MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2016

AUDIT REPORT

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

January 2017

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Miles Community College for the fiscal year ended June 30, 2016.

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

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

16C-08

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MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2016

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MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2016

BOARD OF TRUSTEES

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

COLLEGE OFFICIALS

Stacy Klippenstein	President
Lisa Smith	Vice President of Administrative Services
Jessie Dufner	Vice President of Enrollment and Student Success
Rita Kratky	Vice President of Academic Affairs
Kylene Phipps	Executive Director of Human Resources and Compliance
Nancy Aaberge	Business Services Director
Shane Vannatta	Attorney

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Independent Auditor's Report

Board of Trustees
Miles Community College
Miles City, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, fiduciary fund and the discretely presented component unit of the Miles Community College (the College), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College and the discretely presented component unit, as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Student Financial Aid Modified Statement of Cash Receipts and Disbursements, Schedule of Federal Expenditures of Student Financial Assistance Programs, Schedule of Full Time Equivalent and Functional Classification of Operating Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2017, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
January 9, 2017

Miles Community College, Custer County, Montana
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2016

Overview

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

The following is a Management Discussion and Analysis (MD&A) for Miles Community College which includes an overview of its financial condition and assists the reader in focusing on significant financial issues for the year ended June 30, 2016. 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 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 2016

Statement of Net Position

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

ASSETS	**June 30, 2016**	**June 30, 2015**
Total current assets	$ 4,299,379	$ 4,547,529
Total noncurrent assets	7,202,630	6,677,620
TOTAL ASSETS	$ 11,502,009	$ 11,225,149
DEFERRED OUTFLOWS OF RESOURCES	$ 300,797	$ 306,734
LIABILITIES		
Total current liabilities	$ 698,550	$ 807,313
Total noncurrent liabilities	6,505,425	6,215,459
TOTAL LIABILITIES	$ 7,203,975	$ 7,022,772
DEFERRED INFLOWS OF RESOURCES	$ 294,940	$ 601,641
NET POSITION		
Net Investment Capital Assets	$ 5,226,824	$ 4,561,355
Restricted, expendable	115,560	136,029
Unrestricted	(1,038,493)	(789,914)
TOTAL NET POSITION	$ 4,303,891	$ 3,907,470

Comparison of 2016 and 2015 Financial Position

- **Current assets** include the College's cash; taxes, grants, and accounts receivable; inventories; and other assets expected to benefit the College within one year. The $248,150 decrease from FY 2015 to FY 2016 was due primarily to a decrease in cash as a result of financing capital projects.

- **Noncurrent assets** primarily represent the College's capital assets less accumulated depreciation. The increase is due to increased capital assets. During FY 2016, the College purchased an Armory building. This building is being renovated into classrooms and shop space for use by the Heavy Equipment and CDL Programs.

- **Current liabilities** include payroll and related liabilities, amounts payable to suppliers for goods and services received, revenue received which the College has not yet earned, student deposit balances, and debt principal payments due within one year. Total current liabilities decreased by almost $108,763 from FY 2015 to FY 2016, due largely to a decrease in accounts payable as a result of invoices being paid prior to year-end.

- **Noncurrent liabilities** primarily represent debt principal payments due after a one-year period and the amount of compensated absence liability estimated to be due after a one-year period. These balances increased a total of $289,966 from FY 2015 to FY 2016, primarily due to an increase in net pension liability of more than $219,000.

- **Net Investment in Capital Assets** represents the historical costs of capital assets less accumulated depreciation and less debt balances related to the capital assets. This balance increases as assets are acquired and debt is repaid, and decreases as assets are depreciated and debt is incurred. Total capital assets net of related debt increased by $665,469 from FY 2015 to FY 2016 as capital assets increased.

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

- **Unrestricted net position** are funds that the College has to use for whatever purpose it determines is appropriate. This net position may be designated for specific purposes by action of management.

- **Total net position** increased by $396,421 from FY 2015 to FY 2016, which is a reflection of the increase due to purchases of capital assets.

Statement of Revenue, Expenses, and Changes in Net Position

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

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

	June 30, 2016	June 30, 2015
Operating revenues	$ 5,174,819	$ 4,213,995
Operating expenses	8,908,308	8,308,482
OPERATING LOSS	$ (3,733,489)	$ (4,094,487)
Non-operating revenues (expenses)	$ 4,129,910	$ 4,496,356
INCREASE IN NET POSITION	$ 396,421	$ 401,869

Comparison of 2016 and 2015 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 increased by $960,824 from FY 2015 to FY 2016. This is due primarily to increased tuition and fees, and federal grants.

- **Non-operating revenue (expenses)** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-operating revenue (expense) decreased $366,446 from FY 2015 to FY 2016. The major item affecting this change was decreased state appropriations.

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

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

ANALYSIS OF ALL SOURCES OF REVENUE

Source of Revenue	Fiscal Year 2016 Amount	Fiscal Year 2016 Percent	Fiscal Year 2015 Amount	Fiscal Year 2015 Percent	Increase (decrease) FY'16 vs. FY'15
Operating revenues					
Federal grants and contracts	$ 1,715,818	18.25%	$ 935,164	10.63%	$ 780,654
Tuition and fees (net)	1,646,257	17.52%	1,479,824	16.81%	166,433
Auxiliary enterprise activities	1,060,644	11.28%	1,101,368	12.51%	(40,724)
Private and local grants and contracts	320,645	3.41%	263,733	3.00%	56,912
Other operating revenues	241,783	2.57%	212,761	2.41%	29,022
State grants and contracts	175,422	1.87%	211,717	2.40%	(36,295)
Indirect cost recoveries	14,250	0.15%	9,428	0.11%	4,822
Total operating revenue	5,174,819	55.05%	4,213,995	47.88%	960,824
Non-operating revenues					
State appropriations	2,527,241	26.89%	2,913,356	33.11%	(386,115)
District levies	1,287,452	13.70%	1,316,130	14.96%	(28,678)
State reimbursements	362,613	3.86%	334,403	3.80%	28,210
Interest income	41,750	.44%	24,878	0.28%	16,872
Gain on disposal of capital assets	5,967	0.06%	(2,467)	(0.03%)	8,434
Total non-operating revenues	4,225,023	44.95%	4,586,300	52.12%	(361,277)
Total revenue	$ 9,399,842	100%	$ 8,800,295	100%	$ 599,547

