

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Years Ended June 30, 2012 and 2011

**AUDIT REPORT**

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## LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
Angus Maciver

January 2014

The Legislative Audit Committee  
of the Montana State Legislature:

Enclosed is the report on the audit of Miles Community College for the two fiscal years ended  
June 30, 2012.

The audit was conducted by Denning, Downey and Associates, CPA's, P.C. under a contract  
between the firm and our office. The comments and recommendations contained in this report  
represent the views of the firm and not necessarily the Legislative Auditor.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Tori Hunthausen".

Tori Hunthausen, CPA  
Legislative Auditor

12C-08

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Years Ended June 30, 2012 and 2011

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MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

**ORGANIZATION**

Fiscal Years Ended June 30, 2011 and 2012

**BOARD OF TRUSTEES**

|                  |                     |
|------------------|---------------------|
| Rusty Irion      | Chairperson         |
| Susan Stanton    | Vice Chairperson    |
| Jeff Okerman     | Secretary/Treasurer |
| Sharon Wilcox    | Trustee             |
| Jeff Harding     | Trustee             |
| Garret McFarland | Trustee             |
| Mark Petersen    | Trustee             |

**COLLEGE OFFICIALS**

|                    |                                    |
|--------------------|------------------------------------|
| Dr. Stefani Hicswa | President                          |
| Lisa M. Watson     | Vice President of Finance          |
| Shane Vannatta     | Attorney                           |
| Shelly Weight      | Vice President of Academic Affairs |
| Darren Pitcher     | Vice President of Student Services |

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

*1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901*

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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the business-type activities, aggregate remaining fund information and the discretely presented component unit of Miles Community College, Custer County, Montana, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Miles Community College management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, aggregate remaining fund information and the discretely presented component unit of Miles Community College, Custer County, Montana, as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013, on our consideration of the Miles Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedule of funding for other post employment benefits other than pensions on pages 2 through 12, and 40 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Student Financial Aid Modified Statement of Cash Receipts and Disbursements and Schedule of Expenditures of Student Financial Assistance Programs are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and we express no opinion on them. The accompanying Schedule of Full Time Equivalent and the Functional Classification of Operating Expenses are presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards for the years ended June 30, 2012 and June 30, 2011 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with audit standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Derrington, Downey and Associates, CPA's, P.C.*

December 9, 2013

**Miles Community College, Custer County, Montana**  
**Management's Discussion and Analysis**  
**Fiscal Years Ended June 30, 2012 and 2011**

**Overview**

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 years ended June 30, 2012 and 2011. 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 Assets; Statement of Revenues, Expenses and Changes in Net Assets; 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 Assets 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 Assets 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 students account.

The three financial statements are designed to help the reader of the financial statements to determine whether the College's overall financial condition has improved or deteriorated as a result of the financial activities for the fiscal years ending June 30, 2012 and 2011. These financial statements present similar information to that disclosed in private sector financial statements.

### Statement of Net Assets

The Statement of Net Assets, which reports all assets and liabilities of the College, presents the financial position of the College at the end of the fiscal year. The net assets are simply the difference between total assets and total liabilities. The change in net assets 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 Assets follows:

|   | <b>June 30,<br/>2012</b>    | <b>June 30,<br/>2011</b>   | <b>June 30,<br/>2010</b>   |
|---|-----------------------------|----------------------------|----------------------------|
| <b>ASSETS</b>                                   |                             |                            |                            |
| Total current assets                            | \$ 3,471,444                | \$ 3,044,942               | \$ 2,632,218               |
| Total noncurrent assets                         | <u>6,910,719</u>            | <u>6,820,598</u>           | <u>6,341,746</u>           |
| <b>TOTAL ASSETS</b>                             | <b><u>\$ 10,382,163</u></b> | <b><u>\$ 9,865,540</u></b> | <b><u>\$ 8,973,964</u></b> |
| <b>LIABILITIES</b>                              |                             |                            |                            |
| Total current liabilities                       | \$ 656,185                  | \$ 547,735                 | \$ 491,797                 |
| Total noncurrent liabilities                    | <u>3,273,683</u>            | <u>3,238,109</u>           | <u>2,667,805</u>           |
| <b>TOTAL LIABILITIES</b>                        | <b><u>\$ 3,929,868</u></b>  | <b><u>\$ 3,785,844</u></b> | <b><u>\$ 3,159,602</u></b> |
| <b>NET ASSETS</b>                               |                             |                            |                            |
| Invested in capital assets, net of related debt | \$ 4,397,951                | \$ 4,225,377               | \$ 4,016,781               |
| Restricted, expendable                          | 287,277                     | 264,097                    | 279,325                    |
| Unrestricted                                    | <u>1,767,067</u>            | <u>1,590,222</u>           | <u>1,518,256</u>           |
| <b>TOTAL NET ASSETS</b>                         | <b><u>\$ 6,452,295</u></b>  | <b><u>\$ 6,079,696</u></b> | <b><u>\$ 5,814,362</u></b> |

### Comparison of 2012 and 2011 Financial Position

- **Current assets** include the College's cash; taxes, grants, student loan, and accounts receivable; inventories; and other assets expected to benefit the College within one year. The \$426,502 increase from FY 2011 to FY 2012 was due primarily to an increase in cash.
- **Noncurrent assets** primarily represent the College's capital assets less accumulated depreciation. The increase is due primarily to the student center roof replacement, Lucas Hall soffit and fascia, and room dividers.

- **Current liabilities** include payroll and related liabilities, accounts 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 increased by almost \$108,450 from FY 2011 to FY 2012, due largely to the increase in payroll accrual and debt obligations due within a year.
- **Noncurrent liabilities** primarily represent debt principal payments due after a one-year period and the amount of compensated absence liability estimated to be due after a one-year period. These balances increased a total of \$35,574. In addition, the College's Other Post Employment Benefit (OPEB) obligation, which is an actuarially-determined amount related to the participation of retiree's on the College's health insurance plan, increased \$153,489.
- **Invested in capital assets, net of related debt** 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 increased by \$172,574 from FY 2011 to FY 2012 with deferred maintenance improvements to the infrastructure.
- **Restricted expendable net assets** represent funds that may be expended by the College but only in accordance with restrictions imposed by an external party, such as a donor or governmental entity.
- **Unrestricted net assets** are funds that the College has to use for whatever purpose it determines is appropriate. These assets may be designated for specific purposes by action of management.
- **Total net assets** increased by \$372,599 from FY 2011 to FY 2012, which indicates the overall financial position of the College has improved over that time period.

### **Comparison of 2011 and 2010 Financial Position**

- **Current assets** include the College's cash; taxes, grants, student loan, and accounts receivable; inventories; and other assets expected to benefit the College within one year. The \$412,724 increase from FY 2010 to FY 2011 was due primarily to an increase in cash and cash equivalents.
- **Noncurrent assets** primarily represent the College's capital assets less accumulated depreciation. The increase is due primarily to the HVAC and window replacements.
- **Current liabilities** include payroll and related liabilities, accounts 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 increased by almost \$55,938 from FY 2010 to FY 2011, due largely to the increase in payroll accrual and student deposits.

- **Noncurrent liabilities** primarily represent debt principal payments due after a one-year period and the amount of compensated absence liability estimated to be due after a one-year period. These balances increased a total of \$570,304. In addition, the College's Other Post Employment Benefit obligation, which is an actuarially-determined amount related to the participation of retiree's on the College's health insurance plan, increased \$218,636.
- **Invested in capital assets, net of related debt** 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 increased by \$208,596 from FY 2010 to FY 2011 with the completion of the HVAC and window replacements.
- **Restricted expendable net assets** represent funds that may be expended by the College but only in accordance with restrictions imposed by an external party, such as a donor or governmental entity.
- **Unrestricted net assets** are funds that the College has to use for whatever purpose it determines is appropriate. These assets may be designated for specific purposes by action of management.
- **Total net assets** increased by \$265,334 from FY 2010 to FY 2011, which indicates the overall financial position of the College has improved over that time period.

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

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

|  | <b>June 30,<br/>2012</b> | <b>June 30,<br/>2011</b> | <b>June 30,<br/>2010</b> |
|--|--------------------------|--------------------------|--------------------------|
| Operating revenues                       | \$ 5,271,211             | \$ 5,045,877             | \$ 5,390,759             |
| Operating expenses                       | <u>8,592,385</u>         | <u>8,924,715</u>         | <u>8,812,801</u>         |
| <b>OPERATING LOSS</b>                    | <u>\$ (3,321,174)</u>    | <u>\$ (3,878,838)</u>    | <u>\$ (3,422,042)</u>    |
| Non-operating revenues (expenses)        | \$ 3,679,243             | \$ 4,144,172             | \$ 4,466,496             |
| Gain on disposal of capital assets       | 14,530                   | -                        | -                        |
| Transfer from fiduciary funds            | <u>-</u>                 | <u>-</u>                 | <u>8,510</u>             |
| <b>INCREASE (DECREASE) IN NET ASSETS</b> | <u>\$ 372,599</u>        | <u>\$ 265,334</u>        | <u>\$ 1,052,964</u>      |
| Net assets, beginning of year            | \$ <u>6,079,696</u>      | \$ <u>5,814,362</u>      | \$ <u>4,845,388</u>      |
| Restatement of expenses                  | \$ -                     | \$ -                     | \$ (83,990)              |
| Net assets, end of year                  | <u>\$ 6,452,295</u>      | <u>\$ 6,079,696</u>      | <u>\$ 5,814,362</u>      |

## Comparison of 2012 and 2011 Results of Operations

- **Operating revenues** represent the revenue received from tuition and fees, federal, state, and private grants and contracts, indirect cost recoveries (from grants), auxiliary activities, and other operating revenues. Total operating revenues increased by \$225,334 from FY 2011 to FY 2012. This is mainly due to the increase in State grants and contracts. In addition, tuition increased because of a change in the mix of in-district, out-of-district and out-of-state students.
- **Non-operating revenue (expenses)** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-operating revenue decreased \$464,929 from FY 2011 to FY 2012. The major items affecting this change are state and federal appropriations.

## Comparison of 2011 and 2010 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 \$344,882 from FY 2010 to FY 2011. This is mainly due to the decrease in Federal and State grants and contracts.
- **Non-operating revenue (expenses)** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-operating revenue decreased \$322,324 from FY 2010 to FY 2011. The major items affecting this change are state and federal appropriations.

**Increase (decrease) in net assets** represents the difference between total revenues and total expenses.

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

## ANALYSIS OF ALL SOURCES OF REVENUE

| Source of Revenue                      | Fiscal Year 2012    |               | Fiscal Year 2011    |               | Increase<br>(decrease)<br>FY'12 vs.<br>FY'11 |
|--|---------------------|---------------|---------------------|---------------|--|
|  | Amount              | Percent       | Amount              | Percent       |  |
| <b>Operating revenues</b>              |                     |               |                     |               |  |
| Tuition and fees (net)                 | \$ 1,687,837        | 18.65%        | \$ 1,675,185        | 18.06%        | \$ 12,652                                    |
| Federal grants and contracts           | 1,496,197           | 16.54%        | 1,447,915           | 15.61%        | 48,282                                       |
| State grants and contracts             | 256,448             | 2.83%         | 125,539             | 1.35%         | 130,909                                      |
| Private and local grants and contracts | 280,368             | 3.10%         | 388,340             | 4.19%         | (107,972)                                    |
| Indirect cost recoveries               | 28,397              | 0.31%         | 27,085              | 0.29%         | 1,312  |
| Auxiliary enterprise activities        | 1,204,128           | 13.31%        | 1,156,074           | 12.46%        | 48,054                                       |
| Other operating revenues               | <u>317,836</u>      | <u>3.51%</u>  | <u>225,739</u>      | <u>2.44%</u>  | <u>92,097</u>                                |
| <b>Total operating revenue</b>         | <u>5,271,211</u>    | <u>58.26%</u> | <u>5,045,877</u>    | <u>54.39%</u> | <u>225,334</u>                               |
| <b>Non-operating revenues</b>          |                     |               |                     |               |  |
| Interest income                        | 30,779              | 0.34%         | 26,180              | 0.28%         | 4,599  |
| State appropriations                   | 2,255,642           | 24.93%        | 2,427,405           | 26.16%        | (171,763)                                    |
| Federal appropriations                 | -                   | 0.00%         | 284,157             | 3.06%         | (284,157)                                    |
| State reimbursements                   | 195,822             | 2.16%         | 195,891             | 2.11%         | (69)   |
| District levies                        | <u>1,294,491</u>    | <u>14.31%</u> | <u>1,298,521</u>    | <u>14.00%</u> | <u>(4,030)</u>                               |
| <b>Total non-operating revenues</b>    | <u>3,776,734</u>    | <u>41.74%</u> | <u>4,232,154</u>    | <u>45.61%</u> | <u>(455,420)</u>                             |
| <b>Total revenue</b>                   | <u>\$ 9,047,945</u> | <u>100%</u>   | <u>\$ 9,278,031</u> | <u>100%</u>   | <u>\$ (230,086)</u>                          |

