

FLATHEAD VALLEY COMMUNITY COLLEGE
FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2019

AUDIT REPORT

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

January 2020

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Flathead Valley Community College for the two fiscal years ended June 30, 2019.

The audit was conducted by Eide Bailly LLP, 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/ Angus Maciver

Angus Maciver
Legislative Auditor

19C-07

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Board of Trustees

Shannon Lund	Chair
Pete Akey	Trustee
Mark Holston	Trustee
Callie Langohr	Trustee
Lyle Mitchell	Trustee
Kelly Dowling Stimpson	Trustee
Stephanie Wallace	Trustee

District Officials

Jane Karas	President
Monica Settles	District Clerk



Financial Section
June 30, 2019 and 2018

Flathead Valley Community College



Independent Auditor's Report

Board of Trustees
Flathead Valley Community College
Kalispell, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Flathead Valley Community College (the College), as of and for the years ended June 30, 2019 and 2018, and the financial statements of the discretely presented component unit as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the 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; 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 an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit – Flathead Valley Community College Foundation (the Foundation). 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 amounts included for the Foundation is based solely on the report of the other auditors. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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 College'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 College'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 opinion.

Opinion

In our opinion, based on our audits and the reports 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 of the College as of June 30, 2019 and 2018, and the discretely presented component unit of the College as of December 31, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years 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, the Schedule of Employer's Proportionate Share of Total OPEB Liability - OPEB, the Schedule of Employer Contributions - OPEB, the Schedule of Employer's Share of Net Pension Liability, the Schedule of Employer Contributions - Pensions, and the notes to required supplementary information, as noted in the table of contents, 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 or 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's financial statements as a whole. The Schedule of Student Financial Aid - Modified Statement of Cash Receipts and Disbursements, the Schedule of Federal Expenditures - Student Financial Assistance Programs, the Schedule of Full Time Equivalents, and the Schedule of Functional Classification of Operating Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Student Financial Aid - Modified Statement of Cash Receipts and Disbursements, the Schedule of Expenditures - Student Financial Assistance Programs, the Schedule of Full Time Equivalents, the Schedule of Functional Classification of Operating Expenses, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate

directly to the underlying accounting and other records used to prepare the 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 to 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 schedules noted above are fairly stated in all material respects in relation to the basic financial statements as a whole.

The organization section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2020 on our consideration of the College'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's 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 the College's internal control over financial reporting and compliance.


Boise, Idaho
January 30, 2020

Overview

The following Management's Discussion and Analysis is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. Flathead Valley Community College's (the College) Management Discussion and Analysis (MD&A) presents an overview of its financial condition and results of operations for the fiscal years ended June 30, 2019 and 2018. The MD&A's purpose is to aid readers in understanding the accompanying financial statements through analysis of the College'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.

Financial Highlights

In fiscal year 2019, operating loss was \$14.8 million, compared with \$14.6 million in 2018. Non-operating revenues including contributions increased to \$22.3 million in 2019 compared to \$15.5 million in 2018, resulting in a change in net position of \$7.5 million in 2019 and \$940 thousand in 2018.

These results were achieved during a leveling off in enrollment and reflect the College's ability to adjust spending appropriately and react to the changing higher education landscape while responding to the needs of students and the community.

How the Financial Statements Relate to Each Other

The financial statements included are the:

- Statements of Net Position
- Statements of Revenues, Expenses, and Changes in Net Position
- Statements 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 financial statements referred to above are interrelated and should be viewed in their entirety. The Statement of Net Position presents a snap shot of the financial condition of the College on June 30. The Statement of Revenues, Expenses, and Changes in Net Position presents the results of activities for the College 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

The Statement of Net Position presents the College's assets, deferred outflow of resources, liabilities, deferred inflows of resources and net position as of the fiscal year end. The purpose of this statement is to present to the financial statement readers a snapshot of the College's financial position at June 30, 2019, 2018, and 2017. The data presented in the Statement of Net Position aids in determining the assets available to continue the College's operations. It also allows readers to determine how much the College owes to vendors and creditors. Finally, the Statement of Net Position provides a picture of net position and its availability for expenditure by the College. Assets and liabilities are presented in a classified format. This format differentiates between current and non-current assets and liabilities. Current assets and liabilities are those expected to be realized or expended within the next twelve months.

Net position is presented in three categories applicable to the College:

- Net Investment in Capital Assets
- Restricted – Expendable
- Unrestricted

This statement is one way of measuring the College'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 Statements of Net Position at June 30, 2019, 2018 and 2017:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current Assets	\$ 17,702,457	\$ 16,563,044	\$ 16,830,995
Capital Assets	42,410,565	39,782,434	39,375,841
Other Noncurrent Assets	<u>3,023,834</u>	<u>-</u>	<u>-</u>
Total noncurrent assets	45,434,399	39,782,434	39,375,841
Total assets	<u>63,136,856</u>	<u>56,345,478</u>	<u>56,206,836</u>
Deferred Outflow of Resources	<u>4,015,971</u>	<u>3,616,488</u>	<u>3,524,737</u>
Current liabilities	4,027,577	3,546,415	3,562,024
Non-Current Liabilities	<u>33,795,005</u>	<u>35,594,069</u>	<u>38,405,941</u>
Total liabilities	<u>37,822,582</u>	<u>39,140,484</u>	<u>41,967,965</u>
Deferred Inflow of Resources	<u>2,235,974</u>	<u>1,223,392</u>	<u>675,121</u>
Net Investment in Capital Assets	25,263,603	21,329,033	19,623,393
Restricted-expendable	4,045,050	1,011,106	1,000,781
Unrestricted	<u>(2,214,382)</u>	<u>(2,742,049)</u>	<u>(3,535,687)</u>
Total net position	<u><u>\$ 27,094,271</u></u>	<u><u>\$ 19,598,090</u></u>	<u><u>\$ 17,088,487</u></u>

Current assets include the College's cash, taxes, grants, student loans, accounts receivables, inventories and other assets expected to benefit the College within one year. Current assets increased \$1.1 million in 2019 compared to 2018. The increase was due to an increase in cash and cash equivalents, accounts receivables, and other assets. Receivables increased primarily due to timing of payments from various grants and the Foundation. Current assets decreased \$268 thousand in 2018 compared to 2017. The decrease was due to a decrease in cash and cash equivalents, offset by an increase in receivables. Receivables increased primarily due to timing of payments from various grants and the Foundation.

Non-current assets include restricted cash and net capital assets. Non-current assets increased \$5.7 million in 2019 compared to 2018. The increase is primarily due to the addition of a new building including cash restricted for capital projects, offset by the annual depreciation expense. Non-current assets increased \$407 thousand in 2018 compared to 2017. The increase is primarily due to the addition of a new building, Founder's Hall, offset by the annual depreciation expense.

Deferred outflow of resources includes pension and other post-employment benefit obligations, which were the result of the implementation of GASB 68 and 71 in 2015, GASB 75 in 2018, as well as the deferred charge on refunding of debt, which was the result of the General Obligation Bond refunding that took place in 2015.

Current liabilities include payroll and related liabilities, amounts payable to vendors for goods and services received, student deposit balances and debt principal payments due within one year. Current liabilities increased \$481 thousand in 2019 compared to 2018 due to an increase in accounts payable. Current liabilities decreased \$15 thousand in 2018 compared to 2017 due to a decrease in accounts payable.

Non-current liabilities include debt principal due in greater than one year, accrued compensated absences greater than one-year, other post-retirement benefit obligations (OPEB) for employees, and net pension liability. Non-current liabilities decreased \$1.8 million in 2019 compared to 2018, driven by annual payments on long-term debt, as well as a decrease in net pension liability. Non-current liabilities decreased \$2.8 million in 2018 compared to 2017, driven by a decrease in OPEB liabilities due to the implementation of GASB 75, as well as the annual payments on long-term debt.

Deferred inflow of resources includes employer pension and other post-employment benefit assumptions, which was the result of the implementation of GASB 68 and 71 in 2015, and GASB 75 in 2018.

Net investment in capital assets represents historical cost of capital assets such as buildings and land held by the College less accumulated depreciation and net of debt balances related to the capital assets. The change year over year is primarily from the reduction or addition of long-term debt, and additions to capital assets, offset by the annual depreciation of capital assets.

Restricted-expendable net position represents funds that may be expended by the College but only in accordance with restrictions imposed by an external party, such as a donor, governmental entity, etc. There was an increase of \$3 million in 2019 due to restriction for capital projects. The remaining balance is restricted for debt service.

Unrestricted net position are funds that the College has to use for whatever purpose it determines is appropriate. The increase from 2018 to 2019 is primarily attributable to the strong current year results, offset by an increase in net funds invested in capital assets and restricted funds for capital projects. The increase from 2017 to 2018 is primarily attributable to the decrease in net funds invested in capital assets in the current year, caused by the new debt issued for construction of the Founder's Hall building.

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, the College is showing an operating loss of \$14.8 million, \$14.6 million and \$15.9 million for 2019, 2018 and 2017, respectively. Once the non-operating revenues, gain/loss on capital assets, and contributions are considered, the results become a change in net position of \$7.5 million, \$940 thousand and \$129 thousand for 2019, 2018 and 2017, respectively. Inclusion of non-operating revenues (state and local appropriations) is a more useful measure of the College's activities.

The following is a summary of the Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2019, 2018 and 2017:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenues	\$ 17,139,050	\$ 18,038,885	\$ 18,009,595
Operating Expenses	<u>31,922,319</u>	<u>32,623,806</u>	<u>33,893,151</u>
Operating Loss	<u>(14,783,269)</u>	<u>(14,584,921)</u>	<u>(15,883,556)</u>
Net Non-Operating Revenues	15,555,024	15,226,868	15,502,768
Contributions	6,729,801	297,597	450,000
Gain (Loss) on Sale of Capital Assets	<u>(5,375)</u>	<u>-</u>	<u>60,196</u>
Change in Net Position	<u>\$ 7,496,181</u>	<u>\$ 939,544</u>	<u>\$ 129,408</u>

Operating revenues include federal and state grants and contracts, tuition, fees and auxiliary activities. Operating revenues decreased \$900 thousand in 2019 compared to 2018 due to a decrease in federal grants and contracts grants and contracts, as well as auxiliary activities. Operating revenues increased \$29 thousand in 2018 compared to 2017 due to an increase in tuition and auxiliary activities, offset by a decrease in federal grants and contracts.

