MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2010

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 2011

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of Miles Community College for the fiscal year ended June 30, 2010.

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.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

10C-08

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AUDIT REPORT

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CUSTER COUNTY, MONTANA

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Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010

Overview

Miles Community College's Management Discussion and Analysis (MD&A) presents an overview of its financial condition and assists the reader in focusing on significant financial issues for the year ended June 30, 2010. The discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and footnotes.

Financial and Other College Highlights

- **Personnel** –In April 2010, a full-time Medical Lab Technician Developer /Instructor was hired. This position will help coordinate and develop the new Medical Lab Technician program and teach some of the courses for the program. A full-time Assistant Residence Life Coordinator was hired in May 2010. This position assists the college in meeting the needs of students. The Vice President of Administrative Services and Finance position was vacant in May and June 2010. A new Vice President was in the process of being hired as of June 30, 2010.
- **Program Development** – The Vice President of Academic Affairs is working with businesses and faculty to develop programs needed in the area. The College is also working with Bismarck State College to form a partnership for the Medical Lab Technician program.
- **Grant** –The Department of Health and Human Services Health Resources and Service Administration (HRSA) awarded Miles Community College a $331,692 grant to develop programs for Pharmacy Technician and Medical Lab Technician. In addition, HRSA awarded a $94,050 grant which will enable the College to convert a classroom into a second science lab to accommodate the existing and new programs. Construction will be completed in August 2010.These grants were awarded in September 2009 but were ongoing during the year ending June 30, 2010.
- **Enrollment (FTE)** – In FY 2010, the College experienced an increase of 6.8 percent enrollment with 425 resident FTE. Management feels the major cause for the slight increase of enrollment is due to the relatively strong local economy and continuing low unemployment rates. A component of the increase is the Grow Eastern Montana program.
- **Information System** – The College has decided to implement Banner, a SunGard software system for finance, student services and human resources. Training started in February 2010. Finance will go live July 1, 2010. Student Services will go live in August 2010 in time for fall semester. Human Resources will be live with payroll in January 2011. We feel this will enhance the student and community experience.
- **Building Updates** The Dining Service remodel was completed by the fall 2009. The remodel offers students a warmer and more inviting atmosphere. Deferred maintenance projects were started in spring 2010. The H-VAC systems will be replaced in the main building and gymnasium. Windows and carpeting are being replaced in the main building and the bookstore will be remodeled. The deferred maintenance projects will be completed by the start of fall semester 2010.

Using the Financial Statements

The College's financial statements consist of the following three statements:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows

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

Significant changes to the financial statements are as follows:

- The financial statements are prepared using the accrual basis of accounting, which means revenues are reported when earned and expenses are reported when incurred, regardless of when the cash was actually received or paid.
- Capital assets are depreciated over their expected useful lives instead of recorded entirely as a current period expense in the year of acquisition. Depreciation is treated as an operating expense, and capital assets are reported in the statements at cost less accumulated depreciation.
- Assets and Liabilities are treated as current (due within one year) or as non-current (due in more than one year), and in the Statement of Net Assets are presented in order of their relative liquidity.
- Revenues and Expenses are classified as operating or non-operating. "Operating" is defined by the Governmental Accounting Standards Board (GASB) as resulting from transactions involving exchanges of goods or services for payment. "Non-operating" is defined by GASB as resulting from transactions not involving the exchange of goods or services for payment. Miles Community College shows a substantial "operating loss" in the Statement of Revenues, Expenses, and Changes in Net Assets primarily because GASB requires that State Appropriation and District Levy revenues must be reported as "non-operating".
- Tuition and Fees are reported net of any Tuition Waivers that were applied directly to a students account.

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

Statement of Net Assets

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

ASSETS		6/30/2009		6/30/2010
Total Current Assets	$	2,183,402	$	2,632,218
Total Noncurrent Assets		5,616,212		6,341,746
TOTAL ASSETS	$	7,799,614	$	8,973,964
LIABILITIES				
Total Current Liabilities	$	531,550	$	491,797
Total Noncurrent Liabilities		2,422,676		2,667,805
TOTAL LIABILITIES	$	2,954,226	$	3,159,602
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$	2,981,649	$	4,016,781
Restricted, Expendable		297,266		297,325
Unrestricted		1,566,473		1,518,256
TOTAL NET ASSETS	$	4,845,388	$	5,814,362

Current assets include the College's cash; taxes, grants, student loan, and accounts receivable; inventories; and other assets expected to benefit the College within one year. The $448,816 increase from FY 2009 to FY 2010 was due primarily to an increase in accounts and grants receivable for deferred maintenance.

Noncurrent assets primarily represent the College's Capital Assets less Accumulated Depreciation. The increase is due primarily to the cafeteria remodel and H-VAC systems.

Current liabilities include payroll and related liabilities, amounts payable to suppliers for goods and services received, revenue received which the College has not yet earned, student deposit balances, and debt principal payments due within one year. Total current liabilities decreased by almost $39,753 from FY 2009 to FY 2010, due largely to the change in compensated absences payable.

Noncurrent liabilities primarily represent debt principal payments due after a one-year period. It also includes the amount of compensated absence liability estimated to be due after a one-year period. In addition, a portion of the Other Post Employment Benefit obligation was implemented in FY 2010.

Invested in capital assets, net of related debt represents the historical costs of capital assets less accumulated depreciation and less debt balances related to the capital assets. This balance increases as assets are acquired and debt is repaid, and decreases as assets are depreciated and debt is incurred. Total capital assets net of related debt increased by $1,035,132 from FY 2009 to FY 2010 with the cafeteria remodel and deferred maintenance of the infrastructure. The cafeteria remodel was accomplished without accruing additional related debt.

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

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

Total net assets increased by $968,974 from FY 2009 to FY 2010, which indicates the overall financial position of the College has improved over that time period.

