FLATHEAD VALLEY COMMUNITY COLLEGE

FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2011

AUDIT REPORT

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

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Angie Grove

June 2012

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, 2011.

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,

Tori Hunthausen, CPA
Legislative Auditor

11C-07

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FLATHEAD VALLEY COMMUNITY COLLEGE

FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2011

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FLATHEAD COUNTY, MONTANA

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DISTRICT OFFICIALS

Jane Karas	President
Monica Settles	District Clerk

Flathead Valley Community College
Management's Discussion and Analysis
Fiscal year 2011

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 34 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 Flathead Valley Community College Foundation is both a legally separate and fiscally independent entity from the Flathead Valley Community College. The financial statements and notes to the financial statements of the Foundation, a discretely presented component unit of the College, are included in the audit report of the College. The Foundation was audited by another firm and has a separate issued audit report.

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial activities of FVCC for fiscal year ended June 30, 2011.

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

	For Fiscal Year Ended 6/30/11	For Fiscal Year Ended 6/30/10	For Fiscal Year Ended 6/30/09	For Fiscal Year Ended 6/30/08
Total Current Assets	$12,375,866	$11,283,779	$9,089,821	$8,954,631
Total Non-Current Assets	27,710,526	27,493,958	28,054,403	27,589,297
TOTAL ASSETS	**$40,086,392**	**$38,777,737**	**$37,144,224**	**$36,543,928**
Total Current Liabilities	$3,102,103	$3,624,025	$3,972,408	$2,578,599
Total Non-Current Liabilities	16,639,130	17,433,755	17,641,212	18,851,585
TOTAL LIABILITIES	**$19,741,233**	**$21,057,780**	**$21,613,620**	**$21,430,184**
Invested in capital, net of related debt	$11,188,128	$9,957,595	$9,224,584	$8,514,056
Restricted-expendable	665,515	654,205	992,799	258,154
Unrestricted	8,491,516	7,108,157	5,313,221	6,341,534
TOTAL NET ASSETS	**$20,345,159**	**$17,719,957**	**$15,530,604**	**$15,113,744**

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.

- Restricted-expendable Net Assets were held primarily in the grant, scholarship and bond funds.

- 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. A portion 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 34. GASB 34 has defined appropriations (state and local) as non-operating revenues, thus, FVCC is showing an operating loss $8,225,345 for FY2011. Once the appropriations dollars are considered, the results become a gain of $2,625,202 for FY2011. 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 6/30/11	For Fiscal Year Ended 6/30/10	For Fiscal Year Ended 6/30/09	For Fiscal Year Ended 6/30/08
Operating Revenues	$ 26,550,803	$ 23,918,194	$ 15,600,085	$ 11,917,111
Operating Expenses	(34,776,148)	(32,199,309)	(24,465,591)	(20,416,641)
Operating Loss	$ (8,225,345)	$ (8,281,115)	$ (8,865,506)	$ (8,499,530)
Net Nonoperating Revenues/(Expenses)	10,837,290	10,475,031	9,282,366	9,088,303
Transfers	13,257	(4,563)	-	6,954
Change in Net Assets	**$ 2,625,202**	**$ 2,189,353**	**$ 416,860**	**$ 595,727**
Beginning Net Assets	$ 17,719,957	$ 15,530,604	$ 15,113,744	$ 15,452,060
Prior Period Adjustments	$ -	$ -	$ -	$ (934,043)
Net Assets - end of year	$ 20,345,159	$ 17,719,957	$ 15,530,604	$ 15,113,744

Information regarding revenue and expense items:

- Operating Revenue: Operating Revenues for FY2011 are $26,550,803 compared to $23,918,194 for FY2010. These results consisted of additional Tuition and Fee Revenues and increased Federal Grant Revenue as compared to the same revenue items in FY2010.
- Operating Expense: Operating Expenses for FY2011 are $34,776,148 versus $32,199,309 for FY2010. Contributions to the operating expense included increased Scholarship and Personal Services expenses as compared to the same expense items in FY2010.
- Non-Operating Revenues (Expenses): Non-Operating Revenues for FY2011 are $10,837,290 and $10,475,031 for FY2010. This total included increased State and Local Appropriation revenue, in addition to an increase in Interest revenue as compared to the same Non Operating Revenue item for FY2010.
- Prior Period Adjustment FY2011: 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 an increase of $1,782,318 for FY2011. Cash used by Operating activities decreased from $ 7,680,700 in FY10 to $ 6,313,679 in FY11. This result is due to increased tuition and fee revenue, offset by an increasing use of cash for Scholarships and Payroll compared to these items in FY10.

