FLATHEAD VALLEY COMMUNITY COLLEGE

FLATHEAD COUNTY, MONTANA

Fiscal Years Ended June 30, 2016 and 2015

AUDIT REPORT

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

January 2017

The Legislative Audit Committee
Of the Montana State Legislature:

Enclosed is the report on the audit of the Flathead Valley Community College for the fiscal years ended June 30, 2016, and 2015.

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

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

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

16C-07

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June 30, 2016 and 2015

Flathead Valley Community College

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Independent Auditor's Report

Board of Trustees
Flathead Valley Community College
Kalispell, Montana

Report on the Financial Statements
We have audited the accompanying financial statements of Flathead Valley Community College (the College), as of and for the years ended June 30, 2016 and 2015, the financial statements of the discretely presented component unit as of and for the years ended December 31, 2015 and 2014, 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 opinions on these financial statements based on our audits. We did not audit the financial statements of the Component Unit – Flathead Valley Community College Foundation (the Foundation). Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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.

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College as of June 30, 2016 and 2015, and the discretely presented component unit as of December 31, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

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 for Post-Employment Benefits Plans as listed 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 Expenditures – Student Financial Assistance Programs, Schedule of Full Time Equivalent and Functional Classification of Operating Expenses (supplementary information) are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also 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 supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2017, 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 5, 2017

Overview

The following Management's Discussion and Analysis is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. Flathead Valley Community College's (the College) Management Discussion and Analysis (MD&A) presents an overview of its financial condition and results of operations for the fiscal years ended June 30, 2016 and 2015. The MD&A's purpose is to aid readers in understanding the accompanying financial statements through analysis of the College's financial activities based on currently known facts and conditions. This MD&A should be read in conjunction with the accompanying financial statements and footnote disclosures.

Financial Highlights

In fiscal year 2016, operating loss was $13.4 million, consistent with 2015. Non-operating revenues including contributions remained consistent at $14.7 million in 2016 and $14.8 million in 2015, resulting in a change in net position of $1.4 million in 2016 and 2015.

In fiscal year 2015, operating loss was $13.4 million compared with the $12.5 million in 2014. Non-operating revenues including contributions increased to $14.8 million in 2015 compared to $14.2 million in 2014, resulting in a change in net position of $1.4 million in 2015 and $1.7 million 2014.

These results were achieved during a slight downward trend in enrollment and reflect the College's ability to adjust spending appropriately and react to the changing higher education landscape while responding to the needs of students and the community.

How the Financial Statements Relate to Each Other

The financial statements included are the:

- Statements of Net Position
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Cash Flows

The financial statements are presented using the accrual basis of accounting. The accrual basis of accounting simply means that the transaction is recognized (recorded) when an exchange takes place. An exchange can be defined as a situation in which each party receives and gives something of equal value. For example, a student registers for a class on July 1st and sets up a payment plan to pay tuition and fees in full by July 31st. On July 1st, there is no cash presented, however, because the registration (exchange) takes place (reserved seat in class equals commitment to pay), revenue is recognized on July 1st. An offsetting student receivable is set up to track the amount the student owes. As the student pays for the tuition and fees, the receivable is reduced by the same increment.

The financial statements referred to above are interrelated and should be viewed in their entirety. The Statement of Net Position presents a snap shot of the financial condition of the College on June 30. The Statement of Revenues, Expenses, and Changes in Net Position presents the results of activities for the College throughout the fiscal year. The Statement of Cash Flows indicates where and how cash was utilized and provided in order to operate throughout the fiscal year.

Statement of Net Position

The Statement of Net Position presents the College's assets, deferred outflow of resources, liabilities, deferred inflows of resources and net position as of the fiscal year end. The purpose of this statement is to present to the financial statement readers a snapshot of the College's financial position at June 30, 2016 and 2015. The data presented in the Statement of Net Position aids in determining the assets available to continue the College's operations. It also allows readers to determine how much the College owes to vendors and creditors. Finally, the Statement of Net Position provides a picture of net position and its availability for expenditure by the College. Assets and liabilities are presented in a classified format. This format differentiates between current and non-current assets and liabilities. Current assets and liabilities are those expected to be realized or expended within the next twelve months.

Net position is presented in three categories applicable to the College:

- Net Investment in Capital Assets
- Restricted – Expendable
- Unrestricted

This statement is one way of measuring the College's financial position at the end of the fiscal year. Improvements or deterioration of financial position can be measured over time by analyzing the change in net position.

The following is a summary of the Statements of Net Position at June 30, 2016, 2015 and 2014:

	2016	2015	2014
Current Assets	$ 14,462,567	$ 15,174,897	$ 14,856,822
Capital and Other Assets	33,590,813	32,739,449	33,211,510
Total assets	48,053,380	47,914,346	48,068,332
Deferred Outflow of Resources	1,623,145	1,506,299	-
Current liabilities	3,450,797	2,881,796	3,275,796
Non-Current Liabilities	28,149,926	28,284,698	16,257,621
Total liabilities	31,600,723	31,166,494	19,533,417
Deferred Inflow of Resources	1,116,723	2,684,848	500
Net Investment in Capital Assets	20,248,603	18,641,674	17,718,080
Restricted-expendable	984,195	310,000	725,000
Unrestricted	(4,273,719)	(3,382,371)	10,091,335
Total net position	$ 16,959,079	$ 15,569,303	$ 28,534,415

Current assets include the College's cash, taxes, grants, student loans, accounts receivables, inventories and other assets expected to benefit the College within one year. Current assets decreased $712 thousand in 2016 compared to 2015. The decrease was due to a decrease in cash and cash equivalents, offset by an increase in receivables and other assets. Receivables increased primarily due to timing of payments from various grants. Current assets increased $318 thousand in 2015 compared to 2014. The increase was due to an increase in cash and cash equivalents, and inventories, netted against a decrease in net receivables and other assets. Receivables decreased primarily due to timing of payments from Flathead Community College Foundation.

Non-current assets include restricted cash and investments and net capital assets. Non-current assets increased $851 thousand in 2016 compared to 2015. The increase is primarily due to the addition of capital assets including construction in progress, offset by the annual depreciation expense and an increase in restricted cash and investments. Non-current assets decreased $472 thousand in 2015 compared to 2014. The decrease is primarily due to the annual depreciation expense and a decrease in restricted cash and investments.

Deferred outflow of resources includes pension obligations, which were the result of the implementation of GASB 68 and 71 in 2015, as well as the deferred charge on refunding of debt, which was the result of the General Obligation Bond refunding that took place in 2015.

Current liabilities include payroll and related liabilities, amounts payable to vendors for goods and services received, student deposit balances and debt principal payments due within one year. Current liabilities increased $569 thousand in 2016 compared to 2015 due to an increase in accounts and interest payable, as well as the current portion of long-term debt. Current liabilities decreased $394 thousand in 2015 compared to 2014 due to a decrease in accounts payable, and the current portion of long term liabilities relating to accrued compensated absences.

Non-current liabilities include debt principal due in greater than one year, accrued compensated absences greater than one year, other post-retirement benefit obligations (OPEB) for employees, and net pension liability. Non-current liabilities decreased $135 thousand in 2016 compared to 2015 due to payments on outstanding loans. Non-current liabilities increased $12 million in 2015 compared to 2014 due to the implementation of GASB 68 and 71, which increased net pension liability.

Deferred inflow of resources include employer pension assumptions, which was the result of the implementation of GASB 68 and 71 in 2015.

Net investment in capital assets represents historical cost of capital assets such as buildings and land held by the College less accumulated depreciation and net of debt balances related to the capital assets. The increase from year over year is primarily from the reduction in long term debt and additions to capital assets, offset by the annual depreciation of capital assets.

Restricted-expendable net position represents funds that may be expended by the College but only in accordance with restrictions imposed by an external party, such as a donor, governmental entity, etc. It is primarily restricted for grants, student loans, scholarships and student activities, etc.

Unrestricted net position are funds that the College has to use for whatever purpose it determines is appropriate. The decrease from 2015 to 2016 is primarily attributable to the significant funds invested in capital assets in the current year. The decrease from 2014 to 2015 is attributable to the implementation of GASB 68 and 71.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position reflects the results of operations for each fiscal year, distinguishing between operating and non-operating revenues and expenses as defined by GASB 35. GASB 35 has defined appropriations (state and local) as non-operating revenues, thus, the College is showing an operating loss of $13.4 million, $13.4 million, and $12.5 million for 2016, 2015 and 2014, respectively. Once the non-operating revenues, gain/loss on capital assets, and contributions are considered, the results becomes a change in net position of $1.4 million, $1.4 million, and 1.7 million for 2016, 2015 and 2014, respectively. Inclusion of non-operating revenues (state and local appropriations) is a more useful measure of the College's activities.

The following is a summary of the Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2016, 2015 and 2014:

	2016	2015	2014
Operating Revenues	$ 19,760,322	$ 20,594,387	$ 22,053,558
Operating Expenses	33,138,208	33,965,566	34,563,966
Operating Loss	(13,377,886)	(13,371,179)	(12,510,408)
Net Non-Operating Revenues (Expenses)	14,745,575	14,698,869	13,826,176
Contributions	-	100,000	420,000
Gain (Loss) on Sale of Capital Assets	22,087	9,787	(1,862)
Change in Net Position	$ 1,389,776	$ 1,437,477	$ 1,733,906

Operating revenues includes federal and state grants and contracts, tuition, fees and auxiliary activities. Operating revenues decreased $834 thousand in 2016 compared to 2015 due to a decrease in federal grants and contracts, offset by an increase in private and local grants and contracts. Operating revenues decreased $1.5 million in 2015 compared to 2014 due to a decrease in federal grants and contracts, offset by an increase in other miscellaneous operating revenues.