Operating expenses decreased \$701 thousand in 2019 compared to 2018 primarily due to a decrease in scholarships and grants and personnel services as the College focuses more on managing expenditures. Operating expenses decreased \$1.3 million in 2018 compared to 2017 primarily due to a decrease in scholarships and grants and contracted services.

Non-operating revenues (expenses) are comprised of interest income and expense, unrealized gains on investments, and state and local appropriations. Non-operating revenue increased \$328 thousand in 2019 from 2018 due to an increase in appropriations and interest revenue. Non-operating revenue decreased \$276 thousand in 2018 from 2017 primarily due to an increase in interest expense driven by the note payable issued in 2017.

The College received capital contributions of \$6.7 million in 2019 relating to construction of the Library and College Center, \$298 thousand in 2018 and \$450 thousand in 2017.

Capital Assets

The College's investment in capital assets as of June 30, 2019, 2018 and 2017 amounted to \$42.4 million, \$39.8 million and \$39.4 million, respectively, net of accumulated depreciation. Investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, library equipment, leasehold improvements, and information technology equipment. Additional information on the College's capital assets can be found in Note 2 of this report.

Long-Term Obligations

Total outstanding debt as of June 30, 2019, 2018 and 2017 amounted to \$17.3 million, \$18.6 million and \$19.9 million, respectively. The outstanding debt consisted of outstanding general obligation bonds, a note payable for construction of new building and Founder's Hall, and outstanding InterCap loans. Additional information on the College's long-term obligations can be found in Note 5 of this report.

Economic Outlook

Historically, enrollment trends for community colleges are counter-cyclical to economic conditions. The College continues to focus on enrollment management and anticipates a leveling off of the decline in enrollment to near 2009 levels.

College management believes the College is well positioned to maintain its strong financial condition and to continue to provide excellent service to its students and other constituents. The College's financial position, as evidenced by its strong cash balance, provides a high degree of flexibility and stability to address future challenges. Management will continue to maintain a close watch over resources and expenses to ensure that the College's finances are sustainable, and that the College can plan for and react to future internal or external issues.

Flathead Valley Community College

Statements of Net Position

June 30, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 13,711,653	\$ 13,215,097
Restricted cash and cash equivalents	1,021,216	1,011,106
Taxes and assessments receivable	312,964	262,908
Grants receivable	623,455	557,203
Tuition and fees receivable, net of allowance for uncollectible amounts of \$220,987 in 2019 and \$327,424 in 2018	168,962	97,083
Other accounts receivable	11,529	2,840
Due from Flathead Valley Community College Foundation	1,187,104	1,000,964
Inventories	321,346	296,238
Other assets	344,228	119,605
Total current assets	17,702,457	16,563,044
Non-Current Assets		
Restricted cash and cash equivalents	3,023,834	-
Capital assets - non-depreciable	7,530,218	3,614,901
Capital assets - depreciable, net	34,880,347	36,167,533
Total non-current assets	45,434,399	39,782,434
Total assets	63,136,856	56,345,478
Deferred Outflow of Resources		
Deferred charge on refunding	137,936	157,642
Deferred outflow on PERS liability	1,365,795	1,653,836
Deferred outflow on TRS liability	2,469,881	1,802,605
Deferred outflow on OPEB liability	42,359	2,405
Total deferred outflow of resources	4,015,971	3,616,488

Flathead Valley Community College

Statements of Net Position

June 30, 2019 and 2018

	2019	2018
Current Liabilities		
Accounts payable and accrued liabilities	893,641	491,653
Student deposits payable	195,063	182,230
Deposits payable	28,279	24,541
Interest payable	150,525	163,499
Accrued payroll	445,855	414,961
Unearned revenue - tuition and fees	225,636	227,772
Compensated absences, current portion	730,015	715,614
Long-term liabilities, current portion	1,358,563	1,326,145
Total current liabilities	4,027,577	3,546,415
Non-Current Liabilities		
Long-term liabilities, net of current portion	15,926,335	17,284,898
Compensated absences, net of current portion	777,346	930,233
Net pension liability	16,090,054	16,506,457
Obligation for other post-employment benefits	1,001,270	872,481
Total non-current liabilities	33,795,005	35,594,069
Total liabilities	37,822,582	39,140,484
Deferred Inflow of Resources		
Deferred inflow on PERS liability	2,088,451	1,101,048
Deferred inflow on TRS liability	113,557	85,284
Deferred inflow on OPEB liability	33,966	37,060
Total deferred inflow of resources	2,235,974	1,223,392
Net Position		
Net investment in capital assets	25,263,603	21,329,033
Restricted - Expendable		
Debt service	1,021,216	1,011,106
Capital projects	3,023,834	-
Unrestricted	(2,214,382)	(2,742,049)
Total net position	\$ 27,094,271	\$ 19,598,090

Flathead Valley Community College
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Revenues		
Tuition and fees, net of scholarship allowances of \$983,245 in 2019 and \$859,920 in 2018	\$ 6,623,868	\$ 6,790,513
Federal grants and contracts	5,503,448	6,235,259
State grants, contracts, and aid	1,151,991	994,183
Private and local grants and contracts	1,245,243	1,192,663
Indirect cost recoveries	79,758	104,083
Seminars and workshops	99,354	85,948
Auxiliary activities	2,156,126	2,345,462
Other operating revenues	279,262	290,774
Total operating revenues	17,139,050	18,038,885
Operating Expenses		
Personnel services	18,933,172	19,250,109
Travel	274,204	227,388
Supplies	1,891,818	2,029,587
Contracted services	2,461,609	2,471,479
Bad debt expense	84,406	80,365
Scholarships and grants	5,619,485	5,969,014
Non-capitalized equipment	473,982	374,337
Other operating expenses	163,961	203,481
Depreciation	2,019,682	2,018,046
Total operating expenses	31,922,319	32,623,806
Operating Loss	(14,783,269)	(14,584,921)
Non-Operating Revenues (Expenses)		
State appropriations	8,681,392	8,660,964
Statewide equalization millage	545,669	553,387
Local appropriations	6,574,121	6,419,027
Interest revenue	324,306	191,792
Interest expense	(570,464)	(598,302)
Loss on disposal of capital assets	(5,375)	-
Total non-operating revenues	15,549,649	15,226,868
Net Income Before Capital Contributions	766,380	641,947
Capital Contributions	6,729,801	297,597
Change in Net Position	7,496,181	939,544
Net Position, Beginning of Year	19,598,090	18,658,546
Net Position, End of Year	\$ 27,094,271	\$ 19,598,090

Flathead Valley Community College

Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Tuition and fees	\$ 6,549,853	\$ 6,790,305
Federal grants and contracts	5,437,196	6,459,477
Other grants and contracts	2,211,094	2,186,846
Seminars and workshops	99,354	85,948
Auxiliary activities	2,147,437	2,014,537
Other	359,020	394,857
Payments to suppliers	(2,719,543)	(2,990,598)
Payments for contracted services	(2,461,609)	(2,471,479)
Payments for scholarships and grants	(5,619,485)	(5,969,014)
Payments to employees	<u>(18,715,279)</u>	<u>(18,638,398)</u>
Net Cash used for Operating Activities	<u>(12,711,962)</u>	<u>(12,137,519)</u>
Noncapital Financing Activities		
State appropriations	8,681,392	8,660,964
Local appropriations	<u>7,069,734</u>	<u>6,963,737</u>
Net Cash from Noncapital Financing Activities	<u>15,751,126</u>	<u>15,624,701</u>
Capital and Related Financing Activities		
Acquisition and construction of capital assets	(4,593,922)	(2,413,734)
Proceeds from the sale of capital assets	1,201	-
Principal paid on capital debt	(1,326,145)	(1,318,752)
Interest paid on capital debt	(583,438)	(608,211)
Capital contributions	<u>6,669,334</u>	<u>286,692</u>
Net Cash from (used for) Capital and Related Financing Activities	<u>167,030</u>	<u>(4,054,005)</u>
Investing Activities		
Interest on investments	<u>324,306</u>	<u>191,792</u>
Net Cash from Investing Activities	<u>324,306</u>	<u>191,792</u>
Net Change in Cash and Cash Equivalents	3,530,500	(375,031)
Cash and Cash Equivalents, Beginning of Year	<u>14,226,203</u>	<u>14,601,234</u>
Cash and Cash Equivalents, End of Year	<u>\$ 17,756,703</u>	<u>\$ 14,226,203</u>

Flathead Valley Community College

Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	\$ (14,783,269)	\$ (14,584,921)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation	2,019,682	2,018,046
GASB 68 - Actuarial pension expense	239,744	490,718
Change in OPEB obligation	85,741	93,634
Changes in assets and liabilities		
Grants receivable	(66,252)	224,218
Tuition and fees receivable	(71,879)	3,567
Other accounts receivable	(8,689)	89,719
Due from Flathead Valley Community College Foundation	(186,140)	(420,644)
Inventories	(25,108)	(51,987)
Other assets	(224,623)	56,724
Accounts payable and accrued liabilities	401,988	(87,377)
Student deposits payable	12,833	(7,203)
Deposits payable	3,738	14,403
Accrued payroll	30,894	31,907
Unearned revenue - tuition and fees	(2,136)	(3,775)
Compensated absences	(138,486)	(4,548)
Net Cash used for Operating Activities	\$ (12,711,962)	\$ (12,137,519)
Supplemental Disclosure of Noncash Activity		
Contributions of capital assets	\$ 60,467	\$ 297,597
Reconciliation of Cash, Restricted Cash and Cash Equivalents and Investments		
Cash and cash equivalents	\$ 13,711,653	\$ 13,215,097
Restricted cash and cash equivalents, current	1,021,216	1,011,106
Restricted cash and cash equivalents, noncurrent	3,023,834	-
Total cash and cash equivalents, and restricted cash	\$ 17,756,703	\$ 14,226,203

