

**STATE OF MONTANA
FLATHEAD VALLEY COMMUNITY COLLEGE
GENERAL PURPOSE FINANCIAL
STATEMENTS AND SUPPLEMENTARY
INFORMATION**

FISCAL YEARS ENDED JUNE 30, 2001 AND 2002

CONDUCTED UNDER CONTRACT BY
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LEGISLATIVE AUDIT DIVISION

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November 2002

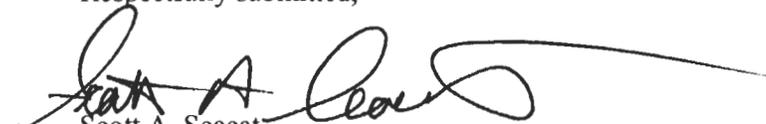
The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of Flathead Valley Community College for the two fiscal years ended June 30, 2002.

The audit was conducted by CHMS, P.C., 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.

The agency's written response to the report recommendations is included in the back of the audit report

Respectfully submitted,


Scott A. Seacat
Legislative Auditor

02C-04

**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
JUNE 30, 2001 AND 2002**

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**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
JUNE 30, 2001 AND 2002**

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**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
JUNE 30, 2001 AND 2002**

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

Montana Board of Regents of Higher Education

Judy Martz	Governor
Dr. Richard Crofts	Commissioner of Higher Education
Linda McCulloch	Superintendent of Public Instruction
Margie Thompson	Chairman
Ed Jasmin	Regent
Richard Roehm	Regent
Mark J. Semmens	Regent
John Mercer	Regent
Lynn Morrison-Hamilton	Regent
Christian Hur	Student Regent

Flathead Valley Community College Board of Trustees

John Engebretson	Chairperson
Thomas Harding	Trustee
Alison Young	Trustee
Clarence Frisbee	Trustee
Jeanne Tallman	Trustee
Mark Holston	Trustee
Dr. H. "Chet" Ross	Trustee

Administration

Dr. Jane Karas	President
Faith Hodges	Interim Chief Financial Officer

**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
JUNE 30, 2001 AND 2002**

GENERAL

We performed a financial/compliance audit of Flathead Valley Community College for the fiscal years ended June 30, 2001 and 2002. The objectives of our audit were to: (1) determine if the financial statements of the college present fairly its financial position and results of operation for the fiscal years then ended; (2) determine if the college complied with applicable state and federal laws and regulations; (3) make recommendations for the improvement of management and internal controls; and (4) determine whether prior audit recommendations have been effectively implemented.

Thank you to the Flathead Valley Community College staff for their cooperation and assistance during the audit.

BACKGROUND

In the 1960's, residents of the Flathead Valley recognized a need for localized higher education. Glacier College, in conjunction with Whitworth College of Spokane, provided some educational services over the course of several years; however the need for a separate, locally-controlled and locally-responsive college soon became apparent.

A group of citizens, dedicated to the goal of bringing post-secondary education to the community, laid the groundwork for a college to be established.

On April 1, 1967, the voters of Flathead County agreed to create a community college district, according to the Community College law of the 1965 Montana legislative assembly. In 1983, the voters of Lincoln County agreed to create a community college extension center of Flathead Valley Community College to serve the residents of Lincoln County.

Flathead Valley Community College is a comprehensive community college, providing college transfer, vocational and community service classes for residents of northwestern Montana.

In 1984-85, the College added the Glacier Institute program in Glacier Park, and the Lincoln County Center, which provides classes to the residents of Lincoln County. These programs are fully accredited by the Northwest Association of Schools and Colleges.

**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
JUNE 30, 2001 AND 2002**

RECOMMENDATIONS

Finding #02-01 – Cash Reconciliations

During the audit period, the general ledger cash accounts were not reconciled to the County Treasurer's reports on a monthly basis.

Recommendation

Cash on the general ledger needs to be reconciled to the County Treasurer's Report on a timely basis each month.

Finding #02-02 - Plant Fund Detail Records

The detail records for the fixed assets in the Investment in Plant Fund have not been updated since June 30, 1998. As a result, the fixed asset detail records do not match the asset balances in the Investment in Plant Fund.

Recommendation

The detail records for fixed assets should be updated each year to reflect additions and deletions.

Finding #02-03 - Reconciliation of Subsidiary Ledgers

Subsidiary ledgers of payables and receivables are maintained. The general ledger accounts are not reconciled to these subsidiary ledgers on a timely basis.

Recommendation

The general ledger accounts need to be reconciled to the subsidiary ledgers on a timely basis.

**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
JUNE 30, 2001 AND 2002
RECOMMENDATIONS (CONTINUED)**

Finding #02-04 - Purchase Of Property

The College purchased computers with a total contract cost exceeding \$25,000. The College did not follow formal bid procedures for that purchase. Montana Code Annotated §20-15-104 requires that whenever the proposed contract costs are more than \$25,000, the board of trustees shall solicit formal bids and advertise once each week for at least 2 weeks in a newspaper published in each county wherein the area of the district lies, calling for bids to perform such work or furnish such supplies.

Recommendation

The College should develop and follow formal bid procedures that conform to the requirements of Montana Code Annotated §20-15-104.

PRIOR YEARS' RECOMMENDATIONS

A summary of the recommendations from fiscal years June 30, 1999 and 2000 is as follows:

<u>Finding</u>	<u>Status</u>
Finding #00-01 – Cash Reconciliations	Not Implemented – Finding #02-01
Finding #00-02 – Plant Fund Detail Records	Not Implemented – Finding #02-02
Finding #00-03 – Underreporting Continuing Education revenues – revenues were underreported due to non-integration of computer systems	Implemented
Finding #00-04 – Reconciliation of Subsidiary Ledgers	Not Implemented – Finding #02-03
Finding #00-05 – Pell Grant Cash Drawdowns – drawdowns on conversion to GAPS by Department of Education were overstated	Implemented



CHMS, P.C.
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INDEPENDENT AUDITOR'S REPORT

Legislative Audit Committee
Of the Montana State Legislature

We have audited the accompanying general purpose financial statements of Flathead Valley Community College, Kalispell, Montana as of and for the years ended June 30, 2001 and 2002, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Flathead Valley Community College, Kalispell, Montana, as of June 30, 2001 and 2002, and the results of its operations and cash flows for its auxiliary funds for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2002, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information on pages 25-30 is presented for purposes of additional analysis. The accompanying schedules of expenditures of Federal Awards on pages 31-32 are presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This information is not a required part of the financial statements of Flathead Valley Community College. Such information has been subjected to the audit procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

CHMS, P.C.

CHMS, P.C.
Certified Public Accountants
September 27, 2002

**FLATHEAD COMMUNITY COLLEGE
KALISPELL, MONTANA
BALANCE SHEET
JUNE 30, 2001**

	CURRENT FUNDS				STUDENT LOAN FUNDS	AGENCY FUNDS	PLANT FUNDS	
	UNRESTRICTED GENERAL OPERATING	AUXILIARY FUNDS	RESTRICTED	RESTRICTED			RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
ASSETS								
Cash on Hand and in Bank (Note C)	\$ 3,400	\$ 750	\$ 100	\$ -	\$ -	\$ 200	\$ 14,935	\$ -
Cash on Deposit with County Treasurer (Note C)	1,349,340	(62,759)	29,473	465	-	(12,976)	2,382,174	-
Receivables:								
Taxes Receivable	159,504	-	45,079	-	-	-	12,045	-
Grant Receivable	-	-	105,524	-	-	-	-	-
Student Loan Receivable (Note D)	-	-	-	12,400	-	-	-	-
Other Receivables	14,554	-	414	-	-	-	-	-
Accounts Receivable	573,414	46,840	250,766	-	-	113,157	90,273	-
Total Receivables	747,472	46,840	401,783	12,400	-	113,157	102,318	-
Prepaid Expenses	40,640	2,382	-	-	-	-	-	-
Inventories	-	161,809	-	-	-	-	-	-
Amount To Be Provided for Retirement of Long-Term Debt	-	-	-	-	-	-	-	3,945,000
Property, Plant and Equipment (Note E):								
Land	-	-	-	-	-	-	-	780,776
Construction in Progress	-	-	-	-	-	-	-	7,226
Buildings and Improvements	-	-	-	-	-	-	-	7,051,905
Equipment	-	-	-	-	-	-	-	2,760,557
Total Property, Plant, and Equipment	-	-	-	-	-	-	-	10,600,464
TOTAL ASSETS	\$ 2,140,852	\$ 149,022	\$ 431,356	\$ 12,865	\$ 100,381	\$ 2,499,427	\$ 14,545,464	
LIABILITIES AND NET ASSETS								
Liabilities:								
Accounts Payable and Accrued Liabilities	\$ 226,614	\$ 7,489	\$ 251,755	\$ -	\$ 2,335	\$ 20,617	\$ -	-
Deferred Revenue	335,809	-	40,808	-	14,562	139,554	-	-
Due to Student Organizations	-	-	-	-	83,484	-	-	-
Compensated Absences (Note F)	641,956	10,829	53,344	-	-	-	-	-
Bonds Payable (Note G)	-	-	-	-	-	-	-	3,945,000
Other Notes Payable (Note G)	-	-	-	-	-	-	-	70,654
Total Liabilities	1,204,379	18,318	345,907	-	100,381	160,171	-	4,015,654
Fund Balance:								
Unrestricted	936,473	130,704	-	-	-	-	2,339,256	10,529,810
Temporarily Restricted	-	-	85,449	12,865	-	-	-	-
Total Fund Balance	936,473	130,704	85,449	12,865	-	-	2,339,256	10,529,810
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,140,852	\$ 149,022	\$ 431,356	\$ 12,865	\$ 100,381	\$ 2,499,427	\$ 14,545,464	

