FLATHEAD VALLEY COMMUNITY COLLEGE

FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2018

**AUDIT REPORT**

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

January 2019

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Flathead Valley Community College for the fiscal year ended June 30, 2018.

The audit was conducted by Eide Bailly LLP, under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The College's written response to the report is included in the back of the audit report.

Respectfully submitted,

*/s/ Angus Maciver*

Angus Maciver
Legislative Auditor

18C-07

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Financial Section
June 30, 2018

# Flathead Valley Community College

# Independent Auditor's Report

Board of Trustees
Flathead Valley Community College
Kalispell, Montana

**Report on the Financial Statements**
We have audited the accompanying financial statements of the business-type activities of Flathead Valley Community College (the College), as of and for the year ended June 30, 2018, and the financial statements of the discretely presented component unit as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

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

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

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

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

**Opinion**

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the discretely presented component unit of the College, as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Notes 1 and 11 to the financial statements, the College has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions*, which has resulted in a restatement of the net position as of July 1, 2017. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Employer's Proportionate Share of Net OPEB Liability, the Schedule of Employer Contributions – OPEB, the Schedule of Employer's Share of Total Pension Liability, the Schedule of Employer Contributions, and the notes to required supplementary information, as noted in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Student Financial Aid – Modified Statement of Cash Receipts and Disbursements, the Schedule of Expenditures – Student Financial Assistance Programs, the Schedule of Full Time Equivalents, and the Schedule of Functional Classification of Operating Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* and *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements.

The Schedule of Student Financial Aid – Modified Statement of Cash Receipts and Disbursements, the Schedule of Expenditures – Student Financial Assistance Programs, the Schedule of Full Time Equivalents, the Schedule of Functional Classification of Operating Expenses, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules noted above are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2019 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
January 28, 2019

## Overview

The following Management's Discussion and Analysis is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. Flathead Valley Community College's (the College) Management Discussion and Analysis (MD&A) presents an overview of its financial condition and results of operations for the fiscal year ended June 30, 2018. The MD&A's purpose is to aid readers in understanding the accompanying financial statements through analysis of the College's financial activities based on currently known facts and conditions. This MD&A should be read in conjunction with the accompanying financial statements and footnote disclosures.

## Financial Highlights

In fiscal year 2018, operating loss was $14.3 million, compared with $15.9 million in 2017. Non-operating revenues including contributions decreased to $15.2 million in 2018 compared to $16 million in 2017, resulting in a change in net position of $940 thousand in 2018 and $129 thousand in 2017.

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

## How the Financial Statements Relate to Each Other

The financial statements included are the:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows

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

The financial statements referred to above are interrelated and should be viewed in their entirety. The Statement of Net Position presents a snap shot of the financial condition of the College on June 30. The Statement of Revenues, Expenses, and Changes in Net Position presents the results of activities for the College throughout the fiscal year. The Statement of Cash Flows indicates where and how cash was utilized and provided in order to operate throughout the fiscal year.

**Change in Accounting Principle**

In fiscal year 2018, the District adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Other Post Employment Benefits (OPEB)* (GASB 75). The tables in this discussion presented to for the year ended June 30, 2017, have not been restated for the implementation of GASB 75.

**Statement of Net Position**

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

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

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

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

The following is a summary of the Statements of Net Position at June 30, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Current Assets | $ 15,551,938 | $ 15,830,214 |
| Capital and Other Assets | 40,793,540 | 40,376,622 |
| Total assets | 56,345,478 | 56,206,836 |
| Deferred Outflow of Resources | 3,616,488 | 3,524,737 |
| Current liabilities | 3,546,415 | 3,562,024 |
| Non-Current Liabilities | 35,594,069 | 38,405,941 |
| Total liabilities | 39,140,484 | 41,967,965 |
| Deferred Inflow of Resources | 1,223,392 | 675,121 |
| Net Investment in Capital Assets | 21,329,033 | 19,623,393 |
| Restricted-expendable | 1,011,106 | 1,000,781 |
| Unrestricted | (2,742,049) | (3,535,687) |
| Total net position | $ 19,598,090 | $ 17,088,487 |

Current assets include the College's cash, taxes, grants, student loans, accounts receivables, inventories and other assets expected to benefit the College within one year. Current assets decreased $278 thousand in 2018 compared to 2017. The decrease was due to a decrease in cash and cash equivalents, offset by an increase in receivables. Receivables increased primarily due to timing of payments from various grants and the Foundation.

Non-current assets include restricted cash and investments and net capital assets. Non-current assets increased $417 thousand in 2018 compared to 2017. The increase is primarily due to the addition of a new building, Founder's Hall, offset by the annual depreciation expense.

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

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

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

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

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

Restricted-expendable net position represents funds that may be expended by the College but only in accordance with restrictions imposed by an external party, such as a donor, governmental entity, etc. It is restricted for debt service.

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

**Statement of Revenues, Expenses, and Changes in Net Position**

The Statement of Revenues, Expenses, and Changes in Net Position reflects the results of operations for each fiscal year, distinguishing between operating and non-operating revenues and expenses as defined by GASB 35. GASB 35 has defined appropriations (state and local) as non-operating revenues, thus, the College is showing an operating loss of $14.3 million and $15.9 million for 2018 and 2017, respectively. Once the non-operating revenues, gain/loss on capital assets, and contributions are considered, the results become a change in net position of $940 thousand and $129 thousand for 2018 and 2017, respectively. Inclusion of non-operating revenues (state and local appropriations) is a more useful measure of the College's activities.

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

| | 2018 | 2017 |
|---|---|---|
| Operating Revenues | $ 18,325,577 | $ 18,009,595 |
| Operating Expenses | 32,623,806 | 33,893,151 |
| Operating Loss | (14,298,229) | (15,883,556) |
| Net Non-Operating Revenues | 15,226,868 | 15,502,768 |
| Contributions | 10,905 | 450,000 |
| Gain on Sale of Capital Assets | - | 60,196 |
| Change in Net Position | $ 939,544 | $ 129,408 |

Operating revenues include federal and state grants and contracts, tuition, fees and auxiliary activities. Operating revenues increased $316 thousand in 2018 compared to 2017 due to an increase in tuition and auxiliary activities, offset by a decrease in federal grants and contracts.

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

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

The College received capital contributions of $10,905 in 2018 and $450,000 in 2017, due in large part to the finalized construction of Founder's Hall.

