Flathead Valley Community College

LEGISLATIVE AUDIT DIVISION

REQUEST FOR PROPOSAL (RFP)

April 2007

Proposals must be received by:
2:00 p.m., May 31, 2007

Contact Person: Angie Lang
Legislative Audit Division
PO Box 201705
Helena, MT 59620
Phone Number: (406) 444-3122
E-mail: alang@mt.gov

Table of Contents

SECTION I – SUMMARY OF REQUIREMENTS 1

Purpose of the Request for Proposal (RFP) 1

Statutory Authority 1

Contract 1

Type and Scope of Audit 1
Financial and Compliance Audits 1
Auditor's Report and Timing 2
Access to Information 3
Independence 3

Information about the College 3

SECTION II – ADMINISTRATION 4

Schedule of Events 4

Proposal Preparation and Submission 4

Additional Information 5

Evaluation of Proposals 6

Basis for Selection 6

APPENDIX A A-1

Sample Response Document A-1

Part A - Time Proposal A-2

Part B - Price Proposal A-3

Part C - Approach For Conducting Audit A-4

Part D - Staffing Proposal A-5

Part E - Firm's Auditing Experience A-6

Part F – Information To Be Provided To The Legislative Audit Division A-7

Part G - Arrangements For Independent Review Of Audit Report And Working Papers A-8

Part H – Peer Review Report A-9

APPENDIX B B-1

Sample Contract B-1

APPENDIX C C-1

Prior Audit Report C-1

Section I – Summary of Requirements

Purpose of the Request for Proposal (RFP)

The Legislative Audit Division (hereinafter referred to as "LAD") invites you to submit a response for the financial-compliance audit of Flathead Valley Community College (hereinafter referred to as "College"). The following information was assembled by LAD in consultation with the College to aid prospective offerors in the preparations of their response. The information provided in this document and described on the following pages is unaudited and, as such, we cannot certify that all transactions and financial activities are disclosed in these reports. Responses submitted in response to this invitation must comply with the instructions and procedures contained herein.

Statutory Authority

The College is required to be audited by or at the direction of the Legislative Auditor (20-15-229, MCA).

Contract

It is our intent to award a contract to the winning offeror for two financial audits of the College for the fiscal years ended June 30, 2007 and June 30, 2008, and a compliance audit for the two fiscal years ended June 30, 2008 to occur simultaneously with the fiscal year 2008 financial audit. Renewals of the contract, contingent upon satisfactory performance by the successful offeror, may be made after the initial contract period at a price mutually agreed upon by the parties to the contract. Up to three renewals may be granted.

By submitting a response to this request for proposal, the offeror agrees to acceptance of the contract as set out in Appendix B. LAD reserves the right to make any changes to the contract.

Type and Scope of Audit

This is a request for financial and compliance audits of Flathead Valley Community College. The financial audits are to be for the fiscal years ended June 30, 2007 and June 30, 2008. The compliance audit will occur simultaneously with the fiscal year 2008 financial audit and include the two fiscal years ended June 30, 2008.

Financial and Compliance Audits

- The audits must be performed in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget, Circular A-133, standards published in the AICPA Industry Audit Guide, the most recent AICPA Audit and Accounting Guide: State and Local Governments; Government Auditing Standards, published by the United States Government Accountability Office and generally accepted auditing standards issued by the AICPA.

- The contracted auditor will assist in the preparation of the financial statements from the College's accounting records.

- The contracted auditor will present the Flathead Valley Community College audit report to the Legislative Audit Committee (LAC). The audit report is not public until received by the LAC members.

Auditor's Report and Timing

- The audit report must include in a Schedule of Expenditures of Federal Awards (SEFA) by federal funding source for the audit period. See the prior audit report in Appendix C for SEFA example.

- Include reporting on schedules of activity and compliance for all grants, aid, and other funds the college receives from federal, state, and private sources and includes student aid and student fee waivers as part of the scope of the audit

- Include a schedule of FTE statistics in the report and cover it in the auditor's report on the financial statements. See the prior audit report Appendix C for FTE schedule example.

- The contracted auditor must render an opinion on each of the financial statements for each of the two fiscal years audited.

- The contracted auditor must determine the College's compliance with applicable state and federal regulations, disclose compliance and any violations to LAD, and report violations in the auditor's report.

- The contracted auditor must examine prior Legislative Audit report recommendations and include in the audit report an explanation of any recommendations with which the College has not complied. The prior audit report for the two fiscal years ended June 30, 2006 contained no recommendations. See Appendix C for the prior audit report.