See notes to the financial statements.

**FLATHEAD COMMUNITY COLLEGE
KALISPELL, MONTANA
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2001**

	CURRENT FUNDS		RESTRICTED	STUDENT LOAN FUNDS	PLANT FUNDS	
	UNRESTRICTED GENERAL OPERATING	AUXILIARY FUNDS			RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
REVENUE AND OTHER ADDITIONS						
Tuition and Fees	\$ 1,697,091	\$ -	\$ 67,145	\$ -	\$ 635,498	\$ -
State Appropriations	3,059,029	-	-	-	-	-
Institution Contributions	1,738,004	-	236,248	-	411,729	-
Federal Grants	-	-	1,920,746	-	-	-
State Grants	-	-	194,345	-	-	-
Private Gifts and Grants	27,234	-	17,227	200	-	-
Other Income	617,205	-	1,512	-	206,996	-
Sales and Services of Auxiliary Enterprises Expended for Plant Facilities	-	597,763	-	-	-	-
Retirement of Indebtedness	-	-	-	-	-	343,870
Total Revenue and Other Additions	<u>7,138,563</u>	<u>597,763</u>	<u>2,437,223</u>	<u>200</u>	<u>1,254,223</u>	<u>41,017</u>
EXPENSES AND OTHER DEDUCTIONS						
Education and General Expenses						
Instruction	2,923,283	-	-	-	-	-
Public Service	380,086	-	-	-	-	-
Academic Support	552,050	-	-	-	-	-
Student Services	310,165	-	891,925	-	-	-
Institutional Support	2,077,919	-	-	-	-	-
Scholarships and Fellowships	194,117	-	1,535,429	-	-	-
Operation and Maintenance of Plant	585,626	-	-	-	193,232	-
Auxiliary Enterprise Expenses	-	597,652	-	-	-	-
Retirement of Indebtedness	-	-	-	-	431,017	-
Interest on Indebtedness	-	-	-	-	222,807	-
Total Expenses and Other Deductions	<u>7,023,246</u>	<u>597,652</u>	<u>2,427,354</u>	<u>-</u>	<u>847,056</u>	<u>-</u>
Nonmandatory Transfers Between Funds	(98,469)	-	46,410	865	51,194	-
Net Increase in Fund Balance	16,848	111	56,279	1,065	458,361	384,887
Fund Balance, Beginning of Year	919,625	130,593	29,170	11,800	1,880,895	10,144,923
Fund Balances, End of Year	<u>\$ 936,473</u>	<u>\$ 130,704</u>	<u>\$ 85,449</u>	<u>\$ 12,865</u>	<u>\$ 2,339,256</u>	<u>\$ 10,529,810</u>

See notes to the financial statements.

**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES,
AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 2001**

	Current Funds		Total
	Unrestricted	Restricted	
Revenues:			
Tuition and Fees	\$ 1,697,091	\$ 67,145	\$ 1,764,236
State Appropriations	3,059,029	-	3,059,029
Local Appropriations	1,738,004	236,248	1,974,252
Federal Grants and Contracts	-	1,920,746	1,920,746
State Grants and Contracts	-	194,345	194,345
Private Gifts, Grants, and Contracts	27,234	7,358	34,592
Sales and Services of Auxiliary Enterprises	597,763	-	597,763
Other Sources	617,205	1,512	618,717
Total Current Revenues	7,736,326	2,427,354	10,163,680
Expenditures and Mandatory Transfers:			
Education and General			
Instruction	2,923,283	-	2,923,283
Public Service	380,086	-	380,086
Academic Support	552,050	-	552,050
Student Services	310,165	891,925	1,202,090
Institutional Support	2,077,919	-	2,077,919
Scholarships and Fellowships	194,117	1,535,429	1,729,546
Operation and Maintenance of Plant	585,626	-	585,626
Auxiliary Enterprises Expenditures	597,652	-	597,652
Total Expenditures and Mandatory Transfers	7,620,898	2,427,354	10,048,252
Other Transfers and Additions/(Deductions)			
Nonmandatory Transfers Between Funds	(98,469)	46,410	(52,059)
Excess of Restricted Receipts Over Transfers of Revenue	-	9,869	9,869
Total Transfers and Additions/(Deductions)	(98,469)	56,279	(42,190)
 Net Increase in Fund Balance	 \$ 16,959	 \$ 56,279	 \$ 73,238

See notes to the financial statements.

FLATHEAD COMMUNITY COLLEGE
KALISPELL, MONTANA
STATEMENT OF CASH FLOWS OF AUXILIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2001

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in Fund Balance	\$	111
Changes in assets and liabilities:		
(Increase) Decrease in Accounts Receivable		(9,409)
(Increase) Decrease in Prepaid Expenses		1,570
(Increase) Decrease in Inventory		2,234
Increase (Decrease) in Accounts Payable		1,469
Increase (Decrease) in Compensated Absences Payable		<u>2,663</u>
NET CASH USED BY OPERATING ACTIVITIES		<u>(1,362)</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES		<u>-</u>
NET CASH PROVIDED BY CAPITAL FINANCING ACTIVITIES		<u>-</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES		<u>-</u>
Net Decrease in Cash and Cash Equivalents		(1,362)
Cash and Cash Equivalents, Beginning of Year		<u>(60,647)</u>
Cash and Cash Equivalents, End of Year	\$	<u><u>(62,009)</u></u>
 Reconciliation to the Balance Sheet		
Auxiliary Funds:		
Cash on Hand and in Bank	\$	750
Cash on Deposit with County Treasurer		<u>(62,759)</u>
Total	\$	<u><u>(62,009)</u></u>

See notes to the financial statements.

