MiraCosta Community College District

Annual Financial Report

June 30, 2011

MIRACOSTA COMMUNITY COLLEGE DISTRICT

TABLE OF CONTENTS
JUNE 30, 2011

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis (Required Supplementary Information)	4
Basic Financial Statements - Primary Government	
Statement of Net Assets	17
Statement of Revenues, Expenses, and Changes in Net Assets	18
Statement of Cash Flows	19
Fiduciary Funds	
Statement of Net Assets	21
Statement of Changes in Net Assets	22
Notes to Financial Statements	23

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Other Postemployment Benefits (OPEB) Funding Progress	48

SUPPLEMENTARY INFORMATION

District Organization	50
Schedule of Expenditures of Federal Awards	51
Schedule of Expenditures of State Awards	53
Schedule of Workload Measures for State General Apportionment	54
Reconciliation of Annual Financial and Budget Report (CCFS-311) With Fund Financial Statements	55
Reconciliation of Governmental Funds to the Statement of Net Assets	56
Note to Supplementary Information	57

INDEPENDENT AUDITORS' REPORTS

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*	60
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	62
Report on State Compliance	64

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	67
Financial Statement Findings and Recommendations	68
Federal Awards Findings and Questioned Costs	69
State Awards Findings and Questioned Costs	70
Summary Schedule of Prior Audit Findings	71

FINANCIAL SECTION

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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, 2011, 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 District as of June 30, 2011, 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 19, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SACRAMENTO

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 48 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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 19, 2011

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, 2011. 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.

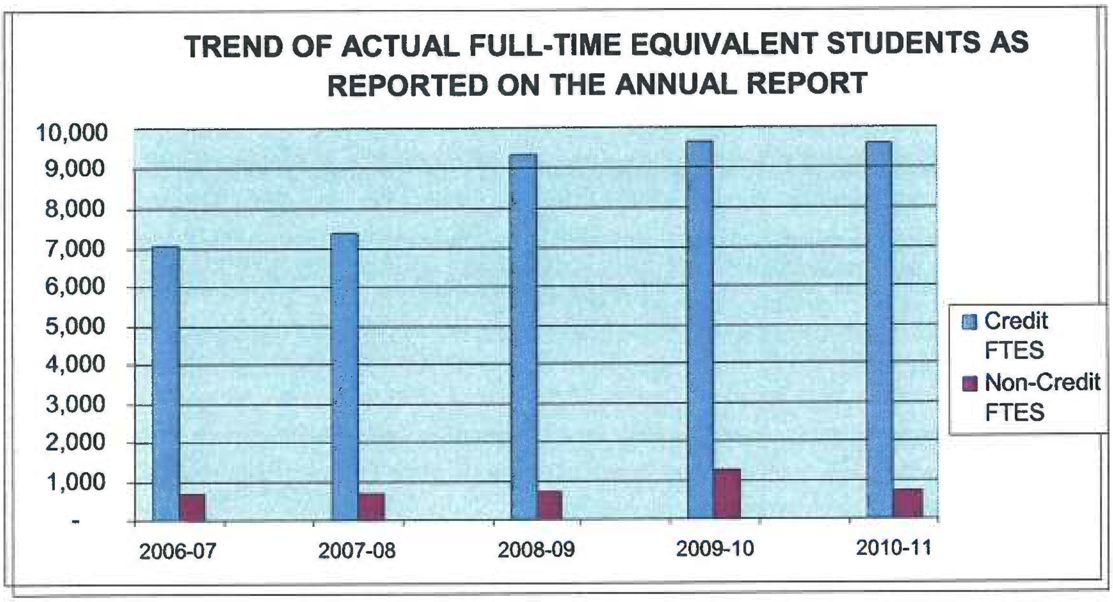
MiraCosta Community College District is a public two-year community college. The main MiraCosta campus is located in Oceanside, California. The College also operates a San Elijo campus located in Cardiff-by-the-Sea, California, as well as a Community Learning Center located in Oceanside, California. 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.

Full-Time Equivalent Student Growth

During 2010-2011, total full-time equivalent students (FTES) decreased from 10,803 to 10,494 for credit and non-credit courses. Credit FTES decreased by 1.3 percent while noncredit FTES decreased by 15.9 percent due to reduced class sections. Noncredit avocational class sections were reduced due to policy direction from the California Community Colleges Chancellor's Office.



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.

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, 2011 and 2010, is summarized below:

(Amounts in thousands)

	2011	2010
ASSETS		
Current Assets		
Cash and investments	$ 28,651	$ 33,614
Accounts receivable	2,719	2,462
Due from fiduciary funds	1	1
Prepaid expenses	52	59
Total Current Assets	31,423	36,136
Other noncurrent assets	140	945
Capital assets (net)	94,314	94,168
Total Assets	$ 125,877	$ 131,249
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 3,013	$ 3,842
Due to fiduciary funds	23	22
Deferred revenue	2,258	2,156
Current portion of long-term obligations	998	949
Total Current Liabilities	6,292	6,969
Long-Term Obligation	7,208	7,466
Total Liabilities	13,500	14,435
NET ASSETS		
Invested in capital assets	89,489	88,322
Restricted	9,549	10,712
Unrestricted	13,339	17,780
Total Net Assets	112,377	116,814
Total Liabilities and Net Assets	$ 125,877	$ 131,249

- Cash and investments decreased $5.0 million over 2010. 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 2010-2011 fiscal year is primarily due to a decrease in property tax revenue. Local property taxes are received through the County of San Diego Auditor and Controller's Office. As a result of delinquent tax refunds and prior year adjustments, the District experienced a significant decline in property tax revenue. An additional factor impacting cash and investments was the lowered interest rate the District received on pooled investments with the San Diego County Treasury.

- The accounts receivable balance includes receivables for categorical programs and/or grants, lottery proceeds, and 4th quarter interest. Accounts receivable increased $257 thousand from 2010 due to student receivables as well as increased activity within Community Services resulting in additional billing.

- Other noncurrent assets consist of Other Postemployment Benefits other than pensions (OPEB). A decrease of $805 thousand is due to the District's decision to underfund the annual required contribution determined by the actuarial study in accordance with GASB Statement No. 45.

