MILES COMMUNITY COLLEGE

CUSTER 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 Miles 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 contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

18C-08

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COLLEGE OFFICIALS

Dr. Stacy Klippenstein	President
Dr. Rita Kratky	Vice President of Academic Affairs
Kylene Phipps	Dean of Administrative Services and Human Resources
Erin Niedge	Dean of Enrollment Management and Educational Support Services
Nancy Aaberge	Director of Business Services
Shane Vannatta	Attorney

Independent Auditor's Report

Board of Trustees
Miles Community College
Miles City, Montana

Report on the Financial Statements
We have audited the accompanying financial statements of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of Miles Community College (the College), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

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

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

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

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

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Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of 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 14 to the financial statements, the College has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Other Post-Employment Benefits (OPEB)*, which has resulted in a restatement of the net position as of July 1, 2017. In accordance with GASB Statement No. 75, the 2017 financial statements have not been restated to reflect the change. Our opinions are 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, schedule of employer's contributions - OPEB and share of net OPEB liability, schedule of employer's proportionate share of net pension liability and schedule of employer contributions as noted in the table of contents to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The student financial aid – modified statement of cash receipts and disbursements, schedule of federal expenditures – student financial assistance programs, schedule of full time equivalent and functional classification of operating expenses (collectively supplementary information) are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the financial statements.

The schedule of expenditures of federal awards and the supplementary information 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 schedule of expenditures of federal awards and the supplementary information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 24, 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, 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 24, 2019

Overview

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

The following is a Management Discussion and Analysis (MD&A) for Miles Community College which includes an overview of its financial condition and assists the reader in focusing on significant financial issues for the year ended June 30, 2018. The information has been prepared by management and is to be read in conjunction with the accompanying financial statements and footnotes.

Using the Financial Statements

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

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

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

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

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

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

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

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

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

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

Financial Highlights for Fiscal Year 2018

Statement of Net Position

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

ASSETS	**June 30, 2018**	**June 30, 2017**
Total current assets	$ 3,316,995	$ 3,758,191
Total noncurrent assets	10,985,077	11,376,745
TOTAL ASSETS	$ 14,302,072	$ 15,134,936
DEFERRED OUTFLOWS OF RESOURCES	$ 679,345	$ 609,741
LIABILITIES		
Total current liabilities	$ 706,490	$ 707,352
Total noncurrent liabilities	7,362,450	7,600,273
TOTAL LIABILITIES	$ 8,068,940	$ 8,307,625
DEFERRED INFLOWS OF RESOURCES	$ 63,466	$ 58,543
NET POSITION		
Net investment capital assets	$ 8,778,552	$ 9,052,045
Restricted, expendable	115,560	115,560
Unrestricted	(2,045,101)	(1,789,096)
TOTAL NET POSITION	$ 6,849,011	$ 7,378,509

Comparison of 2018 and 2017 Financial Position

- **Current assets** include the College's cash; taxes, grants, and accounts receivable; inventories; and other assets expected to benefit the College within one year. The $441,196 decrease from FY 2017 to FY 2018 was due primarily to a decrease in cash and grants receivable.

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

- **Current liabilities** include payroll and related liabilities, amounts payable to suppliers for goods and services received, revenue received which the College has not yet earned, student deposit balances, and debt principal payments due within one year. Total current liabilities decreased by $862 from FY 2017 to FY 2018, due largely to a decrease in accounts payable.

- **Noncurrent liabilities** primarily represent debt principal payments due after a one-year period and the amount of compensated absence liability estimated to be due after a one-year period. These balances decreased a total of $237,823 from FY 2017 to FY 2018, primarily due to decreases in other post-employment benefits liabilities and debt service.

- **Net Investment Capital Assets** represents the historical costs of capital assets less accumulated depreciation and less debt balances related to the capital assets. This balance increases as assets are acquired and debt is repaid and decreases as assets are depreciated and debt is incurred. Total capital assets net of related debt decreased by $273,493 from FY 2017 to FY 2018 as capital assets decreased.

- **Restricted expendable net position** represent funds that may be expended by the College but only in accordance with restrictions imposed by an external party, such as a donor or governmental entity.

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

- **Total net position** decreased by $529,498 from FY 2017 to FY 2018, which is a reflection of decreases in capital assets and the result of current year expenses in excess of revenue.

Statement of Revenue, Expenses, and Changes in Net Position

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

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

	June 30, 2018	June 30, 2017
Operating revenues	$ 4,787,317	$ 5,459,333
Operating expenses	9,916,729	9,240,365
OPERATING LOSS	$ (5,129,412)	$ (3,781,032)
Non-operating revenues (expenses)	$ 4,072,734	$ 6,855,650
INCREASE (DECREASE) IN NET POSITION	$ (1,056,678)	$ 3,074,618

Comparison of 2018 and 2017 Results of Operations

- **Operating revenues** represent the revenue received from tuition and fees, federal, state, and private grants and contracts, indirect cost recoveries (from grants), auxiliary activities, and other operating revenues. Total operating revenues decreased by $672,016 from FY 2017 to FY 2018. This is due primarily to decreased federal grants and contracts.

- **Non-operating revenue (expenses)** consists of capital contributions, interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-operating revenue decreased $2,782,916 from FY 2017 to FY 2018. The major item affecting this change was the capital contribution occurring in FY 2017 of the Ag Advancement Center by Miles Community College Endowment.