Statement of Revenue, Expenses, and Changes in Net Assets

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

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

		Year Ended 6/30/2009		Year Ended 6/30/2010
Operating Revenues	$	5,131,531	$	5,390,759
Operating Expenses		8,355,339		8,812,801
OPERATING LOSS	$	(3,223,808)	$	(3,422,042)
Nonoperating Revenues (Expenses)	$	3,790,324	$	4,466,496
Loss on Disposal of Capital Assets		(250)		-
Transfer from fiduciary funds		5,000		8,510
INCREASE (DECREASE) IN NET ASSETS	$	571,265	$	1,052,964
Net Assets, Beginning of Year	$	4,274,123	$	4,845,388
Restatement of expenses	$	-	$	(83,990)
Net Assets, End of Year	$	4,845,388	$	5,814,362

Operating revenues represent the revenue received from tuition and fees, federal, state, and private grants and contracts, indirect cost recoveries (from grants), auxiliary activities, and other operating revenues. Total operating revenues increased by $259,228 from FY 2009 to FY 2010. This is mainly due to the increase in Federal and State grants and contracts. In addition, tuition increased because of a change in the mix of in-district, out-of-district and out-of-state students.

Nonoperating revenue (expenses) consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Nonoperating revenue increased $847,832 from FY 2009 to FY 2010. The major items affecting this change are state and federal appropriations.

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

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

ANALYSIS OF ALL SOURCES OF REVENUE

SOURCE OF REVENUE	FISCAL YEAR 2009 AMOUNT	FISCAL YEAR 2009 PERCENT	FISCAL YEAR 2010 AMOUNT	FISCAL YEAR 2010 PERCENT	INCREASE (DECREASE) FY'09 VS FY'10
Operating Revenues					
Tuition and Fees (Net)	$ 1,486,656	16.46%	$ 1,600,728	16.06%	$ 114,072
Federal Grants and Contracts	1,320,995	14.63%	1,810,557	18.17%	489,562
State Grants and Contracts	553,415	6.13%	133,114	1.34%	(420,301)
Private and Local Grants and Contracts	318,170	3.52%	292,859	2.94%	(25,311)
Indirect Cost Recoveries	76,273	0.84%	34,776	0.35%	(41,497)
Auxiliary Enterprise Activities	1,104,129	12.23%	1,222,707	12.27%	118,578
Other Operating Revenues	271,893	3.01%	296,018	2.97%	24,125
Total Operating Revenue	$ 5,131,531	56.82%	$ 5,390,759	54.09%	$ 259,228
Nonoperating Revenues					
Interest Income	$ 58,396	0.65%	$ 32,053	0.32%	$ (26,343)
State Appropriations	2,440,365	27.02%	2,655,259	26.64%	214,894
Federal Appropriations	-	0.00%	358,922	3.60%	358,922
District Levies	1,401,419	15.52%	1,528,892	15.34%	127,473
Total Nonoperating Revenues	$ 3,900,180	43.18%	$ 4,575,126	45.91%	$ 674,946
Total Revenue	$ 9,031,711	100%	$ 9,965,885	100%	$ 934,174

ANALYSIS OF CATEGORY OF EXPENSE

CATEGORY OF EXPENSES	FISCAL YEAR 2009 AMOUNT	FISCAL YEAR 2009 PERCENT	FISCAL YEAR 2010 AMOUNT	FISCAL YEAR 2010 PERCENT	INCREASE (DECREASE) FY'09 VS FY'10
Operating Expenses					
Salaries	$ 3,426,521	40.48%	$ 3,258,396	36.52%	$ (168,125)
Benefits	1,144,475	13.52%	1,303,064	14.61%	158,589
Travel	241,332	2.85%	171,755	1.93%	(69,577)
Supplies	402,922	4.76%	503,059	5.64%	100,137
Contracted Service	352,406	4.16%	529,053	5.93%	176,647
Rent and Lease	138,599	1.64%	35,097	0.39%	(103,502)
Repairs and Maintenance	57,962	0.68%	21,708	0.24%	(36,254)
Advertising	84,350	1.00%	53,538	0.60%	(30,812)
Meetings and Dues	26,967	0.32%	36,353	0.41%	9,386
Utilities	166,179	1.96%	156,635	1.76%	(9,544)
Student Support	4,442	0.05%	16,182	0.18%	11,740
Communications	99,229	1.17%	110,538	1.24%	11,309
Software	27,395	0.32%	20,739	0.23%	(6,656)
Bad Debt Expense	43,237	0.51%	34,294	0.38%	(8,943)
Scholarships and Grants	1,163,229	13.74%	1,466,568	16.44%	303,339
Insurance	65,197	0.77%	74,534	0.84%	9,337
Indirect Costs	75,673	0.89%	34,777	0.39%	(40,896)
Food for Resale	176,073	2.08%	243,960	2.73%	67,887
Items for Resale	178,990	2.11%	172,523	1.93%	(6,467)
Other Operating Expenses	172,621	2.04%	187,187	2.10%	14,566
Depreciation	307,540	3.63%	382,841	4.29%	75,301
Total Operating Expenses	$ 8,355,339	98.70%	$ 8,812,801	98.78%	$ 457,462
Nonoperating Expenses					-
Interest Payments	$ 109,856	1.30%	$ 108,630	1.22%	$ (1,226)
Other Nonoperating Expenses	-	0.00%	-	0.00%	-
Total Nonoperating Expenses	$ 109,856	1.30%	$ 108,630	1.22%	$ (1,226)
					-
Total Expenses	$ 8,465,195	100.00%	$ 8,921,431	100.00%	$ 456,236

Comments about specific revenue and expense items are:

- **Private and Local Grants and Contracts** – During FY 2010 the College received funding from the Miles Community College Endowment Corporation, Glendive Medical Center and Sidney Healthcare to assist with program costs.
- **Expenses (general comment):** Overall expenses increased $456,236 from FY 2009 to FY 2010. Banner software and H-VAC systems were the most significant factors affecting the overall increase.

STATEMENT OF CASH FLOWS

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

A summary of the Statement of Cash Flows follows:

CASH FLOW CATEGORY		6/30/2009		6/30/2010
Cash Provided (Used) by:				
Operating Activities	$	(2,977,859)	$	(3,024,852)
Nonoperating Activities		3,827,822		4,456,480
Capital Financing Activities		(936,497)		(1,610,594)
Investing Activities		58,396	$	32,053
Net Increase (Decrease) in Cash	$	(28,138)	$	(146,913)
Cash and Cash Equivalents, Beginning of Year	$	2,031,588	$	2,003,450
Agency Fund Adjustment				
Cash and Cash Equivalents, End of Year	$	2,003,450	$	1,856,537

DISCUSSION OF SIGNIFICANT PENDING ECONOMIC AND FINANCIAL ISSUES

- **Population** – The College will continue to experience challenges due to the declining population in our service area, and we will continue to explore opportunities to grow enrollment.
- **Faculty and Staff** – The ability to attract and keep high quality faculty and staff because of our salary schedule is a concern of the College.
- **Program Development** – With regional changes, the College is challenged with meeting the educational service needs of the rural community and the financial cost to meet those needs. The College has recognized that a crucial component for the successful recruitment and retention of students is the development of quality academic and professional technical programs. We are currently in the process of developing or revising programs.

