MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Years Ended June 30, 2012 and 2011

AUDIT REPORT

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

January 2014

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of Miles Community College for the two fiscal years ended June 30, 2012.

The audit was conducted by Denning, Downey and Associates, CPA's, P.C. under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

Respectfully submitted,

Tori Hunthausen, CPA
Legislative Auditor

12C-08

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MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Years Ended June 30, 2012 and 2011

TABLE OF CONTENTS

Organization	1
Independent Auditor's Report	2-3
Management Discussion and Analysis	4-14
Financial Statements	
Statement of Net Assets – June 30, 2011	15
Statement of Net Assets – June 30, 2012	16
Statement of Revenues, Expenses and Changes in Net Assets – for Fiscal Year Ended June 30, 2011	17
Statement of Revenues, Expenses and Changes in Net Assets – for Fiscal Year Ended June 30, 2012	18
Statements of Cash Flows – for the Fiscal Years Ended 2012 and 2011	19
Statement of Fiduciary Net Assets – Fiduciary Funds for Fiscal Years Ended June 30, 2012 and 2011	20
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds for Fiscal Years Ended June 30, 2012 and 2011	21
Notes to Financial Statements	22-40
Required Supplemental Information	
Schedule of Funding Progress	41
Supplemental Information	
Functional Classification of Operating Expenses – for Fiscal Year Ended June 30, 2011 (Audited)	42
Functional Classification of Operating Expenses – for Fiscal Year Ended June 30, 2012 (Audited)	43
Student Financial Aid Modified Statement of Cash Receipts and Disbursements – Unaudited – for Fiscal Year Ended June 30, 2011	44
Student Financial Aid Modified Statement of Cash Receipts and Disbursements – Unaudited – for Fiscal Year Ended June 30, 2012	45
Schedule of Expenditures – Student Financial Assistance Programs - Unaudited	46
Schedule of Full Time Equivalent – Audited	47
Single Audit Section	
Schedule of Expenditures of Federal Awards – for Fiscal Year Ended June 30, 2011	48
Schedule of Expenditures of Federal Awards – for Fiscal Year Ended June 30, 2012	49
Notes to the Schedule of Expenditures of Federal Awards	50

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 51-52

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 53-54

Schedule of Findings and Questioned Costs 55-57

Report on Prior Audit Recommendations 58

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

ORGANIZATION

Fiscal Years Ended June 30, 2011 and 2012

BOARD OF TRUSTEES

Rusty Irion	Chairperson
Susan Stanton	Vice Chairperson
Jeff Okerman	Secretary/Treasurer
Sharon Wilcox	Trustee
Jeff Harding	Trustee
Garret McFarland	Trustee
Mark Petersen	Trustee

COLLEGE OFFICIALS

Dr. Stefani Hicswa	President
Lisa M. Watson	Vice President of Finance
Shane Vannatta	Attorney
Shelly Weight	Vice President of Academic Affairs
Darren Pitcher	Vice President of Student Services

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 years ended June 30, 2012 and 2011, 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, 2012 and 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the years 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 December 9, 2013, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedule of funding for other post employment benefits other than pensions on pages 2 through 12, and 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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, 2012 and June 30, 2011 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. The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with audit standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

December 9, 2013

Miles Community College, Custer County, Montana
Management's Discussion and Analysis
Fiscal Years Ended June 30, 2012 and 2011

Overview

The following is a Management Discussion and Analysis (MD&A) for Miles Community College which includes an overview of its financial condition and assists the reader in focusing on significant financial issues for the years ended June 30, 2012 and 2011. The information has been prepared by management and is to be read in conjunction with the accompanying financial statements and footnotes.

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; and 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.

A discussion of each of the individual statements follows. Some key points to be aware of regarding the statements are:

- 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 financial activities for the fiscal years ending June 30, 2012 and 2011. 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	June 30, 2012	June 30, 2011	June 30, 2010
Total current assets	$ 3,471,444	$ 3,044,942	$ 2,632,218
Total noncurrent assets	6,910,719	6,820,598	6,341,746
TOTAL ASSETS	$ 10,382,163	$ 9,865,540	$ 8,973,964
LIABILITIES			
Total current liabilities	$ 656,185	$ 547,735	$ 491,797
Total noncurrent liabilities	3,273,683	3,238,109	2,667,805
TOTAL LIABILITIES	$ 3,929,868	$ 3,785,844	$ 3,159,602
NET ASSETS			
Invested in capital assets, net of related debt	$ 4,397,951	$ 4,225,377	$ 4,016,781
Restricted, expendable	287,277	264,097	279,325
Unrestricted	1,767,067	1,590,222	1,518,256
TOTAL NET ASSETS	$ 6,452,295	$ 6,079,696	$ 5,814,362

Comparison of 2012 and 2011 Financial Position

- **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 $426,502 increase from FY 2011 to FY 2012 was due primarily to an increase in cash.

- **Noncurrent assets** primarily represent the College's capital assets less accumulated depreciation. The increase is due primarily to the student center roof replacement, Lucas Hall soffit and fascia, and room dividers.

- **Current liabilities** include payroll and related liabilities, accounts 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 increased by almost $108,450 from FY 2011 to FY 2012, due largely to the increase in payroll accrual and debt obligations due within a year.

- **Noncurrent liabilities** primarily represent debt principal payments due after a one-year period and the amount of compensated absence liability estimated to be due after a one-year period. These balances increased a total of $35,574. In addition, the College's Other Post Employment Benefit (OPEB) obligation, which is an actuarially-determined amount related to the participation of retiree's on the College's health insurance plan, increased $153,489.

- **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 $172,574 from FY 2011 to FY 2012 with deferred maintenance improvements to the infrastructure.

- **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 $372,599 from FY 2011 to FY 2012, which indicates the overall financial position of the College has improved over that time period.

Comparison of 2011 and 2010 Financial Position

- **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 $412,724 increase from FY 2010 to FY 2011 was due primarily to an increase in cash and cash equivalents.

- **Noncurrent assets** primarily represent the College's capital assets less accumulated depreciation. The increase is due primarily to the HVAC and window replacements.

- **Current liabilities** include payroll and related liabilities, accounts 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 increased by almost $55,938 from FY 2010 to FY 2011, due largely to the increase in payroll accrual and student deposits.

- **Noncurrent liabilities** primarily represent debt principal payments due after a one-year period and the amount of compensated absence liability estimated to be due after a one-year period. These balances increased a total of $570,304. In addition, the College's Other Post Employment Benefit obligation, which is an actuarially-determined amount related to the participation of retiree's on the College's health insurance plan, increased $218,636.

- **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 $208,596 from FY 2010 to FY 2011 with the completion of the HVAC and window replacements.

- **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 $265,334 from FY 2010 to FY 2011, 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 non-operating.

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

	June 30, 2012	June 30, 2011	June 30, 2010
Operating revenues	$ 5,271,211	$ 5,045,877	$ 5,390,759
Operating expenses	8,592,385	8,924,715	8,812,801
OPERATING LOSS	$ (3,321,174)	$ (3,878,838)	$ (3,422,042)
Non-operating revenues (expenses)	$ 3,679,243	$ 4,144,172	$ 4,466,496
Gain on disposal of capital assets	14,530	-	-
Transfer from fiduciary funds	-	-	8,510
INCREASE (DECREASE) IN NET ASSETS	$ 372,599	$ 265,334	$ 1,052,964
Net assets, beginning of year	$ 6,079,696	$ 5,814,362	$ 4,845,388
Restatement of expenses	$ -	$ -	$ (83,990)
Net assets, end of year	$ 6,452,295	$ $6,079,696	$ 5,814,362

Comparison of 2012 and 2011 Results of Operations

- **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 $225,334 from FY 2011 to FY 2012. This is mainly due to the increase in 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.

