

FLATHEAD VALLEY COMMUNITY COLLEGE

FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2013

AUDIT REPORT



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

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

March 2014

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Flathead Valley Community College for the fiscal year ended June 30, 2013.

The audit was conducted by Denning, Downey & Associates, P.C. under a contract between the firm and our office. The contents of this report represent the views of the firm and not necessarily the Legislative Auditor.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

13C-07

FLATHEAD VALLEY COMMUNITY COLLEGE

FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2013

TABLE OF CONTENTS

Organization	1
Independent Auditor's Report	2-4
Management Discussion and Analysis	5-8
Financial Statements	
College:	
Statement of Net Position	9
Statement of Revenues, Expenses, and Changes in Net Position	10
Statement of Cash Flows	11
Fiduciary Funds – Statement of Fiduciary Net Position	12
Fiduciary Funds – Statement of Changes in Fiduciary Net Position	13
Flathead Valley Community College Foundation:	
Statement of Financial Position	14
Statement of Activities	15
Statement of Cash Flows	16
Notes to Financial Statements - College	17-27
Notes to Financial Statements – Foundation	28-34
Required Supplemental Information	
Schedule of Funding Progress – Other Post Employment Benefits Other Than Pensions	35
Supplemental Information	
Student Financial Aid Modified Statement of Cash Receipts – Unaudited	36
Schedule of Federal Expenditures Student Financial Assistance Programs - Unaudited	37
Schedule of Full Time Equivalent – Audited	38
Schedule of Functional Classification of Operating Expense - Audited	39
Independent Auditor's 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	40-41

FLATHEAD VALLEY COMMUNITY COLLEGE

FLATHEAD COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2013

BOARD OF TRUSTEES

Robert Nystuen
John Phelps
Ralene Sliter
Shannon Lund
Tom McElwain
Mark Holston
Thomas Harding

Chairperson
Vice Chairperson
Secretary
Trustee
Trustee
Trustee
Trustee

DISTRICT OFFICIALS

Jane Karas
Monica Settles

President
District Clerk

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

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of business-type activities, the discretely presented component units, and the aggregate remaining fund information of Flathead Valley Community College, Flathead County, Montana, as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the College's basic financial statements as listed in the table of contents. We did not audit the financial statements of the College's discretely presented component unit, which has a year end of December 31, 2012. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amount included for the audited component unit of the college, is based on the report of the other auditors.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the College's discretely presented component unit, which has a year end of December 31, 2012. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Flathead Valley Community College Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of Flathead Valley Community College, Flathead County, Montana, as of and for the year ended June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 6, and 36 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.

Other Information

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 the Schedule of Federal 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 or provide any assurance on them.

The accompanying Schedule of Full Time Equivalent and the Functional Classification of Operating Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of Full Time Equivalent and the Functional Classification of Operating Expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2014 on our consideration of the Flathead Valley Community College, Flathead County, Montana's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Flathead Valley Community College, Flathead County, Montana's internal control over financial reporting and compliance.

March 6, 2014

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2013

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

Reading the Annual Financial Report

A requirement of GASB 35 is the Management Discussion and Analysis (MD&A) of the annual financial statements. This section includes narrative descriptions of the FVCC financial condition, results of operations and cash flows. The MD&A's purpose is to aid readers in understanding the accompanying financial statements through analysis of FVCC's financial activities based on currently known facts and conditions. This MD&A should be read in conjunction with the accompanying financial statements and footnote disclosures.

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial activities of FVCC for fiscal year ended June 30, 2013.

How the Financial Statements Relate to Each Other

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

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

The most basic relationships between the statements are described below. The Statement of Net Position presents a snap shot of the financial condition of FVCC on June 30. The Statement of Revenues, Expenses, and Changes in Net Position presents the results of activities for FVCC throughout the fiscal year. The Statement of Cash Flows indicates where and how cash was utilized and provided in order to operate throughout the fiscal year.

Statement of Net Position

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

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

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

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

CONDENSED STATEMENT OF NET POSITION

	At 6/30/13	At 6/30/12	At 6/30/11	At 6/30/10
Total Current Assets	\$14,834,866	\$14,278,164	\$12,386,769	\$11,294,682
Total Non-Current Assets	\$33,058,448	\$27,910,990	\$27,699,623	\$27,483,055
TOTAL ASSETS	\$47,893,314	\$42,189,154	\$40,086,392	\$38,777,737
Total Current Liabilities	\$3,739,074	\$3,337,031	\$3,102,103	\$3,624,025
Total Non-Current Liabilities	\$17,708,018	\$16,227,530	\$16,639,130	\$17,433,755
TOTAL LIABILITIES	\$21,447,092	\$19,564,561	\$19,741,233	\$21,057,780
Invested in capital, net of related debt	\$16,163,746	\$12,403,090	\$11,180,629	\$9,950,096
Restricted-expendable	\$718,901	\$684,472	\$665,515	\$654,205
Unrestricted	\$9,563,575	\$9,537,031	\$8,499,015	\$7,115,656
TOTAL NET POSITION	\$26,446,222	\$22,624,593	\$20,345,159	\$17,719,957

Information significant to reading the Statement of Net Position:

- The Assets Invested in capital, net of related debt is primarily made up of the value of the buildings and the land held by the College and the associated bond indebtedness.
- Restricted-expendable Assets were held primarily in the grant, scholarship and bond funds.
- Unrestricted Assets is made up of operating activities, auxiliary activities, and also numerous designated activities.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position reflects the results of operations for each fiscal year, distinguishing between operating and non-operating revenues and expenses as defined by GASB 35. GASB 35 has defined appropriations (state and local) as Non-Operating revenues, thus, FVCC is showing an operating loss \$10,935,717 for FY2013. Once the Non-Operating revenues and transfers are considered the results become a gain in Net Position of \$3,821,629 for FY2013. Inclusion of Non-Operating Revenues (state and local appropriations) is a more useful measure of FVCC regular activities.