- **State Funding** – As State funding for Higher Education becomes more and more uncertain, we continue to look for alternate sources of funding such as state and federal grants, business partnerships, and partnerships with other educational institutions.
- **Shared Governance** - Working meetings are held monthly to facilitate ideas to improve the college experience for students, faculty, and staff. Administration and each section of the college have worked together on the fiscal budgeting process.
- **Deferred Maintenance** – The campus main facility is 40 years old; therefore, deferred maintenance is a very important issue. We have received funding from House Bill 645, which includes State General fund and American Recovery and Reinvestment funding, for deferred maintenance projects. Department of Environmental Quality (DEQ) conducted an energy efficient audit to determine which projects would qualify for loan funding for energy conservation projects. We have projects that qualify and were approved for a DEQ loan in FY 2010. We will receive the funds in fall 2010 with repayment starting in fall 2011. The main projects started in FY 2010 are window replacement and H-VAC system replacement. All projects will be completed by the start for fall semester in August 2010. We continue to look for other possibilities of available funding resources.

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

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities, aggregate remaining fund information and the discretely presented component unit of Miles Community College, Custer County, Montana, as of and for the year ended June 30, 2010, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Miles Community College management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, aggregate remaining fund information and the discretely presented component unit of Miles Community College, Custer County, Montana, as of June 30, 2010, 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.

As described in Note 1, Miles Community College, Custer County, Montana has implemented the Post Retirement Benefits other than Pensions, as required by the provisions of GASB Statement Number 45 as of June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2011, on our consideration of the Miles 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.

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

The management's discussion and analysis on pages 2 through 8, 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.

The accompanying schedule of expenditures of federal awards for the years ended June 30, 2009 and 2010 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Miles Community College. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation t the basic financial statements taken as a whole.

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

January 27, 2011

Miles Community College, Custer County, Montana
Statement of Net Assets
June 30, 2010

		Business-Type Activities		Miles Community College Endowment
ASSETS				
Current Assets:				
Cash and cash equivalents	$	1,762,592	$	-
Taxes receivable		136,974		-
Grants receivable		492,344		-
Student Loan receivable		33,512		-
Accounts receivable		132,983		-
Prepaid expense		26,193		-
Inventories		47,620		-
Total current assets	$	2,632,218	$	-
Noncurrent assets:				
Restricted cash and cash equivalents	$	93,945	$	682,267
Capital assets		10,126,937		-
Less: Accumulated depreciation		(3,879,136)		-
Total noncurrent assets	$	6,341,746	$	682,267
Total assets	$	8,973,964	$	682,267
LIABILITIES				
Current liabilities:				
Accounts payable	$	6,869	$	-
Accrued payroll		257,358		-
Deferred revenue -tuition and fees		85,990		-
Dormitory deposits		16,290		-
Current portion of compensated absences payable		14,094		-
Current portion of long-term capital liabilities		111,196		-
Total current liabilities	$	491,797	$	-
Noncurrent liabilities:				
Noncurrent portion of compensated absences payable	$	338,258	$	-
Noncurrent portion of long-term obligations		209,723		-
Noncurrent portion of long-term capital liabilities		2,119,824		-
Total noncurrent liabilities	$	2,667,805	$	-
Total liabilities	$	3,159,602	$	-
NET ASSETS				
Invested in capital assets, net of related debt	$	4,016,781	$	-
Restricted for student loans		53,700		-
Restricted for debt service		93,945		-
Restricted for scholarships, research, instruction and other		131,680		682,267
Unrestricted		1,518,256		-
Total net assets	$	5,814,362	$	682,267
Total liabilities and net assets	$	8,973,964	$	682,267

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Statement of Revenues, Expenses, and Changes in Net Assets
June 30, 2010

		Business-Type Activities		Miles Community College Endowment
OPERATING REVENUES				
Tuition and fees (net of scholarship allowance of $410,450)	$	1,600,728	$	-
Federal grants and contracts		1,810,557		-
State grants and contracts		133,114		-
Private and local grants and contracts		292,859		329,092
Indirect cost recoveries		34,776		-
Space/rental income		6,945		-
Athletic room and board		49,153		-
Other athletic allowance		80,220		-
Auxiliary activities:				-
Bookstore (net of book buybacks and returns of $58,880)		256,975		-
Food services		372,902		-
Centra		187,929		-
Big Sky dorm		404,901		-
Other operating revenues		159,700		-
Total operating revenues	$	5,390,759	$	329,092
OPERATING EXPENSES				
Salaries	$	3,258,396	$	60,620
Benefits		1,303,064		-
Travel		171,755		-
Supplies		503,059		4,401
Contracted services		529,053		1,050
Rent and lease		35,097		-
Repairs and maintenance		21,708		-
Advertising		53,538		-
Meetings and dues		36,353		235
Utilities		156,635		-
Student support		16,182		-
Communications		110,538		-
Software		20,739		-
Scholarships and grants		1,466,568		50,763
Insurance		74,534		-
Indirect costs		34,777		-
Food for resale		243,960		-
Items for resale		172,523		-
Bad debt expense		34,294		-
Other expense		187,187		35
Depreciation expense		382,841		-
Total operating expenses	$	8,812,801	$	117,104
Operating income (loss)	$	(3,422,042)	$	211,988
NONOPERATING REVENUES (EXPENSES)				
Interest income (Loss)	$	32,053	$	50,901
State appropriation		2,655,259		-
Federal appropriation		358,922		-
State reimbursements		192,704		-
District levies		1,336,188		-
Interest payments		(108,630)		-
Total non-operating revenues (expenses)	$	4,466,496	$	50,901
Income (loss) before contributions and transfers	$	1,044,454	$	262,889
Transfers from fiduciary funds	$	8,510	$	-
Change in net assets	$	1,052,964	$	262,889
Net assets - beginning	$	4,845,388		419,378
Restatements - change in accounting method for reporting capital assets		(83,990)		
Net assets - beginning restated	$	4,761,398	$	419,378
Net assets - ending	$	5,814,362	$	682,267