Operating expenses decreased $827 thousand in 2016 compared to 2015 primarily due to a decrease of scholarships and grants. Operating expenses decreased $598 thousand in 2015 compared to 2014 primarily due to a decrease of scholarships and grants, offset by an increase in personal and contacted services. Lower federal revenues necessitated cost saving measures, which resulted in less scholarships and grants awarded. The increase in personal services was due to increased staff, while contracted services was due to increased maintenance on the grounds and equipment.

Non-operating revenues (expenses) are comprised of interest income and expense, unrealized gains on investments, and state and local appropriations. Non-operating revenues for 2016 remained consistent with 2015. Non-operating revenues for 2015 increased $873 thousand from 2014 primarily due to an increase in state and local appropriations, as well as a decrease in debt services expense

Capital Assets

The College's investment in capital assets as of June 30, 2016, 2015, and 2014, amounted to $32.6 million, $32.4 million, and $32.5 million, respectively, net of accumulated depreciation. Investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, library equipment, leasehold improvements, and information technology equipment. Additional information on the College's capital assets can be found in Note 2 of this report.

Long-term Obligations

Total outstanding debt as of June 30, 2016, 2015, and 2014, amounted to $12.4 million, $13.8 million, and $14.8 million, respectively. The outstanding debt consisted of outstanding general obligation bonds and outstanding Intercap loans. Additional information on the College's long-term obligations can be found in Note 5 of this report.

Economic Outlook

Historically, enrollment trends for community colleges are counter-cyclical to economic conditions. The College continues to focus on enrollment management and anticipates a leveling off of the decline in enrollment to near 2009 levels.

College management believes the College is well positioned to maintain its strong financial condition and to continue to provide excellent service to its students and other constituents. The College's financial position, as evidenced by its strong cash balance, provides a high degree of flexibility and stability to address future challenges. Management will continue to maintain a close watch over resources and expenses to ensure that the College's finances are sustainable and that the College can plan for and react to future internal or external issues.

	2016	2015
Assets		
Current Assets		
Cash, cash equivalents, and investments	$ 11,646,130	$ 13,307,063
Taxes and assessments receivable	224,243	175,184
Grants receivable	1,001,477	465,088
Tuition and fees receivable, net of allowance for uncollectible amounts of $182,395 in 2016 and $713,576 in 2015	87,481	196,911
Other accounts receivable	870,915	580,117
Inventories	280,067	295,522
Other assets	352,254	155,012
Total current assets	14,462,567	15,174,897
Non-Current Assets		
Restricted cash, cash equivalents, and investments	984,195	310,000
Capital assets - non-depreciable	3,428,244	3,047,864
Capital assets - depreciable, net	29,178,374	29,381,585
Total non-current assets	33,590,813	32,739,449
Total assets	48,053,380	47,914,346
Deferred Outflow of Resources		
Deferred charge on refunding	197,052	216,758
Deferred outflow on PERS liability	462,645	478,984
Deferred outflow on TRS liability	963,448	810,557
Total deferred outflow of resources	1,623,145	1,506,299

	2016	2015
Current Liabilities		
Accounts payable and accrued liabilities	736,570	558,883
Student deposits payable	240,551	220,165
Deposits payable	11,655	10,745
Interest payable	126,241	21,127
Accrued payroll	185,802	177,182
Unearned revenue - tuition and fees	227,215	182,362
Long-term liabilities, current portion	1,922,763	1,711,332
Total current liabilities	3,450,797	2,881,796
Non-Current Liabilities		
Long-term capital liabilities, net of current portion	10,839,795	12,358,014
Compensated absences, net of current portion	1,213,628	1,305,057
Net pension liability	13,870,861	12,577,523
Net obligation for other post-employment benefits	2,225,642	2,044,104
Total non-current liabilities	28,149,926	28,284,698
Total liabilities	31,600,723	31,166,494
Deferred Inflow of Resources		
Deferred inflow on PERS liability	670,030	1,611,590
Deferred inflow on TRS liability	446,693	1,073,258
Total deferred inflow of resources	1,116,723	2,684,848
Net Position		
Net investment in capital assets	20,248,603	18,641,674
Restricted - Expendable		
Debt service	984,195	310,000
Unrestricted	(4,273,719)	(3,382,371)
Total net position	$ 16,959,079	$ 15,569,303

	2016	2015
Operating Revenues		
Tuition and fees, net of scholarship allowances of $725,375 in 2016 and $746,582 in 2015	$ 6,226,007	$ 6,252,296
Federal grants and contracts	8,294,075	9,406,995
State grants, contracts, and aid	646,133	868,067
Private and local grants and contracts	2,156,762	1,347,299
Indirect cost recoveries	163,873	213,580
Seminars and workshops	113,546	154,044
Auxiliary activities	1,759,009	1,839,406
Other operating revenues	400,917	512,700
Total operating revenues	19,760,322	20,594,387
Operating Expenses		
Personal services	17,694,424	17,681,988
Travel	312,039	352,095
Supplies	2,239,272	2,356,923
Contracted services	2,612,804	2,970,010
Bond issue expense	-	94,213
Bad debt expense	77,932	35,932
Scholarships and grants	6,636,428	7,379,810
Non-capitalized equipment	805,561	803,961
Other operating expenses	754,452	345,501
Depreciation and amortization	2,005,296	1,945,133
Total operating expenses	33,138,208	33,965,566
Operating Loss	(13,377,886)	(13,371,179)
Non-Operating Revenues (Expenses)		
State appropriations	8,746,289	8,836,460
Statewide equalization millage	543,443	527,822
Local appropriations	5,612,502	5,598,768
Interest revenue	120,142	104,857
Debt service interest expense	(276,801)	(369,038)
Gain on disposal of capital assets	22,087	9,787
Total non-operating revenues	14,767,662	14,708,656
Net Income Before Capital Contributions	1,389,776	1,337,477
Capital Contributions	-	100,000
Change in Net Position	1,389,776	1,437,477
Net Position, Beginning of Year	15,569,303	14,131,826
Net Position, End of Year	$ 16,959,079	$ 15,569,303

	2016	2015
Operating Activities		
Tuition and fees	$ 6,380,290	$ 6,200,705
Federal grants and contracts	7,757,686	9,311,879
Other grants and contracts	2,802,895	2,277,739
Seminars and workshops	113,546	154,044
Auxiliary activities	1,468,211	1,947,904
Other	564,790	726,280
Payments to suppliers	(4,172,060)	(4,022,691)
Payments for contracted services	(2,612,804)	(2,970,010)
Payments for scholarships and grants	(6,636,428)	(7,379,810)
Payments to employees	(17,864,356)	(17,925,840)
Net Cash used for Operating Activities	(12,198,230)	(11,679,800)
Noncapital Financing Activities		
State appropriations	8,746,289	8,836,460
Local appropriations	6,106,886	6,330,469
Net Cash from Noncapital Financing Activities	14,853,175	15,166,929
Capital and Related Financing Activities		
Acquisition and construction of capital assets	(2,188,687)	(1,791,286)
Proceeds from the sale of capital assets	28,309	13,000
Proceeds from new capital debt	-	9,778,242
Principal paid on capital debt	(1,429,760)	(10,975,655)
Interest paid on capital debt	(171,687)	(443,540)
Net Cash used for Capital and Related Financing Activities	(3,761,825)	(3,419,239)
Investing Activities		
Interest on investments	120,142	104,857
Net Cash from Investing Activities	120,142	104,857
Net Change in Cash, Cash Equivalents, and Investments	(986,738)	172,747
Cash, Cash Equivalents and Investments, Beginning of Year	13,617,063	13,444,316
Cash, Cash Equivalents and Investments, End of Year	$ 12,630,325	$ 13,617,063

	2016	2015
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	$ (13,377,886)	$ (13,371,179)
Adjustments to reconcile net loss to net cash used for operating activities		
Depreciation and amortization	2,005,296	1,945,134
GASB 68 - Actuarial pension expense	(391,633)	(429,759)
Change in OPEB obligation	181,538	163,439
Changes in assets and liabilities		
Grants receivable	(536,389)	(32,243)
Tuition and fees receivable	109,430	(54,091)
Other accounts receivable	(290,798)	144,430
Inventories	15,455	(38,606)
Other assets	(197,242)	46,303
Accounts payable and accrued liabilities	177,687	(77,684)
Student deposits payable	20,386	(2,891)
Deposits payable	910	2,880
Accrued payroll	8,620	10,393
Unearned revenue - tuition and fees	44,853	2,500
Compensated absences	31,543	12,074
Deferred Inflow - unearned grant revenue	-	(500)
Net Cash used for Operating Activities	$ (12,198,230)	$ (11,679,800)
Supplemental Disclosure of Noncash Activity		
Contributions of capital assets	$ -	$ 100,000
Reconciliation of Cash, Restricted Cash and Cash Equivalents and Investments		
Cash, cash equivalents, and investments	$ 11,646,130	$ 13,307,063
Restricted cash, cash equivalents, and investments	984,195	310,000
Total cash, cash equivalents, restricted cash, and investments	$ 12,630,325	$ 13,617,063

	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	$ 334,463	$ 332,413
Promises to give	1,210,383	1,604,110
Investments	12,385,475	11,749,820
Other current assets	38,530	37,730
Total current assets	13,968,851	13,724,073
Property and Equipment, Net	196,918	196,918
	$ 14,165,769	$ 13,920,991
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and other liabilities	$ 78,288	$ 551,038
Foundation scholarships payable	528,529	384,919
Other scholarships payable	229,284	165,970
Total current liabilities	836,101	1,101,927
Long-term Liabilities		
Deferred gift liability	176,374	154,849
Total liabilities	1,012,475	1,256,776
Net Assets		
Unrestricted	600,773	672,502
Temporarily restricted	5,044,357	4,805,722
Permanently restricted	7,508,164	7,185,991
Total net assets	13,153,294	12,664,215
	$ 14,165,769	$ 13,920,991

