

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

**AUDIT REPORT**

**Denning, Downey & Associates, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

## LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:  
Cindy Jorgenson  
Angus Maciver

March 2015

The Legislative Audit Committee  
of the Montana State Legislature:

Enclosed is the report on the audit of the Miles Community College for the fiscal years ended June 30, 2014.

The audit was conducted by Denning, Downey & Associates, P.C. under a contract between the firm and our office. The contents of this report represent the views of the firm and not necessarily the Legislative Auditor.

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

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor

14C-08

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

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MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2014

**BOARD OF TRUSTEES**

Jeff Okerman  
Mark Peterson  
Debbie Morford  
Rusty Irion  
Garret McFarland  
Susan Stanton  
Tad Torgerson

Chairperson  
Vice Chairperson  
Secretary/Treasurer  
Trustee  
Trustee  
Trustee  
Trustee

**COLLEGE OFFICIALS**

Dr. Stacy S. Klippenstein  
Lisa M. Watson  
Theodore J. Hanley  
Jessica L. Dufner  
Shane Vannatta

President  
Vice President of Administrative Services & Finance  
Vice President of Academic Affairs  
Vice President of Student Success & Institutional Research  
Attorney

***Denning, Downey & Associates, P.C.***  
**CERTIFIED PUBLIC ACCOUNTANTS**

1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901

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**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Miles Community College  
Custer County  
Miles City, Montana

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities, the discretely presented component units, and the aggregate remaining fund information of Miles Community College, Custer County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the College's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of Miles Community College, Custer County, Montana, as of and for the year ended June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year 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 the management's discussion and analysis, and schedule of funding for other post employment benefits other than pensions on pages 5 through 12, and 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Student Financial Aid Modified Statement of Cash Receipts and Disbursements and the Schedule of Federal Expenditures of Student Financial Assistance Programs are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedure applied in the audit of the basic financials and we express no opinion or provide any assurance over them.

The accompanying Schedule of Full Time Equivalent and the Functional Classification of Operating Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedure 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 the basic financial statements themselves, and other additional procedure in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Full Time Equivalent and the Functional Classification of Operating Expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

The accompanying schedule of expenditures of federal awards for the years ended June 30, 2013 and June 30, 2014 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. Such 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 schedule of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2015, on our consideration of the Miles Community College, Custer County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Miles Community College, Custer County, Montana's internal control over financial reporting and compliance.

*Denning, Downey and Associates, CPA's, P.C.*

February 23, 2015

**Miles Community College, Custer County, Montana**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended June 30, 2014**

**Overview**

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

The following is a Management Discussion and Analysis (MD&A) for Miles Community College which includes an overview of its financial condition and assists the reader in focusing on significant financial issues for the year ended June 30, 2014. The information has been prepared by management and is to be read in conjunction with the accompanying financial statements and footnotes.

**Using the Financial Statements**

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

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

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

- The financial statements are prepared using the accrual basis of accounting, which means revenues are reported when earned and expenses are reported when incurred, regardless of when the cash was actually received or paid.
- Capital assets are depreciated over their expected useful lives instead of recorded entirely as a current period expense in the year of acquisition. Depreciation is treated as an operating expense, and capital assets are reported in the statements at cost less accumulated depreciation.
- Assets and liabilities are treated as current (due within one year) or as non-current (due in more than one year), and in the Statement of Net Position are presented in order of their relative liquidity.



- Revenues and expenses are classified as operating or non-operating. “Operating” is defined by the Governmental Accounting Standards Board (GASB) as resulting from transactions involving exchanges of goods or services for payment. “Non-operating” is defined by GASB as resulting from transactions not involving the exchange of goods or services for payment. Miles Community College shows a substantial “operating loss” in the Statement of Revenues, Expenses, and Changes in Net Position primarily because GASB requires that State Appropriation and District Levy revenues must be reported as “non-operating”.
- Tuition and fees are reported net of any tuition waivers that were applied directly to a student’s account.

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

### Financial Highlights for Fiscal Year 2014

#### Statement of Net Position

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

	<b>June 30, 2014</b>	<b>June 30, 2013</b>
<b>ASSETS</b>		
Total current assets	\$ 4,562,317	\$ 3,702,652
Total noncurrent assets	<u>6,660,157</u>	<u>6,508,318</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 11,222,474</u></b>	<b><u>\$ 10,210,970</u></b>
<b>LIABILITIES</b>		
Total current liabilities	\$ 1,132,990	\$ 549,156
Total noncurrent liabilities	<u>3,261,360</u>	<u>3,435,281</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 4,394,350</u></b>	<b><u>\$ 3,984,437</u></b>
<b>NET POSITION</b>		
Net Investment Capital Assets	\$ 4,430,703	\$ 4,140,020
Restricted, expendable	136,023	384,056
Unrestricted	<u>2,261,398</u>	<u>1,702,457</u>
<b>TOTAL NET POSITION</b>	<b><u>\$ 6,828,124</u></b>	<b><u>\$ 6,226,533</u></b>

## Comparison of 2014 and 2013 Financial Position

- **Current assets** include the College's cash; taxes, grants, student loan, and accounts receivable; inventories; and other assets expected to benefit the College within one year. The \$859,665 increase from FY 2013 to FY 2014 was due primarily to an increase in cash.
- **Noncurrent assets** primarily represent the College's capital assets less accumulated depreciation. The increase is due to increased capital assets.
- **Current liabilities** include payroll and related liabilities, amounts payable to suppliers for goods and services received, revenue received which the College has not yet earned, student deposit balances, and debt principal payments due within one year. Total current liabilities increased by almost \$583,834 from FY 2013 to FY 2014, due largely to increased accounts payable, student deposits and debt obligations due within a year.
- **Noncurrent liabilities** primarily represent debt principal payments due after a one-year period and the amount of compensated absence liability estimated to be due after a one-year period. These balances decreased a total of \$133,683. In addition, the College's Other Post Employment Benefit (OPEB) obligation, which is an actuarially-determined amount related to the participation of retiree's on the College's health insurance plan, decreased \$40,238.
- **Net Investment Capital Assets** represents the historical costs of capital assets less accumulated depreciation and less debt balances related to the capital assets. This balance increases as assets are acquired and debt is repaid, and decreases as assets are depreciated and debt is incurred. Total capital assets net of related debt increased by \$290,683 from FY 2013 to FY 2014 as capital assets increased.
- **Restricted expendable net assets** represent funds that may be expended by the College but only in accordance with restrictions imposed by an external party, such as a donor or governmental entity.
- **Unrestricted net assets** are funds that the College has to use for whatever purpose it determines is appropriate. These assets may be designated for specific purposes by action of management.
- **Total net position** increased by \$601,591 from FY 2013 to FY 2014, which is a reflection of the increased cash position netted against decreasing noncurrent assets, and the OPEB prior period adjustment.

