MILES COMMUNITY COLLEGE

CUSTER 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

April 2020

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Miles Community College for the fiscal year ended June 30, 2019.

The audit was conducted by Wipfli, 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-08

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MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2019

TABLE OF CONTENTS

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2019

WIPFLi LLP
CPAs and Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Miles Community College
Miles City, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the discretely presented component unit, and aggregate remaining fund information of Miles Community College (the "College"), as of and for the year ended June 30, 2019, 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit and the aggregate remaining fund information of Miles Community College as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis, schedule of employer contributions – OPEB and share of total OPEB liability, schedule of changes in OPEB liability , schedule of employer's proportionate share of net pension liability, and schedule of employer contributions as listed 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, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The functional classification of operating expenses, student financial aid modified statement of cash receipts and disbursements, schedule of federal expenditures – student financial assistance program and schedule of full-time equivalents are presented for purposes of additional analysis and are not a required part of the financial statements.

The functional classification of operating expenses, student financial aid modified statement of cash receipts and disbursements, schedule of federal expenditures – student financial assistance program, and schedule of full-time equivalents 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 basics 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 or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the functional classification of operating expenses, student financial aid modified statement of cash receipts and disbursements, schedule of federal expenditures – student financial assistance program, and schedule of full-time equivalents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 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 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.

Wipfli LLP

Wipfli LLP

Billings, Montana
April 16, 2020

Overview

Miles Community College was founded in 1939 and is located in Miles City, Montana. The College's mission promotes students for success and provides opportunities for lifelong learning through quality programs, community outreach, and partnerships.

The following is a Management Discussion and Analysis (MD&A) for Miles Community College which includes an overview of its financial condition and assists the reader in focusing on significant financial issues for the year ended June 30, 2019. The information has been prepared by management and is to be read in conjunction with the accompanying financial statements and footnotes.

Using the Financial Statements

The College's financial statements consist of the following three statements: Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows.

These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement 35, *Basic Financial Statements-and Management's Discussion and Analysis-For Public Colleges and Universities*. These statements focus on the financial condition of the college, the results of operations, and cash flows of the college as a whole.

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

- The financial statements are prepared using the accrual basis of accounting, which means revenues are reported when earned and expenses are reported when incurred, regardless of when the cash was actually received or paid.

- Capital assets are depreciated over their expected useful lives instead of recorded entirely as a current period expense in the year of acquisition. Depreciation is treated as an operating expense, and capital assets are reported in the statements at cost less accumulated depreciation.

- Assets and liabilities are treated as current (due within one year) or as non-current (due in more than one year), and in the Statement of Net Position are presented in order of their relative liquidity.

- Revenues and expenses are classified as operating or non-operating. "Operating" is defined by the Governmental Accounting Standards Board (GASB) as resulting from transactions involving exchanges of goods or services for payment. "Non-operating" is defined by GASB as resulting from transactions not involving the exchange of goods or services for payment. Miles Community College shows a substantial "operating loss" in the Statement of Revenues, Expenses, and Changes in Net Position primarily because GASB requires that State Appropriation and District Levy revenues must be reported as "non-operating".

- Tuition and fees are reported net of any tuition waivers that were applied directly to a student's account.

- Due to the issuance of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the Statement of Net Position added new sections, Deferred Outflows of Resources and Deferred Inflows of Resources.

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

Financial Highlights for Fiscal Year 2019

Statement of Net Position

The Statement of Net Position, which reports all assets and liabilities of the College, presents the financial position of the College at the end of the fiscal year. The net position is simply the difference between total assets plus deferred outflows of resources less total liabilities and deferred inflows of resources. The change in net position during the fiscal year is an indicator of the change in the overall financial condition of the College during the year. A summary of the Statement of Net Position follows:

ASSETS	**June 30, 2019**	**June 30, 2018**
Total current assets	$ 3,673,024	$ 3,316,995
Total noncurrent assets	10,628,467	10,985,077
TOTAL ASSETS	$ 14,301,491	$ 14,302,072
DEFERRED OUTFLOWS OF RESOURCES	$ 929,266	$ 679,345
LIABILITIES		
Total current liabilities	$ 703,125	$ 706,490
Total noncurrent liabilities	7,156,877	7,362,450
TOTAL LIABILITIES	$ 7,860,002	$ 8,068,940
DEFERRED INFLOWS OF RESOURCES	$ 275,634	$ 63,466
NET POSITION		
Net Investment Capital Assets	$ 8,516,625	$ 8,778,552
Restricted, expendable	115,560	115,560
Unrestricted	(1,537,064)	(2,045,101)
TOTAL NET POSITION	$ 7,095,121	$ 6,849,011

Comparison of 2019 and 2018 Financial Position

- **Current assets** include the College's cash; taxes, grants, and accounts receivable; inventories; and other assets expected to benefit the College within one year. The $356,029 increase from FY 2018 to FY 2019 was due primarily to an increase in cash and prepaid expense.

- **Noncurrent assets** primarily represent the College's capital assets less accumulated depreciation. The decrease is due to depreciating capital assets.

- **Current liabilities** include payroll and related liabilities, amounts payable to suppliers for goods and services received, revenue received which the College has not yet earned, student deposit balances, and debt principal payments due within one year. Total current liabilities decreased by $3,365 from FY 2018 to FY 2019, due largely to a decrease in accounts payable.

- **Noncurrent liabilities** primarily represent debt principal payments due after a one-year period and the amount of compensated absence liability estimated to be due after a one-year period. These balances decreased a total of $205,573 from FY 2018 to FY 2019, primarily due to decreases in other post-employment benefits liabilities and debt service.

- **Net Investment Capital Assets** represents the historical costs of capital assets less accumulated depreciation and less debt balances related to the capital assets. This balance increases as assets are acquired and debt is repaid and decreases as assets are depreciated and debt is incurred. Total capital assets net of related debt decreased by $261,927 from FY 2018 to FY 2019 as capital assets decreased.

- **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 or governmental entity.

- **Unrestricted net position** is funds that the College has to use for whatever purpose it determines is appropriate. These assets may be designated for specific purposes by action of management.

- **Total net position** increased by $246,110 from FY 2018 to FY 2019, which is a reflection of increases in cash.

Statement of Revenue, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year on a full accrual basis, which means revenues and expenses are recognized when they were earned or incurred, regardless of when cash was received or paid. Results of operations are classified as either operating or non-operating.

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

	June 30, 2019	**June 30, 2018**
Operating revenues	$ 5,692,568	$ 4,787,317
Operating expenses	9,716,896	9,916,729
OPERATING LOSS	$ (4,024,328)	$ (5,129,412)
Non-operating revenues (expenses)	$ 4,270,438	$ 4,072,734
INCREASE (DECREASE) IN NET POSITION	$ 246,110	$ (1,056,678)

Comparison of 2019 and 2018 Results of Operations

- **Operating revenues** represent the revenue received from tuition and fees, federal, state, and private grants and contracts, indirect cost recoveries (from grants), auxiliary activities, and other operating revenues. Total operating revenues increased by $905,251 from FY 2018 to FY 2019. This is due primarily to increased other operating revenues and auxiliary activities.

- **Non-operating revenue (expenses)** consists of capital contributions, interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-operating revenue (expense) increased $197,704 from FY 2018 to FY 2019. This is due primarily to increased state appropriations.

Increase in net position represents the difference between total revenues and total expenses.

