

**MIRACOSTA
COMMUNITY COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2010

MIRACOSTA COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2010

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Trustees
MiraCosta Community College District
Oceanside, California

We have audited the accompanying basic financial statements of MiraCosta Community College District (the District) as of and for the year ended June 30, 2010, as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of MiraCosta Community College as of June 30, 2010, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* and is important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 16 and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vouimek, Time, Day & Co., LLP.

Rancho Cucamonga, California
December 17, 2010



MIRACOSTA COMMUNITY COLLEGE DISTRICT
One Barnard Drive, Oceanside, CA 92056
(760) 757-2121 • Fax (760) 795-6609 • www.miracosta.edu

INTRODUCTION

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

The District was required to implement the reporting standards of Governmental Accounting Standards Board (GASB) Statements No. 34 and No. 35 beginning with fiscal year 2002-2003, using the Business-Type Activity (BTA) model. The California Community College Chancellor's Office, through its Fiscal Standards and Accountability Committee, recommended that all community college districts implement the new reporting standards under the BTA model. To comply with the recommendation of the Chancellor's Office and to report in a manner consistent with other California community college districts, the District has adopted the BTA reporting model for these financial statements.

MiraCosta Community College District is a public two-year community college. The main MiraCosta campus is located in Oceanside, California. The College also operates a San Elijo center located in Cardiff-by-the-Sea, California, as well as a Community Learning Center located in Oceanside, California. MiraCosta students may choose from several associate degree and certificate programs or complete courses toward the first two years of a bachelor's degree program.

FINANCIAL HIGHLIGHTS

As required by the GASB Statements No. 34 and No. 35 reporting model, this report consists of three basic financial statements that provide information on the District's governmental activities as a whole: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

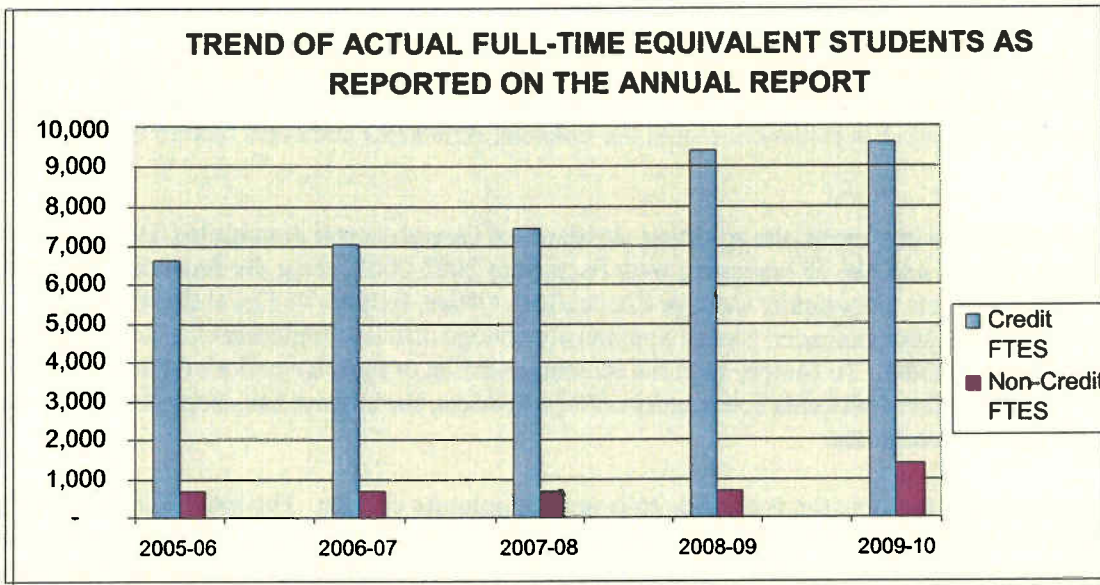
MIRACOSTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2010

Full-Time Equivalent Student Growth

During 2009-2010, total full-time equivalent students (FTES) increased 14.4 percent for credit and non-credit courses.



Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the District as of the end of the fiscal year and is prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private-sector organizations. The Statement of Net Assets is a point of time financial statement whose purpose is to present to the readers a fiscal snapshot of the District. The Statement of Net Assets presents end-of-year data concerning assets (current and non-current), liabilities (current and non-current), and net assets (assets minus liabilities).

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the District. Readers are also able to determine how much the District owes vendors and employees. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the District.

The difference between total assets and total liabilities (net assets) is one indicator of the current financial condition of the District; the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allocation for depreciation expense.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2010

The Net Assets are divided into three major categories. The first category, invested in capital assets, provides the equity amount in property, plant, and equipment owned by the District. The second category is expendable restricted net assets; these net assets are available for expenditure by the District, but must be spent for purposes as determined by external entities and/or donors that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets that are available to the District for any lawful purpose of the District.

A Statement of Net Assets as of June 30, 2010 and 2009, is summarized below:

(Amounts in thousands)

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets		
Cash and investments	\$ 33,614	\$ 39,033
Accounts receivable	2,462	7,862
Due from fiduciary funds	1	-
Prepaid expenses	59	51
Total Current Assets	<u>36,136</u>	<u>46,946</u>
Other noncurrent assets	945	-
Capital assets (net)	94,168	90,471
Total Assets	<u>\$ 131,249</u>	<u>\$ 137,417</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 3,842	\$ 4,824
Due to fiduciary funds	22	2
Deferred revenue	2,156	2,491
Current portion of long-term obligations	949	909
Total Current Liabilities	<u>6,969</u>	<u>8,226</u>
Long-Term Obligation	<u>7,466</u>	<u>6,913</u>
Total Liabilities	<u>14,435</u>	<u>15,139</u>
NET ASSETS		
Invested in capital assets	88,322	89,783
Restricted	10,712	14,408
Unrestricted	17,780	18,087
Total Net Assets	<u>116,814</u>	<u>122,278</u>
Total Liabilities and Net Assets	<u>\$ 131,249</u>	<u>\$ 137,417</u>

MIRACOSTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

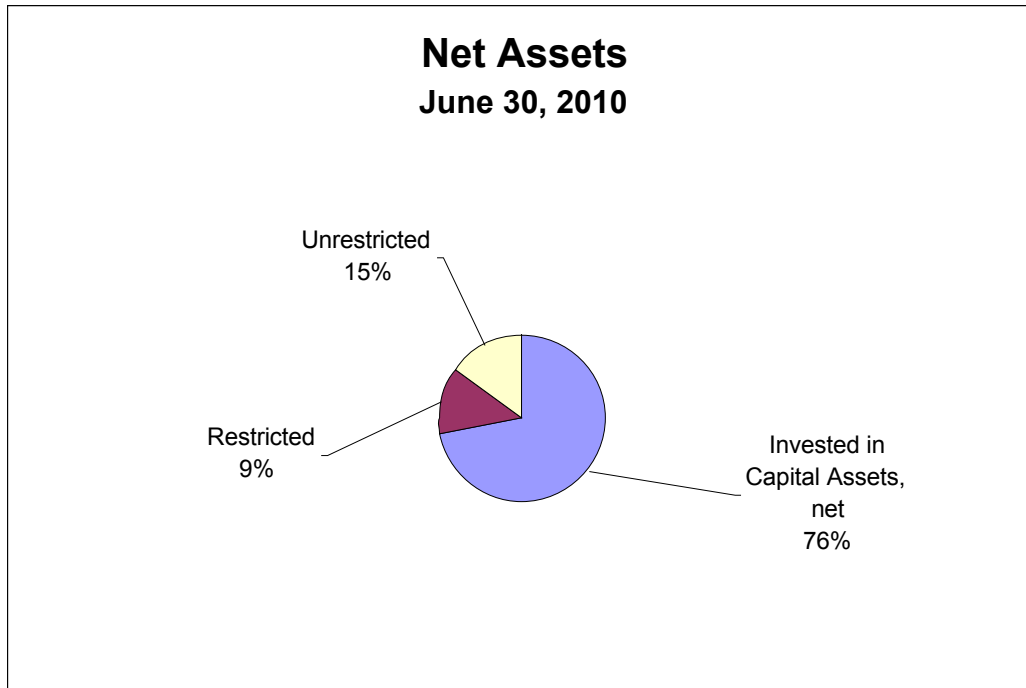
JUNE 30, 2010

- Cash and investments decreased \$5.4 million over 2009. Cash and investments include cash deposited in the San Diego County Treasury along with investments with fiscal agents related to a lease revenue bond. Additional deposits of funds are held with various financial institutions. The decrease in cash and investments for the 2009-2010 fiscal year reflects a decrease in property tax revenue.
- The accounts receivable balance includes receivables for categorical programs and/or grants, 4th quarter lottery proceeds, and 4th quarter interest. Accounts receivable decreased \$5.4 million from 2009 due to the receipt of the final claim from the State for the construction of the Creative Arts Expansion building.
- The increase in capital assets of \$3.7 million reflects the reclassification of the Creative Arts Expansion building that was completed and capitalized during the fiscal year.
- Accounts payable and accrued liabilities include June payroll expenses, vendor payables including construction payments for goods and services received prior to June 30, but not paid until the following fiscal year. It reflects a \$1 million decrease from the prior year due largely to construction payable and accrued payroll costs.
- Deferred revenue decreased by \$335 thousand in State categorical aid. Deferred revenue consists of revenue received prior to being earned and includes enrollment fees for summer and fall, State categorical aid, and scheduled maintenance funds. Due to the State budget crisis, the State allowed a one-time carryover of certain unspent categorical funds to fiscal year 2010.
- The current portion of long-term obligations reflects the amounts due within one year on the payments for the lease revenue bonds, compensated absences, and capital lease payment.
- Long-term obligations increased \$553 thousand and reflect the debt for the lease revenue bonds, long-term compensated absences, and the capital lease agreement. The net increase reflects the implementation of the PARS Supplementary Retirement Plan.
- Net assets include capital assets, net of related debt, debt service and capital projects funds, restricted assets for educational programs, and unrestricted assets. Total net assets decreased \$5.5 million from 2009 primarily from cash and cash equivalents and accounts receivable.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2010



Statement of Revenues, Expenses, and Changes in Net Assets

Change in total net assets as presented on the Statement of Net Assets is based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the operating and non-operating revenues earned, whether received or not, by the District, the operating and non-operating expenses incurred, whether paid or not, by the District, and any other revenues, expenses, gains and/or losses earned or incurred by the District. Thus, this Statement presents the District's results of operations.

Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to fulfill the mission of the District. Non-operating revenues are those received or pledged for which goods and services are not provided; for example, State appropriations are non-operating because they are provided by the legislature to the District without the legislature directly receiving commensurate goods and services for those revenues.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION) JUNE 30, 2010

The Statement of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2010 and 2009, is summarized below:

(Amounts in thousands)

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Tuition and fees	\$ 8,856	\$ 7,356
Auxiliary sales and charges	380	396
Total Operating Revenues	<u>9,236</u>	<u>7,752</u>
Total Operating Expenses	<u>105,879</u>	<u>96,386</u>
Operating Loss	<u>(96,643)</u>	<u>(88,634)</u>
Nonoperating Revenues (Expenses)		
Grants and contracts	11,070	10,183
Local property taxes	74,256	76,202
State and other revenues	2,080	1,807
Investment income, net	142	624
Transfer to fiduciary funds	(5)	(5)
Other nonoperating revenues	1,998	2,304
Total Nonoperating Revenue (Expenses)	<u>89,541</u>	<u>91,115</u>
Other Revenues, Gains, and Losses		
State revenues, capital	1,629	7,560
Gain on disposal of capital assets	9	-
Loss on disposal of capital assets	-	(8)
	<u>1,638</u>	<u>7,552</u>
Net Change in Net Assets	<u>\$ (5,464)</u>	<u>\$ 10,033</u>

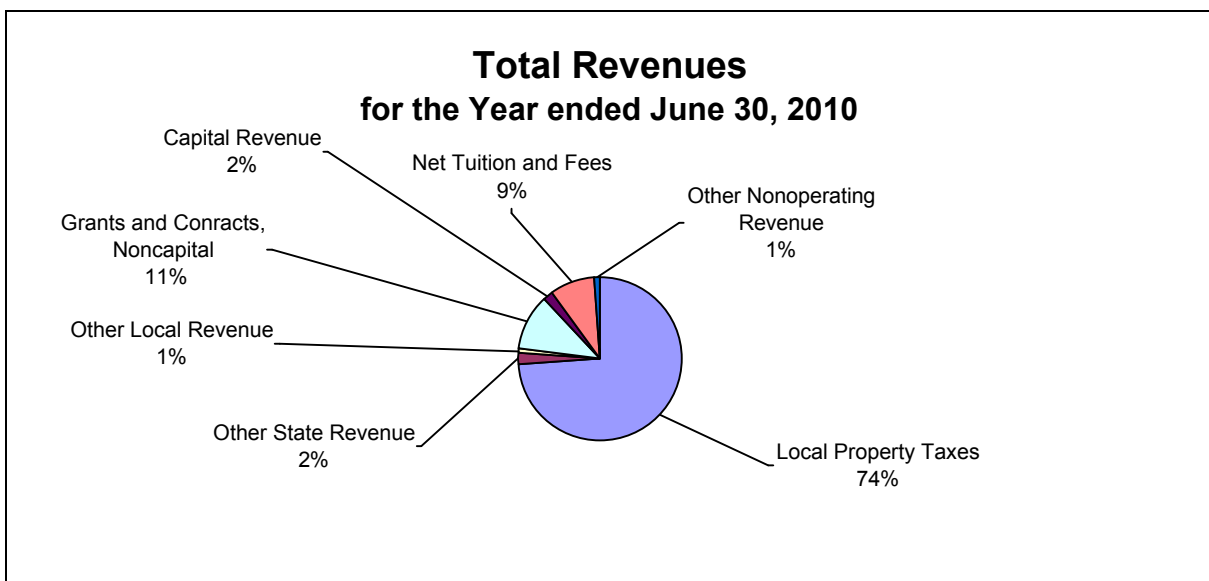
- Tuition and fees are generated by the resident, non-resident, and foreign fees paid by students attending MiraCosta College, including fees such as health fees, parking fees, community services classes, and other related fees. The change in tuition and fees is primarily related to the substantial increase in enrollment.
- The change in total operating expenses increased \$9.5 million and includes employee salaries and benefits, supplies, operating expenses, and student financial aid. The increase also includes the payment to the irrevocable trust for the District's contribution towards the liability for Other Postemployment Benefits (OPEB).
- The change in total non-operating revenues decreased \$1.6 million which was primarily due to the decrease in local property tax revenues.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

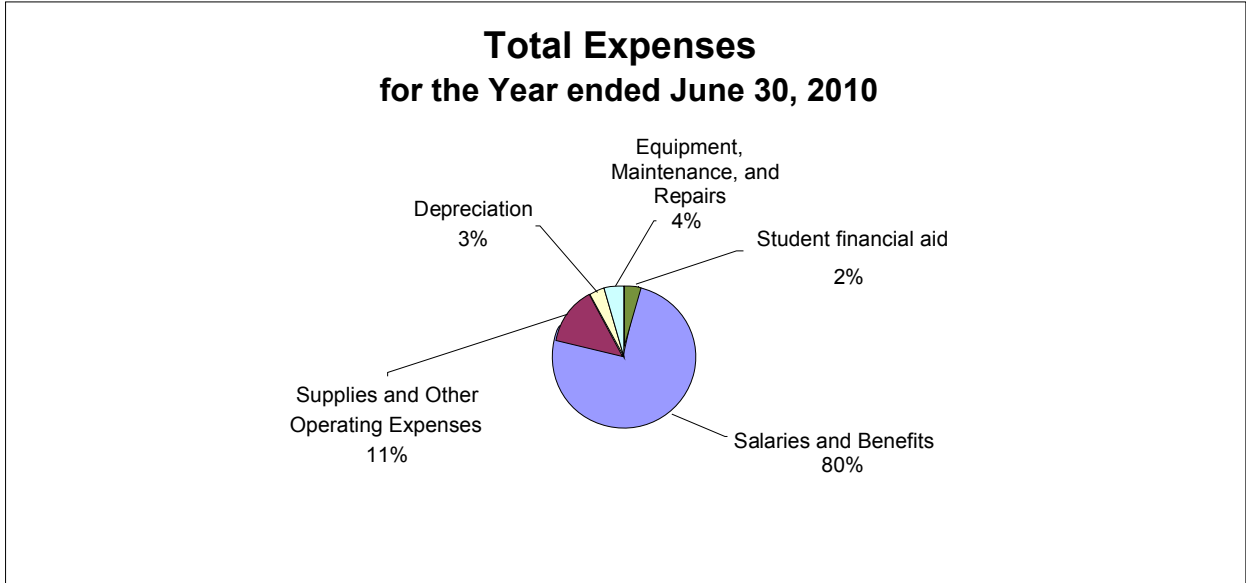
JUNE 30, 2010

- The change in State revenues (capital) reflects a decrease of \$5.9 million in fiscal year 2010 due primarily to the completion of the Creative Arts Expansion project.
- The change in Total Net Assets decreased \$15 million from fiscal year 2009 due to net increase in operating expenses and decrease in revenues.
- More detail of total operating expenses is included in the Statement of Revenues, Expenses, and Changes in Net Assets which is part of the basic financial statements.



MIRACOSTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)
JUNE 30, 2010



Expenses are reported by their operating categories as follows:

(Amounts in thousands)

	<u>2010</u>	<u>2009</u>
Operating Expenses		
Salaries	\$ 61,872	\$ 58,747
Employee benefits	21,774	18,598
Supplies, materials, and other operating expenses and services	10,771	10,271
Student financial aid	4,622	2,559
Equipment, maintenance, and repairs	3,628	3,415
Depreciation	3,212	2,796
Total Operating Expenses	<u>\$ 105,879</u>	<u>\$ 96,386</u>

- Salaries increased \$3.1 million due to the one percent salary increase, along with step, column and longevity increases, new positions, and associate faculty growth related to the increased class offerings.
- Employee benefits increased \$3.2 million due to the payment towards the Other Postemployment Benefits, as well as increased health premium costs and additional new employees.
- Student financial aid increased \$2.1 million due to the increased enrollment of students receiving financial aid.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2010

In accordance with requirements set forth by the California Community Colleges Chancellor's Office, the District reports operating expenses by object code. Operating expenses by functional classification are as follows:

(Amounts in thousands)

	Instructional Salaries and Benefits	Noninstructional Salaries and Benefits	Supplies, Material, and Other Expenses and Services
Instructional Activities	\$ 41,446	\$ 2,463	\$ 1,276
Instructional Administration and Instructional Governance	-	4,452	404
Instructional Support Services	1,089	3,760	277
Admissions and Records	-	1,999	48
Student Counseling and Guidance	8	4,180	156
Other Student Services	1	5,632	788
Operation and Maintenance of Plant	-	3,639	2,084
Planning, Policymaking, and Coordination	-	1,246	203
General Institutional Support Services	10	8,389	2,695
Community Services and Economic Development	1	1,748	807
Ancillary Services	8	1,856	1,149
Auxiliary Operations	4	621	46
Physical Property and Related Acquisitions	-	1,094	843
Student Aid	-	-	(5)
Depreciation Expense	-	-	-
Total	\$ 42,567	\$ 41,079	\$ 10,771