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support				
Contributions and other support	$ 260,619	$ 879,452	$ 322,173	$ 1,462,244
In-kind donations	50,215	246,649	-	296,864
Net investment gains (losses)	(3,144)	(212,558)	-	(215,702)
Investment income	4,176	253,570	-	257,746
Net assets released from restriction	928,478	(928,478)	-	-
Total revenues and other support	1,240,344	238,635	322,173	1,801,152
Expenses				
Program services				
Scholarship awards	580,284	-	-	580,284
Program disbursements	234,821	-	-	234,821
Other program expenses	20,687	-	-	20,687
Fundraising	238,710	-	-	238,710
Supporting services				
Professional fees	11,300	-	-	11,300
Investment management fees	54,177	-	-	54,177
Management and general	172,094	-	-	172,094
Total expenses	1,312,073	-	-	1,312,073
Change in Net Assets	(71,729)	238,635	322,173	489,079
Net Assets, Beginning of Year	672,502	4,805,722	7,185,991	12,664,215
Net Assets, End of Year	$ 600,773	$ 5,044,357	$ 7,508,164	$13,153,294

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support				
Contributions and other support	$ 388,769	$ 382,541	$ 1,321,804	$ 2,093,114
In-kind donations	69,054	173,916	-	242,970
Net investment gains (losses)	(901)	315,374	-	314,473
Investment income	87	291,790	-	291,877
Net assets released from restriction	1,412,755	(1,412,755)	-	-
Total revenues and other support	1,869,764	(249,134)	1,321,804	2,942,434
Expenses				
Program services				
Scholarship awards	431,622	-	-	431,622
Program disbursements	976,795	-	-	976,795
Other program expenses	126,976	-	-	126,976
Fundraising	39,231	-	-	39,231
Supporting services				
Professional fees	24,987	-	-	24,987
Investment management fees	40,398	-	-	40,398
Management and general	147,226	-	-	147,226
Total expenses	1,787,235	-	-	1,787,235
Change in Net Assets	82,529	(249,134)	1,321,804	1,155,199
Net Assets, Beginning of Year	589,973	5,054,856	5,864,187	11,509,016
Net Assets, End of Year	$ 672,502	$ 4,805,722	$ 7,185,991	$12,664,215

Note 1 - Principal Business Activity and Significant Accounting Policies

Description of Entity

Flathead Valley Community College (the College) was established under Montana law and provides high-quality academic programs taught by some of the nation's brightest faculty. The College also offers the Running Start program for eligible area high school students who want to get a jump start on their college education while saving a significant amount of money on tuition; online classes where students can learn anywhere at any time; classes taught through interactive television reaching students living in rural communities; select undergraduate and graduate degrees through partnerships with various Montana colleges and universities so students do not have to leave the Flathead Valley; customized workforce training for area businesses; and a wide variety of fun, enriching and affordable non-credit classes for all ages.

Reporting Entity

The College's financial statements are prepared in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB) in accordance with generally accepted accounting principles in the United State of America (GAAP).

As defined by GAAP established under GASB, the financial reporting entity consists of the primary government, as well as its component unit, Flathead Valley Community College Foundation (the Foundation).

The Foundation is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the College in support of its programs. The board of the Foundation is self-perpetuating and consists of graduates and friends of the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources or income the Foundation holds and invests is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College. The Foundation's financial statements for fiscal year ended December 31, 2015 and 2014, are discreetly presented because the College does not have financial accountability for the Foundation.

The Foundation is a private not-for-profit organization that reports its financial statements in accordance with the pronouncements of Financial Accounting Standard Board (FASB). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Accordingly, those financial statements have been reported on separate pages following the financial statements of the College. No modifications have been made to the Foundation's financial information included in the College's report; however significant note disclosures to the Foundation's financial statements have been incorporated into the College's notes to the financial statements.

Financial statements for the Foundation can be obtained by contacting: Flathead Valley Community College Foundation, 777 Grandview Drive, Kalispell, MT 59901.

Basis of Accounting

For financial statement purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

Non-exchange transactions, in which the College receives value without directly giving equal value in return include: property taxes, federal, state and local grants, state appropriations, and other contributions. On an accrual basis, revenue from property taxes is recognized in the period for which the levy is intended to finance. Revenues from grants, state appropriations, and other contributions are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the College must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the College on a reimbursement basis.

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.

Cash, Cash Equivalents, and Investments

The College considers all highly liquid investments with an original maturity of three months or less at the date of acquisition to be cash equivalents. Cash balances that are restricted and not expected to be expended within the subsequent year are classified as noncurrent assets.

The College's cash, except petty cash, is held by the Flathead County Treasurer and pooled with other County cash. With the College cash which 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, 2016 and 2015, consisted of certificates of deposit, savings accounts, and U.S. Government Securities.

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 Flathead County deposits and investments is available from Flathead County Treasurer's office, 800 S. Main Street, Kalispell, Montana 59901. Fair value approximates carrying value for investments as of June 30, 2016 and 2015. The Flathead County external investment pool is not rated.

Authorized investments allowed by Section 20-9-213, MCA, include savings or time deposits in a state or national bank, building or loan association, or credit union insured by the FDIC or NCUA located in the state; repurchase agreements; and the State Unified Investment Program. Further, Section 7-6-202, MCA, authorizes investments in U.S. government treasury bills, notes, bonds, U.S. Treasury obligations, treasury receipts, general obligations of certain agencies of the United States, and U.S. government security money market fund if the fund meets certain conditions.

Property Tax Receivable

Property taxes levied through 2016 are recorded as receivables. 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. 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. 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.

Receivables

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also includes amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable balances are recorded net of estimated uncollectible amounts.

Inventories

Inventories consist mainly of bookstore merchandise and are valued at cost on the first in, first out method. The costs of inventory are recorded as expenditures when consumed.

Restricted Cash and Cash Equivalents

In accordance with debt covenant restrictions and agency fund requirements, the College is obligated to separately hold cash amounts sufficient to satisfy the debt payments. These amounts are shown as noncurrent assets.

Capital Assets

Capital assets are stated at cost when purchased or constructed, or if donated, at the estimated acquisition value at the date of the gift. For equipment, the College's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Buildings and building improvements costing more than $25,000, any land purchases regardless of cost, land improvements and infrastructure costing $10,000 or more, and library books treated as a collection and valued at 3% or more of total capital assets reported by the College are capitalized. Renovations and improvements to buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the period in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follow:

Buildings and improvements	40 years
Machinery and equipment	5-20 years
Library equipment	10 years
Leasehold improvements	20 years
Information technology	3-7 years

Unearned Revenue

Unearned revenue include amounts received for tuition and fees, prior to the end of the fiscal year but related to the subsequent accounting period.

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 time at the full-time teaching contract. Upon retirement or termination, employees are paid for 100% of unused vacation leave and 25% of unused sick leave. Upon termination, all payments are made at the employee's current rate of pay.

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. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included in this section.

Restricted Net Position – Expendable – Restricted expendable net position include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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

Classification of Revenues

The College has classified its revenues as either operating or non-operating according to the following criteria:

Operating Revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as: student tuition and fees, net of scholarship discounts and allowances; sales and services of auxiliary enterprises, and contracts and federal appropriations.

Non-Operating Revenues – Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 34 and 35, such as state appropriations, property taxes and most federal, state and local grants, and investment income.

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 third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

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 college of its exempt purpose or function. The College does not have unrelated business income tax to report during the fiscal years ended June 30, 2016 and 2015.

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 future period(s) and so will not be recognized as an outflow of resources (expense) until then. The College has two items that qualify for reporting in this category: the pension liability and the deferred charge on refunding. The pension liability results in changes in assumptions or other inputs in the actuarial calculation of the College's net pension liability. The deferred charge on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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, pension liability. The pension liability results from the differences between the expected and actual experience and the net difference between projected and actual earnings on pension plan investments derived from the actuarial calculation of the College's net pension liability.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Pensions

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Montana Public Employee Retirement System (PERS) and the Teachers' Retirement System State of Montana (TRS) and additions to/deductions from PERS and TRS fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2 - Capital Assets

Capital assets at June 30, 2016 consist of the following:

	Balance June 30, 2015	Additions	Transfers/ Disposals	Balance June 30, 2016
Capital assets not depreciated				
Land	$ 2,915,200	$ -	$ -	$ 2,915,200
Construction in progress	132,664	501,044	(120,664)	513,044
Total capital assets not depreciated	3,047,864	501,044	(120,664)	3,428,244
Capital assets being depreciated				
Buildings	33,532,422	726,132	-	34,258,554
Improvements other than buildings	2,596,126	45,070	120,664	2,761,860
Machinery and equipment	7,311,409	848,677	(40,589)	8,119,497
Library equipment	505,693	32,760	(37,237)	501,216
Leasehold improvements	555,045	-	-	555,045
Information technology	922,252	35,004	-	957,256
Total capital assets being depreciated	45,422,947	1,687,643	42,838	47,153,428
Less accumulated depreciation	16,041,362	2,005,296	(71,604)	17,975,054
Capital assets being depreciated, net	29,381,585	(317,653)	114,442	29,178,374
Total capital assets, net	$ 32,429,449	$ 183,391	$ (6,222)	$ 32,606,618

Capital assets at June 30, 2015 consist of the following:

	Balance June 30, 2014	Additions	Transfers/ Disposals	Balance June 30, 2015
Capital assets not depreciated				
Land	$ 2,915,200	$ -	$ -	$ 2,915,200
Construction in progress	54,873	132,664	(54,873)	132,664
Total capital assets not depreciated	2,970,073	132,664	(54,873)	3,047,864
Capital assets being depreciated				
Buildings	32,912,544	565,006	54,872	33,532,422
Improvements other than buildings	2,585,328	10,798	-	2,596,126
Machinery and equipment	6,227,260	1,127,052	(42,903)	7,311,409
Library equipment	474,321	47,416	(16,044)	505,693
Leasehold improvements	555,045	-	-	555,045
Information technology	913,902	8,350	-	922,252
Total capital assets being depreciated	43,668,400	1,758,622	(4,075)	45,422,947
Less accumulated depreciation	14,151,963	1,945,134	(55,735)	16,041,362
Capital assets being depreciated, net	29,516,437	(186,512)	51,660	29,381,585
Total capital assets, net	$ 32,486,510	$ (53,848)	$ (3,213)	$ 32,429,449

During 2015, the College received a donation of equipment valued at $100,000.

