MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2015

AUDIT REPORT

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

January 2016

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Miles Community College for the fiscal year ended June 30, 2015.

The audit was conducted by Eide Bailly LLP, under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report is included in the back of the audit report.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

15C-08

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MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2015

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MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2015

BOARD OF TRUSTEES

Jeff Okerman	Chairperson
Mark Petersen	Vice Chairperson
Debbie Morford	Secretary
Rusty Irion	Trustee
Garret McFarland	Trustee
Susan Stanton	Trustee
Tad Torgerson	Trustee

COLLEGE OFFICIALS

Dr. Stacy S. Klippenstein	President
Dr. Theodore J. Hanley	Vice President of Academic Affairs
Jessie Dufner	Vice President of Enrollment and Student Success
Shane Vannatta	Attorney

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Board of Trustees
Miles Community College
Miles City, Montana

Report on the Financial Statements
We have audited the accompanying financial statements of the business-type activities, fiduciary fund and the discretely presented component unit of the Miles Community College (the College), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
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 the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College and the discretely presented component unit, as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Notes 1 and 14 to the financial statements, the College has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that a Management's Discussion and Analysis, the Schedule of Employer's Share of Net Pension Liability, the Schedule of Employer Contributions and the Schedule of Funding Progress Other Post-Employment Benefits Other Than Pensions as noted in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Student Financial Aid Modified Statement of Cash Receipts and Disbursements, Schedule of Federal Expenditures of Student Financial Assistance Programs, Schedule of Full Time Equivalent and Functional Classification of Operating Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2016, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
January 25, 2016

Miles Community College, Custer County, Montana
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

Overview

Miles Community College (the College) was founded in 1939 and is located in Miles City, Montana. The mission of the College is to promote student success and lifelong learning through accessible, quality programs and community partnerships.

The following is a Management Discussion and Analysis (MD&A) for Miles Community College which includes an overview of its financial condition and assists the reader in focusing on significant financial issues for the year ended June 30, 2015. The information has been prepared by management and is to be read in conjunction with the accompanying financial statements and footnotes.

Using the Financial Statements

The College's financial statements consist of the following three statements: Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows.

These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement 35, *Basic Financial Statements-and Management's Discussion and Analysis-For Public Colleges and Universities*. These statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole.

A discussion of each of the individual statements follows. Some key points to be aware of regarding the statements are:

- The financial statements are prepared using the accrual basis of accounting, which means revenues are reported when earned and expenses are reported when incurred, regardless of when the cash was actually received or paid.

- Capital assets are depreciated over their expected useful lives instead of recorded entirely as a current period expense in the year of acquisition. Depreciation is treated as an operating expense, and capital assets are reported in the statements at cost less accumulated depreciation.

- Assets and liabilities are treated as current (due within one year) or as non-current (due in more than one year), and in the Statement of Net Position are presented in order of their relative liquidity.

- Revenues and expenses are classified as operating or non-operating. "Operating" is defined by the Governmental Accounting Standards Board (GASB) as resulting from transactions involving exchanges of goods or services for payment. "Non-operating" is defined by GASB as resulting from transactions not involving the exchange of goods or services for payment. Miles Community College shows a substantial "operating loss" in the Statement of Revenues, Expenses, and Changes in Net Position primarily because GASB requires that State Appropriation and District Levy revenues must be reported as "non-operating".

- Tuition and fees are reported net of any tuition waivers that were applied directly to a student's account.

- Due to the issuance of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the Statement of Net Position added new sections, Deferred Outflows of Resources and Deferred Inflows of Resources.

The three financial statements are designed to help the reader of the financial statements to determine whether the College's overall financial condition has improved or deteriorated as a result of the current year's financial activities. These financial statements present similar information to that disclosed in private sector financial statements.

The following tables on pages 6 through 10 presented for the year ended June 30, 2014, have not been restated for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date.*

Financial Highlights for Fiscal Year 2015

Statement of Net Position

The Statement of Net Position, which reports all assets and liabilities of the College, presents the financial position of the College at the end of the fiscal year. The net position is simply the difference between total assets, deferred outflows of resources and total liabilities and deferred inflows of resources. The change in net position during the fiscal year is an indicator of the change in the overall financial condition of the College during the year. A summary of the Statement of Net Position follows:

ASSETS	**June 30, 2015**	**June 30, 2014**
Total current assets	$ 4,547,529	$ 4,562,317
Total noncurrent assets	6,677,620	6,660,157
TOTAL ASSETS	$ 11,225,149	$ 11,222,474
DEFERRED OUTFLOWS OF RESOURCES	$ 306,734	$ -
LIABILITIES		
Total current liabilities	$ 807,313	$ 1,132,990
Total noncurrent liabilities	6,215,459	3,261,360
TOTAL LIABILITIES	$ 7,022,772	$ 4,394,350
DEFERRED INFLOWS OF RESOURCES	$ 601,641	$ -
NET POSITION		
Net investment capital assets	$ 4,561,355	$ 4,430,703
Restricted, expendable	136,029	136,023
Unrestricted	(789,914)	2,261,398
TOTAL NET POSITION	$ 3,907,470	$ 6,828,124

Comparison of 2015 and 2014 Financial Position

- **Current assets** include the College's cash; taxes, grants, and accounts receivable; inventories; and other assets expected to benefit the College within one year. The $14,788 decrease from FY 2014 to FY 2015 was due primarily to a decrease in grant receivables, as several academic program purchases in FY2014 were reimbursed during FY 2015.

- **Noncurrent assets** primarily represent the College's capital assets less accumulated depreciation. The increase is due primarily to purchase and installation of air conditioners in the Student Dorms and a network upgrade.

- **Current liabilities** include payroll and related liabilities, amounts payable to suppliers for goods and services received, revenue received which the College has not yet earned, student deposit balances, and debt principal payments due within one year. Total current liabilities decreased by $325,677 from FY 2014 to FY 2015 due largely to decreases in accounts payable as most purchases made in FY 2015 were paid before the end of the year.

- **Noncurrent liabilities** primarily represent debt principal payments due after a one-year period and the amount of compensated absence liability estimated to be due after a one-year period. These balances increased a total of $2,954,099 from FY 2014 to FY 2015 due primarily to the addition of net pension liability.

- **Net investment in capital assets** represents the historical costs of capital assets less accumulated depreciation and less debt balances related to the capital assets. This balance increases as assets are acquired and debt is repaid, and decreases as assets are depreciated and debt is incurred. Total capital assets net of related debt increased by $130,652 from FY 2014 to FY 2015 as capital assets increased.

- **Restricted expendable net position** represent funds that may be expended by the College but only in accordance with restrictions imposed by an external party, such as a donor or governmental entity.

- **Unrestricted net position** are funds that the College has to use for whatever purpose it determines is appropriate. These assets may be designated for specific purposes by action of management. This decreased $3,051,312 due primarily to the addition of the net pension liability.

- **Total net position** decreased by $2,920,654 from FY 2014 to FY 2015, which is a reflection due to addition of the net pension liability.

Statement of Revenue, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year on a full accrual basis, which means revenues and expenses are recognized when they were earned or incurred, regardless of when cash was received or paid. Results of operations are classified as either operating or non-operating.

A summary of the Statement of Revenues, Expenses and Changes in Net Position follows:

	June 30, 2015	**June 30, 2014**
Operating revenues	$ 4,213,995	$ 4,298,694
Operating expenses	8,308,482	8,154,500
OPERATING LOSS	$ (4,094,487)	$ (3,855,806)
Non-operating revenues (expenses)	$ 4,496,356	$ 4,325,499
Transfer from fiduciary funds	-	(90)
INCREASE IN NET POSITION	$ 401,869	$ 469,603

Comparison of 2015 and 2014 Results of Operations

- **Operating revenues** represent the revenue received from tuition and fees, federal, state, and private grants and contracts, indirect cost recoveries (from grants), auxiliary activities, and other operating revenues. Total operating revenues decreased by $84,699 from FY 2014 to FY 2015. This is due primarily to decreased tuition and fees, and federal grants.

- **Non-operating revenue (expenses)** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-operating revenue (expense) increased $170,857 from FY 2014 to FY 2015. The major item affecting this change was increased state appropriations.

Increase in net position represents the difference between total revenues and total expenses.