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

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

ANALYSIS OF ALL SOURCES OF REVENUE

Source of Revenue	Fiscal Year 2018 Amount	Fiscal Year 2018 Percent	Fiscal Year 2017 Amount	Fiscal Year 2017 Percent	Increase (decrease) FY'18 vs. FY'17
Operating revenues					
Tuition and fees (net)	$ 1,815,518	20.30%	$ 1,744,073	14.07%	$ 71,445
Auxiliary enterprise activities	1,164,038	13.01%	1,167,281	9.42%	(3,243)
Federal grants and contracts	1,082,028	12.10%	1,737,110	14.01%	(655,082)
Other operating revenues	278,907	3.12%	301,960	2.44%	(23,053)
Private and local grants and contracts	258,204	2.89%	285,829	2.30%	(27,625)
State grants and contracts	153,731	1.72%	200,663	1.62%	(46,932)
Indirect cost recoveries	34,891	0.39%	22,417	0.18%	12,474
Total operating revenue	4,787,317	53.53%	5,459,333	44.04%	(672,016)
Non-operating revenues					
Capital contributions	-	-%	2,688,003	21.68%	(2,688,003)
State appropriations	2,476,823	20.33%	2,530,029	20.41%	(53,206)
District levies	1,277,152	10.52%	1,309,235	10.56%	(32,083)
State reimbursements	375,132	3.00%	373,303	3.01%	1,829
Interest income	26,920	0.30%	37,339	0.30%	(10,419)
Total non-operating revenues	4,156,027	55.76%	6,937,909	55.76%	(2,781,882)
Total revenue	$ 8,943,344	100%	$ 12,397,242	100%	$ (3,453,898)

ANALYSIS OF CATEGORY OF EXPENSE

Category of Expenses	Fiscal Year 2018 Amount	Fiscal Year 2018 Percent	Fiscal Year 2017 Amount	Fiscal Year 2017 Percent	Increase (decrease) FY'18 vs. FY'17
Operating expenses					
Personnel expenses	$ 5,345,614	53.46%	$ 5,051,786	54.19%	$ 293,828
Scholarships and grants	1,157,100	11.57%	1,054,330	11.31%	102,770
Contracted services	1,123,422	11.23%	1,074,763	11.53%	48,659
Supplies	1,025,450	10.25%	897,338	9.63%	128,112
Depreciation	642,731	6.43%	577,921	6.20%	64,810
Other expense	461,369	4.62%	413,444	4.43%	47,925
Travel	161,043	1.61%	170,783	1.83%	(9,740)
Total operating expenses	9,916,729	99.17%	9,240,365	99.12%	676,364
Non-operating expenses					
Interest payments	83,293	0.83%	82,259	0.88%	1,034
Total non-operating expenses	83,293	0.83%	82,259	0.88%	1,034
Total expenses	$ 10,000,022	100%	$ 9,322,624	100%	$ 677,398

Comments about specific revenue and expense items are:

- **Revenues:** During FY 2018 the College received an increase in tuition and fees (net) of $71,445. There was a decrease of $655,082 from federal grants and contracts.

- **Expenses (general comment):** Overall expenses increased $677,398 from FY 2017 to FY 2018. Personnel expenses increased due to employee raises and termination payouts along with two new faculty positions.

STATEMENT OF CASH FLOWS

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

A summary of the Statement of Cash Flows follows:

CASH FLOW CATEGORY	June 30, 2018	June 30, 2017
Cash provided by (used in):		
Operating activities	$ (3,887,319)	$ (2,951,486)
Noncapital activities	4,129,558	4,205,005
Capital financing activities	(452,532)	(1,797,397)
Investing activities	26,920	37,339
Net increase (decrease) in cash	(183,373)	(506,539)
Cash and cash equivalents, beginning of year	2,878,040	3,384,579
Cash and cash equivalents, end of year	$ 2,694,667	$ 2,878,040

Comparison of 2018 and 2017 Cash Flows

- **Operating activities** represent the revenue received from tuition and fees, federal, state, and private grants and contracts, indirect cost recoveries (from grants), auxiliary activities, and other operating revenues. Total operating activities decreased by $935,833 from FY 2017 to FY 2018. This is mainly due to grants and contracts and payments to employees.

- **Noncapital financing activities** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-operating activities decreased $75,447 from FY 2017 to FY 2018. The major items affecting this change were state appropriations and district levies.

- **Capital and related financing activities** consists of purchases of capital assets and payments of principal and interest on loans. These activities decreased $1,344,865 mainly due to the purchases of capital assets. No new loans were added.

Capital Assets

The College's investment in capital assets as of June 30, 2018, equates to $10,869,517, net of accumulated depreciation. Investment in capital assets normally includes land, buildings, improvements, machinery and equipment, library holdings, and software. The decrease was due to the depreciation. See additional information within footnote 5.

Debt Administration

The College's long-term debt obligations as of June 30, 2018, equates to $2,090,965. The College had four long-term debt obligations at fiscal year end June 30, 2018. See additional information within footnote 6.

DISCUSSION OF SIGNIFICANT PENDING ECONOMIC AND FINANCIAL ISSUES

- **Enrollment –** Miles Community College is located in eastern Montana and has a current Fall 2018 headcount (based on 15-day census numbers) of 506 and full-time equivalent (FTE) of 393.66. This represents a 5.3% increase from the Fall 2017 15-day census FTE. By utilizing strategic enrollment management measures, the faculty and staff at the College have developed enrollment and retention strategies for enrollment growth.

- The need for workforce training is still prevalent in Custer County. The College has met this need by partnering with local companies, such as Transco, to develop curriculums that students can complete that can lead to employment with these local companies. The College has provided retraining assistance in Colstrip via the Power Grant and local SEMDC assistance. The construction of the new Ag Advancement Center, which opened April 2017, and the acquisition and remodeling of the old National Guard Armory into the Workforce Readiness Center (August 2017), allows the college to keep meeting the increased demand for Ag and Equine programming as well as allowing the College to expand its Heavy Equipment Operations and CDL Programs. With a Vision 2020 document in place, the College has positioned itself to meet the workforce and educational needs of Custer County, the Miles City community and Southwestern Montana.

- **Faculty and Staff –** The College continues to have challenges finding and retaining qualified faculty and staff. High wages in local trades and higher paying jobs in other states make it hard to find interested candidates for open positions.

