FLATHEAD VALLEY COMMUNITY COLLEGE

FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2015

AUDIT REPORT

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

January 2016

The Legislative Audit Committee
of the Montana State Legislature:

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

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

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

15C-07

Room 160 · State Capitol Building · P.O. Box 201705 · Helena, MT · 59620-1705
Phone (406) 444-3122 · FAX (406) 444-9784 · E-Mail lad@mt.gov
http://leg.mt.gov/audit

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Board of Trustees

District Officials

Jane Karas	President
Monica Settles	District Clerk

Financial Section
June 30, 2015

Flathead Valley Community College

EideBailly
CPAs & BUSINESS ADVISORS

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 year ended June 30, 2015, the financial statements of the discretely presented component unit as of and for the year ended December 31, 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 an opinion on these financial statements based on our audit. 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 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 other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. 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, 2015, and the discretely presented component unit as of December 31, 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.

Emphasis of Matter

Change in Accounting Principle
As discussed in Notes 1 and 9 to the financial statements, the College has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of July 1, 2014. Our opinion is not modified with respect to this matter.

As discussed in Note 9 to the financial statements, the College had a change in accounting principle related to the revenue recognition for their summer tuition revenue, which resulted in a restatement of the beginning net position. Our opinion is not modified with respect to this matter.

Correction of an Error
As discussed in Note 9 to the financial statements, the College incorrectly calculated deferred outflows relating to unearned grant revenues as of June 30, 2014, creating revenues in the current year that should have been recognized in the prior year, which resulted in a restatement of net position as of June 30, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that a Management's Discussion and Analysis, the Schedule of Employer’s Share of Net Pension Liability, the Schedule of Employer Contributions and the Schedule of Funding Progress 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.

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 is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards,* we have also issued our report dated January 26, 2016, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
January 26, 2016

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 year ended June 30, 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 2015, operating revenues and expenses decreased slightly with operating loss increasing to $13.4 million from $12.5 million (as restated) from the previous fiscal year. This, along with an increase in non-operating revenues from state appropriation and property taxes, resulted in an overall increase in net position of $1.4 million before restatements. 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.

Change in Accounting Principles

In fiscal year 2015, the College adopted the provisions of GASB Statement No. 68: *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71: *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (GASB 68 and 71). The tables in this MD&A presented for the year ended June 30, 2014 have not been restated for the implementation of GASB 68 and 71.

How the Financial Statements Relate to Each Other

The financial statements included are the:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement 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, 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:

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

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, 2015 and 2014:

	2015	As Restated 2014
Current Assets	$ 15,174,897	$ 14,856,822
Non-Current Assets	32,739,449	33,211,510
Total assets	47,914,346	48,068,332
Deferred Outflow of Resources	1,506,299	-
Current liabilities	2,881,797	3,275,796
Non-Current Liabilities	28,284,697	16,257,621
Total liabilities	31,166,494	19,533,417
Deferred Inflow of Resources	2,684,848	500
Net Investment in Capital Assets	18,641,674	17,718,080
Restricted-expendable	310,000	725,000
Unrestricted	(3,382,371)	10,091,335
Total net position	$ 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. The net increase in current assets 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. The net decrease in non-current assets from 2014 to 2015 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 as well as the deferred charge on refunding of debt, that was the result of the General Obligation Bond refunding that took place in the current year.

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. Total current liabilities decreased from 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. The increase of total non-current liabilities from 2014 to 2015 is primarily the result of implementation of GASB 68 and 71, which increased net pension liability by $12,577,523.

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

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 2014 to 2015 is mainly 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. This balance decreased due to the timing of debt service payments.

Unrestricted net position is funds that the College has to use for whatever purpose it determines is appropriate. The decrease from the prior year is mainly attributable to the implementation of GASB 68 and GASB 71. Had GASB 68 and GASB 71 not been implemented the overall unrestricted net position would have increased from the prior year.

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 $13,371,179 for 2015. Once the non-operating revenues, gain/loss on capital assets, and contributions are considered, the results becomes a change in net position of $1,437,477 for 2015. 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, 2015 and 2014:

	2015	As Restated 2014
Operating Revenues	$ 20,594,387	$ 22,053,558
Operating Expenses	33,965,566	34,563,966
Operating Loss	(13,371,179)	(12,510,408)
Net Non-Operating Revenues (Expenses)	14,698,869	13,826,176
Contributions	100,000	420,000
Gain (Loss) on Sale of Capital Assets	9,787	(1,862)
Change in Net Position	$ 1,437,477	$ 1,733,906

Operating revenues includes federal and state grants and contracts, tuition, fees and auxiliary activities. Operating revenues for 2015 decreased from 2014 primarily due to a decrease in federal grants and contracts, offset by an increase in other miscellaneous operating revenues.

