FLATHEAD VALLEY COMMUNITY COLLEGE

FLATHEAD COUNTY, MONTANA

Fiscal Years Ended June 30, 2017 and 2016

AUDIT REPORT

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

January 2018

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, 2017.

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/ Angus Maciver

Angus Maciver
Legislative Auditor

17C-07

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Board of Trustees

District Officials

Financial Section
June 30, 2017 and 2016

Flathead Valley Community College

Independent Auditor's Report

Board of Trustees
Flathead Valley Community College
Kalispell, Montana

Report on the Financial Statements
We have audited the accompanying financial statements of Flathead Valley Community College (the College), as of and for the years ended June 30, 2017 and 2016, and the financial statements of the discretely presented component unit as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Component Unit – Flathead Valley Community College Foundation (the Foundation). Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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

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, 2017 and 2016, and the discretely presented component unit as of December 31, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that a Management's Discussion and Analysis, the Schedule of Funding Progress for Post-Employment Benefits Plans, the Schedule of Employer’s Share of Net Pension Liability, and the Schedule of Employer Contributions 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 Schedule of Student Financial Aid – Modified Statement of Cash Receipts and Disbursements, Schedule of Expenditures – Student Financial Assistance Programs, Schedule of Full Time Equivalents, and Schedule of 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 are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's 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 19, 2018

Overview

The following Management's Discussion and Analysis is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. Flathead Valley Community College's (the College) Management Discussion and Analysis (MD&A) presents an overview of its financial condition and results of operations for the fiscal years ended June 30, 2017 and 2016. 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 2017, operating loss was $15.9 million, compared with $13.4 million in 2016. Non-operating revenues including contributions increased to $16 million in 2017 compared to $14.7 million in 2016, resulting in a change in net position of $129 thousand in 2017 and $1.4 million in 2016.

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

How the Financial Statements Relate to Each Other

The financial statements included are the:

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

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

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

Statement of Net Position

The Statement of Net Position presents the College's assets, deferred outflow of resources, liabilities, deferred inflows of resources and net position as of the fiscal year end. The purpose of this statement is to present to the financial statement readers a snapshot of the College's financial position at June 30, 2017 and 2016. The data presented in the Statement of Net Position aids in determining the assets available to continue the College's operations. It also allows readers to determine how much the College owes to vendors and creditors. Finally, the Statement of Net Position provides a picture of net position and its availability for expenditure by the College. Assets and liabilities are presented in a classified format. This format differentiates between current and non-current assets and liabilities. Current assets and liabilities are those expected to be realized or expended within the next twelve months.

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

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

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

The following is a summary of the Statements of Net Position at June 30, 2017, 2016 and 2015:

	2017	2016	2015
Current Assets	$ 15,830,214	$ 14,462,567	$ 15,174,897
Capital and Other Assets	40,376,622	33,590,813	32,739,449
Total assets	56,206,836	48,053,380	47,914,346
Deferred Outflow of Resources	3,524,737	1,623,145	1,506,299
Current liabilities	3,562,024	3,450,797	2,881,796
Non-Current Liabilities	38,405,941	28,149,926	28,284,698
Total liabilities	41,967,965	31,600,723	31,166,494
Deferred Inflow of Resources	675,121	1,116,723	2,684,848
Net Investment in Capital Assets	19,623,393	20,248,603	18,641,674
Restricted-expendable	1,000,781	984,195	310,000
Unrestricted	(3,535,687)	(4,273,719)	(3,382,371)
Total net position	$ 17,088,487	$ 16,959,079	$ 15,569,303

Current assets include the College's cash, taxes, grants, student loans, accounts receivables, inventories and other assets expected to benefit the College within one year. Current assets increased $1.4 million in 2017 compared to 2016. The increase was due to an increase in cash and cash equivalents, offset by a decrease in receivables and other assets. Receivables decreased primarily due to timing of payments from various grants. Current assets decreased $712 thousand in 2016 compared to 2015. The decrease was due to a decrease in cash and cash equivalents, offset by an increase in receivables and other assets. Receivables increased primarily due to timing of payments from various grants.

Non-current assets include restricted cash and investments and net capital assets. Non-current assets increased $6.8 million in 2017 compared to 2016. The increase is primarily due to the addition of a new building at Founder's Hall, offset by the annual depreciation expense. Non-current assets increased $851 thousand in 2016 compared to 2015. The increase is primarily due to the addition of capital assets including construction in progress, offset by the annual depreciation expense and an increase in restricted cash and investments.

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

Current liabilities include payroll and related liabilities, amounts payable to vendors for goods and services received, student deposit balances and debt principal payments due within one year. Current liabilities increased $111 thousand in 2017 compared to 2016 due to an increase in accrued payroll and current portion of long-term debt, offset by a decrease in accounts payable. Current liabilities increased $569 thousand in 2016 compared to 2015 due to an increase in accounts and interest payable, as well as the current portion of long-term debt.

Non-current liabilities include debt principal due in greater than one year, accrued compensated absences greater than one year, other post-retirement benefit obligations (OPEB) for employees, and net pension liability. Non-current liabilities increased $10.3 million in 2017 compared to 2016 due to new debt to fund Founder's Hall building, as well as an increase in net pension liability. Non-current liabilities decreased $135 thousand in 2016 compared to 2015 due to payments on outstanding loans.

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

Net investment in capital assets represents historical cost of capital assets such as buildings and land held by the College less accumulated depreciation and net of debt balances related to the capital assets. The change year over year is primarily from the reduction or addition of 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 debt service.

Unrestricted net position are funds that the College has to use for whatever purpose it determines is appropriate. The increase from 2016 to 2017 is primarily attributable to the decrease in net funds invested in capital assets in the current year, caused by the new debt issued for construction of the Founder's Hall building. The decrease from 2015 to 2016 is primarily attributable to the significant funds invested in capital assets, as the debt had not yet been issued.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position reflects the results of operations for each fiscal year, distinguishing between operating and non-operating revenues and expenses as defined by GASB 35. GASB 35 has defined appropriations (state and local) as non-operating revenues, thus, the College is showing an operating loss of $15.9 million, $13.4 million, and $13.4 million for 2017, 2016 and 2015, respectively. Once the non-operating revenues, gain/loss on capital assets, and contributions are considered, the results becomes a change in net position of $129 thousand, $1.4 million, and $1.4 million for 2017, 2016 and 2015, respectively. Inclusion of non-operating revenues (state and local appropriations) is a more useful measure of the College's activities.

