

MILES COMMUNITY COLLEGE  
CUSTER 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 Miles 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-08

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2013

**TABLE OF CONTENTS**

Organization	1
Independent Auditor's Report	2-4
Management Discussion and Analysis	5-12
<b>Financial Statements</b>	
Statement of Net Position – Business-type Activities	13
Statement of Revenues, Expenses and Changes in Net Positions	14
Statement of Cash Flows	15
Fiduciary Funds – Statement of Fiduciary Net Position	16
Fiduciary Funds – Statement of Changes in Net Position	17
Notes to Financial Statements	18-35
<b>Required Supplementary Information</b>	
Schedule of Funding Progress – Other Post Employment Benefits Other Than Pensions	36
<b>Supplementary Information</b>	
Student Financial Aid Modified Statement of Cash Receipts – Unaudited	37
Schedule of Federal Expenditures – Student Financial Assistance Program – Unaudited	38
Schedule of Full Time Equivalent - Audited	39
Schedule of Functional Classification of Operating Expense - Audited	40
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	41-42
Report on Prior Audit Recommendations	43

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2013

**BOARD OF TRUSTEES**

Susan Stanton	Chairperson
Jeff Okerman	Vice Chairperson
Sharon Wilcox	Secretary
Rusty Irion	Trustee
Garret McFarland	Trustee
Mark Petersen	Trustee
Debbie Morford	Trustee

**COLLEGE OFFICIALS**

Lisa M. Watson	Interim President and Vice President of Administrative Services and Finance
Shelly Weight	Vice President of Academic Affairs
Jessie Dufner	Vice President of Student Services
Shane Vannatta	Attorney

***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  
Miles Community College  
Custer County  
Miles City, Montana

**Report on the Financial Statements**

We have audited the accompanying financial statements of business-type activities, the aggregate remaining fund information, and the discretely presented component unit of Miles Community College, Custer County, Montana, as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the Miles Community College's basic financial statements as listed in the table of contents.

**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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate remaining fund information, and the discretely presented component unit of Miles Community College, Custer County, Montana, as of and for the year ended June 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the 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 5 through 12, 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 procedure applied in the audit of the basic financial 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 procedure 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 procedure 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 27, 2014, on our consideration of the Miles Community College, Custer 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 Miles Community College, Custer County, Montana's internal control over financial reporting and compliance.

March 27, 2014

*Dexring, Downey and Associates, CPAs, P.C.*

**Miles Community College, Custer County, Montana**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended June 30, 2013**

**Overview**

Miles Community College was founded in 1939 and is located in Miles City, Montana. The mission of the College is to promote student success and lifelong learning through accessible, quality programs and community partnerships.

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 year ended June 30, 2013. 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 Position; Statement of Revenues, Expenses and Changes in Net Position; 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 Position 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 Position 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 student’s account.

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

### Financial Highlights for Fiscal Year 2013

#### Statement of Net Position

The Statement of Net Position, 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 position is simply the difference between total assets and total liabilities. The change in net position 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 Position follows:

	<b>June 30, 2013</b>	<b>June 30, 2012</b>
<b>ASSETS</b>		
Total current assets	\$ 3,702,652	\$ 3,471,444
Total noncurrent assets	<u>6,508,318</u>	<u>6,910,719</u>
<b>TOTAL ASSETS</b>	<b><u>\$10,210,970</u></b>	<b><u>\$10,382,163</u></b>
<b>LIABILITIES</b>		
Total current liabilities	\$ 549,156	\$ 656,185
Total noncurrent liabilities	<u>3,435,281</u>	<u>3,273,683</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 3,984,437</u></b>	<b><u>\$ 3,929,868</u></b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 4,140,020	\$ 4,397,951
Restricted, expendable	384,056	287,277
Unrestricted	<u>1,702,457</u>	<u>1,767,067</u>
<b>TOTAL NET POSITION</b>	<b><u>\$ 6,226,533</u></b>	<b><u>\$ 6,452,295</u></b>

## Comparison of 2013 and 2012 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 \$231,208 increase from FY 2012 to FY 2013 was due primarily to an increase in cash.
- **Noncurrent assets** primarily represent the College's capital assets less accumulated depreciation. The decrease is due to increased accumulated depreciation.
- **Current liabilities** include payroll and related liabilities, amounts payable to suppliers for goods and services received, revenue received which the College has not yet earned, student deposit balances, and debt principal payments due within one year. Total current liabilities decreased by \$107,029 from FY 2012 to FY 2013, due largely to decreased accounts payable, student deposits 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 \$161,598. 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 \$160,012.
- **Net Investment in Capital Assets** 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 decreased by \$257,931 from FY 2012 to FY 2013 as accumulated depreciation has increased.
- **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 position** 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** decreased by \$225,762 from FY 2012 to FY 2013, which is a reflection of the increased cash position netted against decreasing noncurrent assets.