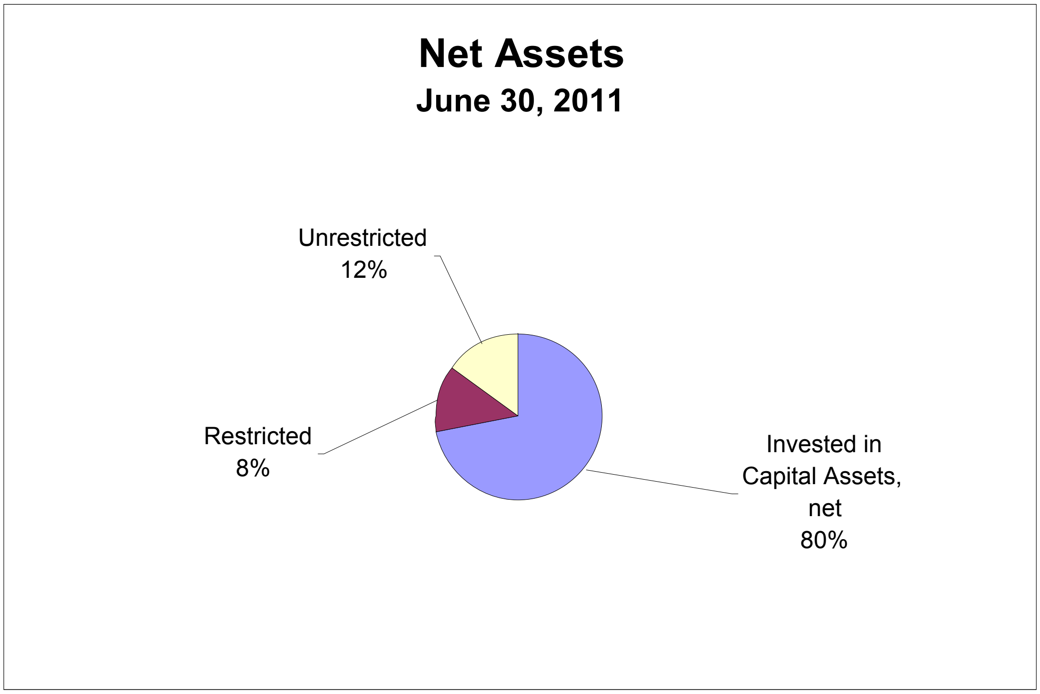
- Accounts payable and accrued liabilities include June payroll expenses, vendor payables including construction payments for goods and services received prior to June 30, but not paid until the following fiscal year. It reflects an $829 thousand decrease from the prior year due largely to reductions in construction payables, MiraCosta College Foundation payables, and student refunds.

- 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. Deferred revenue increased by $102 thousand due primarily to the State approved increase in tuition and fees which became effective with 2011 fall registration.

- The current portion of long-term obligations reflects the amounts due within one year on the payments for the lease revenue bonds, compensated absences, net debt premium, and capital lease payment.

- Long-term obligations decreased $258 thousand and reflect the debt for the lease revenue bonds, long-term compensated absences, and the capital lease agreement. The net decrease reflects the issuance of the lease revenue refunding bonds, which resulted in a reduction in principal.

- 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 $4.4 million from 2010 primarily from cash and cash equivalents and other noncurrent assets.



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.

The Statement of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2011 and 2010, is summarized below:

(Amounts in thousands)

	2011	2010
Operating Revenues		
Tuition and fees	$ 9,463	$ 8,856
Auxiliary sales and charges	322	380
Total Operating Revenues	9,785	9,236
Total Operating Expenses	105,783	105,879
Operating Loss	(95,998)	(96,643)
Nonoperating Revenues (Expenses)		
Grants and contracts	12,689	11,070
Local property taxes	72,502	74,256
State and other revenues	2,535	2,080
Investment income, net	41	142
Transfers from fiduciary funds, net	97	(5)
Other nonoperating revenues	1,878	1,998
Total Nonoperating Revenue (Expenses)	89,742	89,541
Other Revenues, Gains, and Losses		
State revenues, capital	1,826	1,629
Gain (Loss) on disposal of capital assets	(8)	9
	1,818	1,638
Net Change in Net Assets	$ (4,438)	$ (5,464)

- 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 State approved tuition fee increase from $26 to $36 per unit.

- Auxiliary sales and charges decreased $58 thousand due to declining sales in the bookstore.

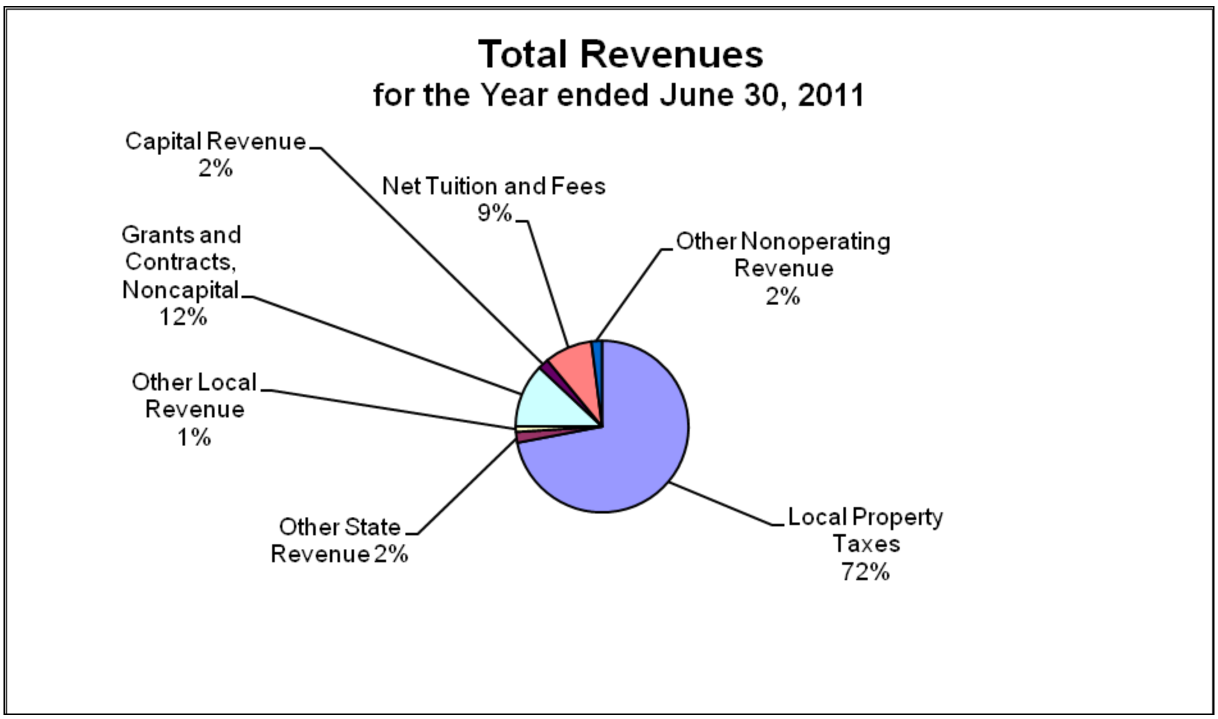
- Total operating expenses includes employee salaries and benefits, supplies, operating expenses, and student financial aid. Operating expenses decreased by $96 thousand.