The following provides a comparative analysis of revenues and expenses for two fiscal years:

ANALYSIS OF ALL SOURCES OF REVENUE

	Fiscal Year 2019		Fiscal Year 2018		Increase (decrease)
Source of Revenue	**Amount**	**Percent**	**Amount**	**Percent**	**FY'19 vs. FY'18**
Operating revenues					
Tuition and fees (net)	$ 1,910,031	19.01%	$ 1,815,518	20.30%	94,513
Auxiliary enterprise activities	1,302,955	12.97%	1,164,038	13.01%	138,917
Federal grants and contracts	1,147,650	11.43%	1,082,028	12.10%	65,622
Other operating revenues	690,417	6.87%	278,907	3.12%	411,510
Private and local grants and contracts	363,341	3.62%	258,204	2.89%	105,137
State grants and contracts	254,629	2.53%	153,731	1.72%	100,898
Indirect cost recoveries	23,545	0.23%	34,891	0.39%	(11,346)
Total operating revenue	5,692,568	56.66%	4,787,317	53.53%	905,251
Non-operating revenues					
State appropriations	2,562,902	25.52%	2,476,823	27.69%	86,079
District levies	1,335,588	13.30%	1,277,152	14.28%	58,436
State reimbursements	380,576	3.79%	375,132	4.20%	5,444
Capital contributions	31,450	0.31%	-	-%	31,450
Interest income	33,792	0.34%	26,920	0.30%	6,872
Gain on disposal of capital assets	7,800	0.08%	-	-%	7,800
Total non-operating revenues	4,352,108	43.34%	4,156,027	46.47%	196,081
Total revenue	$ 10,044,676	100%	$ 8,943,344	100%	$ 1,101,332

ANALYSIS OF CATEGORY OF EXPENSE

Category of Expenses	Fiscal Year 2019 Amount	Fiscal Year 2019 Percent	Fiscal Year 2018 Amount	Fiscal Year 2018 Percent	Increase (decrease) FY'19 vs. FY'18
Operating expenses					
Personnel expenses	$ 5,300,398	54.09%	$ 5,345,614	53.46%	$ (45,216)
Scholarships and grants	1,265,391	12.91%	1,157,100	11.57%	108,291
Contracted services	1,080,928	11.03%	1,123,422	11.23%	(42,494)
Supplies	896,341	9.15%	1,025,450	10.25%	(129,109)
Depreciation	630,841	6.44%	642,731	6.43%	(11,890)
Other expense	368,773	3.76%	461,369	4.62%	(92,596)
Travel	174,224	1.79%	161,043	1.61%	13,181
Total operating expenses	9,716,896	99.17%	9,916,729	99.17%	(199,833)
Non-operating expenses					
Interest payments	81,670	0.83%	83,293	0.83%	(1,623)
Total non-operating expenses	81,670	0.83%	83,293	0.83%	(1,623)
Total expenses	$ 9,798,566	100%	$ 10,000,022	100%	$ (201,456)

Comments about specific revenue and expense items are:

- **Revenues:** During FY 2019 the College received an increase in tuition and fees (net) of $94,513. There was an increase of $65,622 from federal grants and contracts.

- **Expenses (general comment):** Overall expenses decreased $201,456 from FY 2018 to FY 2019. Cost savings from open positions in personnel and less spending were the most significant factors affecting the overall decrease in expenses.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the College's sources and uses of cash during the fiscal year. This statement aids in assessing the College's ability to meet obligations and commitments as they become due, their ability to generate future cash flows and their needs for external financing. As required by GASB, the statement is presented using the "Direct Method," which focuses on those transactions that either provided or used cash during the fiscal year.

A summary of the Statement of Cash Flows follows:

CASH FLOW CATEGORY	June 30, 2019	June 30, 2018
Cash provided by (used in):		
Operating activities	$ (3,587,419)	$ (3,887,319)
Noncapital activities	4,275,381	4,129,558
Capital financing activities	(411,334)	(452,532)
Investing activities	33,792	26,920
Net increase (decrease) in cash	310,420	(183,373)
Cash and cash equivalents, beginning of year	2,694,667	2,878,040
Cash and cash equivalents, end of year	$ 3,005,087	$ 2,694,667

Comparison of 2019 and 2018 Cash Flows

- **Operating activities** represent the revenue received from tuition and fees, federal, state, and private grants and contracts, indirect cost recoveries (from grants), auxiliary activities, and other operating revenues. Total operating activities increased by $299,900 from FY 2018 to FY 2019. This is mainly due to grants and contracts and payments to employees.

- **Noncapital financing activities** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-operating activities increased $145,823 from FY 2018 to FY 2019. The major items affecting this change were state appropriations and district levies.

- **Capital and related financing activities** consists of purchases of capital assets and payments of principal and interest on loans. These activities decreased $41,198 mainly due to the purchases of capital assets. No new loans were added.

Capital Assets

The College's investment in capital assets as of June 30, 2019, equates to $10,512,907, net of accumulated depreciation. Investment in capital assets normally includes land, buildings, improvements, machinery and equipment, library holdings, and software. The decrease was due to the depreciation. See additional information within footnote 5.

Debt Administration

The College's long-term debt obligations as of June 30, 2019, equates to $1,996,282. The College had four long-term debt obligations at fiscal year end June 30, 2019. See additional information within footnote 6.

DISCUSSION OF SIGNIFICANT PENDING ECONOMIC AND FINANCIAL ISSUES

- **Enrollment –** Miles Community College is located in eastern Montana and has a current Fall 2019 headcount (based on 15-day census numbers) of 567 and full-time equivalent (FTE) of 423.54. This represents a 7.6% increase from the Fall 2018 15-day census FTE. By utilizing strategic enrollment management measures, the faculty and staff at MCC have developed enrollment and retention strategies for enrollment growth. While MCC has now seen several consecutive years of annualized enrollment growth, it is expected that the enrollment expansion will level off in the next few years.

- The need for workforce training is still prevalent in Custer County. MCC has met this need by partnering with local companies, such as Transco, to develop curriculums that students can complete that can lead to employment with these local companies. MCC has provided retraining assistance in Colstrip via the Power Grant and local SEMDC assistance. The construction of the new Ag Advancement Center, which opened April 2017, and the acquisition and remodeling of the old National Guard Armory into the Workforce Readiness Center (August 2017), allows MCC to keep meeting the increased demand for Ag and Equine programming as well as allowing the College to expand its Heavy Equipment Operations and CDL Programs. MCC has also added a Nursing Program clinical site in Wolf Point, continuing to expand service and healthcare training throughout eastern Montana. With the Vision 2020 document in place, MCC has positioned itself to meet the workforce and educational needs of Custer County, the Miles City community and Southwestern Montana. The College will soon begin work on a new strategic visioning document that will replace the expiring Vision 2020 and will set the course for the College into the next several years.

- **Faculty and Staff –** The College continues to have challenges finding and retaining qualified faculty and staff. Competitive trade areas make it extremely challenging to offer wages competitive with what can be found in the field. As a result, the College sees few qualified applicants in high demand areas such as nursing, heavy equipment, CDL, computers, science, and math.

- **State and Local Funding –** Eastern Montana has remained economically sound since the recession and has seen recent growth with the potential for large growth in various industries. To support growth in the service region and increased employment options for its population, Miles Community College must continue to work with the state legislature, local tax payers, federal and private grants, and private industry to develop funding and partnership opportunities to maintain inflationary costs and meet demands associated with new program and economic development.

CONTACT INFORMATION

If you have questions about this report or need additional information, contact Nancy Aaberge, Business Service Director, 2715 Dickinson Street, Miles City, MT 59301, 406-874-6161.