## Statement of Revenue, Expenses, and Changes in Net Position

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

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

	<b>June 30, 2014</b>	<b>June 30, 2013</b>
Operating revenues	\$ 4,298,694	\$ 4,389,928
Operating expenses	<u>8,154,500</u>	<u>8,294,820</u>
<b>OPERATING LOSS</b>	<b>\$ <u>(3,855,806)</u></b>	<b>\$ <u>(3,904,892)</u></b>
Non-operating revenues (expenses)	\$ 4,340,835	\$ 3,649,588
Gain (loss) on disposal of capital assets	(15,336)	5,000
Transfer from fiduciary funds	<u>(90)</u>	<u>-</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>\$ <u>469,603</u></b>	<b>\$ <u>(250,304)</u></b>
Net position, beginning of year	\$ <u>6,226,533</u>	\$ <u>6,452,295</u>
Prior period adjustment of expenses - OPEB	<u>131,988</u>	<u>24,542</u>
Net position, end of year	<u><u>\$ 6,828,124</u></u>	<u><u>\$ 6,226,533</u></u>

### Comparison of 2014 and 2013 Results of Operations

- **Operating revenues** represent the revenue received from tuition and fees, federal, state, and private grants and contracts, indirect cost recoveries (from grants), auxiliary activities, and other operating revenues. Total operating revenues decreased by \$49,086 from FY 2013 to FY 2014. This is due primarily to decreased tuition and fees, and federal and state grants.
- **Non-operating revenue (expenses)** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-operating revenue increased \$691,247 from FY 2013 to FY 2014. The major item affecting this change was increased state appropriations.

**Increase (decrease) in net position** represents the difference between total revenues and total expenses.

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

## ANALYSIS OF ALL SOURCES OF REVENUE

Source of Revenue	Fiscal Year 2014		Fiscal Year 2013		Increase (decrease) FY'14 vs. FY'13
	Amount	Percent	Amount	Percent	
<b>Operating revenues</b>					
Tuition and fees (net)	\$ 1,491,982	17.08%	\$ 1,553,877	19.08%	\$ (61,895)
Auxiliary enterprise activities	1,123,391	12.86%	1,161,540	14.27%	(38,149)
Federal grants and contracts	1,075,176	12.31%	1,037,877	12.75%	37,299
Other operating revenues	263,926	3.02%	284,674	3.50%	(20,748)
Private and local grants and contracts	204,913	2.34%	221,051	2.74%	(16,138)
State grants and contracts	123,656	1.41%	119,140	1.44%	4,516
Indirect cost recoveries	<u>15,650</u>	<u>0.18%</u>	<u>11,769</u>	<u>0.15%</u>	<u>3,881</u>
<b>Total operating revenue</b>	<u>4,298,694</u>	<u>49.20%</u>	<u>4,389,928</u>	<u>53.93%</u>	<u>(91,234)</u>
<b>Non-operating revenues</b>					
State appropriations	2,834,751	32.45%	2,222,931	27.30%	611,820
District levies	1,303,150	14.92%	1,314,356	16.14%	(11,206)
State reimbursements	278,777	3.19%	202,743	2.49%	76,034
Interest income	<u>21,051</u>	<u>0.24%</u>	<u>11,372</u>	<u>0.14%</u>	<u>9,679</u>
<b>Total non-operating revenues</b>	<u>4,437,729</u>	<u>50.80%</u>	<u>3,751,402</u>	<u>46.07%</u>	<u>686,327</u>
<b>Total revenue</b>	<u>\$ 8,736,423</u>	<u>100%</u>	<u>\$ 8,141,330</u>	<u>100%</u>	<u>\$ 595,093</u>

## ANALYSIS OF CATEGORY OF EXPENSE

Category of Expenses	Fiscal Year 2014		Fiscal Year 2013		Increase (decrease) FY'14 vs. FY'13
	Amount	Percent	Amount	Percent	
<b>Operating expenses</b>					
Personnel expenses	\$ 4,118,766	49.93%	\$ 4,412,432	52.55%	\$ (293,666)
Scholarships and grants	1,044,385	12.66%	1,077,108	12.83%	(32,723)
Contracted service	607,710	7.36%	460,662	5.49%	147,048
Depreciation	527,246	6.39%	510,421	6.08%	16,825
Supplies	402,754	4.88%	465,806	5.55%	(63,052)
Food for resale	277,284	3.36%	280,600	3.34%	(3,316)
Utilities	191,991	2.33%	189,720	2.26%	2,271
Other operating expenses	146,809	1.78%	86,846	1.03%	59,963
Items for resale	144,533	1.75%	147,879	1.76%	(3,346)
Travel	134,213	1.63%	125,972	1.50%	8,241
Communications	98,134	1.19%	103,328	1.23%	(5,194)
Advertising	95,283	1.15%	68,446	0.82%	26,837
Student support	82,355	1.00%	93,487	1.11%	(11,132)
Insurance	73,447	0.89%	67,556	0.81%	5,891
Repairs and maintenance	53,916	0.65%	54,014	0.64%	(98)
IT system support	48,607	0.59%	45,549	0.54%	3,058
Meetings and dues	43,878	0.53%	32,639	0.39%	11,239
Bad debt expense	30,078	0.36%	34,492	0.41%	(4,414)
Indirect costs	20,560	0.25%	10,729	0.13%	9,831
Rent and lease	<u>12,551</u>	<u>0.15%</u>	<u>27,134</u>	<u>0.32%</u>	<u>(14,583)</u>
<b>Total operating expenses</b>	<u>8,154,500</u>	<u>98.83%</u>	<u>8,294,820</u>	<u>98.79%</u>	<u>(140,320)</u>
<b>Non-operating expenses</b>					
Interest payments	96,894	1.17%	101,814	1.21%	(4,920)
Other non-operating expenses	<u>-</u>	<u>0.00%</u>	<u>-</u>	<u>0.00%</u>	<u>-</u>
<b>Total non-operating expenses</b>	<u>96,894</u>	<u>1.17%</u>	<u>101,814</u>	<u>1.21%</u>	<u>(4,920)</u>
<b>Total expenses</b>	<u>\$ 8,251,394</u>	<u>100%</u>	<u>\$ 8,396,634</u>	<u>100%</u>	<u>\$ (145,240)</u>

Comments about specific revenue and expense items are:

- **Tuition and Fees and State Appropriations and Reimbursements:** During FY 2014 the College continued to see decreased enrollment. This represents the largest decrease in revenue. The College also received an increase in state appropriations and an increase in state reimbursement. These items represent the two largest increases in revenues.