| Source of Revenue                      | Fiscal Year 2011    |               | Fiscal Year 2010    |               | Increase<br>(decrease)<br>FY'11 vs.<br>FY'10 |
|--|---------------------|---------------|---------------------|---------------|--|
|  | Amount              | Percent       | Amount              | Percent       |  |
| <b>Operating revenues</b>              |                     |               |                     |               |  |
| Tuition and fees (net)                 | \$ 1,675,185        | 18.06%        | 1,600,728           | 16.06%        | \$ 74,457                                    |
| Federal grants and contracts           | 1,447,915           | 15.61%        | 1,810,557           | 18.17%        | (362,642)                                    |
| State grants and contracts             | 125,539             | 1.35%         | 133,114             | 1.34%         | (7,575)                                      |
| Private and local grants and contracts | 388,340             | 4.19%         | 292,859             | 2.94%         | 95,481                                       |
| Indirect cost recoveries               | 27,085              | 0.29%         | 34,776              | 0.35%         | (7,691)                                      |
| Auxiliary enterprise activities        | 1,156,074           | 12.46%        | 1,222,707           | 12.27%        | (66,633)                                     |
| Other operating revenues               | <u>225,739</u>      | <u>2.44%</u>  | <u>296,018</u>      | <u>2.97%</u>  | <u>(70,279)</u>                              |
| <b>Total operating revenue</b>         | <u>5,045,877</u>    | <u>54.39%</u> | <u>5,390,759</u>    | <u>54.10%</u> | <u>(344,882)</u>                             |
| <b>Non-operating revenues</b>          |                     |               |                     |               |  |
| Interest income                        | 26,180              | 0.28%         | 32,053              | 0.32%         | (5,873)                                      |
| State appropriations                   | 2,427,405           | 26.16%        | 2,655,259           | 26.64%        | (227,854)                                    |
| Federal appropriations                 | 284,157             | 3.06%         | 358,922             | 3.60%         | (74,765)                                     |
| State reimbursements                   | 195,891             | 2.11%         | 192,704             | 1.93%         | 3,187  |
| District levies                        | <u>1,298,521</u>    | <u>14.00%</u> | <u>1,336,188</u>    | <u>13.41%</u> | <u>(37,667)</u>                              |
| <b>Total non-operating revenues</b>    | <u>4,232,154</u>    | <u>45.61%</u> | <u>4,575,126</u>    | <u>45.90%</u> | <u>(342,972)</u>                             |
| <b>Total revenue</b>                   | <u>\$ 9,278,031</u> | <u>100%</u>   | <u>\$ 9,965,885</u> | <u>100%</u>   | <u>\$ (687,854)</u>                          |

## ANALYSIS OF CATEGORY OF EXPENSE

| Category of Expenses                | Fiscal Year 2012    |               | Fiscal Year 2011    |               | Increase<br>(decrease)<br>FY'12 vs.<br>FY'11 |
|-------------------------------------|---------------------|---------------|---------------------|---------------|--|
|                                     | Amount              | Percent       | Amount              | Percent       |  |
| <b>Operating expenses</b>           |                     |               |                     |               |  |
| Personnel expenses                  | \$ 4,354,040        | 50.11%        | \$ 4,792,440        | 53.17%        | \$ (438,400)                                 |
| Advertising                         | 63,109              | 0.73%         | 63,581              | 0.71%         | (472)  |
| Bad debt expense                    | 76,305              | 0.88%         | 58,207              | 0.65%         | 18,098                                       |
| Communications                      | 101,890             | 1.17%         | 98,778              | 1.10%         | 3,122  |
| Contracted service                  | 409,406             | 4.71%         | 401,094             | 4.45%         | 8,312  |
| Food for resale                     | 270,984             | 3.12%         | 234,126             | 2.60%         | 36,858                                       |
| Indirect costs                      | 27,041              | 0.31%         | 20,153              | 0.22%         | 6,888  |
| Insurance                           | 66,118              | 0.76%         | 74,111              | 0.82%         | (7,993)                                      |
| IT system support                   | 24,305              | 0.28%         | 77,711              | 0.86%         | (53,406)                                     |
| Items for resale                    | 120,325             | 1.38%         | 185,799             | 2.06%         | (65,474)                                     |
| Meetings and dues                   | 40,281              | 0.46%         | 38,305              | 0.42%         | 1,976  |
| Rent and lease                      | 53,488              | 0.62%         | 47,312              | 0.52%         | 6,176  |
| Repairs and maintenance             | 72,242              | 0.83%         | 53,778              | 0.60%         | 18,464                                       |
| Scholarships and grants             | 1,421,048           | 16.35%        | 1,472,733           | 16.34%        | (51,685)                                     |
| Student support                     | 83,570              | 0.96%         | 67,388              | 0.75%         | 16,182                                       |
| Supplies                            | 474,283             | 5.46%         | 364,885             | 4.05%         | 109,398                                      |
| Travel                              | 147,768             | 1.70%         | 151,668             | 1.68%         | (3,900)                                      |
| Utilities                           | 171,033             | 1.97%         | 171,947             | 1.91%         | (914)  |
| Other operating expenses            | 113,166             | 1.30%         | 116,962             | 1.30%         | (3,796)                                      |
| Depreciation                        | <u>501,983</u>      | <u>5.78%</u>  | <u>433,737</u>      | <u>4.81%</u>  | <u>68,246</u>                                |
| <b>Total operating expenses</b>     | <u>8,592,385</u>    | <u>98.88%</u> | <u>8,924,715</u>    | <u>99.02%</u> | <u>(332,330)</u>                             |
| <b>Non-operating expenses</b>       |                     |               |                     |               |  |
| Interest payments                   | 97,491              | 1.12%         | 87,982              | 0.98%         | 9,509  |
| Other non-operating expenses        | <u>-</u>            | <u>0.00%</u>  | <u>-</u>            | <u>0.00%</u>  | <u>-</u>                                     |
| <b>Total non-operating expenses</b> | <u>97,491</u>       | <u>1.12%</u>  | <u>87,982</u>       | <u>0.98%</u>  | <u>9,509</u>                                 |
| <b>Total expenses</b>               | <u>\$ 8,689,876</u> | <u>100%</u>   | <u>\$ 9,012,697</u> | <u>100%</u>   | <u>\$ (322,821)</u>                          |

| CATEGORY OF EXPENSES                | Fiscal Year 2011    |               | Fiscal Year 2010    |               | Increase<br>(decrease)<br>FY'11 vs.<br>FY'10 |
|-------------------------------------|---------------------|---------------|---------------------|---------------|--|
|                                     | Amount              | Percent       | Amount              | Percent       |  |
| <b>Operating expenses</b>           |                     |               |                     |               |  |
| Personnel expenses                  | \$ 4,792,440        | 53.17%        | 4,561,460           | 51.13%        | \$ 230,980                                   |
| Advertising                         | 63,581              | 0.71%         | 53,538              | 0.60%         | 10,043                                       |
| Bad debt expense                    | 58,207              | 0.65%         | 34,294              | 0.38%         | 23,913                                       |
| Communications                      | 98,778              | 1.10%         | 110,538             | 1.24%         | (11,760)                                     |
| Contracted service                  | 401,094             | 4.45%         | 529,053             | 5.93%         | (127,959)                                    |
| Food for resale                     | 234,126             | 2.60%         | 243,960             | 2.73%         | (9,834)                                      |
| Indirect costs                      | 20,153              | 0.22%         | 34,777              | 0.39%         | (14,624)                                     |
| Insurance                           | 74,111              | 0.82%         | 74,534              | 0.84%         | (423)  |
| IT system support                   | 77,711              | 0.86%         | 20,739              | 0.23%         | 56,972                                       |
| Items for resale                    | 185,799             | 2.06%         | 172,523             | 1.93%         | 13,276                                       |
| Meetings and dues                   | 38,305              | 0.42%         | 36,353              | 0.41%         | 1,952  |
| Rent and lease                      | 47,312              | 0.52%         | 35,097              | 0.39%         | 12,215                                       |
| Repairs and maintenance             | 53,778              | 0.60%         | 21,708              | 0.24%         | 32,070                                       |
| Scholarships and grants             | 1,472,733           | 16.34%        | 1,466,568           | 16.44%        | 6,165  |
| Student support                     | 67,388              | 0.75%         | 16,182              | 0.18%         | 51,206                                       |
| Supplies                            | 364,885             | 4.05%         | 503,059             | 5.64%         | (138,174)                                    |
| Travel                              | 151,668             | 1.68%         | 171,755             | 1.93%         | (20,087)                                     |
| Utilities                           | 171,947             | 1.91%         | 156,635             | 1.76%         | 15,312                                       |
| Other operating expenses            | 116,962             | 1.30%         | 187,187             | 2.10%         | (70,225)                                     |
| Depreciation                        | <u>433,737</u>      | <u>4.81%</u>  | <u>382,841</u>      | <u>4.29%</u>  | <u>50,896</u>                                |
| <b>Total operating expenses</b>     | <u>8,924,715</u>    | <u>99.02%</u> | <u>8,812,801</u>    | <u>98.78%</u> | <u>111,914</u>                               |
| <b>Non-operating expenses</b>       |                     |               |                     |               |  |
| Interest payments                   | 87,982              | 0.98%         | 108,630             | 1.22%         | (20,648)                                     |
| Other non-operating expenses        | <u>-</u>            | <u>0.00%</u>  | <u>-</u>            | <u>0.00%</u>  | <u>-</u>                                     |
| <b>Total non-operating expenses</b> | <u>87,982</u>       | <u>0.98%</u>  | <u>108,630</u>      | <u>1.22%</u>  | <u>(20,648)</u>                              |
| <b>Total expenses</b>               | <u>\$ 9,012,697</u> | <u>100%</u>   | <u>\$ 8,921,431</u> | <u>100%</u>   | <u>\$ 91,266</u>                             |

Comments about specific revenue and expense items are:

- **Private and local grants and contracts** – During FY 2012 and FY 2011 the College received funding from the Miles Community College Endowment Corporation, Pioneer Club, Glendive Medical Center and Sidney Healthcare to assist with program costs.
- **Expenses (general comment):** Overall expenses decreased \$322,821 from FY 2011 to FY 2012 and increased \$91,266 from FY 2010 to FY 2011. The completion of grants and reduced bookstore sales and reduced personnel costs were the most significant factors affecting the overall decrease.



## STATEMENT OF CASH FLOWS

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

A summary of the Statement of Cash Flows follows:

| CASH FLOW CATEGORY                           | June 30,<br>2012    | June 30,<br>2011    | June 30,<br>2010    |
|--|---------------------|---------------------|---------------------|
| Cash provided by (used in):                  |                     |                     |                     |
| Operating activities                         | \$ (2,555,386)      | \$ (3,098,655)      | \$ (3,024,852)      |
| Noncapital activities                        | 3,723,601           | 4,252,179           | 4,456,480           |
| Capital financing activities                 | (757,517)           | (730,316)           | (1,610,594)         |
| Investing activities                         | <u>30,779</u>       | <u>26,180</u>       | <u>32,053</u>       |
| Net increase (decrease) in cash              | <u>441,477</u>      | <u>449,388</u>      | <u>(146,913)</u>    |
| Cash and cash equivalents, beginning of year | <u>2,305,925</u>    | <u>1,856,537</u>    | <u>2,003,450</u>    |
| Cash and cash equivalents, end of year       | \$ <u>2,747,402</u> | \$ <u>2,305,925</u> | \$ <u>1,856,537</u> |

### Comparison of 2012 and 2011 Cash Flows

- **Operating activities** represent the revenue received from tuition and fees, federal, state, and private grants and contracts, indirect cost recoveries (from grants), auxiliary activities, and other operating revenues. Total operating activities increased by \$543,269 from FY 2011 to FY 2012. This is mainly due to the increase in Federal and State grants and contracts. In addition, tuition increased because of a change in the mix of in-district, out-of-district and out-of-state students.
- **Noncapital financing activities** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-Capital activities decreased \$528,578 from FY 2011 to FY 2012. The major items affecting this change are state and federal appropriations.
- **Capital and related financing activities** consists of purchases of capital assets and payments of principal and interest on loans.

### Comparison of 2011 and 2010 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 \$73,803 from FY 2010 to FY 2011. This is mainly due to the increase in Federal and State grants and contracts. In addition, tuition increased because of a change in the mix of in-district, out-of-district and out-of-state students.

- **Noncapital financing activities** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-Capital revenue decreased \$204,301 from FY 2010 to FY 2011. The major items affecting this change are state and federal appropriations.
- **Capital and related financing activities** consists of purchases of capital assets and payments of principal and interest on loans.