Operating expenses for 2015 decreased from 2014 due to a decrease of scholarships and grants, offset by an increase in personal and contracted 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 2015 increased from 2014, primarily due to an increase in state and local appropriations, as well as a decrease in debt services expense.

Statement of Cash Flows

The Statement of Cash Flows summarizes where cash was provided or utilized throughout the fiscal year. Cash flows are presented in operating activities, non-capital financing activities, capital and related financing activities and investing activities. The sum of these four categories is the net change in cash.

The following is a summary of the Statements of Cash Flows for the years ended June 30, 2015 and 2014:

	2015	2014
Cash Provided From (Used For)		
Operating Activities	$ (11,679,800)	$ (10,688,958)
Noncapial Financing Activities	15,166,929	14,207,961
Capital and Related Financing Activities	(3,419,239)	(3,331,827)
Investing Activities	104,857	80,285
Net Change in Cash and Cash Equivalents	172,747	267,461
Cash and Cash Equivalents, Beginning of Year	13,444,316	13,176,855
Cash and Cash Equivalents, End of Year	$ 13,617,063	$ 13,444,316

Operating activities represent the revenue received from tuition and fees, federal, state, and private grants and contracts, indirect cost recoveries (from grants), auxiliary activities, and other operating revenues. Total cash used for operating activities increased from 2014 to 2015. This increase is primarily due to the increase in payments to employees relating to pension and benefits.

Capital and related financing activities consists of purchases of capital assets, payments of principal and interest on loans, and proceeds from new capital debt. Total cash used for capital and related financing activities increased from 2014 to 2015. This is mainly due to the refinance of long-term debt in the current year.

Noncapital financing activities consists of state and local appropriations. Total cash provided from noncapital financing activities increased from 2014 to 2015.

Investing activities consists of interest on investments. Total cash provided from investing activities increased from 2014 to 2015.

Capital Assets

The College's investment in capital assets as of June 30, 2015, amounts to $32.4 million, 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

At the end of the current fiscal year, the College had total outstanding debt of $ 13.8 million. The outstanding debt consisted of outstanding general obligation bonds of $11.0 million and outstanding Intercap loans of $2.8 million. 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.

The College is in the process of constructing a brewing facility to give students in the Brewing Science and Brewing Operation program practical experience in the brewing process. The College anticipates occupying this facility for the Fall 2016 term. The building is being funded primarily using capital reserve funds and is being paid for as it is constructed.

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.

Assets	
Current Assets	
Cash, cash equivalents, and investments	$ 13,307,063
Taxes and assessments receivable	175,184
Grants receivable	465,088
Tuition and fees receivable, net of allowance for uncollectible amounts of $713,576	196,911
Other accounts receivable	580,117
Inventories	295,522
Other assets	155,012
Total current assets	15,174,897
Non-Current Assets	
Restricted cash, cash equivalents, and investments	310,000
Capital assets - non-depreciable	3,047,864
Capital assets - depreciable, net	29,381,585
Total non-current assets	32,739,449
Total assets	47,914,346
Deferred Outflow of Resources	
Deferred charge on refunding	216,758
Deferred outflow on PERS liability	478,984
Deferred outflow on TRS liability	810,557
Total deferred outflow of resources	1,506,299

Current Liabilities	
Accounts payable and accrued liabilities	$ 558,884
Student deposits payable	220,165
Deposits payable	10,745
Interest payable	21,127
Accrued payroll	177,182
Unearned revenue - tuition and fees	182,362
Long-term liabilities, current portion	1,711,332
Total current liabilities	2,881,797
Non-Current Liabilities	
Long-term capital liabilities, net of current portion	12,358,013
Compensated absences, net of current portion	1,305,057
Net pension liability	12,577,523
Net obligation for other post-employment benefits	2,044,104
Total non-current liabilities	28,284,697
Total liabilities	31,166,494
Deferred Inflow of Resources	
Deferred inflow on PERS liability	1,611,590
Deferred inflow on TRS liability	1,073,258
Total deferred inflow of resources	2,684,848
Net Position	
Net investment in capital assets	18,641,674
Restricted for	
Debt service	310,000
Unrestricted	(3,382,371)
Total net position	$ 15,569,303