- **Non-operating revenue (expenses)** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-operating revenue decreased $464,929 from FY 2011 to FY 2012. The major items affecting this change are state and federal appropriations.

Comparison of 2011 and 2010 Results of Operations

- **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 decreased by $344,882 from FY 2010 to FY 2011. This is mainly due to the decrease in Federal and State grants and contracts.

- **Non-operating revenue (expenses)** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-operating revenue decreased $322,324 from FY 2010 to FY 2011. 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 2012 Amount	Fiscal Year 2012 Percent	Fiscal Year 2011 Amount	Fiscal Year 2011 Percent	Increase (decrease) FY'12 vs. FY'11
Operating revenues					
Tuition and fees (net)	$ 1,687,837	18.65%	$ 1,675,185	18.06%	$ 12,652
Federal grants and contracts	1,496,197	16.54%	1,447,915	15.61%	48,282
State grants and contracts	256,448	2.83%	125,539	1.35%	130,909
Private and local grants and contracts	280,368	3.10%	388,340	4.19%	(107,972)
Indirect cost recoveries	28,397	0.31%	27,085	0.29%	1,312
Auxiliary enterprise activities	1,204,128	13.31%	1,156,074	12.46%	48,054
Other operating revenues	317,836	3.51%	225,739	2.44%	92,097
Total operating revenue	5,271,211	58.26%	5,045,877	54.39%	225,334
Non-operating revenues					
Interest income	30,779	0.34%	26,180	0.28%	4,599
State appropriations	2,255,642	24.93%	2,427,405	26.16%	(171,763)
Federal appropriations	-	0.00%	284,157	3.06%	(284,157)
State reimbursements	195,822	2.16%	195,891	2.11%	(69)
District levies	1,294,491	14.31%	1,298,521	14.00%	(4,030)
Total non-operating revenues	3,776,734	41.74%	4,232,154	45.61%	(455,420)
Total revenue	$ 9,047,945	100%	$ 9,278,031	100%	$ (230,086)

Source of Revenue	Fiscal Year 2011 Amount	Fiscal Year 2011 Percent	Fiscal Year 2010 Amount	Fiscal Year 2010 Percent	Increase (decrease) FY'11 vs. FY'10
Operating revenues					
Tuition and fees (net)	$ 1,675,185	18.06%	1,600,728	16.06%	$ 74,457
Federal grants and contracts	1,447,915	15.61%	1,810,557	18.17%	(362,642)
State grants and contracts	125,539	1.35%	133,114	1.34%	(7,575)
Private and local grants and contracts	388,340	4.19%	292,859	2.94%	95,481
Indirect cost recoveries	27,085	0.29%	34,776	0.35%	(7,691)
Auxiliary enterprise activities	1,156,074	12.46%	1,222,707	12.27%	(66,633)
Other operating revenues	225,739	2.44%	296,018	2.97%	(70,279)
Total operating revenue	5,045,877	54.39%	5,390,759	54.10%	(344,882)
Non-operating revenues					
Interest income	26,180	0.28%	32,053	0.32%	(5,873)
State appropriations	2,427,405	26.16%	2,655,259	26.64%	(227,854)
Federal appropriations	284,157	3.06%	358,922	3.60%	(74,765)
State reimbursements	195,891	2.11%	192,704	1.93%	3,187
District levies	1,298,521	14.00%	1,336,188	13.41%	(37,667)
Total non-operating revenues	4,232,154	45.61%	4,575,126	45.90%	(342,972)
Total revenue	$ 9,278,031	100%	$ 9,965,885	100%	$ (687,854)

ANALYSIS OF CATEGORY OF EXPENSE

Category of Expenses	Fiscal Year 2012 Amount	Fiscal Year 2012 Percent	Fiscal Year 2011 Amount	Fiscal Year 2011 Percent	Increase (decrease) FY'12 vs. FY'11
Operating expenses					
Personnel expenses	$ 4,354,040	50.11%	$ 4,792,440	53.17%	$ (438,400)
Advertising	63,109	0.73%	63,581	0.71%	(472)
Bad debt expense	76,305	0.88%	58,207	0.65%	18,098
Communications	101,890	1.17%	98,778	1.10%	3,122
Contracted service	409,406	4.71%	401,094	4.45%	8,312
Food for resale	270,984	3.12%	234,126	2.60%	36,858
Indirect costs	27,041	0.31%	20,153	0.22%	6,888
Insurance	66,118	0.76%	74,111	0.82%	(7,993)
IT system support	24,305	0.28%	77,711	0.86%	(53,406)
Items for resale	120,325	1.38%	185,799	2.06%	(65,474)
Meetings and dues	40,281	0.46%	38,305	0.42%	1,976
Rent and lease	53,488	0.62%	47,312	0.52%	6,176
Repairs and maintenance	72,242	0.83%	53,778	0.60%	18,464
Scholarships and grants	1,421,048	16.35%	1,472,733	16.34%	(51,685)
Student support	83,570	0.96%	67,388	0.75%	16,182
Supplies	474,283	5.46%	364,885	4.05%	109,398
Travel	147,768	1.70%	151,668	1.68%	(3,900)
Utilities	171,033	1.97%	171,947	1.91%	(914)
Other operating expenses	113,166	1.30%	116,962	1.30%	(3,796)
Depreciation	501,983	5.78%	433,737	4.81%	68,246
Total operating expenses	8,592,385	98.88%	8,924,715	99.02%	(332,330)
Non-operating expenses					
Interest payments	97,491	1.12%	87,982	0.98%	9,509
Other non-operating expenses	-	0.00%	-	0.00%	-
Total non-operating expenses	97,491	1.12%	87,982	0.98%	9,509
Total expenses	$ 8,689,876	100%	$ 9,012,697	100%	$ (322,821)

CATEGORY OF EXPENSES	Fiscal Year 2011		Fiscal Year 2010		Increase (decrease) FY'11 vs. FY'10
	Amount	Percent	Amount	Percent	
Operating expenses					
Personnel expenses	$ 4,792,440	53.17%	4,561,460	51.13%	$ 230,980
Advertising	63,581	0.71%	53,538	0.60%	10,043
Bad debt expense	58,207	0.65%	34,294	0.38%	23,913
Communications	98,778	1.10%	110,538	1.24%	(11,760)
Contracted service	401,094	4.45%	529,053	5.93%	(127,959)
Food for resale	234,126	2.60%	243,960	2.73%	(9,834)
Indirect costs	20,153	0.22%	34,777	0.39%	(14,624)
Insurance	74,111	0.82%	74,534	0.84%	(423)
IT system support	77,711	0.86%	20,739	0.23%	56,972
Items for resale	185,799	2.06%	172,523	1.93%	13,276
Meetings and dues	38,305	0.42%	36,353	0.41%	1,952
Rent and lease	47,312	0.52%	35,097	0.39%	12,215
Repairs and maintenance	53,778	0.60%	21,708	0.24%	32,070
Scholarships and grants	1,472,733	16.34%	1,466,568	16.44%	6,165
Student support	67,388	0.75%	16,182	0.18%	51,206
Supplies	364,885	4.05%	503,059	5.64%	(138,174)
Travel	151,668	1.68%	171,755	1.93%	(20,087)
Utilities	171,947	1.91%	156,635	1.76%	15,312
Other operating expenses	116,962	1.30%	187,187	2.10%	(70,225)
Depreciation	433,737	4.81%	382,841	4.29%	50,896
Total operating expenses	8,924,715	99.02%	8,812,801	98.78%	111,914
Non-operating expenses					
Interest payments	87,982	0.98%	108,630	1.22%	(20,648)
Other non-operating expenses	-	0.00%	-	0.00%	-
Total non-operating expenses	87,982	0.98%	108,630	1.22%	(20,648)
Total expenses	$ 9,012,697	100%	$ 8,921,431	100%	$ 91,266

Comments about specific revenue and expense items are:

- **Private and local grants and contracts** – During FY 2012 and FY 2011 the College received funding from the Miles Community College Endowment Corporation, Pioneer Club, Glendive Medical Center and Sidney Healthcare to assist with program costs.
- **Expenses (general comment):** Overall expenses decreased $322,821 from FY 2011 to FY 2012 and increased $91,266 from FY 2010 to FY 2011. The completion of grants and reduced bookstore sales and reduced personnel costs were the most significant factors affecting the overall decrease.