	For Fiscal Year Ended 6/30/11	For Fiscal Year Ended 6/30/10	For Fiscal Year Ended 6/30/09	For Fiscal Year Ended 6/30/08
Cash Provided (Used) by:				
Operating Activities	$ (6,313,679)	$ (7,680,700)	$ (6,498,686)	$ (7,566,343)
Noncapital Financing Activities	11,249,583	10,715,537	9,618,460	9,663,899
Capital and Related Financing Activities	(3,331,307)	(2,775,610)	(2,673,526)	(2,075,866)
Investing Activities	177,721	170,571	246,105	347,438
Net Increase (Decrease) in Cash	$ 1,782,318	$ 429,798	$ 692,353	$ 369,128
Cash and Cash Equivalents, beginning of year	$ 8,671,666	$ 8,241,868	$ 7,549,515	$ 7,180,387
Cash and Cash Equivalents, end of year	$ 10,453,984	$ 8,671,666	$ 8,241,868	$ 7,549,515

Significant Subsequent Events

Following a generous $4 million donation from the Broussard family to honor the late Rebecca Chaney Broussard, the College expects to break ground on the Rebecca Chaney Broussard Center for Nursing and Health Science. To date, over $880,000 has been raised toward the additional $1 million needed to complete construction of the Center. The Foundation has been managing this fundraising campaign.

In July 2011, the Board awarded the bid for the Maintenance and Storage Building Project to Oswood Construction in the amount of $832,600. The construction has been completed and the building is currently being used by the College.

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

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

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, 2011, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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, 2010. 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 provides a reasonable basis for our opinions.

In our opinion, based on our audit 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 aggregate remaining fund information, and the discretely presented component unit of the Flathead Valley Community College, Flathead County, Montana, as of June 30, 2011, and the respective changes in financial position, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2011, 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

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

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.

May 21, 2011

Flathead Valley Community College, Flathead County, Montana
Statement of Net Assets
June 30, 2011

ASSETS		
Current assets:		
Cash and investments	$	9,804,074
Taxes and assessments receivable, net		407,417
Grants receivable		594,519
Accounts receivable - net		1,060,571
Other assets		209,469
Inventories		299,816
Total current assets	$	12,375,866
Noncurrent assets:		
Restricted cash and investments	$	650,000
Bond issuance costs		157,586
Capital assets - land		2,579,863
Capital assets - construction in progress		162,023
Capital assets - depreciable, net		24,161,054
Total noncurrent assets	$	27,710,526
Total assets	$	40,086,392
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$	307,778
Deposits payable		2,000
Interest payable		17,125
Accrued payroll		152,492
Deferred revenue - tuition and fees		844,047
Deferred revenue - grants		63,866
Bond premium		108,700
Current portion of early retirement liabilities		16,529
Current portion of long-term capital liabilities		1,028,596
Current portion of compensated absences payable		560,970
Total current liabilities	$	3,102,103
Noncurrent liabilities:		
Noncurrent portion of long-term capital liabilities	$	14,686,216
Noncurrent portion of compensated absences		598,091
Other post employment benefits		1,354,823
Total noncurrent liabilities	$	16,639,130
Total liabilities	$	19,741,233
NET ASSETS		
Invested in capital assets, net of related debt	$	11,188,128
Restricted for debt service		650,000
Restricted for grants		4,636
Restricted for scholarships		10,879
Unrestricted		8,491,516
Total net assets	$	20,345,159
Total liabilities and net assets	$	40,086,392