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

	For Fiscal Year Ended 6/30/13	For Fiscal Year Ended 6/30/12	For Fiscal Year Ended 6/30/11	For Fiscal Year Ended 6/30/10
Operating Revenues	\$ 24,143,852	\$ 25,172,461	\$ 26,550,803	\$ 23,918,194
Operating Expenses	\$ (35,079,569)	\$ (35,207,155)	\$ (34,776,148)	\$ (32,199,309)
Operating Loss	\$ (10,935,717)	\$ (10,034,694)	\$ (8,225,345)	\$ (8,281,115)
Net Non-Operating Revenues/(Expenses)	\$ 11,891,504	\$ 11,682,829	\$ 10,837,290	\$ 10,475,031
Transfers	\$ 2,865,842	\$ 7,896	\$ 13,257	\$ (4,563)
Gain on sale of Capital Assets	\$ -	\$ 623,403	\$ -	\$ -
Change in Net Assets	\$ 3,821,629	\$ 2,279,434	\$ 2,625,202	\$ 2,189,353
Beginning Net Assets	\$ 22,624,593	\$ 20,345,159	\$ 17,719,957	\$ 15,530,604
Prior Period Adjustments	\$ -	\$ -	\$ -	\$ -
Net Assets - end of year	\$ 26,446,222	\$ 22,624,593	\$ 20,345,159	\$ 17,719,957

Information regarding revenue and expense items:

- Operating Revenue: Operating Revenues for FY2013 are \$24,143,852 compared to \$25,172,461 for FY2012. These results consisted of declining Tuition and Fee Revenues and lower Federal Grant Revenue as compared to the same revenue items in FY2012.
- Operating Expense: Operating Expenses for FY2013 are \$35,079,569 versus \$35,207,155 for FY2012. Contributions to the operating expense included increased Personal Services and decreased Scholarship expenses as compared to the same expense items in FY2012.
- Non-Operating Revenues (Expenses): Non-Operating Revenues for FY2013 are \$11,891,504 and \$11,682,829 for FY2012. This total included increased State and Local Appropriation revenue, in addition to a decrease in Debt Service Expense as compared to the same Non Operating Revenue item for FY2012.
- Transfers: Transfers for FY2013 include gifts and contributions for the Rebecca Chaney Broussard Center for Nursing and Health Science building.
- Prior Period Adjustment FY2013: None.

Statement of Cash Flows

The Statement of Cash Flows summarizes where cash was provided or utilized throughout the fiscal year. Cash flows are presented in operating activities, non-capital financing activities, capital and related financing activities and investing activities. The sum of these four categories is the net change in cash, which was an increase of \$438,573 for FY2013. Cash used by Operating activities increased from \$ 7,411,036 in FY12 to \$9,011,272 in FY13. This result is due to decreased Tuition, Fee, Federal grant revenue and an increase in Supply, Payroll, and Contracted Services Expense, offset by a decreasing use of cash for Scholarship Expense compared to these items in FY12.

CONDENSED STATEMENT CASH FLOWS

	For Fiscal Year Ended 6/30/13	For Fiscal Year Ended 6/30/12	For Fiscal Year Ended 6/30/11	For Fiscal Year Ended 6/30/10
Cash Provided (Used) by:				
Operating Activities	\$ (9,011,272)	\$ (7,411,036)	\$ (6,313,679)	\$ (7,680,700)
Noncapital Financing Activities	\$ 15,151,953	\$ 12,109,937	\$ 11,249,583	\$ 10,715,537
Capital and Related Financing Activities	\$ (5,779,213)	\$ (2,783,722)	\$ (3,331,307)	\$ (2,775,610)
Investing Activities	\$ 77,105	\$ 145,973	\$ 177,721	\$ 170,571
Net Increase (Decrease) in Cash	\$ 438,573	\$ 2,061,152	\$ 1,782,318	\$ 429,798
Cash and Cash Equivalents, beginning of year	\$ 12,515,226	\$ 10,454,074	\$ 8,671,756	\$ 8,241,958
Cash and Cash Equivalents, end of year	\$ 12,953,799	\$ 12,515,226	\$ 10,454,074	\$ 8,671,756

Flathead Valley Community College Foundation

The Flathead Valley Community College Foundation is comprised of a volunteer Board of Directors that focuses on raising money to fund student scholarships and programs at Flathead Valley Community College. The Foundation is considered a discretely presented component unit of Flathead Valley Community College and its financial statements and notes are presented in addition to Flathead Valley Community College financials.

Significant Capital Asset and Long-Term Debt Activity

The Rebecca Chaney Broussard Center for Nursing and Health Science building was opened April 30, 2013. It is the first privately-funded building on the FVCC campus from a gift from the Broussard Family and the contributions from members of the community. The 32,000-square-foot, one-story building houses FVCC's nursing and health-related programs as well as the college's first student health clinic. A portion of the Broussard gift will be received over four years and a bridge loan for \$2.4 million was arranged from the Montana State Board of Investment INTERCAP program to provide financing.

Subsequent Events

Flathead Valley Community College accepted a 27-acre donation of land on Foothill Road valued at \$420,000 from an anonymous resident in Bigfork. The property was given to the college to be used for educational purposes, including instruction, research and activities consistent with FVCC's mission.