**Capital Assets**

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

**Long-term Obligations**

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

**Economic Outlook**

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

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

| | |
|---|---|
| **Assets** | |
| **Current Assets** | |
| Cash, cash equivalents, and investments | $ 13,215,097 |
| Taxes and assessments receivable | 262,908 |
| Grants receivable | 557,203 |
| Tuition and fees receivable, net of allowance for uncollectible amounts of $327,424 in 2018 | 97,083 |
| Other accounts receivable | 1,003,804 |
| Inventories | 296,238 |
| Other assets | 119,605 |
| Total current assets | 15,551,938 |
| **Non-Current Assets** | |
| Restricted cash, cash equivalents, and investments | 1,011,106 |
| Capital assets - non-depreciable | 3,614,901 |
| Capital assets - depreciable, net | 36,167,533 |
| Total non-current assets | 40,793,540 |
| Total assets | 56,345,478 |
| **Deferred Outflow of Resources** | |
| Deferred charge on refunding | 157,642 |
| Deferred outflow on PERS liability | 1,653,836 |
| Deferred outflow on TRS liability | 1,802,605 |
| Deferred outflow on OPEB liability | 2,405 |
| Total deferred outflow of resources | 3,616,488 |

| | |
|---|---|
| Current Liabilities | |
| Accounts payable and accrued liabilities | 491,653 |
| Student deposits payable | 182,230 |
| Deposits payable | 24,541 |
| Interest payable | 163,499 |
| Accrued payroll | 414,961 |
| Unearned revenue - tuition and fees | 227,772 |
| Compensated absences, current portion | 715,614 |
| Long-term liabilities, current portion | 1,326,145 |
| Total current liabilities | 3,546,415 |
| Non-Current Liabilities | |
| Long-term liabilities, net of current portion | 17,284,898 |
| Compensated absences, net of current portion | 930,233 |
| Net pension liability | 16,506,457 |
| Obligation for other post-employment benefits | 872,481 |
| Total non-current liabilities | 35,594,069 |
| Total liabilities | 39,140,484 |
| Deferred Inflow of Resources | |
| Deferred inflow on PERS liability | 1,101,048 |
| Deferred inflow on TRS liability | 85,284 |
| Deferred inflow on OPEB liability | 37,060 |
| Total deferred inflow of resources | 1,223,392 |
| Net Position | |
| Net investment in capital assets | 21,329,033 |
| Restricted - Expendable | |
| Debt service | 1,011,106 |
| Unrestricted | (2,742,049) |
| Total net position | $ 19,598,090 |

| | |
|---|---|
| **Operating Revenues** | |
| Tuition and fees, net of scholarship allowances of $859,920 in 2018 | $ 6,790,513 |
| Federal grants and contracts | 6,235,259 |
| State grants, contracts, and aid | 994,183 |
| Private and local grants and contracts | 1,479,355 |
| Indirect cost recoveries | 104,083 |
| Seminars and workshops | 85,948 |
| Auxiliary activities | 2,345,462 |
| Other operating revenues | 290,774 |
| Total operating revenues | 18,325,577 |
| **Operating Expenses** | |
| Personnel services | 18,086,919 |
| Pension related personnel expenses | 1,163,190 |
| Travel | 227,388 |
| Supplies | 2,029,587 |
| Contracted services | 2,471,479 |
| Bad debt expense | 80,365 |
| Scholarships and grants | 5,969,014 |
| Non-capitalized equipment | 374,337 |
| Other operating expenses | 203,481 |
| Depreciation and amortization | 2,018,046 |
| Total operating expenses | 32,623,806 |
| Operating Loss | (14,298,229) |
| **Non-Operating Revenues (Expenses)** | |
| State appropriations | 8,660,964 |
| Statewide equalization millage | 553,387 |
| Local appropriations | 6,419,027 |
| Interest revenue | 191,792 |
| Interest expense | (598,302) |
| Gain on disposal of capital assets | - |
| Total non-operating revenues | 15,226,868 |
| Net Income (Loss) Before Capital Contributions | 928,639 |
| Capital Contributions | 10,905 |
| Change in Net Position | 939,544 |
| Net Position, Beginning of Year, as restated | 18,658,546 |
| Net Position, End of Year | $ 19,598,090 |

| | |
|---|---|
| Operating Activities | |
| Tuition and fees | $ 6,790,305 |
| Federal grants and contracts | 6,459,477 |
| Other grants and contracts | 2,473,538 |
| Seminars and workshops | 85,948 |
| Auxiliary activities | 2,014,537 |
| Other | 394,857 |
| Payments to suppliers | (2,990,598) |
| Payments for contracted services | (2,471,479) |
| Payments for scholarships and grants | (5,969,014) |
| Payments to employees | (18,638,398) |
| Net Cash used for Operating Activities | (11,850,827) |
| Noncapital Financing Activities | |
| State appropriations | 8,660,964 |
| Local appropriations | 6,963,737 |
| Net Cash from Noncapital Financing Activities | 15,624,701 |
| Capital and Related Financing Activities | |
| Acquisition and construction of capital assets | (2,413,734) |
| Principal paid on capital debt | (1,318,752) |
| Interest paid on capital debt | (608,211) |
| Net Cash used for Capital and Related Financing Activities | (4,340,697) |
| Investing Activities | |
| Interest on investments | 191,792 |
| Net Cash from Investing Activities | 191,792 |
| Net Change in Cash, Cash Equivalents, and Investments | (375,031) |
| Cash, Cash Equivalents and Investments, Beginning of Year | 14,601,234 |
| Cash, Cash Equivalents and Investments, End of Year | $ 14,226,203 |

| | |
|---|---|
| Reconciliation of Operating Loss to Net Cash used for Operating Activities | |
| Operating loss | $ (14,298,229) |
| Adjustments to reconcile net loss to net cash used for operating activities | |
| Depreciation and amortization | 2,018,046 |
| GASB 68 - Actuarial pension expense | 490,718 |
| Change in OPEB obligation | 93,634 |
| Changes in assets and liabilities | |
| Grants receivable | 224,218 |
| Tuition and fees receivable | 3,567 |
| Other accounts receivable | (330,925) |
| Inventories | (51,987) |
| Other assets | 56,724 |
| Accounts payable and accrued liabilities | (87,377) |
| Student deposits payable | (7,203) |
| Deposits payable | 14,403 |
| Accrued payroll | 31,907 |
| Unearned revenue - tuition and fees | (3,775) |
| Compensated absences | (4,548) |
| Net Cash used for Operating Activities | $ (11,850,827) |
| Supplemental Disclosure of Noncash Activity | |
| Contributions of capital assets | $ 10,905 |
| Reconciliation of Cash, Restricted Cash and Cash Equivalents and Investments | |
| Cash, cash equivalents, and investments | $ 13,215,097 |
| Restricted cash, cash equivalents, and investments | 1,011,106 |
| Total cash, cash equivalents, restricted cash, and investments | $ 14,226,203 |

| | |
|---|---|
| **Assets** | |
| **Current Assets** | |
| Cash and cash equivalents | $ 702,342 |
| Investments | 15,271,457 |
| Promises to give | 2,919,448 |
| Other current assets | 40,049 |
| Total current assets | 18,933,296 |
| **Property and Equipment, Net** | 196,918 |
| | $ 19,130,214 |
| **Liabilities and Net Assets** | |
| **Current Liabilities** | |
| Accounts payable and other liabilities | $ 301,740 |
| Foundation scholarships payable | 578,076 |
| Other scholarships payable | 232,520 |
| Deferred revenue | 40,000 |
| Total current liabilities | 1,152,336 |
| **Long-term Liabilities** | |
| Deferred gift liability | 47,331 |
| Total liabilities | 1,199,667 |
| **Net Assets** | |
| Unrestricted | 706,245 |
| Temporarily restricted | 8,548,400 |
| Permanently restricted | 8,675,902 |
| Total net assets | 17,930,547 |
| | $ 19,130,214 |

