

**STATE OF MONTANA  
FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY  
INFORMATION**

**FISCAL YEARS ENDED JUNE 30, 2003 AND 2004**

CONDUCTED UNDER CONTRACT BY  
C H M S, P.C.  
CONTACT: TARA LEE HILL, CPA  
PHONE #: (406) 433-2092

**FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA  
JUNE 30, 2003 AND 2004**

**TABLE OF CONTENTS**

	<u>Page</u>
Transmittal Letter.....	1
Appointive and Administrative Officials .....	2
Recommendations.....	3
Prior Audit Recommendations .....	3
Management's Discussion and Analysis .....	4 – 10
<b>INDEPENDENT AUDITOR'S REPORT .....</b>	<b>11 - 12</b>
 <b>FINANCIAL STATEMENTS</b>	
Statements of Net Assets .....	13
Statement of Financial Position – Flathead Valley Community College Foundation – December 31, 2003 .....	14
Statements of Revenues, Expenses, and Changes in Net Assets .....	15
Statement of Activities – Flathead Valley Community College Foundation – For the Year Ended December 31, 2003.....	16
Statements of Cash Flows .....	17
Statement of Cash Flows – Flathead Valley Community College Foundation – For the Year Ended December 31, 2003 .....	18
Notes to the Financial Statements .....	19– 35
 <b>SUPPLEMENTARY INFORMATION</b>	
Functional Classification of Operating Expenses For the Years Ended June 30, 2003 and 2004 .....	36
Student Financial Aid Modified Statement of Cash Receipts And Disbursements, For the Year Ended June 30, 2003 .....	37
Student Financial Aid Modified Statement of Cash Receipts And Disbursements, For the Year Ended June 30, 2004 .....	38

**FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA  
JUNE 30, 2003 AND 2004**

**TABLE OF CONTENTS**

	<u>Page</u>
Schedule of Expenditures – Student Financial Assistance Programs, For the Years Ended June 30, 2003 and 2004 .....	39
Schedule of Enrollment Statistics, For the Years Ended June 30, 2003 and 2004 .....	40
Schedule Of Expenditures Of Federal Awards, For The Year Ended June 30, 2003.....	41
Schedule Of Expenditures Of Federal Awards, For The Year Ended June 30, 2004.....	42
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	43 - 44
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....	45 – 46
SCHEDULE OF FINDINGS .....	47 – 48
College Reply .....	49

# LEGISLATIVE AUDIT DIVISION

Scott A. Seecat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

June 2005

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, 2004.

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,

A handwritten signature in black ink, appearing to read "Scott A. Seecat", with a long horizontal flourish extending to the right.

Scott A. Seecat  
Legislative Auditor

04C-04

**FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA**

**APPOINTIVE AND ADMINISTRATIVE OFFICIALS**

**Montana Board of Regents of Higher Education**

John Mercer	Chair
Mike Foster	Vice-Chair
Richard Roehm	Regent
Mark J. Semmens	Regent
Lila Taylor	Regent
Lynn Morrison-Hamilton	Regent
Kala French	Student Regent
Judy Martz	Governor*
Linda McCulloch	Superintendent of Public Instruction*

**Office of the Commissioner of Higher Education**

Sheila Sterns	Commissioner of Higher Education
Rodger Barber	Deputy Commission for Academic And Student Affairs
Rod Sundsted	Associate Commissioner for Fiscal Affairs
Pam Joehler	Director of Budget and Accounting
Cathy Swift	Chief Legal Counsel

**Flathead Valley College Board of Trustees**

Robert Nystuen	Chairperson
John Engebretson	Vice-Chairperson
Thomas Harding	Trustee
Alison Young	Trustee
Jeanne Tallman	Trustee
Mark Holston	Trustee
Kathleen Young	Trustee
	Trustee

**Administration**

Dr. Jane Karas	President
Sheila Gestring	Chief Financial Officer

\* Ex officio member of the Board of Regents of Higher Education

**FLATHEAD VALLEY COMMUNITY COLLEGE  
YEARS ENDED JUNE 30, 2003 AND 2004**

**RECOMMENDATIONS**

**FINDING #04-01 – CASH RECONCILIATIONS**

During the audit period, the general ledger cash accounts were not accurately 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 and any differences in the reconciliation investigated on a timely basis.

**College Response/Explanation on Non-implementation**

During the period of this audit, the Business Services Office of Flathead Valley Community College (FVCC) endured more than 100% turnover. Despite the level of turnover, FVCC was able to correct and implement three of the four prior audit findings, with partial implementation of the fourth. The remaining fourth finding was a result of the County Treasurer's report reflecting a larger balance than the general ledger cash accounts of the college. This was caused by a timing problem regarding the cash transactions at the Lincoln County Campus (LCC). During this audit period, the cash transactions at LCC were first deposited with the Lincoln County Treasurer. At the close of the month, for the Lincoln County Treasurer, a warrant for those funds would be issued and deposited with all other college funds with the Flathead County Treasurer. At the close of that month, the college would receive the report needed to conduct the necessary reconciliations. This resulted in an almost two month delay in the necessary reconciliation.

Since the conclusion of this audit, FVCC has changed this procedure in cooperation with the Lincoln County Treasurer to deposit the cash transactions directly into the Flathead County Treasurer's account. The procedural change will remove the delay and correct the audit finding.

**PRIOR YEARS' RECOMMENDATIONS**

A summary of the recommendations from fiscal years June 30, 2001 and 2002 is as follows:

<u>Finding</u>	<u>Status</u>
Finding #02-01 – Cash Reconciliations	Partially Implemented
Finding #02-02 – Plant Fund Detail Records	Implemented
Finding #02-03 – Reconciliation of Subsidiary Ledgers	Implemented
Finding #02-04 – Purchase of Property	Implemented



*Improving Lives  
Through Learning*

# Flathead Valley Community College

777 Grandview Drive, Kalispell, MT 59901 • 406/756/3822 • Fax 406/756/3815  
info@fvcc.cc.mt.us • www.fvcc.cc.mt.us

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEARS 2003 AND 2004**

Flathead Valley Community College (FVCC) is dedicated to improving lives through learning. FVCC is located on two campuses located in Kalispell and Libby, Montana.

### **Reading the Annual Financial Report**

The Governmental Accounting Standards Board (GASB) issued Statement Number 35, June of 1999. GASB Statement 35 represented the most significant change in FVCC financial statement reporting in over a decade. A requirement of GASB 35 is the Management Discussion and Analysis (MD&A) component of the annual financial statements. This component includes narrative descriptions of the FVCC financial condition, results of operations and cash flows. The MD&A's purpose is to aid readers in understanding the accompanying financial statements through analysis of FVCC's financial activities based on currently known facts and conditions. This MD&A should be read in conjunction with the accompanying financial statements and footnote disclosures.

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial activities of FVCC for fiscal years ended June 30, 2003 and 2004. Fiscal year 2003 was the implementation year for FVCC, and the first year financial activities were to be presented in the new format. Because fiscal year 2003 was the implementation year, comparative data will only include fiscal years 2003 and 2004.

### **How the Financial Statements Relate to Each Other**

With the advent of GASB 35, three new financial statements are used to present the financial information for FVCC. The financial statements are the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

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

The most basic relationships between the statements are described below. The Statement of Net Assets presents a snap shot of the financial condition of FVCC on June 30. The Statement of Revenues, Expenses, and Changes in Net Assets presents the results of activities for FVCC

throughout the fiscal year. The Statement of Cash Flows indicates where and how cash was utilized and provided in order to operate throughout the fiscal year.

**Statement of Net Assets**

Assets and liabilities are presented in a classified format. This format differentiates between current and non-current assets and liabilities. Net Assets (assets less liabilities) are presented in three categories applicable to FVCC:

- Unrestricted
- Restricted – Expendable  
– Nonexpendable
- Invested in Capital Assets, Net of Related Debt

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

The following is a summary of the Statement of Net Assets for each fiscal year:

**CONDENSED STATEMENT OF NET ASSETS**

	At 6/30/04	At 6/30/03
Total Current Assets	\$6,624,681	\$5,056,802
Total Non-Current Assets	\$8,672,805	\$8,218,379
<b>TOTAL ASSETS</b>	<b>\$15,297,486</b>	<b>\$13,275,181</b>
Total Current Liabilities	\$2,244,107	\$1,497,924
Total Non-Current Liabilities	\$3,173,300	\$3,796,681
<b>TOTAL LIABILITIES</b>	<b>\$5,417,407</b>	<b>\$5,294,605</b>
Invested in capital, net of related debt	\$5,515,692	\$4,797,951
Restricted-expendable	\$2,207,177	\$1,542,510
Unrestricted	\$2,157,210	\$1,640,115
<b>TOTAL NET ASSETS</b>	<b>\$9,880,079</b>	<b>\$7,980,576</b>

Information significant to reading the Statement of Net Assets:

- The Net Assets Invested in capital, net of related debt is primarily made up of the value of the buildings and the land held by the College.
- Restricted-expendable Net Assets are held primarily in the grant and debt service activities of the College.
- Unrestricted Net Assets is made up of operating activities, auxiliary activities, and also numerous designated activities which include funds designated as follows:

1. **Student Activity Fee** – Any change in the student activity fee must be approved by a majority of the voting students, and approved by the Board of Trustees. The Student Activity Fee will be deposited into an agency account

and will be administered by the Student Senate for the purpose of supporting programs, services, and activities for College students. 50% of the Student Activity Fee is specifically designated for the athletics programs of the College.