- **Expenses (general comment):** Overall expenses decreased \$145,240 from FY 2013 to FY 2014. Personnel service expense decreased due to lowered OPEB estimates and cost savings from open positions.

### STATEMENT OF CASH FLOWS

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

A summary of the Statement of Cash Flows follows:

<i><b>CASH FLOW CATEGORY</b></i>	<b>June 30, 2014</b>	<b>June 30, 2013</b>
Cash provided by (used in):		
Operating activities	\$ (2,914,027)	\$ (2,689,271)
Noncapital activities	4,414,477	3,753,730
Capital financing activities	(930,159)	(307,960)
Investing activities	<u>21,051</u>	<u>11,372</u>
Net increase (decrease) in cash	<u>591,342</u>	<u>767,871</u>
Cash and cash equivalents, beginning of year	<u>3,515,273</u>	<u>2,747,402</u>
Cash and cash equivalents, end of year	<u>\$ 4,106,615</u>	<u>\$ 3,515,273</u>

#### Comparison of 2014 and 2013 Cash Flows

- **Operating activities** represent the revenue received from tuition and fees, federal, state, and private grants and contracts, indirect cost recoveries (from grants), auxiliary activities, and other operating revenues. Total operating activities decreased by \$224,756 from FY 2013 to FY 2014. This is mainly due to the decrease in tuition and fee revenue that is a result of decreased enrollment and the increase in accounts payable to suppliers.
- **Noncapital financing activities** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-operating activities increased \$660,747 from FY 2013 to FY 2014. The major item affecting this change was state appropriations and reimbursements.
- **Capital and related financing activities** consists of purchases of capital assets and payments of principal and interest on loans. No additional loans were added.

## RESTATEMENTS

During a review of the State of Montana and University System financial statements, the State of Montana legislative audit division determined that the other post-employment benefit expense and liability calculations were incorrect. Employer contributions had not been included in the OPEB calculations and this resulted in a cumulative overstatement of the liability in the Statement of Net Position. As a result of the correction, the OPEB liability for Miles Community College was reduced by \$131,988 as of June 30, 2013.

## DISCUSSION OF SIGNIFICANT PENDING ECONOMIC AND FINANCIAL ISSUES

- **Population** – Miles Community College is located in eastern Montana and continues to see a decrease in the enrollment of both traditional and nontraditional students. The population of high school graduates is at an all-time low and will decline until 2017. The Bakken oil boom in eastern Montana and North Dakota is still growing and continues to pull viable students away from the region and into high paying jobs. Custer county and eastern Montana have extremely low unemployment rates and even normally low skilled and low paying jobs have seen significant wage increases. In order to sustain and grow, Miles Community College must continue to find ways to attract viable students and is doing that currently through an effort to redesign its enrollment and recruiting process.
- **Faculty and Staff** – The College continues to have challenges finding and retaining qualified faculty and staff. High wages in local trades and higher paying jobs in other states make it hard to find interested candidates for open positions.
- **State and Local Funding** – Eastern Montana has remained economically sound over the recession and has seen recent growth with the potential for large growth in various industries. To support growth in the service region and increased employment options for its population, Miles Community College must continue to work with the state legislature, local tax payers, federal and private grants, and private industry to develop funding and partnership opportunities. A lack of responsiveness could minimize opportunities for residents and limit the amount on economic growth in the region.

**Miles Community College, Custer County, Montana**  
**Statement of Net Position**  
**June 30, 2014**

	<b>Primary Government</b>	<b>Component Unit</b>
	<b>Business-Type Activities</b>	<b>Miles Community College Endowment</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,970,592	\$ -
Taxes receivable	101,534	-
Grants receivable	259,628	-
Student loan receivable	23,886	-
Student accounts receivable (net)	74,873	-
Accounts receivable - net	48,875	-
Inventories	57,323	-
Prepaid expense	25,606	14,285
Total current assets	\$ 4,562,317	\$ 14,285
Noncurrent assets:		
Restricted cash and investments	\$ 136,023	920,720
Capital assets, net	6,524,134	-
Total noncurrent assets	\$ 6,660,157	\$ 920,720
Total assets	\$ 11,222,474	\$ 935,005
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 596,571	\$ 31,058
Accrued payroll	280,347	-
Unearned revenue - tuition and fees	81,645	-
Student deposits	26,400	-
Current portion of compensated absences payable	34,901	-
Current portion of debt and capital lease obligations	113,126	-
Total current liabilities	\$ 1,132,990	\$ 31,058
Noncurrent liabilities:		
Compensated absences payable	\$ 314,114	\$ -
Debt and capital lease obligations	1,980,305	-
Other post employment benefits	702,087	-
Other post employment benefits - accrued insurance	264,854	-
Total noncurrent liabilities	\$ 3,261,360	\$ -
Total liabilities	\$ 4,394,350	\$ 31,058
<b>NET POSITION</b>		
Net investment in capital assets	\$ 4,430,703	-
Restricted for student loans	20,463	-
Restricted for debt service	115,560	-
Restricted for scholarships, research, instruction, and other	-	903,947
Unrestricted	2,261,398	-
Total net position	\$ 6,828,124	\$ 903,947
Total liabilities and net position	\$ 11,222,474	\$ 935,005