Operating Revenues	
Tuition and fees, net of scholarship allowance of $746,582	$ 6,252,296
Federal grants and contracts	9,344,122
State grants, contracts, and aid	868,067
Private and local grants and contracts	1,410,172
Indirect cost recoveries	213,580
Seminars and workshops	154,044
Auxilary activities	1,839,406
Other operating revenues	512,700
Total operating revenues	20,594,387
Operating Expenses	
Personal services	17,681,988
Travel	352,095
Supplies	2,356,923
Contracted services	2,970,010
Bond issue expense	94,213
Bad debt expense	35,932
Scholarships and grants	7,379,810
Noncapitalized equipment	803,961
Other operating expenses	345,500
Depreciation	1,945,134
Total operating expenses	33,965,566
Operating Loss	(13,371,179)
Non-Operating Revenues (Expenses)	
State appropriations	8,836,460
Statewide university millage	527,822
Local appropriations	5,598,768
Interest revenue	104,857
Debt service interest expense	(369,038)
Gain on disposal of capital assets	9,787
Total non-operating revenues	14,708,656
Net Income Before Capital Contributions	1,337,477
Capital Contributions	100,000
Change in Net Position	1,437,477
Net Position, Beginning of Year, as Restated	14,131,826
Net Position, End of Year	$ 15,569,303

Operating Activities	
Tuition and fees	$ 6,200,705
Federal grants and contracts	9,311,879
Other grants and contracts	2,277,739
Seminars and workshops	154,044
Auxiliary activities	1,947,904
Other	726,280
Payments to suppliers	(4,022,691)
Payments for contracted services	(2,970,010)
Payments for scholarships and grants	(7,379,810)
Payments to employees	(17,925,840)
Net Cash used for Operating Activities	(11,679,800)
Noncapital Financing Activities	
State appropriations	8,836,460
Local appropriations	6,330,469
Net Cash from Noncapital Financing Activities	15,166,929
Capital and Related Financing Activities	
Acquisition and construction of capital assets	(1,791,286)
Proceeds from the sale of capital assets	13,000
Proceeds from new capital debt	9,778,242
Principal paid on capital debt	(10,975,655)
Interest paid on capital debt	(443,540)
Net Cash used for Capital and Related Financing Activities	(3,419,239)
Investing Activities	
Interest on investments	104,857
Net Cash from Investing Activities	104,857
Net Change in Cash	172,747
Cash, Cash Equivalents and Investments, Beginning of Year	13,444,316
Cash, Cash Equivalents and Investments, End of Year	$ 13,617,063

Reconciliation of Operating Loss to Net Cash used for Operating Activities	
Operating loss	$ (13,371,179)
Adjustments to reconcile net loss to net cash used for operating activities	
Depreciation	1,945,134
GASB 68 - Actuarial pension expense	(429,759)
Change in OPEB obligation	163,439
Changes in assets and liabilities	
Grants receivable	(32,243)
Tuition receivable	(54,091)
Accounts receivable	144,430
Inventories	(38,606)
Other assets	46,303
Accounts payable and accrued liabilities	(77,684)
Compensated absences	12,074
Accrued payroll	10,393
Deferred revenue	2,500
Deposits payable	(11)
Deferred Inflow - unearned grant revenue	(500)
Net Cash used for Operating Activities	$ (11,679,800)
Supplemental Disclosure of Noncash Activity	
Contributions of capital assets	$ 100,000
Reconciliation of Cash, Restricted Cash and Cash Equivalents	
Cash and cash equivalents	$ 13,307,063
Restricted cash, cash equivalents and investments	310,000
Total cash and cash equivalents, restricted cash and investments	$ 13,617,063

Assets	
Current Assets	
Cash and cash equivalents	$ 332,413
Promises to give	1,604,110
Investments	11,749,820
Other assets	234,648
Total current assets	$ 13,920,991
Liabilities and Net Assets	
Current Liabilities	
Accounts payable and accrued liabilities	$ 551,038
Foundation scholarship payable	384,919
Other scholarships payable	165,970
Deferred gift liability	154,849
Total current liabilities	1,256,776
Net Assets	
Unrestricted	672,502
Temporarily restricted	4,805,722
Permanently restricted	7,185,991
Total net assets	12,664,215
	$ 13,920,991

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revnue 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 disbursments	976,795	-	-	976,795
Other program expenses	126,976	-	-	126,976
Prizes	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, 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, 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, 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 2015 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 fair market 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:

Information Technology	3-7 years
Buildings and Improvements	40 years
Equipment	5-20 years
Library	10 years
Land Improvements	20 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 year ended June 30, 2015.