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, 2011

OPERATING REVENUES		
Tuition and fees (net of scholarship allowances of $ 566,927)	$	8,265,727
Federal grants and contracts		13,705,322
State grants and contracts		625,078
Private and local grants and contracts		834,476
Indirect cost recoveries		127,091
Seminars and workshops (net of waivers of $0)		662,366
Auxiliary activities		1,912,379
Other operating revenues		418,364
Total operating revenues	$	26,550,803
OPERATING EXPENSES		
Personal services	$	14,536,310
Travel		271,921
Supplies		2,560,560
Contracted services		2,163,533
Bond issue expense		10,903
Bad debt expense		140,454
Scholarships and grants		12,232,180
Noncapitalized equipment (under $5000)		1,093,816
Other operating expenses		227,708
Depreciation expense		1,538,763
Total operating expenses	$	34,776,148
Operating income (loss)	$	(8,225,345)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	$	6,175,768
Local appropriations		5,045,227
Interest revenue		177,721
Debt service interest expense		(561,426)
Total non-operating revenues (expenses)	$	10,837,290
Income (loss) before contributions and transfers	$	2,611,945
Transfers to fiduciary funds		13,257
Change in net assets	$	2,625,202
Net Assets - Beginning of the year	$	17,719,957
Net Assets - End of the year	$	20,345,159

See accompanying Notes to the Financial Statements

Flathead Valley Community College, Flathead County, Montana
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

Cash flows from operating activites:		
Cash received from tuition and fees	$	8,443,060
Cash received from federal grants and contracts		13,851,178
Cash received from grants and contracts		1,459,554
Cash received from seminars and workshops		662,366
Cash received from auxiliary activities		1,912,379
Cash received from miscellaneous sources		545,455
Cash payment to suppliers		(4,177,763)
Cash payment for contracted services		(2,163,533)
Cash payment for scholarships and grants		(12,232,180)
Cash payment to employees		(14,614,195)
Net cash provided (used) by operating activities	$	(6,313,679)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	$	(1,741,188)
Principal paid on debt		(1,028,108)
Interest paid on debt		(562,011)
Net cash provided (used) by capital and related financing activities	$	(3,331,307)
Cash flows from non-capital financing activities:		
Cash received from state appropriations	$	6,175,768
Cash received from local appropriations		5,060,558
Cash paid to other funds		13,257
Net cash provided (used) from non-capital financing activities	$	11,249,583
Cash flows from investing activities:		
Interest on investments	$	177,721
Net cash provided (used) by investing activities	$	177,721
Net Increase (decrease) in cash and cash equivalents	$	1,782,318
Cash and cash equivalents at beginning		8,671,666
Cash and cash equvalents at end	$	10,453,984

Reconciliation of operating income (loss) to net cash provided (used) by operating activities

Operating income (loss)	$	(8,225,435)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation		1,538,763
Changes in assets and liabilities:		
Grants receivable		183,755
Accounts receivable		473,730
Inventory		(53,682)
Other assets		46,187
Accounts payable		(463,320)
Compensated absences payable		(83,737)
Accrued wages payable		5,852
Deferred revenue - tuition and fees		(125,603)
Deferred revenue - grants		(37,899)
Deposits payable		(30,250)
Other post employment benefits payable		457,960
Net Cash provided (used) by operating activities	$	(6,313,679)

See accompanying Notes to the Financial Statements

Flathead Valley Community College, Flathead County, Montana
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

		Private Purpose Trust Funds
ASSETS		
Cash and short-term investments	$	223,053
Total assets	$	223,053
LIABILITIES		
Accounts payable	$	603
Deposits payable		7,123
Total liabilities	$	7,726
NET ASSETS		
Assets held in trust	$	215,327

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, 2011

		Private Purpose Trust Funds
ADDITIONS		
Contributions:		
Contributions from private sources	$	10,459
Misc. revenue		41,895
Agency revenue (net of waivers $ 701)		118,735
Total contributions		171,089
Total additions	$	171,089
DEDUCTIONS		
Student activities	$	177,446
Transfers out		13,257
Total deductions	$	190,703
Change in net assets	$	(19,614)
Net Assets - Beginning of the year	$	234,941
Net Assets - End of the year	$	215,327

See accompanying Notes to the Financial Statements

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2010

	2010
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$1,113,872
Investments	3,581,977
Pledges receivable	124,959
Other current assets	82,069
TOTAL ASSETS	$4,902,877
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable and other liabilities	$ 65,179
Foundation scholarships payable	191,449
Other scholarships payable	213,608
Deferred gift liability	64,469
TOTAL LIABILITIES	534,705
NET ASSETS	
Unrestricted	206,324
Temporarily restricted	1,778,256
Permanently restricted	2,383,592
TOTAL NET ASSETS	4,368,172
TOTAL LIABILITIES AND NET ASSSETS	$4,902,877