## Statement of Revenue, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position 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 Position follows:

	<b>June 30, 2013</b>	<b>June 30, 2012</b>
Operating revenues	\$ 4,389,928	\$ 5,271,211
Operating expenses	<u>8,294,820</u>	<u>8,592,385</u>
<b>OPERATING LOSS</b>	<u>\$ (3,904,892)</u>	<u>\$ (3,321,174)</u>
Non-operating revenues (expenses)	\$ 3,649,588	\$ 3,679,243
Gain on disposal of capital assets	5,000	14,530
Transfer from fiduciary funds	<u>-</u>	<u>-</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<u>\$ (250,304)</u>	<u>\$ 372,599</u>
Net position, beginning of year	\$ <u>6,452,295</u>	\$ <u>6,079,696</u>
Restatement of expenses	<u>\$ 24,542</u>	<u>\$ -</u>
Net position, end of year	<u>\$ 6,226,533</u>	<u>\$ 6,452,295</u>

### Comparison of 2013 and 2012 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 \$881,283 from FY 2012 to FY 2013. This is due primarily to decreased tuition and fees, and federal and state grants.
- **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 \$29,655 from FY 2012 to FY 2013. The major item affecting this change was decreased state 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 2013		Fiscal Year 2012		Increase (decrease) FY'13 vs. FY'12
	Amount	Percent	Amount	Percent	
<b>Operating revenues</b>					
Tuition and fees (net)	\$ 1,553,877	19.08%	\$ 1,687,837	18.65%	\$ (133,960)
Auxiliary enterprise activities	1,161,540	14.27%	1,204,128	13.31%	(42,588)
Federal grants and contracts	1,037,877	12.75%	1,496,197	16.54%	(458,320)
Other operating revenues	284,674	3.50%	317,836	3.52%	(33,162)
Private and local grants and contracts	221,051	2.74%	280,368	3.10%	(59,317)
State grants and contracts	119,140	1.44%	256,448	2.83%	(137,308)
Indirect cost recoveries	<u>11,769</u>	<u>0.15%</u>	<u>28,397</u>	<u>0.31%</u>	<u>(16,628)</u>
<b>Total operating revenue</b>	<b><u>\$ 4,389,928</u></b>	<b><u>53.93%</u></b>	<b><u>\$ 5,271,211</u></b>	<b><u>58.26%</u></b>	<b><u>\$ (881,283)</u></b>
<b>Non-operating revenues</b>					
State appropriations	\$ 2,222,931	27.30%	\$ 2,255,642	24.93%	\$ (32,711)
District levies	1,314,356	16.14%	1,294,491	14.31%	19,865
State reimbursements	202,743	2.49%	195,822	2.16%	6,921
Interest income	<u>11,372</u>	<u>0.14%</u>	<u>30,779</u>	<u>0.34%</u>	<u>(19,407)</u>
<b>Total non-operating revenues</b>	<b><u>\$ 3,751,402</u></b>	<b><u>46.07%</u></b>	<b><u>\$ 3,776,734</u></b>	<b><u>41.74%</u></b>	<b><u>\$ (25,332)</u></b>
<b>Total revenue</b>	<b><u>\$ 8,141,330</u></b>	<b><u>100%</u></b>	<b><u>\$ 9,047,945</u></b>	<b><u>100%</u></b>	<b><u>\$ (906,615)</u></b>

## ANALYSIS OF CATEGORY OF EXPENSE

Category of Expenses	Fiscal Year 2013		Fiscal Year 2012		Increase (decrease) FY'13 vs. FY'12
	Amount	Percent	Amount	Percent	
<b>Operating expenses</b>					
Personnel expenses	\$ 4,412,432	52.55%	\$ 4,354,040	50.11%	\$ 58,392
Scholarships and grants	1,077,108	12.83%	1,421,048	16.35%	(343,940)
Depreciation	510,421	6.08%	501,983	5.78%	8,438
Supplies	465,806	5.55%	474,283	5.46%	(8,477)
Contracted service	460,662	5.49%	409,406	4.71%	51,256
Food for resale	280,600	3.34%	270,984	3.12%	9,616
Utilities	189,720	2.26%	171,033	1.97%	18,687
Items for resale	147,879	1.76%	120,325	1.37%	27,554
Travel	125,972	1.50%	147,768	1.70%	(21,796)
Communications	103,328	1.23%	101,890	1.17%	1,438
Student support	93,487	1.11%	83,570	0.96%	9,917
Other operating expenses	86,846	1.03%	113,166	1.30%	(26,320)
Advertising	68,446	0.82%	63,109	0.73%	5,337
Insurance	67,556	0.81%	66,118	0.76%	1,438
Repairs and maintenance	54,014	0.64%	72,242	0.85%	(18,228)
IT system support	45,549	0.54%	24,305	0.28%	21,244
Bad debt expense	34,492	0.41%	76,305	0.88%	(41,813)
Meetings and dues	32,639	0.39%	40,281	0.46%	(7,642)
Rent and lease	27,134	0.32%	53,488	0.61%	(26,354)
Indirect costs	<u>10,729</u>	<u>0.13%</u>	<u>27,041</u>	<u>0.31%</u>	<u>(16,312)</u>
<b>Total operating expenses</b>	<b><u>\$ 8,294,820</u></b>	<b><u>98.79%</u></b>	<b><u>\$ 8,592,385</u></b>	<b><u>98.88%</u></b>	<b><u>\$ (297,565)</u></b>
<b>Non-operating expenses</b>					
Interest payments	\$ 101,814	1.21%	97,491	1.12%	4,323
Other non-operating expenses	<u>-</u>	<u>0.00%</u>	<u>-</u>	<u>0.00%</u>	<u>-</u>
<b>Total non-operating expenses</b>	<b><u>\$ 101,814</u></b>	<b><u>1.21%</u></b>	<b><u>\$ 97,491</u></b>	<b><u>1.12%</u></b>	<b><u>\$ 4,323</u></b>
<b>Total expenses</b>	<b><u>\$ 8,396,634</u></b>	<b><u>100%</u></b>	<b><u>\$ 8,689,876</u></b>	<b><u>100%</u></b>	<b><u>\$ (293,242)</u></b>