ANALYSIS OF CATEGORY OF EXPENSE

Category of Expenses	Fiscal Year 2016 Amount	Fiscal Year 2016 Percent	Fiscal Year 2015 Amount	Fiscal Year 2015 Percent	Increase (decrease) FY'16 vs. FY'15
Operating expenses					
Personnel expenses	$ 4,558,728	50.63%	$ 4,315,656	51.39%	$ 243,072
Scholarships and grants	1,118,265	12.42%	995,001	11.85%	123,264
Contracted service	647,285	7.19%	643,029	7.66%	4,256
Depreciation	545,664	6.06%	498,846	5.94%	46,818
Supplies	430,028	4.78%	422,123	5.03%	7,905
Food for resale	244,467	2.71%	259,853	3.09%	(15,386)
Travel	199,191	2.21%	147,527	1.76%	51,664
Utilities	179,587	1.99%	187,562	2.23%	(7,975)
Items for resale	175,979	1.95%	148,734	1.77%	27,245
Other operating expenses	174,458	1.94%	109,633	1.31%	64,825
Communications	93,409	1.04%	97,644	1.16%	(4,235)
Student support	85,737	0.95%	81,765	0.97%	3,972
Insurance	83,642	0.93%	79,380	0.94%	4,262
Advertising	78,127	0.87%	97,296	1.16%	(19,169)
Repairs and maintenance	74,537	0.83%	70,313	0.84%	4,224
Bad debt expense	60,823	0.67%	82,491	0.98%	(21,668)
IT system support	58,286	0.65%	3,472	0.04%	54,814
Rent and lease	51,089	0.57%	10,401	0.12%	40,688
Meetings and dues	35,758	0.40%	49,228	0.59%	(13,470)
Indirect costs	13,248	0.15%	8,528	0.10%	4,720
Total operating expenses	8,908,308	98.94%	8,308,482	98.93%	599,826
Non-operating expenses					
Interest payments	95,113	1.06%	89,944	1.07%	5,169
Total non-operating expenses	95,113	1.06%	89,944	1.07%	5,169
Total expenses	$ 9,003,421	100%	$ 8,398,426	100%	$ 604,995

Comments about specific revenue and expense items are:

- **Federal Grants and Contracts and State Appropriations and State Grants and Contracts:** During FY 2016 the College received more Federal Grants and Contracts which included $667,500 for the CDBG-ED Grant for the purchase of the Armory Building. The College also received an increase in tuition and fees (net). These items represent the two largest increases in revenues.

- **Expenses (general comment):** Overall expenses increased $604,995 from FY 2015 to FY 2016. Personnel service expense increased due to employee raises and termination payouts.

STATEMENT OF CASH FLOWS

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

A summary of the Statement of Cash Flows follows:

CASH FLOW CATEGORY	June 30, 2016	June 30, 2015
Cash provided by (used in):		
Operating activities	$ (3,796,043)	$ (3,820,023)
Noncapital activities	4,205,549	4,617,569
Capital financing activities	(1,273,806)	(721,910)
Investing activities	41,750	24,878
Net increase (decrease) in cash	(822,550)	100,514
Cash and cash equivalents, beginning of year	4,207,129	4,106,615
Cash and cash equivalents, end of year	$ 3,384,579	$ 4,207,129

Comparison of 2016 and 2015 Cash Flows

- **Operating activities** represent the revenue received from tuition and fees, federal, state, and private grants and contracts, indirect cost recoveries (from grants), auxiliary activities, and other operating revenues. Total cash used in operating activities decreased by $23,980 from FY 2015 to FY 2016. This is mainly due to grants and contracts and payments for scholarships and fellowships.

- **Noncapital financing activities** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Cash provided by noncapital activities decreased $412,020 from FY 2015 to FY 2016. 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. These activities increased $551,896 mainly due to the purchase of the Armory building. No additional loans were added.

Capital Assets

The College's investment in capital assets as of June 30, 2016, equates to $7,087,070, net of accumulated depreciation. Investment in capital assets normally includes land, buildings, improvements, machinery and equipment, library holdings, and software. The increase was due to the purchase of the Armory building. See additional information within footnote 5.

Debt Administration

The College's long-term debt obligations as of June 30, 2016, equates to $1,860,246. The College had five long-term debt obligations at fiscal year end June 30, 2016. See additional information within footnote 6.

DISCUSSION OF SIGNIFICANT PENDING ECONOMIC AND FINANCIAL ISSUES

- **Population –** Miles Community College is located in eastern Montana and has a current Fall 2016 headcount (based on 15-day census numbers) of 503 and full-time equivalent (FTE) of 390.3. This represents an 11.5% growth over the Fall 2015 15-day census FTE. The College has shown a consistent three-year growth pattern in enrollment. By utilizing strategic enrollment management measures, the faculty and staff at the College have developed enrollment and retention strategies for enrollment growth. Major growth patterns continue to emerge in the residential headcount. This growth has been seen in dual enrollment in local and area high schools (41.4 FTE dual enrollment in Spring 2016) as well as through a strong recruiting class of first-time freshmen in Montana. The need for workforce training is still prevalent in Custer County. The College is meeting this need by partnering with local companies such as Transco and Jackson Contractor Group to develop curriculums that students can complete that can lead to employment with these companies. The construction of the new Ag Advancement Center, which is set to open March 2017, and the acquirement of the old National Guard Armory, will allow the College to keep meeting the increased demand for Ag and Equine programming as well as allow the College to expand its Heavy Equipment Operations and CDL Programs. With a Vision 2020 document in place, the College has positioned itself to meet the workforce and educational needs of Custer County and the Miles City community.