- The contracted auditor must write a management report that addresses management, internal control and compliance issues. The auditor shall make recommendation to management as appropriate. The auditor's estimate of the cost of implementing recommendations shall be included.

- The contracted auditor must obtain written College replies to management, internal control and compliance recommendations. The College must be allowed two weeks to respond to the final audit report. If any other entities are involved in implementing a recommendation, the entity must be invited to respond in writing to the recommendation.

- The contracted auditor must prepare a summary of recommendations, including notation of College concurrence or non-concurrence, to be included in the audit report.

- If the contract auditor intends to disclaim an opinion on any financial statement, the auditor must inform LAD of that intention as soon as possible after determining a disclaimer of opinion is necessary.

- The contracted auditor must print and submit 70 copies of the bound report to LAD. The report will be bound in covers provided by LAD, and the report will include a transmittal letter provided by LAD. An electronic report, preferably in a .pdf format is also to be submitted to the contract liaison by the report due date. Reports must be provided to LAD by October 31, 2007 for the fiscal year 2007 financial audit report, and October 31, 2008 for the fiscal year 2008 financial-compliance audit report.

- The audit report shall be submitted to the Federal Audit Clearinghouse in accordance with OMB Circular A-133.

Access to Information

- The contracted auditor will have access to College records, and to staff and facilities in order to perform its audit work.
- Staff of the contracted auditor must ensure that confidentiality of information obtained as a result of their involvement with the audit is maintained.

Independence

By signing the contract and any renewal, the contracted auditor is confirming the contracted auditor's independence from the College and key College staff.

Information about the College

Flathead Valley Community College is a community college district, located in Kalispell, Montana, that was created in 1967. Since that time, the college has received full accreditation by the Northwest Association of Schools and Colleges. The college receives revenues from four major sources: a state general fund appropriation, tuition and student fees, county mill levies, and federal and state grants.

The college is managed by a Board of Trustees, each member of which is elected in district-wide elections. The college administration is appointed by and responsible to the Board of Trustees. The college is also subject to the governance of the Montana Board of Regents. Money is appropriated to the college by the Montana Legislature via the Office of the Commissioner of Higher Education.

The County government of Flathead County provides substantial services to the college. Taxes are levied and collected by the County. Cash is maintained and invested by the County Treasurer.

An Endowment Board has been established to solicit private funds to enhance the educational efforts of the college.

More information can be found at http://www.fvcc.edu.

Section II – Administration

Schedule of Events

RFP Issued	April 27, 2007
Written questions submitted to LAD	May 11, 2007
Answers to questions posted to LAD website	May 18, 2007
RFP submission due date	May 31, 2007
RFP opening and evaluation	June 1, 2007
Projected contract award date	June 7, 2007
Projected audit work to begin	June 7, 2007
Audit reports due	October 31, 2007 (year 1) October 31, 2008 (year 2)

Proposal Preparation and Submission

1. A sample response document is included in Appendix A of this document to aid in proposal preparation.

2. Offerors with questions or requiring clarification or interpretation of any section within this RFP must address these questions in writing or via e-mail to Angie Lang at alang@mt.gov on or before May 11, 2007 Each question must reference the section in question. Questions received after the deadline may not be considered.

3. LAD will post an official written response by May 18, 2007 to all questions received by the deadline in the above paragraph. LAD's response will be by formal written addendum. Any other form of interpretation, correction, or change to this RFP will not be binding upon LAD. Any formal addendum will be posted on LAD's website alongside the posting of the RFP at http://www.leg.mt.gov/css/audit by the close of business on the date listed. Offerors must sign and return with their RFP response an Acknowledgement of Addendum for any addendum issued.

4. Your response should be designed to demonstrate your understanding of the work required, the ability and qualification of your firm in relation to the work and your firm's charges to accomplish the work. See Appendix A for a sample response document. Your response must be clearly labeled for the engagement it relates to, dated and signed by the responsible party with contact information included. Your response must also include:

a. The proposed timing of the audit including dates of key events and estimated hours to complete the audit. The hour estimate should include appropriate categories including travel time with locations indicated as appropriate.

b. Your firm's price for performance of the audit engagement. Cost figures should include the hourly rate, by assigned person, your firm would charge for work beyond the scope of the initial engagement if necessary.

c. Your approach to completing the audit with reference to the estimated time line.

d. Your staffing plan along with the audit experience of the assigned auditors.

e. Your firm's work experience including a percentage breakdown of auditing experience and governmental experience. Also list audit experience relevant to the audit work being contracted for, including contact information.

f. Company information including the nature of services provided by your firm and the nature of auditing experience in the last three years.

g. If the offeror is a sole practitioner, please include a description of arrangements for independent review of the audit report and the working papers.

h. A copy of the most recent peer review report.