Comments about specific revenue and expense items are:

- **Tuition and Fees and Federal Grants:** During FY 2013 the College saw a decrease in enrollment which also resulted in a decrease in the amount of Federal Pell grants awarded. This represents the largest decrease in revenues.
- **Expenses (general comment):** Overall expenses decreased \$293,242 from FY 2012 to FY 2013. Decreased enrollment has resulted in decreased scholarships and is the largest factor for 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:

<b><u>CASH FLOW CATEGORY</u></b>	<b><u>June 30, 2013</u></b>	<b><u>June 30, 2012</u></b>
Cash provided by (used in):		
Operating activities	\$ (2,689,271)	\$ (2,555,386)
Noncapital activities	3,753,730	3,723,601
Capital financing activities	(307,960)	(757,517)
Investing activities	<u>11,372</u>	<u>30,779</u>
Net increase (decrease) in cash	<u>\$ 767,871</u>	<u>\$ 441,477</u>
Cash and cash equivalents, beginning of year	<u>\$ 2,747,402</u>	<u>\$ 2,305,925</u>
Cash and cash equivalents, end of year	<u>\$ 3,515,273</u>	<u>\$ 2,747,402</u>

### Comparison of 2013 and 2012 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 \$133,885 from FY 2012 to FY 2013. This is mainly due to the decrease in tuition and fee revenue that is a result of decreased enrollment.
- **Noncapital financing activities** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-operating activities increased \$30,129 from FY 2012 to FY 2013. The major item affecting this change was state appropriations.
- **Capital and related financing activities** consists of purchases of capital assets and payments of principal and interest on loans. No additional loans were added.

### DISCUSSION OF SIGNIFICANT PENDING ECONOMIC AND FINANCIAL ISSUES

- **Population** – Miles Community College is located in eastern Montana and is experiencing a decrease in the enrollment of both traditional and nontraditional students. Currently, Montana is experiencing a large population drop in the number of high school students and this is expected to continue to decline until 2017. Additionally, the Bakken oil boom in eastern Montana and North Dakota continues to attract nontraditional students away with high paying jobs that require little to no additional education.

- **Faculty and Staff** – The ability to attract and retain high quality faculty and staff continues to be a struggle due to our rural location and the lure of high paying jobs in the Bakken oil fields.
- **Program Development** – Meeting the needs of our community, our students, and our region continues to be an area of focus for the College. As the oil field industry continues to develop and mature, and as we see population concentrations shift, the college is tasked with providing programs that will serve our area. By expanding and continuing to develop new programs to meet the needs of our region, MCC will be able also attract and retain students with programs that will give them the skills to obtain a good job and provide for a successful future.
- **State and Local Funding** – With decreased enrollment in our region, state and local funding will continue to provide critical support to the college and to the region. The College must also obtain state and federal grants, and develop business partnerships, and partnerships with other educational institutions to sustain and provide growth opportunities for the college. Miles Community College must be diligent and strategic stewards in the use of these funds in order to meet the needs of our students to achieve the best results possible for the resources at hand.