The following provides a comparative analysis of revenues and expenses for two fiscal years:

ANALYSIS OF ALL SOURCES OF REVENUE

	Fiscal Year 2015		Fiscal Year 2014		Increase (decrease)
Source of Revenue	**Amount**	**Percent**	**Amount**	**Percent**	**FY'15 vs. FY'14**
Operating revenues					
Tuition and fees (net)	$ 1,479,824	16.81%	$ 1,491,982	17.08%	$ (12,158)
Auxiliary enterprise activities	1,101,368	12.51%	1,123,391	12.86%	(22,023)
Federal grants and contracts	935,164	10.62%	1,075,176	12.31%	(140,012)
Other operating revenues	212,761	2.41%	263,926	3.02%	(51,165)
Private and local grants and contracts	263,733	3.00%	204,913	2.34%	58,820
State grants and contracts	211,717	2.41%	123,656	1.41%	88,061
Indirect cost recoveries	9,428	0.11%	15,650	0.18%	(6,222)
Total operating revenue	4,213,995	47.87%	4,298,694	49.20%	(84,699)
Non-operating revenues					
State appropriations	2,913,356	33.10%	2,834,751	32.45%	78,605
District levies	1,316,130	14.95%	1,303,150	14.92%	12,980
State reimbursements	334,403	3.80%	278,777	3.19%	55,626
Interest income	24,878	0.28%	21,051	0.24%	3,827
Total non-operating revenues	4,588,767	52.13%	4,437,729	50.80%	151,038
Total revenue	$ 8,802,762	100%	$ 8,736,423	100%	$ 66,369

ANALYSIS OF CATEGORY OF EXPENSE

Category of Expenses	Fiscal Year 2015 Amount	Fiscal Year 2015 Percent	Fiscal Year 2014 Amount	Fiscal Year 2014 Percent	Increase (decrease) FY'15 vs. FY'14
Operating expenses					
Personnel expenses	$ 4,315,656	51.37%	$ 4,118,766	49.82%	$ 196,890
Scholarships and grants	995,001	11.84%	1,044,385	12.63%	(49,384)
Contracted service	643,029	7.65%	607,710	7.35%	35,319
Depreciation	498,846	5.94%	527,246	6.38%	(28,400)
Supplies	422,123	5.03%	402,754	4.87%	19,369
Food for resale	259,853	3.09%	277,284	3.35%	(17,431)
Utilities	187,562	2.23%	191,991	2.32%	(4,429)
Items for resale	148,734	1.77%	144,533	1.75%	4,201
Travel	147,527	1.76%	134,213	1.62%	13,314
Other operating expenses	109,633	1.31%	146,809	1.78%	(37,176)
Communications	97,644	1.16%	98,134	1.19%	(490)
Advertising	97,296	1.16%	95,283	1.15%	2,013
Bad debt expense	82,491	0.98%	30,078	0.36%	52,413
Student support	81,765	0.97%	82,355	1.00%	(590)
Insurance	79,380	0.94%	73,447	0.89%	5,933
Repairs and maintenance	70,313	0.84%	53,916	0.65%	16,397
Meetings and dues	49,228	0.59%	43,878	0.53%	5,350
Rent and lease	10,401	0.12%	12,551	0.15%	(2,150)
Indirect costs	8,528	0.10%	20,560	0.25%	(12,032)
IT system support	3,472	0.04%	48,607	0.59%	(45,135)
Total operating expenses	8,308,482	98.90%	8,154,500	98.64%	153,982
Non-operating expenses					
Interest payments	89,944	1.07%	96,894	1.17%	(6,950)
Loss on disposal of capital assets	2,467	.03%	15,426	.019%	(12,950)
Total non-operating expenses	92,411	1.10%	112,320	1.36%	(19,900)
Total expenses	$ 8,400,893	100%	$ 8,266,820	100%	$ 134,082

Comments about specific revenue and expense items are:

- **Federal Grants and Contracts and State Appropriations and State Grants and Contracts:** During FY 2015 the College received less federal grants and contracts. This represents the largest decrease in revenue. The College also received an increase in state appropriations and an increase in state grants and contracts. These items represent the two largest increases in revenues.

- **Expenses (general comment):** Overall expenses increased $134,073 from FY 2014 to FY 2015. Personnel service expense increased due to employee raises and termination payouts.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the College's sources and uses of cash during the fiscal year. This statement aids in assessing the College's ability to meet obligations and commitments as they become due, their ability to generate future cash flows and their needs for external financing. As required by GASB, the statement is presented using the "Direct Method," which focuses on those transactions that either provided or used cash during the fiscal year.

A summary of the Statement of Cash Flows follows:

CASH FLOW CATEGORY	June 30, 2015	June 30, 2014
Cash provided by (used in):		
Operating activities	$ (3,820,023)	$ (2,914,027)
Noncapital activities	4,617,569	4,414,477
Capital financing activities	(721,910)	(930,159)
Investing activities	24,878	21,051
Net increase (decrease) in cash	100,514	591,342
Cash and cash equivalents, beginning of year	4,106,615	3,515,273
Cash and cash equivalents, end of year	$ 4,207,129	$ 4,106,615

Comparison of 2015 and 2014 Cash Flows

- **Operating activities** represent the revenue received from tuition and fees, federal, state, and private grants and contracts, indirect cost recoveries (from grants), auxiliary activities, and other operating revenues. Total cash used by operating activities increased by $905,996 from FY 2014 to FY 2015. This is mainly due to the increase in accounts payable to suppliers.

- **Noncapital financing activities** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Cash provided by non-operating activities increased $203,092 from FY 2014 to FY 2015. The major item affecting this change was state appropriations and reimbursements.

- **Capital and related financing activities** consists of purchases of capital assets and payments of principal and interest on loans. No additional loans were added.

Capital Assets

The College's investment in capital assets as of June 30, 2015, equates to $6,541,591, net of accumulated depreciation. Investment in capital assets normally includes land, buildings, improvements, machinery and equipment, library holdings, and software. The slight increase was due to purchase of new equipment. See additional information within footnote 5.

Debt Administration

The College's long-term debt obligations as of June 30, 2015, equates to $1,980,235. The College had five long-term debt obligations at fiscal year end June 30, 2015. See additional information within footnote 6.

DISCUSSION OF SIGNIFICANT PENDING ECONOMIC AND FINANCIAL ISSUES

- **Population –** Miles Community College is located in eastern Montana and has a current headcount of 481 and FTE of 350.1. This represents an approximate seven percent growth over the 2014-2015 FTE, which is very promising after having a consistent decline in enrollment over the past ten years. The population of Montana's high school graduates is at an all-time low and will decline until 2017, however, with strengthened recruitment efforts, Miles Community College is growing its traditional-aged enrollments. This can especially be seen in the growth of its dual enrollment students. The Bakken oil boom in eastern Montana and North Dakota is beginning to slow down, however, there continues to be a need for workforce training, especially in the areas of CDL and heavy equipment operators. Custer County and eastern Montana continue to enjoy low unemployment rates yet there is a continued need for healthcare providers, especially registered nurses and trained CNAs. Through visionary leadership and strategic planning, Miles Community College continues to develop opportunities that will enhance enrollment and provide residents and businesses of southeastern Montana, Custer County, and Miles City workforce development opportunities.

- **Faculty and Staff –** The College continues to have challenges finding and retaining qualified faculty and staff. High wages in local trades and higher paying jobs in other states make it hard to find interested candidates for open positions.

- **State and Local Funding –** Eastern Montana has remained economically sound over the recession and has seen recent growth with the potential for large growth in various industries. To support growth in the service region and increased employment options for its population, Miles Community College must continue to work with the state legislature, local tax payers, federal and private grants, and private industry to develop funding and partnership opportunities. A lack of responsiveness could minimize opportunities for residents and limit the amount on economic growth in the region.

CONTACT INFORMATION

The financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the College's financials and to demonstrate the College's accountability for the money it receives. If you have any questions about this report or need additional information, contact the President's Office, Dr. Stacy S. Klippenstein, 2715 Dickinson Street, Miles City, MT, 59301, by phone at (406)-874-6165.