Note 3 - Lease Obligations

The College is committed under various operating leases, primarily for equipment. The lease terms range from one to five years. The expense for operating leases was $132,931 and $131,627 for fiscal years 2016 and 2015, respectively. As of June 30, 2016, future minimum operating lease commitments are as follows:

Year Ended June 30,	
2017	$ 61,193
2018	43,599
2019	7,837
2020	1,371
Totals	$ 114,000

Note 4 - Compensated Absences

Compensated absences represents vacation and sick leave earned by employees which is payable upon termination.

Compensated absences activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Compensated absences	$ 1,586,628	$ 31,543	$ -	$ 1,618,171	$ 404,543

Compensated absences activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Compensated absences	$ 1,569,634	$ 16,994	$ -	$ 1,586,628	$ 281,571

Note 5 - Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2016, is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
General Obligation Bonds	$ 11,035,000	$ -	$ 790,000	$ 10,245,000	$ 870,000
Intercap loans	2,752,775	-	639,760	2,113,015	648,220
Total long-term liabilities	$ 13,787,775	$ -	$ 1,429,760	$ 12,358,015	$ 1,518,220

Long-term liability activity for the year ended June 30, 2015, is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
General Obligation Bonds	$ 11,385,000	$ 9,995,000	$ 10,345,000	$ 11,035,000	$ 790,000
Intercap loans	3,371,562	-	618,787	2,752,775	639,761
Capital leases	11,868	-	11,868	-	-
Early retirement	4,920	-	4,920	-	-
Total long-term liabilities	$ 14,773,350	$ 9,995,000	$ 10,980,575	$ 13,787,775	$ 1,429,761

The College issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the College.

General obligation bonds outstanding as of June 30, 2016 and 2015, were as follows:

Bond	Date Issued	Interest Rate	Term	Maturity	Principal	2016 Balance	2015 Balance
Series 2005	3/15/2005	3.50-4.15%	10 Years	7/1/2015	$ 9,900,000	$ -	$ 480,000
Series 2006	7/1/2006	3.75-4.10%	10 Years	7/1/2016	5,916,000	285,000	560,000
Series 2015A	1/20/2015	2.15%	10 Years	7/1/2026	4,997,500	4,980,000	4,997,500
Series 2015B	1/20/2015	2.15%	10 Years	7/1/2026	4,997,500	4,980,000	4,997,500
					$ 25,811,000	$ 10,245,000	$ 11,035,000

In January 2015, the College issued $9,995,000 of General Obligation Bond and Refunding Bonds to provide funds which were used to pay off the existing General Obligation Bonds, Series 2005 and 2006. This refunding reduces the College's total debt service payments over 10 years by $684,334. As a result, the refunded Bonds have been paid off and the liability for those Bonds has been removed from the College's basic financial statements. The re-acquisition price exceeded the net carrying amount of the old debt by $236,462.

Approximate future annual minimum principal and interest payments as of June 30, 2016, are as follows:

Year Ended June 30,	Principal	Interest	Total
2017	$ 870,000	$ 222,101	$ 1,092,101
2018	900,000	191,888	1,091,888
2019	920,000	172,323	1,092,323
2020	940,000	152,328	1,092,328
2021	965,000	131,849	1,096,849
2022-2027	5,650,000	337,013	5,987,013
	$ 10,245,000	$ 1,207,502	$ 11,452,502

Intercap loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 16th of each year and are based on a spread over the interest paid on one-year term, tax-exempt bonds which are sold to fund the loans. Intercap loans outstanding as of June 30, 2016 and 2015, were as follows:

Loan	Date Issued	Interest Rate	Term	Maturity	Principal	2016 Balance	2015 Balance
2112-01	7/20/2007	0.00-4.85%	10 Years	2/15/2017	$ 185,669	$ 22,848	$ 45,536
2112-02	8/10/2007	0.00-4.85%	10 Years	2/15/2017	586,810	74,612	146,208
2112-03	9/7/2007	0.00-4.85%	10 Years	2/15/2017	515,180	63,696	126,637
2112-04	9/14/2007	0.00-4.85%	10 Years	2/15/2017	252,765	30,907	61,804
2112-05	10/12/2007	0.00-4.85%	10 Years	2/15/2017	633,102	73,956	151,506
2112-06	11/2/2007	0.00-4.85%	10 Years	2/15/2017	275,452	36,757	71,831
2112-07	11/16/2007	0.00-4.85%	10 Years	2/15/2017	143,761	19,184	37,489
2112-08	1/11/2008	0.00-4.85%	10 Years	2/15/2017	67,567	8,566	17,191
2112-09	2/8/2008	0.00-4.85%	10 Years	2/15/2017	146,302	19,328	37,966
2112-10	4/18/2008	0.00-4.25%	10 Years	2/15/2017	106,573	14,610	28,612
2112-11	5/9/2008	0.00-4.25%	10 Years	2/15/2017	330,804	45,348	88,813
2112-12	5/30/2008	0.00-4.25%	10 Years	2/15/2017	14,795	2,028	3,972
2489-01	4/12/2013	0.00-1.25%	10 Years	2/15/2023	2,400,000	1,701,175	1,935,210
					$ 5,658,780	$ 2,113,015	$ 2,752,775

Approximate future annual minimum principal and interest payments as of June 30, 2016, are as follows:

Year Ended June 30,	Principal	Interest	Total
2017	$ 648,220	$ 20,528	$ 668,748
2018	238,752	17,565	256,317
2019	241,145	14,574	255,719
2020	243,563	11,552	255,115
2021	246,003	8,500	254,503
2022-2023	495,332	7,720	503,052
	$ 2,113,015	$ 80,439	$ 2,193,454

Note 6 - Retirement Plans

The College participates in two state-wide, multiple-employer, cost-sharing retirement plans which cover all employees, except some substitute and part-time, non-teaching employees.

Plan Descriptions

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, 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-DBRP), 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 provides retirement benefits to covered employees of the State, and local governments, and 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 participants 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).

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.

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. 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 average final compensation (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 for Tier One members is 1.5% of the benefit payable as of January 1st. For Tier Two members the GABA 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.

PERS:

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 of 65, 5 years of membership service; or
Age 70, regardless of membership service.

Early Retirement
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

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;

Compensation Cap

- Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

Monthly benefit formula

1) Members hired prior to July 1, 2011:
   i) Less than 25 years of membership service
      1.785% of HAC per year of service credit;
   ii) 25 years of membership service or more
      2% of HAC per year of service credit.

2) Member hired on or after July 1, 2011:
   i) Less than 10 years of membership service
      1.5% of HAC per year of service credit;
   ii) 10 years or more, but less than 30 years of membership service
      1.785% of HAC per year of service credit;
   iii) 30 years or more of membership service
      2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)
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 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) 1.5% for 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 all TRS Employers including State Agency and University System Employers. Finally, the State is also required to contribute $25 million in perpetuity payable July 1st of each year.

The tables below show the legislated contribution rates for TRS members, employers and the State.

School District and Other Local Governments

	Members	Employers	General fund	Total employee & employer
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	7.47%	2.11%	16.73%
July 1, 2009 to June 30, 2013	7.15%	7.47%	2.49%	17.11%
July 1, 2013 to June 30, 2014	8.15%	8.47%	2.49%	19.11%
July 1, 2014 to June 30, 2015	8.15%	8.57%	2.49%	19.21%
July 1, 2015 to June 30, 2016	8.15%	8.67%	2.49%	19.31%
July 1, 2016 to June 30, 2017	8.15%	8.77%	2.49%	19.41%
July 1, 2017 to June 30, 2018	8.15%	8.87%	2.49%	19.51%
July 1, 2018 to June 30, 2019	8.15%	8.97%	2.49%	19.61%
July 1, 2019 to June 30, 2020	8.15%	9.07%	2.49%	19.71%
July 1, 2020 to June 30, 2021	8.15%	9.17%	2.49%	19.81%
July 1, 2021 to June 30, 2022	8.15%	9.27%	2.49%	19.91%
July 1, 2022 to June 30, 2023	8.15%	9.37%	2.49%	20.01%
July 1, 2023 to June 30, 2024	8.15%	9.47%	2.49%	20.11%

PERS:

Rates are specified by state law for periodic member and employer contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State legislature has the authority to establish and amend contribution rates to the plan. Member and employer contribution rates are shown in the table below.

1. Member contributions to the system of 7.9% are 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.

2. Employer contributions to the system:
    a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
    b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
    c. The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

3. 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 a portion of Coal Severance Tax income and earnings from the Coat Trust Permanent Trust fund.