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	June 30, 2012	June 30, 2011	June 30, 2010
Cash provided by (used in):			
Operating activities	$ (2,555,386)	$ (3,098,655)	$ (3,024,852)
Noncapital activities	3,723,601	4,252,179	4,456,480
Capital financing activities	(757,517)	(730,316)	(1,610,594)
Investing activities	30,779	26,180	32,053
Net increase (decrease) in cash	441,477	449,388	(146,913)
Cash and cash equivalents, beginning of year	2,305,925	1,856,537	2,003,450
Cash and cash equivalents, end of year	$ 2,747,402	$ 2,305,925	$ 1,856,537

Comparison of 2012 and 2011 Cash Flows

- **Operating activities** 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 activities increased by $543,269 from FY 2011 to FY 2012. 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.

- **Noncapital financing activities** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-Capital activities decreased $528,578 from FY 2011 to FY 2012. The major items affecting this change are state and federal appropriations.

- **Capital and related financing activities** consists of purchases of capital assets and payments of principal and interest on loans.

Comparison of 2011 and 2010 Cash Flows

- **Operating activities** 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 activities decreased by $73,803 from FY 2010 to FY 2011. 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.

- **Noncapital financing activities** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-Capital revenue decreased $204,301 from FY 2010 to FY 2011. The major items affecting this change are state and federal appropriations.

- **Capital and related financing activities** consists of purchases of capital assets and payments of principal and interest on loans.

DISCUSSION OF SIGNIFICANT PENDING ECONOMIC AND FINANCIAL ISSUES

- **Population** – The College will continue to experience enrollment challenges due to the oil boom in eastern Montana.

- **Faculty and Staff** – The ability to attract and retain high quality faculty and staff due to the competitive job market in the region is a concern of the College. For example, McDonalds in Sidney, Montana pays $12/hour with full benefits, and a CDL truck driver starting salary is $60,000.

- **Program Development** – With drastic economic changes in our region, the College is challenged to meet the educational service needs of the rural community and anticipating the demands of the burgeoning oil servicing industries. Balancing costs of program development with declining enrollment requires careful planning. Nonetheless, successful recruitment and retention of students depends upon the continued development of quality academic and professional technical 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.

- **Business Model** – Due to the above factors, as well as the growing demand for accountability, increased reporting requirements, and enhanced documentation needs, the College is exploring business model alternatives to ensure the sustainability of college functions and to ensure that educational opportunities in eastern Montana remain robust.

Miles Community College, Custer County, Montana
Statement of Net Assets
June 30, 2011

	Business-Type Activities	Miles Community College Endowment
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,179,980	$ 264,203
Taxes receivable	90,769	-
Grants receivable	480,683	-
Student loan receivable	32,796	-
Accounts receivable - net	186,101	-
Inventories	50,190	-
Prepaid expense	24,423	-
Total current assets	$ 3,044,942	$ 264,203
Noncurrent assets:		
Restricted cash and cash equivalents	$ 125,945	$ 579,528
Capital assets, net	6,694,653	-
Total noncurrent assets	$ 6,820,598	$ 579,528
Total assets	$ 9,865,540	$ 843,731
LIABILITIES		
Current liabilities:		
Accounts payable	$ 10,233	$ 67,999
Accrued payroll	270,710	-
Deferred revenue - tuition and fees	65,310	-
Student deposits	33,860	-
Current portion of compensated absences payable	50,810	-
Current portion of debt and capital lease obligations	116,812	-
Total current liabilities	$ 547,735	$ 67,999
Noncurrent liabilities:		
Compensated absences payable	$ 314,352	$ -
Debt and capital lease obligations	2,352,463	-
Other post employment benefits	428,359	-
Other post employment benefits - accrued insurance	142,935	-
Total noncurrent liabilities	$ 3,238,109	$ -
Total liabilities	$ 3,785,844	$ 67,999
NET ASSETS		
Invested in capital assets, net of related debt	$ 4,225,377	$ -
Restricted for student loans	53,735	-
Restricted for debt service	105,501	-
Restricted for scholarships, research, instruction, and other	104,861	775,732
Unrestricted	1,590,222	-
Total net assets	$ 6,079,696	$ 775,732
Total liabilities and net assets	$ 9,865,540	$ 843,731.00

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Statement of Net Assets
June 30, 2012

	Business-Type Activities	Miles Community College Endowment
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,609,894	$ 306,029
Taxes receivable	113,123	-
Grants receivable	366,925	-
Student loan receivable	32,796	-
Accounts receivable - net	270,180	-
Inventories	57,909	-
Prepaid expense	20,617	-
Total current assets	$ 3,471,444	$ 306,029
Noncurrent assets:		
Restricted cash and cash equivalents	$ 137,508	$ 553,589
Capital assets, net	6,773,211	-
Total noncurrent assets	$ 6,910,719	$ 553,589
Total assets	$ 10,382,163	$ 859,618
LIABILITIES		
Current liabilities:		
Accounts payable	$ 82,484	$ 132,504
Accrued payroll	269,630	-
Deferred revenue - tuition and fees	73,013	-
Student deposits	37,835	-
Current portion of compensated absences payable	50,980	-
Current portion of debt and capital lease obligations	142,243	-
Total current liabilities	$ 656,185	$ 132,504
Noncurrent liabilities:		
Compensated absences payable	$ 346,669	$ -
Debt and capital lease obligations	2,233,017	-
Other post employment benefits	581,848	-
Other post employment benefits - accrued insurance	112,149	-
Total noncurrent liabilities	$ 3,273,683	$ -
Total liabilities	$ 3,929,868	$ 132,504
NET ASSETS		
Invested in capital assets, net of related debt	$ 4,397,951	$ -
Restricted for student loans	53,742	-
Restricted for debt service	117,057	-
Restricted for scholarships, research, instruction, and other	116,478	727,114
Unrestricted	1,767,067	-
Total net assets	$ 6,452,295	$ 727,114
Total liabilities and net assets	$ 10,382,163	$ 859,618