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

		Business-Type Activities
Cash flows from operating activities:		
Tuition and fees	$	1,292,110
Grants and contracts		2,252,031
Payments to employees		(2,992,500)
Payments for benefits		(1,303,064)
Payments to suppliers		(1,973,568)
Payments for utilities		(156,635)
Payments for scholarships and fellowships		(1,466,568)
Collection of loans to students		397
Auxiliary enterprise charges:		
Resident halls		412,491
Bookstore		256,975
Food Services		372,902
Centra		187,929
Other receipts (payments)		92,648
Net cash provided (used) by operating activities	$	(3,024,852)
Cash flows from capital financing activities:		
Purchases of capital assets	$	(1,395,687)
Principal paid on capital debt		(106,277)
Interest paid on capital debt		(108,630)
Net cash provided (used) from non-capital financing activities	$	(1,610,594)
Cash flows from noncapital financing activities:		
State appropriations	$	2,655,259
Federal appropriations		358,922
State reimbursements		192,704
District levies		1,275,378
Other nonoperating expenses		(34,293)
Transfers from fiduciary funds		8,510
Net cash provided (used) by capital and related financing activities	$	4,456,480
Cash flows from investing activities:		
Interest income	$	32,053
Net increase (decrease) in cash and cash equivalents	$	(146,913)
Cash and cash equivalents at beginning of year		2,003,450
Cash and cash equivalents at end of year	$	1,856,537
Reconciliation to Statement of Net Assets		
Cash and cash equivalents	$	1,762,592
Restricted cash and cash equivalents		93,945
Total cash and cash equivalents	$	1,856,537
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$	(3,422,042)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense		382,841
Changes in assets and liabilities:		
Bad debt expense		34,294
Changes in net assets and liabilities:		
Increase in accounts receivable		(343,994)
Decrease in grants receivable		15,501
Increase in prepaid expense		(2,649)
Increase in inventory		(456)
Increase in accounts payable		68,741
Increase in compensated absences payable		33,189
Increase in OPEB obligations payable		209,723
Net cash provided (used) by operating activities	$	(3,024,852)

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

		Private-Purpose Trusts
ASSETS		
Cash and cash equivalents	$	3,163
Receivables:		
Accounts receivable		38,881
Prepaid expenses		175
Total receivables	$	39,056
Total assets	$	42,219
LIABILITIES		
Accrued payroll	$	182
Total liabilities	$	182
NET ASSETS		
Assets held in trust	$	42,037

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2010

		Private Purpose Trust Funds
ADDITIONS:		
Contributions from private sources	$	211,602
Total additions	$	211,602
DEDUCTIONS:		
Student activities	$	208,781
Transfers out		8,510
Total deductions	$	217,291
Change in net assets	$	(5,689)
Net assets - beginning of the year	$	47,726
Net assets - end of the year	$	42,037

See accompanying Notes to the Financial Statements

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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.

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions. The College is required to implement this new statement during the year ended June 30, 2010. Certain significant changes in the Statement include the following:

1. Recognition of cost of post employment benefits on the government-wide financial statements on the accrual basis of accounting instead of cash basis.
2. Provide information on current values of future benefits, associated liabilities, and summarize major plan provision and demographics.

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 GASB Statement 39 which amended Statement 14, 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 June 30, 2010. The College has the following discretely presented component unit:

Miles Community College Endowment

Summary of Significant Accounting Policies – continued:

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

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

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

Classification of Net Assets
The Endowment classifies all net assets as restricted by donor.

Investments
Investments are carried at fair value, unrecognized gains and losses are reflected in the Statement of Revenues, Expenses and Changes in Net Assets as Interest Income.

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

Basis of Presentation, Measurement Focus and Basis of Accounting.

Proprietary Funds:
The proprietary fund is accounted for using the accrual basis of accounting. Proprietary funds account for operations that are primarily financed by user charges. 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 recorded in proprietary funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with 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 revues and expenses. When both restricted and unrestricted resources are available for use, it is the Colleges policy to use restricted resources first, then unrestricted resources as they are needed. The College has only one proprietary fund other than Fiduciary Funds.

Fiduciary Funds
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.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition
The College's cash, except for the Perkins Loan Fund is held by the County Treasurer and pooled with other County cash. College cash which is not necessary for short-term obligations, the College participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County's investment portfolio as of June 30, 2010, consisted of time deposits, U.S. Government Securities, Repurchase Agreements and the State Short-Term Investment Pool (STIP).

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

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

Deposits
The College's deposit balance at year end was $19,693 and the bank balance was $19,693. This amount was fully insured.

Component Unit Investments

The Endowment invests primarily in mutual funds, equity securities, and corporate debt securities. At June 30, 2010, investments are comprised of the following:

	Cost	Fair Market Value
Investment Centers of America		
Mutual Funds	$ 1,853	$ 1,509
Ameriprise Financial		
RVS-Port. Builder Moderate Fund	190,543	176,614
RVS-High Yield Bond Fund	170,893	159,733
RSV-Diversified Bond Fund	126,049	125,569
Edward Jones		
Growth Fund of America	28,649	23,637
First Interstate Financial		
Mutual Funds-MFS Utilities B	55,322	56,122
Total	$573,309	$ 543,184

As of the date of the report, the Fair Market Value of the investments has decreased by an additional $30,125.

Component Unit Cash and Cash Equivalents

The components of cash and cash equivalents as of June 30, 2010 are as follows:

Cash in Bank	$ 127,980
Endowment Money Market and CD Investments	11,103
Total	$ 139,083

This amount was fully insured.

Cash and investments as of June 30, 2010, consist of the following:

	College	Component Unit
Cash on Hand	$ 12,284	$ -
Demand Deposit Accounts	19,693	139,083
Invested in the County Investment Pool	1,827,723	-
Invested in Mutual Funds, Equity Securities and Corporate Debt Securities	-	543,184
Total Cash and Investments	$1,859,700	$ 682,267

Disclosures Relating to Interest Rate Risk

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

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

	June 30, 2010
Custer County Investment Pool	$1,827,723

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

Disclosures Relating to Credit Risk

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

Concentration of credit risk

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

Custodial Credit Risk

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

The College's deposits with financial institutions did not exceed federal depository insurance limits at June 30, 2010.

