP	
See note 6 Endowments for explanation.	4,063
Total Temporarily Restricted Net Assets	$ 552,233

15. PERMANENTLY RESTRICTED NET ASSETS – FOUNDATION

Permanently restricted net assets consisted of the following at June 30, 2014:

EVELYN FOOTE TRUST	
Beginning in 1992 and continuing over subsequent years, the Foundation received major contributions from the Evelyn Foote Remainder Annuity Trust for a total amount of $803,542. The trust stipulated that the contributions shall be used to establish a perpetual fund in Ms. Foote's name, and income from the fund shall be distributed annually to supplement extracurricular programs or scholarships to benefit District students. The Foundation has determined the trust document does not consider unrealized gains and losses as income that becomes available for annual distribution.	$ 803,542
GIFT ANNUITY	
The Foundation is the beneficiary of gift annuities funded during the prior years. At the end of the donor's life, the Foundation will receive the residual of the assets used to create the annuities. The amounts have been restricted by the donors to fund a scholarship endowment.	138,369
HULDA AND ALFRED WEGER SCHOLARSHIP	
During fiscal year 2009-10, Hulda Weger donated $25,000 to be used for annual scholarships. The $25,000 generates a permanent $1,000 per year scholarship to benefit Ukiah High School graduates who attend Mendocino College.	25,000
Balance Forward	$ 966,911

Balance Brought Forward	$	966,911
SALMEN FAMILY SCHOLARSHIP		
The Salmen Family's Perpetual Scholarship was established in 2010 to support Mendocino College students pursuing a career in one or more of the following sciences: astronomy, chemistry, computer, physics, and math by providing an annual $1,000 scholarship. Salmen donates $3,000 annually, and a $3,000 donation is provided by the New York Life Foundation's matching gift program. The Salmen family formally changed this from a perpetual scholarship to an endowment account. The endowment will continue to fund student scholarships using the same criteria as was originally established.		26,000
ALBERT BELTRAMI PERPETUAL INTERNSHIP SCHOLARSHIP		
Established in 2011, this scholarship is for Mendocino College students pursuing a career in local government. The student(s) selected will intern in a local city or county government office and enroll in Mendocino College Work Experience Education for college credit. Participating students receive $500-$1,000 for successfully completing the internship and coursework.		50,000
LES GREGG FAMILY SCHOLARSHIP		
Mrs. Catherine Gregg and daughter, Leslie Gregg Banta, established a new perpetual scholarship in memory of their late husband and father, longtime Ukiah restaurant owner, Les Gregg. The scholarship is awarded to students enrolled in 6 or more units in the Culinary Arts Management Program at Mendocino College.		25,000
JOE AND DOROTHY HALLIDAY SCHOLARSHIP		
In 2011, the Mendocino College Foundation received a generous gift through the estate of Joe and Dorothy Halliday. The Hallidays were loyal and hard working Point Arena residents with ancestral ties to the Mendocino Coastal communities dating back to the late 1800s. The gift will fund three scholarships with an internship component. Priority is given to Point Arena High School graduates. Recipients must demonstrate a high level of community volunteerism and have successfully completed a basic geography examination.		174,500
Balance Forward	$	1,242,411

Balance Brought Forward	$ 1,242,411
JOE AND DOROTHY HALLIDAY SCHOLARSHIP #2	
Sonoma State University Academic Foundation (SSUAF) is the trustee for the Halliday Trust 2 which will terminate in 2019. The Foundation is a 50% beneficiary of said trust. The amount recorded is based on 50% of the fund balance on an annual fund report provided by SSUAF.	178,008
FETZER NURSING SCHOLARSHIP	
The Kathleen Kohn Fetzer Family Foundation provided $50,000 in perpetuity which will fund one Nursing Program Scholarship and one Student Scholarship annually. The Foundation funded these scholarships to inspire and assist nursing students in furthering their career.	50,000
WALLACE MEEK PEREZ SCHOLARSHIP	
Established in 2013, this scholarship assists a MESA student in obtaining their educational goals at Mendocino College. Wallace and Virginia Meek believed in everyone having an opportunity to obtain an education. Wallace passed away in late 2012, and Virginia created this award in their names. This is an open-ended fund, and contributions can be made through the Mendocino College Foundation.	8,375
JOHN BOGNER FINE ARTS SCHOLARSHIP	
This perpetual scholarship was established by countless donations from our community to honor and remember beloved community leader and advocate, Mr. John Bogner. Theatre and music were a passion of Bogner's, and it is fitting that this award be given to a student pursuing a career in the fine arts.	24,878
Total Permanently Restricted Net Assets	$ 1,503,672

Endowment net asset composition by type of fund as of June 30, 2014, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Foundation Trust Fund	$ 4,599,220	$ 185,983	$ 183,253	$ 4,968,456
Evelyn Foote Fund	-	337,575	803,542	1,141,117
Halliday Fund	-	26,613	174,500	201,113
Halliday Fund #2	-	-	178,008	178,008
Salmen Fund	-	2,062	26,000	28,062
Gift Annuity Fund	-	-	138,369	138,369
Total Endowment at June 30, 2014	$ 4,599,220	$ 552,233	$ 1,503,672	$ 6,655,125
Endowment net assets - beginning of year	$ 4,261,699	$ 398,238	$ 1,350,059	$ 6,009,996
Contributions	-	232,676	153,613	386,289
Interest and dividends	200,968	31,790	-	232,758
Net realized gains (losses)	31,231	15,503	-	46,734
Net unrealized gains (losses)	497,872	97,797	-	595,669
Amounts appropriated for expenditures	(392,550)	(223,771)	-	(616,321)
Endowment Net Assets - End of Year	$ 4,599,220	$ 552,233	$ 1,503,672	$ 6,655,125

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, 2014.