The following is a summary of the Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2017, 2016 and 2015:

	2017	2016	2015
Operating Revenues	$ 18,009,595	$ 19,760,322	$ 20,594,387
Operating Expenses	33,893,151	33,138,208	33,965,566
Operating Loss	(15,883,556)	(13,377,886)	(13,371,179)
Net Non-Operating Revenues	15,502,768	14,745,575	14,698,869
Contributions	450,000	-	100,000
Gain on Sale of Capital Assets	60,196	22,087	9,787
Change in Net Position	$ 129,408	$ 1,389,776	$ 1,437,477

Operating revenues include federal and state grants and contracts, tuition, fees and auxiliary activities. Operating revenues decreased $1.8 million in 2017 compared to 2016 due to a decrease in federal, private, and local grants and contracts. Operating revenues decreased $834 thousand in 2016 compared to 2015 due to a decrease in federal grants and contracts, offset by an increase in private and local grants and contracts.

Operating expenses increased $755 thousand in 2017 compared to 2016 primarily due to an increase in pension expenses associated with personnel services offset by a decrease in scholarships and grants and other operating expenses from grants. Operating expenses decreased $827 thousand in 2016 compared to 2015 primarily due to a decrease of scholarships and grants. Lower federal revenues necessitated cost saving measures, which resulted in less scholarships and grants awarded. The increase in personnel 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 revenue increased $795 thousand in 2017 from 2016 primarily due to an increase in state and local appropriations. Non-operating revenues for 2016 remained consistent with 2015.

The College received capital contributions of $450,000 in 2017 and $100,000 in 2015. No such contributions were received in 2016.

Capital Assets

The College's investment in capital assets as of June 30, 2017, 2016, and 2015, amounted to $39.4 million, $32.6 million, and $32.4 million, respectively, net of accumulated depreciation. Investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, library equipment, leasehold improvements, and information technology equipment. Additional information on the College's capital assets can be found in Note 2 of this report.

Long-term Obligations

Total outstanding debt as of June 30, 2017, 2016, and 2015, amounted to $19.9 million, $12.4 million, and $13.8 million, respectively. The outstanding debt consisted of outstanding general obligation bonds, a note payable for construction of Founder's Hall, and outstanding Intercap loans. Additional information on the College's long-term obligations can be found in Note 5 of this report.

Economic Outlook

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

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

	2017	2016
Assets		
Current Assets		
Cash, cash equivalents, and investments	$ 13,600,453	$ 11,646,130
Taxes and assessments receivable	254,231	224,243
Grants receivable	781,421	1,001,477
Tuition and fees receivable, net of allowance for uncollectible amounts of $145,417 in 2017 and $182,395 in 2016	100,650	87,481
Other accounts receivable	672,879	870,915
Inventories	244,251	280,067
Other assets	176,329	352,254
Total current assets	15,830,214	14,462,567
Non-Current Assets		
Restricted cash, cash equivalents, and investments	1,000,781	984,195
Capital assets - non-depreciable	11,762,578	3,428,244
Capital assets - depreciable, net	27,613,263	29,178,374
Total non-current assets	40,376,622	33,590,813
Total assets	56,206,836	48,053,380
Deferred Outflow of Resources		
Deferred charge on refunding	177,347	197,052
Deferred outflow on PERS liability	1,191,798	462,645
Deferred outflow on TRS liability	2,155,592	963,448
Total deferred outflow of resources	3,524,737	1,623,145

	2017	2016
Current Liabilities		
Accounts payable and accrued liabilities	579,030	736,570
Student deposits payable	189,433	240,551
Deposits payable	10,138	11,655
Interest payable	173,408	126,241
Accrued payroll	383,054	185,802
Unearned revenue - tuition and fees	231,547	227,215
Compensated absences, current portion	676,662	404,543
Long-term liabilities, current portion	1,318,752	1,518,220
Total current liabilities	3,562,024	3,450,797
Non-Current Liabilities		
Long-term liabilities, net of current portion	18,611,043	10,839,795
Compensated absences, net of current portion	973,733	1,213,628
Net pension liability	16,437,604	13,870,861
Net obligation for other post-employment benefits	2,383,561	2,225,642
Total non-current liabilities	38,405,941	28,149,926
Total liabilities	41,967,965	31,600,723
Deferred Inflow of Resources		
Deferred inflow on PERS liability	571,495	670,030
Deferred inflow on TRS liability	103,626	446,693
Total deferred inflow of resources	675,121	1,116,723
Net Position		
Net investment in capital assets	19,623,393	20,248,603
Restricted - Expendable		
Debt service	1,000,781	984,195
Unrestricted	(3,535,687)	(4,273,719)
Total net position	$ 17,088,487	$ 16,959,079

	2017	2016
Operating Revenues		
Tuition and fees, net of scholarship allowances of $753,588 in 2017 and $725,375 in 2016	$ 6,386,791	$ 6,226,007
Federal grants and contracts	7,045,802	8,294,075
State grants, contracts, and aid	845,663	646,133
Private and local grants and contracts	1,347,411	2,156,762
Indirect cost recoveries	89,938	163,873
Seminars and workshops	84,036	113,546
Auxiliary activities	1,768,351	1,759,009
Other operating revenues	441,603	400,917
Total operating revenues	18,009,595	19,760,322
Operating Expenses		
Personnel services	18,419,347	16,394,866
Pension related personnel expenses	706,244	1,299,558
Travel	321,801	312,039
Supplies	2,301,222	2,239,272
Contracted services	2,836,935	2,612,804
Bad debt expense	111,995	77,932
Scholarships and grants	6,290,446	6,636,428
Non-capitalized equipment	682,099	805,561
Other operating expenses	208,288	754,452
Depreciation and amortization	2,014,774	2,005,296
Total operating expenses	33,893,151	33,138,208
Operating Loss	(15,883,556)	(13,377,886)
Non-Operating Revenues (Expenses)		
State appropriations	8,799,554	8,746,289
Statewide equalization millage	544,200	543,443
Local appropriations	6,280,437	5,612,502
Interest revenue	166,680	120,142
Interest expense	(288,103)	(276,801)
Gain on disposal of capital assets	60,196	22,087
Total non-operating revenues	15,562,964	14,767,662
Net Income (Loss) Before Capital Contributions	(320,592)	1,389,776
Capital Contributions	450,000	-
Change in Net Position	129,408	1,389,776
Net Position, Beginning of Year	16,959,079	15,569,303
Net Position, End of Year	$ 17,088,487	$ 16,959,079