FVCC is the recipient of a \$46 million computer software gift from Siemens PLM Software. The College has received 27 seats of the software which will be used in the college's advanced manufacturing programs. The software will allow users to take products from conception through the manufacturing process and will help students become proficient with technology used by many of the world's leading manufacturing, architectural and construction companies. The college has chosen to capitalize this asset for \$5,000 and depreciate it over a three year period. The reason that it is being valued at \$5,000 is due to the software only having use for the college with no resale value, educational use only. The College is also choosing a conservative approach in the valuation of the donation.

Flathead Valley Community College, Flathead County, Montana
Statement of Net Position
June 30, 2013

ASSETS

Current assets:

Cash and investments	\$ 12,253,799
Taxes and assessments receivable, net	366,135
Grants receivable	921,206
Tuition Receivable - Net	30,535
Accounts receivable - net	806,853
Other assets	199,683
Inventories	256,655
Total current assets	<u>\$ 14,834,866</u>

Noncurrent assets:

Restricted cash and investments	\$ 700,000
Bond issuance costs	135,781
Capital assets - land	2,495,200
Capital assets - construction in progress	283,395
Capital assets - depreciable, net	29,444,072
Total noncurrent assets	<u>\$ 33,058,448</u>
Total assets	<u>\$ 47,893,314</u>

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities	\$ 884,094
Deposits payable	17,419
Interest payable	10,999
Accrued payroll	153,852
Deferred revenue - tuition and fees	675,026
Deferred revenue - grants	80,312
Bond premium	93,702
Current portion of early retirement liabilities	15,586
Current portion of long-term capital liabilities	1,302,359
Current portion of compensated absences payable	505,725
Total current liabilities	<u>\$ 3,739,074</u>

Noncurrent liabilities:

Noncurrent portion of long-term capital liabilities	14,756,562
Noncurrent portion of compensated absences	935,315
Noncurrent portion of early retirement liabilities	4,752
Other post employment benefits	2,011,389
Total noncurrent liabilities	<u>\$ 17,708,018</u>
Total liabilities	<u>\$ 21,447,092</u>

NET POSITION

Invested in capital assets, net of related debt	\$ 16,163,746
Restricted for debt service	700,000
Restricted for grants	14,858
Restricted for scholarships	4,043
Unrestricted	9,563,575
Total net assets	<u>\$ 26,446,222</u>
Total liabilities and net assets	<u>\$ 47,893,314</u>

See accompanying Notes to the Financial Statements

Flathead Valley Community College, Flathead County, Montana
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2013

OPERATING REVENUES

Tuition and fees (net of scholarship allowances of \$ 621,807)	\$	7,356,372
Federal grants and contracts		12,471,429
State grants and contracts		614,155
Private and local grants and contracts		789,773
Indirect cost recoveries		215,484
Seminars and workshops (net of waivers of \$0)		165,544
Auxiliary activities		2,168,191
Other operating revenues		362,904
Total operating revenues	\$	<u>24,143,852</u>

OPERATING EXPENSES

Personal services	\$	16,049,598
Travel		293,803
Supplies		2,664,051
Contracted services		2,480,221
Bond issue expense		10,903
Bad debt expense		172,803
Scholarships and grants		10,523,834
Noncapitalized equipment (under \$5000)		979,480
Other operating expenses		369,305
Depreciation expense		1,535,571
Total operating expenses	\$	<u>35,079,569</u>
Operating income (loss)	\$	<u>(10,935,717)</u>

NON-OPERATING REVENUES (EXPENSES)

State appropriations	\$	6,880,468
Statewide university millage		500,489
Local appropriations		4,921,907
Interest revenue		77,105
Debt service interest expense		(488,465)
Total non-operating revenues (expenses)	\$	<u>11,891,504</u>
Income (loss) before contributions and transfers	\$	<u>955,787</u>
Transfers from fiduciary funds		2,865,842
Change in net assets	\$	<u>3,821,629</u>
Net Position - Beginning of the year	\$	22,624,593
Net Position - End of the year	\$	<u><u>26,446,222</u></u>

See accompanying Notes to the Financial Statements

Flathead Valley Community College, Flathead County, Montana
Statement of Cash Flows
Fiscal Year Ended June 30, 2013

	Business - Type Activities
Cash flows from operating activities:	
Cash received from tuition and fees	\$ 6,779,371
Cash received from federal grants and contracts	12,450,872
Cash received from grants and contracts	1,403,928
Cash received from seminars and workshops	165,544
Cash received from auxiliary activities	2,168,191
Cash received from miscellaneous sources	578,388
Cash payments to suppliers	(3,969,745)
Cash payments for contracted services	(2,480,221)
Cash payments for scholarships and grants	(10,523,834)
Cash payments to employees	(15,583,766)
Net cash provided (used) by operating activities	\$ (9,011,272)
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	\$ (6,668,933)
New Borrowing	2,400,000
Principal paid on debt	(1,027,295)
Interest paid on debt	(482,985)
Net cash provided (used) by capital and related financing activities	\$ (5,779,213)
Cash flows from non-capital financing activities:	
Cash received from state appropriations	\$ 6,880,468
Cash received from local appropriations	5,405,643
Cash received from other funds	2,865,842
Net cash provided (used) from non-capital financing activities	\$ 15,151,953
Cash flows from investing activities:	
Interest on investments	\$ 77,105
Net cash provided (used) by investing activities	\$ 77,105
Net increase (decrease) in cash and cash equivalents	\$ 438,573
Cash and cash equivalents at beginning	\$ 12,515,226
Cash and cash equivalents at end	\$ 12,953,799
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (10,935,717)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	1,535,572
Changes in assets and liabilities:	
Grants receivable	(41,656)
Accounts receivable	(134,281)
Inventory	18,718
Other assets	30,843
Accounts payable	298,236
Compensated absences payable	130,091
Accrued wages payable	(564)
Deferred revenue - tuition and fees	(94,729)
Deferred revenue - grants	21,099
Deposits payable	(175,189)
Early retirement liability	(18,766)
Other Post Employment Benefits payable	355,071
Net cash provided (used) by operating activities	\$ (9,011,272)