FLATHEAD COMMUNITY COLLEGE
KALISPELL, MONTANA
BALANCE SHEET
JUNE 30, 2002

	CURRENT FUNDS			STUDENT LOAN FUNDS	AGENCY FUNDS	PLANT FUNDS	
	UNRESTRICTED GENERAL OPERATING	AUXILIARY FUNDS	RESTRICTED RESTRICTED			RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
ASSETS							
Cash on Hand and in Bank (Note C)	\$ 3,400	\$ 750	\$ 100	\$ -	\$ 100	\$ -	\$ -
Cash on Deposit with County Treasurer (Note C)	1,526,545	(17,435)	165,859	2,704	46,051	16,371	2,541,109
Receivables:							
Taxes Receivable	144,365	-	18,125	-	-	43,537	-
Grant Receivable	-	-	46,251	-	-	-	-
Student Loan Receivable (Note D)	-	-	-	11,361	-	-	-
Other Receivables	43,301	-	118	-	-	-	-
Accounts Receivable	706,049	53,984	198,440	-	113,431	90,064	-
Total Receivables	893,715	53,984	262,934	11,361	113,431	133,601	-
Prepaid Expenses	92,340	1,788	-	-	-	-	-
Inventories	-	126,283	-	-	-	-	-
Amount To Be Provided for Retirement of Long-Term Debt	-	-	-	-	-	-	3,535,000
Property, Plant and Equipment (Note E):							
Land	-	-	-	-	-	-	2,023,999
Buildings and Improvements	-	-	-	-	-	-	7,051,905
Construction in Progress	-	-	-	-	-	-	35,345
Leasehold Improvements	-	-	-	-	-	-	135,047
Equipment	-	-	-	-	-	-	3,157,710
Total Property, Plant, and Equipment	-	-	-	-	-	-	12,404,006
TOTAL ASSETS	\$ 2,516,000	\$ 165,370	\$ 428,893	\$ 14,065	\$ 159,582	\$ 2,691,081	\$ 15,939,006
LIABILITIES AND NET ASSETS							
Liabilities:							
Accounts Payable and Accrued Liabilities	\$ 270,901	\$ 8,653	\$ 253,894	\$ -	\$ 17,041	\$ 71,558	\$ -
Deferred Revenue	478,439	-	15,245	-	17,907	180,503	-
Due to Student Organizations	-	-	-	-	124,634	-	-
Compensated Absences (Note F)	681,928	11,218	61,256	-	-	-	-
Bonds Payable (Note G)	-	-	-	-	-	-	3,535,000
Other Notes Payable (Note G)	-	-	-	-	-	-	876,550
Total Liabilities	1,431,268	19,871	330,395	-	159,582	252,061	4,411,550
Fund Balance:							
Unrestricted	1,084,732	145,499	-	-	-	2,439,020	11,527,456
Temporarily Restricted	-	-	98,498	14,065	-	-	-
Total Fund Balance	1,084,732	145,499	98,498	14,065	-	2,439,020	11,527,456
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,516,000	\$ 165,370	\$ 428,893	\$ 14,065	\$ 159,582	\$ 2,691,081	\$ 15,939,006

See notes to the financial statements.

**FLATHEAD COMMUNITY COLLEGE
KALISPELL, MONTANA
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2002**

	CURRENT FUNDS			STUDENT LOAN FUNDS	PLANT FUNDS	
	UNRESTRICTED GENERAL OPERATING	AUXILIARY FUNDS	RESTRICTED		RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
REVENUE AND OTHER ADDITIONS						
Tuition and Fees	\$ 1,864,912	\$ -	\$ 81,181	\$ -	\$ 739,241	\$ -
State Appropriations	3,335,570	-	-	-	-	-
Institution Contributions	1,891,002	-	174,743	-	474,676	-
Federal Grants	-	-	2,330,937	-	-	-
State Grants	-	-	224,032	-	-	-
Private Gifts and Grants	37,160	-	21,888	-	-	-
Other Income	691,119	-	6,903	-	131,145	-
Sales and Services of Auxiliary Enterprises Expended for Plant Facilities	-	641,483	-	-	-	-
Retirement of Indebtedness	-	-	-	-	-	1,803,542
Total Revenue and Other Additions	<u>7,819,763</u>	<u>641,483</u>	<u>2,839,684</u>	-	<u>1,345,062</u>	<u>1,916,646</u>
EXPENSES AND OTHER DEDUCTIONS						
Education and General Expenses						
Instruction	3,031,672	-	-	-	-	-
Public Service	561,594	-	-	-	-	-
Academic Support	535,009	-	-	-	-	-
Student Services	334,990	-	886,023	-	-	-
Institutional Support	2,153,785	-	-	-	-	-
Scholarships and Fellowships	245,254	-	1,940,612	-	-	-
Operation and Maintenance of Plant	711,500	-	-	-	567,449	-
Auxiliary Enterprise Expenses	-	626,688	-	-	-	-
Retirement of Indebtedness	-	-	-	-	523,103	-
Proceeds from Indebtedness	-	-	-	-	-	919,000
Interest on Indebtedness	-	-	-	-	-	-
Total Expenses and Other Deductions	<u>7,573,804</u>	<u>626,688</u>	<u>2,826,635</u>	-	<u>251,246</u>	<u>919,000</u>
Nonmandatory Transfers Between Funds	(97,700)	-	-	1,200	96,500	-
Net Increase in Fund Balance	148,259	14,795	13,049	1,200	99,764	997,646
Fund Balance, Beginning of Year	936,473	130,704	85,449	12,865	2,339,256	10,529,810
Fund Balances, End of Year	<u>\$ 1,084,732</u>	<u>\$ 145,499</u>	<u>\$ 98,498</u>	<u>\$ 14,065</u>	<u>\$ 2,439,020</u>	<u>\$ 11,527,456</u>

See notes to the financial statements.

**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES,
AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 2002**

	Current Funds		Total
	Unrestricted	Restricted	
Revenues:			
Tuition and Fees	\$ 1,864,912	\$ 81,181	\$ 1,946,093
State Appropriations	3,335,570	-	3,335,570
Local Appropriations	1,891,002	174,743	2,065,745
Federal Grants and Contracts	-	2,330,937	2,330,937
State Grants and Contracts	-	224,032	224,032
Private Gifts, Grants, and Contracts	37,160	8,839	45,999
Sales and Services of Auxiliary Enterprises	641,483	-	641,483
Other Sources	691,119	6,903	698,022
Total Current Revenues	<u>8,461,246</u>	<u>2,826,635</u>	<u>11,287,881</u>
Expenditures and Mandatory Transfers:			
Education and General			
Instruction	3,031,672	-	3,031,672
Public Service	561,594	-	561,594
Academic Support	535,009	-	535,009
Student Services	334,990	886,023	1,221,013
Institutional Support	2,153,785	-	2,153,785
Scholarships and Fellowships	245,254	1,940,612	2,185,866
Operation and Maintenance of Plant	711,500	-	711,500
Auxiliary Enterprises Expenditures	626,688	-	626,688
Total Expenditures and Mandatory Transfers	<u>8,200,492</u>	<u>2,826,635</u>	<u>11,027,127</u>
Other Transfers and Additions/(Deductions)			
Excess of Restricted Receipts Over Transfers of Revenue	-	13,049	13,049
Transfers to Other Funds	(97,700)	-	(97,700)
Total Transfers and Additions/(Deductions)	<u>(97,700)</u>	<u>13,049</u>	<u>(84,651)</u>
Net Increase in Fund Balance	<u>\$ 163,054</u>	<u>\$ 13,049</u>	<u>\$ 176,103</u>

See notes to the financial statements.

FLATHEAD COMMUNITY COLLEGE
KALISPELL, MONTANA
STATEMENT OF CASH FLOWS OF AUXILIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in Fund Balance	\$ 14,795
Changes in assets and liabilities:	
(Increase) Decrease in Accounts Receivable	(7,144)
(Increase) Decrease in Prepaid Expenses	594
(Increase) Decrease in Inventory	35,526
Increase (Decrease) in Accounts Payable	1,164
Increase (Decrease) in Compensated Absences Payable	<u>389</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>45,324</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>
NET CASH PROVIDED BY CAPITAL FINANCING ACTIVITIES	<u>-</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>-</u>
Net Increase in Cash and Cash Equivalents	45,324
Cash and Cash Equivalents, Beginning of Year	<u>(62,009)</u>
Cash and Cash Equivalents, End of Year	<u>\$ (16,685)</u>
 Reconciliation to the Balance Sheet	
Auxiliary Funds:	
Cash on Hand and in Bank	\$ 750
Cash on Deposit with County Treasurer	<u>(17,435)</u>
Total	<u>\$ (16,685)</u>

See notes to the financial statements.

**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2002**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Flathead Valley Community College, a Community College District (the College), is presented to assist in understanding the College's financial statements. The financial statements and notes are representations of the College's management, which is responsible for their integrity and objectivity.

Reporting Entity

Flathead Valley Community College is a community college district which has received full accreditation by the Northwest Association of Schools and Colleges. The College is managed by a Board of Trustees, each member of which is elected in district-wide elections. The college administration is appointed by and responsible to the Board of Trustees.

The County government of Flathead County provides substantial services to the College. Taxes are levied and collected by the County. Cash is maintained and invested by the County Treasurer. The County does not significantly influence the operations of the College; thus, the College is treated as a separate and independent unit of local government.