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

	Primary Government	Component Unit
	Business-Type Activities	Miles Community College Foundation
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,579,107	$ 301,781
Taxes receivable	26,722	-
Grants receivable	176,879	-
Accounts receivable - net	365,980	344,150
Inventories	93,179	-
Prepaid expense	75,128	-
Total current assets	3,316,995	645,931
Noncurrent assets:		
Restricted cash and investments	115,560	672,880
Capital assets, net	10,869,517	-
Total noncurrent assets	10,985,077	672,880
Total assets	14,302,072	1,318,811
DEFERRED OUTFLOWS OF RESOURCES		
Pension and OPEB related deferred outflows	679,345	-

See accompanying Notes to Financial Statements

	Primary Government	Component Unit
	Business-Type Activities	Miles Community College Foundation
LIABILITIES		
Current liabilities:		
Accounts payable	111,729	43,119
Accrued payroll	287,289	-
Deferred revenue - tuition and fees	129,856	-
Student deposits	38,425	-
Current portion of compensated absences payable	44,372	-
Current portion of long term obligations	94,819	-
Total current liabilities	706,490	43,119
Noncurrent liabilities:		
Compensated absences payable	399,352	-
Long term obligations	1,996,146	546,968
Other post employment benefits	323,548	-
Other post employment benefits - accrued insurance	712,226	-
Net pension liability	3,931,178	-
Total noncurrent liabilities	7,362,450	546,968
Total liabilities	8,068,940	590,087
DEFERRED INFLOWS OF RESOURCES		
Pension and OPEB related deferred inflows	63,466	-
NET POSITION		
Net investment in capital assets	8,778,552	-
Restricted for debt service	115,560	-
Restricted for scholarships, research, instruction, and other	-	728,724
Unrestricted	(2,045,101)	-
Total net position	$ 6,849,011	$ 728,724

See accompanying Notes to Financial Statements

	Primary Government	Component Unit
	Business-Type Activities	Miles Community College Foundation
Operating revenues		
Tuition and fees (net of scholarship allowance of $554,085)	$ 1,815,518	$ -
Auxiliary activities	1,164,038	-
Federal grants and contracts	1,082,028	-
Private and local grants and contracts	258,204	47,920
Other operating revenues	162,091	-
State grants and contracts	153,731	-
Athletic donations	103,240	-
Indirect cost recoveries	34,891	-
Other athletic allowance	13,576	-
Total operating revenues	$ 4,787,317	$ 47,920
Operating expenses		
Personnel services	$ 5,345,614	$ -
Scholarships and grants	1,157,100	32,775
Contracted services	1,123,422	-
Supplies	1,025,450	-
Depreciation expense	642,731	-
Other operating expense	461,369	-
Travel	161,043	-
Program disbursements	-	37,100
Management and general	-	7,769
Professional fees	-	10,443
Total operating expenses	$ 9,916,729	$ 88,087
Operating income (loss)	$ (5,129,412)	$ (40,167)

See accompanying Notes to Financial Statements

	Primary Government	Component Unit
	Business-Type Activities	Miles Community College Foundation
Non-operating revenues (expenses)		
State appropriations	$ 2,476,823	$ -
District levies	1,277,152	-
State reimbursements	375,132	-
Interest revenue	26,920	77,815
Debt service interest expense	(83,293)	(29,740)
Gain (loss) on disposal of capital assets	-	-
Total non-operating revenues (expenses)	$ 4,072,734	$ 48,075
Change in net position	$ (1,056,678)	$ 7,908
Net position, beginning, as previously reported	$ 7,378,509	$ 720,816
Adjustment to prior years	527,180	-
Net position, beginning, as restated	$ 7,905,689	$ 720,816
Net position, ending	$ 6,849,011	$ 728,724

See accompanying Notes to Financial Statements

		Primary Government
Cash flows from operating activities		
Tuition and fees	$	1,794,039
Grants and contracts		1,822,233
Payments to employees		(4,983,208)
Payments to suppliers		(2,279,937)
Payments for utilities		(218,520)
Payments for scholarships and fellowships		(1,157,100)
Auxiliary activities		1,172,263
Other cash receipts (payments)		(37,089)
Net cash used in operating activities	$	(3,887,319)
Cash flows from noncapital financing activities		
State appropriations		2,476,823
State reimbursements		375,132
District levies		1,277,603
Net cash provided by noncapital financing activities	$	4,129,558
Cash flows from capital and related financing activities		
Purchase of capital assets		(251,063)
Principal paid on capital debt and leases		(118,176)
Interest paid on capital debt and leases		(83,293)
Net cash used in capital and related financing activities	$	(452,532)
Cash flows from investing activities		
Interest received on cash and cash equivalents		26,920
Net cash provided by investing activities	$	26,920
Net decrease in cash and cash equivalents		(183,373)
Cash and cash equivalents, beginning of year		2,878,040
Cash and cash equivalents, end of year	$	2,694,667
Reconciliation to Statement of Net Position		
Cash and cash equivalents		2,579,107
Restricted cash		115,560
Total cash and cash equivalents	$	2,694,667

See accompanying Notes to Financial Statements

		Primary Government
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating loss	$	(5,129,412)
Noncash income and expense:		
Depreciation		642,731
Bad debt expense		11,969
Other post employment benefits		171,603
Net pension benefits		133,891
Changes in net assets and liabilities:		
Grants receivable		328,270
Accounts receivable - net		(85,341)
Prepaid expense		(23,304)
Inventories		25,778
Accounts payable		(80,534)
Accrued payroll		38,337
Deferred revenue - tuition and fees		51,893
Student deposits		8,225
Compensated absences payable		18,575
Net cash used in operating activities	$	(3,887,319)

See accompanying Notes to Financial Statements

	Agency Funds
ASSETS	
Cash and cash equivalents	$ 125,343
Accounts receivable - net	654
Total assets	$ 125,997
LIABILITIES	
Accounts payable	$ 423
Due to student groups	125,574
Total liabilities	$ 125,997

See accompanying Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

Primary Government

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

Discretely Presented Component Units

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

Basis of Presentation, Measurement Focus and Basis of Accounting

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

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

Fiduciary Funds

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

Use of Estimates

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

Income Taxes

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

Pensions

Teachers' Retirement System

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

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

Montana Public Employees' Retirement System

Montana Public Employee Retirement Administration (MPERA) prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the NPL; Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions.

Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Other Post-Employment Benefits

Montana University System (MUS) OPEB liability

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

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

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

Deferred Outflows/Inflows of Resources

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

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

Miles Community College Foundation

Nature of Activities

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

Basis of Accounting

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

Cash and Cash Equivalents

For financial statement purposes, the Foundation considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents with an original maturity of 3 months or less.

Classification of Net Position

The Foundation classifies all net position as restricted by donor.

Investments

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

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

The College's cash, is held by the Custer County Treasurer and pooled with other County cash. With the College cash that is not necessary for short-term obligations, the College participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County's investment portfolio as of June 30, 2018, consisted of time deposits, U.S. Government Securities, Repurchase Agreements and the State Short-Term Investment Pool (STIP).

The College does not own specific identifiable investment securities in the pool; therefore, is not subject to categorization. Information regarding investment risk, collateral, security, and fair values for Custer County deposits and investments is available from Custer County Treasurer's office, 1010 Main Street, Miles City, Montana 59301. The Custer County external investment pool is not rated. Fair value approximates carrying value for investments as of June 30, 2018.

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

For purposes of the Statement of Cash Flows, cash equivalents include all cash and investments, including restricted cash with an original maturity of 3 months or less.

Deposits

The College's cash, cash equivalents and investments as of June 30, 2018 consisted of the following:

Cash on hand	$ 6,310
Restricted cash – Debt Service	115,560
Invested in the County Investment Pool	2,572,797
Total cash and investments	$ 2,694,667

Also included in the County Investment Pool are the Fiduciary Funds cash of $125,343.

The Foundation's cash and investments as of June 30, 2018 consisted of the following:

Cash on hand	$	98,250
Demand deposit accounts		194,608
Money market accounts		8,923
Restricted for Scholarships:		
First Interstate Financial		
Mutual Funds – MFS Utilities A		142,635
Ameriprise Financial		
Mutual Funds		460,619
Edward Jones		
Growth Fund of America		69,626
Total	$	974,661

The Foundation's deposit balance at June 30, 2018 was $194,608, and the bank balance was $200,590. At June 30, 2018, $200,590 was insured by the Federal Deposit and Insurance Corporation (FDIC).

Disclosures Relating to Credit Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk

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

The College's deposits with financial institutions did not exceed federal depository insurance limits at June 30, 2018. The College's deposits are held with Custer County Investment Pool.

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

NOTE 3 RECEIVABLES

Taxes

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

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

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

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

Student Accounts Receivable

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

Student accounts receivable	$ 214,743
Less allowances	(41,100)
Net student accounts receivable	$ 173,643

Accounts Receivable – Other and Credit Cards Receivable

Accounts receivable other than student accounts receivable of $191,726, and credit cards receivable of $611 are included in "Accounts Receivable – Net" on the Statement of Net Position.

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

Grants Receivable

Grants receivable of $176,879 includes Federal and State grants. An allowance for uncollectable accounts was not maintained for these grants.

Unearned Revenue

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

Scholarship Discounts and Allowances

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Position.

Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College and the amount that is paid by students and/or other third parties making payments on the students' behalf.

NOTE 4 INVENTORIES AND PREPAID EXPENSES

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

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

NOTE 5 CAPITAL ASSETS

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

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

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

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

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

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

Land purchases shall be capitalized, regardless of cost.

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

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

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

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

The following tables present the changes in capital assets for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Deletions	Balance June 30,2018
Capital assets not being depreciated:				
Land	$ 394,056	$ -	$ -	$ 394,056
Total capital assets not being depreciated	$ 394,056	$ -	$ -	$ 394,056
Other capital assets				
Buildings	$ 14,845,830	$ 94,445	$ -	$ 14,940,275
Machinery & equipment	2,749,376	154,391	(119,068)	2,784,699
Software	405,847	-	-	405,847
Library inventory	95,348	2,227	-	97,575
Total other capital assets at historical cost	$ 18,096,401	$ 251,063	$ (119,068)	$ 18,228,396
Less accumulated depreciation				
Buildings	$ (5,098,291)	$ (394,876)	$ -	$ (5,493,167)
Machinery & equipment	(1,637,946)	(244,663)	119,068	(1,763,541)
Software	(405,847)	-	-	(405,847)
Library inventory	(87,188)	(3,192)	-	(90,380)
Total accumulated depreciation	$ (7,229,272)	$ (642,731)	$ 119,068	$ (7,752,935)
Total capital assets, depreciable, net	$ 10,867,129	$ (391,668)	$ -	$ 10,475,461
Total	$ 11,261,185	$ (391,668)	$ -	$ 10,869,517

NOTE 6 LONG TERM LIABILITIES

The following table presents the changes in long-term liabilities for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due within one year
Contracted debt	$ 2,209,141	$ -	$ (118,176)	$ 2,090,965	$ 94,819
Compensated absences	425,149	45,273	(26,698)	443,724	44,372
Total	$ 2,634,290	$ 45,273	$ (144,874)	$ 2,534,689	$ 139,191

Contracted Debt

Stockman Bank

The note payable to Stockman Bank of Montana was in the original amount of $400,000. Final payment on this note was September 23, 2017.

USDA Rural Development #1

The first note payable to the USDA Rural Development was in the original amount of $400,000. Final payment on this note was September 23, 2017.

First Interstate Bank

The mortgage payable to First Interstate Bank was in the original amount of $370,000. This mortgage is payable in monthly installments of $2,502 on the 18th day of each month. This mortgage bears interest at a variable rate, currently at 5.00%. This mortgage is secured by the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this mortgage is due on May 18, 2024. This note payable is guaranteed by the USDA Rural Development for 90% of the outstanding balance of the note payable.