See accompanying notes to the financial statements

Flathead Valley Community College, Flathead County, Montana
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

		Private Purpose Trust Funds
ASSETS		
Cash and short-term investments	\$	<u>232,916</u>
Total assets	\$	<u>232,916</u>
LIABILITIES		
Deposits payable		<u>13,547</u>
Total liabilities	\$	<u>13,547</u>
NET POSITION		
Assets held in trust	\$	<u><u>219,369</u></u>

See accompanying Notes to the Financial Statements

Flathead Valley Community College, Flathead County, Montana
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2013

	Private Purpose Trust Funds
ADDITIONS	
Contributions:	
Contributions from private sources	\$ 2,835,036
Miscellaneous Revenue	31,686
Agency Revenue (net of Waivers \$ 701)	96,724
Total additions	\$ <u>2,963,446</u>
DEDUCTIONS	
Student activities	\$ 113,324
Transfers out	<u>2,865,842</u>
Total deductions	\$ <u>2,979,166</u>
Change in net assets	\$ <u>(15,720)</u>
 Net Position - Beginning of the year	 \$ 235,089
 Net Position - End of the year	 \$ <u><u>219,369</u></u>

See accompanying Notes to the Financial Statements

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION

December 31, 2012

	<u>2012</u>
<u>ASSETS</u>	
CURRENT ASSETS	
Cash and cash equivalents	\$ 2,416,209
Investments	5,643,957
Pledges receivables	2,967,683
Other current assets	929,499
TOTAL ASSETS	\$ <u>11,957,348</u>
<u>LIABILITIES AND NET ASSETS</u>	
LIABILITIES	
Accounts payable and other liabilities	\$ 965,335
Foundation scholarships payable	244,312
Other scholarships payable	198,400
Deferred gift liability	138,540
TOTAL LIABILITIES	\$ <u>1,546,587</u>
NET ASSETS	
Unrestricted	\$ 63,002
Temporarily restricted	5,238,370
Permanently restricted	5,109,389
TOTAL NET ASSETS	\$ <u>10,410,761</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>11,957,348</u>

See Notes to the Financial Statements

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT				
Pledges and other public support	\$ 16,455	\$ 1,222,078	\$ 1,758,459	\$ 2,996,992
In-kind donations	12,139	300,087	696,500	1,008,726
Net realized and unrealized investment gains	(190)	326,999	-	326,809
Investment income	3,248	117,251	-	120,499
Net assets realised from restriction	<u>2,940,956</u>	<u>(2,940,956)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND OTHER SUPPORT	<u>\$ 2,972,608</u>	<u>\$ (974,541)</u>	<u>\$ 2,454,959</u>	<u>\$ 4,453,026</u>
				-
ALLOCATIONS AND EXPENSE				
Program services				-
Scholarship awards	\$ 279,704	\$ -	\$ -	\$ 279,704
Program disbursements	2,477,886	-	-	2,477,886
Other program expenses	191,720	-	-	191,720
Prizes	33,907	-	-	33,907
Supporting services				
Professional fees	32,754	-	-	32,754
Investment management fees	26,905	-	-	26,905
Management and general	<u>144,249</u>	<u>-</u>	<u>-</u>	<u>144,249</u>
TOTAL EXPENSES	<u>\$ 3,187,125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,187,125</u>
CHANGES IN NET POSITION	\$ (214,517)	\$ (974,541)	\$ 2,454,959	\$ 1,265,901
NET POSITION - BEGINNING OF YEAR	<u>\$ 277,519</u>	<u>\$ 6,212,911</u>	<u>\$ 2,654,430</u>	<u>\$ 9,144,860</u>
NET POSITION - END OF YEAR	<u><u>\$ 63,002</u></u>	<u><u>\$ 5,238,370</u></u>	<u><u>\$ 5,109,389</u></u>	<u><u>\$ 10,410,761</u></u>

See Notes to the Financial Statements

**FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
STATEMENT OF CASH FLOWS**

YEAR ENDED DECEMBER 31, 2012

	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	\$ 1,265,901
Adjustments to reconcile change in net assets to net cash flow provided (used) by operating activities:	
(Gain) loss on investments	(326,809)
Change in operating assets and liabilities:	
(Increase) decrease in assets:	
Pledges and grants receivable	548,314
Other current assets	(818,223)
Increase (decrease) in liabilities:	
Accounts payable	873,646
Scholarships payable	<u>(29,119)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ <u>1,513,710</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Payments for purchase of investments	\$ <u>(1,641,049)</u>
NET INCREASE (DECREASE) IN CASH	\$ (127,339)
CASH - BEGINNING OF YEAR	\$ <u>2,543,578</u>
CASH - END OF YEAR	\$ <u>2,416,209</u>

See Notes to the Financial Statements

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

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. 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.

GASBS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates the pre-November 30, 1989 FASB, APB and ARB pronouncements that the GASB considers to be applicable to state and local governments. This standard is effective for fiscal year ending June 30, 2013.