Flathead Valley Community College Foundation

Statements of Financial Position – Component Unit

December 31, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 514,621	\$ 702,342
Investments	19,729,540	15,271,457
Promises to give	8,596,968	2,919,448
Other current assets	40,813	40,049
Total current assets	28,881,942	18,933,296
Property and Equipment, Net	196,918	196,918
	\$ 29,078,860	\$ 19,130,214
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and other liabilities	\$ 5,238,610	\$ 301,740
Foundation scholarships payable	634,452	578,076
Other scholarships payable	230,877	232,520
Deferred revenue	-	40,000
Total current liabilities	6,103,939	1,152,336
Long-term Liabilities		
Deferred gift liability	41,882	47,331
Total liabilities	6,145,821	1,199,667
Net Assets		
Without donor restrictions	300,153	332,438
Without donor restrictions - board designated	696,786	439,569
With donor restrictions	21,936,100	17,158,540
Total net assets	22,933,039	17,930,547
	\$ 29,078,860	\$ 19,130,214

Flathead Valley Community College Foundation
Statement of Activities – Component Unit
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support			
Pledges and other public support	\$ 275,406	\$ 12,409,546	\$ 12,684,952
In-kind donations	59,725	323,179	382,904
Change in value of split-interest agreements	-	3,986	3,986
Net realized and unrealized investment losses	(3,253)	(579,442)	(582,695)
Investment income	34,956	244,316	279,272
Net assets released from restriction	7,624,025	(7,624,025)	-
	<u>7,990,859</u>	<u>4,777,560</u>	<u>12,768,419</u>
Allocations and Expenses			
Program services	7,337,358	-	7,337,358
Management and general	92,508	-	92,508
Fundraising	336,061	-	336,061
	<u>7,765,927</u>	<u>-</u>	<u>7,765,927</u>
Change in Net Assets	224,932	4,777,560	5,002,492
Net Assets, Beginning of Year	<u>772,007</u>	<u>17,158,540</u>	<u>17,930,547</u>
Net Assets, End of Year	<u>\$ 996,939</u>	<u>\$ 21,936,100</u>	<u>\$ 22,933,039</u>

Flathead Valley Community College Foundation
Statement of Activities – Component Unit
Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support			
Pledges and other public support	\$ 306,498	\$ 4,734,463	\$ 5,040,961
In-kind donations	69,685	273,363	343,048
Change in value of split-interest agreements	-	3,875	3,875
Net realized and unrealized investment gains	2,285	969,943	972,228
Investment income	14,260	213,999	228,259
Net assets released from restriction	1,155,891	(1,155,891)	-
Total revenues and other support	<u>1,548,619</u>	<u>5,039,752</u>	<u>6,588,371</u>
Allocations and Expenses			
Program services	1,069,556	-	1,069,556
Management and general	89,074	-	89,074
Fundraising	345,187	-	345,187
Total allocations and expenses	<u>1,503,817</u>	<u>-</u>	<u>1,503,817</u>
Change in Net Assets	44,802	5,039,752	5,084,554
Net Assets, Beginning of Year	<u>727,205</u>	<u>12,118,788</u>	<u>12,845,993</u>
Net Assets, End of Year	<u>\$ 772,007</u>	<u>\$ 17,158,540</u>	<u>\$ 17,930,547</u>

Note 1 - Principal Business Activity and Significant Accounting Policies**Description of Entity**

Flathead Valley Community College (the College) was established under Montana law and provides high-quality academic programs taught by some of the nation's brightest faculty. The College also offers the Running Start program for eligible area high school students who want to get a jump start on their college education while saving a significant amount of money on tuition; online classes where students can learn anywhere at any time; classes taught through interactive television reaching students living in rural communities; select undergraduate and graduate degrees through partnerships with various Montana colleges and universities so students do not have to leave the Flathead Valley; customized workforce training for area businesses; and a wide variety of fun, enriching and affordable non-credit classes for all ages.

Reporting Entity

The College's financial statements are prepared in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB) in accordance with generally accepted accounting principles in the United States of America (GAAP).

As defined by GAAP established under GASB, the financial reporting entity consists of the primary government, as well as its component unit, Flathead Valley Community College Foundation (the Foundation).

The Foundation is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the College in support of its programs. The board of the Foundation is self-perpetuating and consists of graduates and friends of the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources or income the Foundation holds and invests is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College. The Foundation's financial statements for fiscal years ended December 31, 2018 and 2017, are discreetly presented because the College does not have financial accountability for the Foundation.

The Foundation is a private not-for-profit organization that reports its financial statements in accordance with the pronouncements of Financial Accounting Standard Board (FASB). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Accordingly, those financial statements have been reported on separate pages following the financial statements of the College. No modifications have been made to the Foundation's financial information included in the College's report; however significant note disclosures to the Foundation's financial statements have been incorporated into the College's notes to the financial statements.

Financial statements for the Foundation can be obtained by contacting: Flathead Valley Community College Foundation, 777 Grandview Drive, Kalispell, MT 59901.

Basis of Accounting

For financial statement purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

Non-exchange transactions, in which the College receives value without directly giving equal value in return include: property taxes, federal, state and local grants, state appropriations, and other contributions. On an accrual basis, revenue from property taxes is recognized in the period for which the levy is intended to finance. Revenues from grants, state appropriations, and other contributions are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the College must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the College on a reimbursement basis.

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.

Cash and Cash Equivalents

The College considers all highly liquid investments with an original maturity of three months or less at the date of acquisition to be cash equivalents. Cash balances that are restricted and not expected to be expended within the subsequent year are classified as noncurrent assets.

The College's cash, except petty cash, is held by the Flathead County Treasurer and pooled with other County cash. With the College cash which is not necessary for short-term obligations, the College participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and funded on a pro rata basis. The County's investment portfolio as of June 30, 2019 and 2018 consisted of certificates of deposit, savings accounts, and U.S. Government Securities.

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

Authorized investments allowed by Section 20-9-213, MCA, include savings or time deposits in a state or national bank, building or loan association, or credit union insured by the FDIC or NCUA located in the 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.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a financial institution, the College's deposits and investments may not be returned to it. At June 30, 2019 and 2018, all of the College's deposits were insured or collateralized. The College does not have a deposit policy for custodial credit risk.

Property Tax Receivable

Property taxes levied through 2019 are recorded as receivables. 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. 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.

Receivables

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also includes amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable balances are recorded net of estimated uncollectible amounts.

Inventories

Inventories consist mainly of bookstore merchandise and are valued at cost on the first in, first out method. The costs of inventory are recorded as expenditures when consumed.

Restricted Cash and Cash Equivalents

In accordance with debt covenant restrictions and agency fund requirements, the College is obligated to separately hold cash amounts sufficient to satisfy the upcoming debt payments. These are considered current restricted cash and cash equivalents. Additionally, the College holds funds restricted by donors for specific ongoing capital projects. These amounts are shown as noncurrent assets.

Capital Assets

Capital assets are stated at cost when purchased or constructed, or if donated, at the estimated acquisition value at the date of the gift. For equipment, the College's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. 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 and valued at 3% or more of total capital assets reported by the College are capitalized. Renovations and improvements to buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the period in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follow:

Buildings and improvements	40 years
Machinery and equipment	5-20 years
Library equipment	10 years
Leasehold improvements	20 years
Information technology	3-7 years

Unearned Revenue

Unearned revenue includes amounts received for tuition and fees, prior to the end of the fiscal year but related to the subsequent accounting period.

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 time at 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.

Net Position

The College's net position is classified as follows:

Net Investment in Capital Assets – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included in this section.

Restricted Net Position – Expendable – Restricted expendable net position includes resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted Net Position – Unrestricted net position represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments, and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College and may be used at the discretion of the governing board to meet current expenses for any purpose.

Classification of Revenues

The College has classified its revenues as either operating or non-operating according to the following criteria:

Operating Revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as: student tuition and fees, net of scholarship discounts and allowances; sales and services of auxiliary enterprises, and contracts and federal appropriations.

Non-Operating Revenues – Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 34 and 35, such as state appropriations, property taxes and most federal, state and local grants, and investment income.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

Income Taxes

As a public institution of higher education, the income of the College is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the College is subject to federal income tax on any unrelated business taxable income. Defined by the Internal Revenue Code, unrelated business income is income from a trade or business, regularly carried on, that is not substantially related to the performance by the college of its exempt purpose or function. The College does not have unrelated business income tax to report during the fiscal year ended June 30, 2019.

Deferred Outflows and Inflows of Resources

The Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. The College has three items that qualify for reporting in this category: the pension liability, the OPEB liability, and the deferred charge on refunding. The pension liability results in changes in assumptions or other inputs in the actuarial calculation of the College's net

pension liability. The OPEB liability results from differences between expected and actual experience, and changes in assumptions or other inputs in the actuarial calculation of the College's OPEB liability. The deferred charge on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

The Statement of Net Position will include a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The College has two items that qualify for reporting in this category reported on the statement of net position: the pension liability and the OPEB liability. The pension liability results from the differences between the expected and actual experience and the net difference between projected and actual earnings on pension plan investments derived from the actuarial calculation of the College's net pension liability. The OPEB liability results from differences between expected and actual experience, and changes in assumptions or other inputs in the actuarial calculation of the College's OPEB liability.

Pensions

TRS - The Teachers' Retirement System prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the TRS and additions to/deductions from TRS's fiduciary net position have been determined on the same accrual basis as they are reported by TRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. TRS adheres to all applicable Governmental Accounting Standards Board (GASB) statement.

PERS – Montana Public Employee Retirement Administration (MPERAP) prepares the Public Employees' Retirement System financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the Net Pension Liability (NPL); Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and, Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Other Post-Employment Benefits (OPEB) – Health Insurance Plan

For purposes of measuring the total OPEB liability for the health insurance plan, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the College and additions to/deductions from the College's fiduciary net position have been determined on the same basis as they are reported by the College. For this purpose, the College recognizes benefit payments when due and payable in accordance with the benefit items.