The College, for financial purposes, includes all funds, account groups, organizations and boards for which the College is financially accountable, and other organizations for which the nature and significance of the relationship are such that the exclusion would cause the College's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a majority of the governing body, and by the imposition of will or the potential for financial benefit or burden.

Financial Statements

The accompanying financial statements have been prepared following the standards of accounting and reporting as described by National College and University Business Officers (NACUBO). In accordance with GASB No. 15, "Governmental College and University Accounting and Reporting Models", the University has adopted the American Institute of Certified Public Accountants' (AICPA) "College Guide Model" for presentation of its financial statements.

The statement of current fund revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period.

Fund Accounting

The accounts of the College are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions upon their use. Separate accounts are maintained for each fund; however, accounts with common characteristics are combined into fund groups and reflected as such in the accompanying financial statements. The common characteristics of the funds contained in the various fund groups are as follows:

**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2002**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current Funds

Current funds are used primarily to account for transactions made in performing the primary and support objectives of the College: instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships and fellowships, and auxiliary activities. Funds included in this classification consist of:

General operating funds - These funds are used to account for transactions relating to the educational and general operations of the College.

Auxiliary enterprises funds - These funds are used to account for transactions of substantially self-supporting activities that primarily provide services for students, faculty, and staff. The fund included in this classification is the bookstore, which includes the main campus bookstore, the Libby campus bookstore, and the coffee cart.

Restricted funds - These funds are used to account for current funds expended for operating purposes but are restricted by donors or other outside agencies as to how they may be spent. Revenues of the restricted funds are reported in the statement of current funds revenues, expenditures, and other changes only to the extent expended for current operating purposes. The difference between receipts and expenditures is included as an addition to or deduction from fund balance for the year.

Student Loan Funds

These funds are available for loans to students to help finance their education and are provided by federal, private, and College sources. The federal government provides the majority of the funds.

Agency Funds

These funds are used to account for assets held by the College as custodian or fiscal agent for others. The transactions of these funds do not affect the statement of changes in fund balance.

Plant Funds

These funds used to account for the transactions relating to investment in property. Plant funds include:

Retirement of Indebtedness - accumulates resources for interest and principal payments and other debt service charges relating to plant fund indebtedness.

Investment in Plant fund - represents the total of property, buildings, equipment and related liabilities.

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The modified accrual basis of accounting is used by all governmental fund types and agency funds. Under the modified accrual basis, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of current period. Expenditures are recorded when the related fund liability is incurred.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal additions, (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and property renewal and replacement, and (3) other transfers, for all other cases.

The accrual basis of accounting is utilized by the auxiliary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, in essentially the same manner as in business-type accounting and financial reporting. Auxiliary accounting and reporting for the College includes the use of Financial Accounting Standards Board (FASB) Statements and Interpretations, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

The College reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has legal claim to them, such as when grant moneys are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Cash and Cash Equivalents

The College considers all investments to be highly liquid, and, therefore, cash equivalents.

Investments

Investments are carried at cost, which approximates market value. Investments in the State Short-term Investment Pool (STIP) may include certain types of derivatives. A derivative is any "contract whose value depends on, or derives from, the value of an underlying asset, reference rate or index." The STIP portfolio includes asset-backed securities and variable-rate (floating rate) instruments. (See Note C on Investment Risk Categories.)

Taxes Receivable

The College records taxes receivable for property taxes that have been assessed but have not yet been collected. Property tax revenue is recognized when it is billed. As of June 30, 2001 and 2002, the allowance for uncollectable accounts is \$0.

**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2002**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories consist mainly of bookstore supplies and are valued at cost on the first-in, first-out method.

Use of Estimates

The preparation of these general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from these estimates.

Plant and Equipment:

Public domain general fixed assets ("infrastructure") consisting of roads, parking lots, curbs, and gutters, sidewalks, drainage systems, and lighting systems are not capitalized, as these assets are immovable and of value only to the government.

All purchased fixed assets are valued at cost where historical records are available and at estimated historical costs where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Assets in the plant fund are not depreciated. Depreciation of equipment in the agency fund types is computed using the straight-line method. Estimated useful lives range from 5 to 20 years for equipment.

Donated Services

The value of donated services are not recognized, since the types of services rendered do not create or enhance the College's non-financial assets, nor do they require specialized skills.

NOTE B - LOCAL APPROPRIATIONS

All property taxes are collected by the Treasurers of Flathead County, Montana and Lincoln County, Montana. Property tax revenue is recognized when it is billed. Property taxes attach as an enforceable lien on property as of January 1st and are levied on the 2nd Monday in August. They are due in two equal installments on November 30th, and May 31st, following the levy date.

The tax levies for the College for the year ended June 30, 2001 and 2002 were as follows:

Kalispell Campus	<u>Number of Mills</u>	
	<u>Year ended 6/30/2001</u>	<u>Year ended 6/30/2002</u>
General Levy	8.08	8.23
Retirement Levy	2.74	2.66
Adult Education Levy	1.14	1.09
Debt Service Levy	2.76	2.64
Total	<u>14.72</u>	<u>14.62</u>

**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2002**

NOTE B - LOCAL APPROPRIATIONS (CONTINUED)

The total taxable value upon which the above levies were based was \$129,772,000 in 2001 and \$133,585,000 in 2002.

Libby Campus	Number of Mills	
	Year ended 6/30/2001	Year ended 6/30/2002
General Levy	4.04	4.02
Retirement Levy	1.23	1.27
Adult Education Levy	1.00	1.00
	<u>6.27</u>	<u>6.29</u>

The total taxable value upon which the above levies were based was \$24,520,514 in 2001 and \$24,859,155 in 2002.

NOTE C - CASH AND INVESTMENTS

Cash and Investments, except those identified below, are held by the Flathead County Treasurer. The Board of Trustees may invest money of the College in savings deposits, time deposits or repurchase agreements with financial institutions that are located in Montana and are insured by the FDIC, FSLIC, or NCUA. The Board of Trustees may also invest the College's money in obligations of the United States Government, or in the State Short-Term Investment Pool (S.T.I.P.).

Cash and Investments held by the Treasurer of Flathead County is recorded at cost and is as follows at June 30, 2001:

	Carrying Value	Fair Value	Unrealized Gain(Loss)
Invested in the county investment pool	\$ <u>3,685,717</u>	\$ <u>3,686,470</u>	\$ <u>753</u>

Cash and Investments held by the Treasurer of Flathead County is recorded at cost and is as follows at June 30, 2002:

	Carrying Value	Fair Value	Unrealized Gain(Loss)
Invested in the county investment pool	\$ <u>4,262,083</u>	\$ <u>4,262,678</u>	\$ <u>595</u>

The Flathead County Commissioners require 50% security on money held by the Flathead County Treasurer. The governmental entities' money is insured by the Federal Deposit Insurance Corporation (FDIC) for each "public unit" based on how the account is titled at the financial institution. The College's money invested in the county investment pool is titled in the Flathead County Treasurer's name, and therefore is not separately insured by FDIC insurance. The county government is considered to have \$100,000 FDIC insurance for demand deposits and \$100,000 FDIC insurance for time and savings deposits in each bank within the state.

**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2002**

NOTE C - CASH AND INVESTMENTS (CONTINUED)

The county investment pool has money invested in the State Short-Term Investment Pool (S.T.I.P.) which includes asset-backed and variable-rate securities. Asset-backed securities have less credit risk than securities not backed by pledged assets. Market risk for asset-backed securities is the same as for similar non asset-backed securities. Variable-rate securities have credit risk identical to similar fixed-rate securities; the related market risk is more sensitive to changes in interest rates. However, their market risk may be less volatile than fixed-rate securities because their value will usually remain at or near par value as a result of their interest rates being periodically reset to maintain a current market yield. The Montana Board of Investments reported that they were not aware of any legal risks associated with any of the S.T.I.P. investments, as of June 30, 2002.