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 service. 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 a component unit.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. The component units listed below have a fiscal year ending December 31, 2012. The College has the following discretely presented component unit:

- Flathead Valley Community College Foundation

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

Basis of Presentation, Measurement Focus and Basis of Accounting.

Proprietary Funds:

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

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

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 position 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.

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

The College's cash is held by the County Treasurer, except petty cash, and pooled with other County cash. With the College cash that is not necessary for short-term obligations, the College participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County's investment portfolio as of June 30, 2013, consisted of certificates of deposit, savings accounts, and U.S. Government Securities.

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

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

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

The College maintains cash-on-hand (petty cash) for the operating locations accepting cash transactions. The total cash-on-hand at year-end was \$7,190.

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

NOTE 3. RECEIVABLES

Taxes

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

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

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

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

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

Student Accounts (Tuition) Receivable

An allowance for uncollectible accounts has been established for Student accounts receivable. As of June 30, 2013 total student accounts receivables totaled \$1,090,965 with an allowance for uncollectible accounts of \$1,060,430. The net balance of \$30,535 is reported as Tuition Receivable.

NOTE 4. CAPITAL ASSETS

The College's assets are capitalized at historical cost or estimated historical cost. College policy has set the capitalization threshold for reporting capital assets based on the type of capital asset. Items costing \$5,000 or more and having a useful life of more than one year will be capitalized and depreciated over the useful life of the item. Buildings and building improvements costing more than \$25,000, any land purchases regardless of cost, land improvements and infrastructure costing \$10,000 or more, and library books treated as a collection is 3% or more of total capital assets reported by the Flathead Valley Community College are capitalized. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follow.

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

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

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

A summary of changes in capital assets was as follows:

Enterprise Fund

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	Balance <u>June 30, 2013</u>
Capital assets not being depreciated:					
Land	\$ 2,495,200	\$ -	\$ -	\$ -	\$ 2,495,200
Construction in progress	484,244	283,394	-	(484,243)	283,395
Total capital assets not being depreciated	<u>\$ 2,979,444</u>	<u>\$ 283,394</u>	<u>\$ -</u>	<u>\$ (484,243)</u>	<u>\$ 2,778,595</u>
Other capital assets:					
Buildings	\$ 26,639,275	\$ 5,149,331	\$ -	\$ 414,275	\$ 32,202,881
Improvements other than buildings	2,011,924	479,404	-	69,968	2,561,296
Machinery and equipment	4,397,502	700,588	-	-	5,098,090
Library Inventory	425,374	50,863	(29,170)	-	447,067
Leasehold Improvements	555,045	-	-	-	555,045
Information Technology	903,549	5,353	-	-	908,902
Total other capital assets at historical cost	\$ 34,932,669	\$ 6,385,539	\$ (29,170)	\$ 484,243	\$ 41,773,281
Less: accumulated depreciation	<u>\$ (10,822,807)</u>	<u>\$ (1,535,572)</u>	<u>\$ 29,170</u>	<u>\$ -</u>	<u>\$ (12,329,209)</u>
Total	<u>\$ 27,089,306</u>	<u>\$ 5,133,361</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,222,667</u>

NOTE 5. LONG TERM DEBT OBLIGATIONS

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

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2013, the following changes occurred in liabilities reported in long-term debt:

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2013</u>	Due Within <u>One Year</u>
General obligation bonds	\$ 12,760,000	\$ -	\$ (675,000)	\$ 12,085,000	\$ 700,000
Compensated absences	1,310,949	130,091	-	1,441,040	505,725
Intercap loans	1,926,216	2,400,000	(352,295)	3,973,921	602,359
OPEB Liability*	1,656,318	355,071	-	2,011,389	-
Early Retirement Liability*	39,104	-	(18,766)	20,338	15,586
Total	<u>\$ 17,692,587</u>	<u>\$ 2,885,162</u>	<u>\$ (1,046,061)</u>	<u>\$ 19,531,688</u>	<u>\$ 1,823,670</u>

* See Note 6

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

General Obligation Bonds

The College issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the College. General obligation bonds outstanding as of June 30, 2013 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2013</u>
Series 2005	3/15/05	3.5-5.0%	20 yrs	7/1/25	\$ 9,900,000	Varies	\$ 7,355,000
Series 2006	7/1/06	3.75-5.0%	20 yrs	7/1/26	5,916,000	Varies	4,730,000
					<u>\$ 15,816,000</u>		<u>\$ 12,085,000</u>

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 700,000	\$ 470,906
2015	725,000	445,770
2016	755,000	419,731
2017	780,000	389,181
2018	815,000	357,606
2019	845,000	327,709
2020	880,000	296,022
2021	920,000	262,743
2022	960,000	227,350
2023	1,000,000	190,238
2024	1,040,000	150,607
2025	1,090,000	109,007
2026	1,135,000	64,722
2027	440,000	18,040
Total	<u>\$ 12,085,000</u>	<u>\$ 3,729,632</u>

Intercap Loans

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

The College obtained a \$2,400,000, 1% loan from the Montana Board of Investments for the purpose of constructing the Nursing and Health Sciences Building.