		Primary Government		Component Unit
		Business-Type Activities		Miles Community College Endowment
ASSETS				
Current assets:				
Cash and cash equivalents	$	2,889,527	$	221,430
Taxes receivable		30,407		-
Grants receivable		152,946		-
Accounts receivable - net		334,225		251,750
Inventories		110,519		-
Prepaid expense		155,400		-
Total current assets		3,673,024		473,180
Noncurrent assets:				
Restricted cash and investments		115,560		673,018
Capital assets, net		10,512,907		-
Total noncurrent assets		10,628,467		673,018
Total assets		14,301,491		1,146,198
DEFERRED OUTFLOWS OF RESOURCES				
Pension and OPEB related deferred outflows		929,266		-

See accompanying Notes to the Financial Statements

	Primary Government	Component Unit
	Business-Type Activities	Miles Community College Endowment
LIABILITIES		
Current liabilities:		
Accounts payable	97,473	15,404
Accrued payroll	287,359	-
Unearned revenue - tuition and fees	136,667	-
Student deposits	40,200	-
Current portion of compensated absences payable	43,653	-
Current portion of long term obligations	97,773	-
Total current liabilities	703,125	15,404
Noncurrent liabilities:		
Compensated absences payable	392,876	-
Long term obligations	1,898,509	431,816
Other post employment benefits	357,057	-
Other post employment benefits - accrued insurance	475,810	-
Net pension liability	4,032,625	-
Total noncurrent liabilities	7,156,877	431,816
Total liabilities	7,860,002	447,220
DEFERRED INFLOWS OF RESOURCES		
Pension and OPEB related deferred inflows	275,634	-
NET POSITION		
Net investment in capital assets	8,516,625	-
Restricted for debt service	115,560	-
Restricted for scholarships, research, instruction, and other	-	698,978
Unrestricted	(1,537,064)	-
Total net position	$ 7,095,121	$ 698,978

See accompanying Notes to the Financial Statements

	Primary Government		Component Unit	
	Business-Type Activities		Miles Community College Endowment	
Operating revenues				
Tuition and Fees (net of scholarship allowance of $709,661)	$	1,910,031	$	-
Auxiliary activities		1,302,955		-
Federal grants and contracts		1,147,650		-
Other operating revenues		499,173		38,951
Private and local grants and contracts		363,341		-
State grants and contracts		254,629		-
Athletic donations		178,024		-
Indirect cost recoveries		23,545		-
Other athletic allowance		13,220		-
Total operating revenues	$	5,692,568	$	38,951
Operating expenses				
Personnel services	$	5,300,398	$	-
Scholarships and grants		1,265,391		29,082
Contracted services		1,080,928		-
Supplies		896,341		-
Depreciation expense		630,841		-
Other operating expense		368,773		-
Travel		174,224		-
Program disbursements		-		39,995
Professional fees		-		16,057
Total operating expenses	$	9,716,896	$	85,134
Operating loss	$	(4,024,328)	$	(46,183)

See accompanying Notes to the Financial Statements

	Primary Government		Component Unit	
	Business-Type Activities		Miles Community College Endowment	
Non-operating revenues (expenses)				
State appropriations		2,562,902	$	-
District levies		1,335,588		-
State reimbursements		380,576		-
Interest revenue		33,792		52,322
Interest expense		-		(35,885)
Capital Contribution		31,450		-
Debt service interest expense		(81,670)		-
Gain (loss) on disposal of capital assets		7,800		-
Total non-operating revenues (expenses)	$	4,270,438	$	16,437
Change in net position	$	246,110	$	(29,746)
Net position, beginning	$	6,849,011	$	728,724
Net position, ending	$	7,095,121	$	698,978

See accompanying Notes to the Financial Statements

		Primary Government
Cash flows from operating activities:		
Tuition and fees	$	1,948,597
Grants and contracts		1,789,553
Payments to employees		(5,446,736)
Payments to suppliers		(2,066,980)
Payments for utilities		(258,553)
Payments for scholarships and fellowships		(1,265,391)
Auxiliary activities		1,304,730
Other cash receipts (payments)		407,361
Net cash used in operating activities	$	(3,587,419)
Cash flows from noncapital financing activities		
State appropriations	$	2,562,902
State reimbursements		380,576
District levies		1,331,903
Net cash provided by noncapital financing activities	$	4,275,381
Cash flows from capital and related financing activities		
Purchase of capital assets	$	(242,781)
Proceeds from sale of capital assets	$	7,800
Principal paid on capital debt and leases		(94,683)
Interest paid on capital debt and leases		(81,670)
Net cash used in capital and related financing activities	$	(411,334)
Cash flows from investing activities		
Interest received on cash and cash equivalents	$	33,792
Net cash provided by investing activities	$	33,792
Net increase in cash and cash equivalents	$	310,420
Cash and cash equivalents, beginning of year		2,694,667
Cash and cash equivalents, end of year	$	3,005,087
Reconciliation to Statement of Net Position		
Cash and cash equivalents	$	2,889,527
Restricted cash		115,560
Total cash and cash equivalents	$	3,005,087

See accompanying Notes to the Financial Statements

		Primary Government
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$	(4,024,328)
Noncash income and expense:		
Depreciation		630,841
Bad debt expense		37,089
Other post employment benefits		(202,907)
Net pension benefits		63,694
Changes in net assets and liabilities:		
Grants receivable		23,933
Taxes receivable		(3,685)
Accounts receivable - net		(1,649)
Prepaid expense		(80,272)
Inventories		(17,340)
Accounts payable		(14,256)
Accrued payroll		70
Deferred revenue - tuition and fees		6,811
Student deposits		1,775
Compensated absences payable		(7,195)
Net cash used in operating activities	$	(3,587,419)

See accompanying Notes to the Financial Statements

	Agency Funds
ASSETS	
Cash and cash equivalents	$ 127,917
Accounts receivable - net	488
Total assets	$ 128,405
LIABILITIES	
Accounts payable	$ 1,420
Due to student groups	126,985
Total liabilities	$ 128,405

See accompanying Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Miles Community College (the College) complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) Pronouncements.

Financial Reporting Entity

In determining the financial reporting entity, the College complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity,* and includes all component units of which the College appointed a voting majority of the units' board; the College is either able to impose its will on the unit or a financial benefit or burden relationship exists. In addition, the College complies with GASB statement No. 39, *Determining Whether Certain Organizations Are Component Units,* which relates to organizations that raise and hold economic resources for the direct benefit of the College. The College adopted the provision of GASB statement No. 61, *The Financial Reporting Entity* which amended statement No. 14.

Primary Government

The College was established under Montana law to provide post-secondary educational services. Based on the criteria for determining the reporting entity (separate legal entity and financial or fiscal dependency on other governments) the College is a primary government as defined by GASB Cod. Sec. 2100 and has one component unit.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. The College has the following discretely presented component unit: Miles Community College Foundation (the Foundation).

Basis of Presentation, Measurement Focus and Basis of Accounting

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements of the College are accounted for using the accrual basis of accounting. Proprietary funds account for operations that are primarily financed by user charges. The economic resource focus involves determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

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

Fiduciary Funds

Fiduciary funds account for assets held by the College in a trustee capacity or as an agent on behalf of other outside parties, or on behalf of other funds within the College. Agency funds are used to account for assets that the College holds for others in an agency capacity. The College receives scholarships and support from Miles Community College Foundation. The College maintains a Foundation fiduciary fund to collect expenditures owed to the College, then seeks reimbursement.

Use of Estimates

The preparation of financial statements in accordance with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, deferred outflows and deferred inflows of resources at the date of the financial statements, and the reported amounts of revenue and expenses during the reported periods. Actual results could differ from those estimates.

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 organization of its exempt purpose or function. The College does not have unrelated business income tax to report during fiscal year ended June 30, 2019.

Pensions

Teachers Retirement System

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 Teachers' Retirement System (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) statements.

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

Montana Public Employees Retirement System

Montana Public Employee Retirement Administration (MPERA) prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the 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

Montana University System (MUS) OPEB liability

For purposes of measuring the MUS OPEB liability, deferred outflows of resources and deferred inflows of resources related to the MUS OPEB and plan expense, information about the fiduciary net position of the plan and additions to/deductions from the plan's fiduciary net position have been determined based on the same basis as they are reported by the MUS OPEB plan. These are allocated to employers based on their proportionate share. For this purpose, benefits payments are recognized when due and payable in accordance with the benefit terms.

Miles Community College Group Insurance Plan OPEB liability (Group Insurance OPEB)

For purposes of measuring the Group Insurance OPEB plan, a single employer plan, the plan utilized employee census data and benefits provided by the College for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense. Benefit payments are financed on a pay-as-you-go basis.

Deferred Outflows/Inflows of Resources

In addition to assets, 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 a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The College has two items that qualify for reporting in this category: the deferred net pension liability for MPERA and TRS and deferred other postemployment benefits (OPEB) liability for the MUS OPEB plan and the Group Insurance OPEB Plan reported on the government-wide Statement of Net Position. The deferred net pension and OPEB liabilities result from changes in assumptions or other inputs in the actuarial calculation of the College's net pension and OPEB liabilities.