2. **Laboratory Fees** – Laboratory fees are intended to augment, not replace, basic operating expenses. They may be assessed and used for:
  - a. Consumable supplies (including computer software)
  - b. Special facility rental or services
  - c. Unusual vehicle costs

Laboratory fees are intended for use during the semester collected. The amount will be recommended by the instructor through the division chair to the appropriate administrator, with approval beginning in Business Services and final approval granted by the President.

Laboratory fees are not intended for:

- a. Equipment
  - b. Continuing personnel costs
  - c. Roll-over (accumulation of funds for a future purchase)
3. **Building Fees** – Building fees shall be collected specifically for the purpose of purchasing or selling land, installing major utilities, infrastructure requirements, completing major landscaping, purchasing or selling buildings, lease-purchasing buildings, constructing buildings, remodeling buildings, demolishing buildings, constructing parking lots, constructing roadways, constructing other campus improvements, and purchasing architectural and engineering services related to these buildings fee purposes.
4. **Computer Fees** – Computer fees shall be collected for the purchase or lease of computer equipment, software, maintenance or related items which will benefit the instructional programs. Expenditures may not be made for recurring personnel services.
5. **Equipment Fees** - Equipment fees shall be collected for the purchase, lease or maintenance of equipment and other related expenditures which will provide a primary benefit to the educational programs including the library.
6. **Grounds Maintenance Fee** – Grounds Maintenance Fees shall be collected for the construction, maintenance and safety of hard surface areas on the campus.

### **Statement of Revenues, Expenses, and Changes in Net Assets**

The Statement of Revenues, Expenses, and Changes in Net Assets reflects the results of operations for each fiscal year, distinguishing between operating and non-operating revenues and

expenses as defined by GASB 35. GASB 35 has defined appropriations (state and local) as non-operating revenues, thus, FVCC is showing an operating loss \$4,962,455 for FY2003 and \$4,519,041 for FY2004. Once the appropriations dollars are considered, the results become a gain of \$969,605 for FY2003 and \$1,954,779 for FY2004. This is a more useful measure of FVCC regular activities. The bottom line "Change in net assets" was an increase in net assets of \$846,756 for FY2003 and \$1,899,503 for FY2004.

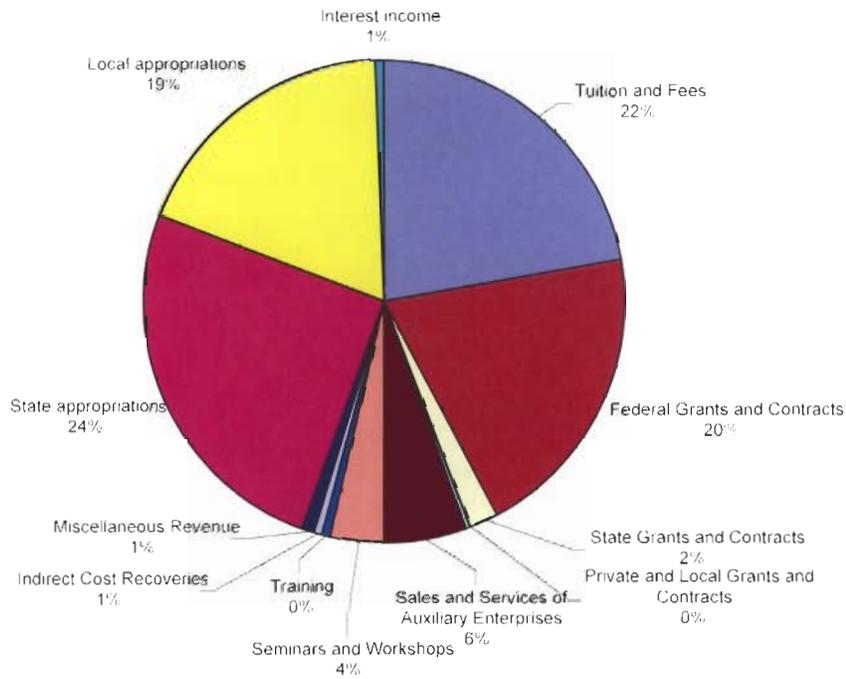
	<b>For Fiscal Year Ended 6/30/04</b>	<b>For Fiscal Year Ended 6/30/03</b>
Operating Revenues	\$ 9,744,274	\$ 7,537,088
Operating Expenses	\$ (14,263,315)	\$ (12,499,543)
Operating Loss	\$ (4,519,041)	\$ (4,962,455)
Net Nonoperating Revenues/(Expenses)	\$ 6,418,544	\$ 5,809,211
<b>Change in Net Assets</b>	<b>\$ 1,899,503</b>	<b>\$ 846,756</b>
FY2003 Beginning Net Assets - Restated	\$ 7,980,576	\$ 11,774,270
<b>Adjustment to Accounts Receivables</b>		\$ (191,168)
<b>GASB 35 Adjustment-Capital Assets</b>		\$ (1,092,621)
<b>GASB 35 Adjustment-Record Accumulated Depreciation</b>		\$ (3,356,661)
Net Assets - end of year	<u>\$ 9,880,079</u>	<u>\$ 7,980,576</u>

Information regarding specific revenue and expense items are:

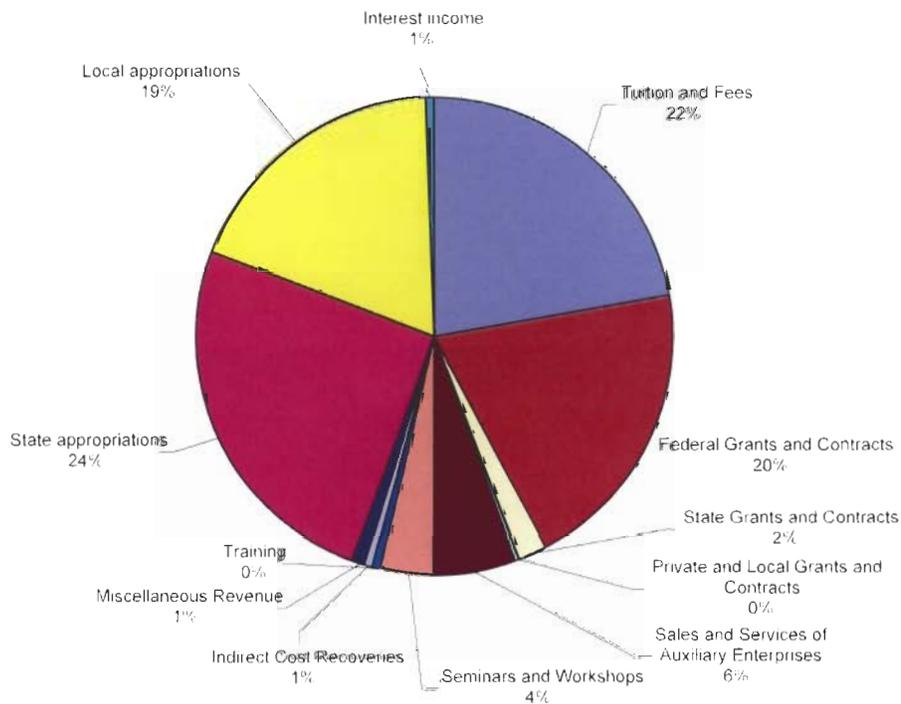
- Tuition and fees: An increase of 7% on tuition rates, as well as an approximately 16% increase in full time equivalent student growth, as well as a one time Heavy Equipment Operations program delivery fee contributed to the 30% growth in net tuition and fee revenues.
- Federal grants and contracts: The 25% increase between fiscal year 2003 and 2004 is attributable to two large grants. The Rural Utilities Services grant was awarded to bring rural consortium partners closer through the use of interactive television or ITV. This grant earned roughly \$300,000 in FY2004. The second large grant is a federal appropriation called Project THEO, and began in January of FY2004 earning approximately \$120,000. The total award for the Project THEO grant is just under \$700,000 which will continue into FY2005.
- Auxiliary Services: Revenue increased by approximately 35% between FY2003 and FY2004 for two primary reasons 1) The food service became a college operation in FY2004 and was an independent contractor in FY2003, and 2) The 16% full time equivalent student growth.
- Operating Expenses: Operating expenses increased by 14% between FY2003 and FY2004. This is largely attributed to the additional expenses associated with a student full time equivalent growth of 16%, the increases in health and liability insurance, and the increases in utilities.