	2017	2016
Operating Activities		
Tuition and fees	$ 6,377,954	$ 6,380,290
Federal grants and contracts	7,265,858	7,757,686
Other grants and contracts	2,193,074	2,802,895
Seminars and workshops	84,036	113,546
Auxiliary activities	1,966,387	1,468,211
Other	531,541	564,790
Payments to suppliers	(3,623,839)	(4,172,060)
Payments for contracted services	(2,836,935)	(2,612,804)
Payments for scholarships and grants	(6,290,446)	(6,636,428)
Payments to employees	(18,514,647)	(17,864,356)
Net Cash used for Operating Activities	(12,847,017)	(12,198,230)
Noncapital Financing Activities		
State appropriations	8,799,554	8,746,289
Local appropriations	6,794,649	6,106,886
Net Cash from Noncapital Financing Activities	15,594,203	14,853,175
Capital and Related Financing Activities		
Acquisition and construction of capital assets	(8,410,735)	(2,188,687)
Proceeds from the sale of capital assets	136,934	28,309
Proceeds from new capital debt	9,090,000	-
Principal paid on capital debt	(1,518,220)	(1,429,760)
Interest paid on capital debt	(240,936)	(171,687)
Net Cash used for Capital and Related Financing Activities	(942,957)	(3,761,825)
Investing Activities		
Interest on investments	166,680	120,142
Net Cash from Investing Activities	166,680	120,142
Net Change in Cash, Cash Equivalents, and Investments	1,970,909	(986,738)
Cash, Cash Equivalents and Investments, Beginning of Year	12,630,325	13,617,063
Cash, Cash Equivalents and Investments, End of Year	$ 14,601,234	$ 12,630,325

	2017	2016
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	$ (15,883,556)	$ (13,377,886)
Adjustments to reconcile net loss to net cash used for operating activities		
Depreciation and amortization	2,014,774	2,005,296
GASB 68 - Actuarial pension expense	223,549	(391,633)
Change in OPEB obligation	157,919	181,538
Changes in assets and liabilities		
Grants receivable	220,056	(536,389)
Tuition and fees receivable	(13,169)	109,430
Other accounts receivable	198,036	(290,798)
Inventories	35,816	15,455
Other assets	175,925	(197,242)
Accounts payable and accrued liabilities	(157,540)	177,687
Student deposits payable	(51,118)	20,386
Deposits payable	(1,517)	910
Accrued payroll	197,252	8,620
Unearned revenue - tuition and fees	4,332	44,853
Compensated absences	32,224	31,543
Net Cash used for Operating Activities	$ (12,847,017)	$ (12,198,230)
Supplemental Disclosure of Noncash Activity		
Contributions of capital assets	$ 450,000	$ -
Reconciliation of Cash, Restricted Cash and Cash Equivalents and Investments		
Cash, cash equivalents, and investments	$ 13,600,453	$ 11,646,130
Restricted cash, cash equivalents, and investments	1,000,781	984,195
Total cash, cash equivalents, restricted cash, and investments	$ 14,601,234	$ 12,630,325

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	$ 398,078	$ 334,463
Investments	13,180,621	12,385,475
Promises to give	262,853	1,210,383
Other current assets	61,625	38,530
Total current assets	13,903,177	13,968,851
Property and Equipment, Net	196,918	196,918
	$ 14,100,095	$ 14,165,769
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and other liabilities	$ 452,479	$ 78,288
Foundation scholarships payable	516,425	528,529
Other scholarships payable	243,089	229,284
Total current liabilities	1,211,993	836,101
Long-term Liabilities		
Deferred gift liability	42,109	42,112
Total liabilities	1,254,102	878,213
Net Assets		
Unrestricted	727,205	600,773
Temporarily restricted	3,964,025	4,704,557
Permanently restricted	8,154,763	7,982,226
Total net assets	12,845,993	13,287,556
	$ 14,100,095	$ 14,165,769

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support				
Contributions and other support	$ 467,586	$ 318,392	$ 172,537	$ 958,515
In-kind donations	130,686	246,048	-	376,734
Change in value of split-interest agreements	-	(1,508)	-	(1,508)
Net investment gains (losses)	2,213	567,946	-	570,159
Investment income	6,389	257,523	-	263,912
Net assets released from restriction	2,128,933	(2,128,933)	-	-
Total revenues and other support	2,735,807	(740,532)	172,537	2,167,812
Expenses				
Program services				
Scholarship awards	621,202	-	-	621,202
Program disbursements	1,404,163	-	-	1,404,163
Other program expenses	12,457	-	-	12,457
Fundraising	327,031	-	-	327,031
Supporting services				
Professional fees	11,643	-	-	11,643
Investment management fees	55,484	-	-	55,484
Management and general	177,395	-	-	177,395
Total expenses	2,609,375	-	-	2,609,375
Change in Net Assets	126,432	(740,532)	172,537	(441,563)
Net Assets, Beginning of Year	600,773	4,704,557	7,982,226	13,287,556
Net Assets, End of Year	$ 727,205	$ 3,964,025	$ 8,154,763	$12,845,993

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support				
Contributions and other support	$ 260,619	$ 879,452	$ 322,173	$ 1,462,244
In-kind donations	50,215	246,649	-	296,864
Net investment gains (losses)	(3,144)	(212,558)	-	(215,702)
Investment income	4,176	253,570	-	257,746
Net assets released from restriction	928,478	(928,478)	-	-
Total revenues and other support	1,240,344	238,635	322,173	1,801,152
Expenses				
Program services				
Scholarship awards	580,284	-	-	580,284
Program disbursements	234,821	-	-	234,821
Other program expenses	20,687	-	-	20,687
Fundraising	238,710	-	-	238,710
Supporting services				
Professional fees	11,300	-	-	11,300
Investment management fees	54,177	-	-	54,177
Management and general	172,094	-	-	172,094
Total expenses	1,312,073	-	-	1,312,073
Change in Net Assets	(71,729)	238,635	322,173	489,079
Net assets, beginning of year, as previously stated	672,502	4,805,722	7,185,991	12,664,215
Adjustment for overstatement of deferred gift liability	-	10,200	124,062	134,262
Adjustment for restriction on pledge receivable	-	(350,000)	350,000	-
Net Assets, Beginning of Year (Restated)	672,502	4,465,922	7,660,053	12,798,477
Net Assets, End of Year	$ 600,773	$ 4,704,557	$ 7,982,226	$13,287,556

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, 2016 and 2015, 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, 2017 and 2016, 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. 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 2017 are recorded as receivables. Property tax levies are set in August, in connection with the budget process, and are based on taxable values listed as of January 1 for all property. Taxable values are established by the Montana Department of Revenue, and a revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value. Real property taxes are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

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

Receivables

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

Inventories

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

Restricted Cash and Cash Equivalents

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

Capital Assets

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

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

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

Unearned Revenue

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

Compensated Absences

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

Net Position

The College’s net position is classified as follows:

Net Investment in Capital Assets – This represents the College’s total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included in this section.