	Member		State &				
Fiscal	Hired	Hired	Universities	Local Government		School Districts	
Year	<07/01/11	>07/01/11	Employer	Employer	State	Employer	State
2016	7.900%	7.900%	8.370%	8.270%	0.100%	8.000%	0.370%
2015	7.900%	7.900%	8.270%	8.170%	0.100%	7.900%	0.370%
2014	7.900%	7.900%	8.170%	8.070%	0.100%	7.800%	0.370%
2012-2013	6.900%	7.900%	7.170%	7.070%	0.100%	6.800%	0.370%
2010-2011	6.900%		7.170%	7.070%	0.100%	6.800%	0.370%
2008-2009	6.900%		7.035%	6.935%	0.100%	6.800%	0.235%
2000-2007	6.900%		6.900%	6.800%	0.100%	6.800%	0.100%

Stand-Alone Statements

TRS:

TRS's stand-alone financial statements, actuarial valuations and experience studies can be found online at https://trs.mt.gov/TrsInfo/NewsAnnualReports

PERS:

The PERS financial information is reported in the Public Employees' Retirement Board's *Comprehensive Annual Financial Report* for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena MT 59620-0131, (406) 444-3154.

CAFR information including the stand alone financial statements can be found on our web site at http://mpera.mt.gov/annualReports.shtml

The latest actuarial valuation and experience study can be found at the following website: http://mpera.mt.gov/actuarialvaluations.shtml

Net Pension Liability

TRS:

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers are required to recognize and report certain amounts associated with their participation in the TRS. Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability. In accordance with Statement 68, the System has a special funding situation in which the State of Montana is legally responsible for making contributions directly to TRS that are used to provide pension benefits to the retired members of TRS. Due to the existence of a special funding situation, employers are also required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer. The following table displays the amounts and the percentages of Net Pension Liability for the fiscal years ended June 30, 2016 and June 30, 2015 (reporting dates).

	Net Pension Liability		Percent of Collective NPL		Change in Percent of
As of reporting date	2016	2015	2016	2015	Collective NPL
College's Proportionate Share	$ 6,924,803	$ 6,346,285	0.4215%	0.4124%	0.0091%
State of Montana Proportionate Share associated with College	4,642,737	4,348,969	0.2826%	0.2826%	0.0000%
Total	$ 11,567,540	$ 10,695,254	0.7041%	0.6950%	0.0091%

At June 30, 2016 and 2015, the College recorded a liability of $6,924,803 and $6,346,285, respectively, for its proportionate share of the Net Pension Liability. The net pension liability as of June 30, 2016 and 2015 was measured as of June 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. Therefore, no update procedures were used to roll forward the total pension liability to the measurement date. The College's proportion of the net pension liability was based on the College's contributions received by TRS during the measurement periods, relative to the total employer contributions received from all of TRS participating employers. At June 30, 2016 and 2015, the College's proportion was 0.4215 and 0.4124 percent, respectively.

Changes in actuarial assumptions and other inputs: As of June 30, 2016, since the previous measurement date, the following changes were made:

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three year COLA deferral period for Tier 2 Members.
- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility.
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the $500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the System" are covered by the $500 death benefit after termination.

As of June 30, 2015, since the previous measurement date, 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 dates.

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

PERS:

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with their participation in the PERS. Statement 68, which became effective June 30, 2015, includes requirements for employers to record and report their proportionate share of the collective Net Pension Liability (NPL), Pension Expense, and Deferred Inflows and Deferred Outflows of resources associated with pensions.

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, the State is required to report a proportionate share of a local government or school district's collective NPL that is associated with the non-State 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 Tax Severance fund. All employers are required to report the portion of Coal Tax Severance income and earnings attributable to the employer.

The Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to the measurement date of June 30, 2015.

	Net Pension Liability		Percent of Collective NPL		Change in Percent
As of reporting date	2016	2015	2016	2015	Collective NPL
College's Proportionate Share	$ 6,946,058	$ 6,231,238	0.496902%	0.500095%	-0.003193%
State of Montana Proportionate Share associated with College	85,321	76,093	0.006104%	0.006107%	-0.000003%
Total	$ 7,031,379	$ 6,307,331	0.503006%	0.506202%	-0.003196%

The Table above displays the College's proportionate share of the NPL and the College's proportion of NPL for June 30, 2016 and 2015. The College's proportion of the NPL was based on the College's contributions received by the PERS during the measurement periods, relative to the total employer contributions received from all of PERS participating employers. As of June 30, 2016 and 2015 the College recorded a liability of $6,946,058 and $6,231,238, and the College's proportionate share was .496902 and .500095 percent, respectively.

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

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 College's reporting date that are expected to have a significant effect on the College's proportionate share of the collective NPL.

Pension Expense

TRS:

	2016	2015
College's Proportionate Share	$ 432,452	$ 367,847
State of Montana Proportionate Share associated with the College	229,157	243,527
	$ 661,609	$ 611,374

At June 30, 2016 and 2015, the College recognized a Pension Expense of $661,609 and $611,374, respectively, for its proportionate share of the TRS pension expense. The College also recognized grant revenue of $229,157 and $243,527, respectively, for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the College.

PERS:

	2016	2015
College's Proportionate Share	$ 440,490	$ 474,231
State of Montana Proportionate Share associated with the College	5,302	5,728
	$ 445,792	$ 479,959

At June 30, 2016 and 2015, the College recognized its proportionate share of the PERS Pension Expense of $445,792 and $479,959, respectively. The College also recognized grant revenue of $5,302 and $5,728, respectively, for the support provided by the State of Montana for the proportionate share of the Pension Expense that is associated with the College, and grant revenue of $166,698 and $170,465, respectively, from the Coal Tax Fund.

Deferred Inflows and Outflows of Resources:

At June 30, 2016 and 2015, the College reports its proportionate share of TRS and PERS deferred outflows and inflows of resources from the following sources:

TRS	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs Expected Experience	$ 73,046	$ -	$ 62,779	$ -
Changes in assumptions	97,997	14,624	143,834	-
Actual vs. Expected Investment Earnings	-	371,856	-	982,951
Changes in proportion & difference between actual and expected contributions	159,015	60,213	-	90,307
*College's contributions subsequent to the measurement date	633,390	-	603,944	-
Total	$ 963,448	$ 446,693	$ 810,557	$ 1,073,258

PERS	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs Expected Experience	$ -	$ 42,023	$ -	$ -
Changes in assumptions	-	-	-	-
Actual vs. Expected Investment Earnings	-	588,058	-	1,610,050
Changes in proportion & difference between actual and expected contributions	-	39,949	-	1,540
*College's contributions subsequent to the measurement date	462,645	-	478,984	-
Total	$ 462,645	$ 670,030	$ 478,984	$ 1,611,590

*Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

	TRS			PERS		
Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Increase (Decrease) in Pension Expense	Deferred Outflows of Resources	Deferred Inflows of Resources	Increase (Decrease) in Pension Expense
2017	$ 135,874	$ (190,928)	$ (55,054)	$ -	$ (274,473)	$ (274,473)
2018	135,874	(190,904)	(55,030)	-	(274,473)	(274,473)
2019	58,285	(160,253)	(101,968)	-	(274,028)	(274,028)
2020	95,417	-	95,417	-	152,944	152,944

Actuarial Assumptions:

TRS:

The Total Pension Liability as of June 30, 2015, is based on the results of an actuarial valuation date of July 1, 2015. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2015 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* — 4%-8.51% for Non-University Members and 5.00% for University Members
- Investment Return — 7.75%
- Price Inflation — 3.25%
- Postretirement Benefit Increases
  - Tier One Members: If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1st.
  - Tier Two Members, the retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- Mortality among contributing members, service retired members, and beneficiaries
  - For Males: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from 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: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from 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

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 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% general wage increase and 4.51% merit and longevity increases.

PERS:

The Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to June 30, 2015. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- Investment Return (net of admin expense) 7.75%
- Admin Expense as % of Payroll 0.27%
- General Wage Growth* 4.00%
  *includes Inflation at 3.00%
- Merit Increases 0% to 6%
- Postretirement Benefit Increases

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, **inclusive** of other adjustments to the member's benefit.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
  (a) 1.5% for 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.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are 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.

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 June 30, 2016 and 2015 TPL 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 2119. 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 June 30, 2016 and 2015 TPL 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 the 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 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Target Allocations:

TRS:

The assumed 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 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, 2015 and 2014, is summarized on the following page.

Asset Class	Target Asset Allocation (a)	Real Rate of Return Arithmetic Basis (b)	Long-Term Expected Portfolio Real Rate of Return* (a) x (b)
Broad US Equity	36.00%	4.80%	1.73%
Broad International Equity	18.00%	6.05%	1.09%
Private Equity	12.00%	8.50%	1.02%
Intermediate Bonds	23.40%	1.50%	0.35%
Core Real Estate	4.00%	4.50%	0.18%
High Yield Bonds	2.60%	3.25%	0.08%
Non-Core Real Estate	4.00%	7.50%	0.30%
	100.00%		4.75%
		Inflation	3.25%
		Expected arithmetic nominal return	8.00%

* The long-term expected nominal rate of return above of 8.00% differs from the total TRS long-term rate of return assumption of 7.75%. The assumed rate is comprised of a 3.25% inflation rate and a real long-term expected rate of return of 4.50%.

PERS:

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period of fiscal years 2003 through 2009, is outlined in a report dated June 2010 and is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of 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 an 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 of the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015 are 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%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Best estimates of the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014 are 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%

Sensitivity Analysis:

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 as of June 30, 2016 and 2015.

	2016		
	1% Decrease 6.75%	Current Discount Rate 7.75%	1% increase 8.75%
Net pension liability - TRS	$ 9,514,122	$ 6,924,803	$ 4,746,040
Net pension liability - PERS	10,709,319	6,946,058	3,768,072

	2015		
	1% Decrease 6.75%	Current Discount Rate 7.75%	1% increase 8.75%
Net pension liability - TRS	$ 8,817,009	$ 6,346,285	$ 4,258,904
Net pension liability - PERS	9,913,257	6,231,238	3,125,817

Summary of Significant Accounting Policies

TRS:

The Teachers' Retirement System prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the TRS and additions to/deductions from TRS's fiduciary net position have been determined on the same accrual basis as they are reported by TRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. TRS adheres to all applicable GASB statements.