Your completed response must be sealed in an envelope and labeled "**RFP – FVCC07**" and delivered to:

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

By 2:00 p.m. May 31, 2007

Additional Information

1. All submitted responses become property of LAD and all preparation expenses are the responsibility of the offeror.

2. The successful offeror will be required to provide proof of worker's compensation insurance or an Independent Contractor Exemption before the contracted work is to begin and must be kept current for the entire term of the contract.

3. Firms may join with other firms in a joint venture response. If this is done, one firm should be designated the prime contractor and the other firm or firms, subcontractors. This is required to facilitate the execution and completion of the engagement.

4. The last audit of the college was conducted by a firm under contract with our office for the two fiscal years ended June 30, 2006. That audit cost was $22,500 for 375 hours of audit work. The working papers from that audit will be available for review by the successful offeror by appointment from LAD.

5. Flathead Valley Community College will be implementing a new Enterprise Resource Planning system as of July 1, 2007. Due to the extensive involvement of the staff, the College and the contract auditor will need to determine a mutually acceptable date for the audit.

6. LAD has established a response evaluation process which will consider the following: appropriate background and experience; appropriateness and adequacy of proposed procedures; reasonableness and appropriateness of time estimates; appropriateness of assigned staff levels; timeliness of expected completion; technical experience, qualifications, size and structure of firm; and cost. Responses will be opened and evaluated in Room 160, State Capitol, at 9 a.m. on June 1, 2007.

7. LAD will provide a maximum of four hours consultation to the successful contract auditor without charge. If LAD provides consultation in excess of four hours, the contractor will be charged at the average hourly rate proposed by the contractor for the engagement or LAD's rate, whichever is greater. The firm will be kept advised of these charges.

8. Work papers supporting the audit report must be made available to LAD at the Legislative Audit Division offices upon request. All engagement documentation must be kept for a period of time, as specified in the contract.

9. The information provided in this document may provide a reasonable basis for the preparation of a response. If, however, additional information is required, the offeror may submit questions in the manner prescribed in the preceding section.

10. LAD reserves the right to withdraw this RFP for any reason.

Evaluation of Proposals

The selection committee will first check proposals against the mandatory requirements. Proposals not meeting all mandatory requirements will be rejected without further consideration. Proposals that meet all the mandatory requirements will be assessed and scored against the criteria for assessment.

Only the information contained in the proposal will be used to evaluate the proposal. There will not be an opportunity to make a presentation to the evaluation committee beyond the information contained in the proposal.

At the conclusion of the RFP process, all offerors will be notified of the successful offer.

Basis for Selection

The following are mandatory requirements. Proposals not clearly demonstrating that they meet them will receive no further consideration during the evaluation process.

- The proposal must be received by LAD by the specified closing date and time.
- The proposal and addenda must be signed by a person authorized to sign on behalf of the offeror.
- The proposals sent via facsimile or e-mail will not be accepted.

Proposals meeting the mandatory requirements will be assessed against the criteria noted below:

- Time proposals are appropriate. 5%
- Approach for conducting the audit including: 45%
    - General audit strategies and methodology employed, including, but not limited to business risks, internal control, and computer assisted auditing techniques.
    - The depth of the perceived audit needs and understanding of the key issues facing the college, the implications of those issues for the conduct of the audit, and particular audit strategies and methodology for the college, including, but not limited to preliminary audit plan, substantive audit procedures to be undertaken, compliance audit procedures to be undertaken, and report deliverables.
- Staffing and Firm Experience 30%
    - The proposed audit team's experience in the audit of similar organizations and in other government organizations and public bodies, and details of skills or experience which are directly relevant to the capacity of the team to conduct the audit of the college.
    - The location and size of the offering firm, the experience and capabilities of its partners or shareholders, managers and staff in the audit of organizations similar to the college, as well as that of additional staff required by the firm to carry out the audit.
    - The availability of the resources to ensure deadlines are met in a timely manner
    - The proposed audit team's degree of familiarity with the extensive body of authoritative literature that is unique to the public sector, as well as those standards applicable to higher education.
    - Quality assurance, quality control, and peer review programs within the firm.
    - Policies on notification to clients of changes in key personnel, and staff continuity on each audit.
- Price 20%

Appendix A

Sample Response Document

Legislative Audit Division

Public Accountant Engagement Proposal

NOTICE: The Legislative Auditor reserves the right to make counter-proposals, reject all proposals, and call for new proposals, with or without modification of the proposed engagement.