## DISCUSSION OF SIGNIFICANT PENDING ECONOMIC AND FINANCIAL ISSUES

- **Population** – The College will continue to experience enrollment challenges due to the oil boom in eastern Montana.
- **Faculty and Staff** – The ability to attract and retain high quality faculty and staff due to the competitive job market in the region is a concern of the College. For example, McDonalds in Sidney, Montana pays \$12/hour with full benefits, and a CDL truck driver starting salary is \$60,000.
- **Program Development** – With drastic economic changes in our region, the College is challenged to meet the educational service needs of the rural community and anticipating the demands of the burgeoning oil servicing industries. Balancing costs of program development with declining enrollment requires careful planning. Nonetheless, successful recruitment and retention of students depends upon the continued development of quality academic and professional technical programs.
- **State Funding** – As state funding for higher education becomes more and more uncertain, we continue to look for alternate sources of funding such as state and federal grants, business partnerships, and partnerships with other educational institutions.
- **Business Model** – Due to the above factors, as well as the growing demand for accountability, increased reporting requirements, and enhanced documentation needs, the College is exploring business model alternatives to ensure the sustainability of college functions and to ensure that educational opportunities in eastern Montana remain robust.

**Miles Community College, Custer County, Montana**  
**Statement of Net Assets**  
**June 30, 2011**

|   | <b>Business-Type<br/>Activities</b> | <b>Miles Community<br/>College<br/>Endowment</b> |
|---|-------------------------------------|--|
| <b>ASSETS</b>   |                                     |  |
| Current assets:   |                                     |  |
| Cash and cash equivalents                                     | \$ 2,179,980                        | \$ 264,203                                       |
| Taxes receivable  | 90,769                              | -  |
| Grants receivable   | 480,683                             | -  |
| Student loan receivable                                       | 32,796                              | -  |
| Accounts receivable - net                                     | 186,101                             | -  |
| Inventories   | 50,190                              | -  |
| Prepaid expense   | 24,423                              | -  |
| Total current assets  | \$ 3,044,942                        | \$ 264,203                                       |
| Noncurrent assets:  |                                     |  |
| Restricted cash and cash equivalents                          | \$ 125,945                          | \$ 579,528                                       |
| Capital assets, net   | 6,694,653                           | -  |
| Total noncurrent assets                                       | \$ 6,820,598                        | \$ 579,528                                       |
| Total assets  | \$ 9,865,540                        | \$ 843,731                                       |
| <b>LIABILITIES</b>  |                                     |  |
| Current liabilities:  |                                     |  |
| Accounts payable  | \$ 10,233                           | \$ 67,999  |
| Accrued payroll   | 270,710                             | -  |
| Deferred revenue - tuition and fees                           | 65,310                              | -  |
| Student deposits  | 33,860                              | -  |
| Current portion of compensated absences payable               | 50,810                              | -  |
| Current portion of debt and capital lease obligations         | 116,812                             | -  |
| Total current liabilities                                     | \$ 547,735                          | \$ 67,999  |
| Noncurrent liabilities:                                       |                                     |  |
| Compensated absences payable                                  | \$ 314,352                          | \$ -   |
| Debt and capital lease obligations                            | 2,352,463                           | -  |
| Other post employment benefits                                | 428,359                             | -  |
| Other post employment benefits - accrued insurance            | 142,935                             | -  |
| Total noncurrent liabilities                                  | \$ 3,238,109                        | \$ -   |
| Total liabilities   | \$ 3,785,844                        | \$ 67,999  |
| <b>NET ASSETS</b>   |                                     |  |
| Invested in capital assets, net of related debt               | \$ 4,225,377                        | \$ -   |
| Restricted for student loans                                  | 53,735                              | -  |
| Restricted for debt service                                   | 105,501                             | -  |
| Restricted for scholarships, research, instruction, and other | 104,861                             | 775,732  |
| Unrestricted  | 1,590,222                           | -  |
| Total net assets  | \$ 6,079,696                        | \$ 775,732                                       |
| Total liabilities and net assets                              | \$ 9,865,540                        | \$ 843,731.00                                    |

See accompanying Notes to the Financial Statements

**Miles Community College, Custer County, Montana**  
**Statement of Net Assets**  
**June 30, 2012**

|   | <b>Business-Type<br/>Activities</b> | <b>Miles Community<br/>College<br/>Endowment</b> |
|---|-------------------------------------|--|
| <b>ASSETS</b>   |                                     |  |
| Current assets:   |                                     |  |
| Cash and cash equivalents                                     | \$ 2,609,894                        | \$ 306,029                                       |
| Taxes receivable  | 113,123                             | -  |
| Grants receivable   | 366,925                             | -  |
| Student loan receivable                                       | 32,796                              | -  |
| Accounts receivable - net                                     | 270,180                             | -  |
| Inventories   | 57,909                              | -  |
| Prepaid expense   | 20,617                              | -  |
| Total current assets  | \$ 3,471,444                        | \$ 306,029                                       |
| Noncurrent assets:  |                                     |  |
| Restricted cash and cash equivalents                          | \$ 137,508                          | \$ 553,589                                       |
| Capital assets, net   | 6,773,211                           | -  |
| Total noncurrent assets                                       | \$ 6,910,719                        | \$ 553,589                                       |
| Total assets  | \$ 10,382,163                       | \$ 859,618                                       |
| <b>LIABILITIES</b>  |                                     |  |
| Current liabilities:  |                                     |  |
| Accounts payable  | \$ 82,484                           | \$ 132,504                                       |
| Accrued payroll   | 269,630                             | -  |
| Deferred revenue - tuition and fees                           | 73,013                              | -  |
| Student deposits  | 37,835                              | -  |
| Current portion of compensated absences payable               | 50,980                              | -  |
| Current portion of debt and capital lease obligations         | 142,243                             | -  |
| Total current liabilities                                     | \$ 656,185                          | \$ 132,504                                       |
| Noncurrent liabilities:                                       |                                     |  |
| Compensated absences payable                                  | \$ 346,669                          | \$ -   |
| Debt and capital lease obligations                            | 2,233,017                           | -  |
| Other post employment benefits                                | 581,848                             | -  |
| Other post employment benefits - accrued insurance            | 112,149                             | -  |
| Total noncurrent liabilities                                  | \$ 3,273,683                        | \$ -   |
| Total liabilities   | \$ 3,929,868                        | \$ 132,504                                       |
| <b>NET ASSETS</b>   |                                     |  |
| Invested in capital assets, net of related debt               | \$ 4,397,951                        | \$ -   |
| Restricted for student loans                                  | 53,742                              | -  |
| Restricted for debt service                                   | 117,057                             | -  |
| Restricted for scholarships, research, instruction, and other | 116,478                             | 727,114  |
| Unrestricted  | 1,767,067                           | -  |
| Total net assets  | \$ 6,452,295                        | \$ 727,114                                       |
| Total liabilities and net assets                              | \$ 10,382,163                       | \$ 859,618                                       |

See accompanying Notes to the Financial Statements

**Miles Community College, Custer County, Montana**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Fiscal Year Ended June 30, 2011**

|   | Business-Type<br>Activities | Miles Community<br>College<br>Endowment |
|---|-----------------------------|---|
| <b>Operating revenues</b>   |                             |   |
| Tuition and fees (net of scholarship allowances of \$373,555, respectively) | \$ 1,675,185                | \$ -                                    |
| Federal grants and contracts  | 1,447,915                   | -                                       |
| Auxiliary activities  | 1,152,214                   | -                                       |
| Private and local grants and contracts                                      | 388,340                     | 191,551                                 |
| State grants and contracts  | 125,539                     | -                                       |
| Other operating revenues  | 97,169                      | -                                       |
| Athletic donations  | 90,266                      | -                                       |
| Other athletic allowance  | 36,189                      | -                                       |
| Indirect cost recoveries  | 27,085                      | -                                       |
| Space/rental income   | 5,975                       | -                                       |
| Total operating revenues  | <u>\$ 5,045,877</u>         | <u>\$ 191,551</u>                       |
| <b>Operating expenses</b>   |                             |   |
| Personnel services  | \$ 4,792,440                | \$ -                                    |
| Scholarships and grants   | 1,472,733                   | 45,750                                  |
| Depreciation and amortization expense                                       | 433,737                     | -                                       |
| Contracted services   | 401,094                     | -                                       |
| Supplies  | 364,885                     | -                                       |
| Food for resale   | 234,126                     | -                                       |
| Items for resale  | 185,799                     | -                                       |
| Utilities   | 171,947                     | -                                       |
| Travel  | 151,668                     | -                                       |
| Other operating expense   | 116,962                     | -                                       |
| Communications  | 98,778                      | -                                       |
| IT system support   | 77,711                      | -                                       |
| Insurance   | 74,111                      | -                                       |
| Student support   | 67,388                      | -                                       |
| Advertising   | 63,581                      | -                                       |
| Bad debt expense  | 58,207                      | -                                       |
| Repairs and maintenance   | 53,778                      | -                                       |
| Rent and lease  | 47,312                      | -                                       |
| Meetings and dues   | 38,305                      | -                                       |
| Indirect costs  | 20,153                      | -                                       |
| Program disbursements   | -                           | 28,950                                  |
| Management and General  | -                           | 73,423                                  |
| Total operating expenses  | <u>\$ 8,924,715</u>         | <u>\$ 148,123</u>                       |
| Operating loss  | <u>\$ (3,878,838)</u>       | <u>\$ 43,428</u>                        |
| <b>Non-operating revenues (expenses)</b>                                    |                             |   |
| State appropriation   | \$ 2,427,405                | \$ -                                    |
| District levies   | 1,298,521                   | -                                       |
| Federal appropriation   | 284,157                     | -                                       |
| State reimbursements  | 195,891                     | -                                       |
| Interest income   | 26,180                      | 89,190                                  |
| Interest expense  | (87,982)                    | -                                       |
| Total non-operating revenues (expenses)                                     | <u>\$ 4,144,172</u>         | <u>\$ 89,190</u>                        |
| Income before contributions and transfers                                   | <u>\$ 265,334</u>           | <u>\$ 132,618</u>                       |
| Change in net assets  | <u>\$ 265,334</u>           | <u>\$ 132,618</u>                       |
| Net assets, beginning of year   | <u>\$ 5,814,362</u>         | <u>\$ 682,267</u>                       |
| Restatements  | <u>-</u>                    | <u>(39,153)</u>                         |
| Net assets, end of year   | <u><u>\$ 6,079,696</u></u>  | <u><u>\$ 775,732</u></u>                |

See accompanying Notes to the Financial Statements

**Miles Community College, Custer County, Montana**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Fiscal Year Ended June 30, 2012**

|   | <b>Business-Type<br/>Activities</b> | <b>Miles Community<br/>College<br/>Endowment</b> |
|---|-------------------------------------|--|
| <b>Operating revenues</b>                 |                                     |  |
| Tuition and fees                          | \$ 1,687,837                        | \$ -   |
| Federal grants and contracts              | 1,496,197                           | -  |
| Auxiliary activities                      | 1,204,128                           | -  |
| Private and local grants and contracts    | 280,368                             | 81,554   |
| State grants and contracts                | 256,448                             | -  |
| Athletic donations                        | 146,454                             | -  |
| Other operating revenues                  | 118,014                             | -  |
| Other athletic allowance                  | 45,074                              | -  |
| Indirect cost recoveries                  | 28,397                              | -  |
| Space/rental income                       | 8,294                               | -  |
| Total operating revenues                  | \$ 5,271,211                        | \$ 81,554  |
| <b>Operating expenses</b>                 |                                     |  |
| Personnel services                        | \$ 4,354,040                        | \$ -   |
| Scholarships and grants                   | 1,421,048                           | 37,368   |
| Depreciation and amortization expense     | 501,983                             | -  |
| Supplies                                  | 474,283                             | -  |
| Contracted services                       | 409,406                             | -  |
| Food for resale                           | 270,984                             | -  |
| Utilities                                 | 171,033                             | -  |
| Travel                                    | 147,768                             | -  |
| Items for resale                          | 120,325                             | -  |
| Other operating expense                   | 113,166                             | -  |
| Communications                            | 101,890                             | -  |
| Student support                           | 83,570                              | -  |
| Bad debt expense                          | 76,305                              | -  |
| Repairs and maintenance                   | 72,242                              | -  |
| Insurance                                 | 66,118                              | -  |
| Advertising                               | 63,109                              | -  |
| Rent and lease                            | 53,488                              | -  |
| Meetings and dues                         | 40,281                              | -  |
| Indirect costs                            | 27,041                              | -  |
| IT system support                         | 24,305                              | -  |
| Program disbursements                     | -                                   | 21,352   |
| Professional Fees                         | -                                   | 2,166  |
| Management and General                    | -                                   | 90,777   |
| Total operating expenses                  | \$ 8,592,385                        | \$ 151,663                                       |
| Operating loss                            | \$ (3,321,174)                      | \$ (70,109)                                      |
| <b>Non-operating revenues (expenses)</b>  |                                     |  |
| State appropriation                       | \$ 2,255,642                        | \$ -   |
| District levies                           | 1,294,491                           | -  |
| State reimbursements                      | 195,822                             | -  |
| Interest income                           | 30,779                              | 21,491   |
| Interest expense                          | (97,491)                            | -  |
| Total non-operating revenues (expenses)   | \$ 3,679,243                        | \$ 21,491  |
| Income before contributions and transfers | \$ 358,069                          | \$ (48,618)                                      |
| Gain on disposal of capital assets        | \$ 14,530                           | \$ -   |
| Change in net assets                      | \$ 372,599                          | \$ (48,618)                                      |
| Net assets, beginning of year             | \$ 6,079,696                        | \$ 775,732                                       |
| Net assets, end of year                   | \$ 6,452,295                        | \$ 727,114                                       |