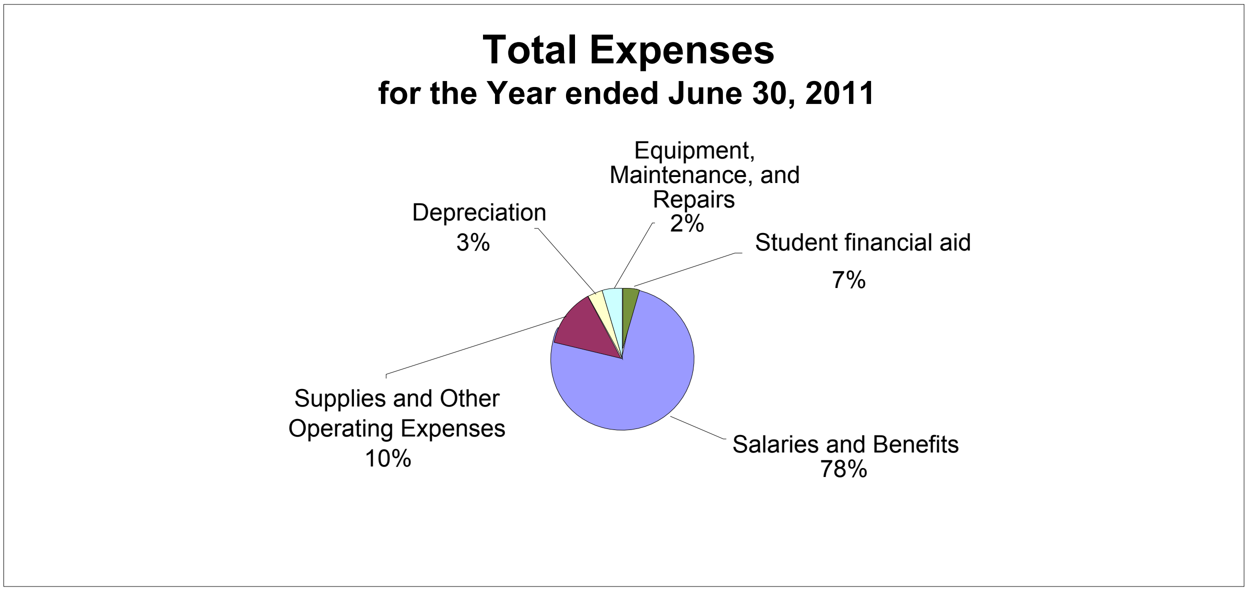
- The change in total non-operating revenues increased $201 thousand which was primarily due to the increase in grants and contracts and State revenues.

- State revenues (capital) reflect an increase of $197 thousand in fiscal year 2011. The change is due to the District's infrastructure project which included the replacement of a fireline running along the campus perimeter. This project was funded on an expense reimbursement basis by the California Community College Chancellor's Office from State general obligation bond proceeds.

- The change in Total Net Assets went from $5.5 million in fiscal year 2010 to $4.4 million in fiscal year 2011 due to net increase in operating revenues and decrease in expenses.

- 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.





Expenses are reported by their operating categories as follows:

(Amounts in thousands)

	2011	2010
Operating Expenses		
Salaries	$ 61,061	$ 61,872
Employee benefits	21,765	21,774
Supplies, materials, and other operating expenses and services	10,638	10,771
Student financial aid	7,090	4,622
Equipment, maintenance, and repairs	1,865	3,628
Depreciation	3,364	3,212
Total Operating Expenses	$ 105,783	$ 105,879

- Salaries decreased $811 thousand due to a restructure of instructional contracts and hourly assignments. In addition, the District's salaries decreased as a result of on-going savings realized from the early retirement incentive package that was offered in the prior fiscal year.

- Student financial aid increased $2.5 million due to the increased eligibility and enrollment of students receiving financial aid.

- Equipment, maintenance, and repairs decreased $1.8 million due to the temporary suspension of equipment replacement funds. Due to the decline in local in local property tax revenue to the District.

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	$ 39,931	$ 3,848	$ 1,711
Instructional Administration and Instructional Governance	(2)	4,216	243
Instructional Support Services	735	4,158	255
Admissions and Records	-	2,010	48
Student Counseling and Guidance	-	4,179	131
Other Student Services	-	5,671	583
Operation and Maintenance of Plant	-	3,627	2,240
Planning, Policymaking, and Coordination	-	1,191	327
General Institutional Support Services	-	7,460	2,533
Community Services and Economic Development	3	1,633	822
Ancillary Services	-	1,825	846
Auxiliary Operations	35	535	782
Physical Property and Related Acquisitions	-	1,771	117
Student Aid	-	-	-
Depreciation Expense	-	-	-
Total	$ 40,702	$ 42,124	$ 10,638

(Amounts in thousands)	Equipment, Maintenance, and Repairs	Student Financial Aid	Depreciation	Total
Instructional Activities	$ 508	$ -	$ -	$ 45,998
Instructional Administration and Instructional Governance	18	-	-	4,475
Instructional Support Services	129	-	-	5,277
Admissions and Records	1	-	-	2,059
Student Counseling and Guidance	2	-	-	4,312
Other Student Services	34	-	-	6,288
Operation and Maintenance of Plant	112	-	-	5,979
Planning, Policymaking, and Coordination	-	-	-	1,518
General Institutional Support Services	771	-	-	10,764
Community Services and Economic Development	24	-	-	2,482
Ancillary Services	57	-	-	2,728
Auxiliary Operations	20	-	-	1,372
Physical Property and Related Acquisitions	189	-	-	2,077
Student Aid	-	7,090	-	7,090
Depreciation Expense	-	-	3,364	3,364
Total	$ 1,865	$ 7,090	$ 3,364	$ 105,783

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, 2011 and 2010, is summarized below:

(Amounts in thousands)

	2011	2010
Cash Provided by (Used in)		
Operating activities	$ (91,111)	$ (92,604)
Noncapital financing activities	89,108	94,555
Capital financing activities	(3,202)	(6,886)
Investing activities	242	(484)
Net Change in Cash	(4,963)	(5,419)
Cash, Beginning of Year	33,614	39,033
Cash, End of Year	$ 28,651	$ 33,614

A detailed Statement of Cash Flows for the year ended June 30, 2011, is included in the Basic Financial Statements on pages 19 and 20 of this report.