16. FAIR VALUE MEASUREMENTS – FOUNDATION

Fair values of assets measured on a recurring basis at June 30, 2014, are as follows:

Year Ended June 30, 2014	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 8,827	$ 8,827	$ -	$ -
Mutual funds	6,329,921	6,329,921	-	-
Property held for sale	1,322,500	-	1,322,500	-
Assets held by others	316,377	-	-	316,377
Total	$ 7,977,625	$ 6,338,748	$ 1,322,500	$ 316,377

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

July 1, 2013	$	269,939
Contribution		25,445
Adjustment to present value		20,993
June 30, 2014	$	316,377

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

SUPPLEMENTARY INFORMATION SECTION

GOVERNING BOARD

Name	Office	Area	Term Expires
Mr. Joel Clark	President	Hopland	December 2015
Mr. John Tomkins	Vice President	Lakeport	December 2017
Ms. Janet Chaniot	Member	Potter Valley	December 2017
Ms. Joan M. Eriksen	Member	Ukiah	December 2015
Mr. Dave Geck	Member	Kelseyville	December 2015
Mr. Paul Ubelhart	Member	Willits	December 2015
Mr. Ed Haynes	Clerk	Ukiah	December 2017

DISTRICT ADMINISTRATION

Mr. Arturo Reyes
Superintendent/President

Ms. Eileen Cichocki
Vice President, Administrative Services

Ms. Virginia Guleff
Vice President, Education and Student Services

The full-time equivalent resident students (FTES) eligible for 2014-15 state apportionment reported to the State of California as of June 30, 2014, are summarized below:

	Reported Data
SUMMER INTERSESSION (Summer 2013 only)	
Noncredit	4.33
Credit	28.62
SUMMER INTERSESSION (Summer 2014 - Prior to July 1, 2014)	
Noncredit	0.76
Credit	0.94
PRIMARY TERMS (Exclusive of Summer Intersession)	
Census Procedure Courses	
Weekly Census Contact Hours	1,554.71
Daily Census Contact Hours	119.10
Actual Hours of Attendance Procedure Courses	
Noncredit	84.65
Credit	87.71
Alternative Attendance Accounting Procedure	
Weekly Census Contact Hours	413.23
Daily Census Contact Hours	49.92
Noncredit Independent Study/Distance Education Courses	-
Total FTES	2,343.97

SUPPLEMENTARY INFORMATION (Subset of above information)	
IN-SERVICE TRAINING COURSES (FTES)	-
BASIC SKILLS COURSES AND IMMIGRANT EDUCATION	
Noncredit	78.90
Credit	242.52

See the accompanying notes to the supplementary information.

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through/ Grant Number	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants		84.007	$ 88,000
Federal Direct Student Loans		84.268	1,461,793
Federal Work-Study Program		84.033	69,978
Federal Pell Grant Program		84.063	5,255,167
Total Student Financial Assistance Cluster			6,874,938
Passed Through State Department of Education			
Vocational Education - Basic Grants to States	13-112-140	84.048	165,033
Indian Education		84.060	500
Subtotal			165,533
Migrant Education College Assistance Migrant Program		84.149A	303,724
Total U.S. Department of Education			7,344,195
U.S. DEPARTMENT OF COMMERCE			
Broadband Technology Opportunities Program - ARRA		11.557	287
Total U.S. Department of Commerce			287
U.S. DEPARTMENT OF TRANSPORTATION			
Eisenhower Transportation Fellowship Program		20.215	20,000
Total U.S. Department of Transportation			20,000
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education			
Child and Adult Care Food Program	04391-CACFP-23-CC-IC	10.558	31,541
Forest Reserve		10.665	36,454
Total U.S. Department of Agriculture			67,995
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Passed Through State Department of Education			
AmeriCorps	95550001	94.006	43,846
Total Corporation for National and Community Service			43,846
NATIONAL SCIENCE FOUNDATION			
Geosciences		47.050	7,000
Total Expenditures of Federal Awards			$ 7,483,323

See the accompanying notes to the supplementary information.

	Program Revenues			
	Cash Received	**Accounts Receivable**	**Deferred Revenue**	**Total**
Disabled Student Programs and Services	$ 268,504	$ -	$ -	$ 268,504
Extended Opportunity Programs and Services	351,388	-	(1,488)	349,900
Child Development Center	293,084	(10,566)	(30,008)	252,510
RN Capacity Grant	260,638	17,362	-	278,000
Matriculation	211,154	-	-	211,154
CalGrant	324,295	(14,434)	-	309,861
SFAA	171,924	-	-	171,924
CalWORKS	19,750	(19,750)	-	-
MESA	50,500	(5,064)	-	45,436
Foster Parent	64,142	19,950	-	84,092
Cooperative Agency Resource Education	39,838	-	-	39,838
Staff Diversity	3,817	-	(521)	3,296
CTE	41,135	-	283,158	324,293
TANF	41,324	-	-	41,324
Basic Skills	83,047	-	(10,157)	72,890
Prop 39 Clean Energy Workforce	140,000	-	(91,338)	48,662
Instructional Equipment Block Grant	109,713	-	(10,102)	99,611
All other aid programs	2,209	(5,001)	2,792	-
Total State Grants - Noncapital	$ 2,476,462	$ (17,503)	$ 142,336	$ 2,601,295

See the accompanying notes to the supplementary information.