Proposed Engagement: Flathead Valley Community College

Date of Proposal: _____

Name and Signature of Firm Representative:

NAME: _____

FIRM NAME: _____

SIGNATURE: _____

Part A - Time Proposal

1. Proposed Dates for Engagement:

Segment	Date
a. Sign the contract for the engagement	_____
b. Conduct entrance conference	_____
c. Submit final report to Legislative Auditor	_____

2. Proposed Time for Engagement

Segment	Man-Hours
a. Planning and Programming	_____
b. Field Work	_____
c. General Program and Subsequent Events Review	_____
d. Review of IS Controls	_____
e. Administration, including meeting with Legislative Audit Committee	_____
f. Report Preparation	_____
g. Other Segments – Lists	_____
_____	_____
_____	_____
_____	_____
Total Man-Hours	_____

3. Proposed Time Associated with Travel

(List anticipated sites & time where travel is expected to be necessary.)

Proposed Travel Sites	Man-Hours
_____	_____
_____	_____
_____	_____
Total Man-Hours	_____

Part B - Price Proposal

Proposed Price for Audit Work:

	Price
1. Price which the firm proposes to charge for performance of the Audit Engagement:	$_____

(a) Include all costs normally associated with the engagement, such as the audit work itself, engagement of consultants, review of College reply, explanation of the report, and initial appearance before the Legislative Audit Committee.

(b) Exclude the cost of travel and subsequent appearance before the Legislative Audit Committee.

2. Proposed Price for Travel:

Price which the firm proposes to charge for travel and transportation associated with this engagement:	$_____
3. Total price proposed for this agreement:	$_____

4. Proposed hourly rate(s) which the firm would charge for supplementary efforts in conjunction with this engagement, such as subsequent appearance before legislative committees, hearings, etc.

Staff Member	Hourly Rate
_____	$_____
_____	$_____
_____	$_____
_____	$_____
_____	$_____

Part C - Approach For Conducting Audit

Please list how your firm will conduct the audit and any special services your firm will provide.

Part D - Staffing Proposal

Please list all audit staff you anticipate will be assigned to this engagement and their relevant experience.

If the listed staff assignments change, please notify the Legislative Audit Division.

Part E - Firm's Auditing Experience

Please list governmental audits recently completed by your firm, including a list of the recent audit experience of the staff identified in Part D. Also list audit experience relevant to the audit work being contracted for. Please include contact information for all audits.

Part F – Information To Be Provided To The Legislative Audit Division

Name of Firm/Practitioner:

_____

_____

Location:

Home Office: _____

Branch Offices: _____

_____

Nature of services provided by your firm during the past three years:

	Approximate Percentage
Auditing	_____
Tax	_____
Write-up	_____
Management Services	_____
Other	_____
	100%

Nature of auditing experience during the past three years:

	Approximate Percentage
Government	_____
Financial Institutions	_____
Nonprofit Organizations	_____
Manufacturing and Industrial	_____
Retail Enterprises	_____
	100%

Part G - Arrangements For Independent Review Of Audit Report And Working Papers

Description of your arrangements for independent review:

If these arrangements change, please notify the Legislative Audit Division in advance of the review.

Part H – Peer Review Report

A copy of the most recent peer review report is to be included in the RFP response.

Appendix B

Sample Contract

BY THIS CONTRACT, made this _____ day of _____, 2007, by and between the Montana Legislative Audit Division, hereinafter referred to as the "LAD," and Flathead Valley Community College hereinafter referred to as the "College," and _____ (Federal Employer No. _____), hereinafter referred to as the "Accountants," it is hereby agreed that:

Scope of Work

1. The Accountants will conduct financial and compliance audits of Flathead Valley Community College. The financial audits are to be for the fiscal years ended June 30, 2007 and June 30, 2008. The compliance audit will occur simultaneously with the fiscal year 2008 financial audit and include the two fiscal years ended June 30, 2008. The examinations shall be made in accordance with generally accepted auditing standards as adopted by the American Institute of Certified Public Accountants, and will include such tests of the accounting records and such other auditing procedures as the Accountants shall deem necessary and appropriate for the purpose of expressing an opinion on the financial statements presented in the required report. The Accountants do not, however, guarantee that such tests and procedures will disclose shortages or other irregularities, should any exist.