- Cash provided by operating activities are from tuition and fees. Uses of cash are payments for scholarship and grants, payments to vendors, and payments to or on behalf of employees. Net cash used in operating activities decreased from the prior year by $1.5 million. This reflects an increase of $2.9 in payments for scholarships and grants and a decrease in $2.1 million in payments to vendors.

- Property tax revenue accounts for approximately 81.3 percent of the noncapital 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.

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, 2011, the District had $94.3 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 assets increased by $2.9 million during 2010-2011, and depreciation expense of approximately $3.4 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.

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)

	2011	2010
Land and improvements	$ 7,725	$ 5,694
Site and site improvements	82,246	84,093
Furniture and equipment	3,368	3,803
Construction in progress	975	578
Net Capital Assets	$ 94,314	$ 94,168

Debt

- At June 30, 2011, the District had $3.2 million in debt in revenue bonds payable which reflects a decrease of $497 thousand. The District's bond credit rating of A+ was rated prior to insurance enhancements.

- Compensated absences and load banking increased $9 thousand from the prior year.

- Also, at June 30, 2011, the District had $1.3 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.

- The District contributed 72 percent of the annual required contribution of which $1.1 million went to an irrevocable trust for the Retiree Health Benefit Program related to GASB Statement No. 45 and $1.1 million 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)

	2011	2010
Revenue bonds payable	$ 3,178	$ 3,675
Compensated absences and load banking	2,266	2,257
Capital leases	1,251	1,448
PARS Supplementary Retirement Plan (SRP)	1,510	1,035
Total Long-Term Obligations	$ 8,205	$ 8,415

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 $7 million in 2010-2011, and is in the process of reducing 2011-2012 planned expenditures by at least another $14 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 2011-2012 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.

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, 2011

ASSETS	
Current Assets	
Cash and cash equivalents	$ 1,157,441
Investments - unrestricted	27,053,347
Investments - restricted	440,400
Accounts receivable	2,492,395
Student accounts receivable	226,342
Due from fiduciary funds	1,209
Prepaid expenses	46,390
Deferred cost on issuance	5,352
Total Current Assets	31,422,876
Noncurrent Assets	
Other postemployment benefits other than pensions (OPEB) asset	101,078
Deferred cost on issuance - noncurrent portion	39,246
Nondepreciable capital assets	6,341,445
Depreciable capital assets, net of depreciation	87,972,130
Total Noncurrent Assets	94,453,899
TOTAL ASSETS	125,876,775
LIABILITIES	
Current Liabilities	
Accounts payable	3,013,323
Due to fiduciary funds	23,478
Deferred revenue	2,257,980
Compensated absences payable - current portion	337,317
Load banking payable - current portion	115,971
Bonds payable - current portion	325,000
Lease obligations - current portion	206,089
Net debt premium - current portion	13,504
Total Current Liabilities	6,292,662
Noncurrent Liabilities	
Compensated absences payable - noncurrent portion	1,349,270
Load banking payable - noncurrent portion	463,885
Bonds payable - noncurrent portion	2,740,000
Net debt premium - noncurrent portion	99,027
Lease obligations - noncurrent portion	1,045,031
Other long-term obligations - noncurrent portion	1,510,372
Total Noncurrent Liabilities	7,207,585
TOTAL LIABILITIES	13,500,247
NET ASSETS	
Invested in capital assets, net of related debt	89,489,122
Restricted for:	
Debt service	449,174
Capital projects	7,226,100
Educational programs	1,873,348
Unrestricted	13,338,784
TOTAL NET ASSETS	$ 112,376,528

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, 2011

OPERATING REVENUES	
Student Tuition and Fees	$ 11,824,950
Less: Scholarship discounts and allowances	(2,361,539)
Net tuition and fees	9,463,411
Auxiliary Enterprise Sales and Charges	
Bookstore	300,205
Cafeteria	21,105
TOTAL OPERATING REVENUES	9,784,721
OPERATING EXPENSES	
Salaries	61,061,383
Employee benefits	21,764,641
Supplies, materials, and other operating expenses and services	10,637,987
Student financial aid	7,089,889
Equipment, maintenance, and repairs	1,864,706
Depreciation	3,364,045
TOTAL OPERATING EXPENSES	105,782,651
OPERATING LOSS	(95,997,930)
NONOPERATING REVENUES (EXPENSES)	
Local property taxes levied for general purposes	72,501,509
State taxes and other revenues	2,535,178
Federal grants and contracts, noncapital	8,052,279
State grants and contracts, noncapital	4,637,016
Investment income, noncapital	216,305
Interest expense on capital related debt	(191,236)
Investment income on capital asset-related debt, net	15,986
Transfer in from fiduciary fund	102,179
Transfer out to fiduciary funds	(5,000)
Other nonoperating revenues	1,877,446
TOTAL NONOPERATING REVENUES (EXPENSES)	89,741,662
INCOME BEFORE OTHER REVENUES, EXPENSES, AND LOSSES	(6,256,268)
OTHER REVENUES AND LOSSES	
State revenues, capital	1,825,870
Local revenues, capital	182
Loss on disposal of capital assets	(7,633)
TOTAL OTHER REVENUES AND LOSSES	1,818,419
CHANGE IN NET ASSETS	(4,437,849)
NET ASSETS, BEGINNING OF YEAR	116,814,377
NET ASSETS, END OF YEAR	$ 112,376,528

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, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 9,864,778
Payments for scholarships and grants	(7,089,889)
Payments to vendors for supplies and services	(12,654,102)
Payments to or on behalf of employees	(81,553,070)
Auxiliary enterprise sales and charges	321,310
Net Cash Flows From Operating Activities	(91,110,973)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property taxes - nondebt related	72,501,509
Federal grants and contracts	8,161,814
State grants and contracts	4,298,386
State taxes and other apportionments	2,363,229
Other nonoperating	1,783,110
Net Cash Flows From Noncapital Financing Activities	89,108,048
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	(4,154,967)
Proceeds from sale of capital assets	3,186,534
State revenue, capital projects	1,823,582
Principal paid on capital debt	(3,881,440)
Interest paid on capital debt	(191,236)
Interest received on capital asset-related debt	15,986
Net Cash Flows From Capital Financing Activities	(3,201,541)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received from investments	241,665
Net Cash Flows From Investing Activities	241,665
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,962,801)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	33,613,989
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 28,651,188