All revenues by source are illustrated below (includes all funds, not just general operating):

## FY2003 REVENUES

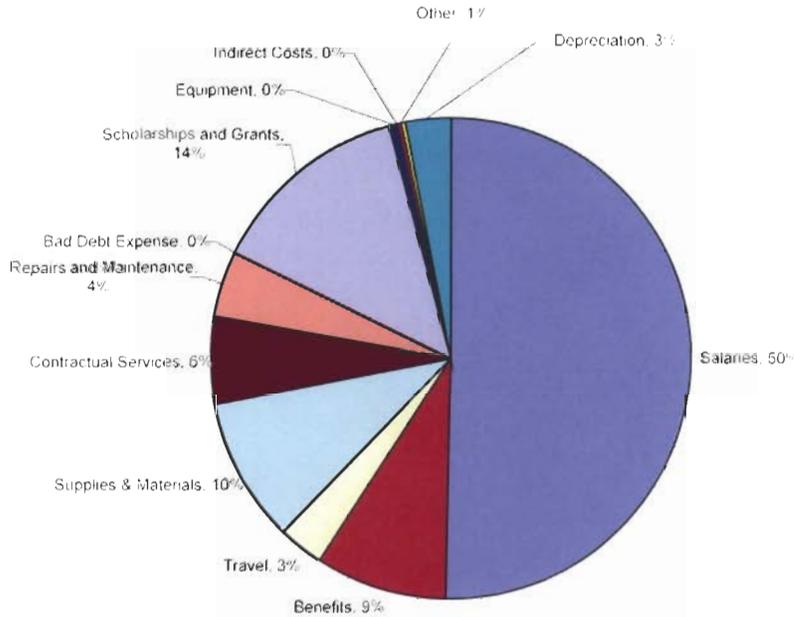


## FY2004 REVENUES

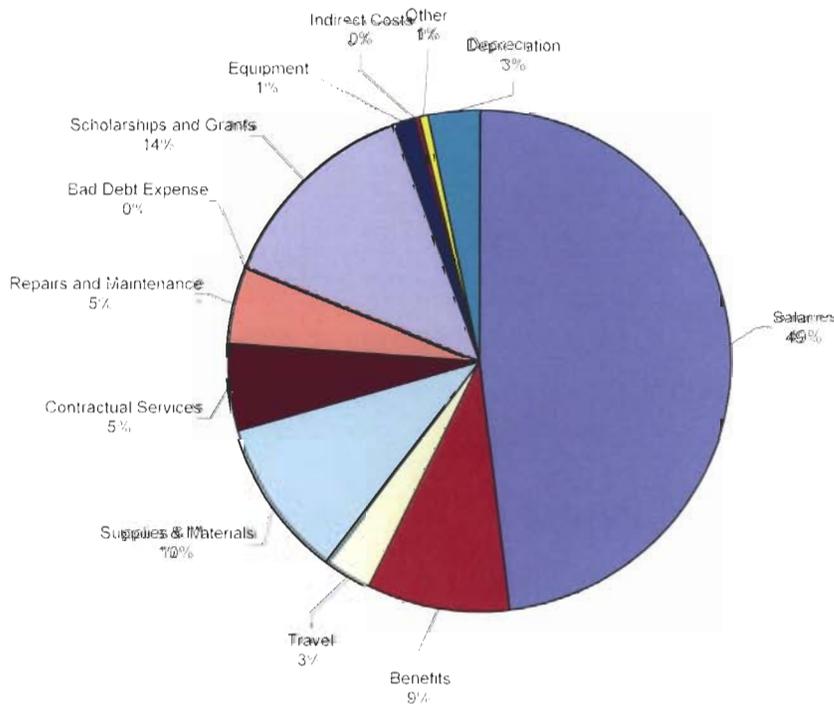


Expenses by natural classification are illustrated below for each fiscal year (includes all funds, not just general operating):

### FY2003 EXPENSES



### FY2004 EXPENSES



## Statement of Cash Flows

The Statement of Cash Flows summarizes where cash was provided or utilized throughout the fiscal year. Cash flows are presented in operating activities, non-capital financing activities, capital and related financing activities and investing activities. The sum of these four categories is the net change in cash which was a decrease of \$513,702 for FY2003 and an increase of \$107,509 for FY2004. The College refunded the existing bonds to obtain a more favorable interest rate on the obligation, and in the process made a large principle payment of \$1,135,000 during FY2003. This large cash disbursement must be considered when analyzing the change in cash for FY2003.

	<b>For Fiscal Year Ended 6/30/04</b>	<b>For Fiscal Year Ended 6/30/03</b>
Cash Provided (Used) by:		
Operating Activities	\$ (5,252,963)	\$ (4,655,878)
Noncapital Financing Activities	\$ 6,525,622	\$ 5,937,535
Capital and Related Financing Activities	\$ (1,224,866)	\$ (1,865,332)
Investing Activities	\$ 59,716	\$ 69,973
Net Increase (Decrease) in Cash	<u>\$ 107,509</u>	<u>\$ (513,702)</u>
Cash and Cash Equivalents, beginning of year	<u>\$ 3,771,852</u>	<u>\$ 4,285,554</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 3,879,361</u></u>	<u><u>\$ 3,771,852</u></u>

## **Significant Pending Financial Issues**

The College was awarded two new grants for FY2005. The first is a Career Pathways Initiative award of \$100,000. The second award is for approximately \$30,000 and is called Bridging the Divide.



**CHMS, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 1067  
104 Second Avenue S.W.  
Sidney, Montana 59270  
406-433-2092  
1-800-676-2467  
FAX: 406-433-2095

## INDEPENDENT AUDITOR'S REPORT

Legislative Audit Committee  
Of the Montana State Legislature

We have audited the accompanying basic financial statements of Flathead Valley Community College, Kalispell, Montana, as of and for the years ended June 30, 2003 and 2004, as listed in the table of contents. These 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 did not audit the financial statements of the College's discretely presented component unit. Those statements were audited by another auditor whose report thereon has been furnished to us, and our opinion insofar as it relates to the amounts included for the audited component unit of the College, is based on the report of the other auditor.

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 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 financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinion.

As described in Note A, the College has implemented a new financial reporting model as required by provisions of GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* – an amendment of GASB Statement No. 34.

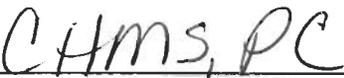
As discussed in Note A, the College has implemented GASB Statement No. 39 *Determining Whether Certain Organizations are Component Units* – an amendment of GASB Statement No. 14.

In our opinion, based on our audit and the report of the other auditor, the 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, 2003 and 2004, and the results of its operations and cash flows 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 May 6, 2005, 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, grants 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 the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The managements' discussion and analysis on pages 4 - 10 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Schedule of Functional Classification of Operating Expenses on page 36, the Schedules of Student Financial Aid Modified Statement of Cash Receipts and Disbursements on pages 37 - 38, the Schedule of Expenditures – Student Financial Assistance Programs on page 39, and the Schedule of Enrollment Statistics on page 40 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedules of expenditures of Federal Awards on pages 41 – 42 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*. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
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CHMS, P.C.  
Certified Public Accountants

May 6, 2005

**FLATHEAD COMMUNITY COLLEGE  
KALISPELL, MONTANA  
STATEMENTS OF NET ASSETS  
JUNE 30,**

<b>ASSETS</b>	2004	2003
<b>Current Assets</b>		
Cash and Cash Equivalents - Note C	\$ 3,725,524	\$ 3,573,302
Taxes Receivable - Note A	228,659	223,037
Grants Receivable - Note A	731,221	88,062
Accounts Receivable, Net - Note A	1,109,260	937,730
Prepaid Expense	640,729	58,833
Deposits	6,748	-
Current Portion of Bond Issuance Costs	11,528	11,528
Inventory - Note A	171,012	164,310
Total Current Assets	6,624,681	5,056,802
<b>Noncurrent Assets</b>		
Restricted Cash and Cash Equivalents - Note C	153,837	198,550
Noncurrent Portion of Bond Issuance Costs	23,055	34,583
Capital Assets - Note D	12,596,864	11,675,753
Less: Accumulated Depreciation	(4,100,951)	(3,690,507)
Total Noncurrent Assets	8,672,805	8,218,379
<b>Total Assets</b>	15,297,486	13,275,181
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable and Accrued Liabilities	165,423	192,317
Accrued Payroll	35,028	90,208
Deferred Revenue - Tuition and Fees	859,990	669,505
Deferred Revenue - Grants	64,583	58,246
Tuition Deposits	693	693
Due to Student Organizations	204,540	147,119
Current Portion of Capital Lease Obligations	23,896	-
Interest Payable	54,143	17,240
Current Portion of Compensated Absences Payable - Note E	180,284	91,625
Current Portion of Long-Term Obligations - Note F	655,527	230,971
Total Current Liabilities	2,244,107	1,497,924
<b>Noncurrent Liabilities</b>		
Noncurrent Portion of Capital Lease Obligations - Note G	25,639	-
Noncurrent Compensated Absences Payable - Note E	846,863	840,357
Noncurrent Portion of Long-Term Obligations - Note F	2,300,798	2,956,324
Total Noncurrent Liabilities	3,173,300	3,796,681
<b>Total Liabilities</b>	5,417,407	5,294,605
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	5,515,692	4,797,951
Restricted for:		
Expendable:		
Student Loans	5,050	4,300
Debt Service	752,418	270,104
Grants	28,363	18,466
Memorial Fund	267,172	-
Scholarships, Research, Instruction, and Other	1,154,174	1,249,640
Unrestricted	2,157,210	1,640,115
<b>Total Net Assets</b>	\$ 9,880,079	\$ 7,980,576

See notes to the financial statements.

**FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2003**

<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 609,500
Investments	1,175,579
Pledges Receivable	522,057
Other Assets	35,239
Software	<u>3,251</u>
<b>Total Assets</b>	<b>\$ <u>2,345,626</u></b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>Liabilities</b>	
Accounts Payable and Other Liabilities	\$ 5,941
Foundation Scholarships Payable	42,435
Other Scholarships Payable	<u>93,721</u>
<b>Total Liabilities</b>	<b><u>142,097</u></b>
<b>Net Assets</b>	
Unrestricted	400,028
Temporarily Restricted	563,584
Permanently Restricted	<u>1,239,917</u>
<b>Total Net Assets</b>	<b><u>2,203,529</u></b>
<b>Total Liabilities and Net Assets</b>	<b>\$ <u>2,345,626</u></b>

See Note A to the financial statements.