See accompanying Notes to the Financial Statements



**Miles Community College, Custer County, Montana**  
**Statements of Cash Flows**  
**For the Fiscal Years Ended June 30, 2012 and 2011**  
**Business-Type Activities**

|  | <u>2012</u>           | <u>2011</u>           |
|--|-----------------------|-----------------------|
| <b>Cash flows from operating activities:</b>   |                       |                       |
| Tuition and fees   | \$ 1,535,156          | \$ 1,543,180          |
| Grants and contracts   | 2,146,771             | 1,973,455             |
| Payments to employees  | (4,199,930)           | (4,404,707)           |
| Payments to suppliers  | (1,775,861)           | (1,788,584)           |
| Payments for utilities   | (171,033)             | (171,947)             |
| Payments for scholarships and fellowships  | (1,421,048)           | (1,472,733)           |
| Collection of loans from students  | -                     | 716                   |
| Auxiliary activities   | 1,204,893             | 1,169,784             |
| Other cash receipts (payments)   | 125,666               | 52,181                |
| Net cash used in operating activities  | <u>\$ (2,555,386)</u> | <u>\$ (3,098,655)</u> |
| <b>Cash flows from noncapital financing activities</b>   |                       |                       |
| State appropriations   | \$ 2,255,642          | \$ 2,427,405          |
| Federal appropriations   | -                     | 284,157               |
| State reimbursements   | 195,822               | 195,891               |
| District levies  | 1,272,137             | 1,344,726             |
| Net cash provided by noncapital financing activities   | <u>\$ 3,723,601</u>   | <u>\$ 4,252,179</u>   |
| <b>Cash flows from capital and related financing activities</b>                                  |                       |                       |
| Purchase of capital assets   | \$ (576,113)          | \$ (880,589)          |
| Proceeds from sale of capital assets   | 35,102                | -                     |
| Proceeds from capital debt   | -                     | 350,408               |
| Principal paid on capital debt and leases  | (119,015)             | (112,153)             |
| Interest paid on capital debt and leases   | (97,491)              | (87,982)              |
| Net cash used in capital and related financing activities  | <u>\$ (757,517)</u>   | <u>\$ (730,316)</u>   |
| <b>Cash flows from investing activities</b>  |                       |                       |
| Interest received on cash and cash equivalents   | \$ 30,779             | \$ 26,180             |
| Net cash provided by investing activities  | <u>\$ 30,779</u>      | <u>\$ 26,180</u>      |
| Net increase in cash and cash equivalents  | \$ 441,477            | \$ 449,388            |
| Cash and cash equivalents, beginning of year   | 2,305,925             | 1,856,537             |
| Cash and cash equivalents, end of year   | <u>\$ 2,747,402</u>   | <u>\$ 2,305,925</u>   |
| <b>Reconciliation to Statement of Net Assets</b>   |                       |                       |
| Cash and cash equivalents  | \$ 2,609,894          | \$ 2,179,980          |
| Restricted cash  | 137,508               | 125,945               |
| Total cash and cash equivalents  | <u>\$ 2,747,402</u>   | <u>\$ 2,305,925</u>   |
| <b>Reconciliation of operating income to net cash provided by (used in) operating activities</b> |                       |                       |
| Operating loss   | \$ (3,321,174)        | \$ (3,878,838)        |
| Adjustments to reconcile operating loss to net cash used in operating activities:                |                       |                       |
| Depreciation   | \$ 501,983            | \$ 433,737            |
| Bad debt expense   | 76,305                | 58,207                |
| Other post employment benefits   | 153,489               | 218,636               |
| Changes in net assets and liabilities:   |                       |                       |
| Grants receivable  | 113,758               | 11,661                |
| Student loan receivable  | -                     | 716                   |
| Accounts receivable - net  | (160,384)             | (111,325)             |
| Prepaid expense  | 3,806                 | 1,770                 |
| Inventories  | (7,719)               | (2,570)               |
| Accounts payable   | 72,251                | 3,364                 |
| Accrued payroll  | (1,080)               | 13,352                |
| Deferred revenue - tuition and fees  | 7,703                 | (20,680)              |
| Student deposits   | 3,975                 | 17,570                |
| Compensated absences payable   | 1,701                 | 155,745               |
| Net cash used in operating activities  | <u>\$ (2,555,386)</u> | <u>\$ (3,098,655)</u> |



**Miles Community College, Custer County, Montana**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2012 and 2011**

|                           | <b>Private Purpose Trust Funds</b> |             |
|---------------------------|------------------------------------|-------------|
|                           | 2012                               | 2011        |
| <b>ASSETS</b>             |                                    |             |
| Cash and cash equivalents | \$ (170,509)                       | \$ (14,400) |
| Accounts receivable - net | 210,700                            | 58,787      |
| Prepaid expense           | 119                                | 162         |
| Total assets              | \$ 40,310                          | \$ 44,549   |
| <b>LIABILITIES</b>        |                                    |             |
| Accounts payable          | \$ -                               | \$ 397      |
| Deferred revenue          | 1,311                              | 1,176       |
| Total liabilities         | \$ 1,311                           | \$ 1,573    |
| <b>NET ASSETS</b>         |                                    |             |
| Assets held in trust      | \$ 38,999                          | \$ 42,976   |

See accompanying Notes to the Financial Statements

**Miles Community College, Custer County, Montana**  
**Statements of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

|                                    | <b>Private Purpose Trust Funds</b> |              |
|------------------------------------|------------------------------------|--------------|
|                                    | 2012                               | 2011         |
| <b>ADDITIONS:</b>                  |                                    |              |
| Contributions from private sources | \$ 1,664,832                       | \$ 1,837,341 |
| Total additions                    | \$ 1,664,832                       | \$ 1,837,341 |
| <b>DEDUCTIONS:</b>                 |                                    |              |
| Student activities                 | \$ 1,668,809                       | \$ 1,836,402 |
| Total deductions                   | \$ 1,668,809                       | \$ 1,836,402 |
| Changes in net assets              | \$ (3,977)                         | \$ 939       |
| Net assets, beginning of year      | \$ 42,976                          | \$ 42,037    |
| Net assets, end of year            | \$ 38,999                          | \$ 42,976    |

See accompanying Notes to the Financial Statements

MILES COMMUNITY COLLEGE  
CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012 and 2011

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The College complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

**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.

*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 component units.

*Discretely Presented Component Units*

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. The component unit listed below has fiscal years ending June 30, 2012 and 2011. The College has the following discretely presented component unit:

Miles Community College Endowment

Nature of Activities

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

MILES COMMUNITY COLLEGE  
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Basis of Accounting

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

Cash and Cash Equivalents

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

Classification of Net Assets

The Endowment classifies all net assets as restricted by donor.

Investments

Investments are carried at fair value, unrecognized gains and losses are reflected in the Statement of Revenues, Expenses and Changes in Net Assets as Interest Income.

Estimates

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

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

***Proprietary Funds:***

The proprietary fund is accounted for using the accrual basis of accounting. Proprietary funds account for operations that are primarily financed by user charges. The economic resource focus concerns 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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in 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 Colleges policy to use restricted resources first, then unrestricted resources as they are needed. The College has only one proprietary fund other than Fiduciary Funds.

MILES COMMUNITY COLLEGE  
CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012 and 2011

***Fiduciary Funds***

Fiduciary funds are presented using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans). The required financial statements are a statement of fiduciary net assets and a statement of changes in fiduciary net assets. The fiduciary funds are:

Private-purpose trust funds – To report all other trust arrangements under which the principal and income benefit individuals, private organizations, or other governments.

On July 1<sup>st</sup> 2010, Miles Community College began participating in the Federal Stafford Direct Loan Program operated by the Department of Education. This program operates as a Fiduciary Fund within the accounting system at Miles Community College. At MCC, the financial aid department processes and pays the loans to the students first and then the business office draws the approved funds from the Department of Education. This process simplifies the maintenance of cash balances but can result in timing differences which could result in a negative cash balance. The balance is shown in the statements but is offset by the coinciding receivable.

Miles Community College receives scholarships and support from the Miles Community College Endowment. Miles Community College maintains an endowment fiduciary fund to collect expenditures owed to the College and then seeks reimbursement on the routing basis. This process minimizes the amount of paperwork needed between the two entities but can result in timing differences which could result in a negative cash balance. This balance is shown in the statements but is offset by the coinciding receivable.

The College reports the student activities funds as fiduciary funds as they represent assets held in a trust capacity for the student activities and therefore cannot be used to support the College's own programs.

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

**Cash Composition**

The College's cash, except for the Perkins Loan Fund, is held by the County Treasurer and pooled with other County cash. With the College cash that is not necessary for short-term obligations, the College participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County's investment portfolio as of June 30, 2012, and 2011 consisted of savings deposits, U.S. Government Securities, Repurchase Agreements and the State Short-Term Investment Pool (STIP).

MILES COMMUNITY COLLEGE  
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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, 2012 and 2011.

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.

**Deposits**

The College's deposit balance at June 30, 2012 and 2011 was \$20,451 and \$20,444, and the bank balance was \$20,451 and \$20,444, respectively. These amounts were fully insured.

The College's cash and investments as of June 30, 2012 and 2011, consisted of the following:

|  | <u>2012</u>         | <u>2011</u>         |
|--|---------------------|---------------------|
| Cash on hand                           | \$ 11,151           | \$ 11,361           |
| Demand deposit accounts                | 20,451              | 20,444              |
| Invested in the County Investment Pool | <u>\$ 2,545,291</u> | <u>\$ 2,259,720</u> |
| Total cash and investments             | <u>\$ 2,576,893</u> | <u>\$ 2,291,525</u> |

The Endowment's deposits balance at June 30, 2012 and 2011 was \$209,961 and \$262,068, and the bank balance was \$209,963 and \$255,717 respectively. These amounts were fully insured. The Endowment's cash and investments as of June 30, 2012 and 2011 consisted of the following:

MILES COMMUNITY COLLEGE  
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|                                       | <u>2012</u>       | <u>2011</u>       |
|---------------------------------------|-------------------|-------------------|
| Cash on Hand                          | \$ -              | \$ 7,441          |
| Demand Deposit Accounts               | 104,852           | 152,899           |
| Money Market Accounts                 | 105,111           | 102,818           |
| First Interstate Financial            |                   |                   |
| Mutual Funds – MFS Utilities A        | 118,976           | 32,284            |
| Ameriprise Financials                 |                   |                   |
| Columbia – Port Builder Moderate Fund | 310,588           | 347,441           |
| Columbia RVS – High Yield Bond Fund   | 191,241           | 173,181           |
| Edward Jones                          |                   |                   |
| Growth Fund of America                | <u>\$ 28,850</u>  | <u>\$ 27,667</u>  |
| Total                                 | <u>\$ 859,618</u> | <u>\$ 843,731</u> |

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in the market rates.

Information about the sensitivity of the fair value of the College’s investments to market interest rate fluctuations is provided by the following tables that show the maturity date of each investment.

|                               | <u>June 30, 2012</u> | <u>June 30, 2011</u> |
|-------------------------------|----------------------|----------------------|
| Custer County Investment Pool | \$ 2,545,291         | \$ 2,259,720         |

No interest rate risk disclosure is made for the investments of the component unit.

**Disclosures Relating to Credit Risk**

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

**Concentration of Credit Risk**

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

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Concentration of Credit Risk for the Endowment are as follows:

| <u>Endowment</u>             | 2012              | %           | 2011              | %           |
|------------------------------|-------------------|-------------|-------------------|-------------|
| Edward Jones                 |                   |             |                   |             |
| Growth Fund of America       | \$ 28,852         | 4%          | \$ 27,667         | 5%          |
| First Interstate             |                   |             |                   |             |
| MFS Utilities – Mutual Funds | 118,975           | 18%         | 32,284            | 6%          |
| Ameriprise                   |                   |             |                   |             |
| Equity Securities            | 159,983           |             | 173,181           |             |
| Fixed income securities      | 341,844           |             | 347,441           |             |
| Total Ameriprise             |                   | 78%         |                   | 89%         |
| Total Investments            | <u>\$ 649,654</u> | <u>100%</u> | <u>\$ 580,573</u> | <u>100%</u> |

**Custodial Credit Risk**

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

The College’s deposits with financial institutions did not exceed federal depository insurance limits at June 30, 2012 and 2011.

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

**NOTE 3. RECEIVABLES**

Taxes

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

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.