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

Intercept loans outstanding as of June 30, 2013 were as follows:

<u>Draw Number</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2013</u>
2112-01	7/20/07	1.25-4.250%	10 yrs	2/15/17	\$ 185,669	\$ 87,777
2112-02	8/10/07	1.25-4.250%	10 yrs	2/15/17	586,810	279,506
2112-03	9/7/07	1.25-4.250%	10 yrs	2/15/17	515,180	243,823
2112-04	9/14/07	1.25-4.250%	10 yrs	2/15/17	252,765	119,329
2112-05	10/12/07	1.25-4.250%	10 yrs	2/15/17	633,102	295,890
2112-06	11/2/07	1.25-4.250%	10 yrs	2/15/17	275,452	137,132
2112-07	11/16/07	1.25-4.250%	10 yrs	2/15/17	143,761	71,570
2112-08	1/11/08	1.25-4.250%	10 yrs	2/15/17	67,567	33,248
2112-09	2/8/08	1.25-4.250%	10 yrs	2/15/17	146,302	72,667
2112-10	4/18/08	1.25-4.250%	10 yrs	2/15/17	106,573	54,911
2112-11	5/3/08	1.25-4.250%	10 yrs	2/15/17	330,804	170,445
2112-12	5/30/08	1.25-4.250%	10 yrs	2/15/17	14,795	7,623
2489-01	4/17/13	1.25-4.250%	10 yrs	2/15/2023	2,400,000	2,400,000
Total					\$ 5,658,780	\$ 3,973,921

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 602,329	\$ 38,236
2015	618,238	32,180
2016	638,967	25,941
2017	649,593	19,509
2018	238,752	14,052
2019	241,145	11,659
2020	243,562	9,241
2021	246,002	6,800
2022	248,470	4,334
2023	246,863	1,842
Total	\$ 3,973,921	\$ 163,794

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 leave and 25% of unused sick leave. Upon termination, all payments are made at the employee's current rate of pay.

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

NOTE 6. OTHER POST EMPLOYMENT BENEFITS

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

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

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

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

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

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

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

The actuarial valuation was prepared as of June 30, 2012. FVCC has a phase 2 June 30, 2009 implementation date for GASB #45. The information reported below is based on the June 30, 2012 actuarial valuation.

<u>All Participants at FVCC</u>	<u>June 30, 2012</u>
Accrued Liability	\$ 2,365,335
Annual Required Contribution (ARC)	\$ 267,531
Participant Count	194
Actuarial Valuation of Assets	\$ -
Interest / Discount Rate	4.25%
Projected payroll increases	2.5%
Participation	
Future retirees	55%
Future eligible spouses	60%

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

Early Retirement Incentive Liability

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

Five employees accepted the early retirement incentive in fiscal year 2009. Assuming a projected increase in health insurance premiums of 2.56% and a present value discount rate of 1.71%, FVCC recognizes a total liability of \$39,104 in fiscal year 2013. As of June 30, 2013, the balance of the liability is reported at \$20,338.

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 Plan (TRS), and substantially all other College employees are covered by the Montana Public Employees Retirement System (PERS). The plans are established by Montana law and administered by the State of Montana. The plans are cost-sharing multiple-employer defined benefit plans that provide retirement, disability and death benefits to plan members and beneficiaries, with amounts determined by the State. However, PERS members may have chosen the defined contribution retirement plan. Under this plan it puts the employee in control of investments options and their retirement is based upon the cash in their investment account.

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2013, were:

	<u>PERS**</u>	<u>TRS</u>
Employer	6.8%	7.47%
Employee	6.9%*	7.15%
State	0.37%	2.49%

** For the defined contribution plan all rates are the same except only 4.19% of the employer amount is added to the individuals account

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. Montana Public Employee Retirement Administration, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

2. Teachers' Retirement System, P.O. Box 200319, Helena, Montana 59620-0139 Phone: 1-406-444-3134.

The College's contributions for the years ended June 30, 2011, 2012, and 2013, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>TRS</u>
2011	\$ 348,608	\$ 334,909
2012	\$ 368,895	\$ 359,043
2013	\$ 408,367	\$ 373,722

NOTE 8. LOCAL RETIREMENT PLANS

Deferred Compensation Plan

The College offers its employees several types of deferred compensation plans. These plans are created in Internal Revenue Service Code Sections 403(b), 457(b) and 401(a) and are available for the use of Governmental and/or Educational employers. Similar type plans are created under Internal Revenue Service Code Section 401(k) for private and/or corporate employers. The plans permit employees the ability to defer a portion of their salary until future years and be eligible for employer matching under certain criteria. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plans are:

403(b) – FVCC Employees Retirement Saving Plan. This plan is administered by VALIC and is a defined contribution plan. All employees of the College are eligible for participation. Participation in this plan is optional and employees are eligible for matching contributions.

457(b) – Section 457(b) Deferred Compensation Plan. This plan is administered by VALIC and is a defined contribution plan. All Employees are eligible to participate in the plan, currently there are two employees in the plan. Employees are allowed to contribute after year 2006 the dollar amount up to \$15,000.00. The College is not required to make a matching contribution.

401(a) – Flathead Valley Community College 401(a) Exclusive Benefit Plan. This plan is administered by VALIC and is a defined contribution plan. Only the President is eligible for participation. Participation in this plan is optional and the employee is eligible for employer contributions.

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

NOTE 9. RELATED PARTY TRANSACTIONS

Related Party Transactions Component Units

The following schedule presents significant transactions between the primary government and its component units during the year ended June 30, 2013:

<u>Component Unit</u>	<u>Significant Transactions</u>
Flathead Valley Community College Foundation Donated	\$ <u>3,108,210</u>

NOTE 10. RISK MANAGEMENT

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

Insurance 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 liability. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the College has no coverage for potential losses from environmental damages.

NOTE 11. SUBSEQUENT EVENTS

Bigfork Resident Gives \$420,000 Land Donation to FVCC

Flathead Valley Community College accepted a 27-acre donation of land on Foothill Road valued at \$420,000 from an anonymous resident in Bigfork. The property was given to the college to be used for educational purposes, including instruction, research and activities consistent with FVCC's mission.