See accompanying Notes to the Financial Statements



**Miles Community College, Custer County, Montana**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2014**

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Business-Type</u>	<u>Miles Community</u>
	<u>Activities</u>	<u>College</u>
		<u>Endowment</u>
<b>Operating revenues</b>		
Tuition and fees (net of scholarship allowance of \$390,039)	\$ 1,491,982	\$ -
Auxiliary activities	1,123,391	-
Federal grants and contracts	1,075,176	-
Private and local grants and contracts	204,913	60,047
Athletic donations	146,158	-
State grants and contracts	123,656	-
Other operating revenues	97,060	-
Other athletic allowance	13,563	-
Indirect cost recoveries	15,650	-
Space/rental income	7,145	-
Total operating revenues	<u>\$ 4,298,694</u>	<u>\$ 60,047</u>
<b>Operating expenses</b>		
Personal services	\$ 4,118,766	\$ -
Scholarships and grants	1,044,385	23,880
Depreciation and amortization expense	527,246	-
Supplies	402,754	-
Contracted services	607,710	-
Food for resale	277,284	-
Utilities	191,991	-
Items for resale	144,533	-
Travel	134,213	-
Communications	98,134	-
Student support	82,355	-
Other operating expense	146,809	-
Advertising	95,283	-
Insurance	73,447	-
Repairs and maintenance	53,916	-
IT system support	48,607	-
Bad debt expense	30,078	-
Meetings and dues	43,878	-
Rent and lease	12,551	-
Indirect costs	20,560	-
Program disbursements	-	16,670
Management and general	-	1,731
Professional fees	-	2,456
Total operating expenses	<u>\$ 8,154,500</u>	<u>\$ 44,737</u>
Operating income (loss)	<u>\$ (3,855,806)</u>	<u>\$ 15,310</u>
<b>Non-operating revenues (expenses)</b>		
State appropriation	\$ 2,834,751	\$ -
District levies	1,303,150	-
State reimbursements	278,777	-
Interest income	21,051	105,826
Interest expense	(96,894)	-
Total non-operating revenues (expenses)	<u>\$ 4,340,835</u>	<u>\$ 105,826</u>
Income before contributions and transfers	<u>\$ 485,029</u>	<u>\$ 121,136</u>
Loss on disposal of capital assets	<u>\$ (15,426)</u>	<u>\$ -</u>
Change in net position	<u>\$ 469,603</u>	<u>\$ 121,136</u>
Net position, beginning of year	\$ 6,226,533	\$ 782,811
Prior Period Adjustment	131,988	-
Net position, beginning restated	<u>\$ 6,358,521</u>	<u>\$ 782,811</u>
Net position, end of year	<u>\$ 6,828,124</u>	<u>\$ 903,947</u>

See accompanying Notes to the Financial Statements

**Miles Community College, Custer County, Montana**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2014**

		<u>Primary Government</u>
<b>Cash flows from operating activities:</b>		
Tuition and fees	\$	1,425,457
Grants and contracts		1,181,838
Payments to employees		(4,019,316)
Payments to suppliers		(1,426,973)
Payments for utilities		(191,991)
Payments for scholarships and fellowships		(1,044,385)
Auxiliary activities		1,131,491
Other cash receipts (payments)		29,852
Net cash used in operating activities	\$	<u>(2,914,027)</u>
 <b>Cash flows from noncapital financing activities</b>		
State appropriations	\$	2,834,751
State reimbursements		278,777
District levies		1,300,949
Net cash provided by noncapital financing activities	\$	<u>4,414,477</u>
 <b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	\$	(696,915)
Proceeds from sale of capital assets		2,500
Principal paid on capital debt and leases		(138,850)
Interest paid on capital debt and leases		(96,894)
Net cash used in capital and related financing activities	\$	<u>(930,159)</u>
 <b>Cash flows from investing activities</b>		
Interest received on cash and cash equivalents	\$	21,051
Net cash provided by investing activities	\$	<u>21,051</u>
 <i>Net increase in cash and cash equivalents</i>	\$	591,342
Cash and cash equivalents, beginning of year		3,515,273
Cash and cash equivalents, end of year	\$	<u><u>4,106,615</u></u>
 <b>Reconciliation to Statement of Net Position</b>		
Cash and cash equivalents	\$	3,970,592
Restricted cash		136,023
Total cash and cash equivalents	\$	<u><u>4,106,615</u></u>
 <b>Reconciliation of operating income to net cash provided by (used in) operating activities</b>		
Operating loss	\$	(3,855,806)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation		527,246
Bad debt expense		30,078
Other post employment benefits		92,215
Changes in net assets and liabilities:		
Grants receivable		(222,372)
Accounts receivable - net		(73,202)
Prepaid expense		(872)
Inventories		(315)
Accounts payable		566,524
Accrued payroll		18,937
Unearned revenue - tuition and fees		6,677
Student deposits		8,100
Compensated absences payable		(11,237)
Net cash used in operating activities	\$	<u><u>(2,914,027)</u></u>
 <b>Schedule of noncash financing and investing activities</b>		
Capital assets acquired via trade-in	\$	<u>12,300</u>

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

**Miles Community College, Custer County, Montana**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2014**

		<b>Private Purpose Trust Funds</b>
		<u>          </u>
<b>ASSETS</b>		
Cash and cash equivalents	\$	39,844
Accounts receivable - net		40,570
Prepaid expense		<u>162</u>
Total assets	\$	<u><u>80,576</u></u>
<b>LIABILITIES</b>		
Accounts payable	\$	<u>827</u>
Total liabilities	\$	<u>827</u>
<b>NET POSITION</b>		
Assets held in trust	\$	<u><u>79,749</u></u>

See accompanying Notes to the Financial Statements

**Miles Community College, Custer County, Montana**  
**Statements of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2014**

			<b>Private Purpose Trust Funds</b>
			<u>          </u>
<b>ADDITIONS:</b>			
Contributions from private sources	\$	1,294,632	
Total additions	\$	<u>1,294,632</u>	
<b>DEDUCTIONS:</b>			
Student activities			
Total deductions	\$	<u>1,265,611</u>	
Changes in net position	\$	<u>29,021</u>	
Net position, beginning of year	\$	<u>50,728</u>	
Net position, end of year	\$	<u><u>79,749</u></u>	

See accompanying Notes to the Financial Statements

MILES COMMUNITY COLLEGE  
CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November, 1989 FASB and AICPA Pronouncements*, incorporated the pre-November 30, 1989 FASB, APB and ARB pronouncements that the GASB considers to be applicable to state and local governments.

**Financial Reporting Entity**

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

*Primary Government*

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

*Discretely Presented Component Units*

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. The component unit listed below has fiscal year ending June 30, 2014. The College has the following discretely presented component unit:

Miles Community College Endowment

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Nature of Activities

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

Basis of Accounting

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

Cash and Cash Equivalents

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

Classification of Net Position

The Endowment classifies all net assets as restricted by donor.

Investments

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

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, disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

**Basis of Presentation, Measurement Focus and Basis of Accounting**

***Proprietary Funds:***

The proprietary fund is accounted for using the accrual basis of accounting. Proprietary funds account for operations that are primarily financed by user charges. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

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

***Fiduciary Funds***

Fiduciary funds are presented using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans). The required financial statements are a statement of fiduciary net assets and a statement of changes in fiduciary net assets. The fiduciary funds are:

Private-purpose trust funds – To report all other trust arrangements under which the principal and income benefit individuals, private organizations, or other governments.

On July 1<sup>st</sup>, 2010, Miles Community College (MCC) began participating in the Federal Stafford Direct Loan Program operated by the Department of Education. This program operates as a Fiduciary Fund within the accounting system at Miles Community College. At MCC, the financial aid department processes and pays the loans to the students first and then the business office draws the approved funds from the Department of Education.