See Notes to Financial Statements

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Pledges and other public support	$ 79,395	$ 215,340	$ 55,444	$ 350,179
In-kind donations	159,523	11,954	67,901	239,378
Net realized and unrealized investment gains	82	210,632	-	210,714
Investment income	625	95,669	-	96,294
Net assets released from restriction	926,208	(926,208)	-	-
TOTAL REVENUE AND OTHER SUPPORT	1,165,833	(392,613)	123,345	896,565
ALLOCATIONS AND EXPENSES				
Program services				
Scholarship awards	205,396	-	-	205,396
Program disbursements	542,597	-	-	542,597
Other program expenses	97,985	-	-	97,985
Prizes	13,105	-	-	13,105
Supporting services				
Professional fees	7,927	-	-	7,927
Investment management fees	22,388	-	-	22,388
Management and general	93,917	-	-	93,917
TOTAL EXPENSES	983,315	-	-	983,315
CHANGE IN NET ASSETS	182,518	(392,613)	123,345	(86,750)
NET ASSETS – BEGINNING OF YEAR	23,806	2,170,869	2,260,247	4,454,922
NET ASSETS – END OF YEAR	$ 206,324	$1,778,256	$2,383,592	$4,368,172

See Notes to Financial Statements

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
STATEMENT OF CASH FLOW

YEAR ENDED DECEMBER 31, 2010

	2010
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$(86,750)
Adjustments to reconcile net income (loss) to net assets provided (used) by operating activities:	
(Gain) loss on investments	(210,714)
Change in operating assets and liabilities:	
(Increase) decrease in assets:	
Pledges and grants receivable	121,987
Other current assets	(33,986)
Increase (decrease) in liabilities:	
Accounts payable	(21,315)
Scholarships payable	113,174
NET CASH FLOWS FROM OPERATING ACTIVITIES	(117,604)
CASH FLOWS FROM INVESTING ACTIVITIES	
Payments for purchase of investments	(363,993)
NET (DECREASE) IN CASH	(481,597)
CASH – BEGINNING OF YEAR	1,595,469
CASH – END OF YEAR	$1,113,872

See Notes to 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 and the fund financial statements for the proprietary funds, 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 its 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 Code Sec. 2100 and has a component unit.

Discretely Presented Component Unit

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 unit listed below has a fiscal year ending December 31, 2010. The College has the following discretely presented component unit:

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition
The College's cash is held by the County Treasurer, except petty cash, 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 College and fund on a pro rata basis. The County's investment portfolio as of June 30, 2011, consisted of certificates of deposit, savings accounts, and U.S. Government Securities.

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.

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.

The College maintains cash-on-hand (petty cash) for the operating locations accepting cash transactions. The total cash-on-hand at year-end was $4,625.

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

NOTE 3. RECEIVABLES

Taxes

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.

Student Accounts Receivable

An allowance for uncollectible accounts has been established for Student accounts receivable. As of June 30, 2011 total student accounts receivables totaled $1,204,859 with an allowance for uncollectible accounts of $811,053. The net balance of $393,806 is included in the $1,060,571 of accounts receivable – net reported on the Statement of Net Assets.

NOTE 4. CAPITAL ASSETS

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 local governments' basic financial statements. In accordance with Statement No. 34, the College has included the value of all infrastructure into the 2011 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

A summary of changes in capital assets follows:

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011
Capital assets not being depreciated:				
Land	$ 2,579,863	$ -	$ -	$ 2,579,863
Construction in Progress	47,005	115,018	-	162,023
Total capital assets not being depreciated	$ 2,626,868	$ 115,018	$ -	$ 2,741,886
Other Capital Assets:				
Buildings	$ 24,688,529	$ 751,126	$ -	$ 25,439,655
Improvements Other than Buildings	1,996,924	15,000	-	2,011,924
Machinery and Equipment	3,671,856	804,312	(177,684)	4,298,484
Library Inventory	363,078	55,778	(24,409)	394,447
Leasehold Improvements	365,586	-	-	365,586
Information Technology	905,854	-	(2,305)	903,549
Total other Capital Assets at Historical cost	$ 31,991,827	$ 1,626,216	$(204,398)	$ 33,413,645
Less Accumulated Depreciation	$(7,918,226)	$(1,538,763)	$ 204,398	$(9,252,591)
Total	$ 26,700,469	$ 202,471	$ -	$ 26,902,940