TRS's stand-alone financial statements, actuarial valuations and experience studies can be found online at https://trs.mt.gov/TrsInfo/NewsAnnualReports

PERS:

The MPERA prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the NPL; deferred inflows of resources and deferred outflows of resources related to pensions; Pension Expense; information about the fiduciary net position; and, additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable GASB statements.

Defined Contribution Retirement Plan

College employees have the option to participate in a defined contribution retirement plan through the Montana PERS. In the PERS Defined Contribution Retirement Plan (DCRP), benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are required to file an irrevocable election to join the DCRP within 12 months from the first month of reporting to PERS by the College. An employee contributes 7.9% of their compensation to PERS which goes directly to the Member Contribution component of the DCRP. The College contributes 8.17% of the employee's compensation to PERS, of which, 4.19% goes directly to the Employer Contribution component of the DCRP. The employee Member Contributions and investment earnings are immediately 100% vested. The College Employer Contributions and investment earnings are 100% vested after five years of membership service. During the years ended June 30, 2016 and 2015, the College contributed $34,321 and $48,616 to the plan, with the employees contributing $33,181 and $47,009, respectively.

Note 7 - Postemployment Benefits Other Than Pensions

Montana State law requires state agencies to provide access to health insurance benefits to eligible retirees up to Medicare-eligible age (65) (Sec. 2-18-704(a)(a), MCA). The Board of Regents of the Montana University System (MUS), having broad authority to act in the best interest of the MUS, has directed the Office of the Commissioner of Higher Education (OCHE) to provide access to health insurance benefits beyond age 65. Eligible College retirees may participate in the health insurance plan provided that they contribute to the cost of the plan.

Flathead Valley Community College is a part of the Montana University System Employee Group Benefits Plan (MUSEGBP). The College is one of 12 active participants in a cost-sharing multiple-employer defined benefit OPEB plan. A retiree may continue coverage with the MUSEGBP if the retiree is eligible to receive State Retirement Benefit for TRS or the PERS at the time they leave their employment with MUS.

Retirees who are in the Optional Retirement Plan (ORP) (through TIAA-CREF) or any other defined contribution plan must have worked five or more years and be age 50, or have worked 25 years with the MUS to be eligible for Retiree insurance benefits. All eligible Retirees must make arrangements with their campus Human Resources/Benefits Office to continue coverage as a Retiree on a self-pay basis within 63 days of retirement.

There are no required contribution rates of the 12 active participants in the plan. Additional benefit options are available for Non-Medicare Retirees, Medicare Retirees, Spouse Coverage, and Spouse Coverage Options after the Death of Retiree. Copies of the plan and additional benefit options can be obtained from the Montana University System.

Annual OPEB Cost and Net OPEB Obligations

The following table shows the College's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the College's net OPEB obligation:

Annual required contribution	$ 314,893
Interest on net OPEB obligation	(76,225)
Annual OPEB cost	238,668
Estimated contributions made	(57,130)
Increase in net OPEB obligation	181,538
Net OPEB obligation, beginning of year	2,044,104
Net OPEB obligation, end of year	$ 2,225,642

Three year trend disclosure information of the College’s plan is as follows:

Fiscal Year Ended	Annual OPEB Cost	Estimated Contribution	Percentage of Annual OPEB Cost	Net Liability
June 30, 2016	$ 238,668	$ 57,130	23.94%	$ 2,225,642
June 30, 2015	238,011	74,572	31.33%	2,044,104
June 30, 2014	265,799	42,237	15.89%	1,880,665

Actuarial methods and assumptions:

Following are the newly applied actuarial methods and assumptions for the most recent valuation:

- Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

- Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

- Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

- The actuarial methods and significant assumption are
  - Projected Unit cost funding method.
  - Discount rate is 4.25%.
  - Projected payroll increases 2.5%.
  - Healthcare cost trend rate is 7% for plan year 2015 grading to 4.5% for plan year 2020.
  - Past service liability is amortized over a closed 30-year period as a level percentage of projected payroll assumed to grow 2.5% per year.

Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) for benefits was $2.1 million. The College's plan is considered to be unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because the plan is unfunded, the AAL and UAAL are equal. The covered payroll (annual payroll of active employees covered by the plan) was $16.0 million and the ratio of the UAAL to the covered payroll was 13.4%.

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

Note 8 - Related Party Transactions

During the years ended June 30, 2016 and 2015, the College received $2,100,785 and $993,530, respectively in revenues for scholarships and programs, as well as career services from Flathead Valley Community College Foundation. Accounts receivable as of June 30, 2016 and 2015 was $868,750 and $506,945, respectively.

Note 9 - Subsequent Events

Subsequent to year end, the College awarded a bid for the construction of a student housing facility and the estimated total cost, including construction, is $10,380,147. The College has financed $9,090,000 of the total cost of the facility and the transaction was completed September 21, 2016. The student housing facility's projected occupancy date will be approximately mid-August 2017.

Note 10 - Component Unit - Flathead Valley Community College Foundation

Nature of Activities and Summary of Significant Accounting Policies

The Flathead Valley Community College Foundation is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Flathead Valley Community College Foundation assists the Flathead Valley 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 Foundation 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 Foundation are from contributions and investment income.

The Foundation prepares its financial statements in accordance with generally accepted accounting principles, which involves the application of accrual accounting; whereby revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Investments

The Foundation invests primarily in certificates of deposit, government bonds and agencies, corporate bonds and bond funds, and equity securities and mutual funds. At December 31, 2015 and 2014, investments are comprised of the following:

	2015		2014	
	Amortized Cost	FMV	Amortized Cost	FMV
Cash and cash equivalents	$ 2,470,997	$ 2,470,997	$ 1,683,844	$ 1,683,844
Certificates of deposit	40,000	40,661	40,000	41,062
Government bonds and agencies	1,317,293	1,310,294	576,841	570,231
Corporate bonds and bond funds	2,680,924	2,614,652	2,740,669	2,729,518
Equity securities and mutual funds	5,980,786	5,948,871	5,593,204	6,725,165
	$ 12,490,000	$ 12,385,475	$ 10,634,558	$ 11,749,820

Fair Value Measurements

Assets and liabilities itemized below were measured at fair value during the years ended using the market and income approaches. The market approach was used for Level 1 and Level 2. The income approach was used for Level 3.

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2015				
Investments	$ 12,385,475	$ 12,385,475	$ -	$ -
Pledges receivable	1,210,383	-	-	1,210,383
Deferred gift liability	176,374	-	176,374	-
	$ 13,772,232	$ 12,385,475	$ 176,374	$ 1,210,383

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014				
Investments	$ 11,749,820	$ 11,749,820	$ -	$ -
Pledges receivable	1,604,110	-	-	1,604,110
Deferred gift liability	154,849	-	154,849	-
	$ 13,508,779	$ 11,749,820	$ 154,849	$ 1,604,110

The table below presents a reconciliation of assets measured at fair value on a recurring basis using Level 3 inputs:

	2015	2014
Balance, January 1	$ 1,604,110	$ 2,890,646
Pledge payments received	(1,180,586)	(1,428,852)
New pledges made by donors	788,334	144,289
Pledges written off	(1,475)	(1,973)
	$ 1,210,383	$ 1,604,110

Promises to Give

The Foundation records unconditional promises to give expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. Unconditional promises to give are estimated to be collected as follows at December 31, 2015 and 2014:

	2015	2014
In one year or less	$ 1,018,315	$ 832,477
Between one year and five years	192,068	771,633
	$ 1,210,383	$ 1,604,110

Net Assets

The Foundation classifies contributions as unrestricted, temporarily restricted, and permanently restricted net assets in accordance with donor stipulations. Permanently restricted net assets consist of endowed gifts where donors have specified investment in perpetuity to generate income for specified restricted or unrestricted purposes. Temporarily restricted net assets include gifts restricted as to purpose or time. When a donor restriction expires (time restriction ends, purpose restriction is accomplished, or payments are received for unconditional promises to give), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. All expenses are reported in unrestricted net assets.

Endowment

The Board has established an endowment for the purpose of funding scholarships for students attending Flathead Valley Community College. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Montana Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) any accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund;
(2) The purposes of the Foundation and the donor-restricted endowment fund;
(3) General economic conditions;
(4) The possible effect of inflation and deflation;
(5) The expected total return from income and the appreciation of investments;
(6) Other resources of the Foundation; and
(7) The investment policies of the Foundation.

Changes in Endowment Net Assets for the year ended December 31, 2015:

	Board Restricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 286,113	$ 2,643,052	$ 7,185,991	$ 10,115,156
Investment return				
Investment income	-	253,552	-	253,552
Investment management fees	-	(50,154)	-	(50,154)
Net appreciation (depreciation)	-	(188,497)	-	(188,497)
Total investment return	-	14,901	-	14,901
Contributions	16,635	-	672,173	688,808
Pledge payments made yet not received	-	-	(350,000)	(350,000)
Appropriation of endowment assets for expenditure	-	(490,488)	-	(490,488)
	$ 302,748	$ 2,167,465	$ 7,508,164	$ 9,978,377

Changes in Endowment Net Assets for the year ended December 31, 2014:

	Board Restricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 255,351	$ 2,242,129	$ 5,365,246	$ 7,862,726
Investment return				
Investment income	-	285,314	-	285,314
Investment management fees	-	(35,892)	-	(35,892)
Net appreciation (depreciation)	-	317,503	-	317,503
Total investment return	-	566,925	-	566,925
Contributions	30,762	-	1,321,804	1,352,566
Pledge payments received	-	-	498,941	498,941
Appropriation of endowment assets for expenditure	-	(166,002)	-	(166,002)
	$ 286,113	$ 2,643,052	$ 7,185,991	$ 10,115,156

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA at December 31, 2015 and 2014, was $7,508,164 and $7,185,991, respectively. There were $2,167,465 and $2,643,052 in temporarily restricted net assets within the endowment fund at December 31, 2015 and 2014, respectively.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to operations while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s).