**Miles Community College, Custer County, Montana**  
**Statement of Net Position**  
**June 30, 2013**

	<b>Primary Government</b>	<b>Component Unit</b>
	<b>Business-Type Activities</b>	<b>Mile Community College Endowment</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,379,256	\$ -
Taxes receivable	99,423	-
Grants receivable	37,721	-
Student loan receivable	23,886	-
Accounts receivable - net	80,624	-
Inventories	57,008	-
Prepaid expense	24,734	-
Total current assets	\$ 3,702,652	\$ -
Noncurrent assets:		
Restricted cash and investments	\$ 136,017	\$ 806,266
Capital assets, net	6,372,301	-
Total noncurrent assets	\$ 6,508,318	\$ 806,266
Total assets	\$ 10,210,970	\$ 806,266
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 30,047	\$ 23,455
Accrued payroll	261,410	-
Deferred revenue - tuition and fees	74,968	-
Student deposits	18,300	-
Current portion of compensated absences payable	36,025	-
Current portion of debt and capital lease obligations	128,406	-
Total current liabilities	\$ 549,156	\$ 23,455
Noncurrent liabilities:		
Compensated absences payable	\$ 324,227	\$ -
Debt and capital lease obligations	2,103,875	-
Other post employment benefits	741,860	-
Other post employment benefits - accrued insurance	265,319	-
Total noncurrent liabilities	\$ 3,435,281	\$ -
Total liabilities	\$ 3,984,437	\$ 23,455
<b>NET POSITION</b>		
Net investment in Capital Assets	\$ 4,140,020	\$ -
Restricted for student loans	53,748	-
Restricted for debt service	115,560	-
Restricted for scholarships, research, instruction, and other	214,748	782,811
Unrestricted	1,702,457	-
Total net position	\$ 6,226,533	\$ 782,811
Total liabilities and net position	\$ 10,210,970	\$ 806,266

See accompanying Notes to the Financial Statements

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

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Business-Type</u>	<u>Miles Community</u>
	<u>Activities</u>	<u>College</u>
		<u>Endowment</u>
<b>Operating revenues</b>		
Tuition and fees (net of scholarship allowance of \$372,669)	\$ 1,553,877	\$ -
Auxiliary activities	1,161,540	-
Federal grants and contracts	1,037,877	-
Private and local grants and contracts	221,051	44,775
Athletic donations	144,907	-
State grants and contracts	119,140	-
Other operating revenues	115,373	-
Other athletic allowance	19,297	-
Indirect cost recoveries	11,769	-
Space/rental income	5,097	-
Total operating revenues	<u>\$ 4,389,928</u>	<u>\$ 44,775</u>
<b>Operating expenses</b>		
Personnel services	\$ 4,412,432	\$ -
Scholarships and grants	1,077,108	20,150
Depreciation and amortization expense	510,421	-
Supplies	465,806	-
Contracted services	460,662	-
Food for resale	280,600	-
Utilities	189,720	-
Items for resale	147,879	-
Travel	125,972	-
Communications	103,328	-
Student support	93,487	-
Other operating expense	86,846	-
Advertising	68,446	-
Insurance	67,556	-
Repairs and maintenance	54,014	-
IT system support	45,549	-
Bad debt expense	34,492	-
Meetings and dues	32,639	-
Rent and lease	27,134	-
Indirect costs	10,729	-
Program disbursements	-	24,272
Management and general	-	16,620
Professional fees	-	1,938
Total operating expenses	<u>\$ 8,294,820</u>	<u>\$ 62,980</u>
Operating loss	<u>\$ (3,904,892)</u>	<u>\$ (18,205)</u>
<b>Non-operating revenues (expenses)</b>		
State appropriation	\$ 2,222,931	\$ -
District levies	1,314,356	-
State reimbursements	202,743	-
Interest income	11,372	73,902
Interest expense	(101,814)	-
Total non-operating revenues (expenses)	<u>\$ 3,649,588</u>	<u>\$ 73,902</u>
Income (loss) before contributions and transfers	<u>\$ (255,304)</u>	<u>\$ 55,697</u>
Gain on disposal of capital assets	<u>\$ 5,000</u>	<u>\$ -</u>
Change in net position	<u>\$ (250,304)</u>	<u>\$ 55,697</u>
Net position, beginning of year	\$ 6,452,295	\$ 727,114
Restatement of income and expense	24,542	-
Net position, beginning of year restated	<u>\$ 6,476,837</u>	<u>\$ 727,114</u>
Net position, end of year	<u>\$ 6,226,533</u>	<u>\$ 782,811</u>