(Amounts in thousands)

	Equipment, Maintenance, and Repairs	Student Financial Aid	Depreciation	Total
Instructional Activities	\$ 674	\$ -	\$ -	\$ 45,859
Instructional Administration and Instructional Governance	27	-	-	4,883
Instructional Support Services	151	-	-	5,277
Admissions and Records	-	-	-	2,047
Student Counseling and Guidance	28	-	-	4,372
Other Student Services	24	-	-	6,445
Operation and Maintenance of Plant	148	-	-	5,871
Planning, Policymaking, and Coordination	17	-	-	1,466
General Institutional Support Services	736	-	-	11,830
Community Services and Economic Development	29	-	-	2,585
Ancillary Services	12	-	-	3,025
Auxiliary Operations	41	-	-	712
Physical Property and Related Acquisitions	1,741	-	-	3,678
Student Aid	-	4,622	-	4,617
Depreciation Expense	-	-	3,212	3,212
Total	\$ 3,628	\$ 4,622	\$ 3,212	\$ 105,879

MIRACOSTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2010

Statement of Cash Flows

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

The Statement of Cash Flows is divided into five parts. The first part reflects operating cash flows and shows the net cash used by the operating activities of the District. The second part details cash received for non-operating, non-investing, and non-capital financing purposes. The third part shows cash flows from capital and related financing activities. This part deals with the cash used for the acquisition and construction of capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

The Statement of Cash Flows for the year ended June 30, 2010 and 2009, is summarized below:

(Amounts in thousands)

	<u>2010</u>	<u>2009</u>
Cash Provided by (Used in)		
Operating activities	\$ (92,604)	\$ (84,752)
Noncapital financing activities	94,555	85,232
Capital financing activities	(6,886)	(4,077)
Investing activities	<u>(484)</u>	<u>1,090</u>
Net Change in Cash	(5,419)	(2,507)
Cash, Beginning of Year	<u>39,033</u>	<u>41,540</u>
Cash, End of Year	<u>\$ 33,614</u>	<u>\$ 39,033</u>

A detailed Statement of Cash Flows for the year ended June 30, 2010, is included in the Basic Financial Statements on pages 19 and 20 of this report.

- Cash receipts from operating activities are from student tuition and from local grants. Uses of cash are payments to employees, vendors, and students related to District programs. Net cash used in operating activities increased from the prior year by \$7.9 million. This reflects a \$6.2 million increase for payments on behalf of employees, including the transfer to the irrevocable trust for the District's contribution towards the liability for Other Postemployment Benefits.
- Property tax revenue accounts for approximately 83 percent of the non-capital financing revenue.
- The primary use included in capital and related financing activities is the purchase of capital assets (building improvements, construction in progress, equipment, etc.).
- Cash from investing activities is mainly interest earned on cash in bank and cash invested through the San Diego County pool. Lower interest rates contributed to the decrease in interest earned.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2010

DISTRICT'S FIDUCIARY RESPONSIBILITY

The District is the trustee, or fiduciary, for certain amounts held on behalf of students, clubs, and donors for student loans and scholarships. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

- As of June 30, 2010, the District had \$94.2 million invested in capital assets net of accumulated depreciation. Total capital assets consist of land, infrastructure, buildings and building improvements, construction in progress, vehicles, data processing equipment, and other office equipment. Capital asset additions of \$6.6 million occurred during 2009-2010, and depreciation expense of approximately \$3.2 million was recorded for the fiscal year.
- Capital additions and deductions of construction in progress comprise costs associated with replacement and renovation of existing facilities. Current year additions were funded with capital appropriations from both local and State funds for those projects. The balance of additions was funded by unrestricted net assets which were designated for capital purposes. The increase in deductions is contributed to the completion of the Creative Arts Expansion project.

Note 6 to the financial statements provides additional information on capital assets. A summary of capital assets, net of depreciation, is presented below:

(Amounts in thousands)

	2010	2009
Land and improvements	\$ 5,694	\$ 5,732
Site and site improvements	84,093	70,473
Furniture and equipment	3,803	3,711
Construction in progress	578	10,555
Net Capital Assets	<u>\$ 94,168</u>	<u>\$ 90,471</u>

Debt

- At June 30, 2010, the District had \$3.7 million in debt in revenue bonds payable which reflects a decrease of \$290 thousand. The District's bond credit rating of AAA has not changed.
- Compensated absences and load banking increased \$105 thousand from the prior year.
- Also at June 30, 2010, the District had \$1.4 million in debt for the capital lease agreement with SunTrust Corporation for the debt financing of the energy efficiency projects approved by the Board in December 2006.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2010

- The PARS Supplementary Retirement Plan was a new addition of \$1 million to the long-term obligations.
- The District contributed 127 percent of the annual required contribution of which \$3.8 million went to an irrevocable trust for the Retiree Health Benefit Program related to GASB Statement No. 45 and \$881 thousand went directly to retirees. Note 10 provides additional information on the plan and obligation.

A summary of long-term obligation is presented below:

(Amounts in thousands)

	2010	2009
Revenue bonds payable	\$ 3,675	\$ 3,965
Compensated absences and load banking	2,257	2,152
Capital leases	1,448	1,638
Net OPEB obligation	-	68
PARS Supplementary Retirement Plan (SRP)	1,035	-
Total Long-Term Obligations	<u>\$ 8,415</u>	<u>\$ 7,823</u>

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

The State's economic condition continues to cause concern for the District's State funded programs. The State budget cuts have forced other community college districts to reduce course offerings at a time when enrollment needs are rising. MiraCosta has committed its resources to providing additional courses to more students during this economic crisis. Additional cuts to our State funded programs or a lengthy recovery will impact our ability to provide the current level of service to students, faculty, staff, and our community.

While the District's Basic Aid status has provided a cushion from the level of cuts seen across the State, the amount of revenue from property taxes during the current economic downturn will not provide sufficient revenues for on-going cost increases until the real estate market rebounds. The District has sufficient reserves to weather the current market conditions for a period of time, but must prioritize the allocation of its resources to ensure that we continue to support the vision, mission, and core values in a fiscally responsible manner. The District reduced planned expenditures by over \$4 million in 2010-2011, and is in the process of reducing 2011-2012 planned expenditures by at least another \$3 million compared to its Five Year Fiscal Plan.

Other than the items discussed above, the District is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the 2010-2011 fiscal year beyond those unknown variations having a global effect on virtually all types of business operations. Management continues to provide information to the campus community and the Board of Trustees on the financial condition of the District and to monitor resources to maintain our ability to react to internal and external issues if and when they arise.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2010

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Vice President of Business and Administrative Services, James E. Austin, at MiraCosta Community College District, One Barnard Drive, Oceanside, CA 92056-3899.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS - PRIMARY GOVERNMENT JUNE 30, 2010

ASSETS

Current Assets

Cash and cash equivalents	\$ 1,211,497
Investments - unrestricted	31,680,191
Investments - restricted	722,301
Accounts receivable	2,264,120
Student accounts receivable	197,789
Due from fiduciary funds	915
Prepaid expenses	58,727

Total Current Assets

36,135,540

Noncurrent Assets

Other postemployment benefits other than pensions (OPEB) asset	944,779
Nondepreciable capital assets	5,944,371
Depreciable capital assets, net of depreciation	88,224,007

Total Noncurrent Assets

95,113,157

TOTAL ASSETS

131,248,697

LIABILITIES

Current Liabilities

Accounts payable	3,841,610
Due to fiduciary funds	21,673
Deferred revenue	2,155,743
Compensated absences payable - current portion	356,009
Load banking payable - current portion	95,396
Bonds payable - current portion	300,000
Lease obligations - current portion	197,437

Total Current Liabilities

6,967,868

Noncurrent Liabilities

Compensated absences payable - noncurrent portion	1,424,034
Load banking payable - noncurrent portion	381,586
Bonds payable - noncurrent portion	3,375,000
Lease obligations - noncurrent portion	1,251,120
Other long-term obligations - noncurrent portion	1,034,712

Total Noncurrent Liabilities

7,466,452

TOTAL LIABILITIES

14,434,320

NET ASSETS

Invested in capital assets, net of related debt	88,322,520
Restricted for:	
Debt service	722,596
Capital projects	8,049,882
Educational programs	1,939,293
Unrestricted	17,780,086

TOTAL NET ASSETS

\$ 116,814,377

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

MIRACOSTA COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2010

OPERATING REVENUES

Student Tuition and Fees	\$ 10,712,092
Less: Scholarship discounts and allowances	(1,856,043)
Net tuition and fees	<u>8,856,049</u>
Auxiliary Enterprise Sales and Charges	
Bookstore	350,520
Cafeteria	25,194
Internal service	3,988
TOTAL OPERATING REVENUES	<u>9,235,751</u>

OPERATING EXPENSES

Salaries	61,871,844
Employee benefits	21,774,270
Supplies, materials, and other operating expenses and services	10,770,854
Student financial aid	4,621,690
Equipment, maintenance, and repairs	3,628,248
Depreciation	3,212,368
TOTAL OPERATING EXPENSES	<u>105,879,274</u>

OPERATING LOSS

(96,643,523)

NONOPERATING REVENUES (EXPENSES)