2. The scope of the audit shall include an examination of the College's financial statements for the fiscal years ending June 30, 2007 and June 30, 2008. The 2007 audit will be a financial statement audit only. The 2008 audit shall include tests of compliance with applicable statutes and regulations. The 2008 audit shall also include tests of all federal moneys received by and expended by the College and tests of compliance with any applicable federal laws and regulations relating to the moneys in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. The audits shall include any other requirements set forth in the request for proposal (RFP) information (dated April 2007) prepared by LAD for this engagement. Such RFP information is by this reference made a part of this contract, except as expressly modified by the terms of this contract.

3. The Accountants will notify LAD immediately if an opinion cannot be expressed on any of the College's financial statements.

4. The Accountants shall render a comprehensive written report for each audit. The audit reports shall include, but not be limited to, the following matters:

    a. Financial Statement (Fiscal year 2007)

        i. Transmittal Letter (to be provided by LAD)

        ii. A table of contents and numbered pages

        iii. A list of administrative officials.

        iv. Independent auditor’s report

        v. College’s Management Discussion and Analysis, Financial statements of all funds, notes to the financial statements, and any required supplementary information.

        vi. 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.

vii. College replies to the audit report.

b. Financial and Compliance (Fiscal year 2008)

i. All elements included in the fiscal year 2007 audit report.

ii. Actions taken by the College on recommendations and findings in the areas of financial-compliance, which were included in the last audit report.

iii. College's compliance with applicable state and federal statutes and regulations.

iv. Any College program or activity not authorized by the Montana State Legislature that may be noted during the audit.

v. Any serious inadequacies in financial or operating controls and procedures that may be noted during the audit together with the Accountant's recommendations.

vi. Any inadequate record or records that do not comply with statutory or other requirements that may be noted during the audit.

vii. Any duplications and inefficiencies in record keeping or operating procedures that may be noted during the audit.

viii. A summary of recommendations, including notations of the College's responses.

ix. All other matters as must be mutually agreed to by the Accountants and LAD.

5. The report will exclude all proper names of individuals except as required in the list of administrative officials and in formal College responses.

6. Significant deficiencies in internal control or unusual financial transactions shall be reported to LAD as soon as possible after such matters have been observed by the Accountants. Any apparent penal violations discovered during the audit shall be reported immediately in writing to LAD, and the Accountants agree not to divulge any information thereon to anyone unless authorized by LAD.

Confidentiality

7. The Accountants agree to maintain the confidentiality of those records of the College that may be confidential, except that LAD shall have access to such confidential records. Accountants must abide by all applicable federal and state laws governing confidentiality. Accountants must also complete a federal confidentiality training program and sign an attestation of completion. Any and all disclosures of public information will be made by LAD. Accountants should refer all requests and corresponding information to LAD liaison for public dissemination.

Independent Contractor

8. LAD recognizes that the Accountants are independent public accountants and that the Accountants will not be requested nor required to surrender their "independence," as such term is professionally understood and used concerning public accountants. The Accountants shall at all times be deemed independent contractors and not employees of LAD. The Accountant shall furnish certification from the Division of Workers' Compensation establishing either that he has elected workers' compensation coverage for himself or has an approved exemption from coverage as required by section 39-71-401, MCA, before the beginning date of the contract.

The Accountant certifies, by submitting this bid or proposal, that neither it nor its principals are presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in

this transaction (contract) by any governmental department or agency. If the Accountant cannot certify this statement, attach a written explanation for review by LAD.

Consulting and Assignability

9. The Accountants shall obtain the written approval of LAD prior to the engagement of correspondent public accountants or consultants to provide services in connection with this audit. The contractor shall not assign, transfer or subcontract any portion of the contract without the express written consent of the State.

Workpaper Availability and Retention

10. LAD shall have access, in the Legislative Audit Division, for review purposes, to the Accountants' audit programs, supporting working papers, the draft of the proposed audit reports, time records, and all other documents relating to the audit. The Accountants also agree to make the audit programs and supporting working papers available to LAD, in the Legislative Audit Division, for use by LAD or other public accounting firms as directed by LAD in future audits of the College. The Accountants shall not destroy the audit programs and working papers for five years from submission of the audit report to the Legislative Audit Committee.