- **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, 2016

	Primary Government		Component Unit	
	Business-Type Activities		Miles Community College Endowment	
ASSETS				
Current assets:				
Cash and cash equivalents	$	3,269,019	$	-
Taxes receivable		19,611		-
Grants receivable		739,194		-
Accounts receivable - net		195,202		-
Promises to give		-		664,500
Inventories		48,473		-
Prepaid expense		27,880		92,733
Total current assets		4,299,379		757,233
Noncurrent assets:				
Restricted cash and cash equivalents		115,560		1,294,728
Restricted investments		-		1,175,011
Capital assets, net		7,087,070		-
Total noncurrent assets		7,202,630		2,469,739
Total assets		11,502,009		3,226,972
DEFERRED OUTFLOWS OF RESOURCES				
Pension related deferred outflows		300,797		-

See accompanying Notes to Financial Statements

Miles Community College, Custer County, Montana
Statement of Net Position
June 30, 2016

	Primary Government	Component Unit
	Business-Type Activities	Miles Community College Endowment
LIABILITIES		
Current liabilities:		
Accounts payable	128,664	21,029
Accrued payroll	262,250	-
Unearned revenue - tuition and fees	107,380	-
Student deposits	33,390	-
Current portion of compensated absences payable	41,300	-
Current portion of long-term obligations	125,566	-
Total current liabilities	698,550	21,029
Noncurrent liabilities:		
Compensated absences payable	371,697	-
Long-term obligations	1,734,680	-
Other post employment benefits	863,542	-
Other post employment benefits - accrued insurance	373,014	-
Net pension liability	3,162,492	-
Total noncurrent liabilities	6,505,425	-
Total liabilities	7,203,975	21,029
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows	294,940	-
NET POSITION		
Net investment in capital assets	5,226,824	-
Restricted for debt service	115,560	-
Restricted for scholarships, research, instruction, and other	-	3,205,943
Unrestricted	(1,038,493)	-
Total net position	$ 4,303,891	$ 3,205,943

See accompanying Notes to Financial Statements

Miles Community College, Custer County, Montana
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

	Primary Government	Component Unit
	Business-Type Activities	Miles Community College Endowment
Operating revenues		
Federal grants and contracts	$ 1,715,818	$ -
Tuition and fees (net of scholarship allowance of $421,226)	1,646,257	-
Auxiliary activities	1,060,644	-
Private and local grants and contracts	320,645	470,380
State grants and contracts	175,422	-
Athletic donations	113,234	-
Other operating revenues	100,079	-
Other athletic allowance	28,470	-
Indirect cost recoveries	14,250	-
Total operating revenues	5,174,819	470,380
Operating expenses		
Personnel services	4,558,728	-
Scholarships and grants	1,118,265	28,732
Contracted services	1,082,050	-
Supplies	925,011	-
Travel	199,191	-
Bad debt expense	60,823	-
Depreciation expense	545,664	-
Other operating expense	418,576	-
Program disbursements	-	15,159
Management and general	-	5,672
Professional fees	-	3,878
Total operating expenses	8,908,308	53,441
Operating income (loss)	(3,733,489)	416,939

See accompanying Notes to Financial Statements

Miles Community College, Custer County, Montana
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

	Primary Government	Component Unit
	Business-Type Activities	Miles Community College Endowment
Non-operating revenues (expenses)		
State appropriations	2,527,241	-
District levies	1,287,452	-
State reimbursements	362,613	-
Investment income/(loss)	41,750	(11,361)
Debt service interest expense	(95,113)	-
Gain (loss) on disposal of capital assets	5,967	-
Total non-operating revenues (expenses)	4,129,910	(11,361)
Change in net position	396,421	405,578
Net position, beginning	3,907,470	2,800,365
Net position, ending	$ 4,303,891	$ 3,205,943

See accompanying Notes to Financial Statements

Miles Community College, Custer County, Montana
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

		Primary Government
Cash flows from operating activities		
Tuition and fees	$	1,598,230
Grants and contracts		2,625,079
Payments to employees		(4,343,590)
Payments to suppliers		(2,273,835)
Payments for utilities		(179,587)
Payments for scholarships and fellowships		(2,265,524)
Auxiliary activities		1,060,594
Other cash receipts (payments)		(17,410)
Net cash used in operating activities	$	(3,796,043)
Cash flows from noncapital financing activities		
State appropriations	$	2,527,241
State reimbursements		362,613
District levies		1,315,695
Net cash provided by noncapital financing activities	$	4,205,549
Cash flows from capital and related financing activities		
Purchase of capital assets	$	(1,076,084)
Proceeds from sale of capital assets		17,380
Principal paid on capital debt and leases		(119,989)
Interest paid on capital debt and leases		(95,113)
Net cash used in capital and related financing activities	$	(1,273,806)
Cash flows from investing activities		
Interest received on cash and cash equivalents	$	41,750
Net cash provided by investing activities	$	41,750
Net decrease in cash and cash equivalents	$	(822,550)
Cash and cash equivalents, beginning of year		4,207,129
Cash and cash equivalents, end of year	$	3,384,579
Reconciliation to Statement of Net Position		
Cash and cash equivalents	$	3,269,019
Restricted cash and cash equivalents		115,560
Total cash and cash equivalents	$	3,384,579

See accompanying Notes to Financial Statements

Miles Community College, Custer County, Montana
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

		Primary Government
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$	(3,733,489)
Noncash income and expense:		
Depreciation		545,664
Bad debt expense		60,823
Private and local grants and contracts		(26,472)
Other post employment benefits		151,118
Net pension benefits		(81,022)
Changes in net assets and liabilities:		
Grants receivable		(607,086)
Accounts receivable - net		(64,192)
Prepaid expense		(920)
Inventories		29,201
Accounts payable		(130,318)
Accrued payroll		757
Unearned revenue - tuition and fees		9,327
Student deposits		(50)
Compensated absences payable		50,616
Net cash used in operating activities	$	(3,796,043)
Schedule of noncash financing and investing activities		
Capital assets contributed to the College	$	26,472
Capital assets acquired via trade-in	$	2,500
Capital assets scrapped	$	(13,992)

See accompanying Notes to Financial Statements

Miles Community College, Custer County, Montana
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

		Agency Funds
ASSETS		
Cash and cash equivalents	$	80,530
Accounts receivable - net		21,029
Prepaid expense		179
Total assets	$	101,738
LIABILITIES		
Accounts payable	$	54
Due to student groups		101,684
Total liabilities	$	101,738

See accompanying Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

Primary Government

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

Basis of Presentation, Measurement Focus and Basis of Accounting

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

The College distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the 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 College's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary Funds

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

Use of Estimates

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

Income Taxes

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

Miles Community College Endowment

Nature of Activities

The Miles Community College Endowment (the Endowment) is a nonprofit organization exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code. The Endowment assists the 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 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.