In addition to liabilities, the Statement of Net Position includes a separate section for deferred inflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and 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: the deferred net pension liability for MPERA and TRS and deferred other postemployment benefits (OPEB) liability for the MUS OPEB plan and the Group Insurance OPEB Plan reported on the government-wide Statement of Net Position. The deferred net pension and OPEB liabilities result from changes in assumptions or other inputs in the actuarial calculation of the College's net pension and OPEB liabilities.

Miles Community College Foundation

Nature of Activities

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

Basis of Accounting

The accounts of the Foundation are maintained, and the financial statements are prepared, on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents

For financial statement purposes, the Foundation considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Classification of Net Position

The Foundation classifies all net assets as restricted by donor.

Investments

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

NOTE 2 CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash Composition

The College's cash is held by the Custer County Treasurer and pooled with other County cash. With the College cash that is not necessary for short-term obligations, the College participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County's investment portfolio as of June 30, 2019, consisted of time deposits, U.S. Government Securities, Repurchase Agreements and the State Short-Term Investment Pool (STIP).

The College does not own specific identifiable investment securities in the pool; therefore, is not subject to categorization. Information regarding investment risk, collateral, security, and fair values for Custer County deposits and investments is available from Custer County Treasurer's office, 1010 Main Street, Miles City, Montana 59301. The Custer County external investment pool is not rated. Fair value approximates carrying value for investments as of June 30, 2019.

The College may invest in savings deposits, time deposits or repurchase agreements in financial institutions that are both located in Montana and insured by FDIC, FSLIC, or NCUA. The College may also invest in general obligations of the United States Government, Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Mortgage Corporation, and Federal Farm Credit Bank, or a U.S. Government security money market fund which holds eligible securities in its investment program, or in a unified investment program with the state, county treasurer, or any other political subdivision as long as investments are eligible.

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

Deposits

The College's cash, cash equivalents and investments as of June 30, 2019 consisted of the following:

Cash on hand	$ 5,910
Restricted cash – Debt Service	115,560
Invested in the County Investment Pool	2,883,617
Total cash and investments	$ 3,005,087

Also included in the County Investment Pool are the Fiduciary Funds cash of $127,917.

The Foundation's cash, cash equivalents and investments as of June 30, 2019 consisted of the following:

Cash on hand	$ 5,000
Demand deposit accounts	197,752
Money market accounts	18,678
Restricted for Scholarships:	
First Interstate Financial	
Mutual Funds – MFS Utilities A	162,716
Ameriprise Financial	
Mutual Funds	437,286
Edward Jones	
Growth Fund of America	73,016
Total	$ 894,448

The Foundation's deposit balance at June 30, 2019 was $197,752, and the bank balance was $197,752. At June 30, 2019, $197,752 was insured by the Federal Deposit and Insurance Corporation (FDIC).

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Custer County Investment Pool does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the College contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Montana Code Annotated. There are no investments in any one issuer that represent 5% or more of the total College investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Montana law requires 50% security of deposits with financial institutions in excess of the depository insurance coverage limits. A governmental entity's money is insured for each "public unit" based on how the account is titled at the financial institution. The Custer County government is considered to have $250,000 FDIC coverage for demand deposits and $250,000 FDIC coverage for time and savings deposits in each bank in the state.

The College's deposits with financial institutions did not exceed federal depository insurance limits at June 30, 2019. The College's deposits are held with Custer County Investment Pool.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or governmental investment pools (such as the Custer County Investment Pool).

NOTE 3 RECEIVABLES

Taxes

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

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

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

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

Student Accounts Receivable

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

Student accounts receivable	$ 178,123
Less allowances	(41,100)
Net student accounts receivable	$ 137,023

Accounts Receivable- Other and Credit Cards Receivable

Accounts receivable other than student accounts receivable of $192,330, and credit cards receivable of $4,872 are included in "Accounts Receivable – Net" on the Statement of Net Position.

An allowance for uncollectable accounts was not maintained for accounts receivable-other and credit cards receivable. The direct write-off method is used for these accounts.

Grants Receivable

Grants receivable of $152,946 generally includes Federal and State grants. An allowance for uncollectable accounts was not maintained for these grants.

Unearned Revenue

Unearned revenue includes amounts received from student tuition and fees prior to the end of the fiscal year relating to summer term. These revenues are earned in the subsequent year.

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 other third parties making payments on the students' behalf.

NOTE 4 INVENTORIES AND PREPAID EXPENSES

Inventories are valued at cost using the First in First Out (FIFO) method. The cost of inventories is recorded as an expenditure when consumed.

Prepaid expenses to vendors benefit future reporting periods and are also reported on the consumption basis.

NOTE 5 CAPITAL ASSETS

The College's assets are capitalized at historical cost or estimated historical cost and the capitalization threshold for reporting purposes is as follows:

Major tangible items costing $5,000 or more and having a useful life of more than one year, shall be capitalized and depreciated over the useful life of the item, when applicable, for purposes of property management and this policy. The useful life of an item shall be determined by Business Office personnel. Items costing less than $5,000 shall be expensed.

Software costing $25,000 or more and having a useful life of more than one year shall be capitalized and depreciated over the useful life of the software, when applicable, for purposes of property management and this policy. The useful life of the software shall be determined by Business Office personnel. Items costing less than $25,000 shall be expensed.

Library books shall be treated as a collection. Books shall be capitalized and reported at their historical cost. In the absence of historical cost information, the book's estimated historical cost shall be used. Donated books shall be capitalized and reported at their estimated acquisition value at the time of donation.

All capitalized individual books shall be depreciated over their estimated useful life using the straight-line method for depreciation, with no salvage value; and the collection shall be depreciated over its estimated useful life using one type of group or composite depreciation method, with no salvage value. The estimated useful life shall be determined by Business Office personnel.

Buildings and building improvements costing $25,000 or more shall be capitalized, and the useful life determined by the structure type defined in a current useful life table maintained by Business Office personnel. Buildings and building improvements costing less than $25,000 shall be expensed.

Land purchases shall be capitalized, regardless of cost.

Land improvements and infrastructure costing $25,000 or more shall be capitalized, and the useful life determined by the category of improvement as defined in a current useful life table maintained by Business Office personnel. Land improvements and infrastructure costing less than $25,000 shall be expensed.

Gifts or contributions of capital assets are recorded at acquisition value when received. The costs of normal maintenance and repairs are charged to operations as incurred.

Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	....	20-50 years
Equipment	....	5-20 years
Library	....	5 years
Software	....	5 years

The following tables present the changes in capital assets for the year ended June 30, 2019:

	Balance July 1, 2018	Additions	Deletions	Balance June 30,2019
Capital assets not being depreciated:				
Land	$ 394,056	$ -	$ -	$ 394,056
Total capital assets not being depreciated	$ 394,056	$ -	$ -	$ 394,056
Other capital assets				
Buildings	$14,940,275	$ 208,279	$ -	$15,148,554
Machinery & equipment	2,784,699	64,397	(43,353)	2,805,743
Software	405,847	-	-	405,847
Library inventory	97,575	1,555	-	99,130
Total other capital assets at historical cost	$ 18,228,396	$ 274,231	$ (43,353)	$ 18,459,274
Less accumulated depreciation				
Buildings	$ (5,493,167)	$ (404,965)	$ -	$ (5,898,132)
Machinery & equipment	(1,763,541)	(222,528)	43,353	(1,942,716)
Software	(405,847)	-	-	(405,847)
Library inventory	(90,380)	(3,348)	-	(93,728)
Total accumulated depreciation	$ (7,752,935)	$ (630,841)	$ 43,353	$ (8,340,423)
Total capital assets, depreciable, net	$ 10,475,461	$ (356,610)	$ -	$ 10,118,851
Total	$ 10,869,517	$ (356,610)	$ -	$ 10,512,907

NOTE 6 LONG TERM LIABILITIES

The following table presents the changes in long-term liabilities for the year ended June 30, 2019:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Due within one year
Contracted debt	$ 2,090,965	$ -	$ (94,683)	$ 1,996,282	$ 97,773
Compensated absences	443,724	65,243	(72,438)	436,529	43,653
Other post - employment benefits	323,548	33,509	-	357,057	-
Other post – employment benefits – accrued insurance	712,226	-	(236,416)	475,810	-
Net pension liability	3,931,178	101,477	-	4,032,625	-
Total	$ 7,501,641	$ 200,229	$ (403,537)	$ 3,265,678	$ 141,426

Contracted Debt

First Interstate Bank

The mortgage payable to First Interstate Bank was in the original amount of $370,000. This mortgage is payable in monthly installments of $2,502 on the 18th day of each month. This mortgage bears interest at a variable rate, currently at 5.27%. This mortgage is secured by the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this mortgage is due on May 18, 2024. This note payable is guaranteed by the USDA Rural Development for 90% of the outstanding balance of the note payable.