Deferred Outflows and Inflows of Resources

The Statement of Financial 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 Financial 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 Administration (PERA) and the Teachers' Retirement System State of Montana (TRS) and additions to/deductions from PERA and TRS fiduciary net position have been determined on the same basis as they are reported by PERA 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.

New Accounting Standards

As of July 1, 2014, the College adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense. The effect of the implementation of these standards on beginning net position is disclosed in Note 9 and the additional disclosures required by these standards are included in Note 6.

Note 2 - Capital Assets

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 $131,627 for fiscal year 2015. As of June 30, 2015, future minimum operating lease commitments are as follows:

Year Ended June 30,	
2016	$ 94,654
2017	59,697
2018	42,104
2019	6,342
Totals	$ 202,797

Note 4 - Compensated Absences

Compensated absences payable, which represent vacation and sick leave earned by employees which is payable upon termination, at June 30, 2015 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Compensated absenses	$ 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, 2015**:**

	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. In 2015, the College refinanced its previous general obligation bonds.

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

Bond	Date Issued	Interest Rate	Term	Maturity	Principal	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	560,000
Series 2015A	1/20/2015	2.15%	10 Years	7/1/2026	4,997,500	4,997,500
Series 2015B	1/20/2015	2.15%	10 Years	7/1/2026	4,997,500	4,997,500
					$ 25,811,000	$ 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, 2015, are as follows:

Year Ended June 30,	Principal	Interest	Total
2016	$ 790,000	$ 219,605	$ 1,009,605
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
2021-2025	5,090,000	443,223	5,533,223
2026-2027	1,525,000	25,639	1,550,639
	$ 11,035,000	$ 1,427,107	$ 12,462,107

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, 2015 were as follows:

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

Approximate future annual minimum principal and interest payments as of June 30, 2015, are as follows:

Year Ended June 30,	Principal	Interest	Total
2016	$ 639,761	$ 32,410	$ 672,171
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
2021-2023	741,334	2,303	743,637
	$ 2,752,775	$ 98,932	$ 2,851,707

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:
The Teacher's Retirement System (TRS) 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 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 structures, and prior years' actuarial valuations, as well as links to applicable statues and administrative rules, may be obtained by visiting the TRS website at trs.mt.gov.

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

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

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

Summary of Benefits

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

Beginning July 1, 2013, new members in TRS participate in a second benefit tier (Tier Two), which differs from Tier One as follows:

- Tier Two uses a 5-year 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 one percent higher normal employee contribution rate (through a temporary 1% supplemental employee contribution rate is also now 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 1.6667x AFC x years of creditable service).

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

PERS:

Member's highest average compensation (HAC)

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

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, actuarially reduced:

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

Vesting

5 years of membership service

Monthly benefit formula

Members hired prior to July 1, 2011:

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

Member hired on or after July 1, 2011:

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

Guaranteed Annual Benefit Adjustment (GABA)*

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

3% for members hired prior to July 1, 2007
1.5% for members hired on or after July 1, 2007
Members hired on or after July 1, 2013

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

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

Total number of members (employees) covered by benefit terms as of June 30, 2015:

- Active plan members; 28,237
- Inactive members entitled to but not yet receiving benefits or a refund:
  - Vested: 2,925
  - Non-vested: 8,839
- Inactive members and beneficiaries currently receiving benefits:
  - Service Retirements: 20,080
  - Disability Retirements: 176
  - Survivor Benefits: 425

Overview of Contributions

TRS:
TRS 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. TRS receives 2.49% of reportable compensation from the State's general fund for School Districts and Other Employers. The System also receives 0.11% of reportable compensation from the State's general fund for State and University Employers. Finally, the State is also required to contribute $25 million in perpetuity payable July 1st of each year.

MCA 19-20-605 requires each employer to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position. Pursuant to MCA 19-20-609, this amount shall increase by 1.00% for fiscal year 2014 and increase by .10% each fiscal year through 2024 until the total employer contribution is equal to 11.85% of re-employed retiree compensation.