Local property taxes levied for general purposes	74,256,143
State taxes and other revenues	2,080,545
Federal grants and contracts, noncapital	6,093,107
State grants and contracts, noncapital	4,976,658
Investment income, noncapital	382,951
Interest expense on capital related debt	(243,085)
Investment income on capital asset-related debt, net	2,454
Transfer out to fiduciary funds	(5,000)
Other nonoperating revenues	1,997,537

TOTAL NONOPERATING REVENUES (EXPENSES)

89,541,310

INCOME BEFORE OTHER REVENUES, EXPENSES, AND GAINS

(7,102,213)

OTHER REVENUES AND GAINS

State revenues, capital	1,628,963
Gain on disposal of capital assets	9,364
TOTAL OTHER REVENUES AND GAINS	<u>1,638,327</u>

CHANGE IN NET ASSETS

(5,463,886)

NET ASSETS, BEGINNING OF YEAR

122,278,263

NET ASSETS, END OF YEAR

\$ 116,814,377

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

MIRACOSTA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 8,813,661
Payments for scholarships and grants	(4,159,499)
Payments to vendors for supplies and services	(14,813,005)
Payments to or on behalf of employees	(82,824,962)
Auxiliary enterprise sales and charges	379,702
Net Cash Flows From Operating Activities	<u>(92,604,103)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Property taxes - nondebt related	74,256,143
Federal grants and contracts	5,980,444
State grants and contracts	4,630,439
State taxes and other apportionments	8,211,253
Other nonoperating	1,476,227
Net Cash Flows From Noncapital Financing Activities	<u>94,554,506</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Purchase of capital assets	(7,745,325)
Proceeds from sale of capital assets	24,328
State revenue, capital projects	1,555,257
Principal paid on capital debt	(479,148)
Interest paid on capital debt	(243,085)
Interest received on capital asset-related debt	2,454
Net Cash Flows From Capital Financing Activities	<u>(6,885,519)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Payment made to irrevocable trust	(944,779)
Interest received from investments	460,571
Net Cash Flows From Investing Activities	<u>(484,208)</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

CASH AND CASH EQUIVALENTS, END OF YEAR

(5,419,324)
<u>39,033,313</u>
<u>\$ 33,613,989</u>

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

MIRACOSTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, Continued
FOR THE YEAR ENDED JUNE 30, 2010**

**RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS
FROM OPERATING ACTIVITIES**

Operating Loss	<u>\$ (96,643,523)</u>
Adjustments to Reconcile Operating Loss to Net Cash Flows from Operating Activities:	
Depreciation	3,212,368
Changes in Operating Assets and Liabilities:	
Receivables, net	(179,775)
Prepaid expenses	(7,831)
Accounts payable and other accrued liabilities	(142,027)
Deferred revenue	84,773
Compensated absences	135,290
Load banking	(29,772)
Other postemployment benefits	(68,318)
PARS Supplementary Retirement Plan	1,034,712
Total Adjustments	<u>4,039,420</u>
Net Cash Flows From Operating Activities	<u><u>\$ (92,604,103)</u></u>

**CASH AND CASH EQUIVALENTS CONSIST
OF THE FOLLOWING:**

Cash in banks	\$ 1,211,497
Cash in county treasury	31,680,191
Restricted cash in county treasury	722,301
Total Cash and Cash Equivalents	<u><u>\$ 33,613,989</u></u>

NON CASH TRANSACTIONS

On behalf payments for benefits	<u><u>\$ 1,351,291</u></u>
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The accompanying notes are an integral part of these financial statements.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010**

	<u>Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 142,491	\$ 218,518
Investments	1,138,271	-
Accounts receivable	2,112	102
Due from governmental funds	21,673	-
Fixed assets, net of depreciation	5,509,363	-
Total Assets	<u>6,813,910</u>	<u>218,620</u>
LIABILITIES		
Accounts payable	16,228	16,287
Due to governmental funds	915	-
Deferred revenue	20,771	-
Due to student groups	-	202,333
Total Liabilities	<u>37,914</u>	<u>218,620</u>
NET ASSETS		
Unreserved	<u>6,775,996</u>	-
Total Net Assets	<u>\$ 6,775,996</u>	<u>\$ -</u>

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

MIRACOSTA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FOR THE YEAR ENDED JUNE 30, 2010

	<u>Trust Funds</u>
ADDITIONS	
Local revenues	\$ 278,820
DEDUCTIONS	
Classified salaries	8,120
Employee benefits	168
Books and supplies	50,174
Services and operating expenditures	57,744
Capital outlay	20,458
Depreciation	118,976
Total Deductions	<u>255,640</u>
OTHER FINANCING SOURCES (USES)	
Transfers in from governmental funds	5,000
Other uses	(57,224)
Total Other Financing Sources (Uses)	<u>(52,224)</u>
Change in Net Assets	(29,044)
Net Assets - Beginning	<u>6,805,040</u>
Net Assets - Ending	<u>\$ 6,775,996</u>

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

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 1 - ORGANIZATION

The MiraCosta Community College District (the District) was established in 1934 as a political subdivision of the State of California and provides educational services to residents of the surrounding area. The District operates under a locally elected seven-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund and capital project funds, but these budgets are managed at the department level. Currently, the District operates one college and two student centers located within North San Diego County. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Trustees.

The District considered its financial and operational relationships with potential component units under the reporting entity definition of GASB Statement No. 14, *The Financial Reporting Entity*. The basic, but not the only, criterion for including another organization in the District's reporting entity for financial reports is the ability of the District's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one entity is dependent on another and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the District's power and includes, but is not limited to: financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Based upon the requirements of GASB Statement No. 14, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the District, including their ongoing financial support to the District or its other component units. A legally separate, tax-exempt organization should be reported as a component unit of the District if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the District, its component units, or its constituents.
2. The District, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the District, or its component units, is entitled to, or has the ability to otherwise access, are significant to the District.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Based upon the application of the criteria listed above, the following potential component unit has been excluded from the District's reporting entity:

MiraCosta Community College Foundation

The MiraCosta Community College Foundation (the Foundation) is a separate not-for-profit corporation. The Board of Directors is elected independent of any District Board of Trustee's appointments. The Foundation is responsible for approving its own budget and accounting and finance related activities.

The Foundation is not included as a Component Unit because the third criterion was not met; the economic resources received and held by the Foundation are not significant to the District.

Financial statements for the Foundation can be obtained from the Foundation's Business Office at One Barnard Drive, Oceanside, CA 92056.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37, No. 38, and No. 39. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, and classified as operating revenues. These transactions are recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, operating revenues consist primarily of student fees and auxiliary activities through the bookstore and cafeteria.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain grants, entitlements, and donations are classified as nonoperating revenue. Federal and State grants received to provide direct grants to students are classified as nonoperating revenues because the District does not generally receive any direct benefit from the grants and are recognized in the fiscal year in which all eligibility requirements are satisfied. Eligibility requirements may include time and/or purpose requirements. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor's Office and includes reporting of full-time equivalent student (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated.

Operating expenses are costs incurred to provide instructional services including support costs, auxiliary services, and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating. Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

The accounting policies of the District conform to accounting principles generally accepted in the United States of America (US GAAP) as applicable to colleges and universities, as well as those prescribed by the California Community Colleges Chancellor's Office. The District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date. When applicable, certain prior year amounts have been reclassified to conform to current year presentation. The budgetary and financial accounts of the District are maintained in accordance with the State Chancellor's Office's *Budget and Accounting Manual*.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. The business-type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
 - Statement of Net Assets - Primary Government
 - Statement of Revenues, Expenses, and Changes in Net Assets - Primary Government
 - Statement of Cash Flows - Primary Government
 - Financial Statements for the Fiduciary Funds including:
 - Statement of Fiduciary Net Assets
 - Statement of Changes in Fiduciary Net Assets
- Notes to the Financial Statements

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted investments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents represent balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

Investments

Investments held at June 30, 2010, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in County investment pool are determined by the program sponsor.

Accounts Receivable

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also 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. The District sends outstanding receivables to the Chancellor's Office Tax Offset Program (COTOP) for collection and writes off the uncollected amounts annually.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Prepaid Expenses

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond June 30.

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction-in-progress, buildings, leasehold improvements, and equipment. The District maintains an initial unit cost capitalization threshold of \$5,000. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Major outlays for capital improvements are recorded as construction-in-progress as the projects are constructed.

Depreciation of capital assets is computed and recorded utilizing the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements, 25 to 50 years; equipment, 4 to 10 years; vehicles, 5 to 10 years.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the entity-wide financial statements.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the entity-wide financial statements. The amounts have been recorded in the fund from which the employees, who have accumulated the leave, are paid. The District also participates in "load-banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Sick leave is accumulated without limit for each employee based upon negotiated contracts or Board policies and procedures. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full time.

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Deferred revenues include (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from Federal and State grants received before the eligibility requirements are met.

Net Assets

GASB Statements No. 34 and No. 35 report equity as "Net Assets". Net assets are classified according to imposed restrictions or availability of assets for satisfaction of District obligations according to the following net asset categories:

Invested in Capital Assets, Net of Related Debt: Capital Assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted - Expendable: Net assets whose use by the District is subject to externally imposed constraints that can be fulfilled by actions of the District pursuant to those constraints or by the passage of time. Net assets may be restricted for capital projects, debt repayment, and/or educational programs.

Unrestricted: Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. The entity-wide financial statements report \$10,711,771 of restricted net assets.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Operating Revenues and Expenses

Classification of Revenues - The District has classified its revenues as either operating or nonoperating. Certain significant revenue streams relied upon for operation are classified as nonoperating as defined by GASB Statements No. 34 and 35. Classifications are as follows:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as net of scholarship discounts and allowances, sales and services of auxiliary enterprises, net of scholarship discounts and allowances, and interest on institutional student loans.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as property taxes, investment income, Federal, State, and local grants and contracts, gifts and contributions, and other revenue sources defined in GASB Statements No. 34 and 35.