Cash and Investments not held by the county treasurer have been recorded at cost, and are as follows as of:
June 30, 2001:

	Book Balance	Fair Value and Bank Balance
Petty Cash	\$ 4,450	\$ 4,450
Plant Fund Deposit (100% FDIC insured)	14,935	14,935
	\$ 19,385	\$ 19,385

June 30, 2002:

	Book Balance	Fair Value and Bank Balance
Petty Cash	\$ 4,350	\$ 4,350
Plant Fund Deposit (100% FDIC insured)	16,371	16,371
	\$ 20,721	\$ 20,721

Deposits can be broken down into the following risk categories in accordance with GASB No. 3 as of June 30, 2001:

	<u>Bank Balance</u>
Category 1 - Insured (FDIC)	\$ <u>14,935</u>

Investments can be broken down into the following risk categories in accordance with GASB No. 3 as of June 30, 2001:

	<u>Bank Balance</u>
Uncategorized investments - amount invested in an external investment pool (Flathead County Investment Pool).	\$ <u>3,686,470</u>

Deposits can be broken down into the following risk categories in accordance with GASB No. 3 as of June 30, 2002:

	<u>Bank Balance</u>
Category 1 - Insured (FDIC)	\$ <u>16,371</u>

**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2002**

NOTE C - CASH AND INVESTMENTS (CONTINUED)

Investments can be broken down into the following risk categories in accordance with GASB No. 3 as of June 30, 2002:

Uncategorized investments - amount invested in an external investment pool (Flathead County Investment Pool).	\$ <u>4,262,678</u>
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NOTE D - STUDENT LOANS RECEIVABLE

The student loans receivable are reported net of the allowance for doubtful accounts. The allowance for doubtful accounts is \$0 as of June 30, 2001 and 2002.

NOTE E - PROPERTY, PLANT, AND EQUIPMENT

A summary of the changes in Property, Plant, and Equipment as of June 30, 2001 is as follows:

	Balance 6/30/2000	Current Additions	Current Deletions	Balance 6/30/2001
Land	\$ 765,776	\$ 15,000	\$ -	\$ 780,776
Buildings	7,051,905	-	-	7,051,905
Construction in Progress	-	7,226	-	7,226
Equipment	2,134,939	304,914	-	2,439,853
Library Inventory	303,974	16,730	-	320,704
	\$ 10,256,594	\$ 343,870	\$ -	\$ 10,600,464

A summary of the changes in Property, Plant, and Equipment as of June 30, 2002 is as follows:

	Balance 6/30/2001	Current Additions	Current Deletions	Balance 6/30/2002
Land	\$ 780,776	\$ 1,243,223	\$ -	\$ 2,023,999
Buildings	7,051,905	-	-	7,051,905
Construction in Progress	7,226	28,119	-	35,345
Equipment	2,439,853	367,983	-	2,807,836
Library Inventory	320,704	29,170	-	349,874
Leasehold Improvements	-	135,047	-	135,047
	\$ 10,600,464	\$ 1,803,542	\$ -	\$ 12,404,006

In accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant assets.

**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2002**

NOTE F - COMPENSATED ABSENCES PAYABLE

Compensated absences payable, which represent vacation and sick leave earned by employees which is payable upon termination, were as follows:

	Balance		Increase		Balance
	6/30/2000		(Decrease)		6/30/2001
Vacation and Sick Leave	\$ <u>668,711</u>	\$	<u>37,418</u>	\$	<u>706,129</u>
	Balance		Increase		Balance
	6/30/2001		(Decrease)		6/30/2002
Vacation and Sick Leave	\$ <u>706,129</u>	\$	<u>48,273</u>	\$	<u>754,402</u>

NOTE G - LONG-TERM OBLIGATIONS

Long-term obligations consist of a contract for deed, notes payable, and bonds payable. The first contract for deed is serviced by STS Escrow Collections, LTD. The contract for deed bears interest at 8%, and may under certain circumstances bear interest at up to 10%. Payments on the contract are due on November 12 each year in the amount of \$50,000. There is no penalty for prepayment of the principal due, and the final principal payment on the first contract was made in 2001.

The note payable to Leo and Karen Gallis is serviced by STS Escrow Collections, LTD. The face amount on the note is \$244,000. The interest rate on the note is 7.0% per annum for the first two years. Thereafter, the interest rate will be adjustable, based on the federal funds rate plus 2% as of August 14, 2003. At no time will the interest rate fall below 7.0%. Payments on the note, including principal and interest, are \$25,250, and are due on February 14 and August 14 each year until paid in full. The payment amount may be adjusted to reflect the contractual change in interest rate, if applicable. The note is secured by a Montana Trust Indenture encumbering the real property purchased.

The Glacier Bank note payable was issued on August 14, 2002, in the amount of \$675,000. The interest rate on this note is 6.75% per annum, and the note matures on August 14, 2011. Payments on the note in the amount of \$44,009, including principal and interest, are due on February 14 and August 14 each year. This note is due upon demand of the lender; if no demand is made, then the debt will be due in twenty semi-annual payments. This note is secured by a Deed of Trust on real property located at the college campus, specifically 701 & 777 Grandview Drive in Kalispell.

On July 1, 1994, Flathead Valley Community College issued general obligation bonds, Series 1993, at a purchase price of \$6,515,000 and an interest rate of 2.75%-5.5% to advance refund the Series 1989 bonds of \$6,495,000 at an interest rate of 6.4%-9.0% maturing July 1, 2000 through 2009. The Series 1993 bonds were issued at par. After paying issuance costs of \$23,600, the net proceeds were \$6,599,456. The net proceeds from the issuance of the Series 1993 bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with and escrow agent to provide debt service payments until the Series 1989 bonds are called on July 1, 1999. The advance refunding met the requirements of an in-substance defeasance and the term bonds were removed from the College's investment in plant fund.

**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2002**

NOTE G - LONG-TERM OBLIGATIONS (CONTINUED)

Changes in long-term obligations during 2001 were as follows:

	Balance 6/30/2000	Debt Issued	Principal Payment	Balance 6/30/2001
General Obligation Bonds	\$ 4,335,000	\$ -	\$ 390,000	\$ 3,945,000
BankWest Note Payable	111,671	-	41,017	70,654
	<u>\$ 4,446,671</u>	<u>\$ -</u>	<u>\$ 431,017</u>	<u>\$ 4,015,654</u>

Changes in long-term obligations during 2002 were as follows:

	Balance 6/30/2001	Debt Issued	Principal Payment	Balance 6/30/2002
General Obligation Bonds	\$ 3,945,000	\$ -	\$ 410,000	\$ 3,535,000
BankWest Note Payable	70,654	-	70,654	-
Glacier Bank Note Payable	-	675,000	25,740	649,260
Gallis Note Payable	-	244,000	16,710	227,290
	<u>\$ 4,015,654</u>	<u>\$ 919,000</u>	<u>\$ 523,104</u>	<u>\$ 4,411,550</u>

Long-term obligations maturities due for the five years subsequent to June 30, 2002 are as follows:

Year	Principal
2003	\$ 519,255
2004	544,687
2005	575,455
2006	606,582
2007	643,090
thereafter	<u>1,522,482</u>
	4,411,551
Interest payments	<u>1,004,000</u>
Total	<u>\$ 5,415,551</u>

NOTE H - RETIREMENT PLANS

The College participates in two state-wide, multiple employer, cost-sharing retirement plans which cover all employees, except some substitute and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers certified teaching employees, and the Public Employee Retirement System (PERS) covers non-teaching employees. The plans are established by State law and are administered by the Department of Administration of the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2002**

NOTE H - RETIREMENT PLANS (CONTINUED)

Both plans issue publicly available annual reports that include financial statements and required supplemental information for the plans. The reports for the Teachers' Retirement System can be obtained at P.O. Box 200139, 1500 Sixth Ave., Helena, MT 59620-0139. The reports for the Public Employees Retirement System can be obtained at P.O. Box 200131, 1712 Ninth Ave., Helena, MT 59620-0131. The financial statements for the Public Employees Retirement System include activity for a defined benefit and a defined contribution retirement plan. The defined contribution plan is available to all active members starting July 1, 2002. The assets of one retirement plan cannot be commingled with those of another plan.

Contribution rates, expressed as a percentage of covered payroll, which are determined by State law, were as follows:

June 30, 2002 and June 30, 2001:

	Employer	Employee	Total
TRS	7.47%	7.15%	14.62%
PERS	6.80%	6.90%	13.70%

The amounts contributed by both the employees and the College for the prior three years ended June 30, were as follows:

	2002	2001	2000
TRS	\$ 428,435	\$ 371,655	326,122
PERS	346,232	353,492	329,449
Total	\$ <u>774,667</u>	\$ <u>725,147</u>	<u>655,571</u>

The State of Montana contributes .10% of the employees' wages covered by PERS, and .11% of the employees' wages covered by TRS, which are considered on-behalf payments. The College did not record this contribution in its financial statements, as required by generally accepted accounting principles.