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

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

Classification of Revenues

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

> **Operating Revenues** – Operating revenues include activities that have the characteristics of exchange transactions, such as: student tuition and fees, net of scholarship discounts and allowances; sales and services of auxiliary enterprises, and contracts and federal appropriations.
>
> **Non-Operating Revenues** – Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 34 and 35, such as state appropriations, property taxes and most federal, state and local grants, and investment income.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

Income Taxes

As a public institution of higher education, the income of the College is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the College is subject to federal income tax on any unrelated business taxable income. Defined by the Internal Revenue Code, unrelated business income is income from a trade or business, regularly carried on, that is not substantially related to the performance by the college of its exempt purpose or function. The College does not have unrelated business income tax to report during the fiscal years ended June 30, 2017 and 2016.

Deferred Outflows and Inflows of Resources

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

The Statement of Net Position will include a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The College has one item that qualifies for reporting in this category reported on the statement of net position, pension liability. The pension liability results from the differences between the expected and actual experience and the net difference between projected and actual earnings on pension plan investments derived from the actuarial calculation of the College's net pension liability.

Use of Estimates

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

Pensions

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

Note 2 - Capital Assets

Capital assets at June 30, 2017 consist of the following:

	Balance June 30, 2016	Additions	Transfers/ Disposals	Balance June 30, 2017
Capital assets not depreciated				
Land	$ 2,915,200	$ 450,000	$ (40,000)	$ 3,325,200
Construction in progress	513,044	7,924,334	-	8,437,378
Total capital assets not depreciated	3,428,244	8,374,334	(40,000)	11,762,578
Capital assets being depreciated				
Buildings	34,258,554	58,775	(40,225)	34,277,104
Improvements other than buildings	2,761,860	18,963	-	2,780,823
Machinery and equipment	8,119,497	370,046	(136,724)	8,352,819
Library equipment	501,216	38,618	(38,789)	501,045
Leasehold improvements	555,045	-	-	555,045
Information technology	957,256	-	-	957,256
Total capital assets being depreciated	47,153,428	486,402	(215,738)	47,424,092
Less accumulated depreciation	17,975,054	2,014,775	(179,000)	19,810,829
Capital assets being depreciated, net	29,178,374	(1,528,373)	(36,738)	27,613,263
Total capital assets, net	$ 32,606,618	$ 6,845,961	$ (76,738)	$ 39,375,841

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

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

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 $88,428 and $132,931 for fiscal years 2017 and 2016, respectively. As of June 30, 2017, future minimum operating lease commitments are as follows:

Year Ended June 30,	
2018	$ 51,126
2019	15,196
2020	3,174
2021	1,067
Totals	$ 70,563

Note 4 - Compensated Absences

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

Compensated absences activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Compensated absences	$ 1,618,171	$ 32,224	$ -	$ 1,650,395	$ 676,662

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

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

Note 5 - Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2017, is as follows**:**

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
General Obligation Bonds	$ 10,245,000	$ -	$ 870,000	$ 9,375,000	$ 900,000
Intercap loans	2,113,015	-	648,220	1,464,795	238,752
Note payable	-	9,090,000	-	9,090,000	180,000
Total long-term liabilities	$ 12,358,015	$ 9,090,000	$ 1,518,220	$ 19,929,795	$ 1,318,752

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

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

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

General obligation bonds outstanding as of June 30, 2017 and 2016, were as follows:

Bond	Date Issued	Interest Rate	Term	Maturity	Principal	2017 Balance	2016 Balance
Series 2006	7/1/2006	3.75-4.10%	10 Years	7/1/2016	$ 5,916,000	$ -	$ 285,000
Series 2015A	1/20/2015	2.15%	10 Years	7/1/2026	4,997,500	4,687,500	4,980,000
Series 2015B	1/20/2015	2.15%	10 Years	7/1/2026	4,997,500	4,687,500	4,980,000
					$ 15,911,000	$ 9,375,000	$ 10,245,000

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, 2017, are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	$ 900,000	$ 191,888	$ 1,091,888
2019	920,000	172,323	1,092,323
2020	940,000	152,328	1,092,328
2021	965,000	131,849	1,096,849
2022	995,000	110,779	1,105,779
2023-2027	4,655,000	226,234	4,881,234
	$ 9,375,000	$ 985,401	$ 10,360,401

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, 2017 and 2016, were as follows:

Loan	Date Issued	Interest Rate	Term	Maturity	Principal	2017 Balance	2016 Balance
2112-01	7/20/2007	0.00-4.85%	10 Years	2/15/2017	$ 185,669	$ -	$ 22,848
2112-02	8/10/2007	0.00-4.85%	10 Years	2/15/2017	586,810	-	74,612
2112-03	9/7/2007	0.00-4.85%	10 Years	2/15/2017	515,180	-	63,696
2112-04	9/14/2007	0.00-4.85%	10 Years	2/15/2017	252,765	-	30,907
2112-05	10/12/2007	0.00-4.85%	10 Years	2/15/2017	633,102	-	73,956
2112-06	11/2/2007	0.00-4.85%	10 Years	2/15/2017	275,452	-	36,757
2112-07	11/16/2007	0.00-4.85%	10 Years	2/15/2017	143,761	-	19,184
2112-08	1/11/2008	0.00-4.85%	10 Years	2/15/2017	67,567	-	8,566
2112-09	2/8/2008	0.00-4.85%	10 Years	2/15/2017	146,302	-	19,328
2112-10	4/18/2008	0.00-4.25%	10 Years	2/15/2017	106,573	-	14,610
2112-11	5/9/2008	0.00-4.25%	10 Years	2/15/2017	330,804	-	45,348
2112-12	5/30/2008	0.00-4.25%	10 Years	2/15/2017	14,795	-	2,028
2489-01	4/12/2013	0.00-1.25%	10 Years	2/15/2023	2,400,000	1,464,795	1,701,175
					$ 5,658,780	$ 1,464,795	$ 2,113,015

Approximate future annual minimum principal and interest payments as of June 30, 2017, are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	$ 238,752	$ 17,565	$ 256,317
2019	241,145	14,574	255,719
2020	243,563	11,552	255,115
2021	246,003	8,500	254,503
2022	248,470	5,417	253,887
2023	246,862	2,303	249,165
	$ 1,464,795	$ 59,911	$ 1,524,706

Note payable outstanding as of June 30, 2017 and 2016, was as follows:

Loan	Date Issued	Interest Rate	Term	Maturity	Principal	2017 Balance	2016 Balance
Note Payable	9/21/2016	4%	30 Years	5/1/2047	$ 9,090,000	$ 9,090,000	$ -

In September of 2016, the College acquired new debt to fund the construction of new student housing. Included in the principal balance was $90,000 in debt issuance costs.