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2011

	Business-Type Activities	Miles Community College Endowment
Operating revenues		
Tuition and fees (net of scholarship allowances of $373,555, repectively)	$ 1,675,185	$ -
Federal grants and contracts	1,447,915	-
Auxiliary activities	1,152,214	-
Private and local grants and contracts	388,340	191,551
State grants and contracts	125,539	-
Other operating revenues	97,169	-
Athletic donations	90,266	-
Other athletic allowance	36,189	-
Indirect cost recoveries	27,085	-
Space/rental income	5,975	-
Total operating revenues	$ 5,045,877	$ 191,551
Operating expenses		
Personnel services	$ 4,792,440	$ -
Scholarships and grants	1,472,733	45,750
Depreciation and amortization expense	433,737	-
Contracted services	401,094	-
Supplies	364,885	-
Food for resale	234,126	-
Items for resale	185,799	-
Utilities	171,947	-
Travel	151,668	-
Other operating expense	116,962	-
Communications	98,778	-
IT system support	77,711	-
Insurance	74,111	-
Student support	67,388	-
Advertising	63,581	-
Bad debt expense	58,207	-
Repairs and maintenance	53,778	-
Rent and lease	47,312	-
Meetings and dues	38,305	-
Indirect costs	20,153	-
Program disbursements	-	28,950
Management and General	-	73,423
Total operating expenses	$ 8,924,715	$ 148,123
Operating loss	$ (3,878,838)	$ 43,428
Non-operating revenues (expenses)		
State appropriation	$ 2,427,405	$ -
District levies	1,298,521	-
Federal appropriation	284,157	-
State reimbursements	195,891	-
Interest income	26,180	89,190
Interest expense	(87,982)	-
Total non-operating revenues (expenses)	$ 4,144,172	$ 89,190
Income before contributions and transfers	$ 265,334	$ 132,618
Change in net assets	$ 265,334	$ 132,618
Net assets, beginning of year	$ 5,814,362	$ 682,267
Restatements	-	(39,153)
Net assets, end of year	$ 6,079,696	$ 775,732

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2012

	Business-Type Activities	Miles Community College Endowment
Operating revenues		
Tuition and fees	$ 1,687,837	$ -
Federal grants and contracts	1,496,197	-
Auxiliary activities	1,204,128	-
Private and local grants and contracts	280,368	81,554
State grants and contracts	256,448	-
Athletic donations	146,454	-
Other operating revenues	118,014	-
Other athletic allowance	45,074	-
Indirect cost recoveries	28,397	-
Space/rental income	8,294	-
Total operating revenues	$ 5,271,211	$ 81,554
Operating expenses		
Personnel services	$ 4,354,040	$ -
Scholarships and grants	1,421,048	37,368
Depreciation and amortization expense	501,983	-
Supplies	474,283	-
Contracted services	409,406	-
Food for resale	270,984	-
Utilities	171,033	-
Travel	147,768	-
Items for resale	120,325	-
Other operating expense	113,166	-
Communications	101,890	-
Student support	83,570	-
Bad debt expense	76,305	-
Repairs and maintenance	72,242	-
Insurance	66,118	-
Advertising	63,109	-
Rent and lease	53,488	-
Meetings and dues	40,281	-
Indirect costs	27,041	-
IT system support	24,305	-
Program disbursements	-	21,352
Professional Fees	-	2,166
Management and General	-	90,777
Total operating expenses	$ 8,592,385	$ 151,663
Operating loss	$ (3,321,174)	$ (70,109)
Non-operating revenues (expenses)		
State appropriation	$ 2,255,642	$ -
District levies	1,294,491	-
State reimbursements	195,822	-
Interest income	30,779	21,491
Interest expense	(97,491)	-
Total non-operating revenues (expenses)	$ 3,679,243	$ 21,491
Income before contributions and transfers	$ 358,069	$ (48,618)
Gain on disposal of capital assets	$ 14,530	$ -
Change in net assets	$ 372,599	$ (48,618)
Net assets, beginning of year	$ 6,079,696	$ 775,732
Net assets, end of year	$ 6,452,295	$ 727,114

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2012 and 2011
Business-Type Activities

	2012	2011
Cash flows from operating activities:		
Tuition and fees	$ 1,535,156	$ 1,543,180
Grants and contracts	2,146,771	1,973,455
Payments to employees	(4,199,930)	(4,404,707)
Payments to suppliers	(1,775,861)	(1,788,584)
Payments for utilities	(171,033)	(171,947)
Payments for scholarships and fellowships	(1,421,048)	(1,472,733)
Collection of loans from students	-	716
Auxiliary activities	1,204,893	1,169,784
Other cash receipts (payments)	125,666	52,181
Net cash used in operating activities	$ (2,555,386)	$ (3,098,655)
Cash flows from noncapital financing activities		
State appropriations	$ 2,255,642	$ 2,427,405
Federal appropriations	-	284,157
State reimbursements	195,822	195,891
District levies	1,272,137	1,344,726
Net cash provided by noncapital financing activities	$ 3,723,601	$ 4,252,179
Cash flows from capital and related financing activities		
Purchase of capital assets	$ (576,113)	$ (880,589)
Proceeds from sale of capital assets	35,102	-
Proceeds from capital debt	-	350,408
Principal paid on capital debt and leases	(119,015)	(112,153)
Interest paid on capital debt and leases	(97,491)	(87,982)
Net cash used in capital and related financing activities	$ (757,517)	$ (730,316)
Cash flows from investing activities		
Interest received on cash and cash equivalents	$ 30,779	$ 26,180
Net cash provided by investing activities	$ 30,779	$ 26,180
Net increase in cash and cash equivalents	$ 441,477	$ 449,388
Cash and cash equivalents, beginning of year	2,305,925	1,856,537
Cash and cash equivalents, end of year	$ 2,747,402	$ 2,305,925
Reconciliation to Statement of Net Assets		
Cash and cash equvalents	$ 2,609,894	$ 2,179,980
Restricted cash	137,508	125,945
Total cash and cash equivalents	$ 2,747,402	$ 2,305,925
Reconciliation of operating income to net cash provided by (used in) operating activities		
Operating loss	$ (3,321,174)	$ (3,878,838)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	$ 501,983	$ 433,737
Bad debt expense	76,305	58,207
Other post employment benefits	153,489	218,636
Changes in net assets and liabilities:		
Grants receivable	113,758	11,661
Student loan receivable	-	716
Accounts receivable - net	(160,384)	(111,325)
Prepaid expense	3,806	1,770
Inventories	(7,719)	(2,570)
Accounts payable	72,251	3,364
Accrued payroll	(1,080)	13,352
Deferred revenue - tuition and fees	7,703	(20,680)
Student deposits	3,975	17,570
Compensated absences payable	1,701	155,745
Net cash used in operating activities	$ (2,555,386)	$ (3,098,655)
Schedule of noncash financing and investing activites		
Capital assets acquired through issuance of capital lease obligations	$ 25,000	$ -
Capital assets acquired via trade-in	$ 11,750	$ -

The accompanying notes are an integral part of the financial statements.

Miles Community College, Custer County, Montana
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012 and 2011

	Private Purpose Trust Funds	
	2012	2011
ASSETS		
Cash and cash equivalents	$ (170,509)	$ (14,400)
Accounts receivable - net	210,700	58,787
Prepaid expense	119	162
Total assets	$ 40,310	$ 44,549
LIABILITIES		
Accounts payable	$ -	$ 397
Deferred revenue	1,311	1,176
Total liabilities	$ 1,311	$ 1,573
NET ASSETS		
Assets held in trust	$ 38,999	$ 42,976

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Statements of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Years Ended June 30, 2012 and 2011

	Private Purpose Trust Funds	
	2012	2011
ADDITIONS:		
Contributions from private sources	$ 1,664,832	$ 1,837,341
Total additions	$ 1,664,832	$ 1,837,341
DEDUCTIONS:		
Student activities	$ 1,668,809	$ 1,836,402
Total deductions	$ 1,668,809	$ 1,836,402
Changes in net assets	$ (3,977)	$ 939
Net assets, beginning of year	$ 42,976	$ 42,037
Net assets, end of year	$ 38,999	$ 42,976

See accompanying Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The College complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the 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.

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. In addition, the College complies with GASB statement No. 39 Determining Whether Certain Organizations Are Component Units which relates to organizations that raise and hold economic resources for the direct benefit of the College.

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 unit listed below has fiscal years ending June 30, 2012 and 2011. The College has the following discretely presented component unit:

Miles Community College Endowment

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 assumption 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 proprietary funds 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 expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Colleges policy to use restricted resources first, then unrestricted resources as they are needed. The College has only one proprietary fund other than Fiduciary Funds.