Unconditional Promises to Give

The Endowment records unconditional promises to give at the present value of amounts expected in future years, provided that reliable information is available.

Classification of Net Position

The Endowment classifies all net position as restricted by donor.

Investments

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

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

The College's cash is held by the County Treasurer and pooled with other County cash. With the College's 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, 2016, 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, 2016.

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 cash equivalents, including restricted cash and cash equivalents. The College considers all highly liquid investments with an original maturity of three months or less as of the date of acquisition to be cash equivalents.

Deposits

The College's cash and cash equivalents as of June 30, 2016, consisted of the following:

Cash on hand	$ 9,099
Restricted cash	115,560
Invested in the County Investment Pool	3,259,920
Total cash and cash equivalents	$ 3,384,579

The Endowment's cash, cash equivalents and investments as of June 30, 2016, consisted of the following:

Demand deposit accounts	$ 1,150,701
Money market accounts	144,027
Total cash and cash equivalents	1,294,728
First Interstate Financial	
Mutual Funds – MFS Utilities A	171,043
Ameriprise Financial	
Columbia - Port Builder Moderate Fund	308,696
Columbia RVS-High Yield Bond Fund	965
Edward Jones	
Equity securities	648,128
Growth Fund of America	46,179
Total investments	1,175,011
Total cash, cash equivalents and investments restricted for scholarships	$ 2,469,739

Disclosures Relating to Credit Risk

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

Concentration of Credit Risk

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

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, 2016.

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).

The Endowment's deposit balance at June 30, 2016, was $1,150,701, and the bank balance was $1,151,038. At June 30, 2016, $361,356 was insured by the Federal Deposit and Insurance Corporation (FDIC) and $789,682 was uninsured and uncollected.

NOTE 3 RECEIVABLES

Taxes

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

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. Taxes are collected by Custer County.

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

Student Accounts Receivable

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

Student accounts receivable	$ 154,941
Less allowances	(41,100)
Net student accounts receivable	$ 113,841

Unearned Revenue

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

Scholarship Discounts and Allowances

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Position.

Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College and the amount that is paid by students and/or other third parties making payments on the students' behalf.

NOTE 4 INVENTORIES AND PREPAID EXPENSES

Inventories are valued at cost using the First In First Out (FIFO) method. The cost of inventories is recorded as an expenditure when consumed.

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

NOTE 5 CAPITAL ASSETS

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

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

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

Library books shall be treated as a collection. Books shall be capitalized and reported at their historical cost. In the absence of historical cost information, the book's estimated historical cost shall be used. Donated books shall be capitalized and reported at their estimated acquisition 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 acquisition value when received. The costs of normal maintenance and repairs are charged to operations as incurred.

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

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

The following tables present the changes in capital assets for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Deletions	Balance June 30,2016
Capital assets not being depreciated:				
Land	$ 206,412	$ -	$ -	$ 206,412
Total capital assets not being depreciated	$ 206,412	$ -	$ -	$ 206,412
Other capital assets				
Buildings	$ 9,431,865	$ 939,494	$ -	$ 10,371,359
Machinery & equipment	2,545,553	161,587	(46,657)	2,660,483
Software	405,847	-	-	405,847
Library inventory	90,345	3,975	-	94,320
Total other capital assets at historical cost	$ 12,473,610	$ 1,105,056	$ (46,657)	$ 13,532,009
Less accumulated depreciation				
Buildings	$ (4,461,547)	$ (307,545)	$ -	$ (4,769,092)
Machinery & equipment	(1,199,131)	(228,144)	32,744	(1,394,531)
Software	(405,847)	-	-	(405,847)
Library inventory	(71,906)	(9,975)	-	(81,881)
Total accumulated depreciation	$ (6,138,431)	$ (545,664)	$ 32,744	$ (6,651,351)
Total capital assets, depreciable, net	$ 6,335,179	$ 559,392	$ (13,913)	$ 6,880,658
Total	$ 6,541,591	$ 559,392	$ (13,913)	$ 7,087,070

NOTE 6 LONG-TERM LIABILITIES

The following table presents the changes in long-term liabilities for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Due within one year
Contracted debt	$ 1,980,235	$ -	$ (119,989)	$ 1,860,246	$ 125,566
Compensated absences	362,381	67,753	(17,137)	412,997	41,300
Total	$ 2,342,616	$ 67,753	$ (137,126)	$ 2,273,243	$ 166,866

Contracted Debt

Stockman Bank

The note payable to Stockman Bank of Montana was in the original amount of $400,000. The note is payable in monthly installments of $3,177 on the 23rd day of each month. This note bears interest at a variable rate, not less than 7.16% per annum nor more than 11.16% per annum. The interest rate as of June 30, 2016, was 7.16% per annum. This note is secured by a second mortgage on two tracts of land, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on September 23, 2017.