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Revenues and Other Support | | | | |
| Contributions and other support | $ 306,498 | $ 4,213,324 | $ 521,139 | $ 5,040,961 |
| In-kind donations | 69,685 | 273,363 | - | 343,048 |
| Change in value of split-interest agreements | - | 3,875 | - | 3,875 |
| Net investment gains (losses) | 2,285 | 969,943 | - | 972,228 |
| Investment income | 14,709 | 279,761 | - | 294,470 |
| Net assets released from restriction | 1,155,891 | (1,155,891) | - | - |
| Total revenues and other support | 1,549,068 | 4,584,375 | 521,139 | 6,654,582 |
| Expenses | | | | |
| Program services | | | | |
| Scholarship awards | 627,515 | - | - | 627,515 |
| Program disbursements | 361,040 | - | - | 361,040 |
| Other program expenses | 12,885 | - | - | 12,885 |
| Fundraising | 264,948 | - | - | 264,948 |
| Supporting services | | | | |
| Professional fees | 19,367 | - | - | 19,367 |
| Investment management fees | 66,211 | - | - | 66,211 |
| Management and general | 218,062 | - | - | 218,062 |
| Total expenses | 1,570,028 | - | - | 1,570,028 |
| Change in Net Assets | (20,960) | 4,584,375 | 521,139 | 5,084,554 |
| Net Assets, Beginning of Year | 727,205 | 3,964,025 | 8,154,763 | 12,845,993 |
| Net Assets, End of Year | $ 706,245 | $ 8,548,400 | $ 8,675,902 | $17,930,547 |

## Note 1 - Principal Business Activity and Significant Accounting Policies

### Description of Entity

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

### Reporting Entity

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

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

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

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

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

**Basis of Accounting**

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

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

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

**Cash, Cash Equivalents, and Investments**

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

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

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

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

**Property Tax Receivable**

Property taxes levied through 2018 are recorded as receivables. Property tax levies are set in August, in connection with the budget process, and are based on taxable values listed as of January 1 for all property. Taxable values are established by the Montana Department of Revenue, and a revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value. Real property taxes are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

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

**Receivables**

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

**Inventories**

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

**Restricted Cash and Cash Equivalents**

In accordance with debt covenant restrictions and agency fund requirements, the College is obligated to separately hold cash amounts sufficient to satisfy the debt payments. These amounts are shown as noncurrent assets.

**Capital Assets**

Capital assets are stated at cost when purchased or constructed, or if donated, at the estimated acquisition value at the date of the gift. For equipment, the College's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Buildings and building improvements costing more than $25,000, any land purchases regardless of cost, land improvements and infrastructure costing $10,000 or more, and library books treated as a collection and valued at 3% or more of total capital assets reported by the College are capitalized. Renovations and improvements to buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the period in which the expense was incurred.

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

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

**Unearned Revenue**

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

**Compensated Absences**

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

**Net Position**

The College’s net position is classified as follows:

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

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

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

**Classification of Revenues**

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

> **Operating Revenues** – Operating revenues include activities that have the characteristics of exchange transactions, such as: student tuition and fees, net of scholarship discounts and allowances; sales and services of auxiliary enterprises, and contracts and federal appropriations.
>
> **Non-Operating Revenues** – Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 34 and 35, such as state appropriations, property taxes and most federal, state and local grants, and investment income.

**Scholarship Discounts and Allowances**

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

**Income Taxes**

As a public institution of higher education, the income of the College is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the College is subject to federal income tax on any unrelated business taxable income. Defined by the Internal Revenue Code, unrelated business income is income from a trade or business, regularly carried on, that is not substantially related to the performance by the college of its exempt purpose or function. The College does not have unrelated business income tax to report during the fiscal year ended June 30, 2018.

**Deferred Outflows and Inflows of Resources**

The Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. The College has three items that qualify for reporting in this category: the pension liability, the OPEB liability, and the deferred charge on refunding. The pension liability results in changes in assumptions or other inputs in the actuarial calculation of the College's net pension liability. The OPEB liability results from differences between expected and actual experience, and changes in assumptions or other inputs in the actuarial calculation of the College's OPEB liability. The deferred charge on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**Pensions**

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Montana Public Employee Retirement System (PERS) and the Teachers' Retirement System State of Montana (TRS) and additions to/deductions from PERS and TRS fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

**Implementation of GASB 75**

As of July 1, 2017, the College adopted GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions.* The implementation of this standard replaces the requirements of GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* and requires governments calculate and report the costs and obligations associated with postemployment benefits other than pensions (OPEB) in their basic financial statements. Employers are required to recognize OPEB amounts for all benefits provided through the plan which include the net OPEB liability/asset, deferred outflows of resources, deferred inflows of resources, and OPEB expense/revenue. The effect of the implementation of this standard on beginning net position is disclosed in Note 11 and the additional disclosures required by this standard are included in Note 8.

## Note 2 - Capital Assets

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

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

## Note 3 - Lease Obligations

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

| Year Ended June 30, | |
|---|---|
| 2019 | $ 38,231 |
| 2020 | 24,348 |
| 2021 | 22,092 |
| 2022 | 17,815 |
| Totals | $ 102,486 |

## Note 4 - Compensated Absences

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

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

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

## Note 5 - Long-Term Liabilities

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

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

The College issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the College.

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

| Bond | Date Issued | Interest Rate | Term | Maturity | Principal | 2018 Balance |
|---|---|---|---|---|---|---|
| Series 2015A | 1/30/2015 | 2.15% | 10 Years | 7/1/2026 | $ 4,997,500 | $ 4,237,500 |
| Series 2015B | 1/30/2015 | 2.15% | 10 Years | 7/1/2026 | 4,997,500 | 4,237,500 |
| | | | | | $ 9,995,000 | $ 8,475,000 |

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

Approximate future annual minimum principal and interest payments as of June 30, 2018, are as follows:

| Year Ended June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 920,000 | $ 172,323 | $ 1,092,323 |
| 2020 | 940,000 | 152,328 | 1,092,328 |
| 2021 | 965,000 | 131,849 | 1,096,849 |
| 2022 | 995,000 | 110,779 | 1,105,779 |
| 2023 | 1,015,000 | 89,171 | 1,104,171 |
| 2024-2027 | 3,640,000 | 137,063 | 3,777,063 |
| | $ 8,475,000 | $ 793,513 | $ 9,268,513 |

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

Intercap loans outstanding as of June 30, 2018 were as follows:

| Loan | Date Issued | Interest Rate | Term | Maturity | Principal | 2018 Balance |
|---|---|---|---|---|---|---|
| 2489-01 | 4/12/2013 | 0.00-1.25% | 10 Years | 2/15/2023 | $ 2,400,000 | $ 1,226,043 |

Approximate future annual minimum principal and interest payments as of June 30, 2018, are as follows:

| Year Ended June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 241,145 | $ 36,725 | $ 277,870 |
| 2020 | 243,563 | 29,110 | 272,673 |
| 2021 | 246,003 | 21,419 | 267,422 |
| 2022 | 248,470 | 13,651 | 262,121 |
| 2023 | 246,862 | 5,805 | 252,667 |
| | $ 1,226,043 | $ 106,710 | $ 1,332,753 |

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

| Loan | Date Issued | Interest Rate | Term | Maturity | Principal | 2018 Balance |
|---|---|---|---|---|---|---|
| Note Payable | 9/21/2016 | 4% | 30 Years | 5/1/2047 | $ 9,090,000 | $ 8,910,000 |

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

Approximate future annual minimum principal and interest payments as of June 30, 2018, are as follows:

| Year Ended June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 165,000 | $ 354,700 | $ 519,700 |
| 2020 | 175,000 | 348,100 | 523,100 |
| 2021 | 170,000 | 341,100 | 511,100 |
| 2022 | 185,000 | 334,100 | 519,100 |
| 2023 | 1,035,000 | 326,700 | 1,361,700 |
| 2024-2028 | 1,250,000 | 1,511,700 | 2,761,700 |
| 2029-2033 | 1,535,000 | 1,277,000 | 2,812,000 |
| 2034-2038 | 1,865,000 | 991,000 | 2,856,000 |
| 2039-2043 | 2,280,000 | 642,100 | 2,922,100 |
| 2044-2047 | 250,000 | 216,400 | 466,400 |
| | $ 8,910,000 | $ 6,342,900 | $ 15,252,900 |

## Note 6 - TRS Retirement Plan

Plan Description

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

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

Summary of Benefits

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

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)

- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation - 1.85% 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 all TRS Employers including State Agency and University System Employers. Finally, the State is also required to contribute $25 million in perpetuity payable July 1st of each year.