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH AUDITED FINANCIAL STATEMENTS

June 30, 2014

	General Unrestricted Fund	General Restricted Fund	Solar Debt Service Fund	Bond Debt Service Fund	Balance Forward
June 30, 2014, Annual Financial and Budget Report (CCFS-311) Fund Balance	$ 1,784,920	$ 231,806	$ -	$ -	$ 2,016,726
Adjustment and reclassifications increasing (decreasing) the fund balance:					
Adjustment to record Debt Service Fund for financial statement purposes	-	-	-	1,444,900	1,444,900
Adjustment to remove amounts held for others	-	-	-	-	-
Rounding	(14)	-	-	-	(14)
Net Adjustments and Reclassifications	(14)	-	-	1,444,900	1,444,886
June 30, 2014, District Accounting Records Fund Balance	$ 1,784,906	$ 231,806	$ -	$ 1,444,900	$ 3,461,612

See the accompanying notes to the supplementary information.

	Balance Brought Forward	Child Development Fund	Capital Outlay Projects Fund	Revenue Bond Construction Fund	Balance Forward
June 30, 2014, Annual Financial and Budget Report (CCFS-311) Fund Balance	$ 2,016,726	$ -	$ 983,681	$ 576,289	$ 3,576,696
Adjustment and reclassifications increasing (decreasing) the fund balance:					
Adjustment to record Debt Service Fund for financial statement purposes	1,444,900	-	-	-	1,444,900
Adjustment to remove amounts held for others	-	-	-	-	-
Rounding	(14)	-	-	-	(14)
Net Adjustments and Reclassifications	1,444,886	-	-	-	1,444,886
June 30, 2014, District Accounting Records Fund Balance	$ 3,461,612	$ -	$ 983,681	$ 576,289	$ 5,021,582

See the accompanying notes to the supplementary information.

	Balance Brought Forward	Associated Students Trust Fund	Student Representation Fee Trust Fund	Self-Insurance Fund	Balance Forward
June 30, 2014, Annual Financial and Budget Report (CCFS-311) Fund Balance	$ 3,576,696	$ 108,212	$ 21,519	$ 2,836,825	$ 6,543,252
Adjustment and reclassifications increasing (decreasing the fund balance:					
Adjustment to record Debt Service Fund for financial statement purposes	1,444,900	-	-	-	1,444,900
Adjustment to remove amounts held for others	-	(108,212)	(21,519)	-	(129,731)
Rounding	(14)	-	-	-	(14)
Net Adjustments and Reclassifications	1,444,886	(108,212)	(21,519)	-	1,315,155
June 30, 2014, District Accounting Records Fund Balance	$ 5,021,582	$ -	$ -	$ 2,836,825	$ 7,858,407

See the accompanying notes to the supplementary information.

	Balance Brought Forward	Student Body Center Fee Trust Fund	Student Financial Aid Trust Fund	Scholarship and Loan Trust Fund	Balance Forward
June 30, 2014, Annual Financial and Budget Report (CCFS-311) Fund Balance	$ 6,543,252	$ 273,743	$ -	$ 16,282	$ 6,833,277
Adjustment and reclassifications increasing (decreasing the fund balance:					
Adjustment to record Debt Service Fund for financial statement purposes	1,444,900	-	-	-	1,444,900
Adjustment to remove amounts held for others	(129,731)	(273,743)	-	(16,282)	(419,756)
Rounding	(14)	-	-	-	(14)
Net Adjustments and Reclassifications	1,315,155	(273,743)	-	(16,282)	1,025,130
June 30, 2014, District Accounting Records Fund Balance	$ 7,858,407	$ -	$ -	$ -	$ 7,858,407

See the accompanying notes to the supplementary information.

	Balance Brought Forward	Other District	Total
June 30, 2014, Annual Financial and Budget Report (CCFS-311) Fund Balance	$ 6,833,277	$ -	$ 6,833,277
Adjustment and reclassifications increasing (decreasing the fund balance:			
Adjustment to record Debt Service Fund for financial statement purposes	1,444,900	-	1,444,900
Adjustment to remove amounts held for others	(419,756)	-	(419,756)
Rounding	(14)	-	(14)
Net Adjustments and Reclassifications	1,025,130	-	1,025,130
June 30, 2014, District Accounting Records Fund Balance	$ 7,858,407	$ -	$ 7,858,407

See the accompanying notes to the supplementary information.

	Object Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 and AC 6110 Reported Data	Audit Adjustments	Revised Data	Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799 Reported Data	Audit Adjustments	Revised Data
ACADEMIC SALARIES							
INSTRUCTIONAL SALARIES							
Contract or regular	1100	$ 3,224,298	$ -	$ 3,224,298	$ 3,224,298	$ -	$ 3,224,298
Other	1300	3,832,356	-	3,832,356	3,837,205	-	3,837,205
Total Instructional Salaries		7,056,654	-	7,056,654	7,061,503	-	7,061,503
NON-INSTRUCTIONAL SALARIES							
Contract or regular	1200	-	-	-	1,360,214	-	1,360,214
Other	1400	-	-	-	167,378	-	167,378
Total Non-Instructional Salaries		-	-	-	1,527,592	-	1,527,592
Total Academic Salaries		7,056,654	-	7,056,654	8,589,095	-	8,589,095
CLASSIFIED SALARIES							
NON-INSTRUCTIONAL SALARIES							
Regular status	2100	-	-	-	3,123,038	-	3,123,038
Other	2300	-	-	-	318,184	-	318,184
Total Non-Instructional Salaries		-	-	-	3,441,222	-	3,441,222
INSTRUCTIONAL AIDES							
Regular status	2200	484,670	-	484,670	582,733	-	582,733
Other	2400	44,237	-	44,237	45,234	-	45,234
Total Instructional Aides		528,907	-	528,907	627,967	-	627,967
Total Classified Salaries		528,907	-	528,907	4,069,189	-	4,069,189
OTHER							
Employee benefits	3000	1,811,333	-	1,811,333	4,244,486	-	4,244,486
Supplies and materials	4000	-	-	-	293,718	-	293,718
Other operating expenses	5000	-	-	-	1,888,058	-	1,888,058
Equipment replacement	6420	-	-	-	-	-	-
Total Other		1,811,333	-	1,811,333	6,426,262	-	6,426,262
Total Expenditures Prior to Exclusions		$ 9,396,894	$ -	$ 9,396,894	$ 19,084,546	$ -	$ 19,084,546

See the accompanying notes to the supplementary information.

