FLATHEAD VALLEY COMMUNITY COLLEGE

FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2009

AUDIT REPORT

Prepared Under Contract With:
MONTANA LEGISLATIVE BRANCH, AUDIT DIVISION
PO Box 201705, Helena, MT 59620-1705

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel

Deputy Legislative Auditors:
James Gillett
Angie Grove

February 2010

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of Flathead Valley Community College for the fiscal year ended June 30, 2009.

The audit was conducted by Denning, Downey & Associates, CPA's PC 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,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

09C-07

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FLATHEAD VALLEY COMMUNITY COLLEGE

FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2009

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Management's Discussion and Analysis
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Flathead Valley Community College (FVCC) is dedicated to improving lives through learning. FVCC is located in Kalispell and Libby, Montana.

Reading the Annual Financial Report

A requirement of GASB 35 is the Management Discussion and Analysis (MD&A) of the annual financial statements. This section 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 year ended June 30, 2009.

How the Financial Statements Relate to Each Other

The financial statements included are the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

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

The 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 6/30/09	At 6/30/08	At 6/30/07	At 6/30/06
Total Current Assets	$ 9,089,821	$ 8,954,631	$ 9,191,585	$ 8,323,068
Total Non-Current Assets	28,054,403	27,589,297	25,902,851	26,527,337
TOTAL ASSETS	**$ 37,144,224**	**$ 36,543,928**	**$ 35,094,436**	**$ 34,850,405**
Total Current Liabilities	$ 3,972,408	$ 2,578,599	$ 3,118,919	$ 3,419,860
Total Non-Current Liabilities	17,641,212	18,851,585	16,523,457	17,732,516
TOTAL LIABILITIES	**$ 21,613,620**	**$ 21,430,184**	**$ 19,642,376**	**$ 21,152,376**
Invested in capital, net of related debt	$ 9,224,584	$ 8,514,056	$ 9,334,987	$ (4,918,200)
Restricted-expendable	992,799	258,154	-	13,836,405
Unrestricted	5,313,221	6,341,534	6,117,073	4,779,824
TOTAL NET ASSETS	**$ 15,530,604**	**$ 15,113,744**	**$ 15,452,060**	**$ 13,698,029**

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 and the associated bond indebtedness. The FY2006 ending deficit balance in the Net Assets Invested in Capital, Net of Related Debt was due to construction in progress. There were unspent bond proceeds for the college expansion. The cash balance from those proceeds was recorded in the Restricted-expendable category of Net Assets. With the expansion completed, the resulting assets from the project are now recorded in the Net Assets Invested in Capital, Net of Related Debt, and the previous deficit has been eliminated. This is simply a result of GASB 34/35 requirements for the classification of net assets and was an expected event during the expansion project involving bond indebtedness.
- Restricted-expendable Net Assets were held primarily in the grant and bond proceeds restricted for the campus expansion project.
- Unrestricted Net Assets is made up of operating activities, auxiliary activities, and also numerous designated activities which include:

    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 is deposited into an agency account and is 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 $8,865,506 for FY2009. Once the appropriations dollars are considered, the results become a gain of $416,860 for FY2009. Inclusion of state and local appropriations is a more useful measure of FVCC regular activities.

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	For Fiscal Year Ended 6/30/09	For Fiscal Year Ended 6/30/08	For Fiscal Year Ended 6/30/07	For Fiscal Year Ended 6/30/06
Operating Revenues	$ 15,600,085	$ 11,917,111	$ 9,282,427	$ 9,388,854
Operating Expenses	$ (24,465,591)	$ (20,416,641)	$ (15,891,710)	$ (15,406,553)
Operating Loss	$ (8,865,506)	$ (8,499,530)	$ (6,609,283)	$ (6,017,699)
Net Nonoperating Revenues/(Expenses)	$ 9,282,366	$ 9,088,303	$ 8,472,375	$ 8,786,334
Transfers	$ -	$ 6,954	$ -	$ -
Change in Net Assets	**$ 416,860**	**$ 595,727**	**$ 1,863,092**	**$ 2,768,635**
Beginning Net Assets	$ 15,113,744	$ 15,452,060	$ 13,698,029	$ 10,973,756
Prior Period Adjustments	$ -	$ (934,043)	$ (109,061)	$ (44,362)
Net Assets - end of year	$ 15,530,604	$ 15,113,744	$ 15,452,060	$ 13,698,029

Information regarding revenue and expense items:

- Operating Revenue: Operating Revenues for FY2009 are $15,600,085 compared to $11,917,111 for FY2008. These results consisted of additional Tuition and Fee Revenues and increased Federal Grant Revenue as compared to the same revenue items in FY2008.
- Operating Expense: Operating Expenses for FY2009 are $24,465,591 versus $20,416,641 for FY2008. Contributions to the operating expense included increased Scholarship and Personal Services expenses as compared to the same expense items in FY2008.
- Non Operating Revenues (Expenses): Non Operating Revenues for FY2009 are $9,282,366 and $9,088,303 for FY2008. This total included increased State and Local Appropriation revenue offset by lower Interest revenue as compared to the same Non Operating Revenue item for FY2008.
- Prior Period Adjustment FY2009: None.