NOTE I - LEASES

The College has entered into an operating lease with Lincoln County for a building to be used as the Lincoln County Campus. Payments on the lease are estimated at \$22,187 each year for 10 years. After 10 years, the College will have the option to lease the building for \$1 per year. Total amount paid on the lease in the years ended June 30, 2001 and June 30, 2002, totaled \$0 and \$4,373, respectively.

The College has entered into an operating lease with GMAC for the President's vehicle during the year ended June 30, 2002. Payments on the lease are \$500 per month for 36 months. The College has the option of buying the vehicle at the end of the lease for \$17,813. The total amount paid on the lease during the year ended June 30, 2002 was \$5,650.

During the year ended June 30, 2002, the College entered into an operating lease for a photocopy machine. Payments on the lease are \$1,862 per month for 60 months. The College has the option of purchasing the copier for fair market value at the end of the lease. The total amount paid on the lease during the year ended June 30, 2002 was \$11,172.

**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2002**

NOTE I - LEASES (CONTINUED)

Future minimum rental payments are as follows:

Year		Lease Payment
2003	\$	50,534
2004		50,534
2005		45,531
2006		44,531
2007		33,359
thereafter		109,613
Total	\$	334,104

NOTE J - RISK MANAGEMENT

The College faces a 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, and e) workers' compensation, i.e. employee injuries. A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee torts, and professional liabilities. Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years, except for property and content coverage where the guaranteed values have been increased to approximate replacement cost of the assets. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K - RELATED PARTY TRANSACTIONS

The College engages in transactions with the Flathead Valley College Foundation. The Flathead Valley College Foundation is a legally separate corporation formed to promote the College. The Flathead Valley College Foundation donates money to the College for operating expenses of the College, at the discretion of the Board of Trustees of the Flathead Valley College Foundation. There were no significant transactions during the years ended June 30, 2001 and 2002.

NOTE L - CONTINGENT LIABILITIES

In November 1999, a former college employee filed a complaint against the College with the Human Rights Commission. The College prevailed at the administrative hearing and on appeal to the Human Rights Commission. This matter is now on appeal to the District Court in Lewis and Clark County. In addition to this complaint, the former employee has filed a wrongful discharge suit in Flathead County District Court. Legal counsel has indicated that the College has liability insurance coverage for these types of actions, and that the insurance carrier has defended these actions. Legal counsel has indicated that it is not possible to estimate at this time the likelihood that the claims will prevail.

Based on the Rippey decision of the Montana Supreme Court, the community colleges may be drawn into a lawsuit by the community college teachers seeking accumulated vacation and sick leave pursuant to Montana law for state employees. The amount of this potential liability is not reasonably estimable at this time.

SUPPLEMENTARY INFORMATION

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2001

STUDENT FINANCIAL AID MODIFIED STATEMENT
OF CASH RECEIPTS AND DISBURSEMENTS

	PELL	CWS	SEOG
Beginning Cash Balance	\$ (26,513)	\$ -	\$ -
Prior Period Adjustment *	(10,902)	-	-
Adjusted Beginning Cash Balance	(37,415)	-	-
Additions:			
Federal Advances	1,019,111	54,398	34,897
State Matching Funds	-	26,679	11,632
Total Additions	1,019,111	81,077	46,529
Deductions:			
Distribution to Students	999,463	75,777	46,529
Administrative Expenses	2,980	5,300	-
Total Deductions	1,002,443	81,077	46,529
Net Change in Cash	16,668	-	-
Ending Cash Balance	\$ (20,747)	\$ -	\$ -

* The beginning cash balance for the pell fund as been adjusted as the prior schedule was done on the accrual basis and these schedules are done on the cash basis.

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2002

STUDENT FINANCIAL AID MODIFIED STATEMENT
OF CASH RECEIPTS AND DISBURSEMENTS

	<u>PELL</u>	<u>CWS</u>	<u>SEOG</u>
Beginning Cash Balance	\$ (20,747)	\$ -	\$ -
Additions:			
Federal Advances	1,354,812	54,248	37,024
State Matching Funds	<u>-</u>	<u>27,766</u>	<u>12,341</u>
Total Additions	<u>1,354,812</u>	<u>82,014</u>	<u>49,365</u>
Deductions:			
Distribution to Students	1,332,744	77,018	49,365
Administrative Expenses	<u>2,800</u>	<u>4,996</u>	<u>-</u>
Total Deductions	<u>1,335,544</u>	<u>82,014</u>	<u>49,365</u>
Net Change in Cash	<u>19,268</u>	<u>-</u>	<u>-</u>
Ending Cash Balance	<u>\$ (1,479)</u>	<u>\$ -</u>	<u>\$ -</u>

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2001 AND 2002

SCHEDULE OF EXPENDITURES
STUDENT FINANCIAL ASSISTANCE PROGRAMS

	2001	2002
Supplemental Education Opportunity Grant Program		
Student Grants	\$ <u>46,529</u>	\$ <u>49,365</u>
College Work Study		
Wages	\$ 75,777	\$ 77,018
Administrative Cost	5,300	4,996
	\$ <u>81,077</u>	\$ <u>82,014</u>
Pell Grant Program		
Student Grants	\$ <u>994,266</u>	\$ <u>1,334,215</u>

**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2001 AND 2002**

SCHEDULE OF ENROLLMENT STATISTICS

Semester	<u>Resident</u>	Third Week Report		<u>Total</u>
		<u>WUE</u>	<u>Nonresident</u>	
Summer 2000	172.50	-	-	172.50
Fall 2000	1,036.13	1.73	31.00	1,068.86
Spring 2001	1,079.33	0.87	23.10	1,103.30
Summer 2001	200.10	-	-	200.10
Fall 2001 **	1,138.73	3.07	15.93	1,157.73
Spring 2002 **	1,199.80	1.87	17.60	1,219.27

** Totals for Fall 2001 and Spring 2002 include late starting classes allowed for full-time equivalent calculations.

**FLATHEAD COMMUNITY COLLEGE
KALISPELL, MONTANA
COMBINED STATEMENT OF REVENUES AND EXPENDITURES
LINCOLN COUNTY CAMPUS
FOR THE YEAR ENDED JUNE 30, 2001**

	CURRENT FUNDS			PLANT FUNDS
	UNRESTRICTED		RESTRICTED	UNEXPENDED PLANT
	GENERAL OPERATING	AUXILIARY FUNDS	RESTRICTED	
REVENUE AND OTHER ADDITIONS				
Tuition and Fees	\$ 132,277	\$ -	\$ 13,382	\$ 54,200
State Appropriations	255,000	-	-	-
Local Appropriations	43,450	-	23,489	-
Federal Grants	-	-	-	-
State Grants	-	-	-	-
Private Gifts and Grants	-	-	-	-
Other Income	16,918	-	320	3,227
Sales and Services of Auxiliary Enterprises	-	45,404	-	-
Total Revenue and Other Additions	<u>447,645</u>	<u>45,404</u>	<u>37,191</u>	<u>57,427</u>
EXPENSES AND OTHER DEDUCTIONS				
Education and General Expenses				
Instruction	269,482	-	40,324	-
Public Service	15,225	-	-	-
Academic Support	166,172	-	-	-
Student Services	25,571	-	-	-
Institutional Support	-	-	-	-
Scholarships and Fellowships	9,916	-	-	-
Operation and Maintenance of Plant	75,178	-	-	16,866
Auxiliary Enterprise Expenses	-	51,016	-	-
Total Expenses and Other Deductions	<u>561,544</u>	<u>51,016</u>	<u>40,324</u>	<u>16,866</u>
Nonmandatory Transfers Between Funds	-	-	-	-
Excess (Deficiencies) of Revenues and Other Additions Over Expenses and Other Deductions	<u>\$ (113,899)</u>	<u>\$ (5,612)</u>	<u>\$ (3,133)</u>	<u>\$ 40,561</u>

**FLATHEAD COMMUNITY COLLEGE
KALISPELL, MONTANA
COMBINED STATEMENT OF REVENUES AND EXPENDITURES
LINCOLN COUNTY CAMPUS
FOR THE YEAR ENDED JUNE 30, 2002**