Fiduciary Funds

Fiduciary funds are presented using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans). The required financial statements are a statement of fiduciary net assets and a statement of changes in fiduciary net assets. The fiduciary funds are:

Private-purpose trust funds – To report all other trust arrangements under which the principal and income benefit individuals, private organizations, or other governments.

On July 1st 2010, Miles Community College began participating in the Federal Stafford Direct Loan Program operated by the Department of Education. This program operates as a Fiduciary Fund within the accounting system at Miles Community College. At MCC, the financial aid department processes and pays the loans to the students first and then the business office draws the approved funds from the Department of Education. This process simplifies the maintenance of cash balances but can result in timing differences which could result in a negative cash balance. The balance is shown in the statements bus is offset by the coinciding receivable.

Miles Community College receives scholarships and support from the Miles Community College Endowment. Miles Community College maintains an endowment fiduciary fund to collect expenditures owed to the College and then seeks reimbursement on the routing basis. This process minimizes the amount of paperwork needed between the two entities but can result in timing differences which could result in a negative cash balance. This balance is shown in the statements but is offset by the coinciding receivable.

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. With the College cash that is not necessary for short-term obligations, the College participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County's investment portfolio as of June 30, 2012, and 2011 consisted of savings deposits, U.S. Government Securities, Repurchase Agreements and the State Short-Term Investment Pool (STIP).

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 Custer County deposits and investments is available from Custer County Treasurer's office, 1010 Main Street, Miles City, Montana 59301. The Custer County external investment pool is not rated. Fair value approximates carrying value for investments as of June 30, 2012 and 2011.

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 June 30, 2012 and 2011 was $20,451 and $20,444, and the bank balance was $20,451 and $20,444, respectively. These amounts were fully insured.

The College's cash and investments as of June 30, 2012 and 2011, consisted of the following:

	2012	2011
Cash on hand	$ 11,151	$ 11,361
Demand deposit accounts	20,451	20,444
Invested in the County Investment Pool	$ 2,545,291	$ 2,259,720
Total cash and investments	$ 2,576,893	$ 2,291,525

The Endowment's deposits balance at June 30, 2012 and 2011 was $209,961 and $262,068, and the bank balance was $209,963 and $255,717 respectively. These amounts were fully insured. The Endowment's cash and investments as of June 30, 2012 and 2011 consisted of the following:

	2012	2011
Cash on Hand	$ -	$ 7,441
Demand Deposit Accounts	104,852	152,899
Money Market Accounts	105,111	102,818
First Interstate Financial		
Mutual Funds – MFS Utilities A	118,976	32,284
Ameriprise Financials		
Columbia – Port Builder Moderate Fund	310,588	347,441
Columbia RVS – High Yield Bond Fund	191,241	173,181
Edward Jones		
Growth Fund of America	$ 28,850	$ 27,667
Total	$ 859,618	$ 843,731

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, 2012	June 30, 2011
Custer County Investment Pool	$ 2,545,291	$ 2,259,720

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.

Concentration of Credit Risk for the Endowment are as follows:

Endowment	2012	%	2011	%
Edward Jones				
Growth Fund of America	$ 28,852	4%	$ 27,667	5%
First Interstate				
MFS Utilities – Mutual Funds	118,975	18%	32,284	6%
Ameriprise				
Equity Securities	159,983		173,181	
Fixed income securities	341,844		347,441	
Total Ameriprise		78%		89%
Total Investments	$ 649,654	100%	$ 580,573	100%

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, 2012 and 2011.

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

Taxes

An allowance for uncollectable 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

Student accounts receivable are reported net of allowance for doubtful accounts. These amounts are included in "Accounts Receivable – Net" on the Statement of Net Assets.

	2012	2011
Student Accounts Receivable	$ 83,226	$ 76,793
Less Allowances	$ (41,100)	$ (21,100)
Net Student Accounts Receivable	$ 42,166	$ 55,693

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 benefit future reporting periods and are also reported on the consumption basis.

NOTE 5. CAPITAL ASSETS

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 infrastructures into the 2011-12 Basic Financial Statements. The College has elected not to retroactively report general infrastructure assets.

The following tables present the changes in capital assets for the years ended June 30, 2012 and 2011, respectively:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated:				
Land	$ 206,412	$ -	$ -	$ 206,412
Total capital assets not being depreciated	$ 206,412	$ -	$ -	$ 206,412
Capital assets being depreciated				
Buildings	$ 8,841,993	$ 181,361	$ -	$ 9,023,354
Machinery & equipment	1,433,170	396,071	(58,226)	1,771,015
Library inventory	90,862	25,330	(21,840)	94,352
Software	405,847	-	-	405,847
Total other capital assets at historical cost	$ 10,771,872	$ 602,762	$ (80,066)	$ 11,294,568
Less accumulated depreciation				
Buildings	$ (3,275,567)	$ (290,070)	$ -	$ (3,565,637)
Machinery and equipment	(726,043)	(132.795)	36,006	(822,832)
Library Inventory	(59,867)	(17,888)	21,840	(55,915)
Software	(222,154)	(61,231)	-	(283,385)
Total accumulated depreciation	$ (4,283,631)	$ (501,984)	$ 57,846	$ (4,727,769)
Total capital assets, depreciable, net	$ 6,488,241	$ 100,778	$ (22,220)	$ 6,566,799
Total	$ 6,694,653	$ 100,778	$ (22,220)	$ 6,773,211

	Balance June 30, 2010	Additions	Deletions	Transfers	Balance June 30, 2011
Capital assets not being depreciated:					
Land	$ 206,412	$ -	$ -	$ -	$ 206,412
Construction in progress	485,347	-	-	(485,347)	-
Total capital assets not being depreciated	$ 691,759	$ -	$ -	$ (485,347)	$ 206,412
Other capital assets					
Buildings	$ 7,638,731	$ 717,915	$ -	$ 485,347	$ 8,841,993
Machinery & equipment	1,306,534	150,487	(23,851)	-	1,433,170
Library inventory	84,065	12,187	(5,390)	-	90,862
Software	405,847	-	-	-	405,847
Total other capital assets at historical cost	$ 9,435,177	$ 880,589	$ (29,241)	$ 485,347	$ 10,771,872
Less accumulated depreciation					
Buildings	$ (3,035,464)	$ (240,103)	$ -	$ -	$ (3,275,567)
Machinery & equipment	(634,857)	(115,037)	23,851	-	(726,043)
Library inventory	(47,892)	(17,365)	5,390	-	(59,867)
Software	(160,923)	(61,231)	-	-	(222,154)
Total accumulated depreciation	$ 3,879,136	$ (433,736)	$ 29,241	$ -	$ (4,283,631)
Total capital assets, depreciable, net	$ 5,556,041	$ 446,853	$ -	$ 485,347	$ 6,488,241
Total	$ 6,247,800	$ 446,853	$ -	$ -	$ 6,694,653

NOTE 6. LONG TERM LIABILITIES

The following tables present the changes in long-term liabilities for the years ended June 30, 2012 and 2011, respectively:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Due within one year
Contracted debt	$ 2,386,192	$ -	$ (83,639)	$ 2,302,553	$ 101,709
Intercap loans	83,083	-	(32,551)	50,532	33,485
Compensated absences	365,162	32,487	-	397,649	50,980
Capital lease	-	25,000	(2,825)	22,175	7,049
OPEB*	428,359	153,489	-	581,848	-
OPEB – Accrued Insurance **	142,935	-	(30,786)	112,149	-
Total	$ 3,405,731	$ 210,976	$ (149,801)	$ 3,466,906	$ 193,223