Siemens PLM Software Donation to College

FVCC is the recipient of a \$46 million computer software gift from Siemens PLM Software. The college has received 27 seats of the software which will be used in the college's advanced manufacturing programs. The software will allow users to take products from conception through the manufacturing process and will help students become proficient with technology used by many of the world's leading manufacturing, architectural and construction companies. The college has chosen to capitalize this asset for \$5,000 and depreciate it over a three year period. The reason that it is being valued at \$5,000 is due to the software only having use for the college with no resale value. The college is also choosing a conservative approach in the value of the donation.

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

Basis of Accounting

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

Cash and Cash Equivalents

For financial statement purposes, the Foundation considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents. The components of cash and cash equivalents as of December 31, 2012, are as follows:

	2012
Cash in bank and on hand	\$ 2,085,490
Endowment money market investments	<u>330,719</u>
	<u>\$ 2,416,209</u>

Classification of Net Assets

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

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Donations

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

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

Investments

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

Pledges Receivable

Pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectable amount through a provision for debt expenses and an adjustment to a valuation allowance, if applicable, based on its assessment of the current status of individual accounts. As of December 31, 2012 and 2011, no valuation allowance has been established as management does not anticipate any material loss with respect to the remaining balance of pledges receivable.

Property and Equipment

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

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

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

Assets Held under Split-Interest Agreements

Charitable gift annuity agreements require periodic payment of either the income earned or a fixed percentage of the assets to designated beneficiaries and terminate either at a specific time or upon the death of the designated individual. A liability for each gift annuity, where the Foundation is a trustee, is established and calculated as the present value of future payments to be made to the designated beneficiaries. Upon termination, the remaining assets of the annuity are then available for use by the Foundation to be used in accordance with the donor's intent. The Foundation uses an actuarial approach to determine both the contributions and liability amounts to be recognized. Gift annuities in the amount of \$30,483 were entered into by the Foundation during December 31, 2012. The discount rate was 3.8% for the Foundations entire portfolio of gift annuities as of December 31, 2012.

Income Tax Status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation believes that it has appropriate support for any tax positions taken, and as such does not have any uncertain tax positions that are material to the financial statements. The income tax years of 2009 to 2011 remain open to examination by the federal taxing authorities.

Estimates

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

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 2 – INVESTMENTS

The Foundation invests primarily in U.S. Treasury bonds, government bonds, mutual funds, equity securities, and corporate debt securities. At December 31, 2012, investments are comprised of the following:

	2012	
	Amortized	
	<u>Cost</u>	<u>FMV</u>
Government and agencies	\$ 375,690	\$ 382,919
Corporate bonds and bond funds	1,887,599	1,956,180
Equity securities and mutual funds	2,911,418	3,252,858
Real estate investment trusts	<u>52,000</u>	<u>52,000</u>
	<u>\$ 5,226,707</u>	<u>\$ 5,643,957</u>

NOTE 3 – FAIR VALUE MEASUREMENTS

The Foundation follows FASB ASC 820, which provides a framework for measuring fair value. FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

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

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

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

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

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

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 3 – FAIR VALUE MEASUREMENTS (CONTINUED)

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

		Fair Value Measurements Using:		
		Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012:	<u>Fair Value</u>			
Investments	\$ 5,643,957	\$ 5,643,957	\$ -	\$ -
Pledges receivable	2,967,683	-	-	2,967,683
Deferred gift liability	138,540	-	138,540	-
	<u>\$ 8,750,180</u>	<u>\$ 5,643,957</u>	<u>\$ 138,540</u>	<u>\$ 2,967,683</u>

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

	<u>2012</u>
Balance at January 1	\$ 3,515,997
Pledge payments received	(938,548)
New pledges made by donors	393,822
Pledges written off	(3,588)
	<u>\$ 2,967,683</u>

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable represents promises to give which have been made by donors but have not yet been received by the Foundation. Pledges which will not be received in the subsequent year have not been discounted, as the difference using the estimated rate of return approximates the recorded value. The Foundation estimates the allowance for uncollectable pledges at December 31, 2012 was zero. Total unconditional promises to give or grants receivable were as follows:

	<u>2012</u>
In one year or less	\$ 657,078
Between one year and five years	<u>2,310,605</u>
Total	<u>\$ 2,967,683</u>

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 5 – BOARD RESTRICTIONS

Unrestricted net assets include Board restricted cash and investments for various Foundation projects and other uses. Total Board restricted cash and investments at December 31, 2012 was \$216,306.

NOTE 6 -- ENDOWMENT

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

The Board of Directors has interpreted the Montana Uniform Prudent Management of Institutional Funds Act ("MUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) any accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated by expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 6 – ENDOWMENT (CONTINUED)

Changes in Endowment Net Assets for the year ended December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ _____ -	\$ <u>1,245,346</u>	\$ <u>2,654,430</u>	\$ <u>3,899,776</u>
Investment return:				
Investment income	-	117,251	-	117,251
Investment management fees	-	(26,905)	-	(26,905)
Net appreciation (depreciation) (realized and unrealized)	_____ -	<u>288,829</u>	_____ -	<u>288,829</u>
Total investment return	_____ -	<u>379,175</u>	_____ -	<u>379,175</u>
Contributions	_____ -	<u>141,819</u>	<u>2,454,959</u>	<u>2,596,778</u>
Endowment net assets, end of year	\$ _____ -	\$ <u>1,766,340</u>	\$ <u>5,109,389</u>	\$ <u>6,875,729</u>

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA at December 31, 2012 was \$5,109,389. There were \$1,766,340 in temporarily restricted net assets within the endowment fund at December 31, 2012.