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

| | 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% |

TRS Stand-Alone Statements

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

Net Pension Liability

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

| As of reporting date | Pension Liability | Collective NPL | Percent of Collective NPL |
|---|---|---|---|
| College's Proportionate Share | $ 8,853,215 | 0.5251% | 0.0466% |
| State of Montana Proportionate Share associated with College | 5,619,822 | 0.3333% | 0.0214% |
| Total | $ 14,473,037 | 0.8584% | 0.0680% |

At June 30, 2018, the employer recorded a liability of $8,853,215 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of TRS' participating employers. At June 30, 2018, the employer's proportion was 0.5251 percent, which was an increase of .0466 percent from the prior year.

*Changes in actuarial assumptions and other inputs:* There have been no changes in actuarial assumptions and other inputs since the previous measurement date.

*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. If there were changes that are expected to have an impact on the net pension liability, the employer should disclose the amount of the expected resultant change in the employer's proportionate share of the collective net pension liability, if known.

Pension Expense

| | |
|---|---|
| College's Proportionate Share | $ 1,151,418 |
| State of Montana Proportionate Share associated with the College | 577,563 |
| | $ 1,728,981 |

At June 30, 2018, the employer recognized a Pension Expense of $1,728,981 for its proportionate share of the TRS' pension expense. The employer also recognized grant revenue of $577,563, 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 of Resources

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Actual vs expected experience | $ 32,559 | $ 13,236 |
| Changes in assumptions | - | 37,012 |
| Actual vs. expected investment earnings | - | 35,036 |
| Changes in proportion and difference between actual and expected contributions | 1,064,175 | - |
| *College's contributions subsequent to the measurement date | 705,871 | - |
| | $ 1,802,605 | $ 85,284 |

*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, 2019.

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

| Year ended June 30: | Deferred Outflows of Resources | Deferred Inflows of Resources | Increase (Decrease) in Pension Expense |
|---|---|---|---|
| 2019 | $ 516,647 | $ (158,301) | $ 358,346 |
| 2020 | 602,680 | (20,509) | 582,171 |
| 2021 | 227,192 | - | 227,192 |
| 2022 | - | (156,259) | (156,259) |

Actuarial Assumptions

The Total Pension Liability as of June 30, 2017, is based on the results of an actuarial valuation date of July 1, 2017. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2017 valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

- Total Wage Increases* — 4%-8.51% for Non-University Members and 5.00% for University Members
- Investment Return — 7.75%
- Price Inflation — 3.25%
- 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: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from 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: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- 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 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

*Total Wage Increases include 4.00% general wage increase assumption

Discount Rate

The discount rate used to measure the TPL was 7.75%. 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 2122. 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

The assumed 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 2009 through 2013, is outlined in a report dated May 1,2014. 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 a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant 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 then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption 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. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2017, is summarized below.

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Cash Equivalents | 2.60% | 4.00% |
| Domestic Equity | 36.00% | 4.55% |
| Foreign Equity | 18.00% | 6.35% |
| Fixed Income | 23.40% | 1.00% |
| Private Equity | 12.00% | 7.75% |
| Real Estate | 8.00% | 4.00% |
| | 100.00% | |

The TRS long-term rate of return assumption of 7.75%. The assumed rate is comprised of a 3.25% inflation rate and a real long-term expected rate of return of 4.50%.

The assumed 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 2009 through 2013, is outlined in a report dated May 1, 2014. 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 a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant 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 then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption 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. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2017, is summarized in the above table.

Sensitivity Analysis

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 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate as of June 30, 2018.

| | 1% Decrease 6.75% | Current Discount Rate 7.75% | 1% increase 8.75% |
|---|---|---|---|
| Net pension liability | $ 12,200,006 | $ 8,853,215 | $ 6,034,514 |

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 TRS and additions to/deductions from TRS's fiduciary net position have been determined on the same accrual basis as they are reported by TRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. TRS adheres to all applicable Governmental Accounting Standards Board (GASB) statement.

## Note 7 - PERS Retirement Plan

Plan Description

The PERS-Defined Benefit Retirement Plan (PERS-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, 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 participants of both the *defined benefit* and *defined contribution* retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP).

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature.

Summary of Benefits

**Eligibility for benefit**

**Service retirement:**

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

**Early retirement, (actuarially reduced):**

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

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

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

**Vesting**

5 years of membership service

**Member's highest average compensation (HAC)**

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

**Compensation Cap**

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

**Monthly benefit formula**

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

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

**Guaranteed Annual Benefit Adjustment (GABA)**

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

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

Overview of Contributions

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

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

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

2. Employer contributions to the system:
   a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
   b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

3. Non Employer Contributions:
   a. Special Funding
      i. The State contributes 0.1% of members' compensation on behalf of local government entities.
      ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
   b. Not Special Funding
      i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Trust Permanent Trust fund.

Net Pension Liability

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). As 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, 2017, was determined by taking the results of the June 30, 2016 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 update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

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 counties; cities and towns; school districts and high schools; and other governmental agencies.

Not Special Funding

Per Montana law, state agencies and universities paid their own additional contributions. These employers paid contributions are not accounted for as special funding for state agencies and universities but are reported as employer contributions. The state of Montana, as the non-employer contributing entity, also paid to the Plan coal tax contributions that are not accounted for as special funding for all participating employers.

The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2018 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 a particular employer to the total state contributions paid. The employer recorded a liability of $7,653,242 and the employer's proportionate share was 0.3930 percent as of June 30, 2018, which was a decrease of .0588 percent.

| As of reporting date | Net Pension Liability | Percent of Collective NPL | Change in Percent of Collective NPL |
|---|---|---|---|
| College's Proportionate Share | $ 7,653,242 | 0.3930% | -0.0588% |
| State of Montana Proportionate Share associated with College | 96,291 | 0.4907% | -0.0866% |
| Total | $ 7,749,533 | 0.8837% | -0.1454% |

*Changes in actuarial assumptions and methods*:
Effective July 1, 2017, the following assumption changes were used:

- Lowered the interest rate from 7.75% to 7.65%.
- Lowered the inflation rate from 3.00% to 2.75%.
- Updated non-disabled mortality to the RP-2000 Combined Employee and Annuitant Mortality Table projected to 2020 suing scale BB, males set back 1 year.
- Increased rates of withdrawal.
- Lowered the merit component of the total salary increase.
- Lowered the wage base component of the total salary increase from 4.00% to 3.50%.
- Decreased the administrative expense load from 0.27% to 0.26%.