Annual requirement to amortize debt for First Interstate Bank:

For Fiscal Year Ended	Principal	Interest
2019	$ 23,023	$ 7,001
2020	24,201	5,823
2021	25,439	4,585
2022	26,741	3,283
2023	28,109	1,915
2024	22,968	495
Total	$ 150,481	$ 23,102

USDA Rural Development #2

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

Annual requirement to amortize debt for USDA Rural Development:

For Fiscal Year Ended	Principal	Interest
2019	$ 26,290	$ 53,270
2020	27,463	52,097
2021	28,689	50,871
2022	29,970	49,590
2023	31,307	48,253
2024	32,705	46,855
2025	34,165	45,395
2026	35,690	43,870
2027	37,283	42,277
2028	38,947	40,613
2029	40,686	38,874
2030	42,502	37,058
2031	44,399	35,161
2032	46,381	33,179
2033	48,451	31,109
2034	50,614	28,946
2035	52,873	26,687
2036	55,234	24,326
2037	57,699	21,861
2038	60,275	19,285
2039	62,965	16,595
2040	65,776	13,784
2041	68,712	10,848
2042	71,779	7,781
2043	74,983	4,577
2044	63,726	1,253
Total	$ 1,229,564	$ 824,415

Montana Department of Environmental Quality

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

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

For Fiscal Year Ended	Principal	Interest
2019	$ 15,571	$ 7,982
2020	16,038	7,515
2021	16,520	7,033
2022	17,015	6,538
2023	17,526	6,027
2024	18,051	5,502
2025	18,593	4,960
2026	19,151	4,402
2027	19,725	3,828
2028	20,317	3,236
2029	20,927	2,626
2030	21,554	1,999
2031	22,201	1,352
2032	22,866	687
Total	$ 266,055	$ 63,687

Board of Investments of the State of Montana

The note payable to the Board of Investments of the State of Montana was in the original amount of \$480,000. This note is payable in semi-annual installments due on February 15th and August 15th of each year. This mortgage bears interest at a variable rate, currently at 3.15%. Final payment on this note is due on August 15, 2031.

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

For Fiscal Year Ended	Principal	Interest
2019	$ 29,935	$ 13,776
2020	30,401	12,830
2021	30,873	11,868
2022	31,354	10,892
2023	31,842	9,900
2024	32,337	8,894
2025	32,840	7,871
2026	33,351	6,832
2027	33,870	5,778
2028	34,397	4,707
2029	34,932	3,619
2030	35,476	2,514
2031	36,028	1,393
2032	17,229	269
Total	$ 444,865	$ 101,143

Compensated absences

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

NOTE 7 TRS RETIREMENT PLAN

Net Pension Liability

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

	Net Pension Liability	Percent of Collective NPL	Change in Percent of Collective NPL
Miles Community College			
Proportionate Share	$ 2,205,990	0.1308%	0.0064%
State of Montana			
Proportionate Share associated with employer	$ 1,400,781	0.0831%	0.0019%

At June 30, 2018, the College recorded a liability of $2,205,990 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 0.1308 percent and increase of .0064% from .1244% as of June 30, 2017.

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

	Pension Expense
Miles Community College	
Employer's Proportionate Share	$ 175,547
State of Montana Proportionate Share associated with the Employer	79,451
Total	$ 254,998

At June 30, 2018, the employer recognized a Pension Expense of $175,547 for its proportionate share of the TRS' pension expense. The employer also recognized grant revenue of $79,451 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

Deferred Inflows and Outflows

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 8,113	$ 3,298
Changes in actuarial assumptions	-	9,223
Difference between projected and actual investment earnings	-	8,730
Changes in proportion and differences between actual and expected contributions	65,603	14,388
*Contributions paid to TRS subsequent to the measurement date - FY 2018 Contributions	167,114	-
	$ 240,830	$ 35,639

* 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 related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2019	$ (16,165)
2020	58,036
2021	35,141
2022	(38,935)

Plan Description

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

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

Summary of Benefits

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

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

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

Overview of Contributions

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

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

	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%

State and University Employers

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

TRS Stand-Alone Statements

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

Actuarial Assumptions

The Total Pension Liability as of June 30, 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:

Actuarial cost method	Entry age
Total Wage Increases*	4.00%-8.51% for Non-University Members 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 total pension liability 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

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Broad US Equity	36.00%	4.80%
Broad International Equity	18.00%	6.05%
Private Equity	12.00%	8.50%
Intermediate Bonds	23.40%	1.50%
Core Real Estate	4.00%	4.50%
High Yield Bonds	2.60%	3.25%
Non-Core Real Estate	4.00%	7.50%
	100.00%	

The TRS long-term rate of return assumption is 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

	1.0% Decrease (6.75%)	Current Discount Rate (7.75%)	1.0% Increase (8.75%)
The Employer's proportion of Net Pension Liability	$3,039,923	$2,205,990	$1,503,644

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.

NOTE 8 PERS RETIREMENT PLAN

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

Pension Amount Totals

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

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 & towns; school districts & high schools; and other governmental agencies.

Not Special Funding

Per Montana law, state agencies and universities paid their own additional contributions. These employer 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, 2017 are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for a particular employer to the total state contributions paid. The employer recorded a liability of $1,725,188 and the employer's proportionate share was 0.0886 percent at June 30, 2017 an increase of .0029 percent from .0857 percent at June 30, 2016.

	Net Pension Liability	Percent of Collective NPL	Change in Percent of Collective NPL
Miles Community College Proportionate Share	$ 1,725,188	0.0886%	0.0029%
State of Montana Proportionate Share associated with employer	$ 24,738	0.1261%	0.0166%

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 using 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 expense is 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 pf 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 increases 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
Miles Community College's Proportionate Share	$ 207,723
Employer Grant Revenue – State of Montana Proportionate Share for employer	1,319
Employer Grant Revenue – State of Montana Coal Tax for employer	24,679
Total	$ 233,721

At June 30, 2018, the employer recognized $207,723 for its proportionate share of the Plan's pension expense and recognized grant revenue of $1,319 for the state of Montana proportionate share of the pension expense associated with the employer. Additionally, the employer recognized grant revenue of $24,679 from the Coal Severance Tax fund.