NOTE 5. LONG TERM DEBT OBLIGATIONS

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

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2011, the following changes occurred in liabilities reported in long-term debt:

Business-type Activities:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011	Due within one year
General Obligation Bonds	$ 14,035,000	$ -	$ (625,000)	$ 13,410,000	$ 650,000
Contracted Debt	124,868	-	(82,390)	42,478	42,478
Compensated Absences	1,242,798	-	(83,737)	1,159,061	560,970
Intercap Loans	2,583,006	-	(320,672)	2,262,334	336,118
OPEB Liability *	841,725	473,994	-	1,315,719	-
Early Retirement Liability *	71,667	-	(16,034)	55,633	16,529
Total	$18,899,064	$473,994	$(1,127,833)	$18,245,225	$1,606,095

* See Note 7

General Obligation Bonds
The College 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 College. General obligation bonds outstanding as of June 30, 2011 were as follows:

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Balance June 30, 2011
Series 2005	03/15/05	3.5-5.0%	20 yrs	07/01/25	9,900,000	$ 8,200,000
Series 2006	07/01/06	3.75-5.0%	20 yrs	07/01/26	5,916,000	5,210,000
Total					$15,816,000	$13,410,000

Annual requirement to amortize debt:

For Fiscal Year Ended	Principal	Interest
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	$13,410,000	$4,743,256

Loans/Contracted Debt

Loans/contracted debts outstanding as of June 30, 2011 were as follows:

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Balance June 30, 2011
Glacier Notes Payable	08/14/01	5.3%	10 yrs	08/14/11	$675,000	$42,478

Annual requirement to amortize debt:

For Fiscal Year Ended	Principal	Interest
2012	$ 42,478	$ 2,265

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, 2011 were as follows:

Draw Number	Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Balance June 30, 2011
2112-01	07/20/2007	1.95-4.250%	10 yrs	02/15/2017	$ 185,669	$ 126,158
2112-02	08/10/2007	1.95-4.850%	10 yrs	02/15/2017	586,810	400,619
2112-03	09/07/2007	1.95-4.850%	10 yrs	02/15/2017	515,180	350,295
2112-04	09/14/2007	1.95-4.850%	10 yrs	02/15/2017	252,765	171,596
2112-05	10/12/2007	1.95-4.850%	10 yrs	02/15/2017	633,102	426,804
2112-06	11/02/2007	1.95-4.850%	10 yrs	02/15/2017	275,452	196,464
2112-07	11/16/2007	1.95-4.850%	10 yrs	02/15/2017	143,761	102,536
2112-08	01/11/2008	1.95-4.850%	10 yrs	02/15/2017	67,567	47,837
2112-09	02/08/2008	1.95-4.850%	10 yrs	02/15/2017	146,302	104,196
2112-10	04/18/2008	1.95-4.250%	10 yrs	02/15/2017	106,573	79,088
2112-11	05/03/2008	1.95-4.250%	10 yrs	02/15/2017	330,804	245,490
2112-12	05/30/2008	1.95-4.250%	10 yrs	02/15/2017	14,795	11,251
					$3,258,780	$2,262,334

Annual requirement to amortize debt:

For Fiscal Year Ended	Principal	Interest
2012	$ 336,118	$ 42,492
2013	352,295	35,862
2014	369,252	28,909
2015	386,525	21,624
2016	404,931	14,003
2017	413,213	5,983
Total	$2,262,334	$ 148,873

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 6. STATE-WIDE RETIREMENT PLANS

The College participates in two cost-sharing, multiple-employer defined benefit pension plans. The plans provide retirement, death, and disability benefits to plan members and beneficiaries with amounts determined by the State. Teaching employees are covered by Montana Teachers Retirement 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, 2011, were:

	PERS	TRS
Employer	7.70%	7.47%
Employee	6.90%	7.15%
State	0.10%	2.38%

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.