	Object Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 and AC 6110 Reported Data	Audit Adjustments	Revised Data	Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799 Reported Data	Audit Adjustments	Revised Data
EXCLUSIONS							
ACTIVITIES TO EXCLUDE							
Instructional Staff-Retirees' Benefits and Retirement Incentives	5900	$ -	$ -	$ -	$ -	$ -	$ -
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	4,407	-	4,407
Non-instructional Staff Retirees' Benefits and Retirement Incentives	6740	-	-	-	-	-	-
Total Instructional Salaries		-	-	-	4,407	-	4,407
OBJECTS TO EXCLUDE							
Rents and leases	5060	-	-	-	35,658	-	35,658
Lottery expenditures:							
Academic salaries	1000	-	-	-	205,825	-	205,825
Classified salaries	2000	-	-	-	96,052	-	96,052
Employee benefits	3000	-	-	-	100,626	-	100,626
Subtotal		-	-	-	438,161	-	438,161
Supplies and materials:	4000						
Software	4100	-	-	-	-	-	-
Books, magazines, and periodicals	4200	-	-	-	-	-	-
Instructional supplies and materials	4300	-	-	-	-	-	-
Non-instructional supplies and materials	4400	-	-	-	9,148	-	9,148
Subtotal		-	-	-	9,148	-	9,148
Other operating expenses and services	5000	-	-	-	45,739	-	45,739
Capital outlay:	6000						
Library books	6300	-	-	-	-	-	-
Equipment - additional	6410	-	-	-	-	-	-
Equipment - replacement	6420	-	-	-	-	-	-
Total Capital Outlay		-	-	-	-	-	-
Other outgo	7000	-	-	-	-	-	-
Total Exclusions		-	-	-	497,455	-	497,455
Total for ECS 84362 - 50% Law		$ 9,396,894	$ -	$ 9,396,894	$ 18,587,091	$ -	$ 18,587,091
Percentage of CEE (Instructional Salary Cost/Total CEE)		50.56%	0.00%	50.56%			
50% of Current Expense of Education					$ 9,293,550	$ -	$ 9,293,550

See the accompanying notes to the supplementary information.

RECONCILIATION OF EDUCATION PROTECTION ACCOUNT EXPENDITURES

June 30, 2014

Mendocino-Lake Community College District

	Object Code	Salaries and Benefits (1000-3000)	Operating Expenses (4000-5000)	Capital Outlay (6000)	Total
EPA Proceeds	8630				$ 2,846,187
Activity Classification:					
Instructional activities	0100-5900	$ 2,846,187	$ -	$ -	2,846,187
Total Expenditures for EPA		$ 2,846,187	$ -	$ -	2,846,187
Total Revenue Less Expenditures					$ -

See the accompanying notes to the other supplementary information.

June 30, 2014	General Unrestricted Fund	General Restricted Fund	Debt Service Fund	Bond Debt Service Fund	Balance Forward
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -
Restricted cash and cash equivalents	-	61,331	-	-	61,331
Investments	-	-	-	-	-
Accounts receivable	3,087,409	598,717	72,063	-	3,758,189
Deposits and prepaid expenses	-	-	-	-	-
Due from other funds	-	-	185	-	185
Total Current Assets	3,087,409	660,048	72,248	-	3,819,705
NONCURRENT ASSETS					
Restricted cash and cash equivalents	-	-	-	1,444,900	1,444,900
Total Noncurrent Assets	-	-	-	1,444,900	1,444,900
Total Assets	$ 3,087,409	$ 660,048	$ 72,248	$ 1,444,900	$ 5,264,605
LIABILITIES					
Cash deficiency	$ 694,161	$ -	$ 72,248	$ -	$ 766,409
Accounts payable	226,855	60,632	-	-	287,487
Advances from grantors and students	381,295	367,610	-	-	748,905
Amounts held in trust for others	-	-	-	-	-
Due to other funds	192	-	-	-	192
Total Liabilities	1,302,503	428,242	72,248	-	1,802,993
FUND EQUITY					
Fund balances:					
Reserved for special purposes	-	231,806	-	1,444,900	1,676,706
Unreserved	1,784,906	-	-	-	1,784,906
Total Fund Equity	1,784,906	231,806	-	1,444,900	3,461,612
Total Liabilities and Fund Equity	$ 3,087,409	$ 660,048	$ 72,248	$ 1,444,900	$ 5,264,605

See the accompanying notes to the supplementary information.