Audit Committee

11. The Accountants agree to appear before the Montana Legislative Audit Committee when the report is formally submitted to answer questions concerning the report, and further agree to abide by the rule of the Legislative Audit Committee that no news releases shall be made. Failure to appear at the designated Legislative Audit Committee meeting will result in a penalty of 10 percent (10%) of the contract price that shall be withheld from the final payment to the firm.

Discrimination

12. No part of this contract may be performed in a manner which discriminates against any person on the basis of race, color, religion, creed, political ideas, sex, age, marital status, physical or mental handicap, or national origin by the persons performing the contract. Neither will the Accountants discriminate against any employee or applicant for employment because of race, religion, creed, color, or national origin, or because of age, physical or mental handicap, marital status, or sex when the reasonable demands of the position do not require such a distinction; actions in which such discrimination is prohibited include, but are not limited to, employment, upgrading, demotion, transfer, recruitment or recruitment advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training, including apprenticeship. Any hiring must be on the basis of merit and qualifications directly related to the requirements of the particular position being filled. The Accountants also agree to comply with the applicable provisions of state and federal minimum wage laws.

Hold Harmless and Indemnification

13. The Accountants agrees to protect, defend, and save LAD, its elected and appointed officials, agents, and employees, while acting within the scope of their duties as such, harmless from and against all claims, demands, causes of action of any kind or character, including the cost of defense thereof, arising in favor of the Accountant’s employees or third parties on account of bodily or personal injuries, death, or damage to property arising out of services performed or omissions of services or in any way resulting from the acts or omissions of the Accountant and/or its agents, employees, representatives, assigns, subcontractors, except the sole negligence of LAD, under this agreement.

Exclusivity

14. The Accountants agree that they will not arrange for, or accept non- auditing work with the College while the audit is in process without the approval of LAD in writing.

LAD Consultation and Assistance

15. LAD will provide a maximum of four hours consultation to the Accountants without charge. Any consultation requested of LAD's staff exceeding the four hours will be provided at the Accountants' expense. The Accountants will be charged for consultation at a rate which equals the average hourly rate bid by the Accountants in their contract for the audit engagement or the LAD rate, whichever is greater. Charges for consultation exceeding four hours will be deducted from progress payments made to the Accountants as the job progresses.

Timeframe

16. The audit shall begin on June 7, 2007 with 70 copies of the final audit report as described in the RFP information to be delivered to LAD by October 31, 2007 and October 31 2008, unless an extension of time has been requested by the Accountants and granted by LAD in writing. The final report will be bound in report covers provided by LAD, and the first page of the report following the title page will be a transmittal letter provided by LAD. A request for an extension of time to complete the contract must be in writing and will be granted only for good cause shown as determined by LAD. Failure of the Accountants to complete and deliver the final report to LAD by the previously mentioned due dates, will result in a penalty of 2.5 percent (2.5%) of the contract price per week, or portion thereof, being assessed against the Accountants by LAD, unless an extension of time has been granted by LAD. Any penalties assessed by LAD will be subtracted from the amount owing to the Accountants from LAD under this contract. LAD reserves the right to terminate the contract if the Accountants fail to complete and deliver the final report by the date specified above

Audit Liaison

17. LAD will designate one staff member as contract liaison to serve as liaison between LAD and the Accountants for purposes of fulfilling the terms of this contract. All communications, requests, and billings between the Accountants and LAD will be submitted through the contract liaison. Contract liaison for this audit is Angela Lang.

Billing and Payments

18. The Accountants will submit a final time report to LAD after the Legislative Audit Committee meeting in which the audit report is presented. The time report will be in the form prescribed by LAD.

    The Accountants shall submit, on forms provided by LAD, all billings to LAD for approval and, upon approval, LAD will forward the billings to the College. The College will then process such billings for payment. Compensation to the Accountants pursuant to this contract for services and expenses shall be $xx,xxx. Any payments in excess of this amount must be the result of a separate written contract between the Accountants, the College, and LAD. A retention of twenty percent (20%) of each approved payment will be made by the College until the final audit report has been delivered to LAD and presented to the Montana Legislative Audit Committee and until LAD has received a final time report.

Performance Review

19. Contingent upon satisfactory performance the Accountants may have the opportunity to annually renew this contract for the next contract term (the fiscal year ending June 30, 20__) at a price agreed upon by both parties. Should the Legislative Auditor and Accountants be unable to negotiate a mutually acceptable fee, the contract may be put out for bid for the subsequent audit period.