Approximate future annual minimum principal and interest payments as of June 30, 2017, are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	$ 180,000	$ 361,500	$ 541,500
2019	165,000	354,700	519,700
2020	175,000	348,100	523,100
2021	170,000	341,100	511,100
2022	185,000	334,100	519,100
2023-2027	1,035,000	1,553,500	2,588,500
2028-2032	1,250,000	1,327,500	2,577,500
2033-2037	1,535,000	1,053,000	2,588,000
2038-2042	1,865,000	717,400	2,582,400
2043-2047	2,280,000	308,500	2,588,500
2048	250,000	5,000	255,000
	$ 9,090,000	$ 6,704,400	$ 15,794,400

Note 6 - TRS Retirement Plan

Plan Description

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

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

Summary of Benefits

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

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)

- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation - 1.85% x AFC x years of creditable service - for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than 1.6667 x AFC x years of creditable service)

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA for Tier One members is 1.5% of the benefit payable as of January 1st. For Tier Two members the GABA each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

Overview of Contributions

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

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

School District and Other Local Governments

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

TRS Stand-Alone Statements

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

Net Pension Liability

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers are required to recognize and report certain amounts associated with their participation in the TRS. Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability. In accordance with Statement 68, the System has a special funding situation in which the State of Montana is legally responsible for making contributions directly to TRS that are used to provide pension benefits to the retired members of TRS. Due to the existence of a special funding situation, employers are also required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer. The following table displays the amounts and the percentages of Net Pension Liability for the fiscal years ended June 30, 2017 and June 30, 2016 (reporting dates).

	Net Pension Liability		Percent of Collective NPL		Change in Percent of
As of reporting date	2017	2016	2017	2016	Collective NPL
College's Proportionate Share	$ 8,742,314	$ 6,924,803	0.4785%	0.4215%	0.0570%
State of Montana Proportionate Share associated with College	5,698,416	4,642,737	0.3119%	0.2826%	0.0293%
Total	$ 14,440,730	$ 11,567,540	0.7904%	0.7041%	0.0863%

At June 30, 2017, the employer recorded a liability of $8,742,314 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. Therefore, no update procedures were used to roll forward the total pension liability to the measurement date. The employer's proportion of the net pension liability was based on the employer's contributions received by TRS during the measurement period July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of TRS' participating employers. At June 30, 2017, the employer's proportion was 0.4785 percent.

Changes in actuarial assumptions and other inputs: Since the previous measurement date the normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.

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 reporting date.

Pension Expense

	2017	2016
College's Proportionate Share	$ 952,141	$ 432,452
State of Montana Proportionate Share associated with the College	509,701	229,157
	$ 1,461,842	$ 661,609

At June 30, 2017 and 2016, the employer recognized a Pension Expense of $1,461,842 and $661,609, respectively, for its proportionate share of the TRS' pension expense. The employer also recognized grant revenue of $509,701 and $229,157, respectively, for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

Deferred Inflows and Outflows of Resources

At June 30, 2017 and 2016, the College reports its proportionate share of TRS deferred outflows and inflows of resources from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs Expected Experience	$ 46,743	$ 18,584	$ 73,046	$ -
Changes in assumptions	55,634	54,948	97,997	14,624
Actual vs. Expected Investment Earnings	562,964	-	-	371,856
Changes in proportion & difference between actual and expected contributions	820,383	30,094	159,015	60,213
*College's contributions subsequent to the measurement date	669,868	-	633,390	-
	$ 2,155,592	$ 103,626	$ 963,448	$ 446,693

*Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018 and 2017, respectively.

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

Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Increase (Decrease) in Pension Expense
2018	$ 423,432	$ (57,830)	$ 365,602
2019	336,155	(27,104)	309,051
2020	524,053	(18,692)	505,361
2021	202,084	-	202,084

Actuarial Assumptions

The Total Pension Liability as of June 30, 2016 and 2015, is based on the results of an actuarial valuation date of July 1, 2016 and 2015, respectively. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2016 and 2015 valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

- Total Wage Increases* 4%-8.51% for Non-University Members and 5.00% for University Members
- Investment Return 7.75%
- Price Inflation 3.25%
- Postretirement Benefit Increases
  - Tier One Members: If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1st.
  - Tier Two Members, the retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- Mortality among contributing members, service retired members, and beneficiaries
  - For Males: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year,with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

*Total Wage Increases include 4.00% general wage increase assumption

Discount Rate

The discount rate used to measure the TPL was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. In addition to the contributions the State general fund will contribute $25 million annually to the System payable July 1st of each year. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122 (for the June 30, 2016 TPL) and 2119 (for the June 30, 2015 TPL). 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

The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2016 and 2015, is summarized below.

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

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

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate as of June 30, 2017 and 2016.

	2017		
	1% Decrease 6.75%	Current Discount Rate 7.75%	1% increase 8.75%
Net pension liability	$ 11,729,757	$ 8,742,314	$ 6,227,217

	2016		
	1% Decrease 6.75%	Current Discount Rate 7.75%	1% increase 8.75%
Net pension liability	$ 9,514,122	$ 6,924,803	$ 4,746,040

Summary of Significant Accounting Policies

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

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

Note 7 - PERS Retirement Plan

Plan Description

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

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

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature.

Summary of Benefits

Eligibility for benefit
Service retirement:

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

Early Retirement
Early retirement, actuarially reduced:

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

Vesting
5 years of membership service

Member's highest average compensation (HAC)

- Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

Compensation Cap

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

Monthly benefit formula

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

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

Guaranteed Annual Benefit Adjustment (GABA)

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

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007
- Members hired on or after July 1, 2013
  - (a) 1.5% for each year PERS is funded at or above 90%;
  - (b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
  - (c) 0% whenever the amortization period for PERS is 40 years or more.