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 increase of $692,353 for FY2009. The ending year cash balance of $19,389,731 for FY2006 was primarily made up of the bond proceeds issued for the campus expansion in FY2005 and FY2006. FY2007 shows the use of cash as the proceeds were spent for the construction project.

	For Fiscal Year Ended 6/30/09	For Fiscal Year Ended 6/30/08	For Fiscal Year Ended 6/30/07	For Fiscal Year Ended 6/30/06
Cash Provided (Used) by:				
Operating Activities	$ (6,498,686)	$ (7,566,343)	$ (5,983,875)	$ (4,267,109)
Noncapital Financing Activities	$ 9,618,460	$ 9,663,899	$ 8,158,555	$ 7,725,282
Capital and Related Financing Activities	$ (2,673,526)	$ (2,075,866)	$ (15,166,207)	$ 434,165
Investing Activities	$ 246,105	$ 347,438	$ 782,183	$ 889,587
Net Increase (Decrease) in Cash	$ 692,353	$ 369,128	$ (12,209,344)	$ 4,781,925
Cash and Cash Equivalents, beginning of year	$ 7,549,515	$ 7,180,387	$ 19,389,731	$ 14,607,806
Cash and Cash Equivalents, end of year	$ 8,241,868	$ 7,549,515	$ 7,180,387	$ 19,389,731

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

1740 U.S. Hwy 93 South - Suite 101, PO Box 1957, Kalispell, MT 59903

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Flathead Valley Community College
Flathead County
Kalispell, Montana

We have audited the accompanying financial statements of the business-type activities, the aggregate remaining fund information, and the discretely presented component unit of Flathead Valley Community College, Flathead County, Montana, as of and for the year ended June 30, 2009, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Flathead Valley Community College management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the College's discretely presented component unit, which has a year end of December 31, 2008. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amount included for the audited component unit of the college, is based on the report of the other auditors.

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 other auditors, provides a reasonable basis for our opinions.

In our opinion, based on our report and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of the Flathead Valley Community College, Flathead County, Montana, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Robert K. Denning, CPA · Kim M. Downey, CPA

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2010, on our consideration of the Flathead Valley Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on 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 management's discussion and analysis on pages 2 through 6, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally 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 Student Financial Aid Modified Statement of Cash Receipts and Disbursements and Schedule of Expenditures of Student Financial Assistance Programs are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and we express no opinion on them. The accompanying Schedule of Full Time Equivalent and the Functional Classification of Operating Expenses are presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

January 15, 2010

Flathead Valley Community College, Flathead County, Montana
Statement of Net Assets
June 30, 2009

		Business - Type Activities
ASSETS		
Current assets:		
Cash and investments	$	7,308,421
Taxes and assessments receivable (Net of allowance $450,345)		221,421
Grants receivable		409,447
Accounts receivable - net		762,150
Other assets		168,609
Inventories		219,773
Total current assets	$	9,089,821
Noncurrent assets:		
Restricted cash and investments	$	933,447
Bond issuance costs		179,392
Capital assets - land		2,014,863
Capital assets - construction in progress		32,778
Capital assets - depreciable, net		24,893,923
Total noncurrent assets	$	28,054,403
Total assets	$	37,144,224
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$	804,233
Deposits payable		19,387
Interest payable		38,732
Accrued payroll		201,880
Deferred revenue - tuition and fees		889,949
Deferred revenue - grants		101,492
Bond premium		123,696
Current portion of early retirement liabilities		10,572
Current portion of long-term capital liabilities		975,148
Current portion of compensated absences payable		808,319
Total current liabilities	$	3,973,408
Noncurrent liabilities:		
Noncurrent portion of long-term capital liabilities	$	16,741,832
Noncurrent portion of compensated absences		439,659
Other post employment benefits		458,721
Total noncurrent liabilities	$	17,640,212
Total liabilities	$	21,613,620
NET ASSETS		
Invested in capital assets, net of related debt	$	9,224,584
Restricted for debt service		933,447
Restricted for scholarships		59,352
Unrestricted		5,313,221
Total net assets	$	15,530,604
Total liabilities and net assets	$	37,144,224

See accompanying Notes to the Financial Statements

Flathead Valley Community College, Flathead County, Montana
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2009