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

NOTE 3. RECEIVABLES

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. INVENTORIES AND PREPAIDS

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

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

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

NOTE 5. CAPITAL ASSETS

In the prior year, the College's assets were capitalized at historical cost or estimated historical cost with a capitalization threshold for reporting capital assets at $2,500. Effective for fiscal year ended June 30, 2010, the College's assets are capitalized at historical cost or estimated historical cost and the capitalization threshold for reporting purposes is as follows:

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

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

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

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

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

Land purchases shall be capitalized, regardless of cost.

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

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

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

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

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in the basic financial statements. In accordance with Statement No. 34, the College has included the value of all infrastructure into the 2009-10 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, 2009	Additions	Retirements	Adjustments/ Transfers	Balance June 30, 2010
Capital assets not being depreciated:					
Land	$ 206,412	$ -	$ -	$ -	$ 206,412
Construction in Progress	176,277	485,347	-	(176,277)	485,347
Total capital assets not being depreciated	$ 382,689	$ 485,347	$ -	$ (176,277)	$ 691,759
Other Capital Assets:					
Buildings	$7,146,769	$ 315,685	$ -	$ 176,277	$ 7,638,731
Machinery and equipment	1,296,477	270,311	6,140	(254,114)	1,306,534
Software	99,692	306,155	-	-	405,847
Library Inventory	71,757	18,188	5,880	-	84,065
Total other Capital Assets at historical cost	$ 8,614,695	$ 910,339	$ 12,020	$ (77,837)	$ 9,435,177
Less Accumulated Depreciation	$(3,678,438)	$ (382,841)	$ (12,020)	$ 170,124	$(3,879,135)
Total	$ 5,318,946	$1,012,845	$ -	$ (83,990)	$ 6,247,801

NOTE 6. LONG TERM DEBT OBLIGATIONS

During the year ended June 30, 2010, the following changes occurred in liabilities reported in long-term debt:

Purpose	Balance July 1, 2009	Principal Payment	Balance June 30, 2010
Stockman Bank	$ 237,342	$ 21,949	$ 215,393
USDA Rural Development #1	218,284	21,216	197,068
First Interstate Bank	315,209	14,608	300,601
Montana Board of Investments	145,486	30,760	114,726
USDA Rural Development #2	1,420,976	17,744	1,403,232
OPEB *	-	-	209,723
Total	$ 2,337,297	$106,277	$ 2,440,743

* See Note 9.

Stockman Bank

The note payable to Stockman Bank of Montana was in the original amount of $400,000. This note is payable in monthly installments of $3,387 on the 23rd day of each month. This note bears interest at a variable rate, not less than 7.16% per annum nor more than 11.16% per annum. The interest rate as of June 30, 2006 was 7.16% per annum. This note is secured by a second mortgage on two tracts of land, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on September 23, 2017.

Annual requirement to amortize debt for Stockman Bank:

For Fiscal Year Ended	Principal	Interest
2011	$ 23,553	$ 14,660
2012	25,295	12,917
2013	27,167	11,045
2014	29,178	9,034
2015	31,337	6,875
2016	33,656	4,557
2017	36,146	2,066
2018	9,061	107
Total	$ 215,393	$ 61,261

USDA Rural Development #1

The first note payable to the USDA Rural Development was in the original amount of $400,000. This note is payable in semi-annual installments of $15,936 due on March 23rd and September 23rd of each year. This note bears interest at 5.0% per annum. This note is secured by two tracts of land, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on September 23, 2017.

Annual requirement to amortize debt for USDA Rural Development:

For Fiscal Year Ended	Principal	Interest
2011	$ 22,294	$ 9,578
2012	23,422	8,450
2013	24,608	7,264
2014	25,854	6,018
2015	27,162	4,710
2016	28,538	3,334
2017	29,982	1,890
2018	15,208	381
Total	$ 197,068	$ 41,625

First Interstate Bank

The mortgage payable to First Interstate Bank was in the original amount of $370,000. This mortgage is payable in monthly installments of $2,736 on the 18th day of each month. This mortgage bears interest at a variable rate, currently at 5%. This mortgage is secured by the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this mortgage is due on May 18, 2023. This note payable is guaranteed by the USDA Rural Development for 90% of the outstanding balance of the note payable.

Annual requirement to amortize debt for First Interstate Bank:

For Fiscal Year Ended	Principal	Interest
2011	$ 15,072	$ 14,952
2012	15,858	14,166
2013	16,684	13,340
2014	17,553	12,471
2015	18,468	11,556
2016	19,430	10,594
2017	20,443	9,581
2018	21,508	8,516
2019	22,628	7,396
2020	23,807	6,217
2021	25,048	4,976
2022	26,353	3,671
2023	27,726	2,298
2024	29,171	854
2025	852	12
Total	$ 300,601	$120,591

Montana Board of Investments

The Intercap note payable to the Montana Board of Investments was in the original amount of $300,000 and will be paid off on August 15, 2013. This note is payable in semiannual installments on August 15th and February 15th of each year. Interest is payable at 1.95% per annum. This note is secured by a deed of trust on the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College. 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.

Annual requirement to amortize debt for Montana Board of Investments:

For Fiscal Year Ended	Principal	Interest
2011	$ 31,740	$ 3,472
2012	32,779	2,433
2013	33,853	1,359
2014	16,354	266
Total	$114,726	$ 7,530

USDA Rural Development #2

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

Annual requirement to amortize debt for USDA Rural Development:

For Fiscal Year Ended	Principal	Interest
2011	$ 18,537	$ 61,023
2012	19,364	60,196
2013	20,229	59,331
2014	21,132	58,428
2015	22,075	57,485
2016	23,060	56,500
2017	24,090	55,470
2018	25,165	54,395
2019	26,289	53,271
2020	27,462	52,098
2021	28,688	50,872
2022	29,968	49,592
2023	31,306	48,254
2024	32,704	46,856
2025	34,164	45,396
2026	35,689	43,871
2027	37,282	42,278
2028	38,946	40,614
2029	40,684	38,876
2030	42,500	37,060
2031	44,398	35,162
2032	46,379	33,181
2033	48,450	31,110
2034	50,612	28,948
2035	52,872	26,688
2036	55,232	24,328
2037	57,697	21,863
2038	60,273	19,287
2039	62,963	16,597
2040	65,774	13,786
2041	68,710	10,850

2042	71,777	7,783
2043	74,981	4,579
2044	63,780	1,265
Total	$1,403,232	$1,287,293

NOTE 7. COMPENSATED ABSENCES

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

	Balance July 1, 2009	Increase (Decrease)	Balance June 30, 2010
Vacation and sick leave	$ 319,163	$ 33,189	$ 352,352

NOTE 8. STATE-WIDE RETIREMENT PLANS

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

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2010, were:

	PERS	TRS
Employer	7.07%	7.47%
Employee	6.90%	7.15%
State	0.1%	2.49%

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

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

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

Total contributions for the years ended June 30, 2008, 2009, and 2010, as listed below, were equal to the required contributions for each year.