**FLATHEAD COMMUNITY COLLEGE**  
**KALISPELL, MONTANA**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30,**

<b>REVENUES</b>	2004	2003
Operating Revenues		
Tuition and Fees (net of scholarship allowances of \$286,583 and \$249,165, respectively)	\$ 3,912,189	\$ 3,001,468
Federal Grants and Contracts	3,414,206	2,723,218
State Grants and Contracts	299,733	255,251
Private and Local Grants and Contracts	320,799	42,913
Indirect Cost Recoveries	76,786	72,159
Seminars and Workshops (net of waivers of \$363 and \$145, respectively)	528,918	490,339
Training	66,137	57,348
Auxiliary Activities:		
Bookstore	875,071	712,803
Food Services	143,405	36,669
Other Operating Revenues	107,030	144,920
Total Operating Revenues	9,744,274	7,537,088
<b>EXPENSES</b>		
Operating Expenses		
Salaries	6,846,686	6,268,434
Benefits	1,323,899	1,133,372
Travel and Entertainment	439,908	388,279
Supplies	1,460,295	1,217,975
Contracted Services	772,028	708,787
Repairs and Maintenance	742,505	552,979
Bad Debt Expense	746	6,654
Scholarships and Grants	1,897,673	1,715,687
Noncapitalized Equipment	197,763	55,985
Indirect Costs	37,683	18,565
Other Operating Expenses	77,929	63,657
Depreciation Expense	466,200	369,169
Total Operating Expenses	14,263,315	12,499,543
Operating Loss	(4,519,041)	(4,962,455)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest Income	59,716	69,973
State Appropriations	3,756,091	3,422,333
Local Appropriations	2,717,729	2,509,727
Gain (Loss) on Disposal	(6,573)	1,352
Interest Payments	(108,419)	(194,174)
Total Nonoperating Revenues (Expenses)	6,418,544	5,809,211
<b>INCREASE IN NET ASSETS</b>	1,899,503	846,756
Net Assets, Beginning of Year	7,980,576	11,774,270
<b>Prior Period Adjustments - Note M</b>		
Adjustment to Accounts Receivable	-	(191,168)
GASB 35 Adjustment - Capital Assets	-	(1,092,621)
GASB 35 Adjustment to Record Accumulated Depreciation	-	(3,356,661)
Beginning Net Assets, as Restated	7,980,576	7,133,820
Net Assets, End of Year	\$ 9,880,079	\$ 7,980,576

See notes to the financial statements.

**FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Pledges and Other Public Support	\$ 85,778	\$ 86,688	\$ 21,258	\$ 193,724
In-Kind Donations	132,919	-	-	132,919
Net Realized and Unrealized Investment Gain	38,143	81,016	-	119,159
Investment Income	38,096	-	-	38,096
Endowments	-	-	522,820	522,820
Net Assets Released from Restrictions	<u>98,777</u>	<u>(98,777)</u>	<u>-</u>	<u>-</u>
 Total Revenues, Gains, and Other Support	 <u>393,713</u>	 <u>68,927</u>	 <u>544,078</u>	 <u>1,006,718</u>
<b>ALLOCATIONS AND EXPENSES</b>				
Program Services				
Scholarship Awards	42,435	-	-	42,435
Program Disbursements	72,861	-	-	72,861
Other Programs Expenses	23,020	-	-	23,020
Prizes	18,380	-	-	18,380
Supporting Services				
Professional Fees	9,132	-	-	9,132
Investment Management Fees	9,410	-	-	9,410
Management and General	<u>78,301</u>	<u>-</u>	<u>-</u>	<u>78,301</u>
 Total Allocations and Expenses	 <u>253,539</u>	 <u>-</u>	 <u>-</u>	 <u>253,539</u>
 <b>INCREASE IN NET ASSETS</b>	 140,174	 68,927	 544,078	 753,179
Net Assets, Beginning of Year	<u>259,854</u>	<u>494,657</u>	<u>695,839</u>	<u>1,450,350</u>
Net Assets, End of Year	<u>\$ 400,028</u>	<u>\$ 563,584</u>	<u>\$ 1,239,917</u>	<u>\$ 2,203,529</u>

See Note A to the financial statements.

**FLATHEAD COMMUNITY COLLEGE  
KALISPELL, MONTANA  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30,**

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and Fees	\$ 3,930,398	\$ 3,063,959
Grants and Contracts	3,397,916	3,012,572
Payments to Employees	(6,806,701)	(6,031,358)
Payments for Benefits	(1,323,899)	(1,133,372)
Payments to Suppliers	(4,036,976)	(3,239,384)
Payments for Scholarships and Fellowships	(1,897,673)	(1,715,687)
Collection of Loans to Students	-	11,361
Auxiliary Enterprise Charges		
Bookstore	875,071	712,803
Food Services	143,405	36,669
Other Receipts (Payments)	465,496	626,559
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(5,252,963)</b>	<b>(4,655,878)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations	3,756,091	3,422,333
Local Appropriations	2,712,110	2,492,717
Student Organization Agency Transactions	57,421	22,485
<b>NET CASH PROVIDED BY NONOPERATING ACTIVITIES</b>	<b>6,525,622</b>	<b>5,937,535</b>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from the Sale of Capital Assets	5,406	3,250
Proceeds from Capital Debt/Capital Leases	72,240	2,400,000
Purchases of Capital Assets	(988,848)	(401,588)
Principal Paid on Capital Debt /Capital Leases	(253,676)	(3,624,255)
Bond Issuance Costs	-	(49,954)
Interest Paid on Capital Debt	(59,988)	(192,785)
<b>NET CASH USED BY CAPITAL FINANCING ACTIVITIES</b>	<b>(1,224,866)</b>	<b>(1,865,332)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Income	59,716	69,973
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>59,716</b>	<b>69,973</b>
Net Increase (Decrease) in Cash and Cash Equivalents	107,509	(513,702)
Cash and Cash Equivalents, Beginning of Year	3,771,852	4,285,554
Cash and Cash Equivalents, End of Year	<b>\$ 3,879,361</b>	<b>\$ 3,771,852</b>
<b>RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (4,519,041)	\$ (4,962,455)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation Expense	466,200	369,169
Changes in Net Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(814,689)	46,039
Increase in Inventory	(6,702)	(38,027)
Increase in Deposits	(6,748)	-
(Increase) Decrease in Prepaid Expenses	(581,896)	35,295
Increase (Decrease) in Accounts Payable	(82,074)	(319,136)
Increase in Deferred Revenues	196,822	35,657
Increase in Compensated Absences Payable	95,165	177,580
<b>Net Cash Used By Operating Activities</b>	<b>\$ (5,252,963)</b>	<b>\$ (4,655,878)</b>

See notes to the financial statements and accountant's report.

**FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in Net Assets \$ 753,179

Adjustments to Reconcile Change in Net Assets to Net Cash  
Provided (Used) By Operating Activities:

Depreciation	1,625
Net Realized and Unrealized Investment Gain	(119,159)
(Increase) Decrease in Assets:	
Pledges Receivable	(409,320)
Other Assets	(540)
Increase (Decrease) in Liabilities:	
Accounts Payable and Other Liabilities	3,809
Scholarships Payable	<u>5,291</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 234,885

**CASH FLOWS FROM INVESTING ACTIVITIES**

Payments for Purchase of Investments (159,920)

NET CASH USED BY INVESTING ACTIVITIES (159,920)

Net Increase in Cash and Cash Equivalents 74,965

Cash and Cash Equivalents, Beginning of Year 534,535

Cash and Cash Equivalents, End of Year \$ 609,500

See Note A to the financial statements.

**FLATHEAD VALLEY COMMUNITY COLLEGE**  
**KALISPELL, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2003 AND 2004**

**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 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.

In May 2002, GASB issued Statement No. 39, "*Determining Whether Certain Organizations are Component Units, and Amendment of GASB Statement No. 14.*" The College was required to adopt GASB No. 39 as of and for the year ended June 30, 2004. The statement requires that a legally tax exempt organization should be reported as a component unit of a reporting entity if the economic resources received or held by these organizations are entirely or virtually entirely for the direct benefit of the reporting entity or its component units, and the reporting entity is entitled to, or has the means to otherwise access, a majority of the economic resources received or held by the separate organization. The resources of the separate organization must also be significant to the reporting entity. Accordingly, the College has identified and will present the combined activities of the Flathead Valley Community College Foundation as of December 31, 2003, the end of the foundation's fiscal year. The financial statements of the Flathead Valley Community College Foundation were audited by Junkermier, Clark, Campanella, Stevens, P.C.

**Financial Statements**

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

**FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

In June 1999, GASB unanimously approved Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". GASB Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities" amends Statement No. 34 to address the accounting and financial reporting issues related to public colleges and universities. Certain significant changes in the Statement include the following:

A Management's Discussion and Analysis (MD&A) section providing an analysis of the College's overall financial position and results of operations.

A change in the fund-group financial statements to an entity-wide perspective.

Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. All significant inter-entity transactions have been eliminated upon consolidation.

**Basis of Accounting**

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the College's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. Grant revenues are reported only to the extent that they have been expended for their restricted purposes.

The College had the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected not to apply FASB pronouncements issued after the applicable date.

**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. These taxes receivable are recorded as deferred revenue in the year assessed, and recorded as revenue in the year collected.

**FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable**

Accounts receivable consists primarily of student tuition and fees.

**Grants Receivable**

Grants receivable are for expenditures made on grants for which reimbursement has not been received.

**Inventories**

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

**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.

**Noncurrent Assets**

Cash that is externally restricted as to its use is classified as a noncurrent asset in the accompanying statement of net assets.