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

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

Student Accounts Receivable

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

|                                 | <u>2012</u>      | <u>2011</u>      |
|---------------------------------|------------------|------------------|
| Student Accounts Receivable     | \$ 83,226        | \$ 76,793        |
| Less Allowances                 | \$ (41,100)      | \$ (21,100)      |
| Net Student Accounts Receivable | <u>\$ 42,166</u> | <u>\$ 55,693</u> |

**NOTE 4. INVENTORIES AND PREPAIDS**

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

The cost of inventories are 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.

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

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

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

*Land* purchases shall be capitalized, regardless of cost.

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

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

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

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

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in the basic financial statements. In accordance with Statement No. 34, the College has included the value of all infrastructures into the 2011-12 Basic Financial Statements. The College has elected not to retroactively report general infrastructure assets.

The following tables present the changes in capital assets for the years ended June 30, 2012 and 2011, respectively:

MILES COMMUNITY COLLEGE  
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|   | <u>Balance</u><br><u>June 30, 2011</u> | <u>Additions</u>    | <u>Deletions</u>   | <u>Balance</u><br><u>June 30, 2012</u> |
|---|--|---------------------|--------------------|--|
| Capital assets not being depreciated:         |  |                     |                    |  |
| Land  | \$ 206,412                             | \$ -                | \$ -               | \$ 206,412                             |
| Total capital assets not being depreciated    | <u>\$ 206,412</u>                      | <u>\$ -</u>         | <u>\$ -</u>        | <u>\$ 206,412</u>                      |
| Capital assets being depreciated              |  |                     |                    |  |
| Buildings                                     | \$ 8,841,993                           | \$ 181,361          | \$ -               | \$ 9,023,354                           |
| Machinery & equipment                         | 1,433,170                              | 396,071             | (58,226)           | 1,771,015                              |
| Library inventory                             | 90,862                                 | 25,330              | (21,840)           | 94,352                                 |
| Software                                      | <u>405,847</u>                         | <u>-</u>            | <u>-</u>           | <u>405,847</u>                         |
| Total other capital assets at historical cost | <u>\$ 10,771,872</u>                   | <u>\$ 602,762</u>   | <u>\$ (80,066)</u> | <u>\$ 11,294,568</u>                   |
| Less accumulated depreciation                 |  |                     |                    |  |
| Buildings                                     | \$ (3,275,567)                         | \$ (290,070)        | \$ -               | \$ (3,565,637)                         |
| Machinery and equipment                       | (726,043)                              | (132,795)           | 36,006             | (822,832)                              |
| Library Inventory                             | (59,867)                               | (17,888)            | 21,840             | (55,915)                               |
| Software                                      | <u>(222,154)</u>                       | <u>(61,231)</u>     | <u>-</u>           | <u>(283,385)</u>                       |
| Total accumulated depreciation                | <u>\$ (4,283,631)</u>                  | <u>\$ (501,984)</u> | <u>\$ 57,846</u>   | <u>\$ (4,727,769)</u>                  |
| Total capital assets, depreciable, net        | <u>\$ 6,488,241</u>                    | <u>\$ 100,778</u>   | <u>\$ (22,220)</u> | <u>\$ 6,566,799</u>                    |
| Total   | <u>\$ 6,694,653</u>                    | <u>\$ 100,778</u>   | <u>\$ (22,220)</u> | <u>\$ 6,773,211</u>                    |

|   | <u>Balance</u><br><u>June 30, 2010</u> | <u>Additions</u>    | <u>Deletions</u>   | <u>Transfers</u>    | <u>Balance</u><br><u>June 30, 2011</u> |
|---|--|---------------------|--------------------|---------------------|--|
| Capital assets not being depreciated:         |  |                     |                    |                     |  |
| Land  | \$ 206,412                             | \$ -                | \$ -               | \$ -                | \$ 206,412                             |
| Construction in progress                      | <u>485,347</u>                         | <u>-</u>            | <u>-</u>           | <u>(485,347)</u>    | <u>-</u>                               |
| Total capital assets not being depreciated    | <u>\$ 691,759</u>                      | <u>\$ -</u>         | <u>\$ -</u>        | <u>\$ (485,347)</u> | <u>\$ 206,412</u>                      |
| Other capital assets                          |  |                     |                    |                     |  |
| Buildings                                     | \$ 7,638,731                           | \$ 717,915          | \$ -               | \$ 485,347          | \$ 8,841,993                           |
| Machinery & equipment                         | 1,306,534                              | 150,487             | (23,851)           | -                   | 1,433,170                              |
| Library inventory                             | 84,065                                 | 12,187              | (5,390)            | -                   | 90,862                                 |
| Software                                      | <u>405,847</u>                         | <u>-</u>            | <u>-</u>           | <u>-</u>            | <u>405,847</u>                         |
| Total other capital assets at historical cost | <u>\$ 9,435,177</u>                    | <u>\$ 880,589</u>   | <u>\$ (29,241)</u> | <u>\$ 485,347</u>   | <u>\$ 10,771,872</u>                   |
| Less accumulated depreciation                 |  |                     |                    |                     |  |
| Buildings                                     | \$ (3,035,464)                         | \$ (240,103)        | \$ -               | \$ -                | \$ (3,275,567)                         |
| Machinery & equipment                         | (634,857)                              | (115,037)           | 23,851             | -                   | (726,043)                              |
| Library inventory                             | (47,892)                               | (17,365)            | 5,390              | -                   | (59,867)                               |
| Software                                      | <u>(160,923)</u>                       | <u>(61,231)</u>     | <u>-</u>           | <u>-</u>            | <u>(222,154)</u>                       |
| Total accumulated depreciation                | <u>\$ 3,879,136</u>                    | <u>\$ (433,736)</u> | <u>\$ 29,241</u>   | <u>\$ -</u>         | <u>\$ (4,283,631)</u>                  |
| Total capital assets, depreciable, net        | <u>\$ 5,556,041</u>                    | <u>\$ 446,853</u>   | <u>\$ -</u>        | <u>\$ 485,347</u>   | <u>\$ 6,488,241</u>                    |
| Total   | <u>\$ 6,247,800</u>                    | <u>\$ 446,853</u>   | <u>\$ -</u>        | <u>\$ -</u>         | <u>\$ 6,694,653</u>                    |

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**NOTE 6. LONG TERM LIABILITIES**

The following tables present the changes in long-term liabilities for the years ended June 30, 2012 and 2011, respectively:

|                             | <u>Balance</u><br><u>July 1, 2011</u> | <u>Additions</u>  | <u>Deletions</u>    | <u>Balance</u><br><u>June 30, 2012</u> | <u>Due within</u><br><u>one year</u> |
|-----------------------------|---------------------------------------|-------------------|---------------------|--|--------------------------------------|
| Contracted debt             | \$ 2,386,192                          | \$ -              | \$ (83,639)         | \$ 2,302,553                           | \$ 101,709                           |
| Intercap loans              | 83,083                                | -                 | (32,551)            | 50,532                                 | 33,485                               |
| Compensated absences        | 365,162                               | 32,487            | -                   | 397,649                                | 50,980                               |
| Capital lease               | -                                     | 25,000            | (2,825)             | 22,175                                 | 7,049                                |
| OPEB*                       | 428,359                               | 153,489           | -                   | 581,848                                | -                                    |
| OPEB – Accrued Insurance ** | <u>142,935</u>                        | <u>-</u>          | <u>(30,786)</u>     | <u>112,149</u>                         | <u>-</u>                             |
| Total                       | <u>\$ 3,405,731</u>                   | <u>\$ 210,976</u> | <u>\$ (149,801)</u> | <u>\$ 3,466,906</u>                    | <u>\$ 193,223</u>                    |

\*See Note 8

\*\* See Note 9

|                            | <u>Balance</u><br><u>July 1, 2010</u> | <u>Additions</u>  | <u>Deletions</u>    | <u>Balance</u><br><u>June 30, 2011</u> | <u>Due within</u><br><u>one year</u> |
|----------------------------|---------------------------------------|-------------------|---------------------|--|--------------------------------------|
| Contracted debt            | \$ 2,116,294                          | \$ 350,408        | \$ (80,510)         | \$ 2,386,192                           | \$ 84,260                            |
| Intercap loans             | 114,726                               | -                 | (31,643)            | 83,083                                 | 32,552                               |
| Compensated absences       | 352,352                               | 12,810            | -                   | 365,162                                | 50,810                               |
| OPEB*                      | 209,723                               | 218,636           | -                   | 428,359                                | -                                    |
| OPEB – Accrued Insurance** | <u>-</u>                              | <u>142,935</u>    | <u>-</u>            | <u>142,935</u>                         | <u>-</u>                             |
| Total                      | <u>\$ 2,793,095</u>                   | <u>\$ 724,789</u> | <u>\$ (112,153)</u> | <u>\$ 3,405,731</u>                    | <u>\$ 167,622</u>                    |

\*See Note 8

\*\* See Note 9

Stockman Bank

The note payable to Stockman Bank of Montana was in the original amount of \$400,000. The note is payable in monthly installments of \$3,387 on the 23<sup>rd</sup> day of each month. This note bears interest at a variable rate, not less than 7.16% per annum nor more than 11.16% per annum. The interest rate as of June 30, 2012 was 7.16% per annum. This note is secured by a second mortgage on two tracts of land, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on September 23, 2017.

Annual requirement to amortize debt for Stockman Bank:

| <u>For Fiscal Year Ended</u> | <u>Principal</u>  | <u>Interest</u>  |
|------------------------------|-------------------|------------------|
| 2013                         | \$ 27,177         | \$ 11,037        |
| 2014                         | 29,098            | 9,032            |
| 2015                         | 31,251            | 6,879            |
| 2016                         | 33,563            | 4,567            |
| 2017                         | 36,047            | 2,083            |
| 2018                         | <u>9,289</u>      | <u>111</u>       |
| Total                        | <u>\$ 166,425</u> | <u>\$ 33,709</u> |

MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2012 and 2011

USDA Rural Development #1

The first note payable to the USDA Rural Development was in the original amount of \$400,000. This note is payable in semi-annual installments of \$15,936 due on March 23<sup>rd</sup> and September 23<sup>rd</sup> of each year. This note bears interest at 5.0% per annum. This note is secured by two tracts of land, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on September 23, 2017.

Annual requirement to amortize debt for USDA Rural Development:

| <u>For Fiscal Year Ended</u> | <u>Principal</u>  | <u>Interest</u>  |
|------------------------------|-------------------|------------------|
| 2013                         | \$ 24,608         | \$ 7,264         |
| 2014                         | 27,634            | 4,238            |
| 2015                         | 28,351            | 3,521            |
| 2016                         | 28,917            | 2,955            |
| 2017                         | 29,669            | 2,203            |
| 2018                         | <u>12,179</u>     | <u>305</u>       |
| Total                        | <u>\$ 151,358</u> | <u>\$ 20,486</u> |

First Interstate Bank

The mortgage payable to First Interstate Bank was in the original amount of \$370,000. This mortgage is payable in monthly installments of \$2,736 on the 18<sup>th</sup> day of each month. This mortgage bears interest at a variable rate, currently at 5%. This mortgage is secured by the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this mortgage is due on May 18, 2023. This note payable is guaranteed by the USDA Rural Development for 90% of the outstanding balance of the note payable.

Annual requirement to amortize debt for First Interstate Bank:

| <u>For Fiscal Year Ended</u> | <u>Principal</u>  | <u>Interest</u>  |
|------------------------------|-------------------|------------------|
| 2013                         | \$ 16,718         | \$ 13,307        |
| 2014                         | 17,589            | 12,436           |
| 2015                         | 18,505            | 11,520           |
| 2016                         | 19,469            | 10,556           |
| 2017                         | 20,484            | 9,541            |
| 2018                         | 21,551            | 8,474            |
| 2019                         | 22,674            | 7,351            |
| 2020                         | 23,855            | 6,170            |
| 2021                         | 25,098            | 4,927            |
| 2022                         | 26,406            | 3,619            |
| 2023                         | 27,782            | 2,243            |
| 2024                         | <u>28,896</u>     | <u>791</u>       |
| Total                        | <u>\$ 269,027</u> | <u>\$ 90,935</u> |

MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2012 and 2011

USDA Rural Development #2

The second note payable to the USDA Rural Development was in the original amount of \$1,500,000. This note is payable in monthly installments of \$6,630 on the 18<sup>th</sup> day of each month. This note bears interest at 4.375% per annum. This note is secured by the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on May 18, 2044.