Miles Community College, Custer County, Montana
Statement of Net Position
June 30, 2015

	Primary Government	Component Unit
	Business-Type Activities	Miles Community College Endowment
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,071,100	$ -
Taxes receivable	47,854	-
Grants receivable	132,108	-
Student receivable - net	102,190	-
Other accounts receivable - net	89,643	-
Promises to give	-	1,168,500
Inventories	77,674	-
Prepaid expense	26,960	41,693
Total current assets	4,547,529	1,210,193
Noncurrent assets:		
Restricted cash and investments	136,029	1,604,003
Capital assets, net	6,541,591	-
Total noncurrent assets	6,677,620	1,604,003
Total assets	11,225,149	2,814,196
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	306,734	-

See Accompanying Notes to the Financial Statements.

Miles Community College, Custer County, Montana
Statement of Net Position
June 30, 2015

	Primary Government	Component Unit
		Miles Community
	Business-Type	College
	Activities	Endowment
LIABILITIES		
Current liabilities:		
Accounts payable	258,983	13,831
Accrued payroll	261,493	-
Uneared revenue - tuition and fees	98,053	-
Student deposits	33,440	-
Current portion of compensated		
absences payable	36,238	-
Current portion of long term obligations	119,106	-
Total current liabilities	807,313	13,831
Noncurrent liabilities:		
Compensated absences payable	326,143	-
Long term obligations	1,861,129	-
Other post employment benefits	778,579	-
Other post employment		
benefits - accrued insurance	306,859	-
Net pension liability	2,942,749	-
Total noncurrent liabilities	6,215,459	-
Total liabilities	7,022,772	13,831
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows	601,641	-
NET POSITION		
Net investment in capital assets	4,561,355	-
Restricted for student loans	20,469	-
Restricted for debt service	115,560	-
Restricted for scholarships,		
research, instruction, and other	-	2,800,365
Unrestricted	(789,914)	-
Total net position	$ 3,907,470	$ 2,800,365

See Accompanying Notes to the Financial Statements.

Miles Community College, Custer County, Montana
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

	Primary Government	Component Unit
	Business-Type Activities	Miles Community College Endowment
Operating revenues		
Tuition and fees (net of scholarship allowance of $431,297)	$ 1,479,824	$ -
Auxiliary activities	1,101,368	-
Federal grants and contracts	935,164	-
Private and local grants, contracts and donations	263,733	1,945,760
Athletic donations	111,473	-
State grants and contracts	211,717	-
Other operating revenues	82,422	-
Other athletic allowance	16,276	-
Indirect cost recoveries	9,428	-
Space/rental income	2,590	-
Total operating revenues	4,213,995	1,945,760
Operating expenses		
Personnel services	4,315,656	-
Scholarships and grants	995,001	21,960
Contracted services	643,029	-
Depreciation	498,846	-
Supplies	422,123	-
Food for resale	259,853	-
Utilities	187,562	-
Items for resale	148,734	-
Travel	147,527	-
Other operating expense	109,633	-
Communications	97,644	-
Advertising	97,296	-
Bad debt expense	82,491	-
Student support	81,765	-
Insurance	79,380	-
Repairs and maintenance	70,313	-
Meetings and dues	49,228	-
Rent and lease	10,401	-
Indirect costs	8,528	-
IT system support	3,472	-
Program disbursements	-	30,539
Management and general	-	240
Professional fees	-	5,365
Total operating expenses	8,308,482	58,104
Operating income (loss)	(4,094,487)	1,887,656

See Accompanying Notes to Financial Statements

Miles Community College, Custer County, Montana
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

	Primary Government	Component Unit
	Business-Type Activities	Miles Community College Endowment
Non-operating revenues (expenses)		
State appropriation	2,913,356	-
District levies	1,316,130	-
State reimbursements	334,403	-
Interest income	24,878	8,762
Loss on disposal of capital assets	(2,467)	-
Interest expense	(89,944)	-
Total non-operating revenues (expenses)	4,496,356	8,762
Change in net position	401,869	1,896,418
Net position, beginning, as previously reported	6,828,124	903,947
Adjustment to prior years (see Note 14)	(3,322,523)	-
Net position, beginning, as restated	3,505,601	903,947
Net position, ending	$ 3,907,470	$ 2,800,365

See accompanying Notes to the Financial Statements.

Miles Community College, Custer County, Montana
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

		Primary Government
Cash flows from operating activities:		
Tuition and fees	$	1,369,542
Grants and contracts		1,435,695
Payments to employees		(4,185,074)
Payments to suppliers		(2,388,294)
Payments for utilities		(187,562)
Payments for scholarships and fellowships		(995,001)
Auxiliary activities		1,108,408
Other cash receipts (payments)		22,263
Net cash used in operating activities	$	(3,820,023)
Cash flows from noncapital financing activities		
State appropriations	$	2,913,356
State reimbursements		334,403
District levies		1,369,810
Net cash provided by noncapital financing activities	$	4,617,569
Cash flows from capital and related financing activities		
Purchase of capital assets	$	(519,770)
Proceeds from sale of capital assets		1,000
Principal paid on capital debt		(113,196)
Interest paid on capital debt		(89,944)
Net cash used in capital and related financing activities	$	(721,910)
Cash flows from investing activities		
Interest received on cash and cash equivalents	$	24,878
Net cash provided by investing activities	$	24,878
Net increase in cash and cash equivalents	$	100,514
Cash and cash equivalents, beginning of year		4,106,615
Cash and cash equivalents, end of year	$	4,207,129
Reconciliation to Statement of Net Position		
Cash and cash equvalents	$	4,071,100
Restricted cash		136,029
Total cash and cash equivalents	$	4,207,129

See Accompanying Notes to the Financial Statements.

Miles Community College, Custer County, Montana
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

		Primary Government
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating loss	$	(4,094,487)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation		498,846
Bad debt expense		82,491
Other post employment benefits		118,497
Net pension benefits		(84,866)
Changes in net assets and liabilities:		
Grants receivable		127,520
Accounts receivable - net		(126,690)
Prepaid expense		(1,354)
Inventories		(20,351)
Accounts payable		(337,589)
Accrued payroll		(18,854)
Deferred revenue - tuition and fees		16,408
Student deposits		7,040
Compensated absences payable		13,366
Net cash used in operating activities	$	(3,820,023)

See Accompanying Notes to the Financial Statements.

Miles Community College, Custer County, Montana
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	Agency Funds
ASSETS	
Cash and cash equivalents	$ 49,720
Accounts receivable - net	18,831
Prepaid expense	148
Total assets	$ 68,699
LIABILITIES	
Accounts payable	$ 38
Due to student groups	68,661
Total liabilities	$ 68,699

See Accompanying Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The College complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) Pronouncements.

Financial Reporting Entity

In determining the financial reporting entity, the College complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity,* and includes all component units of which the College appointed a voting majority of the units' board; the College is either able to impose its will on the unit or a financial benefit or burden relationship exists. In addition, the College complies with GASB statement No. 39, *Determining Whether Certain Organizations Are Component Units,* which relates to organizations that raise and hold economic resources for the direct benefit of the College. Effective July 1, 2012, the College adopted the provision of GASB statement No. 61, *The Financial Reporting Entity* which amended statement No. 14.

Primary Government

The College was established under Montana law to provide post-secondary educational services. Based on the criteria for determining the reporting entity (separate legal entity and financial or fiscal dependency on other governments) the College is a primary government as defined by GASB Cod. Sec. 2100 and has one component unit.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. The College has the following discretely presented component unit: Miles Community College Endowment.

Basis of Presentation, Measurement Focus and Basis of Accounting

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements of the College are accounted for using the accrual basis of accounting. Proprietary funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

The College distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with proprietary funds principal ongoing operations. The principal operating revenues for the College are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the College's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary Funds

Fiduciary funds account for assets held by the College in a trustee capacity or as an agent on behalf of outside parties, on behalf of other funds within the College. Agency funds are used to account for assets that the College holds for others in an agency capacity. The College receives scholarships and support from the Miles Community College Endowment. The College maintains an endowment fiduciary fund to collect expenditures owed to the College then seeks reimbursement.