See accompanying Notes to the Financial Statements

**Miles Community College, Custer County, Montana**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2013**

		<u>Primary Government</u>
<b>Cash flows from operating activities:</b>		
Tuition and fees	\$	1,694,094
Grants and contracts		1,707,272
Payments to employees		(4,144,867)
Payments to suppliers		(1,935,238)
Payments for utilities		(189,720)
Payments for scholarships and fellowships		(1,077,108)
Collection of loans from students		8,910
Auxiliary activities		1,142,005
Other cash receipts (payments)		105,381
Net cash used in operating activities	\$	<u>(2,689,271)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	\$	2,222,931
State reimbursements		202,743
District levies		1,328,056
Net cash provided by noncapital financing activities	\$	<u>3,753,730</u>
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	\$	(63,167)
Principal paid on capital debt and leases		(142,979)
Interest paid on capital debt and leases		(101,814)
Net cash used in capital and related financing activities	\$	<u>(307,960)</u>
<b>Cash flows from investing activities</b>		
Interest received on cash and cash equivalents	\$	11,372
Net cash provided by investing activities	\$	<u>11,372</u>
Net increase in cash and cash equivalents	\$	767,871
Cash and cash equivalents, beginning of year		2,747,402
Cash and cash equivalents, end of year	\$	<u>3,515,273</u>
<b>Reconciliation to Statement of Net Assets</b>		
Cash and cash equivalents	\$	3,379,256
Restricted cash		136,017
Total cash and cash equivalents	\$	<u>3,515,273</u>
<b>Reconciliation of operating income to net cash provided by (used in) operating activities</b>		
Operating loss	\$	(3,904,892)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation		510,421
Bad debt expense		34,492
Other post employment benefits		313,182
Changes in net assets and liabilities:		
Grants receivable		329,204
Student loan receivable		8,910
Accounts receivable - net		155,064
Prepaid expense		(4,117)
Inventories		901
Accounts payable		(52,437)
Accrued payroll		(8,220)
Deferred revenue - tuition and fees		(14,847)
Student deposits		(19,535)
Compensated absences payable		(37,397)
Net cash used in operating activities	\$	<u>(2,689,271)</u>
<b>Schedule of noncash financing and investing activities</b>		
Capital assets acquired via trade-in	\$	<u>5,000</u>

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

**Miles Community College, Custer County, Montana**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2013**

		<b>Private Purpose Trust Funds</b>
<hr/>		
<b>ASSETS</b>		
Cash and cash equivalents	\$	24,099
Accounts receivable - net		26,772
Prepaid expense		142
Total assets	\$	<u>51,013</u>
<b>LIABILITIES</b>		
Accounts payable	\$	<u>285</u>
Total liabilities	\$	<u>285</u>
<b>NET POSITION</b>		
Assets held in trust	\$	<u>50,728</u>

See accompanying Notes to the Financial Statements

**Miles Community College, Custer County, Montana**  
**Statements of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2013**

		<b>Private Purpose Trust Funds</b>
<b>ADDITIONS:</b>		
Contributions from private sources	\$	1,371,519
Total additions	\$	1,371,519
<b>DEDUCTIONS:</b>		
Student activities		
Total deductions	\$	1,359,790
Changes in net position	\$	11,729
Net position, beginning of year	\$	38,999
Net position, end of year	\$	50,728

See accompanying Notes to the Financial Statements

MILES COMMUNITY COLLEGE  
CUSTER 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.

GASB 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. Effective July 1, 2012 the College adopted the provision of GASB statement No. 61, *The Financial Reporting Entity* which amended statement No. 14.

*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 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 unit listed below has fiscal year ending June 30, 2013. The College has the following discretely presented component unit:

Miles Community College Endowment

MILES COMMUNITY COLLEGE  
CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

Nature of Activities

The Miles Community College Endowment is a nonprofit 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

The investments are carried at fair value, unrecognized gains and losses are reflected in the Statement of Revenues, Expenses and Changes in Net Position as interest income.

Estimates

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

**Basis of Presentation, Measurement Focus and Basis of Accounting**

***Proprietary Funds:***

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

MILES COMMUNITY COLLEGE  
CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

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 connection with the 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 1<sup>st</sup>, 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.

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.

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.

MILES COMMUNITY COLLEGE  
CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

**NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Cash Composition**

Except for the Perkins Loan Fund, the College's cash, including fiduciary cash is held by the County Treasurer and pooled with other County cash. With the College cash that is not necessary for short-term obligations, the College participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County's investment portfolio as of June 30, 2013, consisted of time 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, 2013.

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, including restricted cash.

**Deposits**

The College's deposit balance at June 30, 2013 was \$20,457, and the bank balance was \$20,457. This amount was fully insured.

The College's cash and investments as of June 30, 2013 consisted of the following:

Cash on hand	\$ 12,095
Demand deposit accounts	20,457
Invested in the County Investment Pool	<u>3,506,820</u>
Total cash and investments	<u>\$ 3,539,372</u>

The Endowment's deposit balance at June 30, 2013 was \$154,578, and the bank balance was \$154,578. This amount was fully insured.

MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2013

The Endowment's cash and investments as of June 30, 2013 consisted of the following:

Demand Deposit Accounts	\$	49,303
Money Market Accounts		105,275
First Interstate Financial		
Mutual Funds – MFS Utilities A		140,937
Ameriprise Financial		
Columbia - Port Builder Moderate		276,223
Fund		
Columbia RVS-High Yield Bond		200,240
Fund		
Edward Jones		
Growth Fund of America		<u>34,288</u>
Total		<u>\$ 806,266</u>

**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.

	<u>June 30, 2013</u>
Custer County Investment Pool	\$ 3,506,820

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.

MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2013

Concentration of credit risk for the Endowment is as follows:

<u>Endowment</u>		<u>%</u>
Ameriprise Financial		
Equity securities	\$ 276,223	
Fixed income securities	200,240	
Total Ameriprise Financial		73%
Edward Jones		
Growth Fund of America	34,288	5%
First Interstate Financial		
Mutual Funds-MFS Utilities A	<u>140,937</u>	<u>22%</u>
Total investments	<u>\$ 651,688</u>	<u>100%</u>

**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, 2013.

The Endowment deposits with financial institutions did not exceed federal depository insurance limits at June 30, 2013.

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.

MILES COMMUNITY COLLEGE  
CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

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.

Student accounts receivable	\$ 85,155
Less allowances	<u>(41,100)</u>
Net student accounts receivable	<u>\$ 44,055</u>

**NOTE 4 INVENTORIES AND PREPAID EXPENSES**

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

The cost of inventories is 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.

MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2013

*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 2013 Basic Financial Statements. The College has elected not to retroactively report general infrastructure assets.

MILES COMMUNITY COLLEGE  
CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

The following tables present the changes in capital assets for the year ended June 30, 2013:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 206,412	\$ -	\$ -	\$ 206,412
Total capital assets not being depreciated	<u>\$ 206,412</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 206,412</u>
Other capital assets				
Buildings	\$ 9,023,354	\$ -	\$ -	\$ 9,023,354
Machinery & equipment	1,771,015	97,828	(23,007)	1,845,836
Software	405,847	-	-	405,847
Library inventory	<u>94,352</u>	<u>11,683</u>	<u>(4,219)</u>	<u>101,816</u>
Total other capital assets at historical cost	<u>\$ 11,294,568</u>	<u>\$ 109,511</u>	<u>\$ (27,226)</u>	<u>\$ 11,376,853</u>
Less accumulated depreciation				
Buildings	\$ (3,565,637)	\$ (296,264)	\$ -	\$ (3,861,901)
Machinery & equipment	(822,832)	(135,862)	23,007	(935,687)
Software	(283,385)	(61,231)	-	(344,616)
Library inventory	<u>(55,915)</u>	<u>(17,064)</u>	<u>4,219</u>	<u>(68,760)</u>
Total accumulated depreciation	<u>\$ (4,727,769)</u>	<u>\$ (510,421)</u>	<u>\$ 27,226</u>	<u>\$ (5,210,964)</u>
Total capital assets, depreciable, net	<u>\$ 6,566,799</u>	<u>\$ (400,910)</u>	<u>\$ -</u>	<u>\$ 6,165,889</u>
Total	<u>\$ 6,773,211</u>	<u>\$ (400,910)</u>	<u>\$ -</u>	<u>\$ 6,372,301</u>

**NOTE 6 LONG TERM LIABILITIES**

The following table presents the changes in long-term liabilities for the year ended June 30, 2013:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due within</u> <u>one year</u>
Contracted debt	\$ 2,302,553	\$ -	\$ (102,443)	\$ 2,200,110	\$ 107,146
Intercap loans	50,532	-	(33,486)	17,046	17,046
Compensated absences	397,649	-	(37,397)	360,252	36,025
Capital lease	22,175	-	(7,050)	15,125	4,214
OPEB*	581,848	160,012	-	741,860	-
OPEB – Accrued Insurance**	<u>112,149</u>	<u>153,170</u>	<u>-</u>	<u>265,319</u>	<u>-</u>
Total	<u>\$ 3,466,906</u>	<u>\$ 313,182</u>	<u>\$ (180,376)</u>	<u>\$ 3,599,712</u>	<u>\$ 164,431</u>

\*See Note 8

\*\*See Note 9

MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2013

Contracted Debt

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 23<sup>rd</sup> 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, 2013 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:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 29,114	\$ 9,016
2015	31,268	6,861
2016	33,582	4,548
2017	36,067	2,062
2018	9,057	106
Total	<u>\$ 139,088</u>	<u>\$ 22,593</u>

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 23<sup>rd</sup> and September 23<sup>rd</sup> 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:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 25,854	\$ 6,018
2015	27,162	4,710
2016	28,537	3,335
2017	29,982	1,890
2018	15,219	380
Total	<u>\$ 126,754</u>	<u>\$ 16,333</u>

MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2013

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 18<sup>th</sup> 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:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 17,616	\$ 12,409
2015	18,533	11,491
2016	19,499	10,525
2017	20,515	9,509
2018	21,584	8,441
2019	22,709	7,316
2020	23,892	6,133
2021	25,137	4,888
2022	26,447	3,578
2023	27,824	2,200
2024	<u>28,035</u>	<u>750</u>
Total	<u>\$ 251,791</u>	<u>\$ 77,240</u>

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 18<sup>th</sup> 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.

MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2013

Annual requirement to amortize debt for USDA Rural Development:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
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	29,968	49,592
2023	31,306	48,254
2024	32,704	46,856
2025	34,163	45,397
2026	35,688	43,871
2027	37,282	42,279
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	48,449	31,111
2034	50,612	28,948
2035	52,871	26,688
2036	55,231	24,329
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	71,776	7,784
2043	74,980	4,580
2044	63,798	1,256
Total	<u>\$ 1,345,110</u>	<u>\$ 1,106,743</u>

MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2013

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 1<sup>st</sup> of each year. Interest is payable at 3.00% per annum.

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

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
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	20,927	2,626
2030	21,554	1,999
2031	22,201	1,352
2032	22,866	687
Total	<u>\$ 337,367</u>	<u>\$ 110,140</u>

Intercap Loans

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 15<sup>th</sup> and February 15<sup>th</sup> 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 16<sup>th</sup> 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:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ <u>17,046</u>	\$ <u>85</u>

MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2013

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:

<u>For Fiscal Year Ended</u>	<u>Principal and Interest</u>
2014	\$ 4,620
2015	4,620
2016	4,620
2017	<u>2,103</u>
Total payments	\$ <u>15,963</u>
Less amount representing interest	<u>(837)</u>
Principal outstanding balance	<u>\$ 15,126</u>

Assets acquired under capital lease consist of golf simulators. Such assets are carried at a cost of \$68,883 less accumulated depreciation of \$6,888 as of June 30, 2013.

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 a percentage of covered payroll for the fiscal year ended June 30, 2013 was:

	<u>PERS</u>	<u>TRS</u>
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%

MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2013

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, 2011, 2012, and 2013, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>TRS</u>
2011	\$ 192,613	\$ 254,629
2012	\$ 170,944	\$ 245,831
2013	\$ 161,467	\$ 244,213

**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.

MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2013

Annual Required Contribution (ARC)	\$	118,201
Interest on net OPEB obligation		41,811
Adjustment to ARC		<u>-</u>
Annual OPEB cost (expense)	\$	160,012
Contributions made		<u>-</u>
Increase in net OPEB obligation	\$	160,012
Net OPEB obligation – beginning of year		<u>581,848</u>
Net OPEB obligation – end of year	\$	<u><u>741,860</u></u>

*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 retirees 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 after retiring 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.

MILES COMMUNITY COLLEGE  
CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

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 year 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:

<b><u>College</u></b>	
<b><u>Description</u></b>	
Restricted for debt service	\$ 115,560
Restricted for scholarships, research, instructions and other	\$ 214,748
Restricted for student loans	\$ 53,748
<b><u>Endowment</u></b>	
Restricted for scholarships, research, instructions and other	\$ 782,811

MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2013

**NOTE 11 RESTRICTED CASH**

<b><u>College</u></b>	
<u>Description</u>	
Perkins loans	\$ 20,457
Debt service	<u>115,560</u>
Total	<u>\$ 136,017</u>
 <b><u>Endowment</u></b>	
Restricted for scholarships	<u>\$ 806,266</u>

**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, 2013:

<u>Component Unit</u>	<u>Significant Transactions</u>
Miles Community College Endowment	Donated \$25,150

**NOTE 13 RESTATEMENTS**

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

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Miles Community College	\$ 41,344	Reclass capital asset from supplies
Miles Community College	<u>(16,802)</u>	Reclass deferred revenue from scholarship revenue
	<u>\$ 24,542</u>	

**NOTE 14 RISK MANAGEMENT**

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

Insurance 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.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**Miles Community College, Custer County, Montana**  
**REQUIRED SUPPLEMENTAL INFORMATION**

**Schedule of Funding Progress**

**For the Fiscal Year Ended June 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Unit Credit Cost Method (b)	Unfunded		Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
			AAL (UAAAL) (b-a)	AAL (UAAAL) (b-a)			
July 1, 2009	\$ -	\$ 1,927,543	\$ 1,927,543	\$ 0	0%	\$ 3,258,396	59%
July 1, 2011	\$ -	\$ 1,059,518	\$ 1,059,518	\$ 0	0%	\$ 3,127,539	34%

## **SUPPLEMENTARY INFORMATION**

**Miles Community College, Custer County, Montana**  
**Student Financial Aid Modified Statement of Cash Receipts and Disbursements**  
**For the Fiscal Year Ended June 30, 2013**  
**(unaudited)**