Annual requirement to amortize debt for USDA Rural Development:

| <u>For Fiscal Year Ended</u> | <u>Principal</u>    | <u>Interest</u>     |
|------------------------------|---------------------|---------------------|
| 2013                         | \$ 20,165           | \$ 59,331           |
| 2014                         | 21,132              | 58,428              |
| 2015                         | 22,075              | 57,485              |
| 2016                         | 23,061              | 56,499              |
| 2017                         | 24,090              | 55,470              |
| 2018                         | 25,165              | 54,395              |
| 2019                         | 26,289              | 53,271              |
| 2020                         | 27,462              | 52,098              |
| 2021                         | 28,688              | 50,872              |
| 2022                         | 29,969              | 49,591              |
| 2023                         | 31,306              | 48,254              |
| 2024                         | 32,704              | 46,856              |
| 2025                         | 34,164              | 45,396              |
| 2026                         | 35,689              | 43,871              |
| 2027                         | 37,282              | 42,278              |
| 2028                         | 38,946              | 40,614              |
| 2029                         | 40,684              | 38,876              |
| 2030                         | 42,500              | 37,060              |
| 2031                         | 44,397              | 35,163              |
| 2032                         | 46,379              | 33,181              |
| 2033                         | 48,450              | 31,110              |
| 2034                         | 50,612              | 28,948              |
| 2035                         | 52,872              | 26,688              |
| 2036                         | 55,232              | 24,328              |
| 2037                         | 57,697              | 21,863              |
| 2038                         | 60,272              | 19,288              |
| 2039                         | 62,963              | 16,597              |
| 2040                         | 65,773              | 13,787              |
| 2041                         | 68,709              | 10,851              |
| 2042                         | 71,777              | 7,783               |
| 2043                         | 74,981              | 4,579               |
| 2044                         | <u>63,850</u>       | <u>1,266</u>        |
| Total                        | <u>\$ 1,365,335</u> | <u>\$ 1,166,077</u> |

MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
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 June 30, 2012 and 2011

Montana Department of Environmental Quality

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

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

| <u>For Fiscal Year Ended</u> | <u>Principal</u>  | <u>Interest</u>   |
|------------------------------|-------------------|-------------------|
| 2013                         | \$ 13,041         | \$ 10,512         |
| 2014                         | 13,432            | 10,121            |
| 2015                         | 13,835            | 9,718             |
| 2016                         | 14,250            | 9,303             |
| 2017                         | 14,677            | 8,876             |
| 2018                         | 15,118            | 8,435             |
| 2019                         | 15,571            | 7,982             |
| 2020                         | 16,038            | 7,515             |
| 2021                         | 16,520            | 7,033             |
| 2022                         | 17,015            | 6,538             |
| 2023                         | 17,526            | 6,027             |
| 2024                         | 18,051            | 5,502             |
| 2025                         | 18,593            | 4,960             |
| 2026                         | 19,151            | 4,402             |
| 2027                         | 19,725            | 3,828             |
| 2028                         | 20,317            | 3,236             |
| 2029                         | 20,926            | 2,626             |
| 2030                         | 21,554            | 1,999             |
| 2031                         | 22,201            | 1,352             |
| 2032                         | <u>22,867</u>     | <u>686</u>        |
| Total                        | <u>\$ 350,408</u> | <u>\$ 120,651</u> |

Montana Board of Investments

The Intercap note payable to the Montana Board of Investments was in the original amount of \$300,000 and will be paid off on August 15, 2013. This note is payable in semiannual installments on August 15<sup>th</sup> and February 15<sup>th</sup> of each year. Interest is payable at 1.95% per annum. This note is secured by a deed of trust on the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College. Intercap loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 16<sup>th</sup> of each year, and are based on a spread over the interest paid on one-year term, tax-exempt bonds which are sold to fund the loans.

MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2012 and 2011

Annual requirement to amortize debt for Montana Board of Investments:

| <u>For Fiscal Year Ended</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------|------------------|-----------------|
| 2013                         | \$ 33,485        | \$ 985          |
| 2014                         | <u>17,047</u>    | <u>672</u>      |
| Total                        | <u>\$ 50,532</u> | <u>\$ 1,658</u> |

Capital lease

The College has entered into a capital lease agreement under which the related equipment will become property of the College when all terms of the lease agreement are met.

The capital lease annual amortization is as follows:

| <u>For Fiscal Year Ended</u>      | <u>Principal<br/>and<br/>Interest</u> |
|-----------------------------------|---------------------------------------|
| 2013                              | \$ 7,049                              |
| 2014                              | 4,620                                 |
| 2015                              | 4,620                                 |
| 2016                              | 4,620                                 |
| 2017                              | <u>2,103</u>                          |
| Total payments                    | \$ 23,583                             |
| Less amount representing interest | <u>(837)</u>                          |
| Principal outstanding balance     | <u>\$ 22,175</u>                      |

Assets acquired under capital lease consist of golf simulators. Such assets are carried at a cost of \$68,883 less accumulated depreciation of \$3,444 as of June 30, 2012.

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.



MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2012 and 2011

**NOTE 7. STATE-WIDE RETIREMENT PLANS**

The College participates in two cost-sharing, multiple-employer defined benefit pension plans. The plans provide retirement, death, and disability benefits to plan members and beneficiaries with amounts determined by the State. Teaching employees are covered by Montana Teachers Retirement System (TRS) and substantially all other College employees are covered by the Montana Public Employees Retirement System (PERS). The plans are established by Montana law and administered by the State of Montana.

Contribution rates are required and determined by State law. The contribution rates, expressed as percentage of covered payroll for the fiscal year ended June 30, 2012 and 2011, were:

|                                  | <u>PERS</u> | <u>TRS</u> |
|----------------------------------|-------------|------------|
| Employer                         | 7.07%       | 7.47%      |
| Employee – hired before 7/1/2011 | 6.90%       | 7.15%      |
| – hired on or after 7/1/2011     | 7.90%       | 7.15%      |
| State                            | 0.10%       | 2.38%      |

The State contribution qualifies as an on-behalf payment. These amounts have not been recorded in the College’s financial statements and were considered immaterial.

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling:

1. Public Employees Retirement Division, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.
2. Teacher’ Retirement System, P.O. Box 200319, Helena, Montana 59620-0139 Phone: 1-406-444-3134.

The College’s contributions for the years ended June 30, 2010, 2011, and 2012, as listed below, were equal to the required contributions for each year.

|      | <u>PERS</u> | <u>TRS</u> |
|------|-------------|------------|
| 2010 | \$ 182,156  | \$ 239,686 |
| 2011 | \$ 192,613  | \$ 254,629 |
| 2012 | \$ 170,944  | \$ 245,831 |

**NOTE 8. OTHER POST EMPLOYMENT BENEFITS**

The College adopted the provisions of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The College had a Phase 3 implementation date of GASB 45 of June 30, 2010.

MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2012 and 2011

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

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

*Annual OPEB Cost and Net OPEB Obligation.* The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the government's net OPEB obligation.

|   | 2012       | 2011       |
|---|------------|------------|
| Annual Required Contribution (ARC)      | \$ 118,201 | \$ 192,640 |
| Interest on net OPEB obligation         | 35,288     | 25,996     |
| Adjustment to ARC                       | -          | -          |
| Annual OPEB cost (expense)              | \$ 153,489 | \$ 218,636 |
| Contributions made                      | -          | -          |
| Increase in net OPEB obligation         | \$ 153,489 | \$ 218,636 |
| Net OPEB obligation – beginning of year | 428,359    | 209,723    |
| Net OPEB obligation – end of year       | \$ 581,848 | \$ 428,359 |

*Actuarial Methods and Assumptions.* The actuarial funding method used to determine the cost was the projected unit credit funding method. This method's objective is to fund each participant's benefits under the plan as they accrue. The total benefit to which each participant is expected to become entitled at retirement is categorized into units, each associated with a year of past or future credited service.

The following actuarial methods and assumptions were used:

|  |        |
|--|--------|
| Interest/Discount rate (average anticipated rate)                    | 4.25%  |
| Average salary increase (consumer price index)                       | 2.50%  |
| Participant percentage:  |        |
| Future retirees assumed to elect coverage at retirement              | 55.00% |
| Future eligible spouses of future retirees assumed to elect coverage | 60.00% |

MILES COMMUNITY COLLEGE  
CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012 and 2011

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

**NOTE 9. INSURANCE BENEFITS TO RETIRED EMPLOYEES**

Full-time employees are eligible to extend their Montana University System Group Insurance Plan benefits 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.

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. And employee must complete at least fifteen years to be eligible for the next level of benefits.

MILES COMMUNITY COLLEGE  
 CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2012 and 2011

**NOTE 10. NET ASSETS**

Reservations of equity show amounts that are not appropriate for expenditure or are legally restricted for specific uses. The purpose for each is indicated below:

| <u>College</u>  |                      |                      |  |
|---|----------------------|----------------------|--|
| <u>Description</u>  | <u>June 30, 2012</u> | <u>June 30, 2011</u> |  |
| Restricted for debt service                                   | \$ 117,057           | \$ 105,501           |  |
| Restricted for scholarships, research, instructions and other | \$ 116,478           | \$ 104,861           |  |
| Restricted for student loans                                  | \$ 53,742            | \$ 53,735            |  |
| <br>  |                      |                      |  |
| <u>Endowment</u>  |                      |                      |  |
| Restricted for Scholarships, Research, Instruction and Other  | \$ 727,114           | \$ 775,732           |  |

**NOTE 11. RESTRICTED CASH**

| <u>College</u>              |                      |                      |  |
|-----------------------------|----------------------|----------------------|--|
| <u>Description</u>          | <u>June 30, 2012</u> | <u>June 30, 2011</u> |  |
| Perkins Loans               | \$ 20,451            | \$ 20,441            |  |
| Debt Service                | 117,057              | 105,501              |  |
| Total                       | <u>\$ 137,508</u>    | <u>\$ 125,945</u>    |  |
| <br>                        |                      |                      |  |
| <u>Endowment</u>            |                      |                      |  |
| Restricted for Scholarships | \$ <u>553,589</u>    | \$ <u>579,528</u>    |  |

**NOTE 12. RELATED PARTY TRANSACTIONS**

The following schedule presents significant transactions between the primary government and its component units during the year ended June 30, 2012 and 2011:

| <u>June 30,</u> | <u>Component Unit</u>             | <u>Significant Transactions</u> |
|-----------------|-----------------------------------|---------------------------------|
| 2012            | Miles Community College Endowment | Donated \$46,347                |
| 2011            | Miles Community College Endowment | Donated \$51,630                |

**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.

MILES COMMUNITY COLLEGE  
CUSTER COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012 and 2011

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. PENDING LITIGATION**

The following is a list of pending litigation against the College and the amount of damages claimed by the plaintiff.

| <u>Case</u>                                | <u>Damages Requested</u> | <u>Potential of Loss</u> |
|--|--------------------------|--------------------------|
| Miles Community College Faculty – vs – MCC | Not Stated               | Unknown                  |

**REQUIRED SUPPLEMENTAL  
INFORMATION**

**Miles Community College, Custer County, Montana**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**Schedule of Funding Progress**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

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

# **SUPPLEMENTAL INFORMATION**



**Miles Community College, Custer County, Montana**  
**Functional Classification of Operating Expenses**  
**For the Fiscal Year Ended June 30, 2011**  
**(audited)**

|                               | <b>Instruction</b> | <b>Public Service</b> | <b>Academic Support</b> | <b>Student Services</b> | <b>Institutional Support</b> | <b>Scholarships and Fellowships</b> | <b>Operation And Maintenance</b> | <b>Auxiliary</b> | <b>Totals</b>      |
|-------------------------------|--------------------|-----------------------|-------------------------|-------------------------|------------------------------|-------------------------------------|----------------------------------|------------------|--------------------|
| Personal Services             | \$2,171,085        | \$35,060              | \$569,383               | \$639,983               | \$825,319                    | -                                   | \$236,871                        | \$314,739        | \$4,792,440        |
| Scholarships and Grants       | -                  | -                     | -                       | -                       | -                            | 1,472,733                           | -                                | -                | 1,472,733          |
| Depreciation And Amortization | -                  | -                     | -                       | -                       | -                            | -                                   | 433,737                          | -                | 433,737            |
| Contracted Services           | 25,514             | 23,677                | 96,885                  | 117,393                 | 99,011                       | -                                   | 14,644                           | 23,970           | 401,094            |
| Supplies                      | 89,311             | 2,936                 | 56,362                  | 114,088                 | 18,001                       | -                                   | 28,269                           | 55,918           | 364,885            |
| Food for Resale               | -                  | -                     | -                       | -                       | -                            | -                                   | -                                | 234,126          | 234,126            |
| Items for Resale              | -                  | -                     | -                       | -                       | -                            | -                                   | -                                | 185,799          | 185,799            |
| Utilities                     | 40                 | -                     | -                       | 1,792                   | -                            | -                                   | 102,156                          | 67,959           | 171,947            |
| Travel                        | 11,218             | 1,101                 | 8,978                   | 104,618                 | 22,392                       | -                                   | -                                | 3,361            | 151,668            |
| Other                         | 17,973             | 463                   | 23,423                  | 26,022                  | 34,657                       | -                                   | 105                              | 14,319           | 116,962            |
| Communications                | 16,862             | 1,804                 | 26,395                  | 8,652                   | 27,041                       | -                                   | 1,487                            | 16,537           | 98,778             |
| IT Systems Support            | 47,847             | -                     | 9,839                   | 19,168                  | -                            | -                                   | -                                | 857              | 77,711             |
| Insurance                     | 8,298              | -                     | -                       | 5,810                   | 910                          | -                                   | 38,724                           | 20,369           | 74,111             |
| Student Support               | 40,652             | -                     | 22,489                  | 2,538                   | -                            | -                                   | -                                | 1,709            | 67,388             |
| Advertising                   | 1,118              | 959                   | 2,816                   | 48,928                  | 6,617                        | -                                   | -                                | 3,143            | 63,581             |
| Bad Debt                      | -                  | -                     | -                       | -                       | 58,207                       | -                                   | -                                | -                | 58,207             |
| Repairs and Maintenance       | 5,992              | 13                    | 2,734                   | 9,970                   | 19                           | -                                   | 28,382                           | 6,668            | 53,778             |
| Rent and Lease                | 16,168             | 452                   | 10,204                  | 13,543                  | 2,341                        | -                                   | 3,150                            | 1,454            | 47,312             |
| Meetings and Dues             | 4,103              | 107                   | 672                     | 14,054                  | 17,555                       | -                                   | -                                | 1,814            | 38,305             |
| Indirect Costs                | 4,920              | -                     | 15,233                  | -                       | -                            | -                                   | -                                | -                | 20,153             |
| <b>TOTAL:</b>                 | <b>\$2,461,101</b> | <b>\$66,572</b>       | <b>\$845,413</b>        | <b>\$1,126,559</b>      | <b>\$1,112,070</b>           | <b>\$1,472,733</b>                  | <b>\$887,525</b>                 | <b>\$952,742</b> | <b>\$8,924,715</b> |