	CURRENT FUNDS			PLANT FUNDS
	UNRESTRICTED		RESTRICTED	UNEXPENDED PLANT
	GENERAL OPERATING	AUXILIARY FUNDS	RESTRICTED	
REVENUE AND OTHER ADDITIONS				
Tuition and Fees	\$ 145,304	\$ -	\$ 10,861	\$ 67,505
State Appropriations	292,332	-	-	-
Local Appropriations	56,449	-	23,158	-
Federal Grants	-	-	-	-
State Grants	-	-	-	-
Private Gifts and Grants	-	-	-	-
Other Income	8,067	-	876	7,822
Sales and Services of Auxiliary Enterprises	-	54,150	-	-
Total Revenue and Other Additions	<u>502,152</u>	<u>54,150</u>	<u>34,895</u>	<u>75,327</u>
EXPENSES AND OTHER DEDUCTIONS				
Education and General Expenses				
Instruction	294,609	-	40,012	-
Public Service	10,195	-	-	-
Academic Support	175,942	-	-	-
Student Services	30,509	-	-	-
Institutional Support	-	-	-	-
Scholarships and Fellowships	8,637	-	-	-
Operation and Maintenance of Plant	84,963	-	-	142,192
Auxiliary Enterprise Expenses	-	56,155	-	-
Total Expenses and Other Deductions	<u>604,855</u>	<u>56,155</u>	<u>40,012</u>	<u>142,192</u>
Nonmandatory Transfers Between Funds	-	-	-	-
Deficiencies of Revenues and Other Additions Over Expenditures and Other Deductions	<u>\$ (102,703)</u>	<u>\$ (2,005)</u>	<u>\$ (5,117)</u>	<u>\$ (66,865)</u>

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001

Federal Grantor/ Pass-Through Program Title	Federal CFDA Number	Award Number/ Pass-Through Grantor's Number	Program Award	Beginning Balance 07/01/00	Federal Sources	State Match	Other	Expended	Ending Balance 06/30/01
MAJOR PROGRAMS:									
U.S. Department of Education									
Direct Programs:									
Supplemental Educational									
Opportunity Grant Program	84.007	P007A002416	\$ 34,897	-	\$ 34,897	\$ 11,632	-	\$ 46,529	-
College Work Study	84.033	P033A002416	54,398	-	54,398	26,679	-	81,077	-
Federal Family Education Loans	84.032	N/A	446,777	-	446,777	-	-	446,777	-
Pell Grant Program	84.063	P063P002293	994,266	-	994,266	-	-	994,266	-
Total Student Financial Aid Cluster		1,530,338	-	-	1,530,338	38,311	-	1,568,649	-
Passed-Through Montana Office of Public Instruction:									
Adult Basic Education	84.002	58-6503-56-01-BG	74,703	-	74,703	25,068	35,268	135,039	-
NON-MAJOR PROGRAMS:									
U.S. Department of Education									
Passed-Through Montana Office of Public Instruction:									
** Summer Food Service Program	10.559	N/A	5,836	-	5,836	-	-	5,836	-
Passed-Through Office of the Commissioner									
of Higher Education:									
Voc. Ed. - Bridging the Divide	84.048A	SP010	50,000	-	50,000	-	-	50,000	-
Voc. Ed. - Applied Technology	84.048A	FVCC-LP01	81,014	-	81,014	-	-	81,014	-
		131,014	-	-	131,014	-	-	131,014	-
Tech Prep	84.243A	NW TP001	108,652	-	99,368	-	-	99,368	-
Direct Programs:									
TRIO Programs:									
Student Support Services	84.042	P042A970442-00A	228,431	-	185,705	-	-	185,705	-
Student Support Services	84.042	P042A970442-99A	61,838	-	31,008	-	-	31,008	-
		290,269	-	-	216,713	-	-	216,713	-
Upward Bound	84.047	P047A990071A	264,450	-	182,547	-	-	182,547	-
Upward Bound	84.047	P047A990071	61,838	-	50,228	-	-	50,228	-
		326,288	-	-	232,775	-	-	232,775	-
Total TRIO Programs		616,557	-	-	449,488	-	-	449,488	-
U.S. Department of Housing and Urban Development									
Passed-Through the University of Montana	14.228	PG-6536-03	6,012	-	6,012	-	-	6,012	-
NorCor Planning Project									
National Endowment for the Humanities									
Passed-Through the Montana Arts Council	45.025	02-4754-2001	990	-	990	-	-	990	-
Promotion for Humanities									
Corporation for National Service									
Passed-Through the University of Montana	94.005	PG-7228-09	2,228	-	2,141	-	2,705	4,846	-
Montana Campus Corps	94.005	PG-6576-10	1,684	-	1,681	-	-	1,681	-
Student Fellowship		3,912	-	-	3,822	-	2,705	6,527	-
U.S. Department of Health & Human Services									
Passed-Through Department of Social	93.575	0102HIED0002	39,259	-	36,109	-	-	33,718	2,391
and Rehabilitation Services:									
ECHO - Educational Training	93.558	15-6503-5301	29,843	-	29,843	-	-	29,843	-
Jobs - WoRC									
TOTAL FOR ALL FEDERAL AWARDS PROGRAMS			\$ 2,547,116	\$ -	\$ 2,367,523	\$ 63,379	\$ 37,973	\$ 2,466,484	\$ 2,391

* This program's activity is not reflected in the financial statements of the college.

** This program does not require the College to account for expenditures related to such receipts. Consequently, these funds are considered to have been fully expended when received.

**FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Award Number/ Pass-Through Grantor's Number	Program Award	Beginning Balance 07/01/01	Federal Sources	State Match	Other	Expended	Ending Balance 06/30/02
MAJOR PROGRAMS:									
U.S. Department of Education									
Direct Programs:									
Supplemental Educational Opportunity Grant Program	84.007	P007A012416	\$ 37,024	\$ -	\$ 37,024	\$ 12,341	\$ -	\$ 49,365	\$ -
College Work Study	84.033	P033A012416	54,248	-	54,248	27,766	-	82,014	-
Federal Family Education Loans	84.032	N/A	477,642	-	477,642	-	-	477,642	-
Pell Grant Program	84.063	P063P012293	1,334,215	-	1,334,215	-	-	1,334,215	-
Total Student Financial Aid Cluster			1,903,129	-	1,903,129	40,107	-	1,943,236	-
Passed-Through Montana Office of Public Instruction:									
Adult Basic Education	84.002	58-6503-56-02-BG	82,164	-	82,164	22,700	36,642	141,506	-
NON-MAJOR PROGRAMS:									
U.S. Department of Education									
Passed-Through Montana Office of Public Instruction:									
** Summer Food Service Program	10.559	N/A	11,098	-	11,098	-	-	11,098	-
Passed-Through Office of the Commissioner of Higher Education:									
Voc. Ed. - Bridging the Divide	84.048A	02-R003	35,000	-	34,514	-	-	34,514	-
Voc. Ed. - Applied Technology	84.048A	FVCC LP02	90,044	-	89,141	-	-	89,141	-
			125,044	-	123,655	-	-	123,655	-
Tech Prep	84.243A	NW TP001	102,023	-	89,999	-	-	89,999	-
Direct Programs:									
TRIO Programs:									
Student Support Services	84.042	P042A970442-00A	42,726	-	29,752	-	-	29,752	-
Student Support Services	84.042	P042A010802	280,916	-	209,684	-	-	209,684	-
			333,642	-	239,436	-	-	239,436	-
Upward Bound	84.047	P047A990071A	81,903	-	69,942	-	-	69,942	-
Upward Bound	84.047	P047A990071	265,887	-	202,947	-	-	202,947	-
			347,790	-	272,889	-	-	272,889	-
Total TRIO Programs			681,432	-	512,325	-	-	512,325	-
National Endowment for the Humanities									
Passed-Through the Montana Arts Council Honors Symposium	45.129	25-1-17	3,165	-	3,165	-	-	3,165	-
Corporation for National Services									
Passed-Through the Montana Arts Council AmeriCorps Project	94.005	PG-7292-09	15,804	-	11,192	-	4,526	15,718	-
U.S. Department of Health & Human Services									
Passed-Through Department of Social and Rehabilitation Services:									
ECHO - Educational Training	93.575	0202HIED0002	34,886	2,391	31,024	-	-	33,415	-
TANF - Passport Project	93.558	02-PP011	33,320	-	31,877	-	-	31,877	-
Jobs - WoRC	93.558	58-6503-53-02	9,000	-	8,951	-	-	8,951	-
			42,320	-	40,828	-	-	40,828	-
TOTAL FOR ALL FEDERAL AWARDS PROGRAMS			\$ 3,001,065	\$ 2,391	\$ 2,808,579	\$ 62,807	\$ 41,168	\$ 2,914,945	\$ -

* This program's activity is not reflected in the financial statements of the college.