The College's contributions for the years ended June 30, 2009, 2010, and 2011, as listed below, were equal to the required contributions for each year.

	PERS	TRS
2009	$285,473	$281,099
2010	$337,206	$316,358
2011	$348,608	$334,909

NOTE 7. OTHER POST EMPLOYMENT BENFITS

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, 2010. FVCC has a phase 2 June 30, 2009 implementation date for GASB #45. The information reported below is based on the June 30, 2010 actuarial valuation.

All Participants at FVCC	June 30, 2010
Accrued Liability	$ 4,137,471
Annual Required Contribution (ARC)	$ 454,671
Participant Count	167
Actuarial Value of Assets	$ -
Interest / Discount Rate	4.25%
Projected payroll increases	2.5%
Participation	
Future retirees	55%
Future eligible spouses	60%

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 in fiscal year 2009. 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 $71,667 in fiscal year 2010. As of June 30, 2011, the balance of the liability is reported at $55,633.

NOTE 8. LOCAL RETIREMENT PLANS

Deferred Compensation Plan
The College offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan available to all College employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

NOTE 9. 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, 2011:

Component Unit	Significant Transactions
Flathead Valley Community College Foundation	Donated $ 997,958

NOTE 10. 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 11. SUBSEQUENT EVENTS

Broussard Family Donation

The Broussard family made a binding pledge to the College in the amount of $4 million during fiscal year 2011. This amount is restricted for covering expenses of a new building for the College's School of Nursing, as well as, equipping the building with the necessary tools. The College has received $1,000,000 so far and an additional $600,000 is expected to be received by December 2012. The remaining amount will be distributed in four yearly payments of $600,000. The planned Rebecca Chaney Broussard Center for Nursing and Health Science requires an additional $1 million dollars to be raised by the College to cover the full cost of the building. The campaign to raise the additional monies is managed by the Flathead Valley Community College Foundation. As of May 2012, over $880,000 had been donated or pledged to the College for this new building. It is expected that the $1 million required to cover the cost of the new building will be met by June 2012 with construction to begin shortly thereafter.

New Maintenance Building

In July 2011, the Board awarded the bid for the new Maintenance and Storage Building Project to Oswood Construction in the amount of $832,600. This project has been completed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Flathead Valley Community College Foundation is a nonprofit organization exempt from federal income taxes 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 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 Foundation are from contributions and investment income.

Basis of Accounting

The Foundation prepares its financial statements in accordance with generally accepted accounting principles, which involve the application of accrual accounting; whereby revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Cash and Cash Equivalents

For financial statement purposes, the Foundation considers all highly-liquid investments purchased with an original maturity for three months or less to be cash equivalents. The components of cash and cash equivalents as of December 31, 2010 are as follows:

	2010
Cash in bank and on hand	$ 97,571
Endowment money market investments	1,016,301
	$1,113,872

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 or unrestricted purposes. Temporarily restricted net assets include gifts restricted as to purpose or time. When a donor restriction expires (time restriction ends, purpose restriction is accomplished, or payments are received for unconditional promises to give), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement 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 are determined by the donors as the usual fees they would receive for such services in the normal course of their business.

Donors are provided receipt showing estimated fair market value for their in-kind donations; these values are established by the donors. Donated goods and services recorded in the financial statements as unrestricted revenue and as a corresponding 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 uncollectable 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, 2010, no valuation 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 as 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 promises to give with payment due in future periods are recognized as temporarily restricted revenue. Restricted contributions whose restrictions are met with 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 include individuals and businesses who principally reside in Flathead County.

Assets Held under Split-Interest Agreements

Charitable gift annuity agreements require periodic payment of either the income earned or a fixed percentage of the assets to designated beneficiaries and terminate either at a specific time or upon the death of the designated individual. A liability for each gift annuity, where the Foundation is a trustee, is established and calculated as the present value of future payments to be made to the designated beneficiaries. Upon termination, the remaining assets of the annuity are then available for use by the Foundation to be used in accordance with the donor's intent. The Foundation uses an actuarial approach to determine both the contribution and liability amounts to be recognized. No gift annuities were entered into by the Foundation during December 31, 2010. The discount rate varied was 3.8% for the Foundation's entire portfolio of gift annuities as of December 31, 2010.