Overview of Contributions

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

	Member		State &				
Fiscal	Hired	Hired	Universities	Local Government		School Districts	
Year	<07/01/11	>07/01/11	Employer	Employer	State	Employer	State
2017	7.900%	7.900%	8.470%	8.370%	0.100%	8.100%	0.370%
2016	7.900%	7.900%	8.370%	8.270%	0.100%	8.000%	0.370%
2015	7.900%	7.900%	8.270%	8.170%	0.100%	7.900%	0.370%
2014	7.900%	7.900%	8.170%	8.070%	0.100%	7.800%	0.370%
2012-2013	6.900%	7.900%	7.170%	7.070%	0.100%	6.800%	0.370%
2010-2011	6.900%		7.170%	7.070%	0.100%	6.800%	0.370%
2008-2009	6.900%		7.035%	6.935%	0.100%	6.800%	0.235%
2000-2007	6.900%		6.900%	6.800%	0.100%	6.800%	0.100%

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

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

3. Non Employer Contributions:
    a. Special Funding
        i. The State contributes 0.1% of members' compensation on behalf of local government entities.
        ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
    b. Not Special Funding
        i. The State contributes a portion of Coal Severance Tax income and earnings from the Coat Trust Permanent Trust fund.

Stand-Alone Statements

The financial statements of the Montana Public Employees Retirement Board (PERB) Comprehensive Annual Financial Report (CAFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or the MPERA website at http://mpera.mt.gov/index.shtml

Net Pension Liability

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with participation in the Public Employees' Retirement System Defined Benefit Retirement Plan (the Plan). Employers are required to record and report their proportionate share of the collective Net Pension Liability; Pension Expense; and Deferred Outflows and Deferred Inflows of Resources associated with pensions.

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). As GASB Statement 68 allows, a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2016 and 2015, was determined by taking the results of the June 30, 2015 and 2014 actuarial valuations, respectively, and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Special Funding

The state of Montana, as the non-employer contributing entity, paid to the Plan additional contributions that qualify as special funding. Those employers who received special funding are counties; cities & towns; school districts & high schools; and other governmental agencies.

Not Special Funding

Per Montana law, state agencies and universities paid their own additional contributions. These employer paid contributions are not accounted for as special funding for state agencies and universities but are reported as employer contributions. The state of Montana, as the non-employer contributing entity, also paid to the Plan coal tax contributions that are not accounted for as special funding for all participating employers.

The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2017, and 2016, are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for a particular employer to the total state contributions paid. The employer recorded a liability of $7,695,290 and $6,946,058 and the employer's proportionate share was 0.4518 percent and .4969 percent as of June 30, 2017 and 2016.

	Net Pension Liability		Percent of Collective NPL		Change in Percent
As of reporting date	2017	2016	2017	2016	Collective NPL
College's Proportionate Share	$ 7,695,290	$ 6,946,058	0.4518%	0.4969%	-0.045100%
State of Montana Proportionate Share associated with College	94,028	85,321	0.0055%	0.0061%	-0.000600%
Total	$ 7,789,318	$ 7,031,379	0.4573%	0.5030%	-0.045700%

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

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

Changes in proportionate share: Between the measurement date of the collective NPL and the employer's reporting date there were no changes in proportion that would have an effect on the employer's proportionate share of the collective NPL since the previous measurement date.

Pension Expense

	2017	2016
College's Proportionate Share	$ 347,144	$ 273,792
State of Montana Proportionate Share associated with the College	7,880	5,302
State of Montana Coal Tax for employer	134,823	166,698
	$ 489,847	$ 445,792

At June 30, 2017 and 2016, the College recognized its proportionate share of the PERS Pension Expense of $489,847 and $445,792, respectively. The College also recognized grant revenue of $7,880 and $5,302, respectively, for the support provided by the State of Montana for the proportionate share of the Pension Expense that is associated with the College, and grant revenue of $134,823 and $166,698, at June 30, 2017 and 2016, respectively, from the Coal Tax Fund.

Deferred Inflows and Outflows of Resources:

At June 30, 2017 and 2016, the College reports its proportionate share of PERS deferred outflows and inflows of resources from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs Expected Experience	$ 41,521	$ 25,472	$ -	$ 42,023
Actual vs. Expected Investment Earnings	723,974	-	-	588,058
Changes in proportion & difference between actual and expected contributions	-	546,023	-	39,949
*College's contributions subsequent to the measurement date	426,303	-	462,645	-
	$ 1,191,798	$ 571,495	$ 462,645	$ 670,030

*Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018 and 2017, respectively.

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

Year ended June 30:	Recognition of Deferred Outflows and Deferred Inflows in future years as an increase or (decrease) to Pension Expense
2018	$ (101,455)
2019	(101,455)
2020	274,901
2021	122,009

Actuarial Assumptions

The TPL used to calculate the NPL was determined by taking the results of the June 30, 2015 and 2014 actuarial valuations and applying standard roll forward procedures to update the TPL to June 30, 2016 and 2015, respectively. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2016 and 2015 valuations were based on the results of the last actuarial experience study, dated June 2010, for the six-year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

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

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

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
  (a) 1.5% for each year PERS is funded at or above 90%;
  (b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
  (c) 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the June 30, 2017 and 2016 TPL was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under the Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117 (for the June 30, 2016 TPL) and 2123 (for the June 30, 2015 TPL). Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period of fiscal years 2003 through 2009, is outlined in a report dated June 2010 and is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by an investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2016 are summarized below.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	0.10%
Domestic Equity	36.00%	1.64%
Foreign Equity	18.00%	1.14%
Fixed Income	23.40%	0.23%
Private Equity	12.00%	0.93%
Real Estate	8.00%	0.32%

Best estimates of the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015 are summarized in the table below.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis

The sensitivity of the NPL to the discount rate is shown in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.75%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate than the current rate as of June 30, 2017 and 2016.

	2017		
	1% Decrease 6.75%	Current Discount Rate 7.75%	1% increase 8.75%
Net pension liability	$ 11,166,433	$ 7,695,290	$ 4,750,240

	2016		
	1% Decrease 6.75%	Current Discount Rate 7.75%	1% increase 8.75%
Net pension liability	$ 10,709,319	$ 6,946,058	$ 3,768,072

Summary of Significant Accounting Policies

MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the NPL; Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and Additions or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Stand-Alone Statements

The financial statements of the Montana Public Employees Retirement Board (PERB) Comprehensive Annual Financial Report (CAFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or the MPERA website at http://mpera.mt.gov/index.shtml.