Effective July 1, 2017, the following method changes were used:

- Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount will vary from year to year based on the prior year's actual administrative expenses.
- To be consistent with the wage base growth change, the payroll growth assumption for amortization as a level percent of pay was reduced from 4.00% to 3.50%.

*Changes in benefit terms:*
Effective July 1, 2017, the following benefit changes were:

- The interest rate credited to member accounts increased from 0.25% to 0.77%.
- Lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

*Changes in proportionate share:* Between the measurement date of the collective NPL and the employer's reporting date there were no changes in proportion that would have an effect on the employer's proportionate share of the collective NPL.

Pension Expense

| | | |
|---|---|---|
| College's Proportionate Share | $ | 426,418 |
| State of Montana Proportionate Share associated with the College | | 5,133 |
| State of Montana Coal Tax for employer | | 109,481 |
| | $ | 541,032 |

At June 30, 2018, the College recognized $426,418 for its proportionate share of the Plan's pension expense and recognized grant revenue of $5,133 for the state of Montana proportionate share of the pension expense associated with the College. Additionally, the College recognized grant revenue of $109,481 from the Coal Severance Tax fund.

Deferred Inflows and Outflows of Resources:

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Actual vs expected experience | $ 188,475 | $ 11,078 |
| Changes in assumptions | 1,046,118 | - |
| Actual vs. expected investment earnings | - | 51,400 |
| Changes in proportion & difference between actual and expected contributions | - | 1,038,570 |
| *College's contributions subsequent to the measurement date | 419,243 | - |
| | $ 1,653,836 | $ 1,101,048 |

*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, 2019.

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

| Year ended June 30: | Recognition of Deferred Outflows and Deferred Inflows in future years as an increase or (decrease) to Pension Expense |
|---|---|
| 2019 | $ (141,500) |
| 2020 | 198,874 |
| 2021 | 239,067 |
| 2022 | (162,896) |

Actuarial Assumptions

The TPL used to calculate the NPL was determined by taking the results of the June 30, 2016 actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2017. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the last actuarial experience study, dated May 2017, for the six-year period July 1, 2010 to June 30, 2016. Among those assumptions were the following:

- 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 4.8%
- Postretirement Benefit Increases:
  - **Guaranteed Annual Benefit Adjustment (GABA)**
    After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, **inclusive** of other adjustments to the member's benefit.
    - 3.0% for members hired prior to July 1, 2007
    - 1.5% for members hired between July 1, 2007 and June 30, 2013
    - Members hired on or after July 1, 2013:
      - 1.5% for each year PERS is funded at or above 90%;
      - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
      - 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections.

Discount Rate

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

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period of July 1, 2010 to June 30, 2016, was outlined in a report dated May 2017 and can be located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, 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 by an investment consultant 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 allocations as of June 30, 2017, are summarized below.

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Cash Equivalents | 2.60% | 4.00% |
| Domestic Equity | 36.00% | 4.55% |
| Foreign Equity | 18.00% | 6.35% |
| Fixed Income | 23.40% | 1.00% |
| Private Equity | 12.00% | 7.75% |
| Real Estate | 8.00% | 4.00% |
| | 100.00% | |

The total long-term assumed rate of return of 7.65% in the experience study. The assumed investment rate is comprised of a 2.75% inflation rate and real rate of return of 4.90%.

Sensitivity Analysis

The sensitivity of the NPL to the discount rate is shown 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 than the current rate as of June 30, 2018 and 2017.

| | 1% Decrease 6.65% | Discount Rate 7.65% | 1% increase 8.65% |
|---|---|---|---|
| Net pension liability | $ 11,146,293 | $ 7,653,242 | $ 4,721,090 |

Summary of Significant Accounting Policies

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 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).

Stand-Alone Statements

The financial statements 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 the MPERA website at http://mpera.mt.gov/index.shtml.

**Defined Contribution Retirement Plan**

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

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

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

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

At the plan level for the measurement period ended June 30, 2017, 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 300 employers that have participants in the PERS-DCRP totaled $396,650.

During the years ended June 30, 2018, the College contributed $27,058 to the plan, with the employees contributing $25,237.

## Note 8 - Postemployment Benefits Other Than Pensions (OPEB)

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

### Plan Description

The healthcare plan provides for, and Montana State Law (§2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post-Employment Benefits (OPEB) liability. Actuaries Northwest has prepared for the Montana University System the Total OPEB Liability (TOL) under Governmental Accounting Standards Boards. The above described OPEB plan does not provide a stand-alone financial report.

### Funding Policy

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

### Annual OPEB Cost and Total OPEB Obligation

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

The Actuarially Determined Contribution (ADC) for the Montana University System Employee Group Benefits Plan has been determined under the entry age normal cost method as of December 31, 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, 2018 |
|---|---|
| Actuarially Determined Contribution | $ 109,937 |
| Total OPEB Liability | $ 872,481 |
| Participants | 212 |

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

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

**Sensitivity Analyses Required by GASB 75**

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

*Sensitivity 1: Change in Discount Rate Assumption*

Discount rate baseline is: 3.89%

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

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

*Sensitivity 2: Change in Healthcare Trend Rate*

The healthcare trend rate baseline is:

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

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

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

**Recognition of Deferred Outflows and Inflows**

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience, and changes of assumptions or other inputs | $ - | $ 37,060 |
| Benefit payments subsequent to measurement date | 2,405 | - |
| | $ 2,405 | $ 37,060 |

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: | |
|---|---|
| 2019 | $ 2,787 |
| 2020 | 2,787 |
| 2021 | 2,787 |
| 2022 | 2,787 |
| Thereafter | 23,507 |

**OPEB Expense**

For the year ended June 30, 2018, the College recognized OPEB expense of $112,174.

**Change in OPEB Obligation**

For the year ended June 30, 2018, the College recognized a total OPEB liability of $872,481.

**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, 2018 |
| Interest/Discount rate (average anticipated rate) | 3.89% |
| Average salary increase (consumer price index) | 4.00% |
| Participant percentage: | |
| Future retirees assumed to elect coverage at retirement | 55.00% |
| Future eligible spouses of future retires assumed to elect coverage | 60.00% |

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

## Note 9 - Related Party Transactions

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

## Note 10 - Component Unit - Flathead Valley Community College Foundation

### Nature of Activities and Summary of Significant Accounting Policies

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

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

**Investments**

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

| | Amortized Cost | FMV |
|---|---|---|
| Cash and cash equivalents | $ 3,685,041 | $ 3,685,041 |
| Government bonds and agencies | 1,748,922 | 1,722,577 |
| Corporate bonds and bond funds | 2,410,036 | 2,431,158 |
| Equity securities and mutual funds | 6,202,056 | 7,432,681 |
| | $ 14,046,055 | $ 15,271,457 |

**Fair Value Measurements**

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

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

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

| | |
|---|---|
| Balance, January 1 | $ 262,853 |
| Pledge payments received | (1,263,065) |
| New pledges made by donors | 3,977,663 |
| Pledges written off | (5,986) |
| Discount on pledges receivable recorded | (52,017) |
| | $ 2,919,448 |