*See Note 8
** See Note 9

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Due within one year
Contracted debt	$ 2,116,294	$ 350,408	$ (80,510)	$ 2,386,192	$ 84,260
Intercap loans	114,726	-	(31,643)	83,083	32,552
Compensated absences	352,352	12,810	-	365,162	50,810
OPEB*	209,723	218,636	-	428,359	-
OPEB – Accrued Insurance**	-	142,935	-	142,935	-
Total	$ 2,793,095	$ 724,789	$ (112,153)	$ 3,405,731	$ 167,622

*See Note 8
** See Note 9

Stockman Bank

The note payable to Stockman Bank of Montana was in the original amount of $400,000. The 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, 2012 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
2013	$ 27,177	$ 11,037
2014	29,098	9,032
2015	31,251	6,879
2016	33,563	4,567
2017	36,047	2,083
2018	9,289	111
Total	$ 166,425	$ 33,709

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
2013	$ 24,608	$ 7,264
2014	27,634	4,238
2015	28,351	3,521
2016	28,917	2,955
2017	29,669	2,203
2018	12,179	305
Total	$ 151,358	$ 20,486

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
2013	$ 16,718	$ 13,307
2014	17,589	12,436
2015	18,505	11,520
2016	19,469	10,556
2017	20,484	9,541
2018	21,551	8,474
2019	22,674	7,351
2020	23,855	6,170
2021	25,098	4,927
2022	26.406	3,619
2023	27,782	2,243
2024	28,896	791
Total	$ 269,027	$ 90,935

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
2013	$ 20,165	$ 59,331
2014	21,132	58,428
2015	22,075	57,485
2016	23,061	56,499
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	29,969	49,591
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	44,397	35,163
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	60,272	19,288
2039	62,963	16,597
2040	65,773	13,787
2041	68,709	10,851
2042	71,777	7,783
2043	74,981	4,579
2044	63,850	1,266
Total	$ 1,365,335	$ 1,166,077

Montana Department of Environmental Quality

The note payable to the Montana Department of Environmental Quality was in the original amount of $350,408 and will be paid off on August 1, 2031. This note is payable in annual installments of $23,553 due on August 1st of each year. Interest is payable at 3.00% per annum.

Annual requirement to amortize debt for the Montana Department of Environmental Quality:

For Fiscal Year Ended	Principal	Interest
2013	$ 13,041	$ 10,512
2014	13,432	10,121
2015	13,835	9,718
2016	14,250	9,303
2017	14,677	8,876
2018	15,118	8,435
2019	15,571	7,982
2020	16,038	7,515
2021	16,520	7,033
2022	17,015	6,538
2023	17,526	6,027
2024	18,051	5,502
2025	18,593	4,960
2026	19,151	4,402
2027	19,725	3,828
2028	20,317	3,236
2029	20,926	2,626
2030	21,554	1,999
2031	22,201	1,352
2032	22,867	686
Total	$ 350,408	$ 120,651

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
2013	$ 33,485	$ 985
2014	17,047	672
Total	$ 50,532	$ 1,658

Capital lease

The College has entered into a capital lease agreement under which the related equipment will become property of the College when all terms of the lease agreement are met.

The capital lease annual amortization is as follows:

For Fiscal Year Ended	Principal and Interest
2013	$ 7,049
2014	4,620
2015	4,620
2016	4,620
2017	2,103
Total payments	$ 23,583
Less amount representing interest	(837)
Principal outstanding balance	$ 22,175

Assets acquired under capital lease consist of golf simulators. Such assets are carried at a cost of $68,883 less accumulated depreciation of $3,444 as of June 30, 2012.

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 employees and at the rate of one day per month for the length of the full-time teaching contract. Upon retirement or termination, employees are paid for 100% of unused vacation and 25% of unused sick leave. Upon termination, all payments are made at the employee's current rate of pay.

NOTE 7. 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 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 percentage of covered payroll for the fiscal year ended June 30, 2012 and 2011, were:

	PERS	TRS
Employer	7.07%	7.47%
Employee – hired before 7/1/2011	6.90%	7.15%
– hired on or after 7/1/2011	7.90%	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. Teacher' 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, 2010, 2011, and 2012, as listed below, were equal to the required contributions for each year.

	PERS	TRS
2010	$ 182,156	$ 239,686
2011	$ 192,613	$ 254,629
2012	$ 170,944	$ 245,831

NOTE 8. OTHER POST EMPLOYMENT BENEFITS

The College adopted the provisions of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* The College had a Phase 3 implementation date of GASB 45 of June 30, 2010.

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.

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 actuarial 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.

	2012	2011
Annual Required Contribution (ARC)	$ 118,201	$ 192,640
Interest on net OPEB obligation	35,288	25,996
Adjustment to ARC	-	-
Annual OPEB cost (expense)	$ 153,489	$ 218,636
Contributions made	-	-
Increase in net OPEB obligation	$ 153,489	$ 218,636
Net OPEB obligation – beginning of year	428,359	209,723
Net OPEB obligation – end of year	$ 581,848	$ 428,359

Actuarial Methods and Assumptions. The actuarial funding method used to determine the cost was the projected unit credit funding method. This method's objective is to fund each participant's benefits under the plan as they accrue. The total benefit to which each participant is expected to become entitled at retirement is categorized into units, each associated with a year of past or future credited service.

The following actuarial methods and assumptions were used:

Interest/Discount rate (average anticipated rate)	4.25%
Average salary increase (consumer price index)	2.50%
Participant percentage:	
Future retirees assumed to elect coverage at retirement	55.00%
Future eligible spouses of future retires assumed to elect coverage	60.00%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Such events include assumptions about future employment, mortality rates, and healthcare cost trends. Amounts are subject to continual review and revision as actual results are compared with past expectations and new estimates are made.

NOTE 9. INSURANCE BENEFITS TO RETIRED EMPLOYEES

Full-time employees are eligible to extend their Montana University System Group Insurance Plan benefits beyond retirement from the College if they meet all of the following conditions:

1. They have worked at the College for at least 10 years of continuous service.

2. They are eligible for retirement benefits in the Montana State Retirement System.

3. They retire from the College as a full-time employee.

The following benefits are extended to people meeting the above conditions:

1. Ten years continuous service: one half of the current premium paid by the College toward the College group plan for one year following retirement.

2. Fifteen years continuous service: three-quarters of the current premium paid by the College toward the College group plan for one year following retirement.

3. Twenty years continuous service: full cost of the current premium paid by the College toward the College group plan for one year following retirement.

4. Twenty-five years continuous service: full cost of the current premium paid by the College toward the College group plan for one year and half of the premium for one additional year following retirement.

5. Thirty years continuous service: full cost of the current premium paid by the college toward the College group plan for two years following retirement.

The insurance retirement benefits will not be broken into smaller fractions than what is listed above. Thus an employee who has served thirteen years and decides to retire would receive the benefit listed for an employee who had worked ten years. And employee must complete at least fifteen years to be eligible for the next level of benefits.

NOTE 10. 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:

College Description	June 30, 2012	June 30, 2011
Restricted for debt service	$ 117,057	$ 105,501
Restricted for scholarships, research, instructions and other	$ 116,478	$ 104,861
Restricted for student loans	$ 53,742	$ 53,735
Endowment		
Restricted for Scholarships, Research, Instruction and Other	$ 727,114	$ 775,732

NOTE 11. RESTRICTED CASH

College Description	June 30, 2012	June 30, 2011
Perkins Loans	$ 20,451	$ 20,441
Debt Service	117,057	105,501
Total	$ 137,508	$ 125,945
Endowment		
Restricted for Scholarships	$ 553,589	$ 579,528

NOTE 12. RELATED PARTY TRANSACTIONS

The following schedule presents significant transactions between the primary government and its component units during the year ended June 30, 2012 and 2011:

June 30,	Component Unit	Significant Transactions
2012	Miles Community College Endowment	Donated $46,347
2011	Miles Community College Endowment	Donated $51,630

NOTE 13. 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 Policies:

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 14. PENDING LITIGATION

The following is a list of pending litigation against the College and the amount of damages claimed by the plaintiff.