Required Supplementary Information
June 30, 2016

Flathead Valley Community College

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b/a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
July 1, 2015	$ -	$ 2,526,742	$ 2,526,742	0.0%	$ 15,705,260	16.1%
July 1, 2013	$ -	2,147,407	2,147,407	0.0%	16,049,598	13.4%
July 1, 2011	-	2,365,335	2,365,335	0.0%	15,084,883	15.7%

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

	2016	2015
Employer's proportionate share of the net pension liability	0.421472%	0.412405%
Employer's proportion share of the net pension liability	$ 6,924,803	$ 6,346,285
State of Montana's proportionate share of the net pension liability associated with the Employer	4,642,737	4,348,969
Total	$ 11,567,540	$ 10,695,254
Employer's covered-employee payroll	$ 5,379,430	$ 5,200,760
Employer's proportional share of the net pension liability as a percentage of its covered-employee payroll	128.73%	122.03%
Plan fiduciary net position as a percentage of the total pension liability	69.30%	70.36%

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

	2016	2015
Employer's proportionate share of the net pension liability	0.496902%	0.500095%
Employer's proportion share of the net pension liability	$ 6,946,058	$ 6,231,238
State of Montana's proportionate share of the net pension liability associated with the Employer	85,321	76,093
Total	$ 7,031,379	$ 6,307,331
Employer's covered-employee payroll	$ 5,798,950	$ 5,661,067
Employer's proportional share of the net pension liability as a percentage of its covered-employee payroll	119.78%	110.07%
Plan fiduciary net position as a percentage of the total pension liability	78.40%	79.90%

**The amounts presented above for each fiscal year were determined as of June 30th, the measurement date. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

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

	2016	2015
Contractually required contribution	$ 633,390	$ 603,944
Contributions in relation to the contractually required contributions	633,390	603,944
Contribution deficiency (excess)	-	-
Employer's pensionable payroll	6,211,704	5,379,430
Contributions as a percentage of pensionable payroll	10.20%	11.23%

The 2015 employer's pensionable payroll has been corrected from the amount previously reported to maintain consistency between periods presented.

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

	2016	2015
Contractually required contribution	$ 462,645	$ 500,326
Contributions in relation to the contractually required contributions	462,645	500,326
Contribution deficiency (excess)	-	-
Employer's pensionable payroll	5,411,472	5,798,950
Contributions as a percentage of pensionable payroll	8.55%	8.63%

**The amounts presented above for each fiscal year were determined as of June 30th, the College’s most recent fiscal year end. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

PERS:

Changes of Benefit Terms

The following changes to the plan provision were made as identified:

2013 Legislative Changes:

Working Retirees - House Bill 95 - PERS, SRS, and FURS, effective July 1, 2013

- The law requires employer contributions on working retiree compensation.
- Member contributions are not required.
- Working retiree limitations are not impacted. PERS working retirees may still work up to 960 hours a year, without impacting benefits.

Highest Average Compensation (HAC) Cap - House Bill 97, effective July 1, 2013

All PERS members hired on or after July 1, 2013 are subject to a 110% annual cap on compensation considered as part of a member's highest or final average compensation.

All bonuses paid to PERS members on or after July 1, 2013 will not be treated as compensation for retirement purposes.

House Bill 454 - Permanent Injunction Limits Application of the GABA Reduction passed under HB 454

Guaranteed Annual Benefit Adjustment (GABA) - for PERS

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 and **before** July 1, 2013
- Members hired **on or after** July 1, 2013
    a) 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.

2015 Legislative Changes:

General Revisions - House Bill 101, effective January 1, 2016

Second Retirement Benefit - for PERS

1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:
    - refund of member's contributions from second employment plus regular interest (currently 0.25%);
    - no service credit for second employment;
    - start same benefit amount the month following termination; and
    - GABA starts again in the January immediately following second retirement.

2) For members who retire **before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:**
    - member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
    - GABA starts in the January after receiving recalculated benefit for 12 months.

3) For members who retire **on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:**
    - refund of member's contributions from second employment plus regular interest (currently 0.25%);
    - no service credit for second employment;
    - start same benefit amount the month following termination; and,
    - GABA starts again in the January immediately following second retirement.

4) For members who retire **on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:**
    - member receives same retirement benefit as prior to return to service;
    - member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
    - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

<u>Revise DC Funding Laws</u> - House Bill 107, effective July 1, 2015

Employer Contributions and the Defined Contribution Plan – for PERS and MUS-RP

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following addition to the actuarial assumptions was adopted in 2014 based upon implementation of GASB Statement 68:

Admin Expense as % of Payroll	0.27%

The following changes were adopted in 2013 based on the 2013 Economic Experience study:

General Wage Growth*	4.00%
*Includes inflation at	3.00%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

The following Actuarial Assumptions are from the June 2010 Experience Study:

General Wage Growth*	4.25%
*Includes inflation at	3.00%
Merit increase	0% to 7.3%
Investment rate of return	8.00 percent, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open

TRS:

Changes of Benefit Terms:

The following changes to the plan provision were made as identified:

The 2013 Montana Legislature passed HB 377 which provides additional revenue and created a two tier benefit structure. A Tier One Member is a person who first became a member before July 1, 2013 and has not withdrawn their member's account balance. A Tier Two Member is a person who first becomes a member on or after July 1, 2013 or after withdrawing their member's account balance, becomes a member again on or after July 1, 2013.

The GABA for Tier 1 members has also been modified as follows:

- If the most recent actuarial valuation of the System shows that the funded ratio is less than 90%, then the maximum increase that can be granted is 0.50%.
- If the funded ratio is at least 90% and the increase is not projected to cause the System's funded ratio to be less than 85%, an increase can be granted that is greater than 0.50% but not more than 1.50%.

The second tier benefit structure for members hired on or after July 1, 2013 is summarized below.

(1) **Final Average Compensation**: average of earned compensation paid in five consecutive years of full-time service that yields the highest average
(2) **Service Retirement:** Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55
(3) **Early Retirement**: Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55
(4) **Professional Retirement Option**: if the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%
(5) **Annual Contribution**: 8.15% of member's earned compensation
(6) **Supplemental Contribution Rate**: On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
    a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
    b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
    c. A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.
(7) **Disability Retirement:** A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination

(8) **GABA:**

a. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

HB 377 increased revenue from the members, employers and the State as follows:

- Annual State contribution equal to $25 million paid to the System in monthly installments.
- One-time contribution payable to the Retirement System by the trustees of a school district maintaining a retirement fund. The one-time contribution to the Retirement System shall be the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. The amount received was $22 million in FY 2014.
- 1% supplemental employer contribution. This will increase the current employer rates:
    - School Districts contributions will increase from 7.47% to 8.47%.
    - The Montana University System and State Agencies will increase from 9.85% to 10.85%.
    - The supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 thru fiscal year 2024. Fiscal years beginning after June 30, 2024 the total supplemental employer contribution will be equal to 2%.
- Members hired prior to July 1, 2013 (Tier 1) under HB 377 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.
- Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position to the System.

Changes in actuarial assumptions and other inputs:

The following changes to the actuarial assumptions were adopted in 2015:

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three year COLA deferral period for Tier 2 Members.
- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility.
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the $500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the System" are covered by the $500 death benefit after termination.

The following changes to the actuarial assumptions were adopted in 2014:

- 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 expenses 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.

Method and assumptions used in calculations of actuarially determined contributions:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	26 years
Asset valuation method	4-year smoothed market
Inflation	3.25 percent
Salary increase	4.00 to 8.51 percent, including inflation for Non-University Members and 5.00% for University Members;
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

Supplementary Information
June 30, 2016

Flathead Valley Community College

	Pell	CWS	SEOG
Assets			
Beginning cash balance	$ (34,484)	$ (18,784)	$ -
Additions			
Federal advances	2,635,849	32,351	53,484
State matching funds	-	47,881	17,021
Total additions	2,635,849	80,232	70,505
Deductions			
Distribution to students	2,741,881	96,250	71,694
Administrative expenses	3,995	1,893	-
Total deductions	2,745,876	98,143	71,694
Net change to cash	(110,027)	(17,911)	(1,189)
Ending cash balance	$ (144,511)	$ (36,695)	$ (1,189)

College Work Study	
Wages	$ 48,369
Supplemental Education Opportunity Grant	
Student grants	$ 54,673
Pell Grant Program	
Student grants	$ 2,741,881

Semester	Resident	WUE	Nonresident	Total
Summer 2015	194.3	1.1	19.9	215.3
Fall 2015	1,319.2	4.7	48.3	1,372.2
Spring 2016	1,277.5	6.0	44.2	1,327.7

Semester	Resident	WUE	Nonresident	Total
Summer 2014	211.6	-	17.5	229.1
Fall 2014	1,371.3	5.3	49.7	1,426.3
Spring 2015	1,309.0	5.7	56.5	1,371.2

Flathead Valley Community College
Functional Classification of Operating Expenses
Year Ended June 30, 2016

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Scholarships & Fellowships	Operation & Maintenance	Auxillary	Total
Personal services	$ 7,837,281	$ 377,068	$ 2,565,335	$ 2,057,178	$ 2,973,410	$ 324,681	$ 777,102	$ 782,369	$ 17,694,424
Travel	98,733	6,511	99,191	32,891	60,905	11,727	500	1,581	312,039
Supplies	639,836	43,976	48,385	59,072	225,526	67,219	211,036	944,222	2,239,272
Contracted services	402,864	78,966	142,209	107,034	682,927	32,067	945,716	221,021	2,612,804
Bad debt expense	-	-	-	-	77,932	-	-	-	77,932
Scholarship and grants	1,000	-	5,980	6,674	-	6,622,675	-	99	6,636,428
Non-capitalized equipment	41,110	-	103,959	68,719	47,400	26,593	512,835	4,945	805,561
Other operating expense	4,892	12,294	562,988	15,562	91,056	25,050	6,680	35,930	754,452
Depreciation expense	-	-	-	-	-	-	2,005,296	-	2,005,296
	$ 9,025,716	$ 518,815	$ 3,528,047	$ 2,347,130	$ 4,159,156	$ 7,110,012	$ 4,459,165	$ 1,990,167	$ 33,138,208

Other Information
June 30, 2016

Flathead Valley Community College

CPAs & BUSINESS ADVISORS

Independent Auditor's 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
Flathead Valley Community College
Kalispell, 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 Flathead Valley Community College (the College) as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report dated January 5, 2017. Our report includes a reference to other auditors who audited the financial statements of Flathead Valley Community College Foundation (the Foundation), as described in our report on the College's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by the auditors.