Defined Contribution Retirement Plan

Flathead Valley Community College contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for employees that have elected the DCRP. The PERS-DCRP is administered by the PERB and is reported as a multiple-employer plan established July 1, 2002, and governed by Title 19, chapters 2 & 3, MCA.

All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the defined benefit and defined contribution retirement plans.

Member and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

At the plan level for the measurement period ended June 30, 2016, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 289 employers that have participants in the PERS-DCRP totaled $382,656.

During the years ended June 30, 2017 and 2016, the College contributed $21,648 and $34,321 to the plan, with the employees contributing $20,432 and $33,181, respectively.

Note 8 - Postemployment Benefits Other Than Pensions

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

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

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

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

Annual OPEB Cost and Net OPEB Obligations

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

Annual required contribution	$ 314,893
Interest on net OPEB obligation	(77,855)
Annual OPEB cost	237,038
Contributions made	(79,119)
Increase in net OPEB obligation	157,919
Net OPEB obligation, beginning of year	2,225,642
Net OPEB obligation, end of year	$ 2,383,561

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

Fiscal Year Ended	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost	Net Liability
June 30, 2017	$ 237,038	$ 79,119	33.38%	$ 2,383,561
June 30, 2016	238,668	57,130	23.94%	2,225,642
June 30, 2015	238,011	74,572	31.33%	2,044,104

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 20.6% for plan year 2015 grading to 4.5% for plan year 2022.
  - Past service liability is amortized over a closed 30-year period as a level percentage of projected payroll assumed to grow 2.5% per year.

Funded Status and Funding Progress

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

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

Note 9 - Related Party Transactions

During the years ended June 30, 2017 and 2016, the College received $822,521 and $2,100,785, respectively in revenues for scholarships and programs, as well as career services from Flathead Valley Community College Foundation. Accounts receivable as of June 30, 2017 and 2016 was $580,320 and $868,750, respectively.

Note 10 - Component Unit - Flathead Valley Community College Foundation

Nature of Activities and Summary of Significant Accounting Policies

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

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

Investments

The Foundation invests primarily in certificates of deposit, government bonds and agencies, corporate bonds and bond funds, and equity securities and mutual funds. At December 31, 2016 and 2015, investments are comprised of the following:

	2016		2015	
	Amortized Cost	FMV	Amortized Cost	FMV
Cash and cash equivalents	$ 2,844,376	$ 2,844,376	$ 2,470,997	$ 2,470,997
Certificates of deposit	20,000	20,243	40,000	40,661
Government bonds and agencies	1,881,451	1,864,672	1,317,293	1,310,294
Corporate bonds and bond funds	2,437,802	2,440,654	2,680,924	2,614,652
Equity securities and mutual funds	5,510,201	6,010,676	5,980,786	5,948,871
	$ 12,693,830	$ 13,180,621	$ 12,490,000	$ 12,385,475

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, 2016				
Investments	$ 13,180,621	$ 13,180,621	$ -	$ -
Pledges receivable	262,853	-	-	262,853
Deferred gift liability	42,109	-	42,109	-
	$ 13,485,583	$ 13,180,621	$ 42,109	$ 262,853

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2015				
Investments	$ 12,385,475	$ 12,385,475	$ -	$ -
Pledges receivable	1,210,383	-	-	1,210,383
Deferred gift liability	42,112	-	42,112	-
	$ 13,637,970	$ 12,385,475	$ 42,112	$ 1,210,383

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

	2016	2015
Balance, January 1	$ 1,210,383	$ 1,604,110
Pledge payments received	(1,222,900)	(1,180,586)
New pledges made by donors	282,084	788,334
Pledges written off	(6,714)	(1,475)
	$ 262,853	$ 1,210,383

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, 2016 and 2015:

	2016	2015
In one year or less	$ 180,353	$ 1,018,315
Between one year and five years	82,500	192,068
	$ 262,853	$ 1,210,383

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, 2016:

	Board Restricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 302,748	$ 2,043,403	$ 7,632,226	$ 9,978,377
Investment return				
Investment income	-	248,583	-	248,583
Investment management fees	-	(55,155)	-	(55,155)
Net appreciation (depreciation)	-	628,922	-	628,922
Total investment return	-	822,350	-	822,350
Contributions	3,382	-	172,537	175,919
Pledge payments received			297,500	297,500
Appropriation of endowment assets for expenditure	-	(506,489)	-	(506,489)
	$ 306,130	$ 2,359,264	$ 8,102,263	$ 10,767,657

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

	Board Restricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 286,113	$ 2,643,052	$ 7,185,991	$ 10,115,156
Investment return				
Investment income	-	253,552	-	253,552
Investment management fees	-	(50,154)	-	(50,154)
Net appreciation (depreciation)	-	(188,497)	-	(188,497)
Total investment return	-	14,901	-	14,901
Contributions	16,635	-	672,173	688,808
Pledge payments made yet not received	-	-	(350,000)	(350,000)
Appropriation of endowment assets for expenditure	-	(490,488)	-	(490,488)
Restatement		(124,062)	124,062	-
	$ 302,748	$ 2,043,403	$ 7,632,226	$ 9,978,377

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA at December 31, 2016 and 2015, was $8,102,263 and $7,632,226, respectively. There were $2,359,264 and $2,043,403 in temporarily restricted net assets within the endowment fund at December 31, 2016 and 2015, respectively.

Return Objectives and Risk Parameters

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

Restatement

The Foundation has restated its previously issued financial statements for the year ended December 31, 2015 to reflect the correction of errors related to the accounting of deferred gift liability and restriction of a pledge receivable. It was discovered that deferred gift liability had been overstated and the restriction of a pledge receivable should have been permanently restricted instead of temporarily restricted in 2015. The deferred gift liability error was the result of accounting for split-interest agreements using the fair value of assets received adjusted annually for investment income earned instead of using the present value of future payments to be made to the designated beneficiaries of the split-interest agreements. The effect of the deferred gift liability restatement was to increase beginning temporarily restricted net assets by $10,200 and increase permanently restricted net assets by $124,062 for a total increase in net assets of $134,262 in 2015. The effect of the pledge receivable restatement was to decrease temporarily restricted net assets by $350,000 and increase permanently restricted net assets by $350,000 in 2015.