	PERS	TRS
2008	$ 197,185	$ 216,707
2009	$ 217,375	$ 220,730
2010	$ 182,156	$ 239,686

NOTE 9. POST EMPLOYMENT HEALTHCARE PLAN

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

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

Funding Status and funding Progress. The funded status of the plan as of June 30, 2010, was as follows:

Actuarial Accrued Liability (AAL)	$ 1,927,543
Actuarial value of plan assets	$ -
Unfunded Actuarial Accrued Liability (UAAL)	$ 1,927,543
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	$ 3,258,396
UAAL as a percentage of covered payroll	59%

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

Annual Required Contribution (ARC)	$ 209,723
Interest on net OPEB obligation	$ -
Adjustment to ARC	$ -
Annual OPEB cost (expense)	$ 209,723
Contributions made	$ -
Increase in net OPEB obligation	$ 209,723
Net OPEB obligation - beginning of year	$ -
Net OPEB obligation - end of year	$ 209,723

Actuarial Methods and Assumptions. The following actuarial methods and assumptions were used:

Actuarial cost method	Unit Credit Cost Method
Average age of retirement (based on historical data)	65
Discount rate (average anticipated rate)	4.25%
Average salary increase (Consumer Price Index)	2.5%
Health care cost rate trend (Federal Office of the Actuary)	

PlanYear	**Medical % Increase**	**Prescription Drugs % Increase**
2009	10.0%	9.5%
2010	9.0%	9.0%
2011	8.0%	8.5%
2012	7.0%	8.0%
2013	6.0%	7.0%
2014	5.0%	6.0%
2015+	5.0%	5.0%

NOTE 10. RESTRICTED CASH/INVESTMENTS

Related Party Transactions Component units

The following restricted cash/investments were held by the College as of June 30, 2010. These amounts are reported within the cash/investment account on the Balance Sheet.

Description	Amount
Restricted for Debt Service	$ 93,945

NOTE 11. NET ASSETS

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

Description	Amount
Restricted for Debt Service	$ 93,945
Restrictred for scholarships, research, instructions and other	$131,680
Restricted for student loans	$ 53,700

NOTE 12. 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, 2010:

Component Unit	Significant Transactions
Miles Community College Endowment	Donated $49,838

NOTE 13. RESTATEMENTS

During the current fiscal year, the following adjustments relating to prior years' transactions were made to fund balance and net assets.

Fund	Amount	Reason for Adjustment
Miles Community College	$83,990	The college changed its capitalization policy

NOTE 14. 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.

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REQUIRED SUPPLEMENTAL INFORMATION

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Miles Community College, Custer County, Montana
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Year Ended June 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2009	$ -	$ 1,927,543	$ 1,927,543	0%	$ 3,258,396	59%

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SUPPLEMENTAL INFORMATION

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Miles Community College, Custer County, Montana
Functional Classification of Operating Expenses
For the Year Ended June 30, 2010
(audited)

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Operation and Maintenance	Auxiliary	Depreciation	Totals
Salaries	$ 1,460,951	$ 37,313	$ 423,099	$ 427,515	$ 490,056	$ 149,136	$ 270,326	$ -	$ 3,258,396
Benefits	516,704	12,185	171,262	205,716	207,724	98,573	90,900	-	1,303,064
Travel	14,307	633	30,185	98,226	26,611	-	1,793	-	171,755
Supplies	119,593	2,207	117,223	120,990	14,936	48,550	79,560	-	503,059
Contracted Services	18,090	7,458	169,992	113,613	85,797	97,628	36,475	-	529,053
Rent and Lease	10,985	140	3,855	1,795	1,119	3,127	14,076	-	35,097
Repairs and Maintenance	-	-	-	493	-	8,317	12,898	-	21,708
Advertising	4,711	1,625	-	43,916	-	-	3,286	-	53,538
Meetings and Dues	3,623	-	420	10,451	21,859	-	-	-	36,353
Utilities	-	-	412	12,844	-	76,476	66,903	-	156,635
Student Support	176	-	8,092	6,219	-	527	1,168	-	16,182
Communications	20,808	631	29,036	4,557	37,548	-	17,958	-	110,538
Software	4,308	-	11,019	-	-	-	5,412	-	20,739
Scholarships and Grants	45,252	-	1,338,305	43,983	-	-	39,028	-	1,466,568
Insurance	6,722	-	-	6,368	-	42,964	18,480	-	74,534
Indirect Costs	12,499	-	22,278	-	-	-	-	-	34,777
Food for Resale	-	-	-	-	-	-	243,960	-	243,960
Items for Resale	-	-	-	-	-	-	172,523	-	172,523
Other	39,413	1,264	28,181	60,674	38,849	44	18,762	-	187,187
Bad Debt	-	-	-	-	34,294	-	-	-	34,294
Depreciation Expense	-	-	-	-	-	-	-	382,841	382,841
	$ 2,278,142	$ 63,456	$ 2,353,359	$ 1,157,360	$ 958,793	$ 525,342	$ 1,093,508	$ 382,841	$ 8,812,801

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Student Financial Aid Modified Statement of Cash Receipts and Disbursements
For the Year Ended June 30, 2010
(unaudited)

	Pell	Perkins	CWS	SEOG
Beginning cash balance	$ (4,602)	$ 19,234	$ 130	$ -
Additions:				
Federal advances	995,636	459	36,261	28,262
State matching funds	-	-	-	-
Total Additions	$ 995,636	$ 459	$ 36,261	$ 28,262
Deductions:				
Distribution to students	$ 991,400	$ -	$ 36,207	$ 28,262
Administrative expenses	-	-	-	-
Total Deductions	$ 991,400	$ -	$ 36,207	$ 28,262
Net change to cash	$ 4,236	$ 459	$ 54	$ -
Ending cash balance	$ (366)	$ 19,693	$ 184	$ -