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.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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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*.

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 5, 2017

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

To the Board of Trustees
Flathead Valley Community College
Kalispell, Montana

Report on Compliance for Each Major Federal Program
We have audited Flathead Valley Community College's (the College) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the years ended June 30, 2016 and 2015. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

Auditor's Responsibility
Our responsibility is to express an opinion on the compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Each Major Federal Program
In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2016 and 2015.

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Report on Internal Control over Compliance
Management of the College is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-001 to be a significant deficiency.

The College's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
January 5, 2017

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Labor			
Direct Programs			
Trade adjustment Assistance Community College and Career Training	17.282		$ 1,687,826
Consortium Member with Pueblo Community College as Lead			
Trade adjustment Assistance Community College and Career Training	17.282		81,241
Consortium Member with Missoula College U of M as Lead			
Trade adjustment Assistance Community College and Career Training	17.282		78,917
Total U.S. Department of Labor			1,847,984
National Science Foundation			
Direct Programs			
Education and Human Resources	47.076		48,366
Total National Science Foundation			48,366
Small Business Administration			
Pass-Through Programs			
Montana Department of Commerce			
Small Business Development Centers	59.037	OSBDC-2016-02-CY 2016	22,796
Small Business Development Centers	59.037	OSBDC-2015-02-CY 2015	25,077
Total Small Business Administration			47,873
Department of Education			
Direct Programs			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		54,673
Federal Work Study Program	84.033		50,262
Federal Pell Grant Program	84.063		2,745,876
Federal Direct Student Loans	84.268		2,768,123
Subtotal Student Financial Aid Cluster			5,618,934
TRiO - Student Support Services	84.042		296,536
Subtotal Department of Education Direct Programs			5,915,470
Pass-Through Programs			
Montana Office of Public Instuction			
Adult Education - Basic Grants to States	84.002	58-6503-56-16-BG	88,868
Adult Education - Basic Grants to States	84.002	58-6503-56-16-ElCivics	6,209
Subtotal Adult Education - Basic Grants to States			95,077
Office Of Commissioner of Higher Education			
Vocational Education - Basic Grants to States	84.084A	PL 109-270	236,547
Vocational Education - Basic Grants to States	84.048A	Big Sky Pathways	61,845
Subtotal Vocational Education - Basic Grants to States			298,392
Subtotal Department of Education Pass-Through Progams			393,469
Total Department of Education			6,308,939

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Derpartment of Health and Human Services			
Pass-Through Programs			
Montana Department fof Health and Human Services:			
Child Care and Development Block Grant	93.575	1502HIED0011	22,900
Montana State University:			
Biomedical Research and Research Training	93.859	5 P20 GM103474	10,137
Total Department of Health and Human Services			33,037
Department of Veteran Affairs			
Direct Programs			
Annual Reporting Fee for VA Students	64.028		1,584
Total Department of Veteran Affairs			1,584
National Aeronautics and Space Administration			
Pass-Through Programs			
Montana State University			
NASA Carbon Cycle	43.008	NNX15AJ19H	6,292
Total National Aeronautics and Space Administration			6,292
Total expenditures of federal awards			$ 8,294,075

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Labor			
Direct Programs			
Trade Adjustment Assistance Community College and Career Training	17.282		$ 1,822,486
Consortuim Member with Pueblo Community College as Lead:			
Trade Adjustment Assistance Community College and Career Training	17.282		236,797
Consortium Member with Missoula College U of M as Lead:			
Trade Adjustment Assistance Community College and Career Training	17.282		15,110
Total Department of Labor			2,074,393
National Science Foundation			
Direct Programs			
Engineering Grants	47.041		348
Education and Human Resources	47.076		56,902
Total National Science Foundation			57,250
Small Business Administration:			
Pass-Through Programs			
Montana Department of Commerce			
Small Business Development Centers	59.037	OSBDC-2014-02-CY 2014	23,010
Small Business Development Centers	59.037	OSBDC-2015-02-CY 2015	21,965
Total Small Business Administration			44,975
Department of Education:			
Direct Programs			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		62,356
Federal Work Study Program	84.033		56,137
Federal Pell Grant Program	84.063		3,146,071
Federal Direct Student Loans	84.268		3,175,275
Subtotal Student Financial Aid Cluster			6,439,839
Higher Education Institutional Aid	84.031		93,350
TRiO - Student Support Services	84.042		319,842
Subtotal Department of Education Direct Programs			6,853,031
Pass-Though Programs			
Montana Office of Public Instuction			
Adult Education - Basic Grants to States	84.002	58-6503-56-15-BG	84,292
Adult Education - Basic Grants to States	84.002	58-6503-56-15-ElCivics	3,996
Subtotal Adult Education - Basic Grants to States			88,288
Office of Commisioner of Higher Education			
Vocational Education - Basic Grants to States	84.048A	PL 109-270	186,538
Vocational Education - Basic Grants to States	84.048A	Big Sky Pathways	70,244
Subtotal Vocational Education - Basic Grants to States			256,782
College Access Grant Program	84.378A	Financial Literacy Program	3,945
Subtotal Department of Education Pass-Through Programs			349,015
Total Department of Education			7,202,046

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Health and Human Services			
Pass-Through Programs			
Montana Department of Health and Human Services			
Child Care and Development Block Grant	93.575	1402HIED0011	6,118
Child Care and Development Block Grant	93.575	1502HIED0011	11,496
Total Department of Health and Human Services			17,614
Department of Veteran Affairs			
Direct Programs			
Annual Reporting Fee for VA Students	64.028		1,620
Total Deparment of Veteran Affairs			1,620
Corporation for National and Community Service			
Pass-Through Programs			
University of Denver			
Americorps	94.006	SC 37138A-09-01	6,682
Total Corporation for National and Community Service			6,682
Total expenditures of federal awards			$ 9,404,580

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the College, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.* The College received federal awards both directly from federal agencies and indirectly through pass-through entities. Federal financial assistance provided to a subrecipient is treated as an expenditure when it is paid to the subrecipient.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. The College's summary of significant accounting policies is presented in Note 1 in the basic financial statements.

Section I – Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 §.510(a)	Yes

Identification of major programs:

Name of Federal Program	CFDA Number
Student Financial Aid Cluster	84.007, 87.033 84.063, 84.268
Vocational Education Basic Grants to States	84.048A
TRiO - Student Support Services	84.042

Dollar threshold used to distinguish between type A and type B programs:	$300,000**
Auditee qualified as low-risk auditee?	No

**Due to the biennial single audit, the lower threshold from OMB Circular A-133 was used for selection of major programs.

Section II – Findings – Financial Statement Audit

There we no findings relating to the financial statement audit.

Section III -Findings and Questioned Costs – Major Federal Award Programs Audit

2016-001
Direct Programs – Department of Education
CFDA# 84.063, 84.007, 84.268, 84.033
Student Financial Aid Cluster
Special Tests and Provisions: NSLDS Withdrawal Date
Significant Deficiency in Internal Controls

Criteria:
34 CFR Section 685.309 states that an Institution shall ensure that all information reported to the Secretary is within the required time frame. The NSLDS Enrollment Reporting Guide further states that the information that is reported to the Secretary is accurate in addition to timely.

Condition:
During our testing of students that were disbursed direct loans during the 2014-2015 and 2015-2016 school years, there were several instances in which the students' withdrawal date per the Return of Title IV Aid (R2T4) calculation worksheets did not match the date reported to NSLDS.

Cause:
The College was unaware that NSLDS was to be manually updated for unofficial withdrawals, and therefore, the last day of the semester was used as the last date of attendance for unofficial withdrawals in NSLDS, regardless of what was used in the R2T4 calculation. Additionally, for official withdrawals, the Financial Aid office used the date that it became aware of withdrawals as the last date of attendance used in the R2T4 calculation, which did not always align with the last date of attendance in NSLDS.

Effect:
The withdrawal date for 6 of the 8 students sampled were incorrectly reported to NSLDS.

Questioned Costs:
None

Context/Sampling:
A non-statistical sample of 8 students out of 114 students were selected for R2T4 testing.

Repeat Finding from Prior Year(s):
No

Recommendation:
We recommend that the College implement a control process in which the NSLDS system is updated between the Registrar's office and the Student Financial Aid's office. The College should also periodically monitor this process to ensure that it is working effectively.

Management's Response and Corrective Action Plan:
Management agrees with these findings. The Student Financial Aid Office and Registrar's Office will coordinate to ensure that the final submission for each semester is recording the proper withdrawal date for each student to be reported to NSLDS.

2015-A Audit Adjustments
Significant Deficiency

Initial Fiscal Year Finding Occurred: Fiscal year 2015

Finding Summary: During the course of our audit engagement, we proposed audit adjustments, including adjustment of prior period amounts, which if not recorded, would have resulted in a misstatement of the College's financial statements.

Status: Corrected