Return Objectives and Risk Parameters

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

NOTE 7 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 18, 2013, the date on which the financial statements were available to be issued.

**REQUIRED SUPPLEMENTAL
INFORMATION**

Flathead Valley Community College
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2013

Actuarial	Actuarial	Actuarial	Unfunded	Funded	Covered	UAAL as a
Valuation Date	Value of Assets	Liability (AAL)	AAL	Ratio	Payroll	Percentage
	(a)	Unit Credit Cost Method	(UAAL)	(a/b)	(c)	of Covered
		(b)	(b-a)			Payroll
						((b-a)/(c)
July 1, 2009	\$ -	\$ 4,137,471	\$ 4,137,471	0%	\$ 11,078,458	37%
July 1, 2011	\$ -	\$ 2,365,335	\$ 2,365,335	0%	\$ 15,084,883	16%

SUPPLEMENTAL INFORMATION

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013

STUDENT FINANCIAL AID MODIFIED STATEMENT
OF CASH RECEIPTS AND DISBURSEMENTS - UNAUDITED

	<u>PELL</u>	<u>CWS</u>	<u>SEOG</u>
Beginning Cash Balance	\$ <u>(286,716)</u>	\$ <u>(8,930)</u>	\$ <u>-</u>
Additions:			
Federal Advances	4,260,612	53,482	66,166
State Matching	<u>-</u>	<u>68,601</u>	<u>19,452</u>
Total Additions	\$ <u>4,260,612</u>	\$ <u>122,083</u>	\$ <u>85,618</u>
Deductions:			
Distributions to Students	4,135,286	130,824	86,225
Administrative Expenses	<u>5,890</u>	<u>24</u>	<u>-</u>
Total Deductions	\$ <u>4,141,176</u>	\$ <u>130,848</u>	\$ <u>86,225</u>
Net Change in Cash	\$ <u>119,436</u>	\$ <u>(8,765)</u>	\$ <u>(607)</u>
Ending Cash Balance	\$ <u><u>(167,280)</u></u>	\$ <u><u>(17,695)</u></u>	\$ <u><u>(607)</u></u>

FLATHEAD VALLEY COMMUNITY COLLEGE
 FLATHEAD COUNTY, MONTANA
 SCHEDULE OF FEDERAL EXPENDITURES
 STUDENT FINANCIAL ASSISTANCE PROGRAMS - UNAUDITED
 FOR YEAR ENDED JUNE 30, 2013

		<u>2013</u>
College Work Study		
Wages	\$	<u>62,223</u>
Total College Work Study	\$	<u><u>62,223</u></u>
 Supplemental Education Opportunity Grant Program		
Student Grants	\$	<u><u>66,773</u></u>
 Pell Grant Program		
Student Grants	\$	<u><u>4,135,286</u></u>

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA
SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

SCHEDULE OF FULL TIME EQUIVAVLENT - AUDITED

<u>Semester</u>	<u>Resident</u>	<u>WUE</u>	<u>Nonresident</u>	<u>Total</u>
Summer 2012	269.60	-	21.70	291.30
Fall 2012	1,573.80	5.50	47.30	1,626.60
Spring 2013	1,563.50	4.00	54.00	1,621.50

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA

FOR THE YEAR ENDED JUNE 30, 2013

SCHEDULE OF FUNCTIONAL CLASSIFICATION
OF OPERATING EXPENSES - AUDITED

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation and Maint of Plant	Auxiliary	Total
Salaries	\$ 5,306,404	\$ 228,409	\$ 1,610,466	\$ 1,778,557	\$ 1,748,045	\$ 255,894	\$ 506,081	\$ 571,243	\$ 12,005,099
Benefits	1,769,438	56,652	514,762	587,427	607,797	145,365	196,945	166,113	4,044,499
Travel	59,708	15,396	80,379	40,922	84,764	10,574	307	1,753	293,803
Supplies	634,086	46,171	84,924	47,842	300,363	62,224	133,128	1,355,313	2,664,051
Contracted Services	641,046	114,670	149,461	91,538	503,426	31,739	820,101	128,240	2,480,221
Bond Issue Exp	-	-	-	-	-	-	10,903	-	10,903
Bad Debt Exp	-	-	-	-	172,803	-	-	-	172,803
Non Capitalized Equip	127,992	4,023	114,539	27,764	71,835	1,444	621,145	10,738	979,480
Scholarships and Grants	-	-	175,399	76,500	-	10,271,935	-	-	10,523,834
Other Operating Expense	-	13,722	175,926	15,230	100,418	28,561	-	35,448	369,305
Depreciation Expense	-	-	-	-	-	-	1,535,571	-	1,535,571
	<u>\$ 8,538,674</u>	<u>\$ 479,043</u>	<u>\$ 2,905,856</u>	<u>\$ 2,665,780</u>	<u>\$ 3,589,451</u>	<u>\$ 10,807,736</u>	<u>\$ 3,824,181</u>	<u>\$ 2,268,848</u>	<u>\$ 35,079,569</u>

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 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***

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

We have audited, in accordance with the 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, the financial statements of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of Flathead Valley Community College, Flathead County, Montana, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Flathead Valley Community College's basic financial statements and have issued our report thereon dated March 6, 2014.

Our report includes a reference to other auditors who audited the financial statements of the Flathead Valley Community College Foundation as described in our report on the Flathead Valley Community College, Flathead County, Montana's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Flathead Valley Community College, Flathead County, Montana's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Flathead Valley Community College, Flathead County, Montana's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

March 6, 2014