		Business - Type Activities
OPERATING REVENUES		
Tuition and fees (net of scholarship allowances of $561,850)	$	5,644,390
Federal grants and contracts		6,324,683
State grants and contracts		565,816
Private and local grants and contracts		538,882
Indirect cost recoveries		84,798
Seminars and workshops (net of waivers of $82)		675,596
Auxiliary activities		1,425,016
Other operating revenues		340,904
Total operating revenues	$	15,600,085
OPERATING EXPENSES		
Personal services	$	11,856,904
Travel		234,663
Supplies		2,167,922
Contracted services		2,051,721
Bond issue expense		10,903
Bad debt expense		229,732
Scholarships and grants		5,567,014
Noncapitalized equipment (under $5000)		789,617
Other operating expenses		238,207
Depreciation expense		1,318,908
Total operating expenses	$	24,465,591
Operating income (loss)	$	(8,865,506)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	$	5,429,138
Local appropriations		4,293,349
Interest revenue		246,105
Debt service interest expense		(686,226)
Total non-operating revenues (expenses)	$	9,282,366
Income (loss) before contributions and transfers	$	416,860
Change in net assets	$	416,860
Net Assets - Beginning of the year	$	15,113,744
Net Assets - End of the year	$	15,530,604

See accompanying Notes to the Financial Statements

Flathead Valley Community College, Flathead County, Montana
Statement of Cash Flows
Fiscal Year Ended June 30, 2009

		Business - Type Activities
Cash flows from operating activities:		
Cash received from tuition and fees	$	5,451,235
Cash received from federal grants and contracts		6,583,039
Cash received from grants and contracts		1,104,698
Cash received from seminars and workships		675,596
Cash received from auxiliary activities		1,425,016
Cash received from miscellaneous sources		425,702
Cash payments to suppliers		(2,806,038)
Cash payment for contracted services		(2,051,721)
Cash payment for scholarships and grants		(5,567,014)
Cash payments to employees		(11,739,199)
Net cash provided (used) by operating activities	$	(6,498,686)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets		(1,119,624)
Principal paid on debt		(909,812)
Interest paid on debt		(644,090)
Net cash provided (used) by capital and related financing activities	$	(2,673,526)
Cash flows from non-capital financing activities:		
Cash received from state appropriations		5,429,138
Cash received from local apppropriations		4,372,601
Cash paid to other funds		(183,279)
Net cash provided (used) from non-capital financing activities	$	9,618,460
Cash flows from investing activities:		
Interest on investments		246,105
Net cash provided (used) by investing activities	$	246,105
Net increase (decrease) in cash and cash equivalents	$	692,353
Cash and cash equivalents at beginning		7,549,515
Cash and cash equivalents at end	$	8,241,868
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$	(8,865,506)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation		1,318,908
Changes in assets and liabilities:		
Grants receivable		156,864
Accounts receivable		(315,621)
Inventory		(40,716)
Other assets		2,091
Accounts payable		204,606
Compensated absences payable		27,469
Accrued wages payable		90,236
Deferred revenue - tuition and fees		332,811
Deferred revenue - grants		101,492
Deposits payable		19,387
Other post employment benefits payable		469,293
Net cash provided (used) by operating activities	$	(6,498,686)

See accompanying notes to the financial statements

Flathead Valley Community College Foundation, Flathead County, Montana
Statement of Financial Position
December 31, 2008

ASSETS		
ASSETS		
Cash and cash equivalents	$	1,675,541
Investments		2,347,207
Pledges receivable		404,069
Other assets		48,083
Software		1,625
Total Assets	$	4,476,525
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other liabilities	$	102,383
Foundation scholarships payable		116,169
Other scholarships payable		144,417
Deferred gift liability		63,944
Total Liabilities	$	426,913
NET ASSETS		
Unrestricted	$	183,417
Temporarily restricted		1,669,349
Permanently restricted		2,196,846
Total Net Assets	$	4,049,612
TOTAL LIABILITIES AND NET ASSETS	$	4,476,525

See accompanying Notes to the Financial Statements

Flathead Valley Community College Foundation, Flathead County, Montana
Statement of Activities
For the Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Pledges and other public support	$ 21,797	$ 231,725	$ 78,235	$ 331,757
In-kind donations	180,572	-	1,132	181,704
Net realized and unrealized investment gains	-	(499,783)	-	(499,783)
Investment income	35,256	87,079	-	122,335
Net assets released from restrictions	78,268	(78,268)	-	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	$ 315,893	$ (259,247)	$ 79,367	$ 136,013
ALLOCATIONS AND EXPENSES				
Program services				
Scholarship awards	$ 136,378	$ -	$ -	$ 136,378
Program disbursements	197,782	-	-	197,782
Other program expenses	75,744	-	-	75,744
Prizes	15,964	-	-	15,964
Supporting services				
Professional fees	7,000	-	-	7,000
Investment management fees	3,614	-	-	3,614
Management and general	107,244	-	-	107,244
TOTAL ALLOCATIONS AND EXPENSES	$ 133,822	$ -	$ -	$ 133,822
CHANGE IN NET ASSETS	$ (227,833)	$ (259,247)	$ 79,367	$ (407,713)
NET ASSETS, BEGINNING OF PERIOD	$ 411,250	$ 1,928,596	$ 2,117,479	$ 4,457,325
NET ASSETS, END OF PERIOD	$ 183,417	$ 1,669,349	$ 2,196,846	$ 4,049,612