Use of 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Note 2 - Capital Assets

Capital assets at June 30, 2019 consist of the following:

	Balance June 30, 2018	Additions	Transfers/ Disposals	Balance June 30, 2019
Capital assets not depreciated				
Land	\$ 3,325,200	\$ -	\$ -	\$ 3,325,200
Construction in progress	289,701	3,922,053	(6,736)	4,205,018
Total capital assets not depreciated	<u>3,614,901</u>	<u>3,922,053</u>	<u>(6,736)</u>	<u>7,530,218</u>
Capital assets being depreciated				
Buildings	44,574,427	58,312	6,736	44,639,475
Improvements other than buildings	2,780,823	-	-	2,780,823
Machinery and equipment	8,617,530	328,103	(18,038)	8,927,595
Library equipment	471,629	9,164	(47,913)	432,880
Leasehold improvements	555,045	-	-	555,045
Information technology	957,256	336,756	-	1,294,012
Total capital assets being depreciated	<u>57,956,710</u>	<u>732,335</u>	<u>(59,215)</u>	<u>58,629,830</u>
Less accumulated depreciation	<u>21,789,177</u>	<u>2,019,682</u>	<u>(59,376)</u>	<u>23,749,483</u>
Capital assets being depreciated, net	<u>36,167,533</u>	<u>(1,287,347)</u>	<u>161</u>	<u>34,880,347</u>
Total capital assets, net	<u>\$ 39,782,434</u>	<u>\$ 2,634,706</u>	<u>\$ (6,575)</u>	<u>\$ 42,410,565</u>

Flathead Valley Community College

Notes to Financial Statements

June 30, 2019 and 2018

Capital assets at June 30, 2018 consist of the following:

	Balance June 30, 2017	Additions	Transfers/ Disposals	Balance June 30, 2018
Capital assets not depreciated				
Land	\$ 3,325,200	\$ -	\$ -	\$ 3,325,200
Construction in progress	8,437,378	289,700	(8,437,377)	289,701
Total capital assets not depreciated	<u>11,762,578</u>	<u>289,700</u>	<u>(8,437,377)</u>	<u>3,614,901</u>
Capital assets being depreciated				
Buildings	34,277,104	1,859,946	8,437,377	44,574,427
Improvements other than buildings	2,780,823	-	-	2,780,823
Machinery and equipment	8,352,819	264,711	-	8,617,530
Library equipment	501,045	10,282	(39,698)	471,629
Leasehold improvements	555,045	-	-	555,045
Information technology	957,256	-	-	957,256
Total capital assets being depreciated	<u>47,424,092</u>	<u>2,134,939</u>	<u>8,397,679</u>	<u>57,956,710</u>
Less accumulated depreciation	<u>19,810,829</u>	<u>2,018,046</u>	<u>(39,698)</u>	<u>21,789,177</u>
Capital assets being depreciated, net	<u>27,613,263</u>	<u>116,893</u>	<u>8,437,377</u>	<u>36,167,533</u>
Total capital assets, net	<u>\$ 39,375,841</u>	<u>\$ 406,593</u>	<u>\$ -</u>	<u>\$ 39,782,434</u>

Note 3 - Lease Obligations

The College is committed under various operating leases, primarily for equipment. The lease terms range from one to five years. The expense for operating leases was \$57,760 and \$60,084 for fiscal years 2019 and 2018, respectively. As of June 30, 2019, future minimum operating lease commitments are as follows:

Years Ended June 30,

2020	\$ 57,764
2021	56,818
2022	52,594
2023	<u>37,914</u>
Totals	<u>\$ 205,090</u>

Note 4 - Compensated Absences

Compensated absences represent vacation and sick leave earned by employees which is payable upon termination.

Compensated absences activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Compensated absences	\$ 1,645,847	\$ -	\$ 138,486	\$ 1,507,361	\$ 730,015

Compensated absences activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Compensated absences	\$ 1,650,395	\$ -	\$ 4,548	\$ 1,645,847	\$ 715,614

Note 5 - Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2019, is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 8,475,000	\$ -	\$ 920,000	\$ 7,555,000	\$ 940,000
Intercap loans	1,226,043	-	241,145	984,898	243,563
Note payable	8,910,000	-	165,000	8,745,000	175,000
Total long-term liabilities	<u>\$ 18,611,043</u>	<u>\$ -</u>	<u>\$ 1,326,145</u>	<u>\$ 17,284,898</u>	<u>\$ 1,358,563</u>

Long-term liability activity for the year ended June 30, 2018, is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 9,375,000	\$ -	\$ 900,000	\$ 8,475,000	\$ 920,000
Intercap loans	1,464,795	-	238,752	1,226,043	241,145
Note Payable	9,090,000	-	180,000	8,910,000	165,000
Total long-term liabilities	<u>\$ 19,929,795</u>	<u>\$ -</u>	<u>\$ 1,318,752</u>	<u>\$ 18,611,043</u>	<u>\$ 1,326,145</u>

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.

Flathead Valley Community College

Notes to Financial Statements

June 30, 2019 and 2018

General obligation bonds outstanding as of June 30, 2019 and 2018, were as follows:

Bond	Date Issued	Interest Rate	Term	Maturity	Principal	2019 Balance	2018 Balance
Series 2015A	1/30/2015	2.15%	10 Years	7/1/2026	\$ 4,997,500	\$ 3,777,500	\$ 4,237,500
Series 2015B	1/30/2015	2.15%	10 Years	7/1/2026	4,997,500	3,777,500	4,237,500
					<u>\$ 9,995,000</u>	<u>\$ 7,555,000</u>	<u>\$ 8,475,000</u>

In January 2015, the College issued \$9,995,000 of General Obligation Bond and Refunding Bonds to provide funds which were used to pay off the existing General Obligation Bonds, Series 2005 and 2006. This refunding reduces the College's total debt service payments over 10 years by \$684,334. As a result, the refunded Bonds have been paid off and the liability for those Bonds has been removed from the College's basic financial statements. The re-acquisition price exceeded the net carrying amount of the old debt by \$236,462.

Approximate future annual minimum principal and interest payments as of June 30, 2019, are as follows:

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 940,000	\$ 152,328	\$ 1,092,328
2021	965,000	131,849	1,096,849
2022	995,000	110,779	1,105,779
2023	1,015,000	89,171	1,104,171
2024	1,040,000	67,080	1,107,080
2025-2027	<u>2,600,000</u>	<u>69,983</u>	<u>2,669,983</u>
	<u>\$ 7,555,000</u>	<u>\$ 621,190</u>	<u>\$ 8,176,190</u>

Inter-cap 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.

Approximate future annual minimum principal and interest payments as of June 30, 2019, are as follows:

Inter-cap loans outstanding as of June 30, 2019 and 2018 were as follows:

Loan	Date Issued	Interest Rate	Term	Maturity	Principal	2019 Balance	2018 Balance
2489-01	4/12/2013	0.00-3.37%	10 Years	2/15/2023	<u>\$ 2,400,000</u>	<u>\$ 984,898</u>	<u>\$ 1,226,043</u>

Flathead Valley Community College

Notes to Financial Statements

June 30, 2019 and 2018

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 243,563	\$ 31,144	\$ 274,707
2021	246,003	22,915	268,918
2022	248,470	14,604	263,074
2023	246,862	6,210	253,072
	<u>\$ 984,898</u>	<u>\$ 74,873</u>	<u>\$ 1,059,771</u>

Note payable outstanding as of June 30, 2019 and 2018, was as follows:

<u>Loan</u>	<u>Date Issued</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity</u>	<u>Principal</u>	<u>2019 Balance</u>	<u>2018 Balance</u>
Note Payable	9/21/2016	4%	30 Years	5/1/2047	\$ 9,090,000	\$ 8,745,000	\$ 8,910,000

In September of 2016, the College acquired new debt to fund the construction of new student housing.

The College is required to generate fee income equal to at least 1.25 times the annual debt service requirement. In fiscal year 2019, the College was in compliance with this requirement. There was \$1,722,688 in pledged revenue generated from the operations of the student housing to cover the debt service costs. The total upcoming debt service for the year ended June 30, 2020 is \$523,100.

Approximate future annual minimum principal and interest payments as of June 30, 2019, are as follows:

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 175,000	\$ 348,100	\$ 523,100
2021	170,000	341,100	511,100
2022	185,000	334,100	519,100
2023	1,035,000	326,700	1,361,700
2024-2028	1,250,000	1,511,700	2,761,700
2029-2033	1,535,000	1,277,000	2,812,000
2034-2038	1,865,000	991,000	2,856,000
2039-2043	2,280,000	642,100	2,922,100
2044-2047	250,000	216,400	466,400
	<u>\$ 8,745,000</u>	<u>\$ 5,988,200</u>	<u>\$ 14,733,200</u>

Note 6 - TRS Retirement Plan

Plan Description

Teachers' Retirement System (TRS or the System) is a mandatory-participation multiple-employer cost-sharing defined-benefit public pension plan that provides retirement services to individuals employed as teachers, administrators, and in other professional and skilled positions employed in public education in Montana.

The TRS Board is the governing body of the System and the TRS staff administers the system in conformity with the laws set forth in Title 19, chapter 20 of the Montana Code Annotated, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules, may be obtained by visiting the TRS web site at trs.mt.gov.

Summary of Benefits

Through June 30, 2013, all members enrolled in TRS participated in a single-tiered plan ("Tier One"). Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Beginning July 1, 2013, new members in TRS participate in a second benefit tier ("Tier Two"), which differs from Tier One as follows:

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation - $1.85\% \times \text{AFC} \times \text{years of creditable service}$ - for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than $1.6667 \times \text{AFC} \times \text{years of creditable service}$)

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA for Tier One members is 1.5% of the benefit payable as of January 1st. For Tier Two members the GABA each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

Overview of Contributions

The System receives a portion of the total required statutory contributions directly from the State for all employers. The employers are considered to be in a special funding situation as defined by GASB 68 and the State is treated as a non-employer contributing entity in TRS. The System receives 2.49% of reportable compensation from the State's general fund for School Districts and Other Employers. The System also receives 0.11% of reportable compensation from the State's general fund for all TRS Employers including State Agency and University System Employers. Finally, the State is also required to contribute \$25 million in perpetuity payable July 1st of each year.