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Schedule of Expenditures
Schedule of Student Financial Assistance Programs
For the Year Ended June 30, 2010
(unaudited)

		2010
Perkins Loan Program		
Student loan advances	$	-
College Work Study		
Wages	$	36,261
Administrative cost		-
Total College Work Study	$	36,261
Supplemental Education Opportunity Grant Program		
Student grants	$	28,262
Pell Grant Program		
Student grants	$	987,959

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Schedule for Full Time Equivalent
For the Year Ended June 30, 2010
(audited)

Semester	Resident	WUE	Nonresident	Total
Summer 2009	42.5	0.0	2.9	45.4
Fall 2009	396.9	12.9	50.4	460.2
Spring 2010	407.2	10.5	45.1	462.8

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

See accompanying Notes to the Financial Statements

SINGLE AUDIT SECTION

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Miles Community College, Custer County, Montana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Fiscal Year Ended June 30, 2009

Federal Grant/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number		Federal Expenditures
U.S. Department of Housing and Urban Development				
Passed through the Office of the Commissioner of Higher Education:				
MAP-WIRED-UM COT	14.228	MT-WIRED-07-09	$	21,092
Total U.S. Department of Agriculture			$	21,092
U.S. Department of Labor				
Passed through the Montana Department of Labor:				
WIA Adult Program	17.258	MACO2PY07AD	$	25,996
WIA Adult Program	17.258	MACO3PY07AD		52,127
WIA Adult Program-Stimulus District 2	17.258	MACO2PY07AD-ARRA		2,137
WIA Adult Program-Stimulus District 3	17.258	MACO3PY07AD-ARRA		6,712
Passed through the Office of the Commissioner of Higher Education:				
Workforce Investment Act (WIA) Pilots, Demonstrations, and Research Project	17.261	MCC/WIRED 03-07		250,029
Total U.S. Department of Interior			$	337,001
U.S. Department of Education				
Direct:				
Adult Basic Education	84.002	58-6501-56-09-BG	$	38,629
Supplemental Educational Opportunity Grant Program	84.007	N/A		40,183
Federal Family Education Loans*	84.032	N/A		1,301,148
College Work Study	84.033	N/A		35,514
Pell Grant Program	84.063	N/A		641,004
Even Start	84.213	58-6501-38-08		49,045
Academic Competitiveness Grant	84.375	N/A		13,825
Passed through the Office of the Commissioner of Higher Education:				
Carl D. Perkins Rural	84.048A	MCC 6R 08 & 09		29,808
Carl D. Perkins Vocational Act	84.048A	NA		60,685
Total U.S. Departmnent of Education			$	2,209,841
U.S. Department of Health and Human Services				
Direct:				
Other Health Professions Programs	93.888	N/A	$	2,499
Total U.S. Department of Health and Human Services			$	2,499
Corporation for National and Community Service				
Direct:				
Retired Senor Volunteer Program	94.002	065RPMT015	$	68,071
Total Corporation for National and Community Service			$	68,071
Total Federal Financial Assitance			$	2,638,504

* This program's activities is not reflected in financial statements of this entity.

N/A = Not Applicable of Not Available

Miles Community College, Custer County, Montana
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Fiscal Year Ended June 30, 2010

Federal Grant/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number		Federal Expenditures
U.S. Department of Labor				
Passed through the Montana Department of Labor:				
WIA Adult Program	17.258	MACO2PY07AD	$	29,001
WIA Adult Program	17.258	MACO3PY07AD		57,997
WIA Adult Program-Stimulus District 2	17.258	MACO2PY07AD-ARRA		12,865
WIA Adult Program-Stimulus District 3	17.258	MACO3PY07AD-ARRA		23,289
Passed through the Office of the Commissioner of Higher Education:				
Workforce Investment Act (WIA) Pilots, Demonstrations, and Research Projects	17.261	MCC/WIRED 03-07		340,896
Total U.S. Department of Interior			$	464,048
U.S. Department of Education				
Direct:				
Adult Basic Education	84.002	58-6501-56-09-BG	$	44,406
Supplemental Educational Opportunity Grant Program	84.007	N/A		28,262
Federal Family Education Loans*	84.032	N/A		1,345,201
College Work Study	84.033	N/A		36,261
Pell Grant Program	84.063	N/A		987,959
Academic Competitiveness Grant	84.375	N/A		18,130
Passed through the Office of the Commissioner of Higher Education:				
ARRA - State Fiscal Stabilization Fund - Government Services, Recovery Act.	84.397	N/A		358,922
Carl D. Perkins Vocational Act	84.048	NA		65,916
Total U.S. Departmnent of Education			$	2,885,057
U.S. Department of Health and Human Services				
Direct:				
Other Health Professions Programs	93.888	D1DHP10819	$	58,775
Other Health Professions Programs-Pathway to Heath Care Careers	93.888	D1DHP16356		94,050
Total U.S. Department of Health and Human Services			$	152,825
Total Federal Financial Assitance			$	3,501,930

* This program's activities is not reflected in financial statements of this entity.

N/A = Not Applicable of Not Available

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2010

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Miles Community College, Custer County, Montana, and is presented on the full accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

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

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

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

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

We have audited the business-type activities, discretely presented component unit and aggregate remaining fund information of Miles Community College, Custer County, Montana, as of and for the year ended June 30, 2010, which collectively comprise the College's basic financial statements and have issued our report thereon dated January 27, 2011. 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 Miles Community 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 Miles Community College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Miles Community College's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 10-2 that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies in internal

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

control over financial reporting as items 10-1 and 10-3. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

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

This report is intended solely for the information and use of the audit committee of the Miles Community College, management, the State of Montana's Legislative Audit Division, 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 27, 2011

Denning, Downey & Associates, P.C.
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1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Miles Community College , Custer County, Montana, 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 fiscal years ended June 30, 2009 and 2010. The Miles 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion of the 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 the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, Miles 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 year ended June 30, 2010.