See accompanying Notes to the Financial Statements

Flathead Valley Community College Foundation, Flathead County, Montana
Statement of Cash Flows
For the Year Ended December 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	(407,713)
Adjustments to reconcile change in net assets		
to net cash provided (used) by operating activities:		
Net realized and unrealized investment gains		499,783
(Increase) decrease in assets:		
Pledges receivables		207,825
Increase (decrease) in liabilities:		
Accounts payable and other liabilities		21,585
Scholarships available		67,260
Deferred gift liability		63,944
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	452,684
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for purchase of investments	$	(222,793)
INCREASE IN CASH AND CASH EQUIVALENTS	$	229,891
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	$	1,445,650
CASH AND CASH EQUIVALENTS - END OF PERIOD	$	1,675,541

See accompanying Notes to the Financial Statements

Flathead Valley Community College, Flathead County, Montana
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2009

		Private Purpose Trusts
ASSETS		
Cash and short-term investments	$	198,117
Receivables		175
Total assets	$	198,292
LIABILITIES		
Accounts payable		857
Total liabilities	$	857
NET ASSETS		
Assets held in trust	$	197,435

See accompanying Notes to the Financial Statements

Flathead Valley Community College, Flathead County, Montana
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2009

		Private Purpose Trusts
ADDITIONS		
Contributions:		
Contributions from private sources	$	5,398
Misc. Revenue		58,177
Agency Revenue		89,148
Total contributions		152,723
Total additions	$	152,723
DEDUCTIONS		
Student activities		128,731
Total deductions	$	128,731
Change in net assets	$	23,992
Net Assets - Beginning of the year	$	173,443
Net Assets - End of the year	$	197,435

See accompanying Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The College complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. For enterprise funds GASB statement Nos. 20 and 34 provide the College the option of electing to apply FASB pronouncements issued after November 30, 1989. The College has elected not to apply those pronouncements.

Financial Reporting Entity

In determining the financial reporting entity, the College complies with the provisions of GASB statement No, 14, *The Financial Reporting Entity*, and includes all component units of which the College appointed a voting majority of the units' board; the College is either able to impose it's will on the unit or a financial benefit or burden relationship exists.

Primary Government

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

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. The component units listed below have a fiscal year ending December 31, 2008. The College has the following discretely presented component units:

Flathead Valley Community College Foundation

Basis of Presentation, Measurement Focus and Basis of Accounting.

Proprietary Funds:
All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recoded in proprietary funds.

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

Fiduciary Funds

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

Summary of Significant Accounting Policies Foundation

Nature of Activities

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

Basis of Accounting

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

Cash and Cash Equivalents

For financial statement purposes, the Foundation considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents. The components of cash and cash equivalents as of December 31, 2008, are as follows:

Cash in bank and on hand	$ 149,994
Endowment money market investments	1,279,741
Other money market investments	245,806
	$1,675,541

Classification of Net Assets
The Foundation classifies contributions as unrestricted, temporarily restricted and permanently restricted net assets in accordance with donor stipulations. Permanently restricted net assets consist of endowed gifts where donors have specified investment in perpetuity to generate income for specified restricted and unrestricted purposes. Temporarily restricted net assets include gifts restricted as to purpose of time. When a donor restriction expires (time restriction ends, purpose restriction is accomplished, or payments re received for unconditional promises to give), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction. All expenses are reported in unrestricted net assets.

In-Kind Donations
The Foundation seeks and receives the volunteer efforts of many members of the community in attaining its goals. Only services for which the donor has specialized skills and would ordinarily receive compensation are considered donations in-kind. All donated goods are considered gifts in-kind and are valued at their fair market value at the time of donation. The value of donated services is determined by the donors as the usual fees they would receive for such service in the normal course of their business.

Donors are provided receipts showing estimated fair market value for their in-kind donations: these values are established by the donors. Donated goods and services are recorded in the financial statements as unrestricted functional expense or capitalized assets.

Investments
The investments are carried at fair value, unrecognized gains and losses are reflected in the Statement of Activities. All gains and investment income are allocated to unrestricted, temporarily restricted or permanently restricted net assets based on the nature of the restrictions, if any, on the invested assets. Investment income earned from temporarily restricted or permanently restricted net assets that is used to pay scholarships within the same reporting period is accounted for as unrestricted.

Pledges Receivable
Pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance, if applicable, based on its assessment of the current status of individual accounts. As of December 31, 2008, no valuation of allowance has been established as management does not anticipate any material loss with respect to the remaining balance of pledges receivable.

Property and Equipment
Property and equipment are recorded at cost when purchased or at fair value at the date of the gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, ranging from five to seven years.