Annual requirement to amortize debt for Stockman Bank:

For Fiscal Year Ended	Principal	Interest
2017	$ 36,118	$ 2,011
2018	8,316	93
Total	$ 44,434	$ 2,104

USDA Rural Development #1

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

Annual requirement to amortize debt for USDA Rural Development:

For Fiscal Year Ended	Principal	Interest
2017	$ 29,982	$ 1,890
2018	15,229	381
Total	$ 45,211	$ 2,271

First Interstate Bank

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

Annual requirement to amortize debt for First Interstate Bank:

For Fiscal Year Ended	Principal	Interest
2017	$ 20,700	$ 9,325
2018	21,759	8,266
2019	22,872	7,153
2020	24,042	5,983
2021	25,272	4,752
2022	26,565	3,459
2023	27,924	2,100
2024	26,766	672
Total	$ 195,900	$ 41,710

USDA Rural Development #2

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

Annual requirement to amortize debt for USDA Rural Development:

For Fiscal Year Ended	Principal	Interest
2017	$ 24,089	$ 55,471
2018	25,165	54,395
2019	26,288	53,272
2020	27,462	52,098
2021	28,687	50,873
2022	29,968	49,592
2023	31,306	48,254
2024	32,703	46,857
2025	34,163	45,397
2026	35,688	43,872
2027	37,281	42,279
2028	38,945	40,615
2029	40,683	38,877
2030	42,499	37,061
2031	44,397	35,163
2032	46,378	33,182
2033	48,449	31,111
2034	50,611	28,949
2035	52,870	26,690
2036	55,230	24,330
2037	57,696	21,864
2038	60,271	19,289
2039	62,962	16,598
2040	65,772	13,788
2041	68,708	10,852
2042	71,775	7,785
2043	74,979	4,581
2044	63,826	1,256
Total	$ 1,278,851	$ 934,351

Montana Department of Environmental Quality

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

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

For Fiscal Year Ended	Principal	Interest
2017	$ 14,677	$ 8,876
2018	15,118	8,435
2019	15,571	7,982
2020	16,038	7,515
2021	16,520	7,033
2022	17,015	6,538
2023	17,526	6,027
2024	18,051	5,502
2025	18,593	4,960
2026	19,151	4,402
2027	19,725	3,828
2028	20,317	3,236
2029	20,927	2,626
2030	21,554	1,999
2031	22,201	1,352
2032	22,866	687
Total	$ 295,850	$ 80,998

Compensated absences

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

NOTE 7 STATE-WIDE RETIREMENT PLANS

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

Plan Description

TRS

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

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

PERS

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

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

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

Summary of Benefits

TRS

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

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

- Tier Two provides for an enhanced benefit calculation - 1.85% x AFC x years of creditable service - for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than 1.6667 x AFC x years of creditable service)

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

PERS

Member's highest average compensation (HAC)

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

Eligibility for benefit

Service retirement:	
Hired prior to July 1, 2011:	Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service.
Hired on or after July 1, 2011:	Age 65, 5 years of membership service; Age 70, regardless of membership service.
Early retirement, actuarially reduced:	
Hired prior to July 1, 2011:	Age 50, 5 years of membership service; or Any age, 25 years of membership service.
Hired on or after July 1, 2011:	Age 55, 5 years of membership service.

Vesting

5 years of membership service

Monthly benefit formula

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

Members hired on or after July 1, 2011:

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

Guaranteed Annual Benefit Adjustment (GABA)

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

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

Overview of Contributions

TRS

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

PERS

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

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

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

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

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

Net Pension Liability

At June 30, 2016, the College reported a total liability of $3,162,492 for its proportionate share of the net pension liability.

TRS

The employer recorded a liability of $2,051,243 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The employer's proportion of the net pension liability was based on the employer's contributions received by TRS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of TRS' participating employers. At June 30, 2016, the employer's proportion was 0.1248 percent.

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

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

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

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

PERS

The employer recorded a liability of $1,111,249 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2015. The employer's proportion of the Net Pension Liability was based on the employer's contributions received by PERS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERS' participating employers. At June 30, 2016, the employer's proportion was 0.079496 percent.

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

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

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

Pension Expense

	Pension Expense as of 6/30/2016	
	TRS	PERS
Employer's Proportionate Share	$ 113,159	$ 29,254
State of Montana Proportionate Share associated with the Employer	66,152	27,517
Total	$ 179,311	$ 56,771

TRS

At June 30, 2016, the employer recognized a Pension Expense of $179,311 for its proportionate share of the TRS' pension expense. The employer also recognized grant revenue of $66,152 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

PERS

At June 30, 2016, the employer recognized a Pension Expense of $56,771 for its proportionate share of the PERS' pension expense. The employer also recognized grant revenue of $848 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer, and grant revenue of $26,669 from the Coal Tax Fund.

Support Revenue

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

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

Deferred Inflows and Outflows

TRS

At June 30, 2016, the employer reported its proportionate share of TRS' deferred outflows of resources and deferred inflows of resources related to TRS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 21,630	$ -
Changes in actuarial assumptions	29,028	4,332
Difference between projected and actual investment earnings	-	110,150
Changes in proportion and Differences between actual and expected contributions	14,075	24,862
Contributions paid to TRS subsequent to the measurement date - FY 2016 Contributions	141,834	-
	$ 206,567	$ 139,344

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

Year ended June 30:	Amount recognized in pension expense as an increase or (decrease) to pension expense
2017	$ (31,249)
2018	(31,241)
2019	(40,376)
2020	28,255
2021	-
Thereafter	-

PERS

At June 30, 2016, the employer reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 6,723
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	94,072
Changes in proportion and Difference between actual and expected contributions	4,126	54,801
Contributions paid to TRS subsequent to the measurement date - FY 2016 Contributions	90,104	-
	$ 94,230	$ 155,596

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

Year ended June 30:	Amount recognized in pension expense as an increase or (decrease) to pension expense
2017	$ (58,459)
2018	(58,459)
2019	(59,029)
2020	24,477
2021	-
Thereafter	-

Actuarial Assumptions

TRS

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

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

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

*Total Wage Increases include 4.00% general wage increase assumption.