The effect of the restatement on financial position and change in net assets as of and for the year ended December 31, 2015 are as follows:

	As previously reported	Restated
Deferred gift liability	$ 176,374	$ 42,112
Temporarily restricted net assets	5,044,357	4,704,557
Permanently restricted net assets	7,508,164	7,982,226

Required Supplementary Information
June 30, 2017

Flathead Valley Community College

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

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

	2017	2016	2015
Employer's proportionate share of the net pension liability	0.4785%	0.4215%	0.4124%
Employer's proportion share of the net pension liability	$ 8,742,314	$ 6,924,803	$ 6,346,285
State of Montana's proportionate share of the net pension liability associated with the Employer	5,698,416	4,642,737	4,348,969
Total	$ 14,440,730	$ 11,567,540	$ 10,695,254
Employer's covered payroll	$ 6,211,704	$ 5,379,430	$ 5,200,760
Employer's proportional share of the net pension liability as a percentage of its covered payroll	140.74%	128.73%	122.03%
Plan fiduciary net position as a percentage of the total pension liability	66.69%	69.30%	70.36%

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

	2017	2016	2015
Employer's proportionate share of the net pension liability	0.4518%	0.4969%	0.5001%
Employer's proportion share of the net pension liability	$ 7,695,290	$ 6,946,058	$ 6,231,238
State of Montana's proportionate share of the net pension liability associated with the Employer	94,028	85,321	76,093
Total	$ 7,789,318	$ 7,031,379	$ 6,307,331
Employer's covered payroll	$ 5,411,472	$ 5,798,950	$ 5,661,067
Employer's proportional share of the net pension liability as a percentage of its covered payroll	142.20%	119.78%	110.07%
Plan fiduciary net position as a percentage of the total pension liability	74.71%	78.40%	79.87%

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

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

	2017	2016	2015
Contractually required contribution	$ 669,868	$ 633,390	$ 603,944
Contributions in relation to the contractually required contributions	669,868	633,390	603,944
Contribution deficiency (excess)	-	-	-
Employer's pensionable payroll	6,925,595	6,211,704	5,379,430
Contributions as a percentage of pensionable payroll	9.67%	10.20%	11.23%

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

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

	2017	2016	2015
Contractually required contribution	$ 426,303	$ 462,645	$ 500,326
Contributions in relation to the contractually required contributions	426,303	462,645	500,326
Contribution deficiency (excess)	-	-	-
Employer's pensionable payroll	4,874,643	5,411,472	5,798,950
Contributions as a percentage of pensionable payroll	8.75%	8.55%	8.63%

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

TRS:

Changes of Benefit Terms:

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

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

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

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

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

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

(8) **GABA:**

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

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

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

Changes in actuarial assumptions and other inputs:

The following changes to the actuarial assumptions were adopted in 2016:

- The normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.

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

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

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

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:

  For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.

  For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.

- Mortality among disabled members was updated to the following:

  For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.

  For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Method and assumptions used in calculations of actuarially determined contributions:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	24 years
Asset valuation method	4-year smoothed market
Inflation	3.25 percent
Salary increase	4.00 to 8.51 percent, including inflation for Non-University Members and 5.00% for University Members;
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

PERS:

Changes of Benefit Terms

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

2013 Legislative Changes:

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

Guaranteed Annual Benefit Adjustment (GABA) - for PERS

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

- 3.0% for members hired **prior to** July 1, 2007
- 1.5% for members hired **on or after** July 1, 2007 and **before** July 1, 2013
- Members hired **on or after** July 1, 2013
  - a) 1.5% each year PERS is funded at or above 90%;
  - b) 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%; and,
  - c) 0% whenever the amortization period for PERS is 40 years or more.

2015 Legislative Changes:

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

Second Retirement Benefit - for PERS

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

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

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

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

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

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

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

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

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

Admin Expense as % of Payroll	0.27%

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

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

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

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

Supplementary Information
June 30, 2017

Flathead Valley Community College

	Pell	CWS	SEOG
Assets			
Beginning cash balance	$ (144,511)	$ (36,695)	$ (1,189)
Additions			
Federal advances	2,706,838	34,182	43,692
State matching funds	-	46,069	15,675
Total additions	2,706,838	80,251	59,367
Deductions			
Distribution to students	2,657,896	85,284	62,951
Administrative expenses	3,980	3,674	-
Total deductions	2,661,876	88,958	62,951
Net Change to Cash	44,962	(8,707)	(3,584)
Ending cash balance	$ (99,549)	$ (45,402)	$ (4,773)

College Work Study	
Wages	$ 39,215
Supplemental Education Opportunity Grant	
Student grants	$ 47,276
Pell Grant Program	
Student grants	$ 2,657,896

Semester	Resident	WUE	Nonresident	Total
Summer 2016	221.9	-	18.7	240.6
Fall 2016	1,349.7	3.1	54.3	1,407.1
Spring 2017	1,332.2	2.9	42.9	1,377.9

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

Flathead Valley Community College
Schedule of Functional Classification of Operating Expenses
Year Ended June 30, 2017

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Scholarships & Fellowships	Operation & Maintenance	Auxiliary	Total
Personnel services	$ 9,344,748	$ 335,952	$ 2,375,786	$ 2,125,967	$ 2,990,087	$ 828,557	$ 821,470	$ 303,024	$ 19,125,591
Travel	126,268	7,734	71,241	43,291	53,120	-	4,939	15,208	321,801
Supplies	634,335	40,456	106,218	45,369	221,468	159,385	1,033,898	60,093	2,301,222
Contracted services	459,838	24,419	191,688	83,649	713,810	1,133,293	200,144	30,094	2,836,935
Bad debt expense	-	-	-	-	111,995	-	-	-	111,995
Scholarship and grants	3,746	-	-	20,664	-	-	-	6,266,036	6,290,446
Non-capitalized equipment	47,072	-	183,574	21,760	57,718	343,979	11,349	16,647	682,099
Other operating expense	5,370	9,070	35,526	15,383	81,774	-	35,879	25,286	208,288
Depreciation expense	-	-	-	-	-	2,014,774	-	-	2,014,774
	$ 10,621,377	$ 417,631	$ 2,964,033	$ 2,356,083	$ 4,229,972	$ 4,479,988	$ 2,107,679	$ 6,716,388	$ 33,893,151

Other Information
June 30, 2017

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, 2017, and the related notes to the financial statements, and have issued our report dated January 19, 2018. Our report includes a reference to other auditors who audited the financial statements of Flathead Valley Community College Foundation (the Foundation), as described in our report on the College's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by the auditors.

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

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

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

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

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

Eide Bailly LLP

Boise, Idaho
January 19, 2018