Classification of Expenses - Nearly all the District's expenses are from exchange transactions and are classified as either operating or nonoperating according to the following criteria:

Operating expenses - Operating expenses are necessary costs to provide the services of the District and include employee salaries and benefits, supplies, operating expenses, and student financial aid.

Nonoperating expenses - Nonoperating expenses include interest expense and other expenses not directly related to the services of the District.

On-Behalf Payments

GASB Statement No. 24 requires direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees for another legally separate entity be recognized as revenues and expenditures by the employer entity. The State of California makes direct on-behalf payments to the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) on behalf of all community colleges in California.

Estimates

The preparation of the 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 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. The County Assessor is responsible for assessment of all taxable real property. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Scholarship Discounts and Allowances

Student tuition and fee revenue is reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf. To the extent that fee waivers and discounts have been used to satisfy tuition and fee charges, the District has recorded a scholarship discount and allowance.

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, FSEOG Grants, Federal Work-Study, Federal Family Education Loans, and Federal Direct Student Loan programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the related *Compliance Supplement*. During the year ended June 30, 2010, the District distributed \$614,459 in direct lending through the U.S. Department of Education. These amounts have not been included as revenues or expenses within the accompanying financial statements as the amounts were passed directly to qualifying students; however, the amounts are included on the Schedule of Expenditures of Federal Awards.

Interfund Activity

Interfund transfers and interfund receivables and payables for governmental activities are eliminated during the consolidation process in the entity-wide financial statements.

New Accounting Pronouncements

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Classifications*. The objectives of this Statements is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 3 - DEPOSITS AND INVESTMENTS

Policies and Practices

The District is authorized under California Government Code and the District's investment policy to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium-term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Summary of Deposits and Investments

Deposits and investments as of June 30, 2010, consist of the following:

Primary government	\$ 33,613,989
Fiduciary funds	1,499,280
Total Deposits and Investments	<u>\$ 35,113,269</u>
Cash on hand and in banks	\$ 1,522,506
Cash in revolving	50,000
Investments	33,540,763
Total Deposits and Investments	<u>\$ 35,113,269</u>

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by primarily investing in the County investment pool.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Maturity Date
U.S. Federated Cash Reserves	\$ 585,565	52*
County Investment Pool - San Diego	33,170,225	425*
Total	\$ 33,755,790	

* Weighted average days to maturity

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End AAA
U.S. Federated Cash Reserves	\$ 585,565	Aa	\$ 585,565
County Investment Pool - San Diego	33,170,225	Aa	33,170,225
Total	\$ 33,755,790		\$ 33,755,790

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2010, the bank balance totaled \$1,499,038 of which \$1,016,409 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District. The balance of \$1,499,038 consisted of \$1,107,113 in District funds and \$391,925 in fiduciary funds.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

	Primary Government	Fiduciary Funds
Federal Government		
Categorical aid	\$ 504,023	\$ -
State Government		
Categorical aid	110,720	-
Lottery	589,581	-
Other State sources	247,945	-
Local Sources		
Interest	76,734	2,112
Other local sources	735,117	102
Total	<u>\$ 2,264,120</u>	<u>\$ 2,214</u>
Student receivables	<u>\$ 197,789</u>	<u>\$ -</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Intefund activity within the governmental funds and fiduciary funds has been eliminated respectively in the basic financial statements. Balances owing between the governmental funds and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2010, the amount owed to the governmental funds and the fiduciary funds were \$915 and \$21,673, respectively.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

Primary Government

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	\$ 5,366,281	\$ -	\$ -	\$ 5,366,281
Construction in progress	10,555,086	5,583,003	15,559,999	578,090
Total Capital Assets Not Being Depreciated	<u>15,921,367</u>	<u>5,583,003</u>	<u>15,559,999</u>	<u>5,944,371</u>
Capital Assets Being Depreciated				
Infrastructure	4,458,948	-	-	4,458,948
Buildings and improvements	118,002,201	15,574,798	-	133,576,999
Furniture and equipment	13,118,177	1,327,049	321,939	14,123,287
Total Capital Assets Being Depreciated	<u>135,579,326</u>	<u>16,901,847</u>	<u>321,939</u>	<u>152,159,234</u>
Total Capital Assets	<u>151,500,693</u>	<u>22,484,850</u>	<u>15,881,938</u>	<u>158,103,605</u>
Less Accumulated Depreciation				
Infrastructure	4,092,951	38,491	-	4,131,442
Buildings and improvements	47,529,143	1,954,740	-	49,483,883
Furniture and equipment	9,407,740	1,219,137	306,975	10,319,902
Total Accumulated Depreciation	<u>61,029,834</u>	<u>3,212,368</u>	<u>306,975</u>	<u>63,935,227</u>
Net Capital Assets	<u>\$ 90,470,859</u>	<u>\$ 19,272,482</u>	<u>\$ 15,574,963</u>	<u>\$ 94,168,378</u>

Depreciation expense for the year was \$3,212,368.

Assets consisting of the Theater Complex in the amount of \$17,237,748 have been pledged as collateral for notes payable described in Note 9.

Fiduciary Funds

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Being Depreciated				
Buildings and improvements	\$ 5,765,625	\$ -	\$ -	\$ 5,765,625
Furniture and equipment	68,661	10,498	-	79,159
Total Capital Assets Being Depreciated	<u>5,834,286</u>	<u>10,498</u>	<u>-</u>	<u>5,844,784</u>
Less Accumulated Depreciation				
Buildings and improvements	163,360	115,312	-	278,672
Furniture and equipment	53,085	3,664	-	56,749
Total Accumulated Depreciation	<u>216,445</u>	<u>118,976</u>	<u>-</u>	<u>335,421</u>
Net Capital Assets	<u>\$ 5,617,841</u>	<u>\$ (108,478)</u>	<u>\$ -</u>	<u>\$ 5,509,363</u>

Depreciation expense in the fiduciary funds for the year was \$118,976.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable consisted of the following:

	Primary Government	Fiduciary Funds
Accrued payroll and benefits	\$ 1,585,768	\$ -
Construction	970,772	-
MiraCosta College Foundation	114,371	1,877
Student refunds	205,229	-
Vendor payables	965,470	30,638
Total	<u>\$ 3,841,610</u>	<u>\$ 32,515</u>

NOTE 8 - DEFERRED REVENUE

Deferred revenue consisted of the following:

	Primary Government	Fiduciary Funds
State categorical aid	\$ 954,790	\$ -
Schedule maintenance	118,763	-
Enrollment fees	950,399	20,771
Other local	131,791	-
Total	<u>\$ 2,155,743</u>	<u>\$ 20,771</u>

MIRACOSTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2010 fiscal year consisted of the following:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year	Due in One Year
Bonds and Notes Payable					
Lease revenue bonds	\$ 3,965,000	\$ -	\$ 290,000	\$ 3,675,000	\$ 300,000
Other Liabilities					
Compensated absences	1,644,753	135,290	-	1,780,043	356,009
Load banking	506,754	-	29,772	476,982	95,396
Capital leases	1,637,705	-	189,148	1,448,557	197,437
Net OPEB obligation	68,318	3,753,787	3,822,105	-	-
PARS Supplementary Retirement Plan (SRP)	-	1,293,390	258,678	1,034,712	-
Total Other Liabilities	<u>3,857,530</u>	<u>5,182,467</u>	<u>4,299,703</u>	<u>4,740,294</u>	<u>648,842</u>
Total Long-Term Obligations	<u>\$ 7,822,530</u>	<u>\$ 5,182,467</u>	<u>\$ 4,589,703</u>	<u>\$ 8,415,294</u>	<u>\$ 948,842</u>

Description of Debt

Payments on the lease revenue bond are paid by the debt service fund. The compensated absences will be paid by the fund for which the employee worked. Payments for the OPEB obligation will be made by the irrevocable trust. Capital lease payments are also made out of the debt service fund. The Supplementary Retirement Plan (SRP) will be paid from the unrestricted General Fund.

On July 1, 1999, the District issued lease revenue bonds in the amount of \$7,285,000 to be used to refund the 1998 issue of certificates of participation and to fund the construction of the Community Learning Center. During the term of this lease, the California Community College Financing Authority holds a leasehold interest in the Theater Complex on the MiraCosta College campus as noted in the lease agreement. Interest rates on the bonds range from 4.92 percent to 4.97 percent for the length of the issuance. The bonds will mature on October 1, 2019. At June 30, 2010, the principal balance outstanding was \$3,675,000.

On December 21, 2006, the District entered into a debt financing agreement with SunTrust Corporation for the construction of six energy efficiency projects valued at approximately \$2,234,983. The District is obligated to make payments through 2017 at an annual interest rate of 4.30 percent. At June 30, 2010, the principal balance outstanding was \$1,488,557.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Debt Maturity

Lease Revenue Bonds

<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Bonds Outstanding July 1, 2009</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Bonds Outstanding June 30, 2010</u>
1999	2019	4.92% - 4.97%	\$7,285,000	\$ 3,965,000	\$ -	\$ 290,000	\$ 3,675,000

The bonds mature through 2020 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2011	\$ 300,000	\$ 161,930	\$ 461,930
2012	310,000	148,965	458,965
2013	325,000	135,150	460,150
2014	340,000	119,500	459,500
2015	355,000	102,791	457,791
2016-2020	2,045,000	244,547	2,289,547
Total	\$ 3,675,000	\$ 912,883	\$ 4,587,883

Capital Leases

The District's liability on lease agreements with option to purchase is summarized below:

Balance, July 1, 2009	\$ 1,925,499
Payments	256,733
Balance, June 30, 2010	\$ 1,668,766

The capital lease has minimum lease payments as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2011	\$ 256,733
2012	256,733
2013	256,733
2014	256,734
2015	256,732
2016-2017	385,101
Total	1,668,766
Less: Amount Representing Interest	220,209
Present Value of Minimum Lease Payments	\$ 1,448,557

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

The District has entered into a capital lease agreement for the energy efficient project.