The tables below show the legislated contribution rates for TRS members, employers and the State.

	School District and Other Local Governments			Total employee & employer
	Members	Employers	General fund	
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	7.47%	2.11%	16.73%
July 1, 2009 to June 30, 2013	7.15%	7.47%	2.49%	17.11%
July 1, 2013 to June 30, 2014	8.15%	8.47%	2.49%	19.11%
July 1, 2014 to June 30, 2015	8.15%	8.57%	2.49%	19.21%
July 1, 2015 to June 30, 2016	8.15%	8.67%	2.49%	19.31%
July 1, 2016 to June 30, 2017	8.15%	8.77%	2.49%	19.41%
July 1, 2017 to June 30, 2018	8.15%	8.87%	2.49%	19.51%
July 1, 2018 to June 30, 2019	8.15%	8.97%	2.49%	19.61%
July 1, 2019 to June 30, 2020	8.15%	9.07%	2.49%	19.71%
July 1, 2020 to June 30, 2021	8.15%	9.17%	2.49%	19.81%
July 1, 2021 to June 30, 2022	8.15%	9.27%	2.49%	19.91%
July 1, 2022 to June 30, 2023	8.15%	9.37%	2.49%	20.01%
July 1, 2023 to June 30, 2024	8.15%	9.47%	2.49%	20.11%

TRS Stand-Alone Statements

TRS's stand-alone financial statements, actuarial valuations and experience studies can be found online at <https://trs.mt.gov/TrsInfo/NewsAnnualReports>

Net Pension Liability

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers are required to recognize and report certain amounts associated with their participation in the Montana Teachers' Retirement System (TRS or the System). Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability. In accordance with Statement 68, the System has a special funding situation in which the State of Montana is legally responsible for making contributions directly to TRS that are used to provide pension benefits to the retired members of TRS. Due to the existence of a special funding situation, employers are also required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer. The following table displays the amounts and the percentages of Net Pension Liability for the fiscal years ended June 30, 2019 and 2018 (reporting dates).

As of reporting date	Net Pension Liability		Percent of Collective NPL		Change in Percent Collective NPL
	2019	2018	2019	2018	
College's Proportionate Share	\$ 10,201,872	\$ 8,853,215	0.5496%	0.5251%	0.0245%
State of Montana Proportionate Share associated with College	6,340,484	5,619,822	0.3416%	0.3333%	0.0083%
Total	\$ 16,542,356	\$ 14,473,037	0.8912%	0.8584%	0.0328%

Flathead Valley Community College

Notes to Financial Statements

June 30, 2019 and 2018

At June 30, 2019, the College recorded a liability of \$10,201,872 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. Therefore, no update procedures were used to roll forward the total pension liability to the measurement date. The College's proportion of the net pension liability was based on the College's contributions received by TRS during the measurement period July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of TRS' participating employers.

Pension Expense

	2019	2018
College's Proportionate Share	\$ 1,444,068	\$ 1,151,418
State of Montana Proportionate Share associated with the College	725,724	577,563
	\$ 2,169,792	\$ 1,728,981

At June 30, 2019 and 2018, the College recognized a Pension Expense of \$2,169,792 and \$1,728,981, respectively, for its proportionate share of the TRS' pension expense. The College also recognized grant revenue of \$725,724 and \$577,563, respectively, for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the College.

Deferred Inflows and Outflows of Resources

At June 30, 2019 and 2018, the College reports its proportionate share of TRS deferred outflows and inflows of resources from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs expected experience	\$ 72,804	\$ 6,366	\$ 32,559	\$ 13,236
Changes in assumptions	831,613	15,103	-	37,012
Actual vs. expected investment earnings	-	92,088	-	35,036
Changes in proportion and difference between actual and expected contributions	831,051	-	1,064,175	-
*College's contributions subsequent to the measurement date	734,413	-	705,871	-
	\$ 2,469,881	\$ 113,557	\$ 1,802,605	\$ 85,284

*Amounts reported as deferred outflows of resources related to pensions resulting from the College's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended June 30, 2020 and 2019, respectively.

Other amounts reported as deferred outflows and inflows of resources to pensions will be recognized in pension expense as follows:

<u>Years ended June 30:</u>	<u>Recognition of Deferred Outflows and Deferred Inflows in future years as an increase or (decrease) to Pension Expense</u>
2020	\$ 962,597
2021	602,944
2022	103,867
2023	(47,497)

Actuarial Assumptions

The Total Pension Liability as of June 30, 2018, is based on the results of an actuarial valuation date of July 1, 2018. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2018 valuation were based on the results of the last actuarial experience study, dated May 3, 2018. Among those assumptions were the following:

- Total Wage Increases* 3.25%-7.76% for Non-University Members
and 4.25% for University Members
- Investment Return 7.50%
- Price Inflation 2.50%
- Postretirement Benefit Increases
 - Tier One Members: If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1st.
 - Tier Two Members, the retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- Mortality among contributing members, service retired members, and beneficiaries
 - For Males and Females: RP-2000 Healthy Combined Mortality Table projected to 2022 adjusted for partial credibility setback for two years.
- Mortality among disabled members
 - For Males: RP 2000 Disabled Mortality Table, set back three years, with mortality improvements projected by Scale BB to 2022.
 - For Females: RP 2000 Disabled Mortality Table, set forward two years, with mortality improvements projected by Scale BB to 2022.

*Total Wage Increases include 3.25% general wage increase assumption.

Target Allocations

Asset Class	Target Asset Allocation (a)	Real Rate of Return Arithmetic Basis (b)	Long-Term Expected Portfolio Real Rate of Return* (a) x (b)
Domestic Equity	35.00%	6.68%	2.34%
International Equity	18.00%	6.98%	1.26%
Private Equity	10.00%	10.15%	1.02%
Natural Resources	3.00%	4.09%	0.12%
Core Real-Estate	7.00%	5.38%	0.38%
TIPS	3.00%	1.78%	0.05%
Intermediate Duration Bonds	19.00%	2.15%	0.41%
High Yield Bonds	3.00%	4.36%	0.13%
Cash	2.00%	0.81%	0.02%
	100.00%		5.73%
		Inflation	2.50%
		Expected arithmetic nominal return	8.23%

*The assumed rate is comprised of a 2.50% inflation rate and a real long-term expected rate of return of 5.00%.

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2013 through 2017, is outlined in a report dated May 3, 2018. Several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation).

Estimates of variability and correlations for each asset class, were developed by the System's investment consultant. These ranges were combined to develop the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The long-term rate of return assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The average long-term capital market assumptions published in the Survey of Capital Market Assumptions 2017 Edition by Horizon Actuarial Service, LLC, yield a median real return of 5.07%. Our recommended assumption of 5.00% for the real return reflects granting each source some degree of credibility. Combined with the 2.50% inflation assumption, the resulting nominal return is 7.50%.

Sensitivity Analysis

	2019		
	1% Decrease 6.50%	Current Discount Rate 7.50%	1% increase 8.50%
Net pension liability	\$ 14,027,884	\$ 10,201,872	\$ 6,997,283

	2018		
	1% Decrease 6.50%	Current Discount Rate 7.50%	1% increase 8.50%
Net pension liability	\$ 14,027,884	\$ 8,853,215	\$ 6,997,283

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.50%) or 1.00% higher (8.50%) than the current rate as of June 30, 2019 and 2018.

Note 7 - PERS Retirement PlanPlan Description

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan provides retirement benefits to covered employees of the State, and local governments, and certain employees of the Montana University System, and school districts. Benefits are established by state law and can only be amended by the Legislature.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the defined benefit and defined contribution retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP).

Summary of Benefits

Eligibility for benefit

Service retirement:

- Hired prior to July 1, 2011:
 - Age 60, 5 years of membership service
 - Age 65, regardless of membership service; or
 - Any age, 30 years of membership service.
- Hired on or after July 1, 2011:
 - Age of 65, 5 years of membership service; or
 - Age 70, regardless of membership service.

Early retirement, (actuarially reduced):

- Hired prior to July 1, 2011:
 - Age 50, 5 years of membership service; or
 - Any age, 25 years of membership service.
- Hired on or after July 1, 2011:
 - Age 55, 5 years of membership service.

Second Retirement (requires returning to a PERS-covered employer or PERS service):

- 1) Retire before January 1, 2016 and accumulate less than 2 years additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years additional service credit:
 - a. A refund of member's contributions plus return interest (currently .77% effective July 1, 2017).
 - b. No service credit for second employment;
 - c. Start the same benefit amount the month following termination; and
 - d. Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.
- 2) Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:
 - a. A recalculated retirement benefit based on provisions in effect after the initial retirement; and
 - b. GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.
- 3) Retire on or after January 1, 2016 and accumulate 5 or more years of service credit:
 - a. The same retirement as prior to the return to service;
 - b. A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
 - c. GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Member's highest average compensation (HAC)

- Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

Compensation Cap

- Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

Monthly benefit formula

- 1) Members hired prior to July 1, 2011:
 - a. Less than 25 years of membership service: 1.785% of HAC per year of service credit;
 - b. 25 years of membership service or more: 2% of HAC per year of service credit.
- 2) Member hired on or after July 1, 2011:
 - a. Less than 10 years of membership service: 1.5% of HAC per year of service credit;
 - b. 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
 - c. 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007
- Members hired on or after July 1, 2013
 - a. 1.5% for each year PERS is funded at or above 90%;
 - b. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
 - c. 0% whenever the amortization period for PERS is 40 years or more.

Overview of Contributions

The state Legislature has the authority to establish and amend contribution rates. Member and employer contribution rates are specified by Montana Statute and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.