**Capital Assets**

Capital assets include equipment, buildings and related improvements, land improvements and infrastructure. Moveable equipment with a useful life of one year or more and a cost \$1,000 or more is capitalized. Buildings and related improvements costing \$25,000 or more are capitalized. Land is capitalized regardless of cost. Land improvements and infrastructure costing \$10,000 or more is capitalized.

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.

Property, plant, and equipment is depreciated under the straight-line method. In general, the annual depreciation is determined by dividing an asset's historical cost less salvage value by its useful life. The

	<u>Years</u>		<u>Years</u>
Buildings	40	Infrastructure	20
Building Improvements	40	Equipment	5 - 20
Land Improvements	20	Library Books	10
Information Technology	10 - 20		

**FLATHEAD VALLEY COMMUNITY COLLEGE**  
**KALISPELL, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2003 AND 2004**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets (Continued)**

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

All capitalized books are depreciated over their estimated useful life using the straight-line method of depreciation with no salvage value. All capitalized library collections are depreciated over their useful life using the composite depreciation method with no salvage value. The estimated useful life is the estimated number of years that the book will serve the purpose for which it was purchased.

Assets acquired under capital leases that meet the capitalization threshold are added to capital assets. Depreciation expense on assets acquired under capital leases is included with depreciation expense on owned assets.

**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.

**Compensated Absences**

As required by law, employees are allowed to accumulate earned but unused vacation and sick leave benefits. Unused vacation benefits are 100% payable upon termination. Unused sick leave benefits are payable at 25% of the unused portion upon termination. This liability has been reported as a liability and an expense in the financial statements.

**Net Assets**

The College's net assets are categorized as follows:

**Invested in capital assets, net of related debt** - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

**Restricted, expendable** - net assets whose use by the College is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

**Restricted, nonexpendable** - net assets subject to externally imposed stipulations that the College maintain those assets permanently.

**Unrestricted** - net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management, the Board of Trustees, or the Board of Regents, or may otherwise be restricted by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for general operating purposes and capital asset acquisition.

**FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenues**

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

**Operating Revenue** - includes activities that have the characteristics of exchange transactions, including student tuition and fees, net of scholarship allowances and discounts; sales and services of auxiliary services; and most grants and contracts.

**Nonoperating Revenue** - nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting", and GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments". Types of revenue sources that fall into this classification are state appropriations and investment income.

**Use of Restricted Revenues**

When the College maintains both restricted and unrestricted funds for the same purpose, the order of use of such funds is determined on a case by case basis. Restricted funds remain classified as restricted until they are expended.

**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 Change in Net Assets. Scholarship discounts and allowances are generated by the difference between the stated charge of goods and services provided by the College, and the amount that is paid by the students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

**NOTE B - LOCAL APPROPRIATIONS**

All property taxes are collected by the Treasurers of Flathead County, Montana and Lincoln County, Montana. 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.

**FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE B - LOCAL APPROPRIATIONS (CONTINUED)**

The tax levies for the College for the year ended June 30, 2003 and 2004 were as follows:

<b>Kalispell Campus</b>	Number of Mills	
	Year ended 6/30/2003	Year ended 6/30/2004
General Levy	8.23	8.20
Audit Levy	-	0.07
Retirement Levy	2.66	2.80
Adult Education Levy	1.03	1.00
Debt Service Levy	2.50	2.30
<b>Total</b>	<u>14.42</u>	<u>14.37</u>

The total taxable value upon which the above levies were based was \$141,206,796 in 2003 and \$148,360,090 in 2004.

<b>Libby Campus</b>	Number of Mills	
	Year ended 6/30/2003	Year ended 6/30/2004
General Levy	4.51	4.72
Retirement Levy	1.81	0.73
Adult Education Levy	1.00	1.00
	<u>7.32</u>	<u>6.45</u>

The total taxable value upon which the above levies were based was \$25,245,744 in 2003 and \$25,364,822 in 2004.

**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 at June 30, 2003:

	Carrying Value	Fair Value	Unrealized Gain(Loss)
Invested in the County Investment Pool	\$ <u>3,756,612</u>	\$ <u>3,757,920</u>	\$ <u>1,308</u>

**FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE C - CASH AND INVESTMENTS (CONTINUED)**

Cash and Investments held by the Treasurer of Flathead County at June 30, 2004:

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Unrealized Gain(Loss)</u>
Invested in the			
County Investment Pool	\$ <u>3,855,393</u>	\$ <u>3,856,742</u>	\$ <u>1,349</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.

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, 2004.

Cash and Investments not held by the county treasurer have been recorded at cost, and are as follows as

June 30, 2003:	<u>Book Balance</u>	<u>Fair Value and Bank Balance</u>
Petty Cash	\$ 4,350	\$ 4,350
Plant Fund		
Deposit (100% FDIC insured)	<u>17,990</u>	<u>17,990</u>
	<u>\$ 22,340</u>	<u>\$ 22,340</u>
June 30, 2004:	<u>Book Balance</u>	<u>Fair Value and Bank Balance</u>
Petty Cash	\$ 4,150	\$ 4,150
Plant Fund		
Deposit (100% FDIC insured)	<u>19,818</u>	<u>19,818</u>
	<u>\$ 23,968</u>	<u>\$ 23,968</u>

**FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE C - CASH AND INVESTMENTS (CONTINUED)**

Deposits can be broken down into the following risk categories in accordance with GASB No. 3 as of June 30, 2003:

	<u>Bank Balance</u>
Category 1 - Insured (FDIC)	\$ <u>17,990</u>

Investments can be broken down into the following risk categories in accordance with GASB No. 3 as of June 30, 2003:

	<u>Bank Balance</u>
Uncategorized investments - amount invested in an external investment pool (Flathead County Investment Pool).	\$ <u>3,757,920</u>

Deposits can be broken down into the following risk categories in accordance with GASB No. 3 as of June 30, 2004:

	<u>Bank Balance</u>
Category 1 - Insured (FDIC)	\$ <u>19,818</u>

Investments can be broken down into the following risk categories in accordance with GASB No. 3 as of June 30, 2004:

	<u>Bank Balance</u>
Uncategorized investments - amount invested in an external investment pool (Flathead County Investment Pool).	\$ <u>3,856,742</u>

**NOTE D - CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2003, were as follows:

	<u>Balance 6/30/2002</u>	<u>Additions/ Adjustments</u>	<u>Retirements/ Reclassifications</u>	<u>Balance 6/30/2003</u>
Land and Land Improvements	\$ 2,384,875	\$ -	\$ -	\$ 2,384,875
Buildings	6,203,799	-	-	6,203,799
Infrastructure	487,230	-	-	487,230
Construction in Progress	35,345	70,699	-	106,044
Equipment	2,679,536	234,943	1,129,841	1,784,638
Library Inventory	349,874	23,267	-	373,141
Leasehold Improvements	135,047	66,439	-	201,486
Information Technology	128,300	6,240	-	134,540
<b>Total</b>	<u>12,404,006</u>	<u>401,588</u>	<u>1,129,841</u>	<u>11,675,753</u>
Less Accumulated Depreciation for:				
Buildings	-	2,499,452	-	2,499,452
Equipment	-	822,446	35,323	787,123
Library Inventory	-	290,330	-	290,330
Leasehold Improvements	-	6,452	-	6,452
Information Technology	-	107,150	-	107,150
<b>Total Accumulated Depreciation</b>	<u>-</u>	<u>3,725,830</u>	<u>35,323</u>	<u>3,690,507</u>
<b>Capital Assets, Net</b>	<u>\$ 12,404,006</u>	<u>\$ (3,324,242)</u>	<u>\$ 1,094,518</u>	<u>\$ 7,985,246</u>

**FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE D - CAPITAL ASSETS (CONTINUED)**

Capital asset balances and activity for the year ended June 30, 2004, were as follows:

	Balance 6/30/2003	Additions/ Adjustments	Retirements/ Reclassifications	Balance 6/30/2004
Land and Land Improvements	\$ 2,384,875	\$ -	\$ -	\$ 2,384,875
Buildings	6,203,799	17,898	-	6,221,697
Infrastructure	487,230			487,230
Construction in Progress	106,044	83,294		189,338
Equipment	1,784,638	612,084	67,737	2,328,985
Leased Equipment	-	72,240	-	72,240
Library inventory	373,141	16,044	-	389,185
Leasehold Improvements	201,486	123,452		324,938
Information Technology	134,540	63,836		198,376
<b>Total</b>	<u>11,675,753</u>	<u>988,848</u>	<u>67,737</u>	<u>12,596,864</u>
Less Accumulated Depreciation for:				
Buildings	2,499,452	197,326	-	2,696,778
Equipment	787,123	227,496	55,756	958,863
Leased Equipment	-	7,224		7,224
Library Inventory	290,330	17,496	-	307,826
Leasehold Improvements	6,452	8,905		15,357
Information Technology	107,150	7,753		114,903
<b>Total Accumulated Depreciation</b>	<u>3,690,507</u>	<u>466,200</u>	<u>55,756</u>	<u>4,100,951</u>
<b>Capital Assets, Net</b>	<u>\$ 7,985,246</u>	<u>\$ 522,648</u>	<u>\$ 11,981</u>	<u>\$ 8,495,913</u>

**NOTE E - COMPENSATED ABSENCES PAYABLE**

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

	Balance 6/30/2002	Increase (Decrease)	Balance 6/30/2003
Vacation and Sick Leave	\$ <u>754,402</u>	\$ <u>177,580</u>	\$ <u>931,982</u>
	Balance 6/30/2003	Increase (Decrease)	Balance 6/30/2004
Vacation and Sick Leave	\$ <u>931,982</u>	\$ <u>95,165</u>	\$ <u>1,027,147</u>

The compensated absences attributable to the governmental activities will be liquidated primarily by the General Fund.

**FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE F - LONG-TERM OBLIGATIONS**

Changes in long-term obligations during 2003 were as follows:

	<u>Balance</u> <u>6/30/2002</u>	<u>Debt</u> <u>Issued</u>	<u>Principal</u> <u>Payment</u>	<u>Balance</u> <u>6/30/2003</u>
Glacier Bank Note Payable	\$ 649,260	\$ -	\$ 54,060	\$ 595,200
Gallis Note Payable	227,290	-	35,195	192,095
General Obligation Bonds - Series 1993	3,535,000	-	3,535,000	-
General Obligation Bonds - Series 2003	-	2,400,000	-	2,400,000
	<u>\$ 4,411,550</u>	<u>\$ 2,400,000</u>	<u>\$ 3,624,255</u>	<u>\$ 3,187,295</u>

Changes in long-term obligations during 2004 were as follows:

	<u>Balance</u> <u>6/30/2003</u>	<u>Debt</u> <u>Issued</u>	<u>Principal</u> <u>Payment</u>	<u>Balance</u> <u>6/30/2004</u>
Glacier Bank Note Payable	\$ 595,200	\$ -	\$ 58,177	\$ 537,023
Gallis Note Payable	192,095	-	37,793	154,302
General Obligation Bonds - Series 2003	2,400,000	-	135,000	2,265,000
	<u>\$ 3,187,295</u>	<u>\$ -</u>	<u>\$ 230,970</u>	<u>\$ 2,956,325</u>

Long-term obligation maturities due for the five years subsequent to June 30, 2004 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 655,527	\$ 74,028
2006	666,658	59,969
2007	678,170	44,029
2008	679,625	25,160
2009	74,244	13,774
2010-2014	202,100	16,646
Total	<u>\$ 2,956,324</u>	<u>\$ 233,606</u>

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 yearly, based on the federal funds rate plus 2% beginning August 14, 2003. At no time will the interest rate fall below 7.0%. Payments on the note, including principal and interest, are \$25,267, 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.

**FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE F - LONG-TERM OBLIGATIONS**

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 an escrow agent to provide debt service payments until the Series 1989 bonds were 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.

On March 1, 2003, Flathead Valley Community College issued general obligation bonds, Series 2003, at a purchase price of \$2,400,000 at an interest rate of 1.0%-2.3% maturing July 1, 2003 through 2007. The Series 2003 bonds were issued at par. After paying issuance costs of \$49,954, the net proceeds were \$2,350,046. The net proceeds from the issuance of the Series 2003 bonds plus other College funds were used to redeem the Series 1993 bonds in the principal amount of \$3,535,000, a redemption price equal to par.

**NOTE G - CAPITAL LEASE OBLIGATIONS**

During the year ended June 30, 2004, the College entered into an capital lease for a liquid chiller. Payments on the lease, including interest, are \$2,223 per month for 36 months. The interest rate is 5.6%. The portion of the lease payment not treated as interest is applied against the amount of the purchase option on the lease. As detailed in Note D, the equipment has been recorded as a capital asset on the College books. The amount paid on the lease, including interest, during the years ended June 30, 2003 and June 30, 2004 totaled \$0, and \$26,706, respectively.

Future minimum lease commitments for capital lease obligations consist of the following at June 30, 2005:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 23,896	\$ 2,780
2006	25,639	1,037
Total	<u>\$ 49,535</u>	<u>\$ 3,817</u>

**FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE H - OPERATING LEASES**

In 2001, the College 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 \$30,000 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, 2003 and June 30, 2004, totaled \$28,586 and \$29,139, respectively.

The College 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 \$17,663. The total amount paid on the lease during the years ended June 30, 2003 and June 30, 2004 totaled \$6,000 and \$6,527, respectively.

During the year ended June 30, 2004, the College entered into an operating lease for a photocopy machine. Payments on the lease are \$300 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, 2004 was \$900.

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 amounts paid on the lease during the year ended June 30, 2003 and June 30, 2004 totaled \$22,344 and \$22,344, respectively.

Future minimum rental payments are as follows:

Year	Lease Payment
2005	\$ 82,610
2006	82,610
2007	46,990
2008	33,600
2009	32,700
2010-2014	30,000
Total	\$ 308,510

**NOTE I - 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, 2003 AND 2004**

**NOTE I - 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, 2003 and June 30, 2004:

	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:

	2004	2003	2002
TRS	\$ 488,237	\$ 412,237	\$ 428,435
PERS	398,015	364,943	346,232
Total	\$ 886,252	\$ 777,180	\$ 774,667

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 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.

**FLATHEAD VALLEY COMMUNITY COLLEGE**  
**KALISPELL, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2003 AND 2004**

**NOTE K - CONDENSED FINANCIAL STATEMENTS**

Condensed financial information for the College's Lincoln County Campus is presented below.

**STATEMENT OF NET ASSETS**  
**JUNE 30,**

<b>ASSETS</b>	<u>2004</u>	<u>2003</u>
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 373,158	\$ 299,842
Taxes Receivable	14,724	22,144
Accounts Receivable, Net	88,046	59,283
Prepaid Expense	4,184	2,874
Inventory	<u>10,509</u>	<u>7,730</u>
<b>Total Assets</b>	<u>490,621</u>	<u>391,873</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable and Accrued Liabilities	797	2,152
Accrued Payroll	5,294	13,904
Deferred Revenue - Tuition and Fees	98,099	50,184
Compensated Absences Payable	<u>11,371</u>	<u>2,182</u>
Total Current Liabilities	<u>115,561</u>	<u>68,422</u>
<b>Noncurrent Liabilities</b>		
Compensated Absences Payable	<u>42,145</u>	<u>32,665</u>
<b>Total Liabilities</b>	<u>157,706</u>	<u>101,087</u>
<b>NET ASSETS</b>		
Restricted for Scholarships, Research, Instruction, and Other	151,811	147,709
Unrestricted	<u>181,104</u>	<u>143,077</u>
<b>Total Net Assets</b>	<u>\$ 332,915</u>	<u>\$ 290,786</u>

**FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE K - CONDENSED FINANCIAL STATEMENTS (CONTINUED)**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30,**

<b>REVENUES</b>	2004	2003
Operating Revenues		
Tuition and Fees (net of scholarship allowances of \$19,447 and \$19,165, respectively)	\$ 403,861	\$ 312,990
Auxiliary Activities: Bookstore	95,769	98,408
Other Operating Revenues	20,939	42,253
Total Operating Revenues	520,569	453,651
<b>EXPENSES</b>		
Operating Expenses		
Salaries	509,830	445,238
Benefits	101,408	89,069
Travel and Entertainment	18,268	5,087
Supplies	116,407	125,732
Contracted Services	18,500	26,985
Repairs and Maintenance	87,115	52,219
Equipment	129,444	88,494
Other Operating Expenses	34,688	32,250
Total Operating Expenses	1,015,660	865,074
Operating Loss	(495,091)	(411,423)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest Income	-	4,259
State Appropriations	335,258	309,622
Local Appropriations	201,962	200,329
Total Other Revenues	537,220	514,210
<b>INCREASE IN NET ASSETS</b>	42,129	102,787
Net Assets, Beginning of Year	290,786	184,611
<b>Prior Period Adjustments</b>		
Adjustment to Accounts Receivable	-	3,388
Beginning Net Assets, as Restated	290,786	187,999
Net Assets, End of Year	\$ 332,915	\$ 290,786

**FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE K - CONDENSED FINANCIAL STATEMENTS (CONTINUED)**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30,**

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and Fees	\$ 423,347	\$ 318,169
Grants and Contracts	-	(10,000)
Payments to Employees	(499,771)	(439,625)
Payments for Benefits	(101,408)	(89,069)
Payments to Suppliers	(375,178)	(289,794)
Auxiliary Enterprise Charges: Bookstore	95,769	98,408
Other Receipts (Payments)	(14,083)	10,003
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(471,324)</b>	<b>(401,908)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations	335,258	309,622
Local Appropriations	209,382	185,504
<b>NET CASH PROVIDED BY NONOPERATING ACTIVITIES</b>	<b>544,640</b>	<b>495,126</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Income	-	4,259
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>-</b>	<b>4,259</b>
Net Increase in Cash and Cash Equivalents	73,316	97,477
Cash and Cash Equivalents, Beginning of Year	299,842	202,365
Cash and Cash Equivalents, End of Year	\$ 373,158	\$ 299,842
<b>RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (495,091)	\$ (411,423)
Adjustments to reconcile net loss to net cash used by operating activities:		
Changes in Net Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(28,763)	1,962
(Increase) Decrease in Inventory	(2,779)	2,689
Increase in Prepaid Expense	(1,310)	(2,874)
Increase (Decrease) in Accounts Payable	(9,965)	2,645
Increase in Deferred Revenues	47,915	3,217
Increase in Compensated Absences Payable	18,669	1,876
<b>Net Cash Used by Operating Activities</b>	<b>\$ (471,324)</b>	<b>\$ (401,908)</b>

**FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE L - RELATED PARTY TRANSACTIONS**

The Flathead Valley Community College Foundation is a nonprofit, tax-exempt organization operating exclusively for the purposes of promoting campus needs and assisting in fundraising. As discussed in Note A, this entity is considered a component unit of Flathead Valley Community College. The Flathead Valley Community College Foundation donates money to the College for scholarships and other gift support, at the discretion of the Board of Trustees of the Flathead Valley Community College Foundation. During the years ended June 30, 2003 and June 30, 2004, the Flathead Valley Community College Foundation provided \$134,122 and \$158,260, respectively, in scholarship and other gift support.