Building improvements (energy efficient project)	\$ 2,234,383
Less: Accumulated Depreciation	<u>(126,615)</u>
Total	<u><u>\$ 2,107,768</u></u>

Amortization of the energy efficient project under capital leases is included with depreciation expense.

Compensated Absences and Load Banking

The long-term obligation of the compensated absences and load banking for the District at June 30, 2010, amounted to \$2,257,025.

Other Postemployment Benefits Obligation

The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, during the year ended June 30, 2009. The District's annual required contribution for the year ended June 30, 2010, was \$3,753,787, and contributions made by the District during the year were \$4,766,884, which resulted in a change to the net OPEB obligation (asset) of \$1,013,097. As of June 30, 2010, the net OPEB asset was \$944,779. See Note 10 for additional information regarding the OPEB obligation (asset) and the postemployment benefits plan.

Supplementary Retirement Plan (SRP)

During March 2010, the District adopted the Public Agency Retirement System (PARS) 403(b) SRP, a retirement incentive program. This SRP is designed to meet the requirements of Section 403(b) of the Internal Revenue Code of 1986, as amended, and, to the extent applicable, the Employee Retirement Income Security Act of 1974, as amended. Employees eligible to receive retirement benefits under the SRP must be a Faculty, Academic, Classified Management, Classified Non-Management, or Confidential Employee and at least age fifty-five (55) with ten (10) or more years of full-time equivalent District service from the date of the formal action taken by the District (retire during the window period in the formal action taken by the District's Governing Board of Trustees). In order for the District to reach fiscal goals, a minimum number of participants were required to enroll in the SRP during the fiscal year June 30, 2010, which amounted to 15. The benefits provided under the SRP are funded in five (5) annual contributions. As of June 30, 2010, the outstanding balance was \$1,034,712.

Year Ending June 30,	SRP Payment
2011	\$ -
2012	258,678
2013	258,678
2014	258,678
2015	258,678
Total	<u><u>\$ 1,034,712</u></u>

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 10 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS OBLIGATION

The District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District. The District has entered into the Retiree Health Benefit Program, a joint powers agreement. This agreement is entered into among those community college districts as defined in the agreement and the Community College League of California, a nonprofit public benefit corporation, for the purpose of management, operation, and maintenance of the retiree program.

Plan Description

The MiraCosta Community College District Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 58 retirees and beneficiaries currently receiving benefits and 436 active Plan members.

Funding Policy

The contribution requirements of Plan members and the District 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 through agreements between the District and the bargaining units. For fiscal year 2009-2010, the District contributed \$4,766,884 to the Plan of which \$3,886,195 was contributed to an irrevocable trust and \$880,689 was used for current premiums.

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 the payments of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 3,753,787
Contributions made	(4,766,884)
Change in net OPEB obligation (asset)	(1,013,097)
Net OPEB obligation (asset), beginning of year	68,318
Net OPEB obligation (asset), end of year	<u>\$ (944,779)</u>

MIRACOSTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Trend Information

Trend information for the annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for the past two years is as follows:

Year Ended June 30,	Annual Required Contribution	Actual Contribution	Percent Contributed	Net OPEB Obligation (Asset)
2009	\$ 3,270,378	\$ 3,202,060	98%	\$ 68,318
2010	\$ 3,753,787	\$ 4,766,884	127%	\$ (944,779)

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2009	\$ 6,556,264	\$ 26,105,049	\$19,548,785	25.1%	\$52,580,000	37.2%

Funding Status and Funding Progress

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence 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 contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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 of benefit costs between the employer and the 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 values of assets, consistent with the long-term perspective of the calculations.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

In the July 1, 2009, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on the Plan being funded in an irrevocable employee benefit trust fund invested in a long-term fixed income portfolio. Healthcare cost trend rates ranged from an initial nine percent to an ultimate rate of five percent. The cost trend rate used for the Dental and Vision Programs was five percent. The unfunded actuarial accrued liability is being amortized over an initial 30 years using the level-dollar method on a closed-basis. The remaining amortization period at July 1, 2010, is 28 years. The actuarial value of assets was not determined in this actuarial valuation. At June 30, 2010, the irrevocable trust held net assets in the amount of \$6,556,264 in Union Bank, the established bank account for the Retiree Health Benefit Program.

NOTE 11 - LEASE REVENUES

Lease agreements have been entered into with various lessees for terms that exceed one year. None of the agreements contain purchase options. All of the agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessees, but is unlikely that the District will cancel any of the agreements prior to their expiration date. The future minimum lease payments expected to be received under these agreements are as follows:

Year Ending June 30,	Lease Revenue
2011	\$ 75,000
2012	75,000
2013	75,000
2014	75,000
2015	75,000
2016-2019	262,500
Total	<u>\$ 637,500</u>

NOTE 12 - RISK MANAGEMENT

Insurance Coverages

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 purchases commercial insurance for property and liability with coverages of \$250 million, subject to various policy limits and deductibles ranging from \$500 to \$10,000 per occurrence. The District also purchases commercial insurance for general liability claims with coverage up to \$4.5 million per occurrence and \$8 million aggregate, all subject to various deductibles. Employee health coverage benefits are covered by a commercial insurance policy purchased by the District. The District provides health insurance benefits to District employees, their families, and retired employees of the District.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Joint Powers Authority Risk Pools

During fiscal year ending June 30, 2010, the District contracted with the San Diego County Schools Risk Management Joint Powers Authority for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2009-2010, the District participated in the San Diego County Schools Risk Management Joint Powers Authority (JPA), an insurance purchasing pool. The District is self insured for the first \$100,000 of each workers' compensation claim. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience, and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall saving. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the JPA. Participation in the JPA is limited to K-12 and community college districts that can meet the JPA's selection criteria.

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
San Diego County Schools Risk Management	Workers' Compensation	\$ 900,000
San Diego County Schools Risk Management	Excess Workers' Compensation	\$ 150,000,000
San Diego County Schools Risk Management	Property and Liability	\$ 250,000,000

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Funding Policy

Active members are required to contribute 8.0 percent of their salary while 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 Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-2010 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's total contributions to CalSTRS for the fiscal years ended June 30, 2010, 2009, and 2008, were \$2,612,162, \$2,463,361, and \$2,281,860, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary (7.0 percent of monthly salary over \$133.33 if the member participates in Social Security), 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 District's contribution rate to CalPERS for fiscal year 2009-2010 was 9.709 percent of covered payroll. The District's contributions to CalPERS for fiscal years ending June 30, 2010, 2009, and 2008, were \$2,031,187, \$1,849,972, and \$1,720,196, respectively, and equaled 100 percent of the required contributions for each year.

Public Agency Retirement System Alternate Retirement System (PARS-ARS)

The Omnibus Budget Reconciliation Act of 1990 [Internal Revenue Code Section 3121 (b) (7) (F)] requires State and local public agencies to provide a retirement plan for all employees not covered under existing employer pension plans and/or Social Security.

The District is a member of the Public Agency Retirement System Alternate Retirement System (PARS-ARS). The plan covers the District's part-time, seasonal, temporary, and other classified employees not covered under CalPERS or CalSTRS, but whose salaries would otherwise be subject to Social Security tax. Benefit provisions and other requirements are established by District management based on agreements with various bargaining units. PARS-ARS is a defined contribution qualified retirement plan under Section 401 (a) of the Internal Revenue Code. The plan also shall remain a governmental plan under Section 3 (32) of the Employee Retirement Income Security Act of 1974.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

The minimum total contribution is 7.5 percent of employees' salaries, of which the employee contributes 3.75 percent and the District contributes the remaining 3.75 percent. District employees are covered under PARS-ARS as of June 30, 2010. Total contributions to the plan amounted to \$141,747.

On-Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS which amounted to \$1,351,291, \$1,343,247, and \$1,249,352 (4.267 percent) of salaries subject to CalSTRS for the years ended June 30, 2010, 2009, and 2008, respectively. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

Deferred Compensation

The District offers its employees a CalPERS administered 457 Deferred Compensation Program (the Program). The Program, available to all permanent employees, permits them to defer a portion of pre-tax salary into investment of an individual's own choosing until future years. The deferred compensation is not available to the employees or their beneficiaries until termination, retirement, death, or an unforeseeable emergency. The CalPERS Board controls the investment and administrative functions of the CalPERS 457 Deferred Compensation Program. The Board for the exclusive benefit of participating employees, which adds security, holds the assets in trust.

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the San Diego School Risk Management and Retiree Health Benefit Program Joint Power Authority (JPAs). The District pays annual premiums for its property liability, health, and workers' compensation coverage. The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes.

The JPAs have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, transactions between the JPAs and the District are included in these statements. Audited financial statements are available from the respective entities.

The District's share of year-end assets, liabilities, or fund equity has not been calculated.

During the year ended June 30, 2010, the District made payments of \$980,031 and \$3,886,195 to San Diego School Risk Management and Retiree Health Benefit Program, respectively.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2010.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2010.