Miles Community College receives scholarships and support from the Miles Community College Endowment. Miles Community College maintains an endowment fiduciary fund to collect expenditures owed to the College and then seeks reimbursement.

The College reports the student activities funds as fiduciary funds as they represent assets held in a trust capacity for the student activities and therefore cannot be used to support the College's own programs.

MILES COMMUNITY COLLEGE  
CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Cash Composition**

Except for the Perkins Loan Fund, the College's cash, is held by the County Treasurer and pooled with other County cash. With the College cash that is not necessary for short-term obligations, the College participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County's investment portfolio as of June 30, 2014, consisted of time deposits, U.S. Government Securities, Repurchase Agreements and the State Short-Term Investment Pool (STIP).

The College does not own specific identifiable investment securities in the pool; therefore, is not subject to categorization. Information regarding investment risk, collateral, security, and fair values for Custer County deposits and investments is available from Custer County Treasurer's office, 1010 Main Street, Miles City, Montana 59301. The Custer County external investment pool is not rated. Fair value approximates carrying value for investments as of June 30, 2014.

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

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

**Deposits**

The College's deposit balance at June 30, 2014 was \$20,463, and the bank balance was \$20,463. This amount was fully insured.

The College's cash and investments as of June 30, 2014 consisted of the following:

Cash on hand	\$ 11,824
Demand deposit accounts	20,463
Invested in the County Investment Pool	<u>4,074,328</u>
Total cash and investments	<u>\$ 4,106,615</u>



MILES COMMUNITY COLLEGE  
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The Endowment's deposit balance at June 30, 2014 was \$181,289, and the bank balance was \$181,289. This amount was fully insured.

The Endowment's cash and investments as of June 30, 2014 consisted of the following:

Demand Deposit Accounts	\$	77,463
Money Market Accounts		103,826
First Interstate Financial		
Mutual Funds – MFS Utilities A		180,673
Ameriprise Financial		
Columbia - Port Builder Moderate Fund		303,283
Columbia RVS-High Yield Bond Fund		212,112
Edward Jones		
Growth Fund of America		<u>43,363</u>
Total		<u>\$ 920,720</u>

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in the market rates.

Information about the sensitivity of the fair value of the College's investments to market interest rate fluctuations is provided by the following tables that show the maturity date of each investment.

	<u>June 30, 2014</u>
Custer County Investment Pool	\$ 4,074,328

No interest rate risk disclosure is made for the investments of the component unit.

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Custer County Investment Pool does not have a rating provided by a nationally recognized statistical rating organization.

MILES COMMUNITY COLLEGE  
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**NOTES TO THE FINANCIAL STATEMENTS**  
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**Concentration of Credit Risk**

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

Concentration of credit risk for the Endowment is as follows:

<u>Endowment</u>		<u>%</u>
Ameriprise Financial		
Equity securities	\$ 303,283	
Fixed income securities	212,112	
Total Ameriprise Financial		70%
Edward Jones		
Growth Fund of America	43,363	6%
First Interstate Financial		
Mutual Funds-MFS Utilities A	<u>180,673</u>	<u>24%</u>
Total investments	<u>\$ 739,431</u>	<u>100%</u>

**Custodial Credit Risk**

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

The College's deposits with financial institutions did not exceed federal depository insurance limits at June 30, 2014.

The Endowment deposits with financial institutions did not exceed federal depository insurance limits at June 30, 2014.

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

MILES COMMUNITY COLLEGE  
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**NOTE 3 RECEIVABLES**

Taxes

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

Property tax levies are set in August, in connection with the budget process, and are based on taxable values listed as of January 1 for all property located in the District. Taxable values are established by the Montana Department of Revenue, and a revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

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.

Student Accounts Receivable

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

Student accounts receivable	\$ 115,973
Less allowances	<u>(41,100)</u>
Net student accounts receivable	<u>\$ 74,873</u>

**NOTE 4 INVENTORIES AND PREPAID EXPENSES**

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

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

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

MILES COMMUNITY COLLEGE  
CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 5      CAPITAL ASSETS**

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

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

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

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

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

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

*Land* purchases shall be capitalized, regardless of cost.

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

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

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

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

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in the basic financial statements. In accordance with Statement No. 34, the College has included the value of all infrastructures into the 2014 Basic Financial Statements. The College has elected not to retroactively report general infrastructure assets.

The following tables present the changes in capital assets for the year ended June 30, 2014:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 206,412	\$ -	\$ -	\$ 206,412
Total capital assets not being depreciated	<u>\$ 206,412</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 206,412</u>
Other capital assets				
Buildings	\$ 9,023,354	\$ 296,516	\$ -	\$ 9,319,870
Machinery & equipment	1,845,836	405,054	(93,882)	2,157,008
Software	405,847	-	-	405,847
Library inventory	<u>101,816</u>	<u>7,645</u>	<u>(22,347)</u>	<u>87,114</u>
Total other capital assets at historical cost	<u>\$ 11,376,853</u>	<u>\$ 709,215</u>	<u>\$ (116,229)</u>	<u>\$ 11,969,839</u>
Less accumulated depreciation				
Buildings	\$ (3,861,901)	\$ (296,347)	\$ -	\$ (4,158,248)
Machinery & equipment	(935,687)	(156,190)	63,746	(1,028,131)
Software	(344,616)	(61,231)	-	(405,847)
Library inventory	<u>(68,760)</u>	<u>(13,478)</u>	<u>22,347</u>	<u>(59,891)</u>
Total accumulated depreciation	<u>\$ (5,210,964)</u>	<u>\$ (527,246)</u>	<u>\$ 86,093</u>	<u>\$ (5,652,117)</u>
Total capital assets, depreciable, net	<u>\$ 6,165,889</u>	<u>\$ 181,969</u>	<u>\$ (30,136)</u>	<u>\$ 6,317,722</u>
Total	<u>\$ 6,372,301</u>	<u>\$ 181,969</u>	<u>\$ (30,136)</u>	<u>\$ 6,524,134</u>

MILES COMMUNITY COLLEGE  
CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 6 LONG TERM LIABILITIES**

The following table presents the changes in long-term liabilities for the year ended June 30, 2014:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due within</u> <u>one year</u>
Contracted debt	\$ 2,200,110	\$ -	\$ (106,679)	\$ 2,093,431	\$ 113,126
Intercap loans	17,046	-	(17,046)	-	-
Compensated absences	360,252	-	(11,237)	349,015	34,901
Capital lease	15,125	-	(15,125)	-	-
OPEB*	741,860	92,215	(131,988)***	702,087	-
OPEB – Accrued Insurance**	265,319	-	(465)	264,854	-
Total	<u>\$ 3,599,712</u>	<u>\$ 92,215</u>	<u>\$ (282,540)</u>	<u>\$ 3,409,387</u>	<u>\$ 148,027</u>