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

Internal Control Over Compliance

The management of the 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 the 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 an opinion on compliance and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

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

This report is intended for the information of the audit committee of the Miles Community College, management, the State of Montana's Legislative Audit Division, 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 27, 2011

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2010

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	*Unqualified*
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(s) identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses	None Reported
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:

CFDA Number	Name of Federal Program or Cluster
84.007, 84.032, 84.033, 84.063, 84.375	Student Financial Aid Cluster
17.261	Workforce Investment Act (WIA) Pilots, Demonstrations, and Research Projects
84.397	ARRA – State Fiscal Stabilization Fund

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

Section II – Financial Statement Findings

10-1 Cafeteria Inventory

Condition:
The cafeteria currently does not perform an inventory count or track inventory on hand.

Criteria:
Internal controls should be in place to ensure that inventory is reported properly and to ensure that there is no undue inventory shrinkage.

Effect:
Not tracking inventory or performing inventory counts could allow for inventory shrinkage to go undetected and could cause inventory to be misstated on the financial statements.

Cause:
Food service personnel have not thought of this as an issue and therefore have never implemented procedures to track and count inventory.

Recommendation:
We recommend that the food service keep perpetual inventory records and perform a count of inventory at least once per month.

10-2 Consolidation

Condition:
In the consolidated financial statements for Miles Community College, internal balances were reported in the other operating revenues and other expenses categories in the amount of $390,370.

Criteria:
When consolidated financial statements are prepared, all internal revenues and expenses should be eliminated.

Effect:
Revenues and expenses are both overstated by the amount of the internal balances. This has been corrected in the annual financial report consolidation.

Cause:
When consolidations were prepared, internal transfers were not eliminated from revenues and expenses.

Recommendation:
We recommend that controls procedures be implemented to ensure that in consolidated financial statements all internal balances are eliminated.

10-3 Backup Recovery and Check Sequencing – MCC Endowment

Condition:
During our review of internal controls for the endowment we noted that backups are not maintained offsite and no disaster recovery plan has been implemented for endowment fund financials. Also, during review of claims it was found that there were incorrect check numbers issued for checks in both bank accounts.

Criteria:
Auditing standards require the auditor to assess the design or operation of internal controls to assess if the controls in place allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect design flaws in the control procedure and correct misstatements. The components of internal controls include: control environment, risk assessment, information and communications, monitoring, and control activities.

Effect:
Loss of the computer system running the financial system could cause irrecoverable loss of financial data. Check numbers not matched to QuickBooks allows for unrecorded expenses being missed.

Cause:
No offsite backup or disaster recovery systems are maintained for the endowment fund. Checks were issued without ensuring that the check sequence matched that of the accounting system.

Recommendation:
We recommend that backups are done daily or when transactions are done in batch and stored on an external medium offsite. We also recommend that pre-numbered checks be used in conjunction with the numbering in QuickBooks.

Section III – Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported.

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

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

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

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

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

January 27, 2011

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

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

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

The prior audit report contained one recommendation. The action taken on each recommendation is as follows:

Recommendation	Action Taken
Miles Community College Endowment Fund	Implemented

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

January 27, 2011

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

2715 Dickinson
Miles City, MT 59301
www.milescc.edu

MILES
COMMUNITY COLLEGE

(406) 874-6100
Fax: (406) 874-6282
Equal Opportunity in Education and Employment

January 27, 2011

Denning, Downey & Associates, P.C.
1740 U.S. Hwy 93 South Suite 101
Kalispell, MT 59901

To Whom It May Concern:

Enclosed please find our response to the findings from our audit period ending June 30, 2010.

Finding: Cafeteria inventory reporting

> **Condition:** The cafeteria currently does not perform an inventory count or track inventory on hand.
>
> **Recommendation:** We recommend that the food service keep perpetual inventory records and perform a count of inventory at least once per month.
>
> **Response:** The consumption or purchase inventory method may be used for government fund financial statements. A formal inventory is scheduled for January 2011. Stock, usage, and waste forms will be implemented. At a minimum inventory will be counted twice a year and our existing software will be reviewed to determine the feasibility of perpetual inventory. In addition, formal procedures for the Cafeteria will be updated.

Finding: Consolidation

> **Condition:** In the consolidated financial statements, internal balances were reported in the other operating revenues and other expenses categories in the amount of $390,370.
>
> **Recommendation:** We recommend that controls procedures be implemented to ensure that in consolidated financial statements all internal balances are eliminated.
>
> **Response:** Miles Community College has contracted for many years with an outside accounting firm to compile the financial statements. With the resignation of the previous VP, limited staffing, and the transition to a new accounting system at the outside firm, procedures to check for interfund transfers were missed. Going forward, with a new

Start Here... Go Anywhere.

accounting system at the college and the replacement of the VP, procedures will be implemented to ensure the financial statements are thoroughly reviewed.

Sincerely,

Lisa M Watson

Lisa M. Watson
VP of Administrative Services and Finance

Miles Community College
Endowment

2715 Dickinson, Miles City, MT 59301 Telephone (406)874-6288 E-mail: endowment@milescc.edu

January 27, 2011

Denning, Downey & Associates, CPAs, P.C.
1740 US Hwy 93 South, Ste 101
Kalispell, MT 59901

To Whom It May Concern:

Here is the response to the finding from our audit period ending June 30, 2010.

Finding 1: Backup recovery and Check sequencing for Quick Books
During the review of internal controls for the endowment, it was noted that no backups are maintained and no disaster recovery plan has been implemented for endowment fund financials. Also, during review of claims it was found that there were incorrect check numbers issued for checks in both bank accounts.

Recommendation:
It is recommended that backups are done daily or when transactions are done in batch and stored on an external medium separate from the system that houses the QuickBooks. We also recommend that pre-numbered checks be used in conjunction with the numbering in QuickBooks.

Response:
A Backup and Recovery Policy has been created and will be brought to the Endowment Board for approval at the next scheduled meeting, December 15, 2010. A Backup and Recovery Procedures Manual has also been created. Backups will be done at least on a monthly basis depending on the significance of the information and its frequency of change. Backups will be given to the Executive Director by the Secretary/Treasure and will be stored at the Endowment Office at 2715 Dickinson St, Mile City, MT 59301. Quick Books software will be purchase if recovery is necessary to download and utilize stored backup.

There was an error in inputting check numbers in Quick Books. A more systematic process will be followed to input check numbers in Quick Books and reconcile with bank statements on a monthly basis. Checks will be cross referenced from the check book to the bank statements and Quick Books.

Sincerely,

Donald J Hartman
President, Miles Community College Endowment