Contributions

Contributions, including unconditional promises to give, are recognized as unrestricted, temporarily restricted or permanently restricted revenue in accordance with donor stipulations. Unconditional promised to give with payments due in the future periods are recognized as temporarily restricted revenue. Restricted contributions whose restrictions are met within the same reporting period are accounted for as unrestricted support. Unconditional and conditional promises to give are valued at the present value of amounts expected in future years, provided that reliable information is available. Donors included individuals and businesses who principally reside in Flathead Montana.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition – College

The College's cash is held by the County Treasurer and pooled with other County cash. With the College cash that is not necessary for short-term obligations, the College participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis.

The College does not own specific identifiable investment securities in the pool; therefore, is not subject to categorization. Information regarding investment risk, collateral, security, and fair values for Flathead County deposits and investments is available from Flathead County Treasurer's office, 800 S. Main Street, Kalispell, Montana 59901. The Flathead County external investment pool is not rated. The College has also directed the County Treasurer to invest certain funds. These investments are STIP and U.S. Government bonds.

Authorized investments allowed by Section 20-9-213, MCA, include savings or time deposits in a state or national bank, building or loan association, or credit union insured by the FDIC or NCUA located in the sate; repurchase agreements; and the State Unified Investment Program. Further, Section 7-6-202, MCA, authorized investments in U. S. government treasury bills, notes, bonds, U.S. Treasury obligations, treasury receipts, general obligations of certain agencies of the United States, and U.S. government security money market fund if the fund meets certain conditions.

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

Investments – Foundation

Fair Value Measurement

Effective January 1, 2008, the Organization adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), which provides a framework for measuring fair value under GAAP. SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS 157 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels, as described below:

- Level 1 – Unadjusted quoted prices in active markets for identical, unrestricted assets or liabilities that the Organization has the ability to access at the measurement date;
- Level 2 – Quoted prices which are not active, quoted prices for similar assets or liabilities in active markets or inputs other than quoted prices that are observable (either directly or indirectly) for substantially the full term of the asset or liability; and
- Level 3 – Significant unobservable prices or inputs (including the Organization's own assumptions in determining the fair value of investments) where there is little or no market activity for the asset or liability at the measurement date.

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. As required by SFAS No. 157, investments are classified within the level of the lowest significant input considered in determining fair value. Investments classified within Level 3 whose fair value measurements consider several inputs may include Level 1 or Level 2 inputs as components of the overall fair value measurement.

There are three general valuation techniques that may be used to measure fair value, as described below:

(a) Market approach – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;
(b) Cost approach – Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and

(c) Income approach – Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

Assets and liabilities itemized below were measured at fair value during the year ended using the market and income approaches. The market approach was used for Level 1 and Level 2. The income approach was used for Level 3.

		Fair Value Measurements (FVM) Using:		
	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	$ 2,347,207	$ 2,347,207	$ -	$ -
Pledges receivable	404,069	-	-	404,069
Deferred gift liability	63,944	-	63,944	-
Total	$ 2,815,220	$ 2,347,207	$ 63,944	$ 404,069

The Foundation invests primarily in U.S. Treasury bonds, government agency bonds, mutual funds, equity securities, and corporate debt securities. At December 31, 2008, investments are comprised of the following:

	Amortized Cost	FMV
Government and agencies	$ 532,311	$ 544,250
Corporate bonds and bond funds	467,709	446,764
Equity securities and mutual funds	1,153,116	1,092,069
Notes receivable	264,124	264,124
Total	$ 2,417,260	$2,347,207

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

	Pledges Receivable
Balance at January 1, 2008	$ 611,894
Pledge payments received	(209,026)
New pledges made by donors	1,201
Total	$ 404,069

NOTE 3. RECEIVABLES - COLLEGE

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

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

Real property taxes are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

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

NOTE 4. PREPAIDS - COLLEGE

Prepaids record payments to vendors that benefit future reporting periods and are reported on the consumption basis.

NOTE 5. CAPITAL ASSETS - COLLEGE

The College's assets are capitalized at historical cost or estimated historical cost. College policy has set the capitalization threshold for reporting capital assets based on the type of capital asset. Buildings and building improvements costing more than $25,000, any land purchases regardless of cost, land improvements and infrastructure costing $10,000 or more, and library books treated as a collection is 3% or more of total capital assets reported by the Flathead Valley Community College are capitalized. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Information Technology	10-20 years
Buildings	40 years
Building Improvements	40 years
Equipment	5–20 years
Library	10 years
Land Improvements	20 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in the basic financial statements. In accordance with Statement No. 34, the College has included the value of all infrastructure into the 2007-08 Basic Financial Statements. The College has elected not to retroactively report general infrastructure assets.