Termination and Default

20. LAD may, by written notice to the Accountants, terminate this contract without cause. LAD must give written notice of termination to the Accountant at least 30 days prior to the effective date of termination. In the event of default and nonperformance of the contract by the Accountants as determined by LAD, the right to any

compensation under the terms of this contract is forfeited. LAD at its sole discretion may terminate or reduce the scope of this contract if available funding is reduced for any reason.

Governing Law

21. The laws of LAD of Montana shall govern the construction and interpretation of this contract. For all proceedings among the parties to this contract arising hereunder, venue shall be the First Judicial District Court in and for Lewis and Clark County, Montana.

Limits, Modification, Severability, and Amendment

22. This contract contains the entire understanding and agreement of the parties. No modification or amendment thereto shall be valid unless the same is reduced to writing and made a part of this contract. A declaration by any court, or any other binding legal source, that any provision of the contract is illegal and void shall not affect the legality and enforceability of any other provision of the contract, unless the provisions are mutually dependent.

Legislative Audit Division
Scott Seacat
Legislative Auditor

By_____ Date_____

Flathead Valley Community College

By_____ Date_____

Accountant Contractor

By_____ Date_____

Legislative Audit Division
Approved for Legal Content:
Monica Smith, Attorney

By_____ Date_____

Appendix C

Prior Audit Report

STATE OF MONTANA
FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
FINANCIALSTATEMENTS
AND SUPPLEMENTARY
INFORMATION
FISCAL YEARS ENDED JUNE 30, 2005 AND 2006

CONDUCTED UNDER CONTRACT BY
C H M S, P.C.
CONTACT: TARA LEE HILL, CPA
PHONE #: (406) 433-2092

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
JUNE 30, 2005 AND 2006

TABLE OF CONTENTS

	Page
Table of Contents	i – ii
Transmittal Letter	iii
Appointive and Administrative Officials	iv
Recommendations	v
Prior Audit Recommendations	v
Management's Discussion and Analysis	vi – xiv
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Net Assets	3
Statements of Financial Position – Flathead Valley Community College Foundation – December 31, 2004 and 2005	4
Statements of Revenues, Expenses, and Changes in Net Assets	5
Statement of Activities – Flathead Valley Community College Foundation – For the Year Ended December 31, 2004	6
Statement of Activities – Flathead Valley Community College Foundation – For the Year Ended December 31, 2005	7
Statements of Cash Flows	8
Statements of Cash Flows – Flathead Valley Community College Foundation - For the Years Ended December 31, 2004 and 2005	9
Notes to the Financial Statements	10 – 28

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
JUNE 30, 2005 AND 2006

TABLE OF CONTENTS

	Page
SUPPLEMENTARY INFORMATION	
Functional Classification of Operating Expenses For the Years Ended June 30, 2005 and 2006	29
Student Financial Aid Modified Statement of Cash Receipts And Disbursements, For the Year Ended June 30, 2005	30
Student Financial Aid Modified Statement of Cash Receipts And Disbursements, For the Year Ended June 30, 2006	31
Schedule of Expenditures – Student Financial Assistance Programs, For the Years Ended June 30, 2005 and 2006	32
Schedule of Enrollment Statistics, For the Years Ended June 30, 2005 and 2006	33
Schedule Of Expenditures Of Federal Awards, For The Year Ended June 30, 2005	34
Schedule Of Expenditures Of Federal Awards, For The Year Ended June 30, 2006	35
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*	36- 37
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	38 – 39
SCHEDULE OF FINDINGS	40 – 41

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

November 2006

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of Flathead Valley Community College for the two fiscal years ended June 30, 2006.

The audit was conducted by CHMS, 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.

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

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

06C-04

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FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

Montana Board of Regents of Higher Education

Lynn Morrison-Hamilton	Chair
Stephen M. Barrett	Vice-Chair
Clayton Christian	Regent
Mark J. Semmens	Regent
Lila Taylor	Regent
Dr. Janine Pease	Regent
Heather O'Loughlin	Student Regent
Brian Schweitzer	Governor*
Linda McCulloch	Superintendent of Public Instruction*

Office of the Commissioner of Higher Education

Sheila Sterns	Commissioner of Higher Education
Roger Barber	Deputy Commission for Academic And Student Affairs
Mick Robinson	Associate Commissioner for Fiscal Affairs
Cathy Swift	Chief Legal Counsel