** This program does not require the College to account for expenditures related to such receipts. Consequently, these funds are considered to have been fully expended when received.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Legislative Audit Committee
of the Montana State Legislature

We have audited the general purpose financial statements of Flathead Valley Community College as of and for the years ended June 30, 2001 and 2002 and have issued our report thereon dated September 27, 2002. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Flathead Valley Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to the management of Flathead Valley Community College in the accompanying schedule of findings on pages 37-39 as finding #02-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Flathead Valley Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Flathead Valley Community College's ability to record, process, summarize and report financial data consistent with assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings on pages 37-39 as findings #02-01, #02-02, and #02-03.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that any of the reportable conditions described in the accompanying schedule of findings is a material weakness.

This report is intended for the information of the Legislative Audit Committee of the Montana State Legislature, Flathead Valley Community College's management, federal agencies and pass-through entities, and is not intended to be, and should not be used by anyone other than these specified parties.

CHMS, P.C.

CHMS, P.C.
Certified Public Accountants

September 27, 2002



CHMS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 1067
104 Second Avenue S.W.
Sidney, Montana 59270
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Legislative Audit Committee
of the Montana State Legislature

Compliance

We have audited the compliance of Flathead Valley Community College with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the years ended June 30, 2001 and 2002. Flathead Valley Community College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings on pages 37-39. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Flathead Valley Community College's management. Our responsibility is to express an opinion on the Flathead Valley Community College's compliance based on our audit.

We conducted our audit of compliance in accordance the generally accepted auditing standards; the standards applicable to financial audits contained *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Flathead Valley Community 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. Our audit does not provide a legal determination of Flathead Valley Community College's compliance with those requirements.

In our opinion, Flathead Valley Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2001 and 2002.

Internal Control Over Compliance

The management of Flathead Valley Community College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Flathead Valley Community College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Flathead Valley Community College's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings on pages 37-39 as findings #02-01, #02-02, and #02-03.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely manner by employees in the normal course of performing their assigned functions.

Our consideration of the internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that any of the reportable conditions described in the accompanying schedule of findings are material weaknesses.

This report is intended for the information of the Legislative Audit Committee of the Montana State Legislature, Flathead Valley Community College's management, federal agencies and pass-through entities, and is not intended to be, and should not be used by anyone other than these specified parties.



CHMS, P.C.
Certified Public Accountants

September 27, 2002

**FLATHEAD COMMUNITY COLLEGE
KALISPELL, MONTANA
SCHEDULE OF FINDINGS
YEARS ENDED JUNE 30, 2001 AND 2002**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Reportable conditions identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness identified?	No
Reportable conditions identified not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Award Year</u>	<u>Name of Federal Program</u>
Various - see schedule	00-01 & 01-02	Student Financial Aid Cluster
84.002	00-01 & 01-02	Adult Basic Education

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

**FLATHEAD COMMUNITY COLLEGE
KALISPELL, MONTANA
SCHEDULE OF FINDINGS (CONTINUED)
YEARS ENDED JUNE 30, 2001 AND 2002**

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding #02-01 – Cash Reconciliations

During the audit period, the general ledger cash accounts were not reconciled to the County Treasurer's reports on a monthly basis.

Recommendation

Cash on the general ledger needs to be reconciled to the County Treasurer's Report on a timely basis each month.

Finding #02-02 - Plant Fund Detail Records

The detail records for the fixed assets in the Investment in Plant Fund have not been updated since June 30, 1998. As a result, the fixed asset detail records do not match the asset balances in the Investment in Plant Fund.

Recommendation

The detail records for fixed assets should be updated each year to reflect additions and deletions.

Finding #02-03 - Reconciliation of Subsidiary Ledgers

Subsidiary ledgers of payables and receivables are maintained. The general ledger accounts are not reconciled to these subsidiary ledgers on a timely basis.

Recommendation

The general ledger accounts need to be reconciled to the subsidiary ledgers on a timely basis.

Finding #02-04 - Purchase Of Property

The College purchased computers with a total contract cost exceeding \$25,000. The College did not follow formal bid procedures for that purchase. Montana Code Annotated §20-15-104 requires that whenever the proposed contract costs are more than \$25,000, the board of trustees shall solicit formal bids and advertise once each week for at least 2 weeks in a newspaper published in each county wherein the area of the district lies, calling for bids to perform such work or furnish such supplies.

Recommendation

The College should develop and follow formal bid procedures that conform to the requirements of Montana Code Annotated §20-15-104.

**FLATHEAD COMMUNITY COLLEGE
KALISPELL, MONTANA
SCHEDULE OF FINDINGS (CONTINUED)
YEARS ENDED JUNE 30, 2001 AND 2002**

PRIOR YEARS' RECOMMENDATIONS

A summary of the recommendations from fiscal years June 30, 1999 and 2000 is as follows:

<u>Finding</u>	<u>Status</u>
Finding #00-01 – Cash Reconciliations	Not Implemented – Finding #02-01
Finding #00-02 – Plant Fund Detail Records	Not Implemented – Finding #02-02
Finding #00-03 – Underreporting Continuing Education Revenues – revenues were underreported due to non-integration of computer systems	Implemented
Finding #00-04 – Reconciliation of Subsidiary Ledgers	Not Implemented – Finding #02-03
Finding #00-05 – Pell Grant Cash Drawdowns – drawdowns on conversion to GAPS by Department of Education were overstated	Implemented

SECTION III – FEDERAL AWARD FINDINGS

Cash Reconciliations - See Finding #02-01 above.

Plant Fund Detail Records - See Finding #02-02 above.

Reconciliation of Subsidiary Ledgers - See Finding #02-03 above.



*Improving Lives
Through Learning*

Flathead Valley Community College

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info@fvcc.cc.mt.us • www.fvcc.cc.mt.us

October 22, 2002

Tara Lee Hill, CPA
CHMS, P.C.
P.O. Box 1067
Sidney, MT 59270

Dear Tara,

Enclosed you will find the College's response to the audit findings for Flathead Valley Community College for the fiscal years ended 6/30/01 and 6/30/02. I can be reached at (406)756-3808 if you have any questions regarding our responses.

Thank you.

Sincerely,

Faith Hodges
Acting Chief Financial Officer



Improving Lives
Through Learning

Flathead Valley Community College

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Recommendation

Cash on the general ledger needs to be reconciled to the County Treasurer's Report on a timely basis each month.

Concur. The County Treasurer's report is compared to general ledger cash balances each month and is reconciled for differences. All previous delays in reconciling cash were attributable to problems associated with software updates and conversions. These issues are corrected and the cash reconciliation process is current.

Recommendation

The detail records for fixed assets should be updated each year to reflect additions and deletions.

Concur. To expedite this very important process the College has hired a private firm to provide asset valuation, inventory and advisory services. This firm will conduct an on-site inventory of fixed assets, and will provide third-party verification of asset listings. The assets will be listed on detailed reports that the College will use to adjust the Investment in Plant Fund asset balances and to update the fixed asset inventory subsidiary software. Finally, the firm will provide background information to facilitate the College's implementation of the Governmental Accounting Standards Board's Statements 34 and 35.

Recommendation

The general ledger accounts need to be reconciled to the subsidiary ledgers on a timely basis.

Concur. The reconciliation of the subsidiary ledgers to the general ledger control accounts is scheduled for performance on a recurring and timely basis throughout each fiscal year.

Recommendation

The College should develop and follow formal bid procedures that conform to the requirements of Montana Code Annotated §20-15-104.

Concur. Copies of this and other applicable State Codes are a permanent part of the College's procedures for formal bid processes, and those requirements will be strictly followed on all purchasing processes.