The following is a summary of capital assets:

	Balance July 1, 2008	Additions	Retirements/ Transfers	Balance June 30, 2009
Capital assets not being depreciated:				
Land	$ 2,014,863	$ -	$ -	$ 2,014,863
Construction in Progress	51,145	32,778	(51,145)	32,778
Total capital assets not being depreciated	$ 2,066,008	$ 32,778	$ (51,145)	$ 2,047,641
Other Capital Assets:				
Buildings	$ 23,909,939	$ 369,275	$ 51,145	$ 24,330,359
Improvements Other than Buildings	1,875,192	83,141	-	1,958,333
Machinery and Equipment	2,960,149	559,269	-	3,519,418
Library Inventory	273,258	47,910	-	321,168
Leasehold Improvements	365,586	-	-	365,586
Information Technology	873,742	29,799	(8,335)	895,206
Total other Capital Assets at historical cost	$ 30,257,866	$ 1,089,394	$ 42,810	$ 31,390,070
Less Accumulated Depreciation	$ (5,183,026)	$ (1,318,908)	$ 5,787	$ (6,496,147)
Total	$ 27,140,848	$ (196,736)	$ (2,548)	$ 26,941,564

NOTE 6. LONG TERM DEBT OBLIGATIONS - COLLEGE

In the proprietary financial statements, outstanding debt is reported as liabilities.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2009, the following changes occurred in liabilities reported in long-term debt:

Business-type Activities:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Due within one year
Contracted Debt	$ 277,489	$ -	$ (74,183)	$ 203,306	$ 79,210
General Obligation Bonds	15,190,000	-	(565,000)	14,625,000	590,000
Compensated Absences	1,220,509	27,469	-	1,247,978	808,319
Intercap Loans	3,159,033	-	(270,359)	2,888,674	305,938
Total	$19,847,031	$ 27,469	$(909,542)	$18,964,958	$1,783,467

General Obligation Bonds:

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation bonds outstanding as of June 30, 2008 were as follows:

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Balance June 30, 2009
Series 2005	3/15/05	3.5-5.0%	20 yrs	7/1/25	9,900,000	$ 8,980,000
Series 2006	7/1/06	3.75-5.0%	20 yrs	7/1/26	5,916,000	5,645,000
Total					$15,816,000	$14,625,000

Annual requirement to amortize debt:

For Fiscal Year Ended	Principal	Interest
2010	$ 590,000	$ 565,893
2011	625,000	540,920
2012	650,000	518,481
2013	675,000	495,143
2014	700,000	470,906
2015	725,000	445,770
2016	755,000	419,731
2017	780,000	389,181
2018	815,000	357,606
2019	845,000	327,709
2020	880,000	296,022
2021	920,000	262,743
2022	960,000	227,350
2023	1,000,000	190,238
2024	1,040,000	150,607
2025	1,090,000	109,007
2026	1,135,000	64,722
2027	440,000	18,040
Total	$14,625,000	$5,850,069

Loans/contracted debt:

Loans/contracted debt outstanding as of June 30, 2009 was as follows:

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Balance June 30, 2009
Glacier Notes Payable	8/14/01	5.3%	10 yrs	8/14/11	$675,000	$203,308

Annual requirement to amortize debt:

For Fiscal Year Ended	Principal	Interest
2010	$ 79,210	$ 9,807
2011	64,689	7,093
2012	59,409	3,639
Total	$203,307	$20,539

Intercap Loans:

Intercap loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 16th of each year and are based on a spread over the interest paid on one-year term, tax-exempt bonds which are sold to fund the loans.

Intercap loans outstanding as of June 30, 2009 were as follows:

Origination Date	Interest Rate	Term	Maturity	Principal Amount	Balance June 30, 2009
2008	3.25 - 4.85%	10 years	2018	$3,258,780	$2,888,674

Annual requirements to amortize debt:

For Fiscal Year Ended	Principal	Interest
2010	$ 305,938	$ 119,545
2011	320,673	106,389
2012	335,118	92,600
2013	352,295	78,191
2014	369,282	63,039
2015	382,126	47,265
2016	405,725	30,725
2017	417,517	7,600
Total	$2,888,674	$ 545,354

Compensated Absences

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

NOTE 7. BOARD RESTRICTIONS – FOUNDATION

Unrestricted net assets include Board restricted cash and investments for various Foundation projects and other uses. Total Board restricted cash and investments at December 31, 2008 was $144,903.

NOTE 8. ENDOWMENT – FOUNDATION

The Board has established an endowment for the purpose of funding scholarships for students attending Flathead Valley Community College. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Montana Uniform Prudent Management of Institutional Funds Act ("MUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts tot eh permanent endowment, and (c) any accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the Organization and the donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Organization; and

7. the investment policies of the Organization.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MUPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2008.

NOTE 9. STATE-WIDE RETIREMENT PLANS – COLLEGE

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

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2009, were:

	PERS	TRS
Employer	6.935%	7.47%
Employee	6.90%	7.15%
State	0.10%	0.20%

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

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

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

Total contributions for the years ended June 30, 2007, 2008, and 2009, as listed below, were equal to the required contributions for each year.