June 30, 2014	Balance Brought Forward	Child Development Fund	Capital Outlay Projects Fund	Revenue Bond Construction Fund	Balance Forward
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ -	$ 35,523	$ -	$ -	$ 35,523
Restricted cash and cash equivalents	61,331	-	-	-	61,331
Investments	-	-	-	-	-
Accounts receivable	3,758,189	1,236	30,374	225,610	4,015,409
Deposits and prepaid expenses	-	-	-	-	-
Due from other funds	185	7	-	-	192
Total Current Assets	3,819,705	36,766	30,374	225,610	4,112,455
NONCURRENT ASSETS					
Restricted cash and cash equivalents	1,444,900	-	1,035,527	409,915	2,890,342
Total Noncurrent Assets	1,444,900	-	1,035,527	409,915	2,890,342
Total Assets	$ 5,264,605	$ 36,766	$ 1,065,901	$ 635,525	$ 7,002,797
LIABILITIES					
Cash deficiency	$ 766,409	$ -	$ -	$ -	$ 766,409
Accounts payable	287,487	31,769	58,660	59,236	437,152
Advances from grantors and students	748,905	4,997	23,560	-	777,462
Amounts held in trust for others	-	-	-	-	-
Due to other funds	192	-	-	-	192
Total Liabilities	1,802,993	36,766	82,220	59,236	1,981,215
FUND EQUITY					
Fund balances:					
Reserved for special purposes	1,676,706	-	983,681	576,289	3,236,676
Unreserved	1,784,906	-	-	-	1,784,906
Total Fund Equity	3,461,612	-	983,681	576,289	5,021,582
Total Liabilities and Fund Equity	$ 5,264,605	$ 36,766	$ 1,065,901	$ 635,525	$ 7,002,797

See the accompanying notes to the supplementary information.

June 30, 2014	Balance Brought Forward	Self-Insurance Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Balance Forward
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 35,523	$ 132,144	$ -	$ -	$ 167,667
Restricted cash and cash equivalents	61,331	1,100,679	107,291	21,519	1,290,820
Investments	-	1,145,343	-	-	1,145,343
Accounts receivable	4,015,409	334	-	-	4,015,743
Deposits and prepaid expenses	-	459,213	-	-	459,213
Due from other funds	192	-	-	-	192
Total Current Assets	4,112,455	2,837,713	107,291	21,519	7,078,978
NONCURRENT ASSETS					
Restricted cash and cash equivalents	2,890,342	-	-	-	2,890,342
Total Noncurrent Assets	2,890,342	-	-	-	2,890,342
Total Assets	$ 7,002,797	$ 2,837,713	$ 107,291	$ 21,519	$ 9,969,320
LIABILITIES					
Cash deficiency	$ 766,409	$ -	$ -	$ -	$ 766,409
Accounts payable	437,152	439	-	-	437,591
Advances from grantors and students	777,462	449	-	-	777,911
Amounts held in trust for others	-	-	107,291	21,519	128,810
Due to other funds	192	-	-	-	192
Total Liabilities	1,981,215	888	107,291	21,519	2,110,913
FUND EQUITY					
Fund balances:					
Reserved for special purposes	3,236,676	2,836,825	-	-	6,073,501
Unreserved	1,784,906	-	-	-	1,784,906
Total Fund Equity	5,021,582	2,836,825	-	-	7,858,407
Total Liabilities and Fund Equity	$ 7,002,797	$ 2,837,713	$ 107,291	$ 21,519	$ 9,969,320

See the accompanying notes to the supplementary information.

June 30, 2014	Balance Brought Forward	Student Body Center Fee Trust Fund	Student Financial Aid Trust Fund	Scholarship and Loan Trust Fund	Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 167,667	$ -	$ -	$ -	$ 167,667
Restricted cash and cash equivalents	1,290,820	274,743	-	15,712	1,581,275
Investments	1,145,343	-	-	-	1,145,343
Accounts receivable	4,015,743	-	-	-	4,015,743
Deposits and prepaid expenses	459,213	-	-	-	459,213
Due from other funds	192	-	-	-	192
Total Current Assets	7,078,978	274,743	-	15,712	7,369,433
NONCURRENT ASSETS					
Restricted cash and cash equivalents	2,890,342	-	-	-	2,890,342
Total Noncurrent Assets	2,890,342	-	-	-	2,890,342
Total Assets	$ 9,969,320	$ 274,743	$ -	$ 15,712	$ 10,259,775
LIABILITIES					
Cash deficiency	$ 766,409	$ -	$ -	$ -	$ 766,409
Accounts payable	437,591	1,000	-	-	438,591
Advances from grantors and students	777,911	-	-	-	777,911
Amounts held in trust for others	128,810	273,743	-	15,712	418,265
Due to other funds	192	-	-	-	192
Total Liabilities	2,110,913	274,743	-	15,712	2,401,368
FUND EQUITY					
Fund balances:					
Reserved for special purposes	6,073,501	-	-	-	6,073,501
Unreserved	1,784,906	-	-	-	1,784,906
Total Fund Equity	7,858,407	-	-	-	7,858,407
Total Liabilities and Fund Equity	$ 9,969,320	$ 274,743	$ -	$ 15,712	$ 10,259,775

See the accompanying notes to the supplementary information.