Income Tax Status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Effective January 1, 2009, the Foundation implemented the new accounting guidance associated with accounting for uncertainties in income taxes. The income tax years of 2008 to 2010 remain open to examination by the federal and state taxing authorities.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reporting 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 – INVESTMENTS

Fair Value Measurement

Effective January 1, 2009, the Foundation adopted FASB ASC 820, which provides a framework for measuring fair value. FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (and 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. FASB ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

FASB ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. The three levels are defined as follows:

Level 1 – observable inputs that are based upon quoted market prices for identical assets or liabilities within active markets.

Level 2 – observable inputs other than Level 1 that are based upon quoted market prices for similar assets or liabilities, based upon quoted prices with inactive markets, or inputs other than quoted market prices that are observable through market data for substantially the full term of the asset or liability.

Level 3 – inputs that are unobservable for the particular asset or liability due to little or no market activity and are significant to the fair value of the asset or liability. These inputs reflect assumptions that market participants would use when valuing the particular asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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 Using:		
December 31, 2010:	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	$3,581,977	$3,581,977	$ -	$ -
Pledges receivable	124,959	-	-	124,959
Deferred gift liability	64,469	-	64,649	-
	$3,771,405	$3,581,977	$64,469	$124,959

The Foundation invests primarily in U.S. Treasury bonds, government agency bonds, mutual funds, equity securities, and corporate debt securities. At December 31, 2010, investments are comprised of the following:

	2010	
	Amortized Cost	FMV
Government and agencies	$ 249,991	$ 250,980
Corporate bonds and bond funds	463,350	534,897
Equity securities and mutual funds	2,339,746	2,717,075
Notes receivable	79,025	79,025
	$3,132,112	$3,581,977

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

	2010
Balance at January 1	$ 246,946
Pledge payments received	(101,129)
New pledges made by donors	1,292
Pledges written off	(22,150)
	$ 124,959

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable represents promises to give which have been made by donors but have not yet been received by the Foundation. Pledges which will not be received in the subsequent year have not been discounted, as the difference using the estimated rate of return approximates the recorded value. The Foundation estimates the allowance for uncollectible pledges at December, 31, 2010, was zero. Total unconditional promises to give or grants receivable were as follows:

	2010
In one year or less	$102,000
Between one year and five years	22,959
Total	$124,959

NOTE 4 – BOARD RESTRICTIONS

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, 2010, was $236,572.

NOTE 5 -- ENDOWMENT

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 Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the 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 added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, the Foundation 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 Foundation 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 Foundation; and
7) The investment policies of the Foundation.

Changes in Endowment Net Assets for the year ended December 31, 2010:

DECEMBER 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$547,485	$2,260,247	$2,807,732
Investment return:				
Investment income	-	95,669	-	95,669
Investment management fees	-	(22,388)	-	(22,388)
Net appreciation (depreciation) (realized and unrealized)	-	210,632	-	210,632
Total investment return	-	283,913	-	283,913
Contributions	-	130,415	123,345	253,760
Endowment net assets, end of year	$ -	$961,813	$2,383,592	$3,345,405

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA at December 31, 2010, was $2,383,592. There was $961,813 in temporarily restricted net assets within the endowment fund at December 31, 2010.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to operations while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s).

NOTE 6 – SUBSEQUENT EVENTS

Management has evaluated subsequent event through July 19, 2011, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

Flathead Valley Community College, Flathead County, Montana
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Year Ended June 30, 2011

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	$ -	$ 4,137,471	$ 4,137,471	0%	$ 11,078,458	37%

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, 2011
(unaudited)

		Pell		CWS		SEOG
Beginning Cash Balance	$	(481,014)	$	7,544	$	-
Additions:						
Federal Advances		5,139,635		40,554		34,650
State Matching		-		45,481		12,890
Total Additions	$	5,139,635	$	86,035	$	47,540
Deductions:						
Distributions to Students	$	4,694,161		103,957		47,540
Administrative Expenses		5,520		3,971		-
Total Deductions	$	4,699,681	$	107,928	$	47,540
Net Change in Cash	$	439,954	$	(21,893)	$	-
Ending Cash Balance	$	(41,060)	$	(14,349)	$	-

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, 2011
(unaudited)