\*See Note 8

\*\*See Note 9

\*\*\*See Note 14

Contracted Debt

Stockman Bank

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

Annual requirement to amortize debt for Stockman Bank:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 31,246	\$ 6,884
2016	33,558	4,572
2017	36,042	2,088
2018	<u>9,433</u>	<u>113</u>
Total	<u>\$ 110,279</u>	<u>\$ 13,657</u>

USDA Rural Development #1

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

MILES COMMUNITY COLLEGE  
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Annual requirement to amortize debt for USDA Rural Development:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 27,162	\$ 4,710
2016	28,537	3,335
2017	29,982	1,890
2018	<u>15,219</u>	<u>380</u>
Total	<u>\$ 100,900</u>	<u>\$ 10,315</u>

First Interstate Bank

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

Annual requirement to amortize debt for First Interstate Bank:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	18,807	\$ 11,289
2016	19,695	10,329
2017	20,703	9,322
2018	21,762	8,262
2019	22,876	7,149
2020	24,046	5,979
2021	25,276	4,748
2022	26,569	3,455
2023	27,929	2,096
2024	<u>26,676</u>	<u>668</u>
Total	<u>\$ 234,339</u>	<u>\$ 63,297</u>

USDA Rural Development #2

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

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**NOTES TO THE FINANCIAL STATEMENTS**  
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Annual requirement to amortize debt for USDA Rural Development:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 22,076	\$ 57,485
2016	23,060	56,499
2017	24,090	55,470
2018	25,165	54,395
2019	26,289	53,271
2020	27,462	52,098
2021	28,688	50,872
2022	29,968	49,592
2023	31,306	48,254
2024	32,704	46,856
2025	34,163	45,397
2026	35,688	43,871
2027	37,282	42,279
2028	38,946	40,614
2029	40,684	38,876
2030	42,500	37,060
2031	44,397	35,163
2032	46,379	33,181
2033	48,449	31,111
2034	50,612	28,948
2035	52,871	26,688
2036	55,231	24,329
2037	57,697	21,863
2038	60,272	19,288
2039	62,963	16,597
2040	65,773	13,787
2041	68,709	10,851
2042	71,776	7,784
2043	74,980	4,580
2044	<u>63,798</u>	<u>1,256</u>
Total	<u>\$ 1,323,978</u>	<u>\$ 1,048,315</u>

Montana Department of Environmental Quality

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



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 June 30, 2014

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

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 13,835	\$ 9,718
2016	14,250	9,303
2017	14,677	8,876
2018	15,118	8,435
2019	15,571	7,982
2020	16,038	7,515
2021	16,520	7,033
2022	17,015	6,538
2023	17,526	6,027
2024	18,051	5,502
2025	18,593	4,960
2026	19,151	4,402
2027	19,725	3,828
2028	20,317	3,236
2029	20,927	2,626
2030	21,554	1,999
2031	22,201	1,352
2032	<u>22,866</u>	<u>687</u>
Total	<u>\$ 323,935</u>	<u>\$ 100,019</u>

Compensated absences

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

**NOTE 7 STATE-WIDE RETIREMENT PLANS**

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

Contribution rates are required and determined by State law. The contribution rates, expressed as percentage of covered payroll for the fiscal year ended June 30, 2014 was:

MILES COMMUNITY COLLEGE  
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**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2014

	<u>PERS</u>	<u>TRS</u>
Employer	8.07%	8.47%
Employee	7.90%	8.15%
State	0.10%	2.49%

The State contribution qualifies as an on-behalf payment. These amounts have not been recorded in the College's financial statements and were considered immaterial.

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling:

1. Public Employees Retirement Division, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.
2. Teacher' Retirement System, P.O. Box 200319, Helena, Montana 59620-0139 Phone: 1-406-444-3134.

The College's contributions for the years ended June 30, 2012, 2013, and 2014, as listed below, were equal to the required contributions for each year.

<u>Year</u>	<u>PERS</u>	<u>TRS</u>
2012	\$ 170,944	\$ 245,831
2013	\$ 161,467	\$ 244,213
2014	\$ 179,226	\$ 259,101

**NOTE 8 OTHER POST EMPLOYMENT BENEFITS**

The College adopted the provisions of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The College had a Phase 3 implementation date of GASB 45 of June 30, 2010.

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

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

MILES COMMUNITY COLLEGE  
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 June 30, 2014

*Annual OPEB Cost and Net OPEB Obligation.* The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the government's net OPEB obligation.

<u>Current year OPEB activity</u>	
Annual Required Contribution (ARC)	100,901
Interest on net OPEB obligation	40,504
Amortization of Net OPEB Obligation	<u>(31,768)</u>
Annual OPEB cost (expense)	\$ 109,637
Employer Contributions made	<u>(17,422)</u>
Increase in current OPEB obligation	<u>\$ 92,215</u>
 <u>Net Position change in OPEB</u>	
Net OPEB obligation – beginning of year	\$ 741,860
Restatement of prior year OPEB liability	<u>(131,988)</u>
Adjusted Net OPEB obligation. – beginning of year	609,872
Current year net obligation	<u>92,215</u>
Net OPEB obligation – end of year	<u>\$ 702,087</u>

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

The following actuarial methods and assumptions were used:

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

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

MILES COMMUNITY COLLEGE  
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June 30, 2014

**NOTE 9      INSURANCE BENEFITS TO RETIRED EMPLOYEES**

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

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

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

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

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

MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2014

**NOTE 10 NET POSITIONS**

Reservations of equity show amounts that are not appropriate for expenditure or are legally restricted for specific uses. The purpose for each is indicated below:

<b><u>College</u></b>	
<b><u>Description</u></b>	
Restricted for debt service	\$ 115,560
Restricted for student loans	<u>20,463</u>
Total	<u>\$ 136,023</u>
<b><u>Endowment</u></b>	
Restricted for scholarships, research, instructions and other	<u>\$ 903,947</u>

**NOTE 11 RESTRICTED CASH**

<b><u>College</u></b>	
<b><u>Description</u></b>	
Perkins loans	\$ 20,463
Debt service	<u>115,560</u>
Total	<u>\$ 136,023</u>
<b><u>Endowment</u></b>	
Restricted for scholarships	<u>\$ 920,720</u>

**NOTE 12 RELATED PARTY TRANSACTIONS**

The following schedule presents significant transactions between the primary government and its component units during the year ended June 30, 2014:

<b><u>Component Unit</u></b>	<b><u>Significant Transactions</u></b>
Miles Community College	Donated \$29,880
Endowment	

**NOTE 13 RISK MANAGEMENT**

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

MILES COMMUNITY COLLEGE  
CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

Insurance Policies:

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

**NOTE 14     RESTATEMENTS**

During the current fiscal year, the following adjustment relating to prior years' transactions were made to net assets.