Use of Estimates

The preparation of financial statements in accordance with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Income Taxes

As a public institution of higher education, the income of the College is generally exempt from federal and state income taxes under Section 115 (a) of the Internal Revenue Code and a similar provision of state law. However, the College is subject to federal income tax on any unrelated business taxable income. Defined by the Internal Revenue Code, unrelated business income is income from a trade or business, regularly carried on, that is not substantially related to the performance by the organization of its exempt purpose or function. The College does not have unrelated business income tax to report during fiscal year ended June 30, 2015.

Pensions

In June 2012 GASB issued GASB Statement No. 68 *Accounting and Financial Reporting for Pensions,* which replaces GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, for most government pensions. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual cost of the pension benefits. The statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This statement is effective for years beginning after June 15, 2014. Accounting changes adopted to conform to the provisions of this statement were applied beginning in the year ended June 30, 2015, retroactively by restating the beginning net position. See discussion of prior period restatement in Note 14. In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,*

Miles Community College Endowment

Nature of Activities

The Miles Community College Endowment (Endowment) is a nonprofit organization exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code. The Miles Community College Endowment assists the Miles Community College in achieving its mission to provide affordable and accessible comprehensive, quality, student-centered academic preparation and innovative vocational training programs. The mission of the Miles Community College Endowment is to assist the College with fundraising and to promote community awareness of campus needs to increase the flow of resources to support excellence in education. The primary sources of revenue for the Endowment are from contributions and investment income.

Basis of Accounting

The accounts of the Endowment are maintained, and the financial statements are prepared, on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents

For financial statement purposes, the Endowment considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Classification of Net Position

The Endowment classifies all net position as restricted by donor.

Investments

The investments are carried at fair value, unrecognized gains and losses are reflected in the Statement of Revenues, Expenses and Changes in Net Position as interest income.

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

Except for the Perkins Loan Fund, the College's cash is held by the County Treasurer and pooled with other County cash. With the College cash that is not necessary for short-term obligations, the College participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County's investment portfolio as of June 30, 2015, consisted of time deposits, U.S. Government Securities, Repurchase Agreements and the State Short-Term Investment Pool (STIP).

The College does not own specific identifiable investment securities in the pool; therefore, is not subject to categorization. Information regarding investment risk, collateral, security, and fair values for Custer County deposits and investments is available from Custer County Treasurer's office, 1010 Main Street, Miles City, Montana 59301. The Custer County external investment pool is not rated. Fair value approximates carrying value for investments as of June 30, 2015.

The College may invest in savings deposits, time deposits or repurchase agreements in financial institutions that are both located in Montana and insured by FDIC, FSLIC, or NCUA. The College may also invest in general obligations of the United States Government, Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Mortgage Corporation, and Federal Farm Credit Bank, or a U.S. Government security money market fund which holds eligible securities in its investment program, or in a unified investment program with the state, county treasurer, or any other political subdivision as long as investments are eligible.

For purposes of the Statement of Cash Flows, cash equivalents include all cash and investments, including restricted cash.

Deposits

The College's deposit balance at June 30, 2015, was $20,469, and the bank balance was $20,469. This amount was fully insured. The College's cash and investments, including restricted cash, as of June 30, 2015 consisted of the following:

Cash on hand	$ 11,200
Demand deposit accounts	20,469
Invested in the County Investment Pool	4,175,460
Total cash and investments	$ 4,207,129

The Endowment's deposit balance at June 30, 2015, was $899,105, and the bank balance was $899,105. At June 30, 2015, $577,371 was insured by the Federal Deposit and Insurance Corporation (FDIC), the remaining balance was uninsured and uncollateralized.

The Endowment's cash and investments as of June 30, 2015, consisted of the following:

Demand Deposit Accounts	$ 264,344
Money Market Accounts	634,761
First Interstate Financial	
Mutual Funds – MFS Utilities A	172,003
Ameriprise Financial	
Columbia - Port Builder Moderate Fund	278,544
Columbia RVS-High Yield Bond Fund	206,599
Edward Jones	
Growth Fund of America	47,752
Total	$ 1,604,003

Disclosures Relating to Credit Risk

Generally, 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. The Custer County Investment Pool does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the College contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Montana Code Annotated. There are no investments in any one issuer that represent 5% or more of the total College investments.

Concentration of credit risk for the Endowment is as follows:

Endowment	$	%
Ameriprise Financial Mutual Funds		
Equity securities within the mutual fund	$ 131,083	
Fixed income securities within the mutual fund	354,060	
Total Ameriprise Financial		69%
Edward Jones		
Growth Fund of America	47,752	7%
First Interstate Financial		
Mutual Funds-MFS Utilities A	172,003	24%
Total investments	$ 704,898	100%

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Montana law requires 50% security of deposits with financial institutions in excess of the depository insurance coverage limits. A governmental entity's money is insured for each "public unit" based on how the account is titled at the financial institution. The Custer County government is considered to have $250,000 FDIC coverage for demand deposits and $250,000 FDIC coverage for time and savings deposits in each bank in the state.

The College's deposits with financial institutions did not exceed federal depository insurance limits at June 30, 2015.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or governmental investment pools (such as the Custer County Investment Pool).

NOTE 3 RECEIVABLES

Taxes

Property tax levies are set in August, in connection with the budget process, and are based on taxable values listed as of January 1 for all property located in the District. Taxable values are established by the Montana Department of Revenue, and a revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.
An allowance for uncollectable accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

Real property taxes are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% a month plus a penalty of 2%. Real property on which taxes remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is to be seized and sold after the taxes become delinquent.

An allowance for uncollectable accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

Student Accounts Receivable

Student accounts receivable are reported net of allowance for doubtful accounts. These amounts are included in "Student Receivable – Net" on the Statement of Net Position.

Student accounts receivable	$ 143,290
Less allowances	(41,100)
Net student accounts receivable	$ 102,190

Unearned Revenue

Unearned revenue includes amounts received from student tuition and fees prior to the end of the fiscal year relating to summer term. These revenues are earned in the subsequent year.

Scholarship discounts and Allowances

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College and the amount that is paid by students and/or other third parties making payments on the students' behalf.

NOTE 4 INVENTORIES AND PREPAID EXPENSES

Inventories are valued at cost using the First In First Out (FIFO) method.

The cost of inventories is recorded as an expenditure when consumed.

Prepaid expenses to vendors benefit future reporting periods and are also reported on the consumption basis.

NOTE 5 CAPITAL ASSETS

The College's assets are capitalized at historical cost or estimated historical cost and the capitalization threshold for reporting purposes is as follows:

Major tangible items costing $5,000 or more and having a useful life of more than one year shall be capitalized and depreciated over the useful life of the item when applicable for purposes of property management and this policy. The useful life of an item shall be determined by Business Office personnel. Items costing less than $5,000 shall be expensed.

Software costing $25,000 or more and having a useful life of more than one year shall be capitalized and depreciated over the useful life of the software when applicable for purposes of property management and this policy. The useful life of the software shall be determined by Business Office personnel. Items costing less than $25,000 shall be expensed.

Library books shall be treated as a collection. Books shall be capitalized and reported at their historical cost. In the absence of historical cost information, the book's estimated historical cost shall be used. Donated books shall be capitalized and reported at their estimated fair value at the time of donation.

All capitalized individual books shall be depreciated over their estimated useful life using the straight-line method for depreciation, with no salvage value; and the collection shall be depreciated over its estimated useful life using one type of group or composite depreciation method, with no salvage value. The estimated useful life shall be determined by Business Office personnel.

Buildings and building improvements costing $25,000 or more shall be capitalized, and the useful life determined by the structure type defined in a current useful life table maintained by Business Office personnel. Buildings and building improvements costing less than $25,000 shall be expensed.

Land purchases shall be capitalized, regardless of cost.

Land improvements and infrastructure costing $25,000 or more shall be capitalized, and the useful life determined by the category of improvement as defined in a current useful life table maintained by Business Office personnel. Land improvements and infrastructure costing less than $25,000 shall be expensed.

Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred.

Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	20-50 years
Equipment	5-20 years
Library	5 years
Software	5 years

The following tables present the changes in capital assets for the year ended June 30, 2015:

	Balance July 1, 2014	Additions	Deletions	Balance June 30,2015
Capital assets not being depreciated:				
Land	$ 206,412	$ -	$ -	$ 206,412
Total capital assets not being depreciated	$ 206,412	$ -	$ -	$ 206,412
Other capital assets				
Buildings	$ 9,319,870	$ 111,995	$ -	$ 9,431,865
Machinery and equipment	2,157,008	404,544	(15,999)	2,545,553
Software	405,847	-	-	405,847
Library inventory	87,114	3,231	-	90,345
Total other capital assets at historical cost	$ 11,969,839	$ 519,770	$ (15,999)	$ 12,473,610
Less accumulated depreciation				
Buildings	$ (4,158,248)	$ (303,299)	$ -	$ (4,461,547)
Machinery and equipment	(1,028,131)	(183,532)	12,532	(1,199,131)
Software	(405,847)	-	-	(405,847)
Library inventory	(59,891)	(12,015)	-	(71,906)
Total accumulated depreciation	$ (5,652,117)	$ (498,846)	$ 12,532	$ (6,138,431)
Total capital assets, depreciable, net	$ 6,317,722	$ 20,924	$ (3,467)	$ 6,335,179
Total	$ 6,524,134	$ 20,924	$ (3,467)	$ 6,541,591

NOTE 6 LONG TERM LIABILITIES

The following table presents the changes in long-term liabilities for the year ended June 30, 2015:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015	Due within one year
Contracted debt	$ 2,093,431	$ -	$ (113,196)	$ 1,980,235	$ 119,106
Compensated absences	349,015	48,268	(34,902)	362,381	36,238
Total	$ 2,442,446	$ 48,268	$ (148,098)	$ 2,342,616	$ 155,344

Contracted Debt

Stockman Bank

The note payable to Stockman Bank of Montana was in the original amount of $400,000. The note is payable in monthly installments of $3,177 on the 23rd day of each month. This note bears interest at a variable rate, not less than 7.16% per annum nor more than 11.16% per annum. The interest rate as of June 30, 2014 was 7.16% per annum. This note is secured by a second mortgage on two tracts of land, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on September 23, 2017.

Annual requirement to amortize debt for Stockman Bank:

For Fiscal Year Ended	Principal	Interest
2016	$ 33,562	$ 4,567
2017	36,046	2,084
2018	9,366	112
Total	$ 78,974	$ 6,763

USDA Rural Development #1

The first note payable to the USDA Rural Development was in the original amount of $400,000. This note is payable in semi-annual installments of $15,936 due on March 23rd and September 23rd of each year. This note bears interest at 5.00% per annum. This note is secured by two tracts of land, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on September 23, 2017.

Annual requirement to amortize debt for USDA Rural Development:

For Fiscal Year Ended	Principal	Interest
2016	$ 28,537	$ 3,335
2017	29,982	1,890
2018	15,225	381
Total	$ 73,744	$ 5,606

First Interstate Bank

The mortgage payable to First Interstate Bank was in the original amount of $370,000. This mortgage is payable in monthly installments of $2,502 on the 18th day of each month. This mortgage bears interest at a variable rate, currently at 5.00%. This mortgage is secured by the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this mortgage is due on May 18, 2024. This note payable is guaranteed by the USDA Rural Development for 90% of the outstanding balance of the note payable.

Annual requirement to amortize debt for First Interstate Bank:

For Fiscal Year Ended	Principal	Interest
2016	$ 19,697	$ 10,328
2017	20,704	9,321
2018	21,763	8,261
2019	22,877	7,148
2020	24,047	5,977
2021	25,278	4,747
2022	26,571	3,454
2023	27,930	2,094
2024	26,641	666
Total	$ 215,508	$ 51,996

USDA Rural Development #2

The second note payable to the USDA Rural Development was in the original amount of $1,500,000. This note is payable in monthly installments of $6,630 on the 18th day of each month. This note bears interest at 4.375% per annum. This note is secured by the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on April 18, 2044.

Annual requirement to amortize debt for USDA Rural Development:

For Fiscal Year Ended	Principal	Interest
2016	$ 23,060	$ 56,500
2017	24,090	55,470
2018	25,165	54,395
2019	26,288	53,272
2020	27,462	52,098
2021	28,688	50,872
2022	29,968	49,592
2023	31,306	48,254
2024	32,703	46,857
2025	34,163	45,397
2026	35,688	43,872
2027	37,281	42,279
2028	38,945	40,615
2029	40,684	38,876
2030	42,500	37,060
2031	44,397	35,163
2032	46,379	33,181
2033	48,449	31,111
2034	50,611	28,949
2035	52,871	26,689
2036	55,231	24,329
2037	57,696	21,864
2038	60,272	19,288
2039	62,962	16,598
2040	65,772	13,787
2041	68,708	10,852
2042	71,775	7,785
2043	74,979	4,581
2044	63,816	1,257
Total	$ 1,301,909	$ 990,843

Montana Department of Environmental Quality

The note payable to the Montana Department of Environmental Quality was in the original amount of $350,408 and will be paid off on August 1, 2031. This note is payable in annual installments of $23,553 due on August 1st of each year. Interest is payable at 3.00% per annum.

Annual requirement to amortize debt for the Montana Department of Environmental Quality:

For Fiscal Year Ended	Principal	Interest
2016	$ 14,250	$ 9,303
2017	14,677	8,876
2018	15,118	8,435
2019	15,571	7,982
2020	16,038	7,515
2021	16,520	7,033
2022	17,015	6,538
2023	17,526	6,027
2024	18,051	5,502
2025	18,593	4,960
2026	19,151	4,402
2027	19,725	3,828
2028	20,317	3,236
2029	20,927	2,626
2030	21,554	1,999
2031	22,201	1,352
2032	22,866	687
Total	$ 310,100	$ 90,301

Compensated Absences

Non-teaching College employees earn vacation leave ranging from fifteen to twenty-four days per year depending on the employee's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. Sick leave is earned at a rate of one day per month for non-teaching employees and at the rate of one day per month for the length of the full-time teaching contract. Upon retirement or termination, employees are paid for 100% of unused vacation and 25% of unused sick leave. Upon termination, all payments are made at the employee's current rate of pay.

NOTE 7 STATE-WIDE RETIREMENT PLANS

The College participates in two cost-sharing, multiple-employer defined benefit pension plans. The plans provide retirement, death, and disability benefits to plan members and beneficiaries with amounts determined by the State. Teaching employees are covered by Montana Teachers Retirement System (TRS) and substantially all other College employees are covered by the Montana Public Employees Retirement System (PERS). The plans are established by Montana law and administered by the State of Montana.

Plan Description

TRS

Teachers' Retirement System (TRS or the System) is a mandatory-participation multiple-employer cost sharing defined-benefit public pension plan that provides retirement services to individuals employed as teachers, administrators, and in other professional and skilled positions employed in public education in Montana.

The TRS Board is the governing body of the System and the TRS staff administers the System in conformity with the laws set forth in Title 19, chapter 20 of the Montana Code Annotated (MCA), and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules, may be obtained by visiting the TRS web site at trs.mt.gov.

PERS

The PERS-Defined Benefit Retirement Plan (PERS), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, MCA. This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the *defined benefit* and *defined contribution* retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP). For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

Summary of Benefits

TRS

Through June 30, 2013, all members enrolled in TRS participated in a single-tiered plan ("Tier One"). Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation (AFC). Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Beginning July 1, 2013, new members in TRS participate in a second benefit tier ("Tier Two"), which differs from Tier One as follows:

- Tier Two uses a 5-year AFC (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation - 1.85% x AFC x years of creditable service - for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than 1.6667 x AFC x years of creditable service)

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA calculated prior to July 1, 2013, was 1.5% of the benefit payable as of January 1st. Effective July 1, 2013, the GABA to be calculated for Tier One and Tier Two members each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation. The legislative enactment that allows for reduction of the GABA for Tier One members is currently being litigated. A temporary restraining order requires continued calculation of the GABA at the full 1.5% rate for Tier One members pending resolution of the litigation.

PERS

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;
Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

Eligibility for benefit

Service retirement:

Hired prior to July 1, 2011:	Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service.
Hired on or after July 1, 2011:	Age 65, 5 years of membership service; Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011:	Age 50, 5 years of membership service; or Any age, 25 years of membership service.
Hired on or after July 1, 2011:	Age 55, 5 years of membership service.