PERS:

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

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

2. Member contributions to the system for the fiscal year ended June 30, 2015:
   a. Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
   b. The 7.90% member contributions is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

3. Employer contributions to the system for the fiscal year ended June 30, 2015:
   a. State and University System employers are required to contribute 8.27% of members' compensation.
   b. Local government entities are required to contribution 8.17% of members' compensation.
   c. School district employers contributed 7.90% of members' compensation.
   d. Effective July 1, 2013, the additional employer contributions for DCRP and MUS-RP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability.
   e. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

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

Stand-Alone Statements

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 and Pension Expense (Revenue)

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, TRS and PERS have a special funding situation in which the State of Montana is legally responsible for making contributions directly to TRS and PERS on behalf of the College. Due to the existence of this special funding situation, the College is required to report the portion of the State of Montana's proportionate share of the collective net pension liability that is associated with the College.

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

The College's and State of Montana's proportionate share of the net pension liability are presented below:

	TRS	PERS	Total
College proportionate share	$ 6,346,285	$ 6,231,238	$ 12,577,523
State of Montana proportionate share associated with college	4,348,969	76,093	4,425,062
	$ 10,695,254	$ 6,307,331	$ 17,002,585

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The College's proportion of the net pension liability was based on the contributions received by TRS and PERS during the measurement period July 1, 2013 through June 30, 2014, relative to the total employer contributions received from all TRS and PERS participating employers. At June 30, 2014, the College's proportionate share was .41240467 and .500095 percent for TRS and PERS, respectively.

For the year ended June 30, 2015, the College recognized $611,374 (TRS) and $461,515 (PERS) for its proportionate share of the pension expense. The College also recognized revenue of $243,527 (TRS) and $176,193 (PERS) for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the College.

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

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

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

Deferred Inflows and Outflows of Resources Related to Pensions:

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

TRS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 62,779	$ -
Changes in assumptions or other inputs	143,834	-
Net difference between projected and actual earnings on pension plan investments	-	982,951
Differences between expected and actual contributions	-	90,307
College's contributions subsequent to the measurement date	603,944	-
Total	$ 810,557	$ 1,073,258

PERS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes in assumptions or other inputs	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,610,050
Differences between expected and actual contributions	-	1,540
College's contributions subsequent to the measurement date	478,984	-
Total	$ 478,984	$ 1,611,590

Amounts reported as deferred outflows of resources related to pensions resulting from the College’s contributions subsequent to measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2016.

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

	TRS			PERS		
	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
Year ended June 30:						
2016	$ 68,871	$ (268,315)	$ (199,444)	$ -	$ (403,026)	$ (403,026)
2017	68,871	(268,315)	(199,444)	-	(403,026)	(403,026)
2018	68,871	(268,314)	(199,443)	-	(403,026)	(403,026)
2019	-	(268,314)	(268,314)	-	(402,512)	(402,512)

Actuarial Assumptions:

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

- Total Wage Increases * 8.51%
- Investment Return 7.75%
- Price Inflation 3.25%
- Postretirement Benefit Increases 1.50%
  (starting three years after retirement)
- Mortality among contributing members, service retired members, and beneficiaries
  - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 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 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 beneficiarie+0s based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

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

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

Target Allocations:

	TRS		PERS	
Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	N/A	N/A	2.00%	0.25%
Broad US/Domestic Equity	36.00%	4.80%	36.00%	4.80%
Broad International Equity	18.00%	6.05%	18.00%	6.05%
Private Equity	12.00%	8.50%	12.00%	8.50%
Intermediate Bonds	23.40%	1.50%	N/A	N/A
Core Real Estate	4.00%	4.50%	8.00%	4.50%
Fixed Income	N/A	N/A	24.00%	1.68%
High Yield Bonds	2.60%	3.25%	N/A	N/A

TRS:
The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared every four years for TRS. 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 include TRS' target asset allocation as of June 30, 2014, is summarized in the table above.

PERS:
The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for PERS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sectors systems and by using building block method in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term-assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class include PERS' target asset allocation as of June 30, 2014, is summarized in the table above.

<u>Sensitivity Analysis:</u>

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the below 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 was 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	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

Defined Contribution Retirement Plan

College employees have the option to participate in a defined contribution retirement plan through the Montana Public Employees Retirement System (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 2015, the College contributed $48,616 to the plan, with the employees contributing $47,009.