PERS

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

• Investment Return	7.75%
• Admin Expense as % of Payroll	0.27%
• General Wage Growth*	4.00%
*includes Inflation at	3.00%
• Merit Increases	0% to 6%
• Postretirement Benefit Increases	

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

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

Discount Rate

TRS

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. In addition to the contributions the State general fund will contribute $25 million annually to the System payable July 1st of each year. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2119. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

PERS

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

Target Allocations

TRS

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

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

PERS

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period of fiscal years 2003 through 2009, is outlined in a report dated June 2010 and is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by an investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Summarized in the table below are best estimates of the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%
	100.00%	

Sensitivity Analysis

	1.0% Decrease (6.75%)	Current Discount Rate (7.75%)	1.0% Increase (8.75%)
TRS proportionate share of the net pension liability	$2,818,243	$2,051,243	$1,405,857
PERS proportionate share of the net pension liability	$1,713,306	$1,111,249	$602,826

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

NOTE 8 OTHER POST EMPLOYMENT BENEFITS

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

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

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

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

Current year OPEB activity	
Annual Required Contribution (ARC)	$ 101,370
Interest on net OPEB obligation	47,899
Amortization of Net OPEB Obligation	(37,568)
Annual OPEB cost (expense)	$ 111,701
Employer Contributions made	(26,738)
Increase in current OPEB obligation	$ 84,963
Net Position change in OPEB	
Net OPEB obligation – beginning of year	$ 778,579
Current year net obligation	84,963
Net OPEB obligation – end of year	$ 863,542

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	50.00%
Future eligible spouses of future retires assumed to elect coverage	60.00%

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

NOTE 9 INSURANCE BENEFITS TO RETIRED EMPLOYEES

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

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

1. They have worked at the College for at least 10 years of continuous service.

2. They are eligible for retirement benefits in the Montana State Retirement System.

3. They retire from the College as a full-time employee.

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

1. Ten years continuous service: one half of the current premium paid by the College toward the College group plan for one year following retirement.

2. Fifteen years continuous service: three-quarters of the current premium paid by the College toward the College group plan for one year following retirement.

3. Twenty years continuous service: full cost of the current premium paid by the College toward the College group plan for one year following retirement.

4. Twenty-five years continuous service: full cost of the current premium paid by the College toward the College group plan for one year and half of the premium for one additional year following retirement.

5. Thirty years continuous service: full cost of the current premium paid by the College toward the College group plan for two years following retirement.

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

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

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

Annual OPEB Cost and Net OPEB Obligation. The College'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 College's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the College's net OPEB obligation.

Current year OPEB activity	
Annual Required Contribution (ARC)	$ 84,503
Interest on net OPEB obligation	7,671
Adjustment to Annual Required Contribution (ARC)	(9,923)
Annual OPEB cost (expense)	$ 82,252
Age Adjusted Contributions Made	(16,097)
Change in Net OPEB Obligation (NOO)	$ 66,155
Net Position change in OPEB	
Net OPEB obligation (NOO) – beginning of year	$ 306,859
Net OPEB obligation (NOO) – end of year	$ 373,014

Actuarial Methods and Assumptions. The actuarial funding methods used to determine the cost was the Entry Age Actuarial Cost Method and the Level Percentage of Payroll Amortization Method.

In Level Percentage of Payroll Amortization, amortization payments or charges are calculated so that they represent a constant percentage of the projected covered payroll over a given number of years. As a result, the dollar amount of amortization payments or charges generally will increase over time in proportion to the effect of inflation on the covered payroll. However, the method is designed to keep the amortization payments or charges level in inflation-adjusted dollars over time.

In Level Dollar Amortization, the total amount to be amortized is divided into equal dollar amounts (including principal and interest on the declining balance) to be paid or charged over a given number of years, much like a mortgage payment. The amounts amortized each year generally can be expected to decrease over time (a) as a percentage of covered payroll and (b) in inflation-adjusted dollars.

The following actuarial methods and assumptions were used:

Average retirement age	62
Interest/Discount rate (average anticipated rate)	2.50%
Average salary increase (consumer price index)	2.70%
Participant percentage	100.00%

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

NOTE 10 NET POSITIONS

The College's net position is classified as follows:

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

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

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

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

NOTE 11 RELATED PARTY TRANSACTIONS

The following schedule presents significant transactions between the primary government and its component units during the year ended June 30, 2016:

Component Unit	Significant Transactions
Miles Community College Endowment	Donated scholarships $29,732
Miles Community College Endowment	Reimbursed expenses $5,629
Miles Community College	Agriculture Advancement Center construction donation $46,059

NOTE 12 RISK MANAGEMENT

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

Insurance Policies:

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

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2016

REQUIRED SUPPLEMENTARY INFORMATION

Miles Community College, Custer County, Montana
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2016

Montana University System Health Care Plan Other Post-Employment Benefits

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%
July 1, 2015	$ -	$ 1,054,771	$ 1,054,771	0%	$ 3,151,488	33%

Miles Community College Group Insurance Plan Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Entry Age 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)
June 30, 2016	$ -	$ 542,287	$ 542,287	0%	$ 2,620,163	21%

Miles Community College, Custer County, Montana
REQUIRED SUPPLEMENTAL INFORMATION
Schedules of Employer's Proportionate Share of Net Pension Liability
Year Ended June 30, 2016

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

	2016	2015
Employer's proportionate share of the net pension liability	0.1248%	0.1231%
Employer's proportion share of the net pension liability	$ 2,051,243	$ 1,894,158
State of Montana's proportionate share of the net pension liability associated with the Employer	1,380,508	1,299,891
Total	$ 3,431,751	$ 3,194,049
Employer's covered-employee payroll	$ 1,593,474	$ 1,552,261
Employer's proportion share of the net pension liability as a percentage of its covered-employee payroll	128.73%	122.03%
Plan fiduciary net position as a percentage of the total pension liability	69.30%	70.36%

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

	2016	2015
Employer's proportionate share of the net pension liability	0.079496%	0.084156%
Employer's proportion share of the net pension liability	$ 1,111,249	$ 1,048,591
State of Montana's proportionate share of the net pension liability associated with the Employer	13,650	12,805
Total	$ 1,124,899	$ 1,061,396
Employer's covered-employee payroll	$ 927,732	$ 952,643
Employer's proportion share of the net pension liability as a percentage of its covered-employee payroll	119.78%	110.07%
Plan fiduciary net position as a percentage of the total pension liability	78.40%	79.90%

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

Miles Community College, Custer County, Montana
REQUIRED SUPPLEMENTAL INFORMATION
Schedules of Employer Contributions
Year Ended June 30, 2016