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Miles Community College	\$ <u>131,988</u>	Reduction in net OPEB Liability
	\$ <u>131,988</u>	

During a review of the State of Montana and University System financial statements, the State of Montana legislative audit division determined that the OPEB expense and liability calculations were incorrect. Employer contributions had not been included in the OPEB calculations and this resulted in a cumulative overstatement of the liability in the Statement of Net Position.

**NOTE 15     SUBSEQUENT EVENTS**

The Endowment is running a capital campaign to raise \$3 million to construct an Agricultural Advancement Center.

As of November 2014, the Endowment has \$1.5 million in donation pledges, of which \$2,000 has been received.

**REQUIRED SUPPLEMENTAL  
INFORMATION**

**Miles Community College, Custer County, Montana**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**Schedule of Funding Progress**  
**For the Fiscal Year Ended June 30, 2014**

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



## **SUPPLEMENTAL INFORMATION**

**Miles Community College, Custer County, Montana**  
**Student Financial Aid Modified Statement of Cash Receipts and Disbursements**  
**For the Fiscal Year Ended June 30, 2014**  
**(unaudited)**

	<u>Pell</u>	<u>Perkins</u>	<u>CWS</u>	<u>SEOG</u>
Beginning cash balance	\$ (12,925)	\$ 20,457	\$ -	\$ -
Additions:				
Federal advances	602,925	-	35,514	28,262
State matching funds	-	-	-	-
Interest income	-	6	-	-
Total additions	<u>\$ 602,925</u>	<u>\$ 6</u>	<u>\$ 35,514</u>	<u>\$ 28,262</u>
Deductions:				
Distribution to students	\$ 623,352	\$ -	\$ 33,297	\$ 28,262
Administrative expenses	-	-	2,217	-
Total deductions	<u>\$ 623,352</u>	<u>\$ -</u>	<u>\$ 35,514</u>	<u>\$ 28,262</u>
Net change to cash	<u>\$ (20,427)</u>	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ -</u>
Ending cash balance	<u>\$ (33,352)</u>	<u>\$ 20,463</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying Notes to the Financial Statements

**Miles Community College, Custer County, Montana**  
**Schedules of Federal Expenditures**  
**Student Financial Assistance Programs**  
**For the Fiscal Year Ended June 30, 2014**  
**(unaudited)**

Perkins Loan Program		
Student loan advances	\$	<u><u>-</u></u>
College Work Study		
Wages	\$	33,297
Administrative cost		<u>2,217</u>
Total College Work Study	\$	<u><u>35,514</u></u>
Supplemental Education Opportunity Grant Program		
Student Grants	\$	<u><u>28,262</u></u>
Pell Grant Program		
Student grants	\$	<u><u>623,352</u></u>

See accompanying Notes to the Financial Statements

**Miles Community College, Custer County, Montana**  
**Schedule for Full Time Equivalent - Audited**  
**For the Fiscal Year Ended June 30, 2014**

<u>Semester</u>	<u>Resident</u>	<u>WUE</u>	<u>Nonresident</u>	<u>Total</u>
Summer 2013	34.3	0.7	0.9	35.9
Fall 2013	265.3	23.8	37.1	326.2
Spring 2014	296.5	21.1	34.9	352.5

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

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana  
 Functional Classification of Operating Expenses - Audited  
 For the Fiscal Year Ended June 30, 2014

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation And Maintenance	Auxiliary	Totals
Personnel Services	\$ 1,874,088	\$ 9,528	\$ 415,144	\$ 597,534	\$ 768,926	\$ -	\$ 235,722	\$ 217,824	\$ 4,118,766
Scholarships and Fellowships	2,477	-	3,337	1,021	-	1,033,721	1,985	1,845	1,044,386
Depreciation And Amortization	-	-	-	-	-	-	527,246	-	527,246
Supplies	112,541	2,406	93,608	120,483	5,252	-	24,858	43,606	402,754
Contracted Services	42,245	17,813	106,635	162,925	200,543	-	54,859	22,690	607,710
Food for Resale	-	-	-	-	-	-	-	277,284	277,284
Utilities	-	-	1,005	-	-	-	148,707	42,279	191,991
Items for Resale	-	-	-	85	-	-	-	144,448	144,533
Travel	8,621	12,091	7,318	102,939	2,737	-	-	507	134,213
Communications	932	1,220	26,108	8,798	41,868	-	2,337	16,871	98,134
Student Support	47,745	-	25,974	4,368	-	-	-	4,268	82,355
Other	15,542	2,794	49,295	10,888	60,024	-	483	7,783	146,809
Advertising	4,605	-	5,878	75,765	3,896	-	191	4,948	95,283
Insurance	7,696	726	-	5,161	47	-	41,126	18,690	73,446
Repairs and Maintenance	9,722	-	340	10,501	-	-	21,792	11,561	53,916
IT Systems Support	46,911	-	1,425	271	-	-	-	-	48,607
Bad Debt	-	-	-	-	30,078	-	-	-	30,078
Meetings and Dues	5,433	2,672	761	15,676	17,569	-	-	1,767	43,878
Rent and Lease	2,154	766	311	7,706	504	-	990	120	12,551
Indirect Costs	7,222	-	13,338	-	-	-	-	-	20,560
	<u>\$ 2,187,934</u>	<u>\$ 50,016</u>	<u>\$ 750,477</u>	<u>\$ 1,124,121</u>	<u>\$ 1,131,444</u>	<u>\$ 1,033,721</u>	<u>\$ 1,060,296</u>	<u>\$ 816,491</u>	<u>\$ 8,154,500</u>

See accompanying Note to the Financial Statements

# **SINGLE AUDIT SECTION**

**Miles Community College, Custer County, Montana**  
**Schedule of Expenditures of Federal Awards**  
**For Fiscal Years Ended June 30, 2013**