	PERS	TRS
2007	$ 460,842	$ 494,513
2008	$ 496,564	$ 637,124
2009	$ 569,508	$ 543,380

NOTE 10. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Flathead Valley Community College (FVCC) is a part of the Montana University System Employee Group Benefits Plan (MUSEGBP). FVCC is one of 13 active participants in a cost-sharing multiple-employer defined benefit OPEB plan.

A retiree may continue coverage with the MUSEGBP if the retiree is eligible to receive State Retirement Benefit for Teachers Retirement System (TRS) or the Public Employee Retirement System (PERS) at the time they leave their employment with MUS.

Retirees who are in the Optional Retirement Plan (ORP) (through TIAA-CREF) or any other defined contribution plan must have worked five or more years and be age 50, or have worked 25 years with the MUS to be eligible for Retiree insurance benefits.

An eligible Retiree must make arrangements with their campus Human Resources/Benefits Office to continue coverage as a Retiree on a self-pay basis within 63 days of retirement.

Additional benefit options are available for Non-Medicare Retirees, Medicare Retirees, Spouse coverage, and Spouse Coverage Options after the Death of Retiree.

Copies of the plan and additional benefit options can be obtained from the Montana University System.

There are no required contribution rates of the 13 active participants in the plan.

The actuarial valuation was prepared as of June 30, 2008 as several participants meet the requirements of a phase 1 implementation and had to implement Government Accounting Standards Board (GASB) Statement #45 at this time. FVCC has a phase 2 June 30, 2009 implementation date for GASB #45. The information reported below is based on the June 30, 2008 actuarial valuation.

All Participants at FVCC	June 30, 2008
Accrued Liability	$ 3,745,606
Annual Required Contribution (ARC)	$ 387,054
Participant Count	174
Actuarial Value of Assets	$ 0
Interest / Discount Rate	4.25%
Projected payroll increases	3.00%
Participation	
Future retirees	45%
Future eligible spouses	59%

Early Retirement Incentive Liability

In 2009 eligible employees were offered a choice between two Early Retirement Incentives. Choice #1 offered individual retiree medical insurance benefits up to $500/month for a total of five years. Choice #2 offered a cash incentive in place of the above health insurance benefit. The amount will not exceed the amount the retiree health insurance would have cost and is not to exceed $5,000 per year.

Five employees accepted the early retirement incentive. Assuming a projected increase in health insurance premiums of 8.10% and a present value discount rate of 2.56%, FVCC recognized a total liability of $82,238.

NOTE 11. RELATED PARTY TRANSACTIONS

Related Party Transactions Component units
The following schedule presents significant transactions between the primary government and its component units during the year ended June 30, 2009:

Component Unit	Significant Transactions
Flathead Valley Community College Foundation	Donated $ 326,086

NOTE 12. RISK MANAGEMENT

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

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

NOTE 13. SUBSEQUENT EVENTS

The College has faced an approximately 33% increase in annualized student FTE in fiscal year 2010 in comparison to fiscal year 2009. The College estimates that in fiscal year 2010, the campus will serve well over 2,000 annualized student FTE.

NOTE 13. PENDING LITIGATION

There was no pending or threatened litigation or unasserted claims or assessments against the College at June 30, 2009.

SUPPLEMENTAL INFORMATION

Flathead Valley Community College, Flathead County, Montana
Student Financial Aid Modified Statement
of Cash Receipts and Disbursements
For the Year Ended June 30, 2009

(Unaudited)

		PELL		CWS		SEAOG
Beginning Cash Balance	$	(150,323)	$	(9,942)	$	(3,334)
Additions:						
Federal Advances		1,924,504		55,004		38,424
State Matching		-		39,297		11,632
Total Additions	$	1,924,504	$	94,301	$	50,056
Deductions:						
Distributions to Students	$	1,898,084	$	96,959	$	45,722
Net change in Cash	$	26,420	$	(2,658)	$	3,334
Ending Cash Balance	$	(123,903)	$	(12,600)	$	-

See accompanying Notes to the Financial Statements.

Flathead Valley Community College, Flathead County, Montana
Schedule of Expenditures
Student Financial Assistance Programs
For the Year Ended June 30, 2009

(Unaudited)

		2,009
Perkins Loan Program		
Student Loan Advances	$	-
College Work Study		
Wages	$	45,062
Administrative Cost		-
Total College Work Study	$	45,062
Supplemental Education Opportunity Grant Program		
Student Grants	$	35,090
Pell Grant Program		
Student Grants	$	1,898,084

See accompanying Notes to the Financial Statements

Flathead Valley Community College, Flathead County, Montana
Shedule of Full Time Equivalent
For the Year Ending June 30, 2009

Semester	Resident	WUE	Nonresident	Total
Summer 2008	268.34	0.93	12.73	282.00
Fall 2008	1,297.13	3.87	30.93	1,331.93
Spring 2009	1,467.00	3.33	30.00	1,500.33

See accompanying Notes to the Financial Statements.