Vesting

5 years of membership service

Monthly benefit formula

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)*

*Court Decision: The First Judicial District Court, Judge Reynolds presiding, issued a decision March 4, 2015, concluding that Section 5 of HB 454 substantially impairs contract rights and is in violation of the contract clause of both the Montana and the United States Constitutions. A permanent injunction prohibiting the State from reducing the GABA paid to PERS retirees was issued. Following cross-appeals to Montana Supreme Court, the parties agreed to seek clarification from Judge Reynolds regarding the scope of his original order. Judge Reynolds issued an order August 19, 2015, clarifying that the permanent injunction is only applicable to public employees that were hired prior to July 1, 2013, the effective date of HB 454. The permanent injunction does not apply to public employees hired on or after July 1, 2013.

After the member has completed 12 full months of retirement, the member’s benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member’s benefit.

- 3% for members hired **prior to** July 1, 2007
- 1.5% for members hired **on or after** July 1, 2007

- Members hired on or after July 1, 2013
  a. A maximum of 1.5% each year PERS is funded at or above 90%;
  b. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
  c. 0% whenever the amortization period for PERS is 40 years or more.

Overview of Contributions

TRS

The System receives a portion of the total required statutory contributions directly from the State for all employers. The employers are considered to be in a special funding situation as defined by GASB 68 and the State is treated as a non-employer contributing entity in TRS. The System receives 2.49% of reportable compensation from the State's general fund for School Districts and Other Employers. The System also receives 0.11% of reportable compensation from the State's general fund for State and University Employers. Finally, the State is also required to contribute $25 million in perpetuity payable July 1st of each year.

MCA 19-20-605 requires each employer to contribute 9.85% of total compensation paid to all reemployed TRS retirees employed in a TRS reportable position. Pursuant to MCA 19-20-609, this amount increased by 1.00% for fiscal year 2014 and shall increase by 0.10% each fiscal year through 2024 until the total employer contribution is equal to 11.85% of re-employed retiree compensation.

PERS

1. Member and employer contribution rates are established by state law and may be amended only by the legislature.

   Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates.

2. Member contributions to the system for the fiscal year ended June 30, 2015:

   a. Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
   b. The 7.90% member contributions is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

3. Employer contributions to the system for the fiscal year ended June 30, 2015:
   a. State and University System employers are required to contribute 8.27% of members' compensation.
   b. Local government entities are required to contribute 8.17% of members' compensation.

c. School district employers contributed 7.90% of members' compensation.
d. Effective July 1, 2013, the additional employer contributions for DCRP and MUS-RP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability.
e. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

4. Non Employer Contributions
   a. Special Funding
      i. The State contributes 0.1% of members' compensation on behalf of local government entities.
      ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
   b. Not Special Funding
      i. The State contributes from the Coal Tax Severance fund.

Net Pension Liability, Pension Expense (Revenue), and Deferred Outflows and Inflows of Resources Related to Pensions:

At June 30, 2015, the College reported a total liability of $2,942,749 for its proportionate share of the net pension liability.

TRS and PERS have a special funding situation in which the State of Montana is legally responsible for making contributions directly to TRS and PERS on behalf of the College. Due to the existence of this special funding situation, the College is required to report the portion of the State of Montana's proportionate share of the collective pension liability. The College's and State of Montana's proportionate share of the net pension liability are presented below:

	Net Pension Liability June 30, 2014	
	TRS	PERS
College proportionate share	$ 1,894,158	$ 1,048,591
State of Montana proportionate share associated with College	1,299,891	12,805
	$ 3,194,049	$ 1,061,396

TRS

The College recorded a liability of $1,894,158 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The College's proportion of the net pension liability was based on the College's contributions received by TRS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of TRS' participating employers. At June 30, 2014, the College's proportion was 0.1231 percent.

Changes in actuarial assumptions and methods: The following changes in assumptions or other inputs that affected the measurement of the Total Pension Liability have been made since the previous measurement date.

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expensed to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
  - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members was updated to the following:
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension liability.

PERS

The College recorded a liability of $1,048,591 for its proportionate share of the net pension liability. The Net Pension Liability was measured as of June 30, 2014, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2014. The College's proportion of the Net Pension Liability was based on the College's contributions received by PERS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERS' participating employers. At June 30, 2014, the College's proportion was 0.08415600 percent.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective Net Pension Liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension liability.

Pension Expense

	Pension Expense as of June 30, 2014	
	TRS	PERS
Employer's Proportionate Share	$ 106,345	$ 51,761
State of Montana Proportionate Share associated with the Employer	72,789	29,650
Total	$ 179,134	$ 81,411

TRS

At June 30, 2015, the College recognized a Pension Expense of $179,134 for its proportionate share of the TRS' pension expense. The employer also recognized grant revenue of $72,789 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

PERS

At June 30, 2015, the College recognized a Pension Expense of $81,411 for its proportionate share of the PERS' pension expense. The employer also recognized grant revenue of $29,650 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

Support Revenue

In accordance with Statement 68, PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS on behalf of the employers. Due to the existence of this special funding situation, local governments and school districts are required to report the portion of special funding attributable to the employer.

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer.

Deferred Outflows and Inflows of Resources

The Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The College has one item that qualifies for reporting in this category, pension obligations.

The Statement of Net Position will include a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The College has one item that qualifies for reporting in this category reported on the statement of net position, employer pension assumption.

Recognition of Beginning Deferred Outflow – GASB 71

TRS

At June 30, 2015, the College recognized a beginning deferred outflow of resources for the employers FY 2014 contributions of $132,592.

PERS

At June 30, 2015, the College recognized a beginning deferred outflow of resources for the employers FY2014 contributions of $77,601.

Deferred Inflows and Outflows

TRS

At June 30, 2015, the College reported its proportionate share of TRS' deferred outflows of resources and deferred inflows of resources related to TRS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 18,738	$ -
Changes in actuarial assumptions	42,930	-
Difference between projected and actual investment earnings	-	293,379
Difference between actual and expected contributions	-	37,289
Contributions paid to TRS subsequent to the measurement date - FY 2015 Contributions	150,470	-
	$ 212,138	$ 330,668

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

		Amount recognized in pension expense as an increase or (decrease) to pension expense
Year ended June 30:		
2016	$	(62,111)
2017		(62,111)
2018		(62,111)
2019		(82,667)

PERS

At June 30, 2015, the College reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	$ -	$ 270,939
Difference between actual and expected contributions	1,710	34
Contributions paid to PERS subsequent to the measurement date - FY 2015 Contributions	92,886	-
	$ 94,596	$ 270,973

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

		Amount recognized in pension expense as an increase or (decrease) to pension expense
Year ended June 30:		
2016	$	(67,176)
2017		(67,176)
2018		(67,176)
2019		(67,735)

Actuarial Assumptions

TRS

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of July 1, 2014. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2014, valuation were based on the results of the last actuarial experience study dated May 1, 2014. Among those assumptions were the following:

- Total Wage Increases* 8.51%
- Investment Return 7.75%
- Price Inflation 3.25%
- Postretirement Benefit Increases 1.50%
  (starting three years after retirement)
- Mortality among contributing members, service retired members, and beneficiaries
  - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

*Total Wage Increases include 4.00% general wage increase assumption and 4.51% merit and longevity increases.

PERS

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- General Wage Growth* 4.00%
  *includes Inflation at 3.00%
- Merit Increases 0% to 6%
- Investment Return 7.75%
- Postretirement Benefit Increases

As a result of HB 454 (2013) a permanent injunction is applicable to PERS members hired before July 1, 2013.

- Members hired prior to July 1, 2007 maintain the 3% GABA
- Members hired between July 1, 2007 and June 30, 2013 maintain the 1.5% GABA
- Members hired on or after July 1, 2013 will have a "sliding scale" GABA ranging from 0% to 1.5% as provided in HB 454 (2013).

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided above) each January, inclusive of other adjustments to the member's benefit.

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

TRS

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. In addition to the contributions the State general fund will contribute $25 million annually to the System payable July 1st of each year. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2116. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability**.** No municipal bond rate was incorporated in the discount rate.

PERS

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability**.** No municipal bond rate was incorporated in the discount rate.