Construction Commitments

As of June 30, 2010, the District had the following commitments with respect to the unfinished capital projects:

<u>CAPITAL PROJECT</u>	<u>Original PO Amount</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Fireline Replacement	\$ 1,748,103	\$ 1,704,145	November 2010

The projects are funded through capital project apportionments from the California State Chancellor's Office.

NOTE 16 - SUBSEQUENT EVENTS

Tax and Revenue Anticipation Note (TRAN)

The District issued \$7,000,000 of tax and revenue anticipation notes dated July 30, 2010. The notes mature on June 30, 2011, with an interest rate of 2.0 percent, and yield of 0.85 percent interest. The notes were sold to supplement cash flow.

Repayment requirements are that a percentage of principal and interest be deposited with the fiscal agent in January 2011 and April 2011 until 100 percent of principal and interest due is on account in June 2011.

Lease Revenue Refunding Bonds, Series 2010B

On September 16, 2010, the District issued lease revenue refunding bonds in the amount of \$3,065,000 to be used to refinance the acquisition and construction of capital improvement, fund debt service reserve accounts, and pay the cost of issuing the bonds. Interest rates on the bonds range from 3.00 percent to 3.75 percent for the length of the issuance. The bonds will mature on October 1, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

MIRACOSTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2010**

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2007	\$ 2,329,815	\$ 26,074,844	\$ 23,745,029	8.9%	\$ 49,400,000	48.1%
July 1, 2009	\$ 6,556,264	\$ 26,105,049	\$ 19,548,785	25.1%	\$ 52,580,000	37.2%

SUPPLEMENTARY INFORMATION

MIRACOSTA COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION JUNE 30, 2010

The MiraCosta Community College District was established in 1934 and is comprised of an area of approximately 15 square miles located in North San Diego County. There were no changes in the boundaries of the District during the current year. The District is comprised of one college in Oceanside and two centers, the San Elijo Center and the Community Learning Center. The District's college is accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, which is one of six regional associations that accredit public and private schools, colleges, and universities in the United States.

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mr. Gregory M. Post, Esq.	President	2010
Mr. Charles Adams	Vice President	2010
Ms. Gloria Carranza	Member	2012
Mr. Rodolfo Fernandez	Member	2010
Dr. William C. Fischer	Member	2010
Mr. George McNeil	Member	2012
Ms. Jacqueline Simon	Member	2012

ADMINISTRATION

Dr. Francisco C. Rodriguez	Superintendent/President
Mr. James E. Austin	Vice President, Business and Administrative Services
Ms. Pam Deegan	Vice President, Instructional Services
Dr. Richard Robertson	Vice President, Student Services

See accompanying note to supplementary information.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF LABOR			
WORKFORCE INVESTMENT ACT			
Pass through from San Diego Workforce Partnership ARRA - Hybrid Tech Program	17.258	235-11	\$ 141,067
Pass through from the University of Missouri Establishment of National Nuclear Energy Technology Workforce Center	17.261	C00007054-5	<u>32,297</u>
Total U.S. Department of Labor			<u>173,364</u>
SMALL BUSINESS ADMINISTRATION			
Pass through from Southwestern Community College District Small Business Development Center Program	59.037	NC200902 / NC201002	354,340
U.S. DEPARTMENT OF VETERAN AFFAIRS			
Veterans Reporting Fee	64.000		4,603
U.S. DEPARTMENT OF EDUCATION			
HIGHER EDUCATION ACT			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		94,362
Federal Family Education Loans (FFEL)	84.032		614,459
Federal Work Study (FWS)	84.033		122,337
Federal Pell Grant (PELL)	84.063		3,949,702
Federal Pell Grant Administration	84.063		6,685
Federal Direct Student Loans	84.268		249
Academic Competitiveness Grant (ACG)	84.375		<u>83,732</u>
Subtotal Student Financial Assistance Cluster			<u>4,871,526</u>
Fund for Improvement of Postsecondary Education - Nursing Program	84.116Z		318,593
ADULT EDUCATION AND FAMILY LITERACY ACT			
Pass through from California Department of Education (CDE) WIA Title II: Adult Education and Family Literacy	84.002A	68247	291,727
PERKINS CAREER AND TECHNICAL EDUCATION ACT			
Pass through from California Community College Chancellor's Office			
Career and Technical Education, Title IC	84.048	09-C01-032	168,428
Tech Prep Program, Title II, Perkins Funding	84.243	10-139-050	67,750
Pass through from Grossmont-Cuyamaca Community College District Auxiliary Organization			
Career and Technical Education, Title IB	84.048	[1]	3,000
Tech Prep Coordination Grant	84.243	X001004	39,215

[1] Pass-through entity identifying number is unavailable.
See accompanying note to supplementary information.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
AMERICAN RECOVERY AND REINVESTMENT ACT			
Pass through from California Community College Chancellor's Office			
ARRA State Fiscal Stabilization Funds	84.394	[1]	\$ 205,930
Total U.S. Department of Education			<u>5,966,169</u>
U.S. DEPARTMENT OF ENERGY			
Pass through from San Diego Workforce Partnership			
ARRA California Clean Energy Workforce Training Program	81.041	235-12	894
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass through from California Community College Chancellor's Office			
TANF Cluster			
Temporary Assistance for Needy Families (TANF)	93.558	[1]	85,344
ARRA Emergency Contingency Funds for TANF	93.714	[1]	81,841
Subtotal TANF Cluster			<u>167,185</u>
Pass through from the Foundation for California Community Colleges			
Child Development Careers (TANF-CDC) Program	93.575	0810-25	40,585
Total U.S. Department of Health and Human Services			<u>207,770</u>
Total Expenditures of Federal Awards			<u>\$ 6,707,140</u>

[1] Pass-through entity identifying number is unavailable.

See accompanying note to supplementary information.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

Program	Program Revenues				Total Program Expenditures
	Cash Received	Accounts Receivable/ (Payable)	Deferred Revenue	Total Revenue	
GENERAL FUND					
Basic Skills	\$ 543,298	\$ -	\$ 220,309	\$ 322,989	\$ 322,989
Board Financial Assistance Program	252,890	-	2,024	250,866	250,866
Cal Grant	215,647	(13,204)	-	202,443	202,443
CalWORKs	201,386	-	-	201,386	201,386
CARE	67,326	-	-	67,326	67,326
Career Technical Education - Equipment	22,307	-	-	22,307	22,307
Career Technical Education - Small Business Development Center Entrepreneurship	35,000	22,763	5,719	52,044	52,044
Career Technical Education - Collaborative	218,839	-	-	218,839	218,839
Career Technical Education - Pathways Collaborative	705,519	-	382,953	322,566	322,566
Disabled Students Program and Services (DSPS)	556,891	-	-	556,891	556,891
Extended Opportunity Program and Services (EOPS)	533,576	-	-	533,576	533,576
Faculty Staff Development	23,238	-	23,238	-	-
Instructional Equipment	37,027	-	28,183	8,844	8,844
Licensed Vocational Nurse to Registered Nurse Grant	202,508	-	104,009	98,499	98,499
Lottery	25,541	155,853	-	181,394	181,394
Matriculation - Credit	362,588	-	-	362,588	362,588
Matriculation - Noncredit	91,832	-	-	91,832	91,832
Part-Time Faculty Reimbursement	179,786	-	-	179,786	136,000
Professional Development Academy	5,203	-	-	5,203	5,203
Small Business Development Center	20,830	3,968	-	24,798	24,798
Workforce Development	4,582	-	-	4,582	4,582
Staff Diversity	5,687	-	-	5,687	6,646
State Advisory Committee - Career Development	8,503	28,789	-	37,292	37,292
Telecom Technology Infrastructure Program	-	-	-	-	9,245
Transfer and Articulation	1,746	-	-	1,746	1,746
WIA Corpsmen to RN	-	55,200	-	55,200	55,200
Workforce Development - RN Grant	300,000	-	188,355	111,645	111,645
Total State Categorical Programs	<u>\$4,621,750</u>	<u>\$ 253,369</u>	<u>\$954,790</u>	<u>\$3,920,329</u>	<u>\$3,886,747</u>

See accompanying note to supplementary information.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE
GENERAL APPORTIONMENT - ANNUAL (ACTUAL) ATTENDANCE
AS OF JUNE 30, 2010**

CATEGORIES	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Audited Data</u>
A. Summer Intersession (Summer 2009 only)			
1. Noncredit	114	-	114
2. Credit	619	-	619
B. Summer Intersession (Summer 2010 - Prior to July 1, 2009)			
1. Noncredit	1	-	1
2. Credit	356	-	356
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	6,379	-	6,379
(b) Daily Census Contact Hours	562	-	562
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	1,010	-	1,010
(b) Credit	551	-	551
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	875	-	875
(b) Daily Census Contact Hours	331	-	331
(c) Noncredit Independent Study/Distance Education Courses	5	-	5
D. Total FTES	<u>10,803</u>	<u>-</u>	<u>10,803</u>
E. Supplemental Information			
In-Service Training Courses (FTES)	<u>7</u>	<u>-</u>	<u>7</u>
F. Basic Skills courses and Immigrant Education (FTES)			
1. Noncredit	710	-	710
2. Credit	467	-	467
	<u>1,177</u>	<u>-</u>	<u>1,177</u>

See accompanying note to supplementary information.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)
WITH FUND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

Summarized below are the fund balance reconciliations between the Annual Financial and Budget Report (CCFS-311) and the fund financial statements.