Member and employer contribution rates are shown in the table below.

Fiscal Year	Member		State & Universities Employer	Local Government		School Districts	
	Hired <07/01/11	Hired >07/01/11		Employer	State	Employer	State
2019	7.900%	7.900%	8.670%	8.570%	0.100%	8.300%	0.370%
2018	7.900%	7.900%	8.570%	8.470%	0.100%	8.200%	0.370%
2017	7.900%	7.900%	8.470%	8.370%	0.100%	8.100%	0.370%
2016	7.900%	7.900%	8.370%	8.270%	0.100%	8.000%	0.370%
2015	7.900%	7.900%	8.270%	8.170%	0.100%	7.900%	0.370%
2014	7.900%	7.900%	8.170%	8.070%	0.100%	7.800%	0.370%
2012-2013	6.900%	7.900%	7.170%	7.070%	0.100%	6.800%	0.370%
2010-2011	6.900%		7.170%	7.070%	0.100%	6.800%	0.370%
2008-2009	6.900%		7.035%	6.935%	0.100%	6.800%	0.235%
2000-2007	6.900%		6.900%	6.800%	0.100%	6.800%	0.100%

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
2. Employer contributions to the system:
 - a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
 - b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
 - c. The portion of employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
3. Non Employer Contributions:
 - a. Special Funding
 - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
 - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
 - iii. The State contributed a Statutory Appropriation from the General Fund of \$33,454,182.

Pension Liability, Pension Expense, Deferred Outflow of Resources and Deferred Inflow of Resources

GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2018, was determined by taking the results of the June 30, 2017 actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). The proportionate shares of the College's and the state of Montana's NPL for June 30, 2019, and 2018, are displayed below. The College's proportionate share equals the ratio of the College's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total state contributions paid. The College recorded a liability of \$5,888,182 and \$7,653,242 and the College's proportionate share was 0.2821 percent and .3930 percent as of June 30, 2019 and 2018, respectively.

As of reporting date	Net Pension Liability		Percent of Collective NPL		Change in Percent Collective NPL
	2019	2018	2019	2018	
College's Proportionate Share	\$ 5,888,182	\$ 7,653,242	0.2821%	0.3930%	-0.1109%
State of Montana Proportionate Share associated with College	1,967,948	96,291	0.3784%	0.4907%	-0.1123%
Total	<u>\$ 7,856,130</u>	<u>\$ 7,749,533</u>	<u>0.6605%</u>	<u>0.8837%</u>	<u>-0.2232%</u>

Pension Expense: At June 30, 2019 and 2018, the College recognized \$(98,550) and \$426,418, respectively, for its proportionate share of the Plan's pension expense and recognized grant revenue of \$131,339 and \$5,133, respectively for the state of Montana proportionate share of the pension expense associated with the College. Additionally, the College recognized grant revenue of \$109,481 from the Coal Severance Tax fund in 2018, but there was none in 2019.

	2019	2018
College's Proportionate Share	\$ (98,550)	\$ 426,418
State of Montana Proportionate Share associated with the College	131,339	5,133
State of Montana Coal Tax for employer	-	109,481
	<u>\$ 32,789</u>	<u>\$ 541,032</u>

Flathead Valley Community College

Notes to Financial Statements

June 30, 2019 and 2018

Recognition of Deferred Inflows and Outflows: At June 30, 2019 and 2018, the College reports its proportionate share of PERS deferred outflows and inflows of resources from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs expected experience	\$ 447,756	\$ -	\$ 188,475	\$ 11,078
Changes in assumptions	500,702	-	1,046,118	-
Actual vs. expected investment earnings	-	91,443	-	51,400
Changes in proportion & difference between actual and expected contributions	-	1,997,008	-	1,038,570
*College's contributions subsequent to the measurement date	417,337	-	419,243	-
	<u>\$ 1,365,795</u>	<u>\$ 2,088,451</u>	<u>\$ 1,653,836</u>	<u>\$ 1,101,048</u>

Other amounts reported as deferred outflows and inflows of resources to pensions will be recognized in pension expense as follows:

<u>Years ended June 30:</u>	<u>Recognition of Deferred Outflows and Deferred Inflows in future years as an increase or (decrease) to Pension Expense</u>
2020	\$ (344,366)
2021	(266,662)
2022	(491,392)
2023	(37,573)

Actuarial Assumptions: The total pension liability in the June 30, 2018 and 2017 actuarial valuation was determined using the following actuarial assumptions.

- Investment Return (net of admin expense) 7.65%
- Admin Expense as % of Payroll 0.26%
- General Wage Growth* 3.50%
- *includes Inflation at 2.75%
- Merit Increases 0% to 6.3% (0% to 4.8% for 2017)

- Postretirement Benefit Increases:
 - **Guaranteed Annual Benefit Adjustment (GABA)**
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, **inclusive** of other adjustments to the member's benefit.
 - 3.0% for members hired prior to July 1, 2007
 - 1.5% for members hired between July 1, 2007 and June 30, 2013
 - Members hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and 0% whenever the amortization period for PERS is 40 years or more.
 - Mortality:
 - Contributing members, services retired members and beneficiaries - RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back one year for males.
 - Disabled members – RP-2000 Combined Mortality Tables, with no projections

The most recent experience study, performed for the period covering fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017 and can be located on the MPERA website. The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. Several factors are considered in evaluating the long-term rate of return assumption including historical rates of return, rate of return assumptions adopted by similar public-sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation (78c & 78f) are summarized below:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return Arithmetic Basis</u>
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%
	100.00%	

Discount Rate: The discount rate used to measure the June 30, 2019 and 2018 TPL was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under the Montana Code Annotated. The State contributes 0.10% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate: The following presents the College's sensitivity of the NPL to the discount rate in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.65%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

	2019		
	1% Decrease 6.65%	Current Discount Rate 7.65%	1% increase 8.65%
Net pension liability	\$ 8,515,675	\$ 5,888,182	\$ 3,730,592
	2018		
	1% Decrease 6.65%	Current Discount Rate 7.65%	1% increase 8.65%
Net pension liability	\$ 11,146,293	\$ 7,653,242	\$ 4,721,090

Pension Plan Fiduciary Net Position: The stand-alone financial statements (76d) of the Montana Public Employees Retirement Board (PERB) Comprehensive Annual Financial Report (CAFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or both are available on the MPERA website at <http://mpera.mt.gov/index.shtml>.

Defined Contribution Retirement Plan

Flathead Valley Community College contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for employees that have elected the DCRP. The PERS-DCRP is administered by the PERB and is reported as a multiple-employer plan established July 1, 2002, and governed by Title 19, chapters 2 & 3, MCA.

All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the defined benefit and defined contribution retirement plans.

Member and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

At the plan level for the measurement period ended June 30, 2018, the PERS-DCRP employers did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 316 employers that have participants in the PERS-DCRP totaled \$746,144.

During the years ended June 30, 2019 and 2018, the College contributed \$26,798 and \$27,058 to the plan, with the employees contributing \$29,070 and \$25,237, respectively.

Note 8 - Postemployment Benefits Other Than Pensions (OPEB)

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 Total OPEB Liability (TOL) under Governmental Accounting Standards Boards. The above described OPEB plan does not provide a stand-alone financial report.

Funding Policy

The College pays OPEB liability costs on a pay-as-you-go basis. No assets are accumulated in a trust that meet the criteria in Paragraph 4 of GASB 75.

Annual OPEB Cost and Total OPEB Obligation

The total OPEB liability (TOL) measured under GASB 75 is based upon Service Cost and more standardized reporting assumptions than prior Statements. As a pay-as-you-go public entity, GASB 75 requires a current municipal bond discount rate to establish an Actuarially Determined Contribution (ADC). The GASB 75 valuation is further required to show both historical and projected future net changes in total OPEB liability, as well as sensitivity to changes in key underlying assumptions.

The Actuarially Determined Contribution (ADC) for the Montana University System Employee Group Benefits Plan has been determined under the entry age normal cost method as of December 31, 2018. The assumptions for future experience are described in the Actuarial Basis section of this report. Many of the assumptions adopted by the Montana University System are the same as those used in the actuarial valuations for the pension plans that cover the same employees.

<u>Valuation Result Highlights</u>	<u>March 31, 2019</u>	<u>March 31, 2018</u>
Actuarially Determined Contribution	\$ 120,024	\$ 109,937
Total OPEB Liability	\$ 1,001,270	\$ 872,481
Participants	226	231

The Actuarially Determined Contribution (ADC) is the OPEB expense that is actuarially determined in accordance with the requirements of GASB 75. If funds equal to the ADC are not set aside each year, then this amount, less actual benefit payments, will accumulate as a liability reported as the Net OPEB Obligation on your financial statements. This amount is expected to be higher under GASB 75 due to the shorter amortization period, all else equal.

The Total OPEB Liability (TOL) is the employer's share of the actuarial present value of projected benefit payments attributed to past service. In other words, this is equal to the present value of future benefits less the present value of future retiree contributions. This is also expected to be higher due to the new Entry Age Normal valuation methodology, all else equal.

Sensitivity Analysis Required by GASB 75

The first sensitivity analysis is required to show how the liability will change based on the assumed discount rate. As more assets are set aside to fund OPEB liabilities, your expected investment return may increase, offsetting more of your liability cost. A second sensitivity analysis is required to show how your liability will change based on a change in the healthcare trend rates used in the valuation.

Sensitivity 1: Change in Discount Rate Assumption

Discount rate baseline for the years ended June 30, 2019 and 2018 are 3.79% and 3.89%, respectively.

Flathead Valley Community College

Notes to Financial Statements

June 30, 2019 and 2018

The OPEB liability calculated using a discount rate 1% greater than and 1% less than the baseline discount rate are shown in the table below.