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

Year Ended June 30, 2014	General Unrestricted Fund	General Restricted Fund	Debt Service Fund	Bond Debt Service Fund	Balance Forward
OPERATING REVENUES					
Tuition and fees	$ 2,981,617	$ 103,146	$ -	$ -	$ 3,084,763
Less: Scholarship discount and allowance	1,856,422	-	-	-	1,856,422
Net Tuition and Fees	1,125,195	103,146	-	-	1,228,341
Grants and contracts - noncapital:					
Federal	44,679	496,024	-	-	540,703
State	57,317	2,198,682	-	-	2,255,999
Local	139,492	19,441	-	-	158,933
Auxiliary enterprise sales and charges	49,929	-	-	-	49,929
Total Operating Revenues	1,416,612	2,817,293	-	-	4,233,905
OPERATING EXPENDITURES/EXPENSES					
Salaries	13,079,479	1,435,999	-	-	14,515,478
Employee benefits	4,359,822	524,753	-	-	4,884,575
Supplies, materials, and other services	1,658,280	759,243	-	-	2,417,523
Capital outlay	44,661	205,013	-	-	249,674
Utilities	732,866	1,332	-	-	734,198
Payments to students	1,018	6,328	-	-	7,346
Total Operating Expenditures/Expenses	19,876,126	2,932,668	-	-	22,808,794
Operating Income (Loss)	(18,459,514)	(115,375)	-	-	(18,574,889)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	9,049,545	-	-	-	9,049,545
State apportionments - capital	-	-	-	-	-
Education protection account revenues - noncapital	2,851,146	-	-	-	2,851,146
Local property taxes	5,877,388	-	-	2,385,767	8,263,155
State taxes and other revenues - noncapital	544,126	124,164	-	-	668,290
Financial aid revenues - federal	-	-	-	-	-
Financial aid revenues - state	-	-	-	-	-
Financial aid expenses	-	-	-	-	-
Investment income - noncapital	914	-	(1,156)	2,388	2,146
Investment income - capital	-	-	-	-	-
Interest expense - capital assets related debt	-	-	(143,429)	(1,989,481)	(2,132,910)
Debt service - principal	-	-	(834,917)	(280,000)	(1,114,917)
Other nonoperating revenues - noncapital	245,364	-	551,544	-	796,908
Total Nonoperating Revenues (Expenditures)	18,568,483	124,164	(427,958)	118,674	18,383,363
Excess of Revenues Over (Under) Expenditures/Expenses	108,969	8,789	(427,958)	118,674	(191,526)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	325,000	-	427,958	-	752,958
Operating transfers out	(523,025)	-	-	-	(523,025)
Total Other Financing Sources (Uses)	(198,025)	-	427,958	-	229,933
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	(89,056)	8,789	-	118,674	38,407
Fund Equity - Beginning of Year	1,873,962	223,017	-	1,326,226	3,423,205
Fund Equity - End of Year	$ 1,784,906	$ 231,806	$ -	$ 1,444,900	$ 3,461,612

See the accompanying notes to the supplementary information.

Year Ended June 30, 2014	Balance Brought Forward	Child Development Fund	Capital Outlay Projects Fund	Revenue Bond Construction Fund	Balance Forward
OPERATING REVENUES					
Tuition and fees	$ 3,084,763	$ -	$ -	$ -	$ 3,084,763
Less: Scholarship discount and allowance	1,856,422	-	-	-	1,856,422
Net Tuition and Fees	1,228,341	-	-	-	1,228,341
Grants and contracts - noncapital:					
Federal	540,703	31,541	-	-	572,244
State	2,255,999	252,509	-	-	2,508,508
Local	158,933	102,617	104,945	-	366,495
Auxiliary enterprise sales and charges	49,929	-	-	-	49,929
Total Operating Revenues	4,233,905	386,667	104,945	-	4,725,517
OPERATING EXPENDITURES/EXPENSES					
Salaries	14,515,478	343,660	-	126,698	14,985,836
Employee benefits	4,884,575	122,801	-	47,233	5,054,609
Supplies, materials, and other services	2,417,523	24,858	28,517	827,677	3,298,575
Capital outlay	249,674	-	195,814	2,984,996	3,430,484
Utilities	734,198	10,443	-	2,847	747,488
Payments to students	7,346	-	-	-	7,346
Total Operating Expenditures/Expenses	22,808,794	501,762	224,331	3,989,451	27,524,338
Operating Income (Loss)	(18,574,889)	(115,095)	(119,386)	(3,989,451)	(22,798,821)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	9,049,545	-	-	-	9,049,545
State apportionments - capital	-	-	196,286	-	196,286
Education protection account revenues - noncapital	2,851,146	-	-	-	2,851,146
Local property taxes	8,263,155	-	-	-	8,263,155
State taxes and other revenues - noncapital	668,290	-	-	-	668,290
Financial aid revenues - federal	-	-	-	-	-
Financial aid revenues - state	-	-	-	-	-
Financial aid expenses	-	-	-	-	-
Investment income - noncapital	2,146	(55)	-	-	2,091
Investment income - capital	-	-	3,211	10,667	13,878
Interest expense - capital assets related debt	(2,132,910)	-	-	-	(2,132,910)
Debt service - principal	(1,114,917)	-	-	-	(1,114,917)
Other nonoperating revenues - noncapital	796,908	20,083	793,296	-	1,610,287
Total Nonoperating Revenues (Expenditures)	18,383,363	20,028	992,793	10,667	19,406,851
Excess of Revenues Over (Under) Expenditures/Expenses	(191,526)	(95,067)	873,407	(3,978,784)	(3,391,970)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	752,958	95,067	-	-	848,025
Operating transfers out	(523,025)	-	-	-	(523,025)
Total Other Financing Sources (Uses)	229,933	95,067	-	-	325,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	38,407	-	873,407	(3,978,784)	(3,066,970)
Fund Equity - Beginning of Year	3,423,205	-	110,274	4,555,073	8,088,552
Fund Equity - End of Year	$ 3,461,612	$ -	$ 983,681	$ 576,289	$ 5,021,582

See the accompanying notes to the supplementary information.