Target Allocations

TRS

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared every four years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized in the below table.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Broad US Equity	36.00%	4.80%
Broad International Equity	18.00%	6.05%
Private Equity	12.00%	8.50%
Intermediate Bonds	23.40%	1.50%
Core Real Estate	4.00%	4.50%
High Yield Bonds	2.60%	3.25%
Non-Core Real Estate	4.00%	7.50%
	100.00%	

PERS

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized in the table below.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%
	100.00%	

Sensitivity Analysis

	1.0% Decrease (6.75%)	Current Discount Rate (7.75%)	1.0% Increase (8.75%)
TRS proportionate share of the net pension liability	$2,631,588	$1,894,158	$1,271,143
PERS proportionate share of the net pension liability	$1,668,201	$1,048,591	$526,012

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

NOTE 8 OTHER POST EMPLOYMENT BENEFITS

The College adopted the provisions of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

Plan Description. The healthcare plan provides for, and Montana State Law (§2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post-Employment Benefits (OPEB) liability. Actuaries Northwest has prepared for the Montana University System the Annual Required Contribution (ARC) under Governmental Accounting Standards Boards. The above described OPEB plan does not provide a stand-alone financial report.

Funding Policy. The College pays OPEB liability costs on a pay-as-you-go basis. A trust fund for future liabilities has not been established.

Annual OPEB Cost and Net OPEB Obligation. The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB Statement 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 liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the government's net OPEB obligation.

Current year OPEB activity	
Annual Required Contribution (ARC)	$ 101,793
Interest on net OPEB obligation	44,510
Amortization of Net OPEB Obligation	(34,910)
Annual OPEB cost (expense)	$ 111,393
Employer Contributions made	(34,901)
Increase in current OPEB obligation	$ 76,492
Net Position change in OPEB	
Net OPEB obligation – beginning of year	$ 702,087
Current year net obligation	76,492
Net OPEB obligation – end of year	$ 778,579

Actuarial Methods and Assumptions. The actuarial funding method used to determine the cost was the projected unit credit funding method. This method's objective is to fund each participant's benefits under the plan as they accrue. The total benefit to which each participant is expected to become entitled at retirement is categorized into units, each associated with a year of past or future credited service.

The following actuarial methods and assumptions were used:

Interest/Discount rate (average anticipated rate)	4.25%
Average salary increase (consumer price index)	2.50%
Participant percentage:	
Future retirees assumed to elect coverage at retirement	55.00%
Future eligible spouses of future retires assumed to elect coverage	60.00%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Such events include assumptions about future employment, mortality rates, and healthcare cost trends. Amounts are subject to continual review and revision as actual results are compared with past expectations and new estimates are made.

NOTE 9 INSURANCE BENEFITS TO RETIRED EMPLOYEES

Plan Description. Full-time employees are eligible to extend their Montana University System Group Insurance Plan benefits beyond retirement from the College if they meet all of the following conditions:

1. They have worked at the College for at least 10 years of continuous service.
2. They are eligible for retirement benefits in the Montana State Retirement System.
3. They retire from the College as a full-time employee.

The following benefits are extended to people meeting the above conditions:

1. Ten years continuous service: one half of the current premium paid by the College toward the College group plan for one year following retirement.
2. Fifteen year continuous service: three-quarters of the current premium paid by the College toward the College group plan for one year following retirement.
3. Twenty years continuous service: full cost of the current premium paid by the College toward the College group plan for one year following retirement.
4. Twenty-five years continuous service: full cost of the current premium paid by the College toward the College group plan for one year and half of the premium for one additional year following retirement.
5. Thirty years continuous service: full cost of the current premium paid by the College toward the College group plan for two years following retirement.

The insurance retirement benefits will not be broken into smaller fractions than what is listed above. Thus an employee who has served thirteen years and decides to retire would receive the benefit listed for an employee who had worked ten years. And employee must complete at least fifteen years to be eligible for the next level of benefits.

Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post-Employment Benefits (OPEB) liability. The above described OPEB plan does not provide a stand-alone financial report.

Funding Policy. The College pays OPEB liability costs on a pay-as-you-go basis. A trust fund for future liabilities has not been established.

Net OPEB Obligation. The government's annual other post-employment benefit (OPEB) is calculated based on the employees years of service to date and the estimated daily cost of the insurance premium. The following table shows the changes in the government's net OPEB obligation.

Current year OPEB activity	
Net OPEB obligation – beginning of year	$ 264,854
Current year net obligation	42,005
Net OPEB obligation – end of year	$ 306,859

Valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Such events include assumptions about future employment, mortality rates, and healthcare cost trends. Amounts are subject to continual review and revision as actual results are compared with past expectations and new estimates are made.

NOTE 10 NET POSITION

The College's net position is classified as follows:

Net Investment in Capital Assets – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Position, Expendable – This includes resources which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted Net Position – Unrestricted net position represents resources derived from student fees, state appropriations, and sales and services of educational departments. These resources are used for transactions related to the educational and general obligations of the College, and may be used at the discretion of the governing board to meet current expenses for any lawful purpose.

When both restricted and unrestricted resources are available for use, it is the College's practice to use restricted resources first, then unrestricted resources as they are needed.

NOTE 11 RESTRICTED CASH

College	
Description	
Perkins loans	$ 20,469
Debt service	115,560
Total	$ 136,029

Endowment	
Restricted for scholarships	$ 1,604,003

NOTE 12 RELATED PARTY TRANSACTIONS

The following schedule presents significant transactions between the primary government and its component unit during the year ended June 30, 2015:

Component Unit	Significant Transactions
Miles Community College Endowment	Donated $27,960

NOTE 13 RISK MANAGEMENT

The College faces considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries and (f) medical insurance costs of employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Policies:

Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employees' torts, and professional liabilities. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the College has no coverage for potential losses from environmental damages.

NOTE 14 RESTATEMENTS

As of July 1, 2014, the College adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the cost and obligations associated with pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date.

Net position as previously reported at June 30, 2014	$ 6,828,124
Prior period adjustment:	
Net pension liability	(3,538,782)
Deferred outflows:	
Contributions made during fiscal year 2014	216,259
Total prior period adjustment	(3,322,523)
Net position as restated, July 1, 2014	$ 3,505,601

Required Supplementary Information
June 30, 2015
Miles Community College

Miles Community College, Custer County, Montana
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	$ -	$ 1,927,543	$ 1,927,543	0%	$ 3,258,396	59%
July 1, 2011	$ -	$ 1,059,518	$ 1,059,518	0%	$ 3,127,539	34%
July 1, 2013	$ -	$ 1,002,418	$ 1,002,418	0%	$ 2,789,281	36%

MILES COMMUNITY COLLEGE
CUSTER COUNTY, MONTANA
REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2015

Schedule of Employer's Share of Net Pension Liability
Teacher's Retirement System
Last 10 - Fiscal Years *

	2015
Employer's proportionate share of the net pension liability	0.1231%
Employer's proportion share of the net pension liability	$ 1,894,158
State of Montana's proportionate share of the net pension liability associated with the Employer	$ 1,299,891
Total	$ 3,194,049
Employer's covered-employee payroll	$ 1,222,046
Employer's proportional share of the net pension liability as a percentage of its covered-employee payroll	155.00%
Plan fiduciary net position as a percentage of the total pension liability	70.36%

Schedule of Employer's Share of Net Pension Liability
Public Employees Retirement Systems of Montana
Last 10 - Fiscal Years *

	2015
Employer's proportionate share of the net pension liability	8.415600%
Employer's proportion share of the net pension liability	$ 1,048,591
State of Montana's proportionate share of the net pension liability associated with the Employer	$ 12,805
Total	$ 1,061,396
Employer's covered-employee payroll	$ 952,643
Employer's proportional share of the net pension liability as a percentage of its covered-employee payroll	110.07%
Plan fiduciary net position as a percentage of the total pension liability	79.90%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the College will present information for those years for which information is available.

Date reported is measured as of July 1, 2014.