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, 2011

RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Loss	$ (95,997,930)
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities:	
Depreciation	3,364,045
Changes in Operating Assets and Liabilities:	
Receivables, net	(28,553)
Prepaid expenses	6,985
Other postemployment benefits (OPEB) other than pensions asset	804,455
Accounts payable and other accrued liabilities	(188,390)
Deferred revenue	443,337
Compensated absences	(93,456)
Load banking	102,874
PARS Supplementary Retirement Plan	475,660
Total Adjustments	4,886,957
Net Cash Flows From Operating Activities	$ (91,110,973)
CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:	
Cash in banks	$ 1,157,441
Cash in county treasury	27,053,347
Restricted cash in county treasury	440,400
Total Cash and Cash Equivalents	$ 28,651,188
NON CASH TRANSACTIONS	
On behalf payments for benefits	$ 1,331,035

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

MIRACOSTA COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2011

	Trust Funds	Agency Funds	Total Fiduciary
ASSETS			
Cash and cash equivalents	$ 144,167	$ 208,569	$ 352,736
Investments	1,160,304	-	1,160,304
Accounts receivable	1,662	1,194	2,856
Due from governmental funds	23,478	-	23,478
Fixed assets, net of depreciation	5,390,168	-	5,390,168
Total Assets	6,719,779	209,763	6,929,542
LIABILITIES			
Accounts payable	25,540	4,603	30,143
Due to governmental funds	1,209	-	1,209
Deferred revenue	22,565	-	22,565
Due to student groups	-	205,160	205,160
Total Liabilities	49,314	209,763	259,077
NET ASSETS			
Unreserved	6,670,465	-	6,670,465
Total Net Assets	$ 6,670,465	$ -	$ 6,670,465

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, 2011

	Trust Funds
ADDITIONS	
Local revenues	$ 291,376
DEDUCTIONS	
Classified salaries	5,577
Employee benefits	229
Books and supplies	57,184
Services and operating expenditures	60,297
Capital outlay	46,163
Depreciation	119,195
Total Deductions	288,645
OTHER FINANCING SOURCES (USES)	
Transfers in from governmental funds	5,000
Transfers out to governmental funds	(102,179)
Other uses	(11,083)
Total Other Financing Sources (Uses)	(108,262)
Change in Net Assets	(105,531)
Net Assets - Beginning	6,775,996
Net Assets - Ending	$ 6,670,465

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

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 two campuses and one center. The main campus, MiraCosta College, is located on a 121-acre site in the city of Oceanside. The District also operates the 42-acre San Elijo campus in the city of Cardiff and a 7.6 acre Community Learning Center in Oceanside. 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.

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

MiraCosta College Foundation

The MiraCosta 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 Federal and State grants, entitlements, and donations. 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. Revenue from Federal and State grants and entitlements are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

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.

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, 2011, 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.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets represent investments required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the bonded debt issuance.

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.

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 routine maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged as an operating expense in the year in which the expense was incurred. 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.

Deferred Issuance Costs and Premiums

Lease revenue bond issuance costs and premiums are deferred and amortized using the straight line method over the remaining life of the new debt.

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.

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, retirement 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. Retirement credit for unused sick leave is applicable to all academic 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.

Noncurrent Liabilities

Noncurrent liabilities include bonds payable, compensated absences, capital lease obligations, and PARS Supplementary Retirement Plan with maturities greater than one year.

Net Assets

GASB Statements No. 34 and No. 35 report equity as "Net Assets" and represent the difference between assets and liabilities. 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 $9,548,622 of restricted net assets.

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.

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.

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 not recorded a scholarship discount and allowance.

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, FSEOG Grants, Federal Work-Study, Academic Competitiveness Grants, 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, 2011, the District distributed $676,637 in direct lending through the U.S. Department of Education. As of July 1, 2010, the Federal Family Education Loan program ended and was replaced by the Federal Direct Student Loan program. The direct lending has been included as revenues and expenses within the accompanying financial statements as the amounts are passed directly to the District and then to qualifying students. These amounts are also included on the schedule of expenditures of Federal awards.

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.

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 November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

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.

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, 2011, consist of the following:

	Primary Government	Fiduciary Funds
Cash on hand and in banks	$ 1,107,441	$ 352,736
Cash in revolving	50,000	-
Investments	27,493,747	1,160,304
Total Deposits and Investments	$ 28,651,188	$ 1,513,040

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 San Diego County investment pool.

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	Weighted Average Days to Maturity
U.S. Federated Cash Reserves	$ 318,675	49
San Diego County Investment Pool	28,425,870	425
Total	$ 28,744,545	

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	$ 318,675	Aa	$ 318,675
San Diego County Investment Pool	28,425,870	Aa	28,425,870
Total	$ 28,744,545		$ 28,744,545

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, 2011, the bank balance totaled $1,531,815 of which $424,035 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 $1,531,815 consisted of $1,136,791 in District funds and $395,024 in fiduciary funds.

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	$ 423,277	$ -
State Government		
Categorical aid	364,060	-
Lottery	551,882	-
Other State sources	175,464	-
Local Sources		
Interest	51,589	1,662
National Benefits Services	248,126	-
Other local sources	677,997	1,194
Total	$ 2,492,395	$ 2,856
Student receivables	$ 226,342	$ -

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, 2011, the amount owed to the governmental funds and the fiduciary funds were $1,209 and $23,478, respectively.

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, 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	578,090	2,673,977	2,276,903	975,164
Total Capital Assets Not Being Depreciated	5,944,371	2,673,977	2,276,903	6,341,445
Capital Assets Being Depreciated				
Infrastructure	4,458,948	2,104,603	-	6,563,551
Buildings and improvements	133,576,999	270,751	-	133,847,750
Furniture and equipment	14,123,287	744,447	609,466	14,258,268
Total Capital Assets Being Depreciated	152,159,234	3,119,801	609,466	154,669,569
Total Capital Assets	158,103,605	5,793,778	2,886,369	161,011,014
Less Accumulated Depreciation				
Infrastructure	4,131,442	73,568	-	4,205,010
Buildings and improvements	49,483,883	2,117,832	-	51,601,715
Furniture and equipment	10,319,902	1,172,645	601,833	10,890,714
Total Accumulated Depreciation	63,935,227	3,364,045	601,833	66,697,439
Net Capital Assets	$ 94,168,378	$ 2,429,733	$ 2,284,536	$ 94,313,575

Depreciation expense for the year was $3,364,045.