Annual requirement to amortize debt for First Interstate Bank:

For Fiscal Year Ended	Principal	Interest
2020	$ 23,874	$ 6,151
2021	25,163	4,862
2022	26,522	3,503
2023	27,953	2,071
2024	24,038	574
Total	$ 127,550	$ 17,161

USDA Rural Development #2

The mortgage payable to the USDA Rural Development was in the original amount of $1,500,000. This note is payable in monthly installments of $6,630 on the 18th day of each month. This note bears interest at 4.375% per annum. This note is secured by the residence hall building. Final payment on this note is due on April 18, 2044.

Annual requirement to amortize debt for USDA Rural Development:

For Fiscal Year Ended	Principal	Interest
2020	$ 27,461	$ 52,099
2021	28,687	50,873
2022	29,968	49,592
2023	31,305	48,255
2024	32,703	46,857
2025-2029	186,757	211,043
2030-2034	232,331	165,469
2035-2039	289,025	108,775
2040-2044	345,081	38,267
Total	$ 1,203,318	$ 771,230

Montana Department of Environmental Quality

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

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

For Fiscal Year Ended	Principal	Interest
2020	$ 16,038	$ 7,515
2021	16,520	7,033
2022	17,015	6,538
2023	17,526	6,027
2024	18,051	5,502
2025-2029	98,713	19,052
2030-2032	66,621	4,038
Total	$ 250,484	$ 55,705

Board of Investments of the State of Montana

The note payable to the Board of Investments of the State of Montana was in the original amount of $480,000. This note is payable in semi-annual installments due on February 15th and August 15th of each year. This mortgage bears interest at a variable rate, currently at 3.37%. Final payment on this note is due on August 15, 2031.

Annual requirement to amortize debt for Board of Investments of the State of Montana:

For Fiscal Year Ended	Principal	Interest
2019	$ 30,401	$ 13,725
2021	30,873	12,697
2022	31,354	11,653
2023	31,842	10,592
2024	32,337	9,515
2025-2029	169,391	30,819
2030-2032	88,733	4,468
Total	$ 414,931	$ 93,469

Compensated absences

Non-teaching College employees earn vacation leave ranging from fifteen to twenty-four days per year depending on the employee's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. Sick leave is earned at a rate of one day per month for non-teaching employees and at the rate of one day per month for the length of the full-time teaching contract. Upon retirement or termination, employees are paid for 100% of unused vacation and 25% of unused sick leave. Upon termination, all payments are made at the employee's current rate of pay.

NOTE 7 TRS RETIREMENT PLAN

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 June 30, 2018 (reporting dates).

	Net Pension Liability as of 6/30/2019	Percent of Collective NPL as of 6/30/2019	Change in Percent of Collective NPL
Miles Community College Proportionate Share	$ 2,608,297	0.1405%	0.0097%
State of Montana Proportionate Share associated with employer	$ 1,624,965	0.0875%	0.0044%

At June 30, 2019, the employer recorded a liability of $2,608,297 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 employer's proportion of the net pension liability was based on the employer'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. At June 30, 2019, the employer's proportion was 0.1405 percent.

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. However, each employer may have unique circumstances that will impact the employer's proportionate share of the collective net pension liability.

Pension Expense

	Pension Expense as of 6/30/2019
Miles Community College Employer's Proportionate Share	$ 272,379
State of Montana Proportionate Share associated with the Employer	132,667
Total	$ 405,046

At June 30, 2019, the employer recognized a Pension Expense of $405,046 for its proportionate share of the TRS' pension expense. The employer also recognized grant revenue of $132,667 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

Deferred Inflows and Outflows

At June 30, 2019, the employer reported its proportionate share of TRS' deferred outflows of resources and deferred inflows of resources related to TRS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 18,614	$ 1,628
Changes in actuarial assumptions	212,617	3,861
Difference between projected and actual investment earnings	-	23,544
Changes in proportion and Differences between actual and expected contributions	139,531	6,611
*Contributions paid to TRS subsequent to the measurement date - FY 2019 Contributions	224,260	-
	$ 595,022	$ 35,644

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

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

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2020	$168,274
2021	143,535
2022	35,452
2023	($12,144)

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% x AFC x 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 x AFC x 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 State and University 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 Employers

	Members	Employers	General fund	Total employee & employer
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%

State and University Employers

	Members	Employers	General fund	Total employee & employer
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	9.47%	0.11%	16.73%
July 1, 2009 to June 30, 2013	7.15%	9.85%	0.11%	17.11%
July 1, 2013 to June 30, 2014	8.15%	10.85%	0.11%	19.11%
July 1, 2014 to June 30, 2015	8.15%	10.95%	0.11%	19.21%
July 1, 2015 to June 30, 2016	8.15%	11.05%	0.11%	19.31%
July 1, 2016 to June 30, 2017	8.15%	11.15%	0.11%	19.41%
July 1, 2017 to June 30, 2018	8.15%	11.25%	0.11%	19.51%
July 1, 2018 to June 30, 2019	8.15%	11.35%	0.11%	19.61%
July 1, 2019 to June 30, 2020	8.15%	11.45%	0.11%	19.71%
July 1, 2020 to June 30, 2021	8.15%	11.55%	0.11%	19.81%
July 1, 2021 to June 30, 2022	8.15%	11.65%	0.11%	19.91%
July 1, 2022 to June 30, 2023	8.15%	11.75%	0.11%	20.01%
July 1, 2023 to June 30, 2024	8.15%	11.85%	0.11%	20.11%

TRS Stand-Alone Statements

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

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 for Males, set forward one year, with mortality improvements projected by Scale BB to 2022.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2022.

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

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. 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 Montana Code Annotated. In addition to the contributions the State general fund will contribute $25 million annually to the System payable July 1st of each year. 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 2126. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability**.** No municipal bond rate was incorporated in the discount rate.

Target Allocations

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	35.00%	2.34%
International Equity	18.00%	1.26%
Private Equity	10.00%	1.02%
Natural Resources	3.00%	0.12%
Core Real Estate	7.00%	0.38%
TIPS	3.00%	0.05%
Intermediate Duration Bonds	19.00%	0.41%
High Yield Bonds	3.00%	0.13%
Cash	2.00%	0.00%
	100.00%	

* 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

	1.0% Decrease (6.50%)	Current Discount Rate (7.50%)	1.0% Increase (8.50%)
The Employer's proportion of Net Pension Liability	$3,586,487	$2,608,297	$1,788,984

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.

Summary of Significant Accounting Policies

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 Teachers' Retirement System (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) statements.

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

NOTE 8 PERS RETIREMENT PLAN

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions,* employers and the non-employer contributing entity are required to recognize and report certain amounts associated with participation in the Public Employees' Retirement System Defined Benefit Retirement Plan (the Plan). Employers are required to record and report their proportionate share of the collective Net Pension Liability; Pension Expense; and Deferred Outflows and Deferred Inflows of Resources associated with pensions.