Year Ended June 30, 2014	Balance Brought Forward	Self-Insurance Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Balance Forward
OPERATING REVENUES					
Tuition and fees	$ 3,084,763	$ -	$ -	$ -	$ 3,084,763
Less: Scholarship discount and allowance	1,856,422	-	-	-	1,856,422
Net Tuition and Fees	1,228,341	-	-	-	1,228,341
Grants and contracts - noncapital:					
Federal	572,244	-	-	-	572,244
State	2,508,508	-	-	-	2,508,508
Local	366,495	-	-	-	366,495
Auxiliary enterprise sales and charges	49,929	-	-	-	49,929
Total Operating Revenues	4,725,517	-	-	-	4,725,517
OPERATING EXPENDITURES/EXPENSES					
Salaries	14,985,836	11,000	-	-	14,996,836
Employee benefits	5,054,609	(160,981)	-	-	4,893,628
Supplies, materials, and other services	3,298,575	-	-	-	3,298,575
Capital outlay	3,430,484	-	-	-	3,430,484
Utilities	747,488	-	-	-	747,488
Payments to students	7,346	-	-	-	7,346
Total Operating Expenditures/Expenses	27,524,338	(149,981)	-	-	27,374,357
Operating Income (Loss)	(22,798,821)	149,981	-	-	(22,648,840)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	9,049,545	-	-	-	9,049,545
State apportionments - capital	196,286	-	-	-	196,286
Education protection account revenues - noncapital	2,851,146	-	-	-	2,851,146
Local property taxes	8,263,155	-	-	-	8,263,155
State taxes and other revenues - noncapital	668,290	-	-	-	668,290
Financial aid revenues - federal	-	-	-	-	-
Financial aid revenues - state	-	-	-	-	-
Financial aid expenses	-	-	-	-	-
Investment income - noncapital	2,091	9,515	-	-	11,606
Investment income - capital	13,878	-	-	-	13,878
Interest expense - capital assets related debt	(2,132,910)	-	-	-	(2,132,910)
Debt service - principal	(1,114,917)	-	-	-	(1,114,917)
Other nonoperating revenues - noncapital	1,610,287	21,252	-	-	1,631,539
Total Nonoperating Revenues (Expenditures)	19,406,851	30,767	-	-	19,437,618
Excess of Revenues Over (Under) Expenditures/Expenses	(3,391,970)	180,748	-	-	(3,211,222)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	848,025	-	-	-	848,025
Operating transfers out	(523,025)	(325,000)	-	-	(848,025)
Total Other Financing Sources (Uses)	325,000	(325,000)	-	-	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	(3,066,970)	(144,252)	-	-	(3,211,222)
Fund Equity - Beginning of Year	8,088,552	2,981,077	-	-	11,069,629
Fund Equity - End of Year	$ 5,021,582	$ 2,836,825	$ -	$ -	$ 7,858,407

See the accompanying notes to the supplementary information.

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

Year Ended June 30, 2014	Balance Brought Forward	Student Body Center Fee Trust Fund	Student Financial Aid Trust Fund	Scholarship and Loan Trust Fund	Total
OPERATING REVENUES					
Tuition and fees	$ 3,084,763	$ -	$ -	$ -	$ 3,084,763
Less: Scholarship discount and allowance	1,856,422	-	-	-	1,856,422
Net Tuition and Fees	1,228,341	-	-	-	1,228,341
Grants and contracts - noncapital:					
Federal	572,244	-	-	-	572,244
State	2,508,508	-	-	-	2,508,508
Local	366,495	-	-	-	366,495
Auxiliary enterprise sales and charges	49,929	-	-	-	49,929
Total Operating Revenues	4,725,517	-	-	-	4,725,517
OPERATING EXPENDITURES/EXPENSES					
Salaries	14,996,836	-	-	-	14,996,836
Employee benefits	4,893,628	-	-	-	4,893,628
Supplies, materials, and other services	3,298,575	-	-	-	3,298,575
Capital outlay	3,430,484	-	-	-	3,430,484
Utilities	747,488	-	-	-	747,488
Payments to students	7,346	-	-	-	7,346
Total Operating Expenditures/Expenses	27,374,357	-	-	-	27,374,357
Operating Income (Loss)	(22,648,840)	-	-	-	(22,648,840)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	9,049,545	-	-	-	9,049,545
State apportionments - capital	196,286	-	-	-	196,286
Education protection account revenues - noncapital	2,851,146	-	-	-	2,851,146
Local property taxes	8,263,155	-	-	-	8,263,155
State taxes and other revenues - noncapital	668,290	-	-	-	668,290
Financial aid revenues - federal	-	-	6,911,059	-	6,911,059
Financial aid revenues - state	-	-	318,559	-	318,559
Financial aid expenses	-	-	(7,229,618)	-	(7,229,618)
Investment income - noncapital	11,606	-	-	-	11,606
Investment income - capital	13,878	-	-	-	13,878
Interest expense - capital assets related debt	(2,132,910)	-	-	-	(2,132,910)
Debt service - principal	(1,114,917)	-	-	-	(1,114,917)
Other nonoperating revenues - noncapital	1,631,539	-	-	-	1,631,539
Total Nonoperating Revenues (Expenditures)	19,437,618	-	-	-	19,437,618
Excess of Revenues Over (Under) Expenditures/Expenses	(3,211,222)	-	-	-	(3,211,222)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	848,025	-	-	-	848,025
Operating transfers out	(848,025)	-	-	-	(848,025)
Total Other Financing Sources (Uses)	-	-	-	-	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	(3,211,222)	-	-	-	(3,211,222)
Fund Equity - Beginning of Year	11,069,629	-	-	-	11,069,629
Fund Equity - End of Year	$ 7,858,407	$ -	$ -	$ -	$ 7,858,407

See the accompanying notes to the supplementary information.