Recognition of Deferred Inflows and Outflows

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs. Actual Experience	$ 42,486	$ 2,497
Projected Investment Earnings vs. Actual Investment Earnings	-	11,586
Changes in Assumptions	235,815	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	64,205	-
Employer Contributions Subsequent to the Measurement Date	95,057	-
Total	$ 437,563	$ 14,083

Other amounts reported as deferred outflows and inflows of resources related to pensions are recognized in the employer's pension expense as follows:

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2019	$ 79,033
2020	170,097
2021	116,012
2022	(36,719)

Plan Description

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

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

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 65, 5 years of membership service;
  - 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 PERS-covered employer or PERS service):

- 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 refund of member's contributions plus return interest (currently .77% effective July 1, 2017);
  - No service credit for second employment;
  - Start the same benefit amount the month following termination; and
  - Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.

- Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:
  - A recalculated retirement benefit based on provisions in effect after the initial retirement; and
  - GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.

- Retire on or after January 1, 2016 and accumulate 5 or more years of service credit:
  - The same retirement as prior to the return to service;
  - A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
  - GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

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

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

Guaranteed Annual Benefit Adjustment (GABA)

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

- 3% 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% each year PERS is funded at or above 90%;
  - 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%; and,
  - 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 & Universities Employer
Fiscal Year	Hired <07/01/11	Hired >07/01/11	
2018	7.900%	7.900%	8.570%
2017	7.900%	7.900%	8.470%
2016	7.900%	7.900%	8.370%
2015	7.900%	7.900%	8.270%
2014	7.900%	7.900%	8.170%
2012-2013	6.900%	7.900%	7.170%
2010-2011	6.900%		7.170%
2008-2009	6.900%		7.035%
2000-2007	6.900%		6.900%

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

2. Employer contributions to the system:
   a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following 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.

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 both are available on the MPERA website at http://mpera.mt.gov.

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:

• Actuarial cost method	Entry age normal
• Investment Return	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 all 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, service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.
- Mortality assumptions among disabled members were based on RP 2000 Combined Mortality Tables with no projections.

Discount Rate

The discount rate used to measure the Total Pension Liability 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 established the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries paid by local governments and 0.37% paid by school districts. In addition, the State contributed coal severance tax and interest money from the general fund. The interest was contributed monthly and the severance tax was contributed quarterly. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets was reviewed as part of the regular experience study prepared for the Plan. 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. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public-sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017, are summarized below.

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

The total long-term assumed rate of return is 7.65% in the experience study. The assumed investment rate is comprised of a 2.75% inflation rate and a 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 of 1.00% lower or 1.00% higher than the current rate.

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
The College's proportion of net pension liability	$ 2,512,589	$ 1,725,188	$ 1,064,225

PERS Disclosure for the Defined Contribution Plan

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

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

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

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own 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.

NOTE 9 OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

Plan Description

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

Funding Policy

The government pays OPEB liability costs on a pay-as-you-go basis. No assets are accumulated in a trust that meet the criteria in Paragraph 4 of Statement 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 (ADC)	$ 34,863
Total OPEB Liability	$ 323,548
Participants	75

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

Sensitivity analysis required by GASB 75

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

Sensitivity 1: Change in Discount Rate Assumption

Discount rate baseline 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.

	Discount Rate -1%	Baseline	Discount Rate +1%
Discount Rate	2.89%	3.89%	4.89%
Total OPEB Liability	$384,276	$323,548	$276,058
Change from Baseline	$60,728	$-	($47,490)

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	$271,026	$323,548	$392,191
Change from Baseline	(52,522)	$-	$68,643

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	$ -	$ 13,743
Benefits payments subsequent to measurement date	$ 952	$ -

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	$ 1,147
2020	1,147
2021	1,147
2022	1,147
Thereafter	9,155

OPEB Expense

For the year ended June 30, 2018, the College recognized OPEB expense of $21,791.

Total OPEB Liability

For the year ended June 30, 2018, the College recognized a total OPEB liability of $323,548.

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 10 INSURANCE BENEFITS TO RETIRED EMPLOYEES

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

Plan Description

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

1. They have worked at the College for at least 10 years of continuous service.

2. They are eligible for retirement benefits in the Montana State Retirement System.

3. They retire from the College as a full-time employee.

Benefits Provided

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

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

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

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

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

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

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

Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post-Employment Benefits (OPEB) liability. The above described OPEB plan does not provide a stand-alone financial report.

Funding Policy

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

Employees covered by benefit terms

At June 30, 2018, the following employees were covered by the benefit terms:

Active employees	61
Retired employees	9
Terminated	0
Total	70

Total OPEB Liability

The College's total OPEB liability of $712,226 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

Sensitivity Analysis

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

Sensitivity 1: Change in Discount Rate Assumption

Discount rate baseline is: 2.500%

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.

	Discount Rate -1%	Baseline	Discount Rate +1%
Discount Rate	1.50%	2.50%	3.50%
Net OPEB Liability	$786,043	$712,226	$649,897
Change from Baseline	$73,816	$-	($62,329)

Sensitivity 2: Change in Healthcare Trend Rate

The healthcare trend rate baseline is:

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

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

	Baseline Trend -1%	Baseline	Baseline Trend +1%
Net OPEB Liability	$625,739	$712,226	$817,270
Change from Baseline	(86,487)	$-	$105,044

Changes in Total OPEB Liability

Line #		Total OPEB Liability (a)
1	Balance as of Prior Measurement Date	$542,287
2	Service Cost	$66,494
3	Interest on Total OPEB Liability	$15,220
4	Effect of Plan Changes	$-
5	Effect of Economic/Demographic Gains or Losses	$88,225
6	Effect of Assumptions Changes or Inputs	$-
7	Benefit Payments	$-
8	Balance as of Current Measurement Date	$712,226

Calculation of OPEB Expense

Item	Value
Service Cost	$ 66,494
+ Interest on Total OPEB Liability	15,220
+ Effect of Plan Changes	-
+ Administrative Expenses	-
- Employee Contributions	-
- Expected Investment Return Net of Investment Expenses	-
+ Recognition of Deferred Inflows/Outflows of Resources	-
OPEB Expense	$ 81,714

<u>Actuarial Methods and Assumptions</u>

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

The following actuarial methods and assumptions were used:

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

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

NOTE 11 NET 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.