Assets consisting of the Creative Arts Replacement Building in the amount of $15,053,899 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	79,159	-	-	79,159
Total Capital Assets Being Depreciated	5,844,784	-	-	5,844,784
Less Accumulated Depreciation				
Buildings and improvements	278,672	115,313	-	393,985
Furniture and equipment	56,749	3,882	-	60,631
Total Accumulated Depreciation	335,421	119,195	-	454,616
Net Capital Assets	$ 5,509,363	$ (119,195)	$ -	$ 5,390,168

Depreciation expense in the fiduciary funds for the year was $119,195.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable consisted of the following:

	Primary Government	Fiduciary Funds
Accrued payroll and benefits	$ 1,569,189	$ -
Construction	375,844	13,877
MiraCosta College Foundation	71,207	456
Vendor payables	997,083	15,810
Total	$ 3,013,323	$ 30,143

NOTE 8 - DEFERRED REVENUE

Deferred revenue consisted of the following:

	Primary Government	Fiduciary Funds
State categorical aid	$ 616,160	$ -
Schedule maintenance	116,293	-
Enrollment fees	1,380,319	22,565
Other local	145,208	-
Total	$ 2,257,980	$ 22,565

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2011 fiscal year consisted of the following:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year	Due in One Year
Bonds Payable					
Lease revenue bonds, series 1999	$ 3,675,000	$ -	$ 3,675,000	$ -	$ -
Lease revenue refunding bonds, series 2010B	-	3,065,000	-	3,065,000	325,000
Net debt premium	-	121,534	9,003	112,531	13,504
Total Bonds Payable	3,675,000	3,186,534	3,684,003	3,177,531	338,504
Other Liabilities					
Compensated absences	1,780,043	-	93,456	1,686,587	337,317
Load banking	476,982	102,874	-	579,856	115,971
Capital leases	1,448,557	-	197,437	1,251,120	206,089
PARS Supplementary Retirement Plan (SRP)	1,034,712	917,922	442,262	1,510,372	-
Total Other Liabilities	4,740,294	1,020,796	733,155	5,027,935	659,377
Total Long-Term Obligations	$ 8,415,294	$ 4,207,330	$ 4,417,158	$ 8,205,466	$ 997,881

Description of Debt

Payments on the lease revenue bond are paid by the debt service fund. The compensated absences and load banking 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.

Lease Revenue Refunding Bonds

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 were paid off in September 2010 with the issuance of the lease revenue refunding bonds, Series 2010B.

On September 16, 2010, the District issued lease revenue 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 to pay the cost of issuing the bonds. The bonds mature beginning on October 1, 2011 through August 1, 2019, with interest yields ranging from 3.00 to 4.00 percent.

At June 30, 2011, the principal balance outstanding was $3,065,000 and unamortized premium and issuance cost of $112,531 and $44,598, respectively. Premium and issuance costs are amortized over the life of the bonds as a component of interest expense on the bonds.

Debt Maturity

Lease Revenue Bonds

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2010	Issued	Redeemed	Bonds Outstanding June 30, 2011
1999	2019	4.92% - 4.97%	$ 7,285,000	$ 3,675,000	$ -	$ 3,675,000	$ -
2010	2019	3.00% - 4.00%	3,065,000	-	3,065,000	-	3,065,000
				$ 3,675,000	$ 3,065,000	$ 3,675,000	$ 3,065,000

The bonds mature through 2020 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2012	$ 325,000	$ 95,650	$ 420,650
2013	335,000	85,900	420,900
2014	345,000	75,850	420,850
2015	355,000	65,500	420,500
2016	370,000	54,850	424,850
2017-2020	1,335,000	89,700	1,424,700
Total	$ 3,065,000	$ 467,450	$ 3,532,450

Capital Leases

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, 2011, the principal balance outstanding was $1,251,120.

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

Balance, July 1, 2010	$ 1,668,766
Payments	256,733
Balance, June 30, 2011	$ 1,412,033

The capital lease has minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2012	$ 256,733
2013	256,733
2014	256,734
2015	256,732
2016	256,735
2017	128,366
Total	1,412,033
Less: Amount Representing Interest	160,913
Present Value of Minimum Lease Payments	$ 1,251,120

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	(171,303)
Total	$ 2,063,080

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, 2011, amounted to $2,266,443.

Supplementary Retirement Plan (SRP)

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 years June 30, 2011 and 2010, which amounted to 15 each year. The benefits provided under the SRP are funded in five (5) annual contributions. As of June 30, 2011, the outstanding balance was $1,510,372.

Year Ending June 30,	SRP Payment
2012	$ -
2013	442,262
2014	442,262
2015	442,263
2016	183,585
Total	$ 1,510,372

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 80 retirees and beneficiaries currently receiving benefits and 422 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 2010-2011, the District contributed $2,210,195 to the Plan of which $1,125,000 was contributed to an irrevocable trust and $1,085,195 was used for current premiums.

Annual OPEB Cost and Net OPEB Asset

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 asset to the Plan:

Annual required contribution	$ 3,053,896
Contributions made	(2,210,195)
Change in net OPEB asset	843,701
Net OPEB asset, beginning of year	(944,779)
Net OPEB asset, end of year	$ (101,078)

Trend Information

Trend information for the annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB asset 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)
2011	3,053,896	2,210,195	72%	(101,078)

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, 2011	$ 8,820,735	$ 25,431,972	$16,611,237	34.7%	$50,526,000	32.9%

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.

In the July 1, 2011, 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, 2011, is 27 years. At June 30, 2011, the irrevocable trust held net assets in the amount of $8,820,735 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
2012	$ 82,500
2013	82,500
2014	41,250
Total	$ 206,250

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 $10 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.

Each participant pays its liability insurance 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.

Joint Powers Authority Risk Pools

During fiscal year ending June 30, 2011, 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 2010-2011, 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.

Insurance Program / Company Name	Type of Coverage	Limits
San Diego County Schools Risk Management	Workers' Compensation	$ 900,000
San Diego County Schools Risk Management	Excess Workers' Compensation	Statutory
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.

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 2010-2011 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, 2011, 2010, and 2009, were $2,575,122, $2,612,162, and $2,463,361, 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 2010-2011 was 10.707 percent of covered payroll. The District's contributions to CalPERS for fiscal years ending June 30, 2011, 2010, and 2009, were $2,234,530, $2,031,187, and $1,849,972, 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.