RECONCILIATION OF FUND EQUITY TO NET POSITION

June 30, 2014

Total Fund Equity - District Funds Included in the Reporting Entity		$ 7,858,407
Assets recorded within the GASB 35 Statement of Net Position not included in the District fund financial statements:		
Nondepreciable capital assets		7,545,440
Depreciable capital assets	$ 118,827,850	
Accumulated depreciation	(28,363,129)	90,464,721
Liabilities recorded within the GASB 35 Statement of Net Position not recorded in the District fund financial statements:		
Accounts payable - interest payable		(826,617)
Claims payable		(647,834)
Long-term debt		(71,738,645)
Capital lease		(2,453,190)
Loan		(370,968)
Compensated absences		(876,567)
Other postemployment benefit obligations		(662,399)
Net Assets Reported Within the GASB 35 Statement of Net Position		$ 28,292,348

See the accompanying notes to the supplementary information.

Change in Fund Equity - District Funds Included in the Reporting Entity	$ (3,211,222)
Amortization of bond premium	133,392
Claims expense	(231,412)
Compensated absence expense	(61,541)
Depreciation expense	(2,821,409)
Expenses capitalized	3,714,876
Accrued interest expense	(1,622,085)
Debt service principal	1,114,917
Additional expenses of other postemployment benefits	(164,347)
Net Change in Net Position Reported Within the Statement of Revenues, Expenses, and Changes in Net Position	$ (3,148,831)

See the accompanying notes to the supplementary information.

1. PURPOSE OF SCHEDULES

Schedule of Workload Measures for State General Apportionment

The Schedule of Workload Measures for State General Apportionment Annual Attendance as of June 30, 2014, represents the basis of apportionment of the District's annual source of funding.

Schedule of Expenditures of Federal and State Awards

The audit of the Mendocino-Lake Community College District (the District) for the year ended June 30, 2014, was conducted in accordance with OMB Circular A-133, which requires disclosure of the financial activities of all federally funded programs. To comply with OMB A-133 and state requirements, the Schedule of Expenditures of Federal Awards and Schedule of State Awards were prepared for the District.

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

Reconciliation of Annual Financial and Budget Report (Form CCFS-311) With District 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 50% 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.

Reconciliation of 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.

2. COMBINING FINANCIAL STATEMENTS SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

OTHER REPORTS SECTION

MATSON
& ISOM

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

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

We have audited, 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, 2014, 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 2, 2014.

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 opinion 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be 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.*

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

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.

Matson and Isom

December 2, 2014
Redding, California

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

MATSON & ISOM

To 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) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. 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 laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on 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 its major federal programs for the year ended June 30, 2014.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133
Continued

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 to determine the 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Matson and Isom

December 2, 2014
Redding, California

MATSON & ISOM

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

To 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 2013-14*, published by the California Community Colleges Chancellor's Office, for the year ended June 30, 2014. 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 2013-14*, published by the California Community Colleges Chancellor's Office. Those standards and the *California Community Colleges Contracted District Audit Manual 2013-14* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on compliance with the state laws and regulations described in the schedule below. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

SALARIES OF CLASSROOM INSTRUCTORS: 50 PERCENT LAW

APPORTIONMENT FOR INSTRUCTIONAL SERVICE AGREEMENTS/CONTRACTS

STATE GENERAL APPORTIONMENT FUNDING SYSTEM

RESIDENCY DETERMINATION FOR CREDIT COURSES

STUDENTS ACTIVELY ENROLLED

CONCURRENT ENROLLMENT OF K-12 STUDENTS IN COMMUNITY COLLEGE CREDIT COURSES

SCHEDULED MAINTENANCE PROGRAM

GANN LIMIT CALCULATION

OPEN ENROLLMENT

STUDENT FEES - HEALTH FEES AND USE OF HEALTH FEE FUNDS

PROPOSITION 39 CLEAN ENERGY

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

DISABLED STUDENT PROGRAMS AND SERVICES (DSPS)

TO BE ARRANGED HOURS (TBA)

PROPOSITION 1D STATE BOND FUNDED PROJECTS

PROPOSITION 30 EDUCATION PROTECTION ACCOUNT FUNDS

Opinion

In our opinion, the District complied, in all material respects, with the state laws and regulations referred to above that are applicable to the District for the year ended June 30, 2014, except as described in the accompanying schedule of findings and questioned costs as item 2014-0001.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance, and the results of that testing, based on *the California Community Colleges Contracted District Audit Manual 2013-14*. Accordingly, this report is not suitable for any other purpose.

Matson and Isom

December 2, 2014
Redding, California

SCHEDULE OF FINDINGS AND QUESTIONED COSTS SECTION

SECTION I
SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	No

Identification of major programs:

CFDA No.	84.007	Student Financial Assistance Cluster
CFDA No.	84.033	Student Financial Assistance Cluster
CFDA No.	84.063	Student Financial Assistance Cluster
CFDA No.	84.268	Student Financial Assistance Cluster

Threshold for distinguishing types A and B programs:	$300,000
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for state programs:	Qualified

SECTION II FINDINGS
FINANCIAL STATEMENTS AUDIT

None.

SECTION III FINDINGS
FEDERAL AWARDS AUDIT

None.

SECTION IV FINDINGS
STATE AWARDS AUDIT

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

2014-0001

Condition

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

Criteria

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

Effect

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

Recommendation

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

Response

The District takes this finding very seriously. Unfortunately, due to turn-over in management, the District did not hold the required advisory committee meetings for the EOPS and CARE programs during the 2013-14 academic year. The District now has new leadership in this area and the fall advisory committee meeting for EOPS and CARE was held on Thursday, November 13, 2014. Under the direction of the Dean of Student Services, procedures are now in place to ensure that the advisory committees meet the required number of times during the academic year.

Not applicable: there are no current-year findings related to federal awards.

None.