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

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

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

NOTE 12 RELATED PARTY TRANSACTIONS

The following schedule presents significant transactions between the primary government and its component units during the year ended June 30, 2018:

Component Unit	Significant Transactions
Miles Community College Foundation	
Armory Remodel Project	$ 92,638
Scholarships, Stipends, & Other	34,725
Other	1,649
	$ 129,012

NOTE 13 RISK MANAGEMENT

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

Insurance Policies:

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

NOTE 14 RESTATEMENTS

On July 1, 2017, the College implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which recognizes a long-term obligation for OPEB benefits. 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. The accounting change adopted to conform to the provisions of GASB Statement No. 75 has been applied retroactively by restating the beginning net position for the fiscal year ended June 30, 2018.

Net position as previously reported at June 30, 2017:	$ 7,378,509
Prior period adjustment:	
Remove prior other post-employment benefits liability	937,451
Remove prior other post-employment benefits liability – accrued insurance	453,900
Other post-employment benefits	(321,884)
Other post-employment benefits – accrued insurance	(542,287)
Total prior period adjustment	527,180
Net position as restated, July 1, 2017	$ 7,905,689

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2018

REQUIRED SUPPLEMENTARY INFORMATION

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

Actuarial Valuation Date	Actuarily Determined Contribution (ADC)	Total OPEB Liability (TOL)	Covered Payroll	Contributions as a Percentage of Payroll	Participants
March 31, 2018	$ 34,863	$ 323,548	$ 3,502,122	1.00%	75

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

Measurement Date	Employer's Portion of the OPEB Liability	Employer's Proportionate Share of OPEB Liability	Covered Payroll	TOL as a percentage of Payroll
March 31, 2018	0.0087298	$ 323,548	$ 3,502,122	9.24%

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

See Notes to Required Supplementary Information

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

	2018
Beginning OPEB Liability	$ 542,287
Service Cost	66,494
Interest on Total OPEB Liability	15,220
Effect of Plan Changes	-
Effect of Economic/Demographic Gains or Losses	88,225
Effective Changes or Inputs	-
Benefit Payments	-
Ending OPEB Balance	$ 712,226

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

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

See Notes to Required Supplementary Information

Schedule of Employer's Proportionate Share of Net Pension Liability
Teacher's Retirement System
Last 10 - Fiscal Years *
As of the Measurement Date of June 30,

	2017	2016	2015	2014
Employer's proportionate share of the net pension liability	0.1308%	0.1244%	0.1248%	0.1231%
Employer's proportion share of the net pension liability	$ 2,205,990	$ 2,272,867	$ 2,051,243	$ 1,894,158
State of Montana's proportionate share of the net pension liability associated with the Employer	1,400,481	1,484,012	1,380,508	1,299,891
Total	$ 3,606,471	$ 3,756,879	$ 3,431,751	$ 3,194,049
Employer's covered payroll	1,725,685	1,614,843	1,593,474	1,552,261
Employer's proportion share of the net pension liability as a percentage of its covered payroll	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 Proportionate Share of Net Pension Liability
Public Employees Retirement Systems of Montana
Last 10 - Fiscal Years *
As of the Measurement Date of June 30,

	2017	2016	2015	2014
Employer's proportionate share of the net pension liability	0.8860%	0.0857%	0.0795%	0.0842%
Employer's proportion share of the net pension liability	$ 1,725,188	$ 1,459,739	$ 1,111,249	$ 1,048,591
State of Montana's proportionate share of the net pension liability associated with the Employer	24,738	17,836	13,650	12,805
Total	$ 1,749,926	$ 1,477,575	$ 1,124,899	$ 1,061,396
Employer's covered payroll	$ 1,098,836	$ 1,026,516	$ 927,732	$ 952,643
Employer's proportion share of the net pension liability as a percentage of its covered payroll	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%	79.90%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However until a full 10-year trend is compiled, the College will present information for those years for which information is available.

See Notes to Required Supplementary Information

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

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

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

	2018	2017	2016	2015
Contractually required contributions	$ 95,057	$ 91,974	$ 90,371	$ 84,347
Contributions in relation to the contractually required contributions	$ 95,057	$ 91,974	$ 90,371	$ 84,347
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Employer's covered payroll	$ 1,123,634	$ 1,098,986	$ 1,026,516	$ 927,732
Contributions as a percentage of covered payroll	8.46%	8.37%	8.80%	9.09%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However until a full 10-year trend is compiled, the College will present information for those years for which information is available.

See Notes to Required Supplementary Information

NOTE 1 PUBLIC EMPLOYEES' RETIREMENT SYSTEM

2017 Legislative Changes:

General Revisions – House Bill 101, effective January 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.

Refunds

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

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.

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2018

SUPPLEMENTARY INFORMATION

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation And Maintenance	Auxiliary	Totals
Personal services	$ 2,420,423	$ 84,019	$ 463,346	$ 801,427	$ 793,366	$ -	$ 306,006	$ 477,027	$ 5,345,614
Contracted services	68,744	4,371	92,988	308,115	209,453	-	275,100	164,651	1,123,422
Scholarships and grants	-	-	-	143,481	-	953,889	-	59,730	1,157,100
Supplies	167,298	4,789	31,853	145,867	3,605	-	118,412	553,626	1,025,450
Depreciation expense	-	-	-	-	-	-	642,731	-	642,731
Other operating expense	133,648	10,410	191,538	36,005	75,387	-	638	13,743	461,369
Travel	19,721	8,022	6,250	106,299	17,040	-	-	3,711	161,043
	$ 2,809,834	$ 111,611	$ 785,975	$ 1,541,194	$ 1,098,851	$ 953,889	$ 1,342,887	$ 1,272,488	$ 9,916,729