Pension Amount Totals

Employers are provided guidance in GASB Statement 68, paragraph 74, that pension amounts must be combined as a total or aggregate for reporting. This is true when employees are provided benefits through more than one pension, whether cost-sharing, single-employer, or agent plans.

General Information about the Pension Plan

Plan 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.

All new 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 members 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).

Benefits provided

Service retirement:

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

Early Retirement:

- Hired prior to July 1, 2011
  - Age 50, 5 years of membership service
  - 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 PERS-covered employer or PERS service)

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

Monthly benefit formula

- Members hired prior to July 1, 2011
  - Less than 25 years of membership service: 1.785% of HAC per year of service credit;
  - 25 years of membership service or more: 2% of HAC per year of service credit.

- Members hired on or after July 1, 2011
    - Less than 10 years of membership service: 1.5% of HAC per year of service credit;
    - 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
    - 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 all 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:
    - (a) 1.5% for each year PERS is funded at or above 90%;
    - (b) 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and
    - (c) 0% whenever the amortization period for PERS is 40 years or more.

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.

Special Funding

The State of Montana, as the non-employer contributing entity, paid to the Plan, additional contributions that qualify as *special funding*. Those employers who received *special funding* are all participating employers.

Not Special Funding

Per Montana law, state agencies and universities paid their own additional contributions. The employer paid contributions are *not* accounted for as special funding for state agencies and universities but are reported as employer contributions.

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

Fiscal Year	Member Hired <07/01/11	Member Hired >07/01/11	State Universities Employer
2019	7.900%	7.900%	8.670%
2018	7.900%	7.900%	8.570%
2017	7.900%	7.900%	8.470%
2016	7.900%	7.900%	8.370%
2015	7.900%	7.900%	8.270%
2014	7.900%	7.900%	8.170%
2012-2013	6.900%	7.900%	7.170%
2010-2011	6.900%		7.170%
2008-2009	6.900%		7.035%
2000-2007	6.900%		6.900%

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 actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional 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 contributed 0.1% of members' compensation on behalf of local government entities.
      ii. The state contributed 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 Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

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 employer's and the state of Montana's NPL for June 30, 2018, and 2017, are displayed below. The employer's proportionate share equals the ratio of the employer'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 employer recorded a liability of $1,424,328 and the employer's proportionate share was 0.0682 percent.

As of measurement date	Net Pension Liability as of 6/30/2018	Net Pension Liability as of 6/30/2017	Percent of Collective NPL as of 6/30/2018	Percent of Collective NPL as of 6/30/2017	Change in Percent of Collective NPL
Miles Community College Proportionate Share	$ 1,424,328	$ 1,725,188	0.0682%	0.0886%	(0.0203)%
State of Montana Proportionate Share associate with Employer	$ 478,291	$ 24,738	0.0920%	0.1261%	(0.0341)%

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 employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

Pension Expense: At June 30, 2018, the employer recognized $120,586 for its proportionate share of the Plan's pension expense and recognized grant revenue of $31,921 for the state of Montana proportionate share of the pension expense associated with the employer. Additionally, the employer recognized grant revenue of $0 from the State Statutory Appropriation from the General Fund.

	Pension Expense as of 6/30/2018
Miles Community College's Proportionate Share	$ 120,586
Employer Grant Revenue – State of Montana Proportionate Share for employer	31,921
Employer Grant Revenue – State of Montana Coal Tax for employer	-
Total	$ 152,507

Recognition of Deferred Inflows and Outflows: At June 30, 2018, the employer reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Expected vs. Actual Experience	$ 108,311	$ -
Projected Investment Earnings vs. Actual Investment Earnings	-	22,120
Changes in Assumptions	121,118	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	205,274
Employer Contributions Subsequent to the Measurement Date	93,796	-
Total	$ 323,225	$ 227,394

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

Year ended June 30:	**Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense**
2019	$ 75,247
2020	28,045
2021	(92,169)
2022	(9,089)

Actuarial Assumptions: The total pension liability in the June 30, 2018 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 6.30%
Postretirement Benefit Increases	
Guaranteed Annual Benefit Adjustment (GABA) each January	
• 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 all other adjustments to the member's benefit.	
o Members hired prior to July 1, 2007	3.0%
o Members hired between July 1, 2007 & June 30, 2013	1.5%
o Members hired on or after July 1, 2013	
- For each year PERS is funded at or above 90%	1.5%
The 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%	
- 0% whenever the amortization period for PERS is 40 years or more	0%
Morality:	
• Contributing members, service retired members & 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 as of June 30, 2018, are summarized in the table below.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.6%	4.00%
Domestic Equity	36.0%	4.55%
Foreign Equity	18.0%	6.35%
Fixed Income	23.4%	1.00%
Private Equity	12.0%	7.75%
Real Estate	8.0%	4.00%
Total	100.0%	

Discount Rate: The discount rate used to measure the 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 would be made based on the Board's funding policy, which established the contractually required rates under the Montana Code Annotated. The state contributed 0.10% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed a statutory appropriation from the general fund. Based on those assumptions, the Plan'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 employer'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.

As of measurement date	**1.0% Decrease (6.65%)**	**Current Discount Rate (7.65%)**	**1.0% Increase (8.65%)**
Miles Community College's Net Pension Liability	$2,059,908	$1,424,328	$902,415

PERS Disclosure for the defined contribution plan

Miles 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 state 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 contribut6ions 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 employer 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.

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

NOTE 9 OTHER POST EMPLOYMENT BENEFITS

On July 1, 2017, the College implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which recognizes a long-term obligation for OPEB benefits.

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 government pays OPEB liability costs on a pay-as-you-go basis. A trust fund for future liabilities has not been established.

Annual OPEB Cost and 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, 2017. 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.

Valuation Result Highlights	March 31, 2019
Actuarially Determined Contribution (ADC)	$ 37,765
Total OPEB Liability	$ 357,057
Participants	75

- 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 analyses required by GASB 75

The first sensitivity analysis is required to show how your liability will change based on your 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 is: 3.79%

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

	Discount Rate -1%	Baseline	Discount Rate +1%
Discount Rate	2.79%	3.79%	4.79%
Net OPEB Liability	$426,006	$357,057	$303,213
Change from Baseline	$68,949	$-	($53,844)

Sensitivity 2: Change in Healthcare Trend Rate

The healthcare trend rate baseline is:

	Medical	Pharmacy
Year 1	7.00%	7.00%
Year 2	6.50%	6.50%
Year 3	6.00%	6.00%
Year 5	5.90%	5.90%
Year 5	5.70%	5.70%
Year 6	5.60%	5.60%
Year 8	5.50%	5.50%
Year 8	5.30%	5.30%
Year 9	5.20%	5.20%
Year 10+	4.80%	4.80%

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.

	Baseline Trend -1%	Baseline	Baseline Trend +1%
Net OPEB Liability	$297,308	$357,057	$435,353
Change from Baseline	(59,749)	$-	$78,296

Recognition of Deferred Outflows and Inflows

At June 30, 2019, 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:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience, and changes of assumptions or other inputs		$ (1,147)
Benefits payments subsequent to measurement date	$ 10,069	

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

Year ended June 30	
2020	$ 1,147
2021	1,147
2022	1,147
2023	1,147
Thereafter	$ 8,006

OPEB Expense

For the year ended June 30, 2019, the College recognized OPEB expense of $29,498.

Total OPEB Liability

For the year ended June 30, 2019, the College recognized a total OPEB liability of $357,057.

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:

Valuation Date	December 31, 2017
Measurement Date	March 31, 2019
Interest/Discount rate (average anticipated rate)	3.79%
Average salary increases (consumer price index)	4.00%
Participant percentage:	
Future retirees assumed to elect coverage at retirement	55.00%
Future eligible spouses of future retire 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 10 INSURANCE BENEFITS TO RETIRED EMPLOYEES

On July 1, 2017, the College implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which recognizes a long-term obligation for OPEB benefits. GASB 75 applies to most benefits that are provided after retirement other than pension benefits: medical insurance, dental, vision, and hearing benefits plus life insurance and other non-pension post-employment benefits. The philosophy driving the accounting standard is that these post-employment benefits are part of the compensation that is paid to employees in return for their services, and the cost of these benefits should be recognized while the employees are providing those services, rather than after they have retired.