**Promises to Give**

The Foundation records unconditional promises to give expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. Promises to give which will not be received in subsequent years have been discounted by $52,017 using an average discount rate of 2% for the year ended December 31, 2017. No valuation allowance has been established as management does not anticipate any material loss. Unconditional promises to give are estimated to be collected as follows at December 31, 2017:

| | |
|---|---|
| In one year or less | $ 900,397 |
| Between one year and five years | 2,071,068 |
| | $ 2,971,465 |

**Net Assets**

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

**Endowment**

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

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

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

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

| | Board Restricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ 306,130 | $ 2,359,264 | $ 8,102,263 | $ 10,767,657 |
| Investment return | | | | |
| Investment income | - | 280,072 | - | 280,072 |
| Investment management fees | - | (65,762) | - | (65,762) |
| Net appreciation (depreciation) | - | 932,485 | - | 932,485 |
| Total investment return | - | 1,146,795 | - | 1,146,795 |
| Contributions | 26,133 | - | 521,139 | 547,272 |
| Pledge payments received | - | - | 52,500 | 52,500 |
| Appropriation of endowment assets for expenditure | - | (464,258) | - | (464,258) |
| | $ 332,263 | $ 3,041,801 | $ 8,675,902 | $ 12,049,966 |

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA at December 31, 2017 was $8,675,902. There were $3,041,801 in temporarily restricted net assets within the endowment fund at December 31, 2017.

Return Objectives and Risk Parameters

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

## Note 11 - Adoption of New Standard

As of July 1, 2017, the College adopted GASB Statement No. 75, *Accounting and Financial Reporting for Other Post Employment Benefits (OPEB)*. The implementation of this standard replaces the requirements of GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* and requires governments calculate and report the cost and obligations associated with other postemployment benefits other than pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated to retroactively remove the prior OPEB liability reported under GASB Statement No. 45 and adopt the provisions of GASB Statement No. 75 to report the beginning net OPEB liability and total OPEB liability and deferred outflows of resources related to contributions made after the measurement date as follows:

| | |
|---|---|
| Beginning net position as previously reported June 30, 2017 | $ 17,088,487 |
| Prior period adjustment - implementation of GASB 75 | |
| Remove GASB 45 OPEB liability | 2,383,561 |
| Total OPEB liability (measurement date) | (813,502) |
| Total prior period adjustment | 1,570,059 |
| Net position, as restated, July 1, 2017 | $ 18,658,546 |

Required Supplementary Information
June 30, 2018

# Flathead Valley Community College

**Montana University System OPEB Plan**

| Measurement Date | Employer's Portion of the OPEB Liability | Employer's Proportionate Share of OPEB Liability | Covered Payroll | TOL as a Percentage of Payroll |
|---|---|---|---|---|
| March 31, 2018 | 2.27% | $ 872,481 | $ 4,616,337 | 18.90% |

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

Notes to Schedule:
No assets are accumulated in a trust that meets the criterial in paragraph 4 of GASB Statement 75.

**Montana University System OPEB Plan**

| Actuarial Valuation Date | Actuarially Determined Contribution (ADC) | Total OPEB Liability (TOL) | Covered Payroll | TOL as a Percentage of Payroll | Participants |
|---|---|---|---|---|---|
| March 31, 2018 | $ 109,937 | $ 872,481 | $ 4,616,337 | 18.90% | 231 |

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

Notes to Schedule:
No assets are accumulated in a trust that meets the criterial in paragraph 4 of GASB Statement 75.

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

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Employer's proportionate share of the net pension liability | 0.5251% | 0.4785% | 0.4215% | 0.4124% |
| Employer's proportion share of the net pension liability | $ 8,853,215 | $ 8,742,314 | $ 6,924,803 | $ 6,346,285 |
| State of Montana's proportionate share of the net pension liability associated with the Employer | 5,619,822 | 5,698,416 | 4,642,737 | 4,348,969 |
| Total | $ 14,473,037 | $ 14,440,730 | $ 11,567,540 | $ 10,695,254 |
| Employer's covered payroll | $ 6,925,595 | $ 6,211,704 | $ 5,379,430 | $ 5,200,760 |
| Employer's proportional share of the net pension liability as a percentage of its covered payroll | 127.83% | 140.74% | 128.73% | 122.03% |
| Plan fiduciary net position as a percentage of the total pension liability | 70.09% | 66.69% | 69.30% | 70.36% |

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

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Employer's proportionate share of the net pension liability | 0.3930% | 0.4518% | 0.4969% | 0.5001% |
| Employer's proportion share of the net pension liability | $ 7,653,242 | $ 7,695,290 | $ 6,946,058 | $ 6,231,238 |
| State of Montana's proportionate share of the net pension liability associated with the Employer | 96,291 | 94,028 | 85,321 | 76,093 |
| Total | $ 7,749,533 | $ 7,789,318 | $ 7,031,379 | $ 6,307,331 |
| Employer's covered payroll | $ 4,874,643 | $ 5,411,472 | $ 5,798,950 | $ 5,661,067 |
| Employer's proportional share of the net pension liability as a percentage of its covered payroll | 157.00% | 142.20% | 119.78% | 110.07% |
| Plan fiduciary net position as a percentage of the total pension liability | 73.75% | 74.71% | 78.40% | 79.87% |

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

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

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Contractually required contribution | $ 705,871 | $ 669,868 | $ 633,390 | $ 603,944 |
| Contributions in relation to the contractually required contributions | 705,871 | 669,868 | 633,390 | 603,944 |
| Contribution deficiency (excess) | - | - | - | - |
| Employer's pensionable payroll | 7,344,814 | 6,925,595 | 6,211,704 | 5,379,430 |
| Contributions as a percentage of pensionable payroll | 9.61% | 9.67% | 10.20% | 11.23% |

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

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Contractually required contribution | $ 419,243 | $ 426,303 | $ 462,645 | $ 500,326 |
| Contributions in relation to the contractually required contributions | 419,243 | 426,303 | 462,645 | 500,326 |
| Contribution deficiency (excess) | - | - | - | - |
| Employer's pensionable payroll | 4,621,102 | 4,874,643 | 5,411,472 | 5,798,950 |
| Contributions as a percentage of pensionable payroll | 9.07% | 8.75% | 8.55% | 8.63% |

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

TRS:

***Changes 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 benefit structure for members hired on or after July 1, 2013 is summarized below.

1) **Final Average Compensation**: average of earned compensation paid in five consecutive years of full-time service that yields the highest average
2) **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
3) **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
4) **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%
5) **Annual Contribution**: 8.15% of member's earned compensation
6) **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:
    a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
    b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
    c. 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.
7) **Disability Retirement:** A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination
8) **Guaranteed Annual Benefit Adjustment (GABA)**:
    a. 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 assumptions 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 8.50% as stated 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 projected 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 percent |
| Salary increase | 4.00 to 8.51 percent, including inflation for Non-University Members and 5.00% for University Members; |
| Investment rate of return | 7.75 percent, net of pension plan investment expense, and including inflation |

PERS:

**Changes of Benefit Terms**

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

**2015 Legislative Changes:**

General Revisions - House Bill 101, effective January 1, 2016

**Second Retirement Benefit** - for PERS

1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:
    - refund of member's contributions from second employment plus regular interest (currently 0.25%);
    - no service credit for second employment;
    - start same benefit amount the month following termination; and
    - GABA starts again in the January immediately following second retirement.