Flathead Valley Community College, Flathead County, Montana
Schedule of Functional Classification of Operating Expenses
For the Year Ended June 30, 2009

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation and Maintenance of Plant	Auxiliary	Total
Salaries	$ 4,070,155	$ 269,086	$ 770,121	$ 1,149,676	$ 1,519,310	$ 349,413	$ 440,042	$ 347,591	$ 8,915,394
Benefits	1,440,149	57,324	246,026	294,991	441,328	187,657	171,627	102,408	2,941,510
Travel	53,113	34,557	27,827	31,845	55,737	28,346	501	2,737	234,663
Supplies	354,799	313,206	25,607	53,436	392,437	39,874	161,279	827,284	2,167,922
Contracted Services	468,907	178,462	25,164	176,008	306,899	50,634	734,634	111,013	2,051,721
Bonds Issue Expense	-	-	-	-	-	-	10,903	-	10,903
Bad Debt Expense	-	-	-	-	229,732	-	-	-	229,732
Non Capitalized Equipement	44,338	600	30,430	5,348	69,356	31,489	602,373	5,683	789,617
Scholarships and Grants	5,800	-	-	2,855	-	5,558,359	-	-	5,567,014
Other Operating Expense	7,706	3,020	10,209	167,014	8,498	41,760	-	-	238,207
Depreciation Expense	-	-	-	-	-	-	1,318,908	-	1,318,908
	$ 6,444,967	$ 856,255	$ 1,135,384	$ 1,881,173	$ 3,023,297	$ 6,287,532	$ 3,440,267	$ 1,396,716	$ 24,465,591

See accompanying Notes to the Financial Statements

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

1740 U.S. Hwy 93 South - Suite 101, PO Box 1957, Kalispell, MT 59903

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

Board of Trustees
Flathead Valley Community College
Flathead County
Kalispell, Montana

We have audited the financial statements of the business-type activities, the aggregate remaining fund information, and the discretely presented component units of Flathead Valley Community College, Flathead County, Montana, as of and for the year ended June 30, 2009, which collectively comprise the Flathead Valley Community College's basic financial statements and have issued our report thereon dated January 15, 2010. 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 the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described below to be a significant deficiency in the internal control over financial reporting.

Robert K. Denning, CPA · Kim M. Downey, CPA

09-1 **Cash Receipting – Business Office**

Condition:

Review of the cash controls of the business office disclosed the following weaknesses:

1. Cash and checks are not balanced separately.
2. The Accounting Associate posts both cash receipts, and has the ability to adjust a student account.

Criteria:

A control system over cash receipting should include:

1. Cash and checks should be balanced separately.
2. A separation of duties between cash handling and the ability to adjust accounts.

Effect:

The control system over cash receipting can be improved.

Recommendation:

We recommend the following changes to the cash control systems of the business office:

1. The purpose of balancing cash and checks separately is to ensure that a check that has not been entered into the receipting system is not added to the cash drawer and cash in the same amount removed. We recommend that cash and checks be balanced to the daily receipt reports separately to reduce the College's exposure to this risk.
2. The risk associated with this weakness is that one individual has the ability to remove cash and hide the transaction through an adjustment to a student's account. We recommend that the College limit access to adjusting client accounts to those individuals that do not also have access to cash.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Flathead Valley Community College's response to the findings identified in our audit is described in the Auditee's Response to Findings included in this report. We did not audit Flathead Valley Community College's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Flathead Valley Community College, management, the Montana Department of Administration, the Montana Office of Public Instruction, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

January 15, 2010

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

1740 U.S. Hwy 93 South - Suite 101, PO Box 1957, Kalispell, MT 59903

REPORT ON OTHER COMPLIANCE, FINANCIAL, AND INTERNAL ACCOUNTING CONTROL MATTERS

Board of Trustees
Flathead Valley Community College
Flathead County
Kalispell, Montana

There were no other compliance, financial, or internal accounting matters.

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

January 15, 2010

Robert K. Denning, CPA · Kim M. Downey, CPA

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

1740 U.S. Hwy 93 South - Suite 101, PO Box 1957, Kalispell, MT 59903

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of Trustees
Flathead Valley Community College
Flathead County
Kalispell, Montana

The prior audit report contained no recommendations.

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

January 15, 2010

Robert K. Denning, CPA · Kim M. Downey, CPA

Flathead Valley Community College
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Improving Lives Through Learning

January 15, 2010

Denning, Downey & Associates
1740 US HWY 93 S
PO Box 1957
Kalispell, MT. 59903-1957

RE: Response to Auditor 09-1

Dear Denning, Downey & Associates,

Please see the following responses to your audit recommendations for Flathead Valley Community College:

Response to Recommendation #1:

College has modified its daily receipts reconciliation procedures to additionally include balancing cash and checks separately.

Response to Recommendation # 2

College has restricted access to adjusting client accounts to only those individuals not having access to cash.

Sincerely,

Chuck Jensen
V.P. Admin and Finance