Case	Damages Requested	Potential of Loss
Miles Community College Faculty – vs – MCC	Not Stated	Unknown

REQUIRED SUPPLEMENTAL INFORMATION

Miles Community College, Custer County, Montana
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Fiscal Years Ended June 30, 2012 and 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	$ -	$ 1,927,543	$ 1,927,543	0%	$ 3,258,396	59%
July 1, 2011	$ -	$ 1,059,518	$ 1,059,518	0%	$ 3,127,539	34%

SUPPLEMENTAL INFORMATION

Miles Community College, Custer County, Montana
Functional Classification of Operating Expenses
For the Fiscal Year Ended June 30, 2011
(audited)

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation And Maintenance	Auxiliary	Totals
Personal Services	$2,171,085	$35,060	$569,383	$639,983	$825,319	-	$236,871	$314,739	$4,792,440
Scholarships and Grants	-	-	-	-	-	1,472,733	-	-	1,472,733
Depreciation And Amortization	-	-	-	-	-	-	433,737	-	433,737
Contracted Services	25,514	23,677	96,885	117,393	99,011	-	14,644	23,970	401,094
Supplies	89,311	2,936	56,362	114,088	18,001	-	28,269	55,918	364,885
Food for Resale	-	-	-	-	-	-	-	234,126	234,126
Items for Resale	-	-	-	-	-	-	-	185,799	185,799
Utilities	40	-	-	1,792	-	-	102,156	67,959	171,947
Travel	11,218	1,101	8,978	104,618	22,392	-	-	3,361	151,668
Other	17,973	463	23,423	26,022	34,657		105	14,319	116,962
Communications	16,862	1,804	26,395	8,652	27,041	-	1,487	16,537	98,778
IT Systems Support	47,847	-	9,839	19,168	-	-	-	857	77,711
Insurance	8,298	-	-	5,810	910	-	38,724	20,369	74,111
Student Support	40,652	-	22,489	2,538	-	-	-	1,709	67,388
Advertising	1,118	959	2,816	48,928	6,617	-	-	3,143	63,581
Bad Debt	-	-	-	-	58,207	-	-	-	58,207
Repairs and Maintenance	5,992	13	2,734	9,970	19	-	28,382	6,668	53,778
Rent and Lease	16,168	452	10,204	13,543	2,341	-	3,150	1,454	47,312
Meetings and Dues	4,103	107	672	14,054	17,555	-	-	1,814	38,305
Indirect Costs	4,920	-	15,233	-	-	-	-	-	20,153
TOTAL:	$2,461,101	$66,572	$845,413	$1,126,559	$1,112,070	$1,472,733	$887,525	$952,742	$8,924,715

See Accompanying notes to financials

Miles Community College, Custer County, Montana
Functional Classification of Operating Expenses
For the Fiscal Year Ended June 30, 2012
(audited)

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation And Maintenance	Auxiliary	Totals
Personal Services	1,961,384	25,667	520,435	584,778	726,429	-	244,496	290,851	4,354,040
Scholarships and Grants	-	-	-	-	-	1,421,048	-	-	1,421,048
Depreciation And Amortization	-	-	-	-	-	-	501,983	-	501,983
Supplies	129,305	3,321	86,828	128,975	21,469		38,041	66,345	474,284
Contracted Services	36,312	12,671	89,114	128,512	65,080	-	52,485	25,232	409,406
Food for Resale	-	-	-	-	-	-	-	270,984	270,984
Utilities	-	-	-	-	-	-	132,002	39,031	171,033
Travel	13,434	1,351	15,232	103,613	13,429	-	-	709	147,768
Items for Resale	-	-	-	-		-	-	120,325	120,325
Other	10,078	111	19,137	19,251	50,718		140	13,730	113,165
Communications	10,492	131	26,025	9,437	36,857	-	1,507	17,441	101,890
Student Support	48,397	-	32,670	1,909	-	-	-	594	83,570
Bad Debt	14,995	-	-	-	61,310	-	-	-	76,305
Repairs and Maintenance	11,597	-	2,790	12,000	-	-	32,363	13,492	72,242
Insurance	5,363	-	-	14,917	2,514	-	34,901	8,423	66,118
Advertising	2,328	1,040	156	51,210	5,537	-	450	2,388	63,109
Rent and Lease	26,087	140	1,088	14,070	100	-	2,564	9,439	53,488
Meetings and Dues	7,082	121	300	13,385	18,209	-	-	1,184	40,281
Indirect Costs	13,385	-	13,656	-	-	-	-	-	27,041
IT Systems Support	1,402	-	16,065	5,544	-	-	-	1,294	24,305
TOTAL:	2,291,641	44,553	823,496	1,087,601	1,001,652	1,421,048	1,040,932	881,462	8,592,385

See Accompanying notes to financials

Miles Community College, Custer County, Montana
Student Financial Aid Modified Statement of Cash Receipts and Disbursements
For the Fiscal Year Ended June 30, 2011
(unaudited)

	Pell	Perkins	CWS	SEOG
Beginning cash balance	$ (366)	$ 19,693	$ 184	$ -
Additions:				
Federal advances	$ 970,366	$ 716	$ 35,514	$ 35,662
State matching funds	-	-	-	-
Interest income	-	35	-	-
Total additions	$ 970,366	$ 751	$ 35,514	$ 35,662
Deductions:				
Distribution to students	$ 989,235	$ -	$ 35,698	$ 35,662
Administrative expenses	-	-	-	-
Total deductions	$ 989,235	$ -	$ 35,698	$ 35,662
Net change to cash	$ (18,869)	$ 751	$ (184)	$ -
Ending cash balance	$ (19,235)	$ 20,444	$ -	$ -

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 Fiscal Year Ended June 30, 2012
(unaudited)

	Pell	Perkins	CWS	SEOG
Beginning cash balance	$ (19,235)	$ 20,444	$ -	$ -
Additions:				
Federal advances	$ 844,235	$ -	$ 17,000	$ 20,000
State matching funds	-	-	-	-
Interest income	-	7	-	-
Total additions	$ 844,235	$ 7	$ 17,000	$ 20,000
Deductions:				
Distribution to students	$ 904,880	$ -	$ 35,514	$ 28,262
Administrative expenses	-	-	-	-
Total deductions	$ 904,880	$ -	$ 35,514	$ 28,262
Net change to cash	$ (60,645)	$ 7	$ (18,514)	$ (8,262)
Ending cash balance	$ (79,880)	$ 20,451	$ (18,514)	$ (8,262)

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Schedules of Expenditures
Student Financial Assistance Programs
For the Fiscal Years Ended June 30, 2012 and 2011
(unaudited)

	2012	2011
Perkins Loan Program		
Student loan advances	$ -	$ -
College Work Study		
Wages	$ 33,066	$ 25,684
Administrative cost	2,448	9,830
Total College Work Study	$ 35,514	$ 35,514
Supplemental Education Opportunity Grant Program		
Student Grants	$ 28,262	$ 35,662
Pell Grant Program		
Student grants	$ 904,880	$ 904,880

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Schedule for Full Time Equivalent
For the Fiscal Years Ended June 30, 2012 and 2011
Audited