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, 2011. Total contributions to the plan amounted to $146,687.

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 $1,331,035, $1,351,291, and $1,343,247, (4.267 percent) of salaries subject to CalSTRS for the years ended June 30, 2011, 2010, and 2009, 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, 2011, the District made payments of $885,788 and $1,125,000 to San Diego School Risk Management and Retiree Health Benefit Program, respectively.

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, 2011.

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, 2011.

Construction Commitments

As of June 30, 2011, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Original PO Amount	Remaining Construction Commitment	Expected Date of Completion
Pre-Bond Expenses	$ 641,000	$ 134,817	N/A

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 $10,000,000 of tax and revenue anticipation notes dated July 30, 2011. The notes mature on June 30, 2012, with an interest rate of 2.0 percent, and yield of 0.40 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 2012 and April 2012 until 100 percent of principal and interest due is on account in June 2012.

REQUIRED SUPPLEMENTARY INFORMATION

MIRACOSTA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2011

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%
July 1, 2011	$ 8,820,735	$ 25,431,972	$ 16,611,237	34.7%	$ 50,526,000	32.9%

SUPPLEMENTARY INFORMATION

DISTRICT ORGANIZATION
JUNE 30, 2011

MiraCosta Community College District (the District) was established in 1934 and serves an area of about 15 square miles in northern San Diego County (the County). The District includes the cities of Carlsbad, Del Mar, Encinitas, Oceanside, and Solana Beach, as well as adjacent unincorporated areas of the County. The District operates two campuses and one center. The main campus, MiraCosta College, is located on a 121-acre site in the city of Oceanside. The District also operates the 42-acre San Elijo campus in the city of Cardiff and a 7.6 acre Community Learning Center in Oceanside.

BOARD OF TRUSTEES

MEMBER	OFFICE	TERM EXPIRES
Dr. William C. Fischer	President	2014
Mr. George McNeil	Vice President	2012
Dr. David Broad	Member	2014
Ms. Gloria Carranza	Member	2012
Mr. Ron Ruud	Member	2014
Ms. Jeanne Shannon	Member	2014
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, 2011

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 California Community College Chancellor's Office			
Education and Developing Workers for the Green Economy Initiative	17.000	395-01	$ 5,034
WIA Cluster			
Pass through from California Community College Chancellor's Office			
WIA Funds for Nursing Programs	17.258	08-0106/ 09-106-06	194,800
Pass through from San Diego Workforce Partnership			
ARRA - Hybrid Tech Program	17.258	235-11	63,189
Subtotal WIA Cluster			257,989
Total U.S. Department of Labor			263,023
SMALL BUSINESS ADMINISTRATION			
Pass through from Southwestern Community College District			
Small Business Development Center Program	59.037	NC201002	258,074
U.S. DEPARTMENT OF VETERAN AFFAIRS			
Veterans Reporting Fee	64.000		6,496
U.S. NUCLEAR REGULATORY COMMISSION			
Nuclear Technology Scholarship Program	77.000		91,013
U.S. DEPARTMENT OF EDUCATION			
HIGHER EDUCATION ACT			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		149,332
Federal Work Study (FWS)	84.033		111,487
Federal Pell Grant (PELL)	84.063		5,603,348
Federal Pell Grant Administration	84.063		9,275
Federal Direct Student Loans	84.268		676,637
Academic Competitiveness Grant (ACG)	84.375		118,834
Subtotal Student Financial Assistance Cluster			6,668,913
Fund for Improvement of Postsecondary Education - Nursing Program	84.116Z		41,662
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	295,530

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

See accompanying note to supplementary information.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
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	$ 185,248
Tech Prep Program, Title II, Perkins Funding	84.243	10-139-050	69,708
Pass through from Grossmont-Cuyamaca Community College District Auxiliary Organization			
Career and Technical Education, Title IB	84.048	X001515	3,000
AMERICAN RECOVERY AND REINVESTMENT ACT			
Pass through from California Community College Chancellor's Office			
ARRA State Fiscal Stabilization Funds	84.394	[1]	23,505
Total U.S. Department of Education			7,287,566
U.S. DEPARTMENT OF ENERGY			
Pass through from San Diego Workforce Partnership			
ARRA California Clean Energy Workforce Training Program	81.041	235-12	103,723
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]	51,156
Pass through from the Foundation for California Community Colleges			
Child Development Careers (TANF-CDC) Program	93.575	0810-25	28,665
Total U.S. Department of Health and Human Services			79,821
Total Expenditures of Federal Awards			$ 8,089,716

[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, 2011

Program	Program Revenues Cash Received	Accounts Receivable (Payable)	Deferred Revenue	Total Revenue	Total Program Expenditures
GENERAL FUND					
Basic Skills	$ 220,309	$ -	$ 90,985	$ 129,324	$ 129,324
Board Financial Assistance Program	243,137	-	-	243,137	243,137
Business and Entrepreneurship Center	123,000	-	719	122,281	122,281
Cal Grant	253,100	(144)	-	252,956	252,956
CalWORKs	229,904	-	-	229,904	229,904
CARE	57,182	-	-	57,182	57,182
Career Technical Education - Small Business Development Center Entrepreneurship	170,719	-	139,037	31,682	31,682
Career Technical Education - Collaborative	72,953	-	-	72,953	72,953
Career Technical Education - Pathways Collaborative	310,000	-	181,304	128,696	128,696
Disabled Students Program and Services (DSPS)	487,313	-	-	487,313	487,313
Extended Opportunity Program and Services (EOPS)	489,946	-	-	489,946	489,946
Licensed Vocational Nurse to Registered Nurse Grant	295,529	30,329	43,193	282,665	282,665
Lottery	32,859	188,731	-	221,590	221,590
Matriculation - Credit	289,511	-	-	289,511	289,511
Matriculation - Noncredit	91,836	-	-	91,836	91,836
Part-Time Faculty Reimbursement	179,786	-	-	179,786	178,708
Small Business Development Center	-	145,000	-	145,000	145,000
Staff Diversity	5,687	-	-	5,687	8,910
Telecom Technology Infrastructure Program	-	-	-	-	12,245
Transfer and Articulation	1,886	-	-	1,886	1,886
Workforce Development RN Grant	188,355	-	91,586	96,769	96,769
Workforce Innovation Partnership	150,000	-	69,336	80,664	80,664
Total State Categorical Programs	$3,893,012	$ 363,916	$616,160	$3,640,768	$3,655,158