MILES COMMUNITY COLLEGE
CUSTER COUNTY, MONTANA
REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2015

Schedule of Employer Contributions
Teacher's Retirement System
Last 10 - Fiscal Years *

	2015
Statutorily required contribution	$ 150,470
Contributions in relation to the statutorily required contribution	$ 150,470
Contribution (deficiency) excess	$ -
Employer's covered - employee payroll	$ 1,593,474
Contributions as a percentage of the covered-employee payroll	11.76%

Schedule of Employer Contributions
Public Employees Retirement Systems of Montana
Last 10 - Fiscal Years *

	2015
Statutorily required contribution	$ 83,665
Contributions in relation to the statutorily required contribution	$ 83,665
Contribution (deficiency) excess	$ -
Employer's covered - employee payroll	$ 961,599
Contributions as a percentage of the covered-employee payroll	8.957%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the College will present information for those years for which information is available.

Data reported is measured as of June 30, 2015.

Supplementary Information
June 30, 2015
Miles Community College

Miles Community College, Custer County, Montana

Functional Classification of Operating Expenses

For the Fiscal Year Ended June 30, 2015

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation And Maintenance	Auxiliary	Totals
Personal services	$ 1,995,044	$ 27,002	$ 394,557	$ 605,546	$ 782,396	$ -	$ 267,930	$ 243,181	$ 4,315,656
Scholarships and grants	-	-	-	94,710	-	878,651	-	21,640	995,001
Contracted services	66,036	4,414	95,849	148,339	209,047	-	91,353	27,991	643,029
Depreciation and amortization expense	-	-	-	-	-	-	498,846	-	498,846
Supplies	101,036	2,583	87,473	137,891	5,195	-	31,189	56,756	422,123
Food for resale	-	-	-	-	-	-	-	259,853	259,853
Utilities	-	-	1,936	42,722	-	-	142,904	-	187,562
Items for resale	-	-	-	-	-	-	-	148,734	148,734
Travel	16,929	1,533	5,344	92,404	29,428	-	-	1,889	147,527
Other operating expense	9,981	3,299	29,019	13,988	44,595	-	123	8,628	109,633
Communications	1,199	611	51,322	25,394	10,956	-	3,273	4,889	97,644
Advertising	14,381	1,491	3,237	71,018	5,488	-	115	1,566	97,296
Bad debt expense	-	-	-	1,560	80,931	-	-	-	82,491
Student support	60,458	-	21,307	-	-	-	-	-	81,765
Insurance	9,671	86	-	6,525	-	-	43,791	19,307	79,380
Repairs and maintenance	7,376	-	14,533	16,269	326	-	22,651	9,158	70,313
Meetings and dues	4,456	942	3,981	16,477	22,905	-	-	467	49,228
Rent and lease	1,115	-	1,670	5,762	604	-	1,110	140	10,401
Indirect costs	4,244	-	4,284	-	-	-	-	-	8,528
IT system support	-	-	3,141	331	-	-	-	-	3,472
	$ 2,291,926	$ 41,961	$ 717,653	$ 1,278,936	$ 1,191,871	$ 878,651	$ 1,103,285	$ 804,199	$ 8,308,482

Miles Community College, Custer County, Montana
Student Financial Aid Modified Statement of Cash Receipts and Disbursements
For the Fiscal Year Ended June 30, 2015

	Pell	Perkins	CWS	SEOG
Beginning cash balance	$ (33,352)	$ 20,463	$ -	$ -
Additions:				
Federal advances	593,352	-	35,514	27,000
Interest income	-	6	-	-
Total additions	$ 593,352	$ 6	$ 35,514	$ 27,000
Deductions:				
Distribution to students	$ 600,678	$ -	$ 34,626	$ 28,262
Administrative expenses	-	-	888	-
Total deductions	$ 600,678	$ -	$ 35,514	$ 28,262
Net change to cash	$ (7,326)	$ 6	$ -	$ (1,262)
Ending cash balance	$ (40,678)	$ 20,469	$ -	$ (1,262)

Miles Community College, Custer County, Montana
Schedules of Federal Expenditures
Student Financial Assistance Programs
For the Fiscal Year Ended June 30, 2015

Perkins Loan Program		
Student loan advances	$	-
College Work Study		
Wages	$	34,626
Administrative cost		888
Total college work study	$	35,514
Supplemental Education Opportunity Grant Program		
Student grants	$	28,262
Pell Grant Program		
Student grants	$	600,678

Miles Community College, Custer County, Montana
Schedule for Full Time Equivalent
For the Fiscal Year Ended June 30, 2015

Semester	Resident	WUE	Nonresident	Total
Summer 2014	45.0	0.6	0.9	46.5
Fall 2014	247.6	31.5	45.5	324.6
Spring 2015	273.7	26.4	44.8	344.9

The FTE calculations were based on enrollment at the end of the third week of the semester.

Required Supplementary Information
June 30, 2015
Miles Community College

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
Miles Community College
Miles City, Montana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Miles Community College (the College) and its discretely presented component unit Miles Community College Endowment (the Endowment) as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report dated January 25, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2015-A to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2015-B to be a significant deficiency.

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Compliance and Other Matters

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

College's Response to Findings

The College's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Eide Bailly LLP

Boise, Idaho
January 25, 2016

2015-A **Material Audit Adjustment**
Material Weakness

Criteria
Management is responsible for establishing and implementing a system of internal control that will prevent, detect and correct errors in a timely manner.

Condition
During the course of our audit engagement, we proposed a material audit adjustment, which if not recorded, would have resulted in a material misstatement of the financial statements of the discretely presented component unit, Miles Community College Endowment (Endowment). The need for this adjustment indicates that the Endowment's timely reporting of accrual basis financial information is not materially correct, which may affect management decisions made during the course of the year.

Cause
The internal controls currently in place were not sufficient to identify proper revenue recognition under non-profit accounting.

Effect
Material misstatements undetected by the Endowment and not corrected in a timely manner may result in future audit adjustments or even qualification of the opinion on the financial statements.

Recommendation
Procedures should be implemented which include the review of significant account balances and financial processes on a timely basis to ensure that accurate financial information is included in the financial statements of the Endowment and reported to governance timely.

Management's Response
and Corrective Action Plan

Action Planned in Response to Finding
Management will meet at least quarterly with the Endowment to review significant account balances and financial processes to ensure that timely and accurate financial information is included in the financial statements.

Explanation of Disagreements
None noted.

Official Responsible for ensuring corrective action
Lisa D. Smith, Vice President of Administrative Services

Planned completion of corrective action
This will be an ongoing process.

Plan to monitor Completion of Corrective Action
Meetings with the Endowment will be ongoing.

2015-B Accrued Insurance OPEB Obligation and Disclosure
Significant Deficiency

Criteria

Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45) requires the College to calculate the actuarial accrued liability (AAL), the present value of vested and vesting future benefits promised to employees, the unfunded AAL, the annual required contribution, and the normal cost of the OPEB. These OPEB related factors are required to be calculated using actuarial methods and assumptions. This calculation can be performed by hiring an actuary every 3 years to make the calculation, or the College can choose to perform its actuarial calculation.

Condition

As allowed by GASB 45 for plans with less than 100 participants, the College has elected not to hire an actuary to calculate the elements required by GASB 45. However, the self-calculation performed by the College is not currently taking into consideration the required actuarial methods or assumptions. In addition, the footnotes disclosures do not contain all the elements required by GASB 45.

Cause

Management was not aware of all the requirements outlined in GASB 45 as it relates to their Accrued Insurance OPEB.

Effect

Without using the required actuarial methods and assumptions, the OPEB obligation calculated could be misstated. In addition, not all of the required elements are calculated and disclosed in compliance with GASB 45.

Recommendation

We recommend the College hire an actuary or perform the calculation of the Accrued Insurance OPEB obligation and related elements to ensure the obligation recorded by the College is complete and estimated in accordance with GASB 45 and that all footnote disclosures are in compliance with GASB 45.

Management's Response
and Corrective Action Plan

Action Planned in Response to Finding

The College will hire an actuary to calculate the Accrued Insurance OPEB obligation and related elements to ensure the obligation recorded is complete and estimated in accordance with GASB 45 and that all footnote disclosures are in compliance with GASB 45.

Explanation of Disagreements:

None noted

Official Responsible for ensuring corrective action

Lisa D. Smith, Vice President of Administrative Services

Planned completion of corrective action

Planned completion of corrective action will be October 31, 2016.

Plan to monitor Completion of Corrective Action

The College will ensure the calculation is complete and estimated in accordance with GASB 45 and that all footnote disclosures are in compliance with GASB 45.