Plan Description

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

1. They have worked at the College for at least 10 years of continuous service.
2. They are eligible for retirement benefits in the Montana State Retirement System.
3. They retire from the College as a full-time employee.

Benefits Provided

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

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

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

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

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

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

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. 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. A trust fund for future liabilities has not been established.

Employees covered by benefit terms

At June 30, 2019 the following employees were covered by the benefit terms:

Active employees	63
Retired employees	10
Terminated	0
Total	73

Total OPEB Liability

The College's total OPEB liability of $475,810 was measured as of June 30, 2019 and was determined by an actuarial valuation as of the date.

Sensitivity Analysis

The first sensitivity analysis is required to show how your liability will change based on your 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 is: 2.790%

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

	Discount Rate -1%	Baseline	Discount Rate +1%
Discount Rate	1.79%	2.79%	3.79%
Net OPEB Liability	$513,797	$475,810	$442,144
Change from Baseline	$37,987	$-	($33.666)

Sensitivity 2: Change in Healthcare Trend Rate

The healthcare trend rate baseline is:

	Medical	Pharmacy	Dental	Vision
Year 1	4.600%	7.600%	3.500%	3.000%
Year 2	4.700%	6.200%	3.000%	3.000%
Year 3	4.800%	4.900%	3.000%	3.000%
Year 4	4.800%	4.800%	3.000%	3.000%
Year 5	4.800%	4.800%	3.000%	3.000%
Year 6	4.800%	4.800%	3.000%	3.000%
Year 7	4.700%	4.700%	3.000%	3.000%
Year 8	4.700%	4.700%	3.000%	3.000%
Year 9	4.700%	4.700%	3.000%	3.000%
Year 10+	4.700%	4.700%	3.000%	3.000%

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.

	Baseline Trend -1%	Baseline	Baseline Trend +1%
Net OPEB Liability	$464,597	$475,810	$487,523
Change from Baseline	(11,213)	$-	$11,713

Changes in Net OPEB Liability

Line #		Total OPEB Liability
1	Balance as of Prior Measurement Date	$712,226
2	Service Cost	$59,570
3	Interest on Total OPEB Liability	$19,295
4	Effect of Plan Changes	$-
5	Effect of Economic/Demographic Gains or Losses	$(304,740)
6	Effect of Assumptions Changes or Inputs	$(10,541)
7	Benefit Payments	$-
8a	Employer Contributions	N/A
8b	Employee Contributions	N/A
9	Net Investment Income	N/A
10	Administrative Expenses	N/A
11	Balance as of Current Measurement Date	$475,810

Calculation of OPEB Expense

Item	Value
Service Cost	$ 59,570
+ Interest on Total OPEB Liability	19,295
+ Effect of Plan Changes	-
+ Administrative Expenses	-
- Employee Contributions	-
- Expected Investment Return Net of Investment Expenses	-
+ Recognition of Deferred Inflows/Outflows of Resources	(304,740)
+ Recognition of Effect of Assumptions Changes or Inputs	(10,541)
OPEB Expense	$ (236,416)

Actuarial Methods and Assumptions

The actuarial funding methods used to determine the cost was the Entry Age Actuarial Cost Method.

The following actuarial methods and assumptions were used:

Average retirement age	62
Interest/Discount rate (average anticipated rate)	2.50%
Average salary increases (consumer price index)	2.70%
Participant percentage	100.00%

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 11 NET POSITIONS

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.

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

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

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

NOTE 12 RELATED PARTY TRANSACTIONS

The following schedule presents significant transactions between the primary government and its component units during the year ended June 30, 2019:

Component Unit	Significant Transactions
Miles Community College Foundation	
Ag Advancement Center	$ 31,450
Scholarships, Stipends and Other	34,320
	$ 65,770

NOTE 13 RISK MANAGEMENT

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

Insurance Policies:

Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employees' torts, and professional liabilities. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the College has no coverage for potential losses from environmental damages.

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions - OPEB
Montana University System OPEB Plan
Last 10 - Fiscal Years*

Actuarial Valuation Date	Actuarilly Determined Contribution (ADC)	Total OPEB Liability (TOL)	Covered Employee Payroll	TOL as a percentage of Payroll	Participants
March 31, 2018	$ 34,863	$ 323,548	$ 3,502,122	9.24%	75
March 31, 2019	$ 37,765	$ 357,057	$ 3,706,757	9.63%	75

Schedule of Employer's Proportionate Share of Total OPEB Liability
Montana University System OPEB Plan
Last 10 - Fiscal Years*

Measurement Date	Employer's Portion of the OPEB Liability	Employer's Proportionate Share of OPEB Liability	Covered Employee Payroll	TOL as a percentage of Payroll
March 31, 2018	0.0087298	$ 323,548	$ 3,502,122	9.24%
March 31, 2019	0.0081694	$ 357,057	$ 3,706,757	9.63%

No assets are accumulated in a trust that meets the criteria in GASB Statement No. 75, paragraph 4; these benefits are funded on a pay-as-you-go basis.

Schedule of Changes in OPEB Liability
Miles Community College Group Insurance Plan Other Post-Employment Benefits
Last 10 - Fiscal Years*
Reported as of the year end date June 30

	2019	2018
Beginning OPEB Liability	$ 712,226	$ 542,287
Service Cost	59,570	66,494
Interest on Total OPEB Liability	19,295	15,220
Effect of Plan Changes	-	-
Effect of Economic/Demographic	(304,740)	
Gains or Losses	(10,541)	88,225
Effective Changes or Inputs	-	-
Benefit Payments	-	-
Ending OPEB Balance	$ 475,810	$ 712,226

*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.

No assets are accumulated in a trust that meets the criteria in GASB Statement No. 75, paragraph 4; these benefits are funded on a pay-as-you-go basis.

See accompanying Notes to the Financial Statements

Schedule of Employer's Proportionate 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	0.1405%	0.1308%	0.1244%	0.1248%	0.1231%
Employer's proportion share of the net pension liability	$ 2,608,297	$ 2,205,990	$ 2,272,867	$ 2,051,243	$ 1,894,158
State of Montana's proportionate share of the net pension liability associated with the Employer	1,624,965	1,400,481	1,484,012	1,380,508	1,299,891
Total	$ 4,233,262	$ 3,606,471	$ 3,756,879	$ 3,431,751	$ 3,194,049
Employer's covered payroll	1,903,011	1,725,685	1,614,843	1,593,474	1,552,261
Employer's proportion share of the net pension liability as a percentage of its covered payroll	137.06%	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 Proportionate Share of Net Pension Liability
Public Employees 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	0.0682%	0.0886%	0.0857%	0.0795%	0.0842%
Employer's proportion share of the net pension liability	$ 1,424,328	$ 1,725,188	$ 1,459,739	$ 1,111,249	$ 1,048,591
State of Montana's proportionate share of the net pension liability associated with the Employer	478,291	24,738	17,836	13,650	12,805
Total	$ 1,902,619	$ 1,749,926	$ 1,477,575	$ 1,124,899	$ 1,061,396
Employer's covered payroll	$ 1,123,634	$ 1,098,836	$ 1,026,516	$ 927,732	$ 952,643
Employer's proportion share of the net pension liability as a percentage of its covered payroll	126.76%	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%	79.90%

* GASB Statement No. 68 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.