	2019		
	1% Decrease 2.79%	Current Discount Rate 3.79%	1% increase 4.79%
Total OPEB liability	\$ 1,241,219	\$ 1,001,270	\$ 817,138

	2018		
	1% Decrease 2.89%	Current Discount Rate 3.89%	1% increase 4.89%
Total OPEB liability	\$ 1,083,209	\$ 872,481	\$ 711,807

Sensitivity 2: Change in Healthcare Trend Rate

The healthcare trend rate baseline is:

	<u>Medical</u>	<u>Pharmacy</u>
Year 1	7.50%	7.50%
Year 2	7.00%	7.00%
Year 3	6.50%	6.50%
Year 4	6.00%	6.00%
Year 5	5.90%	5.90%
Year 6	5.70%	5.70%
Year 7	5.60%	5.60%
Year 8	5.50%	5.50%
Year 9	5.30%	5.30%
Year 10+	4.50%	4.50%

The OPEB liability calculated using healthcare trend vectors 1% greater than and 1% less than the baseline trends are shown in the table below. The ACA excise tax will ultimately affect all plans. Due to the variability of the ACA excise tax by plan, the user needs to estimate the impact and the trend. The excise tax could raise the trends by up to 0.5% in each year.

	2019		
	Baseline Trend -1%	Baseline	Baseline Trend +1%
Total OPEB liability	\$ 794,587	\$ 1,001,270	\$ 1,277,166

	2018		
	Baseline Trend -1%	Baseline	Baseline Trend +1%
Total OPEB liability	\$ 692,594	\$ 872,481	\$ 1,112,728

Recognition of Deferred Outflows and Inflows

At June 30, 2019 and 2018, the College reported its proportionate share of Other Post Employment Benefits' deferred outflows of resources and deferred inflows of resources related to the Montana University System from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience, and changes of assumptions or other inputs	\$ 42,359	\$ 33,966	\$ -	\$ 37,060
Benefit payments subsequent to measurement date	-	-	2,405	-
	<u>\$ 42,359</u>	<u>\$ 33,966</u>	<u>\$ 2,405</u>	<u>\$ 37,060</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ended June 30:

2020	\$	643
2021		643
2022		643
2023		643
2024		643
Thereafter		5,178

OPEB Expense

For the years ended June 30, 2019 and 2018, the College recognized OPEB expense of \$156,484 and \$112,174, respectively.

Change in OPEB Obligation

For the years ended June 30, 2019 and 2018, the College recognized a total OPEB liability of \$1,001,270 and \$872,481, respectively.

Actuarial Methods and Assumptions

The actuarial funding method used to determine the cost of the Montana University System Employee Group Benefits Plan is the entry age normal funding method. The key definition under this method is that the accrued liability is the present value of future benefits less the present value of future normal costs, where the entry age normal cost is the amount of level contribution such that the present value of future normal costs at entry age is exactly equal to the present value of future benefits at entry age. That is, the accrued liability is defined as the present value of prior normal cost deposits. For liability that is not covered by assets of the plan, there is an unfunded liability to be funded over a stipulated period in accordance with an amortization schedule.

A detailed description of the calculation follows:

- An individual's present value of future benefit at entry age is calculated as the monthly benefit due at the point of separation.
- The normal cost at entry age is the present value of future benefit divided by the working lifetime, accounting for interest and inflation assumptions.
- An individual's accrued liability is the present value of the future benefit for valuation purposes at the beginning of the plan year, and an individual's normal cost is the present value of the benefit from the prior year trended forward an increment. If multiple decrements are used, the accrued liability and the normal cost for an individual are the sum of the component accrued liabilities and normal costs associated with the various anticipated separation dates. Such accrued liabilities and normal costs reflect the accrued benefits as modified to obtain the benefits payable on those dates and the probability of the individual separating on those dates.
- The plan's service cost is the sum of the individual normal costs, and the plan's accrued liability is the sum of the accrued liabilities for all participants under the plan.

The following actuarial methods and assumptions were used:

June 30, 2019	
Valuation date	December 31, 2017
Measurement date	March 31, 2019
Interest/Discount rate (average anticipated rate)	3.79%
Average salary increase (consumer price index)	4.00%
Participant percentage:	
Future retirees assumed to elect coverage at retirement	55.00%
Future eligible spouses of future retirees assumed to elect coverage	60.00%
June 30, 2018	
Valuation date	December 31, 2017
Measurement date	March 31, 2018
Interest/Discount rate (average anticipated rate)	3.89%
Average salary increase (consumer price index)	4.00%
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 - Related Party Transactions

During the years ended June 30, 2019 and 2018, the College received \$7,746,143 and \$1,760,686 in revenues for scholarships and programs, respectively, as well as services from Flathead Valley Community College Foundation. Accounts receivable as of June 30, 2019 and 2018 was \$1,187,104 and \$1,000,964, respectively.

Note 10 - Component Unit Flathead Valley Community College Foundation

Nature of Activities and Summary of Significant Accounting Policies

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

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.

Investments

The Foundation invests primarily in certificates of deposit, government bonds and agencies, corporate bonds and bond funds, and equity securities and mutual funds. At December 31, 2018 and 2017, investments are comprised of the following:

	2018		2017	
	Amortized Cost	FMV	Amortized Cost	FMV
Cash and cash equivalents	\$ 5,780,104	\$ 5,780,104	\$ 3,685,041	\$ 3,685,041
Certificates of deposit	2,250,000	2,250,000	-	-
Government bonds and agencies	1,905,962	1,883,520	1,748,922	1,722,577
Corporate bonds and bond funds	3,855,472	3,774,458	2,410,036	2,431,158
Equity securities and mutual funds	5,750,574	6,041,458	6,202,056	7,432,681
	<u>\$ 19,542,112</u>	<u>\$ 19,729,540</u>	<u>\$ 14,046,055</u>	<u>\$ 15,271,457</u>

Fair Value Measurements

Assets and liabilities itemized below were measured at fair value during the years 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			
	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Investments	\$ 19,729,540	\$ 19,729,540	\$ -	\$ -
Pledges receivable	8,596,968	-	-	8,596,968
Deferred gift liability	41,882	-	41,882	-
	<u>\$ 28,368,390</u>	<u>\$ 19,729,540</u>	<u>\$ 41,882</u>	<u>\$ 8,596,968</u>

Flathead Valley Community College

Notes to Financial Statements

June 30, 2019 and 2018

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Investments	\$ 15,271,457	\$ 15,271,457	\$ -	\$ -
Pledges receivable	2,919,448	-	-	2,919,448
Deferred gift liability	47,331	-	47,331	-
	<u>\$ 18,238,236</u>	<u>\$ 15,271,457</u>	<u>\$ 47,331</u>	<u>\$ 2,919,448</u>

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

	2018	2017
Balance, January 1	\$ 2,919,448	\$ 262,853
Pledge payments received	(5,751,104)	(1,263,065)
New pledges made by donors	11,592,120	3,977,663
Pledges written off	(1,356)	(5,986)
Discount on pledges receivable recorded	(162,140)	(52,017)
	<u>\$ 8,596,968</u>	<u>\$ 2,919,448</u>

Promises to Give

Pledges receivable represent 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 subsequent years have been discounted \$214,157 and \$52,017 using an average discount rate of 2.5% and 2% for the years ended December 2018 and 2017, respectively. The Foundation estimates the allowance for uncollectible pledges at December 31, 2018 and 2017, was zero. Total unconditional promises to give were as follows:

	2018	2017
In one year or less	\$ 1,810,566	\$ 900,397
Between one year and five years	7,000,559	2,071,068
	<u>\$ 8,811,125</u>	<u>\$ 2,971,465</u>

During 2017, the Foundation Board pledged \$1,000,000 for the new FVCC ONE Campaign, which will be payable over five years at \$200,000 a year from unrestricted cash and endowed earnings. Since this pledge is not an unconditional promises to give from an outside party, it is not included in the balance of pledges receivable.

Endowment

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

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

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

Changes in Endowment Net Assets for the year ended December 31, 2018:

	Board Restricted	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 332,263	\$ 11,717,703	\$ 12,049,966
Investment return			
Investment income	-	309,239	309,239
Investment management fees	-	(70,086)	(70,086)
Net appreciation (depreciation) (realized and unrealized)	-	(557,099)	(557,099)
Total investment return	-	(317,946)	(317,946)
Contributions	46,849	836,761	883,610
Appropriation of endowment assets for expenditure	-	(633,322)	(633,322)
	<u>\$ 379,112</u>	<u>\$ 11,603,196</u>	<u>\$ 11,982,308</u>

Flathead Valley Community College

Notes to Financial Statements

June 30, 2019 and 2018

Changes in Endowment Net Assets for the year ended December 31, 2017:

	Board Restricted	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 306,130	\$ 10,461,527	\$ 10,767,657
Investment return			
Investment income	-	280,072	280,072
Investment management fees	-	(65,762)	(65,762)
Net appreciation (depreciation) (realized and unrealized)	-	932,485	932,485
Total investment return	-	1,146,795	1,146,795
Contributions	26,133	521,139	547,272
Pledge payments received	-	52,500	52,500
Appropriation of endowment assets for expenditure	-	(464,258)	(464,258)
	<u>\$ 332,263</u>	<u>\$ 11,717,703</u>	<u>\$ 12,049,966</u>

Return Objectives and Risk Parameters

The Foundation 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 Foundation must hold in perpetuity or for a donor-specified period(s).



Required Supplementary Information
June 30, 2019

Flathead Valley Community College

Flathead Valley Community College
 Schedule of Employer's Proportionate Share of Total OPEB Liability - OPEB
 Year Ended June 30, 2019

Montana University System OPEB Plan

Measurement Date	Employer's Portion of the OPEB Liability	Employer's Proportionate Share of OPEB Liability	Covered Payroll	TOL as a Percentage of Payroll
March 31, 2019	2.43%	\$ 1,001,270	\$ 4,589,638	21.82%
March 31, 2018	2.27%	\$ 872,481	\$ 4,616,337	18.90%

GASB Statement No. 75 requires ten years of information to be presented in this table. However until a full 10-year trend is compiled, the College will present information for those years for which information is available.