	Pell	CWS	SEOG
Beginning cash balance	$ (12,812)	$ -	$ 612
Additions:			
Federal advances	642,496	-	37,683
Matching funds	-	7,464	2,209
Non mandatory transfer	-	3,500	9,279
Total additions	$ 642,496	$ 10,964	$ 49,171
Deductions:			
Distribution to students	$ 679,714	$ 38,736	$ 47,748
Administrative expenses	-	3,438	-
Total deductions	$ 679,714	$ 42,174	$ 47,748
Net change to cash	$ (24,406)	$ (31,210)	$ 811
Ending cash balance	$ (37,218)	$ (31,210)	$ 1,423

College Work Study	
Wages	$ 29,857
Administrative cost	3,438
Non mandatory transfer	8,879
Total College Work Study	$ 42,174
Supplemental Education Opportunity Grant Program	
Student Grants	$ 49,521
Pell Grant Program	
Student grants	$ 681,378

Semester	Resident	WUE	Nonresident	Total
Summer 2017	41.4	0.9	0.7	43.0
Fall 2017	304.1	22.6	47.3	374.0
Spring 2018	376.0	20.4	43.3	439.7

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

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2018

SINGLE AUDIT INFORMATION

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

Board of Trustees
Miles Community College
Miles City, Montana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities, the aggregate discretely presented component unit, and the aggregate remaining fund information of Miles Community College (the College) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 24, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Miles Community 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 Miles Community College's internal control. Accordingly, we do not express an opinion on the effectiveness of Miles Community 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 College'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 Miles Community 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 College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
January 24, 2019

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

Board of Trustees
Miles Community College
Miles City, Montana

Report on Compliance for the Major Federal Program

We have audited Miles Community College's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on Miles Community College's (the College) major federal program for the year ended June 30, 2018 and 2017. Miles Community College's major federal program is 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 Miles Community College's major federal program 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 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 Miles Community 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 the major federal program. However, our audit does not provide a legal determination of Miles Community College's compliance.

Opinion on the Major Federal Program
In our opinion, Miles Community College's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major Federal program for the year ended June 30, 2018 and 2017.

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Report on Internal Control over Compliance

Management of Miles Community 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 Miles Community College's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with 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 Miles Community 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
January 24, 2019

Federal Grantor Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Labor			
Passed through the Montana Department of Labor and Industry			
WIA Adult Program	17.258	DLISFY13WIAA02	$ 20,832
WIA Adult Program	17.258	DLISFY13WIAA03	35,630
Subtotal Student WIA Cluster			56,462
Trade Adjustment Assistance Community College and Career Training Grant Program	17.782	TC-26447-14-60-A-30	201,687
Total U.S. Department of Labor			$ 258,149
U.S. Department of Education			
Direct programs:			
Federal Supplemental Educational Opportunity Grants	84.007		28,262
Federal Direct Student Loans	84.268		1,316,187
Federal Work-Study Program	84.033		34,761
Federal Pell Grant Program	84.063		681,378
Subtotal Student Financial Aid Cluster			$ 2,060,588
Direct programs:			
Adult Education – Basic Grants to States	84.002		33,654
Subtotal Department of Education Direct Programs			$ 2,094,242
Passed through the Department of Commerce:			
Small Business Development Center	59.037	SBAHQ18B0056	$ 59,155
Subtotal Department of Education pass-through programs			$ 59,155
Total U.S. Department of Education			$ 2,153,397
Total Expenditures of Federal Awards			$ 2,411,546

See Notes to Schedule of Expenditures of Federal Awards

Federal Grantor Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Housing and Urban Renewal			
Passed through the Montana Office of the Governor			
Community Development Block Grant – Economic Development	14.228	05-01-05794	$ 764,140
Total U.S. Department of Housing and Urban Renewal			$ 764,140
U.S. Department of Labor			
Passed through the Montana Department of Labor and Industry			
WIA Adult Program	17.258	DLISFY13WIAA02	$ 21,737
WIA Adult Program	17.258	DLISFY13WIAA03	42,973
Subtotal Student WIOA Cluster			64,710
Trade Adjustment Assistance Community College and Career Training Grant Program	17.782	TC-26447-14-60-A-30	53,509
Trade Adjustment Assistance Community College and Career Training Grant Program	17.782	TC-26447-14-60-A-30	104,552
Subtotal Trade Adjustment Assistance Community College and Career Training Grant Program			158,061
Total U.S. Department of Labor			$ 222,771
U.S. Department of Education			
Direct programs:			
Federal Supplemental Educational Opportunity Grants	84.007		$ 28,262
Federal Direct Student Loans	84.268		1,260,040
Federal Work-Study Program	84.033		35,514
Federal Pell Grant Program	84.063		607,812
Subtotal Student Financial Aid Cluster			$ 1,931,628
Direct programs:			
Adult Education – Basic Grants to States	84.002		$ 30,054
Subtotal Department of Education Direct Programs			$ 1,961,682
Passed through the Montana Office of the Commissioner of Higher Education			
Career and Technical Education – Basic Grants to States (Carl D. Perkins Act)	84.048	Not Available	$ 16,385
Subtotal Department of Education pass-through programs			$ 16,385
Total U.S. Department of Education			$ 1,978,067
Total Expenditures of Federal Awards			$ 2,964,978

See Notes to Schedule of Expenditures of Federal Awards

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Miles Community College(the College) under programs of the federal government for the year ended June 30, 2018. The information is presented in accordance with the requirements of 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 B - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance. No federal financial assistance has been provided to a subrecipient.

Note C - 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 Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

Name of Federal Program	CFDA Number
Student Financial Assistance Programs Cluster	
Pell Grant	84.063
Direct Loans	84.268
Supplemental Education Opportunity Grant	84.007
College Work Study	84.033

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

Section II – Financial Statement Findings

None Reported

Section III – Federal Award Findings and Questioned Costs

None Reported