Perkins Loan Program		
Student Loan Advances	$	-
College Work Study		
Wages	$	48,752
Administrative Cost		3,971
Total College Work Study	$	52,723
Supplemental Education Opportunity Grant Program		
Student Grants	$	34,650
Pell Grant Program		
Student Grants	$	4,694,161

See accompanying Notes to the Financial Statements

Flathead Valley Community College, Flathead County, Montana
Schedule of Full Time Equivalent (End of Term)
For the Year Ended June 30, 2011

Semester	Resident	WUE	Nonresident	Total
Summer 2010	400.40	0.00	14.87	415.27
Fall 2010	1,851.93	0.00	42.87	1,894.80
Spring 2011	1,853.20	0.73	45.67	1,899.60

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, 2011

	Instruction	Public Service	Academic Support	Student Services	Instituitional Support	Scholarships and Fellowships	Operation and Maint of Plant	Auxillary	Total
Salaries	$ 5,152,244	$ 267,658	$ 1,069,016	$ 1,595,762	$ 1,704,097	$ 348,599	$ 484,323	$ 464,515	$ 11,086,214
Benefits	1,536,626	72,901	337,477	473,134	552,642	168,134	190,692	118,490	3,450,096
Travel	51,716	19,995	65,129	46,836	55,626	28,475	1,155	2,989	271,921
Supplies	657,464	71,220	49,915	64,881	328,427	98,923	163,320	1,126,410	2,560,560
Contracted Services	269,855	403,652	96,688	59,061	427,927	37,764	761,411	107,175	2,163,533
Bond Issue Exp	-	-	-	-	-	-	10,903	-	10,903
Bad Debt Exp	-	-	-	-	140,454	-	-	-	140,454
Non Capitalized Equip	101,591	3,870	59,628	11,136	44,603	-	861,782	11,206	1,093,816
Scholarships and Grants	-	2,800	64,469	58,100	-	12,106,811	-	-	12,232,180
Other Operating Expense	1,392	4,490	63,937	25,008	91,417	41,433	-	31	227,708
Depreciation Expense	-	-	-	-	-	-	1,538,763	-	1,538,763
	$ 7,770,888	$ 846,586	$ 1,806,259	$ 2,333,918	$ 3,345,193	$ 12,830,139	$ 4,012,349	$ 1,830,816	$ 34,776,148

See accompanying Notes to the 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 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 unit of Flathead Valley Community College, Flathead County, Montana, as of and for the year ended June 30, 2011, which collectively comprise the Flathead Valley Community College's basic financial statements and have issued our report thereon dated May 21, 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 Flathead Valley Community College 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 Flathead Valley Community College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Flathead Valley 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described below that we consider to be a significant deficiency in internal control over financial reporting as item 11-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is

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

less severe than a material weakness, yet important enough to merit attention by those charged with governance.

11-1 Cash Control – Early Childhood Center

Condition:
The Director of the Early Childhood Center (ECC) collects, records, adjusts, and deposits cash receipts. In addition, deposits are not made on a daily basis, and the cash receipts are not held in secure location while waiting for the deposit to be made.

Criteria:
A control system over cash receipting should include a separation of duties between cash handling and the ability to record cash receipts, adjust accounts, and deposit cash received. In addition, cash should be deposited on a daily basis and maintained in a secure location.

Effect:
There is a lack of segregation of duties for the cash receipting process, deposits are not made timely, and cash is not properly safeguarded.

Cause:
The College has not implemented adequate controls over the cash at the ECC.

Recommendation:
We recommend that all cash collections be made through the central business office.

Compliance and Other Matters

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

Flathead Valley Community College's response to the findings identified in our audit is described in the Auditee's Response to Findings. 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 management, the Board of Trustees, the Legislative Audit Committee, 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.

May 21, 2011

Flathead Valley Community College
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fvccinfo@fvcc.edu • www.fvcc.edu
Improving Lives Through Learning

May 7, 2012

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

RE: Response to Auditor Audit Point Sheet # 201

Dear Denning, Downey & Associates,

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

Response to Recommendation APS #201:

College has implemented the recommendation of the auditors by having all cash collections made directly through the central business office for the Early Chilhood Center.

Sincerely,

Chuck Jensen
V.P. Admin and Finance