Notes to Schedule:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Flathead Valley Community College
 Schedule of Employer's Contributions - OPEB
 Year Ended June 30, 2019

Montana University System OPEB Plan

Actuarial Valuation Date	Actuarially Determined Contribution (ADC)	Total OPEB Liability (TOL)	Covered Payroll	TOL as a Percentage of Payroll	Participants
March 31, 2019	\$ 120,024	\$ 1,001,270	\$ 4,589,638	21.82%	226
March 31, 2018	\$ 109,937	\$ 872,481	\$ 4,616,337	18.90%	231

GASB Statement No. 75 requires ten years of information to be presented in this table. However until a full 10-year trend is compiled, the College will present information for those years for which information is available.

Notes to Schedule:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Flathead Valley Community College
Schedule of Employer's Share of Net Pension Liability
Year Ended June 30, 2019

Schedule of Employer's Share of Net Pension Liability
Teacher's Retirement System
Last 10 - Fiscal Years *

	As of the measurement date of June 30,				
	2018	2017	2016	2015	2014
Employer's proportionate share of the net pension liability	0.5496%	0.5251%	0.4785%	0.4215%	0.4124%
Employer's proportion share of the net pension liability	\$ 10,201,872	\$ 8,853,215	\$ 8,742,314	\$ 6,924,803	\$ 6,346,285
State of Montana's proportionate share of the net pension liability associated with the Employer	<u>6,340,484</u>	<u>5,619,822</u>	<u>5,698,416</u>	<u>4,642,737</u>	<u>4,348,969</u>
Total	<u>\$ 16,542,356</u>	<u>\$ 14,473,037</u>	<u>\$ 14,440,730</u>	<u>\$ 11,567,540</u>	<u>\$ 10,695,254</u>
Employer's covered payroll	\$ 11,742,933	\$ 6,925,595	\$ 6,211,704	\$ 5,379,430	\$ 5,200,760
Employer's proportional share of the net pension liability as a percentage of its covered payroll	86.88%	127.83%	140.74%	128.73%	122.03%
Plan fiduciary net position as a percentage of the total pension liability	69.09%	70.09%	66.69%	69.30%	70.36%

Schedule of Employer's Share of Net Pension Liability
Public Employee's Retirement Systems of Montana
Last 10 - Fiscal Years *

	As of the measurement date of June 30,				
	2018	2017	2016	2015	2014
Employer's proportionate share of the net pension liability	0.2821%	0.3930%	0.4518%	0.4969%	0.5001%
Employer's proportion share of the net pension liability	\$ 5,888,182	\$ 7,653,242	\$ 7,695,290	\$ 6,946,058	\$ 6,231,238
State of Montana's proportionate share of the net pension liability associated with the Employer	<u>1,967,948</u>	<u>96,291</u>	<u>94,028</u>	<u>85,321</u>	<u>76,093</u>
Total	<u>\$ 7,856,130</u>	<u>\$ 7,749,533</u>	<u>\$ 7,789,318</u>	<u>\$ 7,031,379</u>	<u>\$ 6,307,331</u>
Employer's covered payroll	\$ 4,662,842	\$ 4,874,643	\$ 5,411,472	\$ 5,798,950	\$ 5,661,067
Employer's proportional share of the net pension liability as a percentage of its covered payroll	126.28%	157.00%	142.20%	119.78%	110.07%
Plan fiduciary net position as a percentage of the total pension liability	73.47%	73.75%	74.71%	78.40%	79.87%

**The amounts presented above for each fiscal year were determined as of June 30th, the measurement date. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

Flathead Valley Community College
 Schedule of Employer Contributions - Pensions
 Year Ended June 30, 2019

**Schedule of Employer Contributions
 Teacher's Retirement System
 Last 10 - Fiscal Years ***

	2019	2018	2017	2016	2015
Contractually required contribution	\$ 734,413	\$ 705,871	\$ 669,868	\$ 633,390	\$ 603,944
Contributions in relation to the contractually required contributions	734,413	705,871	669,868	633,390	603,944
Contribution deficiency (excess)	-	-	-	-	-
Employer's pensionable payroll	8,028,673	11,742,933	6,925,595	6,211,704	5,379,430
Contributions as a percentage of pensionable payroll	9.15%	6.01%	9.67%	10.20%	11.23%

**Schedule of Employer Contributions
 Public Employees Retirement Systems of Montana
 Last 10 - Fiscal Years ***

	2019	2018	2017	2016	2015
Contractually required contribution	\$ 417,337	\$ 419,243	\$ 426,303	\$ 462,645	\$ 500,326
Contributions in relation to the contractually required contributions	417,337	419,243	426,303	462,645	500,326
Contribution deficiency (excess)	-	-	-	-	-
Employer's pensionable payroll	4,840,027	4,662,842	4,874,643	5,411,472	5,798,950
Contributions as a percentage of pensionable payroll	8.62%	8.99%	8.75%	8.55%	8.63%

**The amounts presented above for each fiscal year were determined as of June 30th, the College's most recent fiscal year end. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

TRS:

Changes in actuarial assumptions and other inputs: As a result of the recent actuarial experience study, dated May 3, 2018, the following changes to the actuarial assumptions were made since the previous measurement date:

- Assumed rate of inflation was reduced from 3.25% to 2.50%.
- Payroll growth assumption was reduced from 4.00% to 3.25%.
- Investment return assumption was reduced from 7.75% to 7.50%.
- Wage growth assumption was reduced from 4.00% to 3.25%.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
 - For Males and Females: RP-2000 Healthy Combined Mortality Table projected to 2022 adjusted for partial credibility setback for two years.

The tables include margins for mortality improvement which is expected to occur in the future.

- Mortality among disabled members was updated to the following:
 - For Males: RP 2000 Disabled Mortality Table, set back three years, with mortality improvements projected by Scale BB to 2022.
 - For Females: RP 2000 Disabled Mortality Table, set forward two years, with mortality improvements projected by Scale BB to 2022.
- Retirement rates were updated
- Termination rates were updated
- Rates of salary increases were updated

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the reporting date.

PERS

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the TPL.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective NPL and the College's reporting date that are expected to have a significant effect on the College's proportionate share of the collective NPL.



Supplementary Information
June 30, 2019

Flathead Valley Community College

Flathead Valley Community College
 Schedule of Student Financial Aid – Modified Statement of Cash Receipts and Disbursements
 Year Ended June 30, 2019

	Pell	CWS	SEOG
Assets			
Beginning cash balance	\$ (151,111)	\$ (43,219)	\$ -
Additions			
Federal advances	2,310,335	43,219	40,350
State matching funds	-	31,798	16,956
Total additions	2,310,335	75,017	57,306
Deductions			
Distribution to students	2,314,779	80,045	67,574
Administrative expenses	3,255	1,603	-
Total deductions	2,318,034	81,648	67,574
Net Change to Cash	(7,699)	(6,631)	(10,268)
Ending cash balance	\$ (158,810)	\$ (49,850)	\$ (10,268)

Flathead Valley Community College
Schedule of Federal Expenditures – Student Financial Assistance Programs
Year Ended June 30, 2019

College Work Study Wages	<u>\$ 48,111</u>
Supplemental Education Opportunity Grant Student grants	<u>\$ 50,680</u>
Pell Grant Program Student grants	<u>\$ 2,314,779</u>

Flathead Valley Community College

Schedule of Full Time Equivalents
 Years Ended June 30, 2019 and 2018

<u>Semester</u>	<u>Resident</u>	<u>WUE</u>	<u>Nonresident</u>	<u>Total</u>
Summer 2018	218.3	1.0	14.3	233.6
Fall 2018	1,333.0	7.0	36.0	1,376.0
Spring 2019	1,265.0	7.0	37.0	1,309.0

<u>Semester</u>	<u>Resident</u>	<u>WUE</u>	<u>Nonresident</u>	<u>Total</u>
Summer 2017	223.9	0.6	16.1	240.6
Fall 2017	1,316.0	6.0	48.0	1,370.0
Spring 2018	1,291.0	5.0	48.0	1,344.0

Flathead Valley Community College
 Schedule of Functional Classification of Operating Expenses
 Year Ended June 30, 2019

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Scholarships & Fellowships	Operation & Maintenance	Auxiliary	Total
Personnel services	\$ 9,326,582	\$ 153,410	\$ 2,035,845	\$ 2,187,966	\$ 3,156,503	\$ 416,393	\$ 847,664	\$ 808,809	\$ 18,933,172
Travel	73,338	19,332	85,960	25,582	43,296	23,426	-	3,270	274,204
Supplies	552,277	27,018	55,828	43,671	144,146	50,847	125,771	892,259	1,891,818
Contracted services	627,872	35,632	101,979	105,343	473,232	27,866	870,044	219,641	2,461,609
Bad debt expense	-	-	-	-	84,406	-	-	-	84,406
Scholarship and grants	-	-	-	524	-	5,618,961	-	-	5,619,485
Non-capitalized equipment	129,151	842	43,666	36,408	24,325	12,695	215,238	11,657	473,982
Other operating expense	3,425	10,835	37,316	7,914	78,255	24,149	-	2,067	163,961
Depreciation expense	-	-	-	-	-	-	2,019,682	-	2,019,682
	<u>\$ 10,712,645</u>	<u>\$ 247,069</u>	<u>\$ 2,360,595</u>	<u>\$ 2,407,408</u>	<u>\$ 4,004,162</u>	<u>\$ 6,174,336</u>	<u>\$ 4,078,400</u>	<u>\$ 1,937,703</u>	<u>\$ 31,922,319</u>



Other Information
June 30, 2019

Flathead Valley Community College



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
Flathead Valley Community College
Kalispell, Montana

We have audited, 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, the financial statements of Flathead Valley Community College (the College) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, and have issued our report thereon dated January 30, 2020. 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 College’s financial statements. The audits of the financial statements of Flathead Valley Community College Foundation were not performed in accordance with Government Auditing Standards and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Flathead Valley Community College Foundation.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College’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 the College’s internal control. Accordingly, we do not express an opinion on the effectiveness of the College’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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be 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 College's financial statements are free from 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 on 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Boise, Idaho
January 30, 2020