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

	2016	2015
Contractually required contributions	$ 141,834	$ 150,470
Contributions in relation to the contractually required contributions	$ 141,834	$ 150,470
Contribution deficiency (excess)	$ -	$ -
College's covered - employee payroll	$ 1,614,943	$ 1,593,474
Contributions as a percentage of covered-employee payroll	8.78%	9.44%

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

	2016	2015
Contractually required contributions	$ 90,104	$ 84,347
Contributions in relation to the contractually required contributions	$ 90,104	$ 84,347
Contribution deficiency (excess)	$ -	$ -
College's covered - employee payroll	$ 1,026,516	$ 927,732
Contributions as a percentage of covered-employee payroll	8.78%	9.09%

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

Miles Community College, Custer County, Montana
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2016

NOTE 1 TEACHER'S RETIREMENT SYSTEM

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

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

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

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

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

- (1) **Final Average Compensation**: average of earned compensation paid in five consecutive years of full-time service that yields the highest average
- (2) **Service Retirement:** Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55
- (3) **Early Retirement**: Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55
- (4) **Professional Retirement Option**: if the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%
- (5) **Annual Contribution**: 8.15% of member's earned compensation
- (6) **Supplemental Contribution Rate**: On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
  - The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
  - The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
  - A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.
- (7) **Disability Retirement:** A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination
- (8) **Guaranteed Annual Benefit Adjustment (GABA)**:
  - If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

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

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

Changes in actuarial assumptions and other inputs:
The following changes to the actuarial assumptions were adopted in 2015:

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

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

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

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

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

Mortality among disabled members was updated to the following:

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

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

Method and assumptions used in calculations of actuarially determined contributions:

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

NOTE 2 PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Changes of Benefit Terms

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

2013 Legislative Changes:

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

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

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

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

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

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

Guaranteed Annual Benefit Adjustment (GABA) – for PERS

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

- 3% for member hired prior to July 1, 2007
- 1.5% for members hired on or after July1, 2007 and before July 1, 2013
- Members hired on or after July 1, 2013
  - 1.5% each year PERS is funded at or above 90%;
  - 1.5% is reduced by .1% for each 2% PERS is funded below 90%; and,
  - 0% whenever the amortization period for PERS is 40 years or more.

2015 Legislative Changes:

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

Second Retirement Benefit - for PERS
1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:

- refund of member's contributions from second employment plus regular interest (currently 0.25%);
- no service credit for second employment;
- start same benefit amount the month following termination; and
- GABA starts again in the January immediately following second retirement

2) For members who retire **before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:**

- member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
- GABA starts in the January after receiving recalculated benefit for 12 months.

3) For members who retire **on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:**

- refund of member's contributions from second employment plus regular interest (currently 0.25%);
- no service credit for second employment;
- start same benefit amount the month following termination; and,
- GABA starts again in the January immediately following second retirement.

4) For members who retire **on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:**

- member receives same retirement benefit as prior to return to service;
- member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
- GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Revise DC Funds Laws – House Bill 107, effective July 1, 2015

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

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

Miles Community College, Custer County, Montana
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2016

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions
The following addition to the actuarial assumptions was adopted in 2014 based upon implementation of GASB Statement 68:

Admin Expense as % of Payroll	0.27%

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

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

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

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

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2016

SUPPLEMENTARY INFORMATION

Miles Community College, Custer County, Montana
Functional Classification of Operating Expenses
For the Fiscal Year Ended June 30, 2016

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation And Maintenance	Auxiliary	Totals
Personal services	$ 2,010,646	$ 6,713	$ 454,282	$ 694,112	$ 790,662	$ -	$ 259,674	$ 342,639	$ 4,558,728
Scholarships and grants	-	-	-	103,204	-	997,351	-	17,710	1,118,265
Contracted services	35,646	6,057	183,182	232,540	222,983	-	283,308	118,334	1,082,050
Supplies	108,546	1,783	74,516	104,527	85,315	-	57,786	492,538	925,011
Travel	17,260	1,542	32,614	101,206	40,108	-	-	6,461	199,191
Bad debt expense	-	-	-	-	60,823	-	-	-	60,823
Other operating expense	73,389	7,667	135,590	51,194	122,200	14,349	1,569	12,618	418,576
Depreciation expense	-	-	-	-	-	-	545,664	-	545,664
	$ 2,245,487	$ 23,762	$ 880,184	$ 1,286,783	$ 1,322,091	$ 1,011,700	$ 1,148,001	$ 990,300	$ 8,908,308

Miles Community College, Custer County, Montana
Student Financial Aid Modified Statement of Cash Receipts and Disbursements
For the Fiscal Year Ended June 30, 2016

	Pell	Perkins	CWS	SEOG
Beginning cash balance	$ (40,678)	$ 20,469	$ -	$ (1,262)
Additions:				
Federal advances	558,986	-	15,025	27,762
State matching funds	-	-	-	-
Interest income	-	4	-	-
Total additions	558,986	4	15,025	27,762
Deductions:				
Distribution to students	584,419	-	33,039	30,762
Administrative expenses	-	20,473	2,500	-
Total deductions	584,419	20,473	35,539	30,762
Net change to cash	(25,433)	(20,469)	(20,514)	(3,000)
Ending cash balance	$ (66,111)	$ -	$ (20,514)	$ (4,262)

Miles Community College, Custer County, Montana
Schedule of Federal Expenditures
Student Financial Assistance Programs
For the Fiscal Year Ended June 30, 2016

Perkins Loan Program		
Student loan advances	$	-
College Work Study		
Wages	$	33,039
Administrative cost		2,500
Total College Work Study	$	35,539
Supplemental Education Opportunity Grant Program		
Student Grants	$	30,762
Pell Grant Program		
Student grants	$	588,081

Miles Community College, Custer County, Montana
Schedule for Full Time Equivalent
For the Fiscal Year Ended June 30, 2016

Semester	Resident	WUE	Nonresident	Total
Summer 2015	51.9	1.1	1.9	54.9
Fall 2015	285.8	27.9	38.6	352.3
Spring 2016	296.0	25.7	36.1	357.8

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

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2016

SINGLE AUDIT INFORMATION

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Miles Community College
Miles City, Montana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Miles Community College (the College) and its discretely presented component unit Miles Community College Endowment (the Endowment) as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report dated January 9, 2017.