<u>Federal Grant/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Labor</u></b>			
<i>Passed through the Montana Department of Labor and Industry:</i>			
WIA Adult Program	17.258	DLISFY13WIAA02	\$ 30,800
WIA Adult Program	17.258	DLISFY13WIAA03	56,745
<b>Total U.S. Department of Labor</b>			<b>\$ <u>87,545</u></b>
<b><u>U.S. Department of Education</u></b>			
<i>Direct programs:</i>			
Adult Education - Basic Grants to States	84.002	N/A	\$ 29,757
Federal Supplemental Educational Opportunity Grants	84.007	N/A	28,262
Federal Direct Student Loans*	84.268	N/A	1,240,876
Federal Work-Study Program	84.033	N/A	35,514
Federal Pell Grant Program	84.063	N/A	697,926
Subtotal Department of Education direct programs			\$ <u>2,032,335</u>
<i>Passed through the Montana Office of the Commissioner of Higher Education:</i>			
Career and Technical Education - Basic Grants to States (Carl D. Perkins Act)	84.048	N/A	\$ <u>132,060</u>
<i>Passed through the Montana Department of Labor and Industry:</i>			
College Access Challenge Grant Program	84.378	P378A110021	\$ <u>14,000</u>
Subtotal Department of Education pass-through programs			\$ <u>146,060</u>
<b>Total U.S. Department of Education</b>			<b>\$ <u>2,178,395</u></b>
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Direct programs:</i>			
Specially Selected Health Projects	93.888	N/A	\$ <u>12,813</u>
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ <u>12,813</u></b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ <u>2,278,753</u></b>
* This program's activities is not reflected in financial statements of this entity.			
N/A - Not applicable or not available			
<b>Reconciliation to Financial Statements</b>			
Total reported "Schedule of Expenditures of Federal Awards"			\$ 2,278,753
Less Federal Direct Student Loans			<u>(1,240,876)</u>
Statement of Revenues, Expenses, and Changes in Net Assets "Federal Grants and Contracts"			<b>\$ <u>1,037,877</u></b>

**Miles Community College, Custer County, Montana**  
**Schedule of Expenditures of Federal Awards**  
**For Fiscal Year Ended June 30, 2014**

<b>Federal Grant/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Federal Expenditures</b>
<b><u>U.S. Department of Labor</u></b>			
<i>Passed through the Montana Department of Labor and Industry:</i>			
WIA Adult Program	17.258	DLISFY13WIAA02	\$ 21,758
WIA Adult Program	17.258	DLISFY13WIAA02	1,545
WIA Adult Program	17.258	DLISFY13WIAA03	51,038
WIA Adult Program	17.258	DLISFY13WIAA03	2,932
Trade Adjustment Assistance Community College and Career Training Grant Program	17.282	TC-25032-13-60-A-30	198,015
<b>Total U.S. Department of Labor</b>			<b>\$ 275,288</b>
<b><u>U.S. Department of Education</u></b>			
<i>Direct programs:</i>			
Adult Education - Basic Grants to States	84.002	N/A	\$ 33,471
Federal Supplemental Educational Opportunity Grants	84.007	N/A	28,262
Federal Direct Student Loans*	84.268	N/A	1,175,908
Federal Work-Study Program	84.033	N/A	35,514
Federal Pell Grant Program	84.063	N/A	623,352
Subtotal Department of Education direct programs			<b>\$ 1,896,507</b>
<i>Passed through the Montana Office of the Commissioner of Higher Education:</i>			
Career and Technical Education - Basic Grants to States (Carl D. Perkins Act)	84.048	N/A	\$ 70,289
<i>Passed through the Montana Department of Labor and Industry:</i>			
College Access Challenge Grant Program	84.378	P378A110021	\$ 9,000
Subtotal Department of Education pass-through programs			<b>\$ 79,289</b>
<b>Total U.S. Department of Education</b>			<b>\$ 1,975,796</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 2,251,084</b>
* This program's activities is not reflected in financial statements of this entity.			
N/A - Not applicable or not available			
<b>Reconciliation to Financial Statements</b>			
Total reported "Schedule of Expenditures of Federal Awards"			\$ 2,251,084
Less Federal Direct Student Loans			(1,175,908)
Statement of Revenues, Expenses, and Changes in Net Assets "Federal Grants and Contracts"			<b>\$ 1,075,176</b>



MILES COMMUNITY COLLEGE  
CUSTER COUNTY, MONTANA  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Years Ended June 30, 2013 and 2014

**NOTE 1. BASIS OF PRESENTATION**

The accompanying schedules of expenditures of federal awards (the Schedules) include the federal grant activity of Miles Community College under programs of the federal government for the years ended June 30, 2013 and 2014. The information in the Schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedules present only a selected portion of the operations of the College, it is not intended to and does not present the financial positions, changes in net assets, or cash flows of the College.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- (1) Expenditures reported on the Schedules are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-21, *Cost Principles for Educational Institutions*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where applicable.

***Denning, Downey & Associates, P.C.***  
***CERTIFIED PUBLIC ACCOUNTANTS***

1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901

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**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  
Miles Community College  
Custer County  
Miles City, Montana

We have audited, in accordance with the 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 the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of Miles Community College, Custer County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Miles Community College's basic financial statements and have issued our report thereon dated February 23, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Miles Community College, Custer County, Montana'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 Miles Community College, Custer County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Miles Community 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Miles Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Denring, Downey and Associates, CPA's, P.C.*

February 23, 2015

***Denning, Downey & Associates, P.C.***  
***CERTIFIED PUBLIC ACCOUNTANTS***

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
OMB CIRCULAR A-133**

Board of Trustees  
Miles Community College  
Custer County  
Miles City, Montana

**Report on Compliance for Each Major Federal Program**

We have audited Miles Community College, Custer County, Montana's, compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Miles Community College's major federal programs for the years ended June 30, 2013 and 2014. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

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

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

**Opinion on Each Major Federal Program**

In our opinion, Miles Community College, Custer County, Montana, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2013 and 2014.

### **Report on Internal Control Over Compliance**

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

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

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

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

*Denning, Downey and Associates, CPAs, P.C.*

February 23, 2015

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2013 and 2014

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued	<i>Unmodified</i>
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified	None Reported
Type of auditor’s report issued on compliance for major programs:	<i>Unmodified</i>
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	No

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.268	Federal Direct Student Loans
84.063	Federal Pell Grant Programs
84.033	Federal Work-Study Program
84.007	Federal Supplemental Educational Opportunity Grants

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	No

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**Section II – Financial Statement Findings**

There were no financial statement findings reported

**Section III – Federal Award Findings and Questioned Costs**

There were no federal award findings or questioned costs reported.

***Denning, Downey & Associates, P.C.***  
***CERTIFIED PUBLIC ACCOUNTANTS***

*1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957*

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**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

Board of Trustees  
Miles Community College  
Custer County  
Miles City, Montana

The prior audit report contained no recommendations.

*Denning, Downey and Associates, CPAs, P.C.*

February 23, 2015