2) For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
    - member receives a recalculated retirement benefit based on laws in effect at second retirement;
    - GABA starts in the January after receiving recalculated benefit for 12 months.

3) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
    - refund of member's contributions from second employment plus regular interest (currently 0.25%);
    - no service credit for second employment;
    - start same benefit amount the month following termination; and,
    - GABA starts again in the January immediately following second retirement.

4) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:
    - member receives same retirement benefit as prior to return to service;
    - member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
    - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Revise DC Funding Laws - House Bill 107, effective July 1, 2015

**Employer Contributions and the Defined Contribution Plan** – for PERS and MUS-RP

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

**2017 Legislative Changes:**

General Revisions – House Bill 101, effective July 1, 2017

**Working Retiree Limitations** – for PERS

- 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

**Terminating Employers – Recovery of actuary costs** – for PERS

- Employers who terminate participation in PERS must pay the actuarial liability associated with that termination. Starting July 1, 2017, the terminating employer must also pay for the cost of the actuarial study used to determine that liability

**Refund**

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 entitles to receive only a lump-sum payment.

**Family Law Orders**

- If a Family Law Order (FLO) is silent regarding the apportionment of the post-retirement benefit adjustments such as the Guaranteed Annual Benefit Adjustment (GABA), the FLO is presumed to require apportionment of the post-retirement benefit adjustment in the same percentage as the monthly retirement benefit is apportioned.

**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.

**PERS Statutory Appropriation – House Bill 648, effective July 1, 2017**

- Revenue from coal severance taxes and interest income from the coal severance tax permanent fund previously statutorily-appropriated to the PERS defined benefit trust fund will be replaced with the following statutory appropriations:
    1. FY2018 - $31.386 million
    2. FY2019 - $31.958 million
    3. Beginning July 1, 2019 through at least June 20, 2025, 101% of the contribution from the previous year from the general fund to the PERS defined benefit trust fund, as follows:
        a. FY2020 - $32.277 million
        b. FY2021 - $32.6 million
        c. FY2022 - $32.926 million
        d. FY2023 - $33.255 million
        e. FY2024 - $33.588 million
        f. FY2025 - $33.924 million

**Changes in Actuarial Assumptions and Methods**

**Method and assumptions used in calculations of actuarially determined contributions**

The following Actuarial Assumptions were adopted from the June 30, 2017 actuarial valuation:

| | |
|---|---|
| General Wage Growth* | 3.50% |
| Investment Rate of Return* | 7.65% |
| *Includes Inflation at | 2.75% |
| Merit Salary Increases | 0% to 4.8% |
| Asset Valuation Method | 4-year smoothed market |
| Actuarial Cost Method | Entry age Normal |
| Amortization Method | Level percentage of pay, open |
| 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 |
| 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.

Supplementary Information
June 30, 2018

# Flathead Valley Community College

| | Pell | CWS | SEOG |
|---|---|---|---|
| Assets | | | |
| Beginning cash balance | $ (99,549) | $ (45,402) | $ (4,773) |
| Additions | | | |
| Federal advances | 2,473,886 | 45,402 | 50,014 |
| State matching funds | - | 31,799 | 15,080 |
| Total additions | 2,473,886 | 77,201 | 65,094 |
| Deductions | | | |
| Distribution to students | 2,521,778 | 74,922 | 60,321 |
| Administrative expenses | 3,670 | 96 | - |
| Total deductions | 2,525,448 | 75,018 | 60,321 |
| Net Change to Cash | (51,562) | 2,183 | 4,773 |
| Ending cash balance | $ (151,111) | $ (43,219) | $ - |

| | |
|---|---|
| College Work Study | |
| Wages | $ 43,259 |
| Supplemental Education Opportunity Grant | |
| Student grants | $ 45,241 |
| Pell Grant Program | |
| Student grants | $ 2,521,778 |

| Semester | Resident | WUE | Nonresident | Total |
|---|---|---|---|---|
| Summer 2017 | 223.9 | 0.6 | 16.1 | 240.6 |
| Fall 2017 | 1,316.0 | 6.0 | 48.0 | 1,370.0 |
| Spring 2018 | 1,291.0 | 5.0 | 48.0 | 1,344.0 |

| | Instruction | Public Service | Academic Support | Student Services | Institutional Support | Scholarships & Fellowships | Operation & Maintenance | Auxiliary | Total |
|---|---|---|---|---|---|---|---|---|---|
| Personnel services | $ 9,482,707 | $ 155,978 | $ 2,069,925 | $ 2,224,592 | $ 3,209,342 | $ 423,363 | $ 861,854 | $ 822,348 | $ 19,250,109 |
| Travel | 60,817 | 16,031 | 71,284 | 21,214 | 35,904 | 19,426 | - | 2,712 | 227,388 |
| Supplies | 592,496 | 28,986 | 59,894 | 46,851 | 154,643 | 54,550 | 134,930 | 957,237 | 2,029,587 |
| Contracted services | 630,389 | 35,775 | 102,388 | 105,765 | 475,129 | 27,978 | 873,533 | 220,522 | 2,471,479 |
| Bad debt expense | - | - | - | - | 80,365 | - | - | - | 80,365 |
| Scholarship and grants | - | - | - | 557 | - | 5,968,457 | - | - | 5,969,014 |
| Non-capitalized equipment | 102,000 | 665 | 34,486 | 28,754 | 19,211 | 10,026 | 169,989 | 9,206 | 374,337 |
| Other operating expense | 4,250 | 13,447 | 46,310 | 9,822 | 97,117 | 29,970 | - | 2,565 | 203,481 |
| Depreciation expense | - | - | - | - | - | - | 2,018,046 | - | 2,018,046 |
| | $ 10,872,659 | $ 250,882 | $ 2,384,287 | $ 2,437,555 | $ 4,071,711 | $ 6,533,770 | $ 4,058,352 | $ 2,014,590 | $ 32,623,806 |

Other Information
June 30, 2018

# Flathead Valley Community College

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Flathead Valley Community College (the College) as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated January 28, 2019. Our report includes a reference to other auditors who audited the financial statements of the Flathead Valley Community College Foundation as described in our report on the College's financial statements. The audits of the financial statements of Flathead Valley Community College Foundation were not performed in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Flathead Valley Community College Foundation.