See accompanying note to supplementary information.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT AS OF JUNE 30, 2011

CATEGORIES	Revised* Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2010 only)			
1. Noncredit	143	-	143
2. Credit	658	-	658
B. Summer Intersession (Summer 2011 - Prior to July 1, 2010)			
1. Noncredit	-	-	-
2. Credit	258	-	258
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	6,352	-	6,352
(b) Daily Census Contact Hours	435	-	435
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	794	-	794
(b) Credit	269	-	269
3. Alternative Attendance Accounting Procedure			
(a) Weekly Census Contact Hours	1,148	-	1,148
(b) Daily Census Contact Hours	424	-	424
(c) Noncredit Independent Study/Distance Education Courses	13	-	13
D. Total FTES	10,494	-	10,494
E. Supplemental Information			
In-Service Training Courses (FTES)	-	-	-
F. Basic Skills courses and Immigrant Education (FTES)			
1. Noncredit	763	-	763
2. Credit	497	-	497
	1,260	-	1,260

* Apportionment Attendance report revised as of November 2, 2011.

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, 2011

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, 2011, Annual Financial and Budget Report (CCFS-311)	
Reported Fund Balance	$ 1,145,434
Adjustments to Increase Fund Balance	
Capital Assets	5,390,168
Audited Fund Balance	$ 6,535,602

See accompanying note to supplementary information.

RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Total Fund Balances:		
General Fund	$ 17,023,327	
Capital Outlay Projects	7,226,100	
Debt Service Funds	449,174	
Enterprise Funds	899,580	
Internal Service Funds	185,748	
Student Financial Aid Fund	28	
Total Fund Balances - All District Funds		**$ 25,783,957**
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	161,011,014	
Accumulated depreciation is	(66,697,439)	
Less fixed assets already recorded in enterprise funds	(114,502)	94,199,073
Recognize the OPEB asset resulting from the difference between annual OPEB cost on the accrual basis and OPEB contributions in the governmental funds.		101,078
Governmental funds report cost of issuance associated with the issuance of debt when first issued, whereas the amounts are deferred and amortized in the statement of revenues, expenses, and changes in net assets.		
Cost of issuance at year end amounted to:		44,598
Long-term obligations at year end consist of:		
Bonds payable	3,177,531	
Capital leases payable	1,251,120	
Compensated absences	1,686,587	
Load banking	579,856	
PARS Supplementary Retirement Plan (SRP)	1,510,372	
Less compensated absences and load banking already recorded in funds	(453,288)	(7,752,178)
Total Net Assets		**$ 112,376,528**

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2011

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 - Primary Government and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of funds in which expenditures exceed Federal revenues recorded. These excess expenditures consisted primarily of matching funds that were reported on the Schedule of Expenditures of Federal Awards.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenses, and Changes in Net Assets:		$ 8,052,279
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	37,333
ARRA Hybrid Tech Program	17.258	104
Total Expenditures of Federal Awards		$ 8,089,716

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

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.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2011

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.

Reconciliation of Governmental Funds 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

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

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, 2011, and have issued our report thereon dated December 19, 2011. 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

The management of MiraCosta Community College District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, 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 opinions 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.

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SACRAMENTO

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 19, 2011

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

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 MiraCosta Community College District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of MiraCosta Community College District's major Federal programs for the year ended June 30, 2011. 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 could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011.

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SACRAMENTO

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 was not designed to 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.

Vavrinek, Trine, Day & Co., LLP.

Rancho Cucamonga, California
December 19, 2011

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

REPORT ON STATE COMPLIANCE

Board of Trustees
MiraCosta Community College District
Oceanside, California

We have audited the basic financial statements of MiraCosta Community College District (the District), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 19, 2011.

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 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 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of MiraCosta Community College District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the MiraCosta Community College District's compliance with the State laws and regulations applicable to the following items:

Section 421	Salaries of Classroom Instructors: 50 Percent Law
Section 423	Apportionment for Instructional Service Agreements/Contracts
Section 424	State General Apportionment Required Data Elements
Section 425	Residency Determination for Credit Courses
Section 426	Students Actively Enrolled
Section 427	Concurrent Enrollment of K-12 Students in Community College Credit Courses
Section 431	Gann Limit Calculation
Section 432	Enrollment Fee
Section 433	CalWORKS – Use of State and Federal TANF Funding
Section 435	Open Enrollment
Section 437	Student Fee – Instructional Materials and Health Fees
Section 473	Economic and Workforce Development (EWD)
Section 474	Extended Opportunity Programs and Services (EOPS)
Section 475	Disabled Student Programs and Services (DSPS)
Section 477	Cooperative Agencies Resources for Education (CARE)
Section 478	Preference for Veterans and Qualified Spouses for Federally Funded Qualified Training Programs
Section 479	To Be Arranged (TBA) Hours

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SACRAMENTO

Based on our audit, we found that for the items tested, the MiraCosta Community College District complied with the State laws and regulations referred to above. Our audit does not provide a legal determination on MiraCosta Community College District's compliance with the State laws and regulations referred to above.

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.

Vavrinek, Trine, Day & Co., LLP.

Rancho Cucamonga, California
December 19, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MIRACOSTA COMMUNITY COLLEGE DISTRICT

SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2011

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unqualified

CFDA Numbers	Name of Federal Program or Cluster
84.007; 84.033; 84.063; 84.268; 84.375	Student Financial Assistance Cluster

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No
Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2011

None reported.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

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.

FINANCIAL STATEMENT FINDINGS

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.

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 in 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).

Current Status

Implemented.

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

To the 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, 2011, and have issued our report thereon dated December 19, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibilities Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated June 30, 2011, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order 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.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major Federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • SACRAMENTO

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 2 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the cost of capital assets net of accumulated depreciation and the other postemployment benefits (OPEB) liability. Depreciation is the recognition of the use of the capital assets over time. Conditions may exist that result in assets having a longer or shorter useful life than is reflected within these statements. We evaluated the key factors and assumptions used to develop depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Additionally, the estimate of the future costs of postemployment benefits provided to retirees is based upon current information about the District's employees, benefit plans, and health care rates. These factors are considered by the actuary in determining both the estimated liability and the current year required contribution to the Plan. Note 10 to the financial statements provides additional information about the actuarial methods and assumptions, and the Required Supplementary Information provides the schedule of progress toward funding this liability.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 19, 2011.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Trustees and management of MiraCosta Community College District and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 19, 2011