See Accompanying notes to financials

**Miles Community College, Custer County, Montana**  
**Functional Classification of Operating Expenses**  
**For the Fiscal Year Ended June 30, 2012**  
**(audited)**

|                               | <b>Instruction</b> | <b>Public Service</b> | <b>Academic Support</b> | <b>Student Services</b> | <b>Institutional Support</b> | <b>Scholarships and Fellowships</b> | <b>Operation And Maintenance</b> | <b>Auxiliary</b> | <b>Totals</b>    |
|-------------------------------|--------------------|-----------------------|-------------------------|-------------------------|------------------------------|-------------------------------------|----------------------------------|------------------|------------------|
| Personal Services             | 1,961,384          | 25,667                | 520,435                 | 584,778                 | 726,429                      | -                                   | 244,496                          | 290,851          | 4,354,040        |
| Scholarships and Grants       | -                  | -                     | -                       | -                       | -                            | 1,421,048                           | -                                | -                | 1,421,048        |
| Depreciation And Amortization | -                  | -                     | -                       | -                       | -                            | -                                   | 501,983                          | -                | 501,983          |
| Supplies                      | 129,305            | 3,321                 | 86,828                  | 128,975                 | 21,469                       | -                                   | 38,041                           | 66,345           | 474,284          |
| Contracted Services           | 36,312             | 12,671                | 89,114                  | 128,512                 | 65,080                       | -                                   | 52,485                           | 25,232           | 409,406          |
| Food for Resale               | -                  | -                     | -                       | -                       | -                            | -                                   | -                                | 270,984          | 270,984          |
| Utilities                     | -                  | -                     | -                       | -                       | -                            | -                                   | 132,002                          | 39,031           | 171,033          |
| Travel                        | 13,434             | 1,351                 | 15,232                  | 103,613                 | 13,429                       | -                                   | -                                | 709              | 147,768          |
| Items for Resale              | -                  | -                     | -                       | -                       | -                            | -                                   | -                                | 120,325          | 120,325          |
| Other                         | 10,078             | 111                   | 19,137                  | 19,251                  | 50,718                       | -                                   | 140                              | 13,730           | 113,165          |
| Communications                | 10,492             | 131                   | 26,025                  | 9,437                   | 36,857                       | -                                   | 1,507                            | 17,441           | 101,890          |
| Student Support               | 48,397             | -                     | 32,670                  | 1,909                   | -                            | -                                   | -                                | 594              | 83,570           |
| Bad Debt                      | 14,995             | -                     | -                       | -                       | 61,310                       | -                                   | -                                | -                | 76,305           |
| Repairs and Maintenance       | 11,597             | -                     | 2,790                   | 12,000                  | -                            | -                                   | 32,363                           | 13,492           | 72,242           |
| Insurance                     | 5,363              | -                     | -                       | 14,917                  | 2,514                        | -                                   | 34,901                           | 8,423            | 66,118           |
| Advertising                   | 2,328              | 1,040                 | 156                     | 51,210                  | 5,537                        | -                                   | 450                              | 2,388            | 63,109           |
| Rent and Lease                | 26,087             | 140                   | 1,088                   | 14,070                  | 100                          | -                                   | 2,564                            | 9,439            | 53,488           |
| Meetings and Dues             | 7,082              | 121                   | 300                     | 13,385                  | 18,209                       | -                                   | -                                | 1,184            | 40,281           |
| Indirect Costs                | 13,385             | -                     | 13,656                  | -                       | -                            | -                                   | -                                | -                | 27,041           |
| IT Systems Support            | 1,402              | -                     | 16,065                  | 5,544                   | -                            | -                                   | -                                | 1,294            | 24,305           |
| <b>TOTAL:</b>                 | <b>2,291,641</b>   | <b>44,553</b>         | <b>823,496</b>          | <b>1,087,601</b>        | <b>1,001,652</b>             | <b>1,421,048</b>                    | <b>1,040,932</b>                 | <b>881,462</b>   | <b>8,592,385</b> |

See Accompanying notes to financials

**Miles Community College, Custer County, Montana**  
**Student Financial Aid Modified Statement of Cash Receipts and Disbursements**  
**For the Fiscal Year Ended June 30, 2011**  
**(unaudited)**

|                          | <u>Pell</u>        | <u>Perkins</u>   | <u>CWS</u>       | <u>SEOG</u>      |
|--------------------------|--------------------|------------------|------------------|------------------|
| Beginning cash balance   | \$ (366)           | \$ 19,693        | \$ 184           | \$ -             |
| Additions:               |                    |                  |                  |                  |
| Federal advances         | \$ 970,366         | \$ 716           | \$ 35,514        | \$ 35,662        |
| State matching funds     | -                  | -                | -                | -                |
| Interest income          | -                  | 35               | -                | -                |
| Total additions          | <u>\$ 970,366</u>  | <u>\$ 751</u>    | <u>\$ 35,514</u> | <u>\$ 35,662</u> |
| Deductions:              |                    |                  |                  |                  |
| Distribution to students | \$ 989,235         | \$ -             | \$ 35,698        | \$ 35,662        |
| Administrative expenses  | -                  | -                | -                | -                |
| Total deductions         | <u>\$ 989,235</u>  | <u>\$ -</u>      | <u>\$ 35,698</u> | <u>\$ 35,662</u> |
| Net change to cash       | <u>\$ (18,869)</u> | <u>\$ 751</u>    | <u>\$ (184)</u>  | <u>\$ -</u>      |
| Ending cash balance      | <u>\$ (19,235)</u> | <u>\$ 20,444</u> | <u>\$ -</u>      | <u>\$ -</u>      |

See accompanying Notes to the Financial Statements

**Miles Community College, Custer County, Montana**  
**Student Financial Aid Modified Statement of Cash Receipts and Disbursements**  
**For the Fiscal Year Ended June 30, 2012**  
**(unaudited)**

|                          | <u>Pell</u>        | <u>Perkins</u>   | <u>CWS</u>         | <u>SEOG</u>       |
|--------------------------|--------------------|------------------|--------------------|-------------------|
| Beginning cash balance   | \$ (19,235)        | \$ 20,444        | \$ -               | \$ -              |
| Additions:               |                    |                  |                    |                   |
| Federal advances         | \$ 844,235         | \$ -             | \$ 17,000          | \$ 20,000         |
| State matching funds     | -                  | -                | -                  | -                 |
| Interest income          | -                  | 7                | -                  | -                 |
| Total additions          | <u>\$ 844,235</u>  | <u>\$ 7</u>      | <u>\$ 17,000</u>   | <u>\$ 20,000</u>  |
| Deductions:              |                    |                  |                    |                   |
| Distribution to students | \$ 904,880         | \$ -             | \$ 35,514          | \$ 28,262         |
| Administrative expenses  | -                  | -                | -                  | -                 |
| Total deductions         | <u>\$ 904,880</u>  | <u>\$ -</u>      | <u>\$ 35,514</u>   | <u>\$ 28,262</u>  |
| Net change to cash       | <u>\$ (60,645)</u> | <u>\$ 7</u>      | <u>\$ (18,514)</u> | <u>\$ (8,262)</u> |
| Ending cash balance      | <u>\$ (79,880)</u> | <u>\$ 20,451</u> | <u>\$ (18,514)</u> | <u>\$ (8,262)</u> |

See accompanying Notes to the Financial Statements

**Miles Community College, Custer County, Montana**  
**Schedules of Expenditures**  
**Student Financial Assistance Programs**  
**For the Fiscal Years Ended June 30, 2012 and 2011**  
**(unaudited)**

|  | 2012                  | 2011                  |
|--|-----------------------|-----------------------|
| Perkins Loan Program                             |                       |                       |
| Student loan advances                            | \$ <u>          -</u> | \$ <u>          -</u> |
| College Work Study                               |                       |                       |
| Wages  | \$ 33,066             | \$ 25,684             |
| Administrative cost                              | <u>2,448</u>          | <u>9,830</u>          |
| Total College Work Study                         | \$ <u>35,514</u>      | \$ <u>35,514</u>      |
| Supplemental Education Opportunity Grant Program |                       |                       |
| Student Grants                                   | \$ <u>28,262</u>      | \$ <u>35,662</u>      |
| Pell Grant Program                               |                       |                       |
| Student grants                                   | \$ <u>904,880</u>     | \$ <u>904,880</u>     |

See accompanying Notes to the Financial Statements

**Miles Community College, Custer County, Montana**  
**Schedule for Full Time Equivalent**  
**For the Fiscal Years Ended June 30, 2012 and 2011**  
**Audited**

| <u>Semester</u> | <u>Resident</u> | <u>WUE</u> | <u>Nonresident</u> | <u>Total</u> |
|-----------------|-----------------|------------|--------------------|--------------|
| Summer 2010     | 55.6            | -          | 2.4                | 58.0         |
| Fall 2010       | 338.9           | 31.5       | 52.5               | 422.9        |
| Spring 2011     | 346.0           | 26.2       | 48.6               | 420.8        |
| Summer 2011     | 45.9            | -          | 3.1                | 49.1         |
| Fall 2011       | 322.0           | 24.0       | 60.3               | 406.3        |
| Spring 2012     | 335.8           | 26.3       | 48.6               | 410.8        |

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

See accompanying Notes to the Financial Statements

# **SINGLE AUDIT SECTION**

Miles Community College, Custer County, Montana  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For Fiscal Year Ended June 30, 2011

| <b>Federal Grant/Pass-Through<br/>Grantor/Program Title</b>  | <b>Federal<br/>CFDA<br/>Number</b> | <b>Pass-Through<br/>Grantor's<br/>Number</b> | <b>Federal<br/>Expenditures</b> |
|--|------------------------------------|--|---------------------------------|
| <b><u>U.S. Department of Labor</u></b>   |                                    |  |                                 |
| <i>Passed through the Montana Department of Labor:</i>   |                                    |  |                                 |
| WIA Adult Program  | 17.258                             | MACO2PY07AD                                  | \$ 31,140                       |
| WIA Adult Program  | 17.258                             | MACO3PY07AD                                  | 60,049                          |
| <b>Total U.S. Department of Labor</b>  |                                    |  | <b>\$ 91,189</b>                |
| <b><u>U.S. Department of Education</u></b>   |                                    |  |                                 |
| <i>Direct programs:</i>  |                                    |  |                                 |
| Adult Education - Basic Grants to States   | 84.002                             |  | \$ 29,833                       |
| Federal Supplemental Educational Opportunity Grants  | 84.007                             |  | 28,262                          |
| Federal Direct Student Loans *   | 84.268                             |  | 1,665,409                       |
| Federal Work-Study Program   | 84.033                             |  | 35,514                          |
| Federal Pell Grant Program   | 84.063                             |  | 989,235                         |
| Academic Competitive Grant   | 84.375                             |  | 11,763                          |
| Fund for the Improvement of Postsecondary Education (Bioenergy<br>Education Action for Montana)                              | 84.116                             |  | 75,818                          |
| Subtotal Department of Education direct programs   |                                    |  | <b>\$ 2,835,834</b>             |
| <i>Passed through the Montana Office of the Commissioner of Higher Education:</i>  |                                    |  |                                 |
| ARRA - State Fiscal Stabilization Fund - Government Services, Recovery Act   | 84.397                             |  | \$ 284,157                      |
| Career and Technical Education - Basic Grants to States (Carl D. Perkins Act)  | 84.048                             | N/A  | 62,874                          |
| <i>Passed through the Montana Department of Labor and Industry:</i>  |                                    |  |                                 |
| College Access Challenge Grant Program   | 84.378                             | P378A110021                                  | 50,000                          |
| Subtotal Department of Education pass-through programs   |                                    |  | <b>\$ 397,031</b>               |
| <b>Total U.S. Department of Education</b>  |                                    |  | <b>\$ 3,232,865</b>             |
| <b><u>U.S. Department of Health and Human Services</u></b>   |                                    |  |                                 |
| <i>Direct programs:</i>  |                                    |  |                                 |
| Other Health Professions Programs  | 93.888                             |  | \$ 73,427                       |
| <b>Total U.S. Department of Health and Human Services</b>  |                                    |  | <b>\$ 73,427</b>                |
| <b><u>U.S. Department of Energy</u></b>  |                                    |  |                                 |
| <i>Passed through the Montana Department of Environmental Quality:</i>   |                                    |  |                                 |
| ARRA - Energy Efficiency and Conservation Block Grant Program, Recovery Act  | 81.128                             | DEQ 210166                                   | \$ 350,408                      |
| <b>Total U.S. Department of Energy</b>   |                                    |  | <b>\$ 350,408</b>               |
| <b>Total Expenditures of Federal Awards</b>  |                                    |  | <b>\$ 3,747,889</b>             |
| * This program's activities is not reflected in financial statements of this entity.<br>NA = Not Applicable or not Available |                                    |  |                                 |
| <b>Reconciliation to Financial Statements</b>  |                                    |  |                                 |
| Total Reported "Schedule of Expenditures of Federal Awards"  |                                    |  | \$ 3,747,889                    |
| Less   |                                    |  |                                 |
| -Federal Direct Student Loans  |                                    |  | (1,665,409)                     |
| -ARRA Energy Efficiency Block Grant Loan   |                                    |  | (350,408)                       |
| Total  |                                    |  | <b>\$ 1,732,072</b>             |
| Report on Statement of Business Expenses and changes in Net Assets   |                                    |  |                                 |
| -Federal Grants and Contracts  |                                    |  | \$ 1,447,915                    |
| -Federal Appropriations  |                                    |  | 284,157                         |
| Total  |                                    |  | <b>\$ 1,732,072</b>             |