	Student Body Center Fee Trust
June 30, 2010, Annual Financial and Budget Report (CCFS-311) Reported Fund Balance	\$ 1,140,337
Adjustments to Increase	
Capital Assets	<u>5,509,363</u>
June 30, 2010, Audited Financial Statement Fund Balance	<u><u>\$ 6,649,700</u></u>

See accompanying note to supplementary information.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEETS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2010**

**Amounts Reported for Governmental Activities in the Statement
of Net Assets are Different Because:**

Total Fund Balances:

General Fund	\$ 19,932,537	
Capital Outlay Projects	8,049,882	
Debt Service Funds	722,596	
Enterprise Funds	944,896	
Internal Service Funds	164,851	
Student Financial Aid Fund	28	
	<u> </u>	
Total Fund Balances - All District Funds		\$ 29,814,790

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	158,103,605	
Accumulated depreciation is	(63,935,227)	
Less fixed assets already recorded in enterprise funds	<u>(149,681)</u>	94,018,697

Recognize the OPEB asset resulting from the difference between annual OPEB cost on the accrual basis and OPEB contributions in the governmental funds.

944,779

Long-term obligations at year end consist of:

Bonds payable	3,675,000	
Capital leases payable	1,448,557	
Compensated absences	1,780,043	
Load banking	476,982	
PARS Supplementary Retirement Plan (SRP)	1,034,712	
Less compensated absences and load banking already recorded in funds	<u>(451,405)</u>	<u>(7,963,889)</u>
Total Net Assets		<u><u>\$ 116,814,377</u></u>

See accompanying note to supplementary information.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

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

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the statement of revenues, expenses, and changes in net assets and the related expenditures reported on the schedule of expenditures of Federal awards. The reconciling amounts represent Federal Family Education Loans and other differences related to revenue recognition principles.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenses, and Changes in Net Assets:		\$ 6,093,107
Federal Family Education Loans (FFEL)	84.032	614,459
Fund for the Improvement of Postsecondary Education	84.116Z	(624)
ARRA Hybrid Tech Program	17.258	198
Total Expenditures of Federal Awards		<u>\$ 6,707,140</u>

Schedule of Expenditures of State Awards

The accompanying schedule of expenditures of State awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The information in this schedule is presented to comply with reporting requirements of the California State Chancellor's Office.

Schedule of Workload Measures for State General Apportionment - Annual (Actual) Attendance

Full-Time Equivalent Students (FTES) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds, including restricted categorical funding, are made to community college districts. This schedule provides information regarding the annual attendance measurements of students throughout the District.

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

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Form CCFS-311 to the District's internal fund financial statements.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

Reconciliation of the Governmental Fund Balance Sheets to the Statement of Net Assets

This schedule provides a reconciliation of the adjustments necessary to bring the District's internal fund financial statements, prepared on a modified accrual basis, to the entity-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

INDEPENDENT AUDITORS' REPORTS



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

Board of Trustees
MiraCosta Community College District
Oceanside, California

We have audited the basic financial statements of MiraCosta Community College District (the District) for the year ended June 30, 2010, and have issued our report thereon dated December 17, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MiraCosta Community College District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MiraCosta Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MiraCosta Community College District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies in internal control over financial reporting as item 2010-1. *A significant deficiency* is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MiraCosta Community College District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2010-1.

MiraCosta Community College District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit MiraCosta Community College District's response and, accordingly, express no opinion.

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

Vannest, Tine, Day & Co., LLP.

Rancho Cucamonga, California
December 17, 2010



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

Board of Trustees
MiraCosta Community College District
Oceanside, California

Compliance

We have audited the compliance of MiraCosta Community College District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010. MiraCosta Community College District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of MiraCosta Community College District's management. Our responsibility is to express an opinion on MiraCosta Community College District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about MiraCosta Community College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of MiraCosta Community College District's compliance with those requirements.

In our opinion, MiraCosta Community College District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of MiraCosta Community College District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered MiraCosta Community College District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MiraCosta Community College District's internal control over compliance.

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

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

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

Vauirek, Time, Day & Co., LLP.

Rancho Cucamonga, California
December 17, 2010



REPORT ON STATE COMPLIANCE

Board of Trustees
MiraCosta Community College District
Oceanside, California

We have audited the compliance of MiraCosta Community College District (the District) with the types of compliance requirements described in Section 400 of the California State Chancellor's Office's *California Community College District Audit Manual (CDAM)* that are applicable to community colleges in the State of California. The specific requirements are described below.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements with State laws and regulations have occurred. An audit includes examining, on a test basis, evidence about MiraCosta Community College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of MiraCosta Community College District's compliance with those requirements.

General Directive

Section 424: MIS Implementation - State General Apportionment Funding System

Administration

Section 435: Open Enrollment

Section 437: Student Fees - Instructional Materials and Health Fees

Apportionments

Section 423: Apportionment of Instructional Service Agreements/Contracts

Section 425: Residency Determination for Credit Courses

Section 427: Concurrent Enrollment of K-12 Students in Community College Credit Courses

Section 432: Enrollment Fee

Section 426: Students Actively Enrolled

Fiscal Operations

Section 421: Salaries of Classroom Instructors (50% Law)

Section 431: Gann Limit Calculation

Student Services

Section 428: Use of Matriculation Funds

Section 433: CalWORKs - Use of State and Federal TANF Funding

Facilities

Section 434: Scheduled Maintenance Program

In our opinion, MiraCosta Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2010.

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

Vauiney, Time, Day & Co., LLP.

Rancho Cucamonga, California

December 17, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MIRACOSTA COMMUNITY COLLEGE DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2010**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.032, 84.033, 84.063, 84.268, and 84.375	Student Financial Assistance Cluster
84.116Z	Fund for Improvement of Postsecondary Education - Nursing Program
59.037	Small Business Development Center Program

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

MIRACOSTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2010

The following finding represents significant deficiencies and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

LOAD BANKING

2010-1 Finding

Criteria or Specific Requirement

Internal Revenue Regulation 1.451-2(a) Constructive receipt of income

Section 1.451-2(a), Constructive receipt of income states that "although not actually reduced to a taxpayer's possession is constructively received by him in the taxable year during which it is credited to this account, set apart for him, or otherwise made available so the he may draw upon it at any time, or so that he could have drawn upon it during the taxable year if notice of intention to withdraw had been given."

Chapter 5, Budget and Accounts Manual (BAM)

To avoid reporting the current salary "banked" by all employees participating in a Workload Balancing Program as taxable income in the period in which it is earned, the District should adopt strict guidelines related to employees' access to amounts credited to their accounts.

Condition

Under the District's current practice, employees participating in the Load Banking Program have the ability to "cash in" any portion of their load banked hours at any time. This meets Internal Revenue Regulation 1.451-2 constructive receipt of income that requires load bank hours to be taxable in the year the hours are credited to the employee's account. However, it was noted that the District taxes employees participating in the Load Banking Program in the calendar year which load bank hours are "cashed in". This practice is not in compliance with Internal Revenue Regulation 1.451-2(a) constructive receipt of income which would require the District to ensure all employees participating in the program are taxed in the year the hours are credited to the employee's account. The District would also be required to pay taxes on social security in the year the hours are credited to the employee's account.

Isolated Instance or Systemic

Systemic - Faculty employees participating in the Load Banking Program are taxed in the calendar year which the load banked hours are cashed in and have the ability to cumulate banked hours not to exceed five years. The District's current policy and practice meets constructive receipt of income and faculty employees should be taxed in the calendar year the banked hours are credited to their accounts.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2010

Effect

The District and employees could be subject to potential tax penalties if the District's current practice is not changed. The current cash out policy requires employees to report income in the taxable year of constructive receipt of income, which would be in the calendar year which the bank hours are credited to one's account. If the employee does not have the ability to access the balance, or cash out, then the balance must be reported as taxable income in the year cash is received, not the year load was banked. The District also is required to pay taxes on social security in the year the hours are credited to the employee's account.

Recommendation

The District should update its current practice in order to comply with Internal Revenue Regulation 1.451-2(a) constructive receipt of income and the Budget and Accounts Manual (BAM).

District Response and Planned Corrective Actions

The District agrees with the finding and the appropriate District procedure was formally modified on December 3, 2010, to be compliant with IRS regulations.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

None reported.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

None reported.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of audit findings and questioned costs.

STATE AWARD FINDINGS

2009-1 Finding

Ineligible CalWORKs recipients were provided services.

Program

CalWORKs - Use of State and Federal TANF Funding

Award Year

2008-2009

Criteria

- *Education Code* Sections 79200-79203 and 84759
- 2008-09 *Final Budget Summary*, Page 630, Item 6870-101-0001, Provision 15; and Page 646, Item 6870-111-0001, Provision 2.
Chancellor's Office CalWORKs Program Handbook Guidelines_2007-08
- *Clarification on CalWORKs Supplantation Prohibition*, Chancellor's Office Letter, March 13, 2006 (See Appendix M)
OMB A-133 Compliance Supplement

Condition

In our sample of 28 CalWORKs recipients, we noted four (4) CalWORKs recipients who did not have the proper eligibility documented through the County Welfare Department for each academic term the recipient was served.

Questioned Costs

None noted.

Isolated Instance or Systemic

Systemic - Once the initial eligibility determination is made by the County Welfare Department, ongoing communication with the County is essential to ensure that a student remains in good standing. Eligibility determinations must be conducted at the beginning of each term to ensure students are eligible for services prior to receiving them.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

Effect

Without the proper controls in place, unauthorized program costs and services provided to ineligible recipients could be reimbursed by the State program.

Recommendation

We recommend that the District develop an independent internal tracking for student eligibility. Services provided through other college departments, like the Child Care Center, must be coordinated with the CalWORKs program office to also verify a student's ongoing eligibility for services and academic progress, and to monitor program expenses that are directly attributable to support for the identified CalWORKs eligible students.

Current Status

Implemented.