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 Teachers Retirement System (TRS) or the Public Employee Retirement System (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	$ 257,802
Interest on net OPEB obligation	(19,791)
Annual OPEB cost	238,011
Estimated contributions made	(74,572)
Increase in net OPEB obligation	163,439
Net OPEB obligation, beginning of year	1,880,665
Net OPEB obligation, end of year	$ 2,044,104

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, 2015	$ 238,011	$ 74,572	31.33%	$ 2,044,104
June 30, 2014	265,799	42,237	15.89%	1,880,665
June 30, 2013	294,741	20,460	6.94%	2,011,389

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, 2013, 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 year ended June 30, 2015, the College received $506,945 in revenues for scholarships and programs, as well as career services from Flathead Valley Community College Foundation. This balance was in Accounts Receivable as of year-end.

Note 9 - Restatements

During the current fiscal year, the College reviewed how revenue was recognized relating to the summer term. In prior years, the revenue was recognized in the fiscal year in which a majority of the term fell; however upon review of this treatment, the College made the decision to recognize the summer tuition revenue as it was earned by the College. As a result, the College changed how they were recording the summer tuition revenue in the current year, which resulted in a restatement to the beginning net position balance by $216,649.

During the current fiscal year, the College identified an error in grant revenue that should have been recognized in the year in which it was received rather than deferring the revenue. This resulted in revenue recognized in the current year that related to a prior period, which resulted in the correction of an error as noted below.

During the year ended June 30, 2015, the College implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date.* The adoption of this statement resulted in the restatement of the beginning Net Position of the Statement of Activities.

Beginning net position as previously reported at June 30, 2014	$ 28,254,893
Deferred inflow - unearned grant revenues	62,873
Restatement as of June 30, 2014 due to correction of error	28,317,766
Prior period adjustment - change in accounting principle - summer tuition revenue recognition	216,649
Prior period adjustment - Implementation of GASB 68/71	
Net pension liability (measurement date) TRS	(7,335,499)
Net pension liability (measurement date) PERS	(8,018,646)
Deferred Outflows - contributions made during fiscal year 2014 TRS	490,416
Deferred Outflows - contributions made during fiscal year 2014 PERS	461,140
Total prior period adjustments - GASB 68/71	(14,402,589)
Net position, July 1, 2014, as restated	$ 14,131,826

Note 10 - Component Unit - Flathead Valley Community College Foundation

Nature of Activities and Summary of Significant Accounting Policies

Foundation Operations

The Foundation is a nonprofit organization exempt from federal income taxes under Section 50l(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's financial statements are prepared in accordance with the Standards set by the Financial Accounting Standards Board (FASB). FASB standards require three classes of net assets: unrestricted, temporarily restricted, and permanently restricted instead of reporting by fund as is done under GASB standards. Other differences include criteria for recognizing in-kind donations and the presentation of information.

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, 2014, investments are comprised of the following:

	Amotized Cost	FMV
Cash and cash equivalents	$ 1,683,844	$ 1,683,844
Certificates of deposit	40,000	41,062
Government bonds and agencies	576,841	570,231
Corporate bonds and bond funds	2,740,669	2,729,518
Equity securities and mutual funds	5,593,204	6,725,165
	$ 10,634,558	$ 11,749,820

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, 2014:

In one year or less	$ 832,477
Between one year and five years	771,633
	$ 1,604,110

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, 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:

Balance, January 1	$ 2,890,646
Pledge payments received	(1,428,852)
New pledges made by donors	144,289
Pledges written off	(1,973)
	$ 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, 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	-	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, 2014 was $7,185,991. There were $2,643,052 in temporarily restricted net assets within the endowment fund at December 31, 2014.

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, 2015

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, 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%
July 1, 2009	-	4,137,471	4,137,471	0.0%	11,078,458	37.3%

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

	2015
Employer's proportionate share of the net pension liability	0.41240467%
Employer's proportion share of the net pension liability	$ 6,346,285
State of Montana's proportionate share of the net pension liability associated with the Employer	4,348,969
Total	$ 10,695,254
Employer's covered-employee payroll	$ 5,200,760
Employer's proportional share of the net pension liability as a percentage of its covered-employee payroll	122.03%
Plan fiduciary net position as a percentage of the total pension liability	70.36%

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

	2015
Employer's proportionate share of the net pension liability	0.500095%
Employer's proportion share of the net pension liability	$ 6,231,238
State of Montana's proportionate share of the net pension liability associated with the Employer	76,093
Total	$ 6,307,331
Employer's covered-employee payroll	$ 5,661,067
Employer's proportional share of the net pension liability as a percentage of its covered-employee payroll	110.07%
Plan fiduciary net position as a percentage of the total pension liability	79.90%

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

Data reported is measured as of June 30, 2014.