**NOTE M - PRIOR PERIOD ADJUSTMENTS**

The adjustment to accounts receivable was to adjust the June 30, 2002 balances.

In order to comply with the provisions of GASB Statement No. 34 and No. 35, there were significant prior period adjustments to the capital assets in the fiscal year ended June 30, 2003. These adjustments were to remove capital assets not meeting the capitalization policy amount and to record beginning accumulated depreciation in the amount of \$3,356,661, as detailed in Note E.

**NOTE N - CONTINGENT LIABILITIES**

The College is a party to a lawsuit filed in District Court, involving a complaint over Public Notice of a Board meeting, and a recall petition to recall several of the Trustees of the College. Judgment was granted in favor of the College on April 7, 2005 and entered on April 11, 2005. Legal counsel believes that the judgment is now final and cannot be appealed.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the College expects such amount, if any, to be immaterial.

**NOTE O - SUBSEQUENT EVENTS**

On March 15, 2005, Flathead Valley Community College issued general obligation bonds, Series 2005, at a purchase price of \$9,900,000 at interest rates ranging from 3.5%-5.0% maturing July 1, 2006 through 2025. The proceeds from the bonds will be used to pay a portion of the costs of designing, constructing, furnishing and equipping three new buildings on the existing campus, as well as remodeling costs within existing facilities.

SUPPLEMENTARY INFORMATION

**FLATHEAD COMMUNITY COLLEGE  
KALISPELL, MONTANA  
SCHEDULE OF FUNCTIONAL  
CLASSIFICATION OF OPERATING EXPENSES**

**FOR THE YEAR ENDED JUNE 30, 2003**

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation and Maintenance of Plant	Auxiliary	Depreciation	Totals
Salaries	\$ 2,734,715	\$ 214,397	\$ 289,215	\$ 749,694	\$ 1,546,517	\$ 411,643	\$ 216,438	\$ 105,815	\$ -	\$ 6,288,434
Benefits	451,886	33,255	63,745	131,250	288,558	74,483	64,724	25,471	-	1,133,372
Travel	19,435	172,852	13,505	47,373	53,687	50,993	660	29,774	-	388,279
Supplies	13,666	40,430	88,614	162,479	183,580	38,015	151,040	540,151	-	1,217,975
Contracted Services	61,535	110,619	20,224	112,431	184,781	60,657	152,444	6,096	-	708,787
Repairs and Maintenance	1,084	135,364	2,297	15,097	27,946	-	369,831	1,360	-	552,979
Bad Debt Expense	-	-	-	-	6,654	-	-	-	-	6,654
Scholarships and Grants	-	-	-	95,056	-	1,620,631	-	-	-	1,715,687
Equipment	-	3,000	25,338	5,187	22,243	-	-	217	-	55,985
Indirect Costs	-	-	-	18,565	-	-	-	-	-	18,565
Other	-	-	-	5,138	10,282	48,237	-	-	-	63,657
Depreciation	-	-	-	-	-	-	-	-	369,169	369,169
	<u>\$ 3,282,321</u>	<u>\$ 709,917</u>	<u>\$ 502,938</u>	<u>\$ 1,342,270</u>	<u>\$ 2,324,248</u>	<u>\$ 2,304,659</u>	<u>\$ 955,137</u>	<u>\$ 708,884</u>	<u>\$ 369,169</u>	<u>\$ 12,499,543</u>

**FOR THE YEAR ENDED JUNE 30, 2004**

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation and Maintenance of Plant	Auxiliary	Depreciation	Totals
Salaries	\$ 2,952,763	\$ 172,045	\$ 447,309	\$ 798,390	\$ 1,580,333	\$ 517,619	\$ 233,096	\$ 145,131	\$ -	\$ 6,846,686
Benefits	485,687	30,793	102,611	157,896	337,873	96,916	76,580	35,543	-	1,323,899
Travel	20,538	213,988	14,740	38,124	52,039	63,855	2,853	33,771	-	439,908
Supplies	16,687	40,879	73,011	195,956	234,372	58,437	122,209	718,744	-	1,460,295
Contracted Services	58,313	93,003	25,466	122,515	206,729	78,863	181,622	5,517	-	772,028
Repairs and Maintenance	980	163,733	156,714	14,159	23,823	16,930	363,935	2,231	-	742,505
Bad Debt Expense	-	-	-	-	746	-	-	-	-	746
Scholarships and Grants	-	-	-	120,826	-	1,776,847	-	-	-	1,897,673
Equipment	2,045	595	49,349	517	14,221	67,447	62,634	955	-	197,763
Indirect Costs	-	-	-	22,078	-	15,605	-	-	-	37,683
Other	-	-	-	800	38,826	38,303	-	-	-	77,929
Depreciation	-	-	-	-	-	-	-	-	466,200	466,200
	<u>\$ 3,537,013</u>	<u>\$ 715,036</u>	<u>\$ 869,200</u>	<u>\$ 1,471,261</u>	<u>\$ 2,488,962</u>	<u>\$ 2,730,822</u>	<u>\$ 1,042,929</u>	<u>\$ 941,892</u>	<u>\$ 466,200</u>	<u>\$ 14,263,315</u>

**FLATHEAD VALLEY COMMUNITY COLLEGE**  
**KALISPELL, MONTANA**  
**SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2003**

**STUDENT FINANCIAL AID MODIFIED STATEMENT**  
**OF CASH RECEIPTS AND DISBURSEMENTS**

	<u>PELL</u>	<u>CWS</u>	<u>SEOG</u>
Beginning Cash Balance	\$ (1,479)	\$ -	\$ -
Additions:			
Federal Advances	1,542,707	55,561	38,879
State Matching Funds	<u>-</u>	<u>27,765</u>	<u>12,960</u>
Total Additions	<u>1,542,707</u>	<u>83,326</u>	<u>51,839</u>
Deductions:			
Distribution to Students	1,560,913	77,860	51,839
Administrative Expenses	<u>3,645</u>	<u>5,466</u>	<u>-</u>
Total Deductions	<u>1,564,558</u>	<u>83,326</u>	<u>51,839</u>
Net Change in Cash	<u>(21,851)</u>	<u>-</u>	<u>-</u>
Ending Cash Balance	<u>\$ (23,330)</u>	<u>\$ -</u>	<u>\$ -</u>

**FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA  
SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2004**

**STUDENT FINANCIAL AID MODIFIED STATEMENT  
OF CASH RECEIPTS AND DISBURSEMENTS**

	<u>PELL</u>	<u>CWS</u>	<u>SEOG</u>
Beginning Cash Balance	\$ (23,330)	\$ -	\$ -
Additions:			
Federal Advances	1,587,285	47,627	35,809
State Matching Funds	<u>-</u>	<u>33,037</u>	<u>11,936</u>
Total Additions	<u>1,587,285</u>	<u>80,664</u>	<u>47,745</u>
Deductions:			
Distribution to Students	1,709,448	84,462	47,745
Administrative Expenses	<u>3,560</u>	<u>-</u>	<u>-</u>
Total Deductions	<u>1,713,008</u>	<u>84,462</u>	<u>47,745</u>
Net Change in Cash	<u>(125,723)</u>	<u>(3,798)</u>	<u>-</u>
Ending Cash Balance	<u>\$ (149,053)</u>	<u>\$ (3,798)</u>	<u>\$ -</u>

**FLATHEAD VALLEY COMMUNITY COLLEGE**  
**KALISPELL, MONTANA**  
**SUPPLEMENTARY INFORMATION**  
**YEARS ENDED JUNE 30, 2003 AND 2004**

**SCHEDULE OF EXPENDITURES**  
**STUDENT FINANCIAL ASSISTANCE PROGRAMS**

	2003	2004
Supplemental Education Opportunity Grant Program		
Student Grants	\$ <u>51,839</u>	\$ <u>47,745</u>
College Work Study		
Wages	\$ 77,860	\$ 84,462
Administrative Cost	5,466	-
	\$ <u>83,326</u>	\$ <u>84,462</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, 2003 AND 2004**

**SCHEDULE OF ENROLLMENT STATISTICS**

Semester	Third Week Report			Total
	Resident	WUE	Nonresident	
Summer 2002	220.34	-	5.93	226.27
Fall 2002 **	1,261.07	3.00	26.00	1,290.07
Spring 2003 **	1,252.93	3.00	29.27	1,285.20
Summer 2003	251.07	0.40	4.80	256.27
Fall 2003 **	1,456.41	2.73	34.53	1,493.67
Spring 2004 **	1,487.03	3.93	28.37	1,519.33

\*\* Totals for Fall 2002, Spring 2003, Fall 2003, and Spring 2004 include late starting classes allowed for full-time equivalent calculations.