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

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

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

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

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

Eide Bailly LLP

Boise, Idaho
January 9, 2017

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Board of Trustees
Miles Community College
Miles City, Montana

Report on Compliance for Each Major Federal Program
We have audited Miles Community College's (the College) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the years ended June 30, 2016 and 2015. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

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

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

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

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Eide Bailly LLP

Boise, Idaho
January 9, 2017

Miles Community College, Custer County, Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

Federal Grant/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Housing and Urban Renewal			
Passed through the Montana Office of the Governor			
Community Development Block Grant - Economic Development	14.228		$ 667,500
Total U.S. Department of Housing and Urban Renewal			$ 667,500
U.S. Department of Labor			
Passed through the Montana Department of Labor and Industry:			
WIA Adult Program	17.258	DLISFY13WIAA02	$ 21,676
WIA Adult Program	17.258	DLISFY13WIAA03	46,334
Subtotal Student WIA Adult Program			68,010
Trade Adjustment Assistance Community College and Career Training Grant Program	17.282	TC-25032-13-60-A-30	80,392
Trade Adjustment Assistance Community College and Career Training Grant Program	94.077	TC-26447-14-60-A-30	32,890
Total U.S. Department of Labor			$ 181,292
U.S. Department of Education			
Direct programs:			
Federal Supplemental Educational Opportunity Grants	84.007		$ 30,762
Federal Direct Student Loans	84.268		1,282,610
Federal Work-Study Program	84.033		35,514
Federal Pell Grant Program	84.063		588,081
Subtotal Student Financial Aid Cluster			1,936,967
Direct programs:			
Adult Education - Basic Grants to States	84.002		30,513
Subtotal Department of Education direct programs			1,967,480
Passed through the Montana Office of the Commissioner of Higher Education:			
Career and Technical Education - Basic Grants to States (Carl D. Perkins Act)	84.048A		72,046
Subtotal Department of Education pass-through programs			72,046
Total U.S. Department of Education			$ 2,039,526
Total Expenditures of Federal Awards			$ 2,888,318

Reconciliation to Financial Statements	
Total reported "Schedule of Expenditures of Federal Awards"	$ 2,888,318
Less Federal Direct Student Loans	$ (1,170,000)
Less Non-Mandatory Transfer into Federal Supplemental Education Opportunity Grants	(2,500)
Statement of Revenues, Expenses, and Changes in Net Position "Federal Grants and Contracts"	$ 1,715,818

Miles Community College, Custer County, Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2015

Federal Grant/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Labor			
Passed through the Montana Department of Labor and Industry:			
WIA Adult Program	17.258	DLISFY13WIAA02	$ 22,049
WIA Adult Program	17.258	DLISFY13WIAA02	2,410
WIA Adult Program	17.258	DLISFY13WIAA03	30,796
WIA Adult Program	17.258	DLISFY13WIAA03	5,664
			60,919
Trade Adjustment Assistance Community College and Career Training Grant Program	17.282	TC-25032-13-60-A-30	101,873
Trade Adjustment Assistance Community College and Career Training Grant Program	17.282	TC-26447-14-60-A-30	4,234
			106,107
Total U.S. Department of Labor			$ 167,026
U.S. Department of Education			
Direct programs:			
Federal Supplemental Educational Opportunity Grants	84.007		$ 28,262
Federal Direct Student Loans*	84.268		1,189,579
Federal Work-Study Program	84.033		35,514
Federal Pell Grant Program	84.063		608,986
Subtotal Student Financial Aid Cluster			1,862,341
Direct programs:			
Adult Education - Basic Grants to States	84.002		38,823
Subtotal Department of Education direct programs			1,901,164
Passed through the Montana Office of the Commissioner of Higher Education:			
Career and Technical Education - Basic Grants to States (Carl D. Perkins Act)	84.048	N/A	26,975
Total U.S. Department of Education			$ 1,928,139
Total Expenditures of Federal Awards			$ 2,095,165

* This program's activities are partially reflected in financial statements of this entity.
N/A - Not applicable or not available

Reconciliation to Financial Statements

Total reported "Schedule of Expenditures of Federal Awards"	$ 2,095,165
Less Federal Direct Student Loans	(1,160,000)
Statement of Revenues, Expenses, and Changes in Net Position "Federal Grants and Contracts"	$ 935,165

Miles Community College, Custer County, Montana
Notes to Schedules of Expenditures of Federal Awards
For the Fiscal Years Ended June 30, 2016 and 2015

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Miles Community College (the College) and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.* The College received federal awards both directly from federal agencies and indirectly through pass-through entities.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Proprietary fund types account for the College's federal grant activity. Therefore, expenditures in the schedule of expenditures of federal awards are recognized on the accrual basis. The College's summary of significant accounting policies is presented in Note 1 in the basic financial statements.

The College has not elected to use the 10% de minimis cost rate.

Miles Community College, Custer County, Montana
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016 and 2015

Section I – Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiency identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a) (June 30, 2015) and the Uniform Guidance (June 30, 2016)?	No

Identification of major programs:

Name of Federal Program	CFDA Number
U. S. Department of Education Direct Programs	
Student Financial Aid Cluster:	
Federal Pell Grant Program	84.063
Federal Work-Study Program	84.033
Federal Direct Student Loans	84.268
Federal Supplemental Educational Opportunity Grants Program	84.007
U. S. Department of Housing and Urban Renewal	
Community Development Block Grant - Economic Development	N/A

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

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

Section II – Financial Statement Findings
None

Section III – Federal Award Findings and Questioned Costs
None

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
June 30, 2015

2015-A Material Audit Adjustment
Material Weakness

Initial Fiscal Year Finding Occurred: June 30, 2015

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

Status: Corrective action was taken.

2015-B Accrued Insurance OPEB Obligation and Disclosure
Significant Deficiency

Initial Fiscal Year Finding Occurred: June 30, 2015

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

Status: Corrective action was taken.