**Internal Control over Financial Reporting**
In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

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

Eide Bailly LLP

Boise, Idaho
January 28, 2019

CPAs & BUSINESS ADVISORS

**Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance**

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

**Report on Compliance for Each Major Federal Program**
We have audited Flathead Valley Community College's (the College) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the years ended June 30, 2018 and 2017. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**
Our responsibility is to express an opinion on the compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133) and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

**Opinion on Each Major Federal Program**
In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2018 and 2017.

**Report on Internal Control over Compliance**
Management of the College is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
January 28, 2019

| Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---|---|---|
| **U.S. Department of Labor** | | | |
| Direct Programs | | | |
| Trade Adjustment Assistance Community College and Career Training | 17.282 | | $ 317,395 |
| **Total Department of Labor** | | | 317,395 |
| **National Science Foundation** | | | |
| Direct Programs | | | |
| Education and Human Resources | 47.076 | | 101,974 |
| **Total National Science Foundation** | | | 101,974 |
| **Small Business Administration** | | | |
| Pass-Through Programs | | | |
| Montana Department of Commerce | | | |
| Small Business Development Centers | 59.037 | OSBDC-2017-02-CY 2017 | 28,474 |
| Small Business Development Centers | 59.037 | OSBDC-2018-02-CY 2018 | 18,666 |
| **Total Small Business Administration** | | | 47,140 |
| **Department of Education** | | | |
| Direct Programs | | | |
| Student Financial Aid Cluster | | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | | 45,241 |
| Federal Work Study Program | 84.033 | | 43,355 |
| Federal Pell Grant Program | 84.063 | | 2,525,448 |
| Federal Direct Student Loans | 84.268 | | 2,369,360 |
| Subtotal Student Financial Aid Cluster | | | 4,983,404 |
| TRiO Cluster - Student Support Services | 84.042 | | 368,390 |
| Subtotal Department of Education Direct Programs | | | 5,351,794 |
| Pass-Through Programs | | | |
| Montana Office of Public Instruction | | | |
| Adult Education - Basic Grants to States | 84.002 | 58-6503-56-16-BG | 96,127 |
| Office Of Commissioner of Higher Education | | | |
| Vocational Education - Basic Grants to States | 84.048A | PL 109-270 | 214,131 |
| Vocational Education - Basic Grants to States | 84.048A | Big Sky Pathways | 60,175 |
| Subtotal Vocational Education - Basic Grants to States | | | 274,306 |
| Subtotal Department of Education Pass-Through Progams | | | 370,433 |
| **Total Department of Education** | | | 5,722,227 |

| Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---|---|---|
| **Department of Health and Human Services** | | | |
| Pass-Through Programs | | | |
| Montana State University: | | | |
| Biomedical Research and Research Training | 93.859 | 5 P20 GM103474 | 44,600 |
| **Total Department of Health and Human Services** | | | 44,600 |
| **Department of Agriculture** | | | |
| Direct Programs | | | |
| RUS's Distance Learning and Telemedicine Grant | 10.855 | | 705 |
| **Total Department of Agriculture** | | | 705 |
| **Department of Veteran Affairs** | | | |
| Direct Programs | | | |
| Annual Reporting Fee for VA Students | 64.028 | | 1,555 |
| **Total Department of Veteran Affairs** | | | 1,555 |
| Total expenditures of federal awards | | | $ 6,235,596 |

| Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---|---|---|
| **U.S. Department of Labor** | | | |
| Direct Programs | | | |
| Trade Adjustment Assistance Community College and Career Training | 17.282 | | $ 883,187 |
| **Total Department of Labor** | | | 883,187 |
| **National Science Foundation** | | | |
| Direct Programs | | | |
| Education and Human Resources | 47.076 | | 117,404 |
| **Total National Science Foundation** | | | 117,404 |
| **Small Business Administration** | | | |
| Pass-Through Programs | | | |
| Montana Department of Commerce | | | |
| Small Business Development Centers | 59.037 | OSBDC-2016-02-CY 2016 | 20,816 |
| Small Business Development Centers | 59.037 | OSBDC-2017-02-CY 2017 | 22,098 |
| **Total Small Business Administration** | | | 42,914 |
| **Department of Education** | | | |
| Direct Programs | | | |
| Student Financial Aid Cluster | | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | | 47,276 |
| Federal Work Study Program | 84.033 | | 42,889 |
| Federal Pell Grant Program | 84.063 | | 2,661,876 |
| Federal Direct Student Loans | 84.268 | | 2,508,600 |
| Subtotal Student Financial Aid Cluster | | | 5,260,641 |
| TRiO Cluster - Student Support Services | 84.042 | | 294,201 |
| Subtotal Department of Education Direct Programs | | | 5,554,842 |
| Pass-Through Programs | | | |
| Montana Office of Public Instruction | | | |
| Adult Education - Basic Grants to States | 84.002 | 58-6503-56-16-BG | 80,186 |
| Adult Education - Basic Grants to States | 84.002 | 58-6503-56-16-ElCivics | 7,681 |
| Subtotal Adult Education - Basic Grants to States | | | 87,867 |
| Office Of Commissioner of Higher Education | | | |
| Vocational Education - Basic Grants to States | 84.048A | PL 109-270 | 183,927 |
| Vocational Education - Basic Grants to States | 84.048A | Big Sky Pathways | 45,503 |
| Subtotal Vocational Education - Basic Grants to States | | | 229,430 |
| Subtotal Department of Education Pass-Through Progams | | | 317,297 |
| **Total Department of Education** | | | 5,872,139 |

| Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---|---|---|
| **Department of Health and Human Services** | | | |
| Pass-Through Programs | | | |
| Montana Department of Health and Human Services | | | |
| Child Care and Development Block Grant | 93.575 | 1502HIED0011 | 16,772 |
| Montana State University: | | | |
| Biomedical Research and Research Training | 93.859 | 5 P20 GM103474 | 24,462 |
| **Total Department of Health and Human Services** | | | 41,234 |
| **Department of Agriculture** | | | |
| Direct Programs | | | |
| RUS's Distance Learning and Telemedicine Grant | 10.855 | | 82,323 |
| **Total Department of Agriculture** | | | 82,323 |
| **Department of Veteran Affairs** | | | |
| Direct Programs | | | |
| Annual Reporting Fee for VA Students | 64.028 | | 2,653 |
| **Total Department of Veteran Affairs** | | | 2,653 |
| **National Aeronautics and Space Administration** | | | |
| Pass-Through Programs | | | |
| Montana State University | | | |
| NASA Carbon Cycle | 43.008 | NNX15AJ19H | 5,552 |
| **Total National Aeronautics and Space Administration** | | | 5,552 |
| Total expenditures of federal awards | | | $ 7,047,406 |

## Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the College under programs of the federal government for the years ended June 30, 2018 and 2017. The information is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net position, or cash flows of the College.

## Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on an accrual basis of accounting which are recorded on the cash basis. When applicable, such expenditures are recognized following the cost principles contained in the OMB Circular A-133 and Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

## Note 3 - Indirect Cost Rate

The College has not elected to use the 10% de minimis cost rate.

**Section I – Summary of Auditor's Results**

Financial Statements

| | |
|---|---|
| Type of auditor's report issued | Unmodified |
| Internal control over financial reporting: | |
| Material weaknesses identified | No |
| Significant deficiencies identified not considered to be material weaknesses | None Reported |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|---|---|
| Internal control over major program: | |
| Material weaknesses identified | No |
| Significant deficiencies identified not considered to be material weaknesses | None Reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with A-133 and Uniform Guidance: | No |

Identification of major programs:

| Name of Federal Program | CFDA Number |
|---|---|
| *Audited in accordance with Uniform Guidance* | |
| Student Financial Aid Cluster | 84.007, 84.033, 84.063, 84.268 |
| *Audited in accordance with A-133* | |
| Trade Adjustment Assistance Community College and Career Training | 17.282 |

| | |
|---|---|
| Dollar threshold used to distinguish between type A and type B programs: | $750,000 |
| Auditee qualified as low-risk auditee? | Yes |

**Section II – Findings – Financial Statement Audit**

There we no findings relating to the financial statement audit.

**Section III -Findings and Questioned Costs – Major Federal Award Programs Audit**

There we no findings relating to the major federal award programs audit.