**FLATHEAD VALLEY COMMUNITY COLLEGE  
KALISPELL, MONTANA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Award Number/ Pass-Through Grantor's Number	Expended
<b>MAJOR PROGRAMS:</b>			
<u>U.S. Department of Education</u>			
Direct Programs:			
Supplemental Educational Opportunity Grant Program	84.007	P007A012416	\$ 38,879
College Work Study	84.033	P033A012416	55,561
* Federal Family Education Loans	84.032	N/A	571,495
Pell Grant Program	84.063	P063P012293	1,564,194
Total Student Financial Aid Cluster			<u>2,230,129</u>
TRIO Programs:			
Student Support Services	84.042	PO42A970442-00A	46,658
Student Support Services	84.042	P042A010802	256,140
Upward Bound	84.047	P047A030694	217,900
Total TRIO Programs			<u>520,698</u>
Total U.S. Department of Education Major Programs			<u>2,750,827</u>
<b>NON-MAJOR PROGRAMS:</b>			
<u>U.S. Department of Education</u>			
Passed-Through Montana Office of Public Instruction:			
** Summer Food Service Program	10.559	N/A	6,180
Adult Basic Education			
EL Civics	84.002	58-6503-56-03-BG	85,017
Power Path	84.002	58-6503-56-03-EL	8,330
Evenstart	84.002	58-6503-5302	1,541
Evenstart	84.002	58-6503-3803	88,958
Total CFDA# 84.002			<u>183,846</u>
Reaching Across the Divide	84.215K	R215K010168A	44,343
Passed-Through Office of the Commissioner of Higher Education:			
Voc. Ed. - Bridging the Divide	84.048A	RR-PY03	34,600
Voc. Ed. - Applied Technology	84.048A	FVCC LP03	92,685
Voc. Ed - Teacher Quality Enhancement	84.048A	FVCC7R03	34,866
Total CFDA# 84.048A			<u>162,151</u>
Tech Prep	84.243A	TP NW 03	98,081
Total U.S. Department of Education Non-major Programs			<u>494,601</u>
<u>National Endowment for the Humanities</u>			
Passed-Through the Montana Arts Council Honors Symposium	45.129	25-1-17	500
<u>Corporation for National Services</u>			
Passed-Through the Montana Arts Council AmeriCorps Project	94.005	PG-7292-09	12,191
<u>U.S. Department of Health &amp; Human Services</u>			
Passed-Through Department of Social and Rehabilitation Services:			
ECHO - Educational Training - Best Beginnings	93.575	0202HIED0002	36,594
<b>TOTAL FOR ALL FEDERAL AWARDS PROGRAMS</b>			<b>\$ <u>3,294,713</u></b>

\* 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, 2004**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Award Number/ Pass-Through Grantor's Number	Expended
<b>MAJOR PROGRAMS:</b>			
<u>U.S. Department of Agriculture</u>			
Passed through Rural Utilities Service - Distance Learning	10.855	0348-0004	\$ <u>308,090</u>
<u>U.S. Department of Education</u>			
Direct Programs:			
Supplemental Educational Opportunity Grant Program	84.007	P007A012416	35,809
College Work Study	84.033	P033A012416	56,603
* Federal Family Education Loans Pell Grant Program	84.032 84.063	N/A P063P042851	488,893 <u>1,716,947</u>
Total Student Financial Aid Cluster			<u>2,298,252</u>
TRIO Programs:			
Student Support Services	84.042	P042A010802	49,728
Student Support Services	84.042	P042A010802-03	254,418
Upward Bound	84.047	P047A030694	109,613
Upward Bound	84.047	P047A030694	<u>224,656</u>
Total TRIO Programs			<u>638,415</u>
Total U.S. Department of Education Major Programs			<u>2,936,667</u>
<b>NON-MAJOR PROGRAMS:</b>			
<u>U.S. Department of Education</u>			
Passed-Through Montana Office of Public Instruction:			
** Summer Food Service Program	10.559	N/A	<u>7,760</u>
Adult Basic Education	84.002	58-6503-56-04-BG	81,278
EL Civics	84.002	58-6503-56-04-EL	18,762
Evenstart	84.002	58-6503-38-04	114,464
Total CFDA# 84.002			<u>214,504</u>
Reaching Across the Divide	84.215K	R215K010168A	<u>89,672</u>
Passed-Through Office of the Commissioner of Higher Education:			
Voc. Ed. - Bridging the Divide			
Voc. Ed. - Strengthening Academic Achievement	84.048A	2R04	32,620
Voc. Ed - Perkins LAP	84.048A	FVCC LP04	73,167
Total CFDA# 84.048A			<u>105,787</u>
Tech Prep	84.243A	TP NW 04	<u>78,956</u>
Total U.S. Department of Education Non-major Programs			<u>496,679</u>
<u>U.S. Department of Labor</u>			
Employee Training Administration - Project THEO	0017	AF-13626-04-60	<u>124,949</u>
<u>Corporation for National Services</u>			
Passed-Through the Montana Arts Council AmeriCorps Project	94.005	PG-7292-09	<u>18,114</u>
<u>U.S. Department of Health &amp; Human Services</u>			
Passed-Through Department of Social and Rehabilitation Services:			
ECHO - Educational Training - Best Beginnings	93.575	0202HIED0002	<u>18,600</u>
<b>TOTAL FOR ALL FEDERAL AWARDS PROGRAMS</b>			<b>\$ <u>3,903,099</u></b>

\* 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.



**CHMS, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 1067  
104 Second Avenue S.W.  
Sidney, Montana 59270  
406-433-2092  
1-800-676-2467  
FAX: 406-433-2095

**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 basic financial statements of Flathead Valley Community College as of and for the years ended June 30, 2003 and 2004, as listed in the table of contents and have issued our report thereon dated May 6, 2005. 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.

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 an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design and 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. The reportable condition is described in the accompanying schedule of findings on pages 47-48 as finding #04-01.

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 caused by error or fraud 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 matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we do not believe the reportable condition described in the accompanying schedule of findings on pages 47-48 is a material weakness.

Compliance and Other Matters

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 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*.

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

May 6, 2005



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, 2003 and 2004. Flathead Valley Community College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs on pages 47 - 48. 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 Flathead Valley Community College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2003 and 2004.

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 a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. 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 the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs on pages 47-48 as item #04-01.

A material weakness is a reportable 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 the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance would not necessarily disclose all matters in the 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 believe that none of the reportable conditions described above 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

May 6, 2005

**FLATHEAD VALLEY COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS  
YEARS ENDED JUNE 30, 2003 AND 2004**

**SECTION 1 – 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>
84.007, 84.032, 84.033 & 84.063	02-03 & 03-04	Student Financial Aid Cluster
84.042 & 84.047	02-03 & 03-04	TRIO Programs
10.855	03-04	Distance Learning

Dollar threshold used to distinguish between  
Type A and Type B programs: ..... \$300,000

Auditee qualified as low-risk auditee? ..... No

**FLATHEAD VALLEY COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS (CONTINUED)  
YEARS ENDED JUNE 30, 2003 AND 2004**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**FINDING #04-01 – CASH RECONCILIATIONS**

During the audit period, the general ledger cash accounts were not accurately 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 and any differences in the reconciliation investigated on a timely basis.

**PRIOR YEARS' RECOMMENDATIONS**

A summary of the recommendations from fiscal years June 30, 2002 and 2003 is as follows:

<u>Finding</u>	<u>Status</u>
<b>Finding #02-01</b> – Cash Reconciliation	Partially Implemented - See Finding #04-01
<b>Finding #02-02</b> – Plant Fund Detail Records	Implemented
<b>Finding #02-03</b> – Reconciliation to Subsidiary Ledgers	Implemented
<b>Finding #02-04</b> – Purchase of Property	Implemented

**SECTION III – FEDERAL AWARD FINDINGS**

**CASH RECONCILIATIONS – SEE FINDING #04-01**

**PRIOR YEARS' RECOMMENDATIONS**

A summary of the recommendations from fiscal years June 30, 2002 and 2003 is as follows:

<u>Finding</u>	<u>Status</u>
<b>Finding #02-01</b> – Cash Reconciliation	Partially Implemented - See Finding #04-01



Improving Lives  
Through Learning

# Flathead Valley Community College

777 Grandview Drive, Kalispell, MT 59901 • 406/756/3822 • Fax 406/756/3815  
info@fvcc.cc.mt.us • www.fvcc.cc.mt.us

June 21, 2005

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

Dear Tara,

Thank you for the opportunity to respond to the audit conducted for fiscal years ending June 30, 2003 and June 30, 2004.

As you know, during the period of this audit, the Business Services Office of Flathead Valley Community College (FVCC) experienced more than 100% turnover. Despite the level of turnover, FVCC was able to correct and implement three of the four prior audit findings, with partial implementation of the fourth. The following information will provide resolution to the finding and will facilitate implementation of the recommendation.

#### **FINDING #04-01 – CASH RECONCILIATIONS**

During the audit period, the general ledger cash accounts were not accurately 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 and any differences in the reconciliation investigated on a timely basis.

#### **Resolution:**

The remaining fourth finding was a result of the County Treasurer's report reflecting a larger balance than the general ledger cash accounts of the college. This was caused by a timing problem regarding the cash transactions at the Lincoln County Campus (LCC). During this audit period, the cash transactions at LCC were first deposited with the Lincoln County Treasurer. At the close of the month, for the Lincoln County Treasurer, a warrant for those funds would be issued and deposited with all other college funds with the Flathead County Treasurer. At the close of that month, the college would receive the report needed to conduct the necessary reconciliations. This resulted in an almost two month delay in the necessary reconciliation.

Since the conclusion of this audit, FVCC has changed this procedure in cooperation with the Lincoln County Treasurer to deposit the cash transactions directly into the Flathead County Treasurer's account. The procedural change will remove the delay and correct the audit finding.

Please contact me if you have any questions.

Sincerely,

Sheila K. Gestring, CPA  
Chief Financial Officer  
Flathead Valley Community College  
(406) 756-3808  
sgestrin@fvcc.edu