Schedule of Contributions
Teacher's Retirement System
Last 10 - Fiscal Years *
As of Fiscal Year-end Date of June 30,

	2019	2018	2017	2016	2015
Contractually required contributions	$ 224,260	$ 167,114	$ 152,028	$ 141,834	$ 150,470
Contributions in relation to the contractually required contributions	$ 224,260	$ 167,114	$ 152,028	$ 141,834	$ 150,470
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 2,221,785	$ 1,903,011	$ 1,725,685	$ 1,614,943	$ 1,593,474
Contributions as a percentage of covered payroll	10.09%	8.78%	8.81%	8.78%	9.44%

Schedule of Contributions
Public Employees Retirement Systems of Montana
Last 10 - Fiscal Years *
As of Fiscal Year-end Date of June 30,

	2019	2018	2017	2016	2015
Contractually required contributions	$ 93,796	$ 95,058	$ 91,974	$ 90,371	$ 84,347
Contributions in relation to the contractually required contributions	$ 93,796	$ 95,058	$ 91,974	$ 90,371	$ 84,347
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 1,094,463	$ 1,123,634	$ 1,098,986	$ 1,026,516	$ 927,732
Contributions as a percentage of covered payroll	8.57%	8.46%	8.37%	8.80%	9.09%

* GASB Statement No. 68 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.

NOTE 1 TEACHER'S RETIREMENT SYSTEM

Changes of Benefit Terms:

The following changes to the plan provision were made as identified:

The 2013 Montana Legislature passed HB 377 which provides additional revenue and created a two-tier benefit structure. A Tier One Member is a person who first became a member before July 1, 2013 and has not withdrawn their member's account balance. A Tier Two Member is a person who first becomes a member on or after July 1, 2013 or after withdrawing their member's account balance, becomes a member again on or after July 1, 2013.

The second-tier benefits structure for members hired on or after July 1, 2013 is summarized below.

- Final Average Compensation: average of earned compensation paid in five consecutive years of full-time service that yields the highest average.
- Service Retirement: Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55.
- Early Retirement: Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55.
- Professional Retirement Option: if the member has been credited with 30 or more years of service and has attained the age of 60, they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%.
- Annual Contribution: 8.15% of member's earned compensation.
- Supplemental Contribution Rate: On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
  - The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
  - The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
  - A state or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.
- Disability Retirement**:** A member will not be eligible for a disability retirement if the member is or will eligible for a service retirement on the date of termination.
- Guaranteed Annual Benefit Adjustment (GABA):
  - If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

HB 377 increased revenue from the members, employers and the state as follows:

- Annual state contribution equal to $25 million paid to the System in monthly installments
- One-time contribution payable to the Retirement System by the trustees of a school district maintaining a retirement fund. The one-time contribution to the Retirement System shall be the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. The amount received was $22 million in FY 2014.

- 1% supplemental employer contribution. This will increase the current employer rates:
  - School districts contributions will increase from 7.47% to 8.47%.
  - The Montana University System and state agencies will increase from 9.85% to 10.85%.
  - The supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 thru fiscal year 2024. Fiscal years beginning after June 30, 2024 the total supplemental employer contribution will be equal to 2%.
- Members hired prior to July 1, 2013 (Tier 1) under HB 377 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.
- Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position to the System.

Changes in actuarial assumptions and other inputs:

The following changes to the actuarial assumption were adopted in 2018:

- 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 4.00% to 3.25%.
- 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 table includes 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 for Males, 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.
- Rated of salary increase were updated.

The following changes to the actuarial assumption were adopted in 2016:

- The normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.

The following changes to the actuarial assumptions were adopted in 2015:

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three-year COLA deferral period for Tier 2 Members.
- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility).
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.5% as state in the actuarial valuation report.

- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the $500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the System" are covered by the $500 death benefit after termination.

The following changes to the actuarial assumptions were adopted in 2014:

- Assumed rate of inflation was reduced from 3.50% to 3.25%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- Assumed real wage growth was reduced from 1.00% to 0.75%.
- Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
  - For Males: RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements expected by Scale BB to 2018.
- Mortality among disabled members was updated to the following:
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Method and assumptions used in calculations of actuarially determined contributions:

Actuarial cost method	Entry Age
Amortization method	Level percentage of pay, open
Remaining amortization period	22 years
Asset valuation method	4-year smoothed market
Inflation	3.25%
Salary increase	4.00% to 8.51%, including inflation for non-university members and 5.00% for university members;
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation

NOTE 2 PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Changes of Benefit Terms*:*

The following changes to the plan provision were made as identified:

2017:
Working Retiree Limitations- for PERS

Effective July 1, 2017, if a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

Refunds

1. Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
2. Terminating members with accumulated contributions between $200 and $1,000 who wish to rollover their refund must do so within 90 days of termination of service.
3. Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

Interest credited to member accounts

Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.

Lump-sum payouts

Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contributions rate than the present value of the member's benefit.

Disabled PERS Defined Contribution (DC) Members

PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS DC members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS DC disabled members hired prior to July 1, 2011 who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculation of actuarially determined contributions

The following actuarial assumptions were adopted from the June 2016 Experience Study:

General wage growth*	3.50%
Investment rate of return*	7.65%
*Includes inflation at	2.75%
Merit salary increases	0.00% to 6.30%
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Mortality (Healthy members)	For males and females: RP 2000 Combined Employee and Annuitant Mortality table projected to 2020 using scale BB, males set back 1 year.
Mortality (Disabled members)	For males and females: RP 2000 Combined Mortality table, with no projections
Admin expense as % of payroll	0.26%

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2019

SUPPLEMENTARY INFORMATION

Account Type	Instruction	Public Service	Academic Support	Student Services	Scholarships and Fellowships	Institutional Support	Operation and Maintenance	Auxiliary	Totals
Personnel services	$2,406,997	$ 88,464	$ 487,631	$ 844,893	$ -	$ 723,534	$ 273,838	$ 475,041	$5,300,398
Scholarships and grants	-	-	-	112,296	1,099,582	-	-	53,513	1,265,391
Contracted Services	75,281	6,441	69,986	347,720	-	144,486	284,624	152,390	1,080,928
Supplies	123,752	2,250	30,440	150,484	-	4,159	66,729	518,527	896,341
Depreciation expense	-	-	-	-	-	-	630,841	-	630,841
Other operating expense	102,036	11,780	95,922	42,145	-	100,465	947	15,478	368,773
Travel	19,160	4,045	6,981	123,890	-	17,933	-	2,215	174,224
	$2,727,226	$ 112,980	$ 690,960	$1,621,428	$ 1,099,582	$ 990,577	$1,256,979	$1,217,164	$9,716,896

See accompanying Notes to the Financial Statements

	Pell	CWS	SEOG
Beginning cash balance	$ (37,218)	$ (31,210)	$ 1,423
Additions:			
Prior year carryforward		3,551	
Federal advances	765,498	35,514	28,262
Matching funds	-	7,455	11,700
Non mandatory transfer		-	6,838
Total additions	$ 765,498	$ 46,520	$ 46,800
Deductions:			
Distribution to students	835,922	36,411	46,800
Administrative expenses	-	1,791	-
Non mandatory transfer	-	6,838	-
Total deductions	$ 835,922	$ 45,040	$ 46,800
Net change to cash	$ (33,206)	$ 32,690	$ (1,423)
Ending cash balance	$ (70,424)	$ 1,480	$ -

See accompanying Notes to the Financial Statements

College Work Study	
Wages	$ 36,411
Administrative cost	1,791
Non mandatory transfer to SEOG	6,838
Total College Work Study	$ 45,040
Supplemental Education Opportunity Grant Program	
Student Grants	$ 46,800
Pell Grant Program	
Student grants	$ 843,541

See accompanying Notes to the Financial Statements

Semester	Resident	WUE	Nonresident	Total
Summer 2018	60.5	0.5	1.6	62.6
Fall 2018	319.5	25.7	48.8	394.0
Spring 2019	386.3	25.5	44.2	456.0

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

WIPFLi LLP
CPAs and Consultants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Miles Community College
Miles City, Montana

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit, and the aggregate remaining fund information of Miles Community College (the "College") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated April 16, 2020.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

Wipfli LLP

Wipfli LLP

Billings, Montana
April 16, 2020

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2019

Section I – Summary of Auditor Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness	____ yes	X no
Significant deficiency	____ yes	X no
Noncompliance material to financial statements noted?	____ yes	X no

Section II - Financial Statement Findings and Responses

None

Section IV – Summary of Prior Audit Findings

None