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

	2015
Statutorily required contribution	$ 603,944
Contributions in relation to the statutorily required contribution	603,944
Contribution (deficiency) excess	-
Employer's covered - employee payroll	5,200,760
Contributions as a percentage of the covered-employee payroll	11.613%

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

	2015
Statutorily required contribution	$ 481,847
Contributions in relation to the statutorily required contribution	481,847
Contribution (deficiency) excess	-
Employer's covered - employee payroll	6,393,193
Contributions as a percentage of the covered-employee payroll	7.537%

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

Data reported is measured as of June 30, 2015.

Supplementary Information
June 30, 2015

Flathead Valley Community College

	Pell	CWS	SEOG
Assets			
Beginning cash balance	$ (30,484)	$ (3,780)	$ (1,397)
Additions			
Federal advances	3,141,567	41,133	63,753
State matching funds	-	38,643	19,231
Total additions	3,141,567	79,776	82,984
Deductions			
Distribution to students	3,141,166	91,679	81,587
Administrative expenses	4,905	3,101	-
Total deductions	3,146,071	94,780	81,587
Net change to cash	(4,504)	(15,004)	1,397
Ending cash balance	$ (34,988)	$ (18,784)	$ -

College Work Study		
Wages	$	53,036
Supplemental Education Opportunity Grant		
Student grants	$	62,356
Pell Grant Program		
Student grants	$	3,141,166

Semester	Resident	WUE	Nonresident	Total
Summer 2014	194.30	1.10	19.90	215.30
Fall 2014	1,371.30	5.30	49.70	1,426.30
Spring 2014	1,321.90	5.80	57.30	1,385.00
	2,887.50	12.20	126.90	3,026.60

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Scholarships & Fellowships	Operation & Maintenance	Auxillary	Total
Salaries	$ 7,399,020	$ 364,920	$ 2,864,303	$ 2,240,484	$ 2,869,440	$ 333,750	$ 799,305	$ 810,766	$ 17,681,988
Travel	81,034	14,422	120,133	44,116	76,546	10,511	1,768	3,565	352,095
Supplies	664,509	44,822	104,995	60,691	233,895	76,922	173,184	997,905	2,356,923
Contracted servics	533,315	96,142	196,571	97,102	770,955	40,966	1,052,573	182,386	2,970,010
Bond issue expense	-	-	-	-	-	-	94,213	-	94,213
Bad debt expense	-	-	-	-	35,932	-	-	-	35,932
Scholarship and grants	-	1,000	5,084	-	-	7,373,726	-	-	7,379,810
Non-capitalized equipment	6,543	319	112,423	14,008	39,986	8,419	616,846	5,417	803,961
Other operating expense	-	12,781	163,534	14,249	93,721	25,419	-	35,797	345,501
Depreciation expense	-	-	-	-	-	-	1,945,133	-	1,945,133
	$ 8,684,421	$ 534,406	$ 3,567,043	$ 2,470,650	$ 4,120,475	$ 7,869,713	$ 4,683,022	$ 2,035,836	$ 33,965,566

Other Information
June 30, 2015

Flathead Valley Community College

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, 2015, and the related notes to the financial statements, and have issued our report dated January 26, 2016. 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 contro*l exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2015-A, that we considered to be a significant deficiency.

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

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

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

Eide Bailly LLP

Boise, Idaho
January 26, 2016

2015-A Audit Adjustments
Significant Deficiency

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

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

Cause:
The internal controls currently in place were not sufficient to identify misstatements in various funds.

Effect:
The need for these adjustments indicates that the College's interim financial information may not be correct, which may affect management decisions made during the course of the year.

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

Management's Response and Corrective Action Plan:
Management agrees with the auditor's comments and has added a procedure whereby the VP of Administration and Finance and the Controller will review significant account balances, changes of accounting policy, and financial processes on a quarterly basis. This is to ensure that accurate financial information is included in the financial statements of the College.