Miles Community College, Custer County, Montana  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For Fiscal Year Ended June 30, 2012

| <b>Federal Grant/Pass-Through<br/>Grantor/Program Title</b>                                     | <b>Federal<br/>CFDA<br/>Number</b> | <b>Pass-Through<br/>Grantor's<br/>Number</b> | <b>Federal<br/>Expenditures</b> |
|---|------------------------------------|--|---------------------------------|
|   |                                    |  | \$                              |
| <b><u>U.S. Department of Labor</u></b>  |                                    |  |                                 |
| <i>Passed through the Montana Department of Labor and Industry:</i>                             |                                    |  |                                 |
| WIA Adult Program   | 17.258                             | MACO2PY07AD                                  | 30,450                          |
| WIA Adult Program   | 17.258                             | MACO3PY07AD                                  | 58,720                          |
| <b>Total U.S. Department of Labor</b>   |                                    |  | <u><u>\$ 89,170</u></u>         |
| <b><u>U.S. Department of Education</u></b>  |                                    |  |                                 |
| <i>Direct programs:</i>   |                                    |  |                                 |
| Adult Education - Basic Grants to States  | 84.002                             |  | 29,171                          |
| Federal Supplemental Educational Opportunity Grants   | 84.007                             |  | 28,262                          |
| Federal Direct Student Loans *  | 84.268                             |  | 1,485,814                       |
| Federal Work-Study Program  | 84.033                             |  | 35,514                          |
| Federal Pell Grant Program  | 84.063                             |  | 904,880                         |
| Fund for the Improvement of Postsecondary Education (Bioenergy<br>Education Action for Montana) | 84.116                             |  | 24,182                          |
| Subtotal Department of Education direct programs  |                                    |  | <u><u>\$ 2,507,823</u></u>      |
| <i>Passed through the Montana Office of the Commissioner of Higher Education:</i>               |                                    |  |                                 |
| Career and Technical Education - Basic Grants to States (Carl D. Perkins Act)                   | 84.048                             | N/A  | 108,840                         |
| <i>Passed through the Montana Department of Labor and Industry:</i>                             |                                    |  |                                 |
| College Access Challenge Grant Program  | 84.378                             | P378A110021                                  | 94,500                          |
| Subtotal Department of Education pass-through programs  |                                    |  | <u><u>\$ 203,340</u></u>        |
| <b>Total U.S. Department of Education</b>   |                                    |  | <u><u>\$ 2,711,163</u></u>      |
| <b><u>U.S. Department of Health and Human Services</u></b>                                      |                                    |  |                                 |
| <i>Direct programs:</i>   |                                    |  |                                 |
| Other Health Professions Programs   | 93.888                             |  | 181,678                         |
| <b>Total U.S. Department of Health and Human Services</b>                                       |                                    |  | <u><u>\$ 181,678</u></u>        |
| <b>Total Expenditures of Federal Awards</b>   |                                    |  | <u><u>\$ 2,982,011</u></u>      |
| * This program's activities is not reflected in financial statements of this entity.            |                                    |  |                                 |
| <b>Reconciliation to Financial Statements</b>   |                                    |  |                                 |
| Total Reported "Schedule of Expenditures of Federal Awards"                                     |                                    |  | \$ 2,982,011                    |
| Less Federal Direct Student Loans   |                                    |  | (1,485,814)                     |
| Statement of Revenues, Expenses, and Changes in Net Assets "Federal Grants and Contracts"       |                                    |  | <u><u>\$ 1,496,197</u></u>      |

MILES COMMUNITY COLLEGE  
CUSTER COUNTY, MONTANA  
**NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS**  
June 30, 2012 and 2011

**NOTE 1. BASIS OF PRESENTATION**

The accompanying schedules of expenditures of federal awards (the Schedules) include the federal grant activity of Miles Community College under programs of the federal government for the years ended June 30, 2012 and 2011. The information in the Schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedules present only a selected portion of the operations of the College, it is not intended to and does not present the financial positions, changes in net assets, or cash flows of the College.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(1) Expenditures reported on the Schedules are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-21, *Cost Principles for Educational Institutions*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

**NOTE 3. ARRA FUNDING**

ARRA funds were received as a pass-through program from the State of Montana. The State did not pass down the ARRA reporting requirements to the College.

**NOTE 4. FEDERAL LOANS**

During fiscal year 2011 the College received a \$350,408 Federal ARRA Loan for the purpose of energy conservation. The outstanding loan balance was \$350,408 as of June 30, 2011 and June 30, 2012.

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

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

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

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

We have audited the business-type activities, discretely presented component unit and aggregate remaining fund information of Miles Community College, Custer County, Montana, as of and for the years ended June 30, 2011 and 2012, which collectively comprise the College's basic financial statements and have issued our report thereon dated December 9, 2013. 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.

**Internal Control Over Financial Reporting**

Management of Miles Community College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Miles Community College internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Miles Community College's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of finding and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness as item 12-1.

#### Compliance and Other Matters

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

Miles Community College's response to the findings identified in our audit is described in the Auditee's response to Findings. We did not audit Miles Community College's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee of the Miles Community College, management, the State of Montana's Legislative Audit Division, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

December 9, 2013

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

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

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of Miles Community College, Custer County, Montana, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the fiscal years ended June 30, 2011 and 2012. The Miles Community College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion of the College's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, Miles Community College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011 and 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 12-2.

### Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

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 over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The College's responses to the findings identified in our audit are described in the Auditee's response to findings. We did not audit the College's response, and accordingly, we express no opinion on it.

This report is intended for the information of the audit committee of the Miles Community College, management, the State of Montana's Legislative Audit Division, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

December 9, 2013

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2011 and 2012

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

**Financial Statements**

|  |                    |
|--|--------------------|
| Type of auditor’s report issued  | <i>Unqualified</i> |
| Internal control over financial reporting:                                       |                    |
| Material weakness(es) identified?  | Yes                |
| Significant deficiency(s) identified<br>not considered to be material weaknesses | No                 |
| Noncompliance material to financial statements<br>noted?                         | No                 |

**Federal Awards**

|   |                    |
|---|--------------------|
| Internal control over major programs:   |                    |
| Material weakness(es) identified?   | No                 |
| Significant deficiency(s) identified<br>not considered to be material weaknesses  | None Reported      |
| Type of auditor’s report issued on compliance<br>for major programs:  | <i>Unqualified</i> |
| Any audit findings disclosed that are required<br>to be reported in accordance with<br>Circular A-133, Section .510(a)? | No                 |

Identification of major programs:

| <u>CFDA Number</u>                     | <u>Name of Federal Program or Cluster</u>                              |
|--|--|
| 84.007, 84.268, 84.033, 84.063, 84.375 | Student Financial Aid Cluster  |
| 93,888                                 | Other Health Professions Programs                                      |
| 81.128                                 | ARRA – Energy Efficiency and Conservation<br>Block Grant, Recovery Act |

|   |                   |
|---|-------------------|
| Dollar threshold used to distinguish<br>between Type A and Type B programs: | <u>\$ 300,000</u> |
| Auditee qualified as low-risk auditee?                                      | No                |

## **Section II – Financial Statement Findings**

### **12-1 Timeliness of Posting and Balancing**

**Condition:**

The College did not always post transactions or perform balancing procedures on a timely basis. They fell behind during a computer software conversion and again with accounting staff turnover. The financials for the fiscal year ended June 30, 2011 and 2012 were not available until 2013.

**Criteria:**

In order for financial information to be useful to the users the information must be both timely and accurate.

**Effect:**

Difficulty for the users of the financial statements to make informed decisions.

**Cause:**

During the audit period the College had a complete turnover in accounting personnel and went through a computer software change. The new staff had a significant learning curve in the new software. Additionally they had the task of posting/correcting transactions from earlier periods. This resulted in the College falling behind in the monthly posting and balancing functions. As of the date of this report the College is current in posting and balancing transactions.

**Recommendation:**

We recommend the College continue to post and balance transactions monthly.

## **Section III – Federal Award Findings and Questioned Costs**

### **12-2 Federal Audit Submission**

**Condition:**

The State of Montana has elected to allow Colleges to perform federal audit on a biennial basis as authorized in OMB Circular A-133 section 220 (Frequency of audits). OMB Circular A-133 section 320 requires reports to be issued within nine (9) months of the end of the fiscal year. For the fiscal year ended June 30, 2012 the report submission was required by March 31, 2013.

**Criteria:**

OMB Circular A-133 section 320 requires reports to be issued within nine (9) months of the end of the fiscal year.

**Effect:**

The College was not in compliance with OMB Circular A-133 section 320.



**Cause:**

During the Audit period the College had a complete turnover in accounting personnel and went through a computer software change. This resulted in the College falling behind on the preparation of the financial statements. As of the date of this report the College has prepared draft financial statements for the fiscal year ended June 30, 2013.

**Recommendation:**

We recommend the College continue to keep current on financial statement submission.

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## REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

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

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

| <u>Recommendation</u> | <u>Action Taken</u> |
|-----------------------|---------------------|
| Cafeteria Inventory   | Implemented         |
| Consolidation         | Implemented         |
| Backup Recovery       | Implemented         |

*Denning, Downey and Associates, CPA's, P.C.*

December 9, 2013



## **Financial Statement Findings**

### **12-1 Timeliness of Posting and Balancing**

**Condition:** The College did not always post transactions or perform balancing procedures on a timely basis. They fell behind during a computer software conversion and again with accounting staff turnover. The financials for the fiscal year ended June 30, 2011 and June 30, 2012 were not available until 2013.

**Recommendation:** We recommend the College post and balance transactions monthly.

**Response:** As stated above, Miles Community College underwent a campus wide system conversion July 1, 2010. This conversion resulted in programmatic delays associated with the posting, balancing, and subsequent preparation of financial statements for June 30, 2011 and June 30, 2012. Additionally, the College experienced over 100% turnover in accounting personnel which contributed to the delay. Currently, the College has replaced the accounting staff, developed training processes, and incorporated new reports into the system that allow the College to stay up to date on postings and reporting.

## **Federal Award Findings and Questions Costs**

### **12-2 Federal Audit Submission**

**Condition:** The State of Montana has elected to allow Colleges to perform federal audit on a biennial basis as authorized in OMB Circular A-133 section 220 (Frequency of audits). OMB Circular A-133 section 320 requires reports to be issued within nine (9) month of the end of the fiscal year. For the Fiscal year ended June 30, 2012 the report submission was required by March 31, 2013.

**Recommendation:** We recommend that the College continue to keep current on financial statement submission.

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**Response:** Miles Community College underwent a campus wide system conversion on July 1, 2010. This conversion resulted in programmatic delays associated with the posting, balancing and preparation of financial statements for June 30, 2011 and June 30, 2012. Additionally, the College experienced over 100% turnover in accounting personnel which contributed to the delay. Currently, the College has replaced the accounting staff, developed training processes, and incorporated new reports into the system that allow the College to stay up to date on postings and reporting.

Sincerely,

A handwritten signature in cursive script that reads "Lisa M. Watson".

Lisa M. Watson  
VP of Administrative Services and Finance