	<u>Pell</u>	<u>Perkins</u>	<u>CWS</u>	<u>SEOG</u>
Beginning cash balance	\$ (79,880)	\$ 20,451	\$ (18,514)	\$ (8,262)
Additions:				
Federal advances	764,880	-	54,028	36,524
State matching funds	-	-	-	-
Interest income	-	6	-	-
Total additions	<u>\$ 764,880</u>	<u>\$ 6</u>	<u>\$ 54,028</u>	<u>\$ 36,524</u>
Deductions:				
Distribution to students	\$ 697,925	\$ -	\$ 32,912	\$ 28,262
Administrative expenses	-	-	2,602	-
Total deductions	<u>\$ 697,925</u>	<u>\$ -</u>	<u>\$ 35,514</u>	<u>\$ 28,262</u>
Net change to cash	<u>\$ 66,955</u>	<u>\$ 6</u>	<u>\$ 18,514</u>	<u>\$ 8,262</u>
Ending cash balance	<u>\$ (12,925)</u>	<u>\$ 20,457</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying Notes to the Financial Statements

**Miles Community College, Custer County, Montana**  
**Schedules of Federal Expenditures**  
**Student Financial Assistance Programs**  
**For the Fiscal Year Ended June 30, 2013**  
**(unaudited)**

Perkins Loan Program			
Student loan advances	\$	<u><u>          -</u></u>	
College Work Study			
Wages	\$	32,912	
Administrative cost		<u>          2,602</u>	
Total College Work Study	\$	<u><u>          35,514</u></u>	
Supplemental Education Opportunity Grant Program			
Student Grants	\$	<u><u>          28,262</u></u>	
Pell Grant Program			
Student grants	\$	<u><u>          697,925</u></u>	

See accompanying Notes to the Financial Statements

**Miles Community College, Custer County, Montana**  
**Schedule for Full Time Equivalent**  
**For the Fiscal Year Ended June 30, 2013**  
**(Audited)**

<u>Semester</u>	<u>Resident</u>	<u>WUE</u>	<u>Nonresident</u>	<u>Total</u>
Summer 2012	53.1	1.9	1.5	56.5
Fall 2012	295.4	23.5	49.2	368.1
Spring 2013	302.6	16.7	36.6	355.9

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

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana  
 Functional Classification of Operating Expenses  
 For the Fiscal Year Ended June 30, 2013  
 (Audited)

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation and Maintenance	Auxiliary	Totals
Personnel Services	\$ 1,999,228	\$ 25,172	\$ 516,367	\$ 623,447	\$ 695,089	\$ -	\$ 249,351	\$ 303,778	\$ 4,412,432
Scholarships and Fellowships	-	-	-	-	-	1,077,108	-	-	1,077,108
Depreciation And Amortization	-	-	-	-	-	-	510,421	-	510,421
Supplies	136,992	2,929	122,112	92,752	5,264	-	22,543	83,214	465,806
Contracted Services	18,306	13,763	89,311	111,179	141,803	-	51,560	34,740	460,662
Food for Resale	-	-	-	-	-	-	-	280,600	280,600
Utilities	-	-	-	382	-	-	145,915	43,423	189,720
Items for Resale	-	-	-	-	-	-	-	147,879	147,879
Travel	12,693	3,225	4,729	90,489	14,836	-	-	-	125,972
Communications	1,036	678	27,140	6,032	46,954	-	2,217	19,271	103,328
Student Support	50,782	-	30,996	10,305	1,404	-	-	-	93,487
Other	11,943	34	13,250	12,495	36,654	-	105	12,365	86,846
Advertising	3,744	1,059	4,340	48,492	6,173	-	-	4,638	68,446
Insurance	7,152	733	-	4,904	-	-	36,816	17,951	67,556
Repairs and Maintenance	9,759	-	325	12,853	52	-	19,504	11,521	54,014
IT Systems Support	42,935	-	2,396	218	-	-	-	-	45,549
Bad Debt	-	-	-	-	34,492	-	-	-	34,492
Meetings and Dues	5,438	1,040	-	9,771	15,290	-	-	1,100	32,639
Rent and Lease	11,748	3,140	760	8,371	762	-	1,815	538	27,134
Indirect Costs	4,019	-	6,710	-	-	-	-	-	10,729
	<u>\$ 2,315,775</u>	<u>\$ 51,773</u>	<u>\$ 818,436</u>	<u>\$ 1,031,690</u>	<u>\$ 998,773</u>	<u>\$ 1,077,108</u>	<u>\$ 1,040,247</u>	<u>\$ 961,018</u>	<u>\$ 8,294,820</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***

Board of Trustees  
Miles Community College  
Custer County  
Miles City, 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 aggregate remaining fund information, and the discretely presented component unit of Miles Community College, Custer County, Montana, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Miles Community College's basic financial statements and have issued our report thereon dated March 27, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Miles Community College, Custer 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 Miles Community College, Custer 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 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*.

### **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, CPAs, P.C.*

March 27, 2014

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

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

---

**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

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

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

<u>Recommendation</u>	<u>Action Taken</u>
Timeliness of Posting and Balancing	Implemented
Federal Audit Submission	Not Repeated

*Denning, Downey and Associates, CPAs, P.C.*

March 27, 2014