Semester	Resident	WUE	Nonresident	Total
Summer 2010	55.6	-	2.4	58.0
Fall 2010	338.9	31.5	52.5	422.9
Spring 2011	346.0	26.2	48.6	420.8
Summer 2011	45.9	-	3.1	49.1
Fall 2011	322.0	24.0	60.3	406.3
Spring 2012	335.8	26.3	48.6	410.8

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

Miles Community College, Custer County, Montana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Fiscal Year Ended June 30, 2011

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	$	31,140
WIA Adult Program	17.258	MACO3PY07AD		60,049
Total U.S. Department of Labor			$	91,189
U.S. Department of Education				
Direct programs:				
Adult Education - Basic Grants to States	84.002		$	29,833
Federal Supplemental Educational Opportunity Grants	84.007			28,262
Federal Direct Student Loans *	84.268			1,665,409
Federal Work-Study Program	84.033			35,514
Federal Pell Grant Program	84.063			989,235
Academic Competitive Grant	84.375			11,763
Fund for the Improvement of Postsecondary Education (Bioenergy Education Action for Montana)	84.116			75,818
Subtotal Department of Education direct programs			$	2,835,834
Passed through the Montana Office of the Commissioner of Higher Education:				
ARRA - State Fiscal Stabilization Fund - Government Services, Recovery Act	84.397		$	284,157
Career and Technical Education - Basic Grants to States (Carl D. Perkins Act)	84.048	N/A		62,874
Passed through the Montana Department of Labor and Industry:				
College Access Challenge Grant Program	84.378	P378A110021		50,000
Subtotal Department of Education pass-through programs			$	397,031
Total U.S. Department of Education			$	3,232,865
U.S. Department of Health and Human Services				
Direct programs:				
Other Health Professions Programs	93.888		$	73,427
Total U.S. Department of Health and Human Services			$	73,427
U.S. Department of Energy				
Passed through the Montana Department of Environmental Quality:				
ARRA - Energy Efficiency and Conservation Block Grant Program, Recovery Act	81.128	DEQ 210166	$	350,408
Total U.S. Department of Energy			$	350,408
Total Expenditures of Federal Awards			$	3,747,889

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

NA = Not Applicable or not Available

Reconciliation to Financial Statements		
Total Reported "Schedule of Expenditures of Federal Awards"	$	3,747,889
Less		
-Federal Direct Student Loans		(1,665,409)
-ARRA Energy Efficiency Block Grant Loan		(350,408)
Total	$	1,732,072
Report on Statement of Business Expenses and changes in Net Assets		
-Federal Grants and Contracts	$	1,447,915
-Federal Appropriations		284,157
Total	$	1,732,072

Miles Community College, Custer County, Montana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Fiscal Year Ended June 30, 2012

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 and Industry:			
WIA Adult Program	17.258	MACO2PY07AD	$ 30,450
WIA Adult Program	17.258	MACO3PY07AD	58,720
Total U.S. Department of Labor			$ 89,170
U.S. Department of Education			
Direct programs:			
Adult Education - Basic Grants to States	84.002		$ 29,171
Federal Supplemental Educational Opportunity Grants	84.007		28,262
Federal Direct Student Loans *	84.268		1,485,814
Federal Work-Study Program	84.033		35,514
Federal Pell Grant Program	84.063		904,880
Fund for the Improvement of Postsecondary Education (Bioenergy Education Action for Montana)	84.116		24,182
Subtotal Department of Education direct programs			$ 2,507,823
Passed through the Montana Office of the Commissioner of Higher Education:			
Career and Technical Education - Basic Grants to States (Carl D. Perkins Act)	84.048	N/A	$ 108,840
Passed through the Montana Department of Labor and Industry:			
College Access Challenge Grant Program	84.378	P378A110021	$ 94,500
Subtotal Department of Education pass-through programs			$ 203,340
Total U.S. Department of Education			$ 2,711,163
U.S. Department of Health and Human Services			
Direct programs:			
Other Health Professions Programs	93.888		$ 181,678
Total U.S. Department of Health and Human Services			$ 181,678
Total Expenditures of Federal Awards			$ 2,982,011

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

Reconciliation to Financial Statements	
Total Reported "Schedule of Expenditures of Federal Awards"	$ 2,982,011
Less Federal Direct Student Loans	(1,485,814)
Statement of Revenues, Expenses, and Changes in Net Assets "Federal Grants and Contracts"	$ 1,496,197

NOTE 1. BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal awards (the Schedules) include the federal grant activity of Miles Community College under programs of the federal government for the years ended June 30, 2012 and 2011. The information in the Schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedules present only a selected portion of the operations of the College, it is not intended to and does not present the financial positions, changes in net assets, or cash flows of the College.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Expenditures reported on the Schedules are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-21, *Cost Principles for Educational Institutions*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

NOTE 3. ARRA FUNDING

ARRA funds were received as a pass-through program from the State of Montana. The State did not pass down the ARRA reporting requirements to the College.

NOTE 4. FEDERAL LOANS

During fiscal year 2011 the College received a $350,408 Federal ARRA Loan for the purpose of energy conservation. The outstanding loan balance was $350,408 as of June 30, 2011 and June 30, 2012.

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
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 years ended June 30, 2011 and 2012, which collectively comprise the College's basic financial statements and have issued our report thereon dated December 9, 2013. 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

Management of Miles Community College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Miles 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 Miles Community College's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of finding and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness as item 12-1.

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.

December 9, 2013

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 ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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, 2011 and 2012. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011 and 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 12-2.

Internal Control Over Compliance

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.

The College's responses to the findings identified in our audit are described in the Auditee's response to findings. We did not audit the College's response, and accordingly, we express no opinion on it.

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.

December 9, 2013

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2011 and 2012

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	No
Noncompliance material to financial statements noted?	No

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, 84.268, 84.033, 84.063, 84.375	Student Financial Aid Cluster
93,888	Other Health Professions Programs
81.128	ARRA – Energy Efficiency and Conservation Block Grant, Recovery Act

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

12-1 Timeliness of Posting and Balancing

Condition:
The College did not always post transactions or perform balancing procedures on a timely basis. They fell behind during a computer software conversion and again with accounting staff turnover. The financials for the fiscal year ended June 30, 2011 and 2012 were not available until 2013.

Criteria:
In order for financial information to be useful to the users the information must be both timely and accurate.

Effect:
Difficulty for the users of the financial statements to make informed decisions.

Cause:
During the audit period the College had a complete turnover in accounting personnel and went through a computer software change. The new staff had a significant learning curve in the new software. Additionally they had the task of posting/correcting transactions from earlier periods. This resulted in the College falling behind in the monthly posting and balancing functions. As of the date of this report the College is current in posting and balancing transactions.

Recommendation:
We recommend the College continue to post and balance transactions monthly.

Section III – Federal Award Findings and Questioned Costs

12-2 Federal Audit Submission

Condition:
The State of Montana has elected to allow Colleges to perform federal audit on a biennial basis as authorized in OMB Circular A-133 section 220 (Frequency of audits). OMB Circular A-133 section 320 requires reports to be issued within nine (9) months of the end of the fiscal year. For the fiscal year ended June 30, 2012 the report submission was required by March 31, 2013.

Criteria:
OMB Circular A-133 section 320 requires reports to be issued within nine (9) months of the end of the fiscal year.

Effect:
The College was not in compliance with OMB Circular A-133 section 320.

Cause:
During the Audit period the College had a complete turnover in accounting personnel and went through a computer software change. This resulted in the College falling behind on the preparation of the financial statements. As of the date of this report the College has prepared draft financial statements for the fiscal year ended June 30, 2013.

Recommendation:
We recommend the College continue to keep current on financial statement submission.

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REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

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

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

Recommendation	Action Taken
Cafeteria Inventory	Implemented
Consolidation	Implemented
Backup Recovery	Implemented

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

December 9, 2013