Flathead Valley College Board of Trustees

John Engebretson	Chairperson
Robert Nystuen	Vice-Chairperson
Thomas Harding	Trustee
Alison Young	Trustee
Jeanne Tallman	Trustee
Mark Holston	Trustee
Ralene Sliter	Trustee
	Trustee

Administration

Dr. Jane Karas	President
Sheila Gestring	Chief Financial Officer

* Ex officio member of the Board of Regents of Higher Education

FLATHEAD VALLEY COMMUNITY COLLEGE
YEARS ENDED JUNE 30, 2005 AND 2006

RECOMMENDATIONS

None

PRIOR YEARS' RECOMMENDATIONS

A summary of the recommendations from fiscal years June 30, 2003 and 2004 is as follows:

Finding	Status
Finding #04-01 – Cash Reconciliations	Implemented

Flathead Valley Community College
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info@fvcc.cc.mt.us • www.fvcc.cc.mt.us

Improving Lives Through Learning

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEARS 2005 AND 2006

Flathead Valley Community College (FVCC) is dedicated to improving lives through learning. FVCC is located on two campuses located in Kalispell and Libby, Montana.

Reading the Annual Financial Report

A requirement of GASB 35 is the Management Discussion and Analysis (MD&A) of the annual financial statements. This section includes narrative descriptions of the FVCC financial condition, results of operations and cash flows. The MD&A's purpose is to aid readers in understanding the accompanying financial statements through analysis of FVCC's financial activities based on currently known facts and conditions. **This MD&A should be read in** conjunction with the accompanying financial statements and footnote disclosures.

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial activities of FVCC for fiscal years ended June 30, 2005 and 2006.

How the Financial Statements Relate to Each Other

The financial statements included are the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

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

The most basic relationships between the statements are described below. The Statement of Net Assets presents a snap shot of the financial condition of FVCC on June 30. The Statement of Revenues, Expenses, and Changes in Net Assets presents the results of activities for FVCC throughout the fiscal year. The Statement of Cash Flows indicates where and how cash was utilized and provided in order to operate throughout the fiscal year.

Statement of Net Assets

Assets and liabilities are presented in a classified format. This format differentiates between current and non-current assets and liabilities. Net Assets (assets less liabilities) are presented in three categories applicable to FVCC:

- Unrestricted
- Restricted – Expendable
  – Nonexpendable
- Invested in Capital Assets, Net of Related Debt

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

The following is a summary of the Statement of Net Assets for each fiscal year:

Total Current Assets	$8,323,068	$7,182,923	$6,624,681	$5,056,802
Total Non-Current Assets	$26,527,337	$18,854,572	$8,672,805	$8,218,379
TOTAL ASSETS	**$34,850,405**	**$26,037,495**	**$15,297,486**	**$13,275,181**
Total Current Liabilities	$3,419,860	$2,509,070	$2,244,107	$1,497,924
Total Non-Current Liabilities	$17,732,516	$12,554,669	$3,173,300	$3,796,681
TOTAL LIABILITIES	**$21,152,376**	**$15,063,739**	**$5,417,407**	**$5,294,605**
Invested in capital, net of related debt	-$4,918,200	-$3,692,278	$5,515,692	$4,797,951
Restricted-expendable	$13,836,405	$10,782,624	$2,207,177	$1,542,510
Unrestricted	$4,779,824	$3,883,410	$2,157,210	$1,640,115
TOTAL NET ASSETS	**$13,698,029**	**$10,973,756**	**$9,880,079**	**$7,980,576**

Information significant to reading the Statement of Net Assets:

- The Net Assets Invested in capital, net of related debt is primarily made up of the value of the buildings and the land held by the College and the associated bond indebtedness. The FY2005 and FY2006 ending deficit balances in the Net Assets Invested in Capital, Net of Related Debt is due to the construction in progress. There are unspent bond proceeds for the college expansion. The cash balance from those proceeds is recorded in the Restricted-expendable category of Net Assets. Once the expansion is completed, the resulting assets from the project will be recorded in the Net Assets Invested in Capital, Net of Related Debt, and the deficit currently recorded will be eliminated. This is simply a result of GASB 34/35 requirements for the classification of net assets and is an expected event during expansion projects involving bond indebtedness.

- Restricted-expendable Net Assets are held primarily in the grant and bond proceeds restricted for the campus expansion project.
- Unrestricted Net Assets is made up of operating activities, auxiliary activities, and also numerous designated activities which include:

1. **Student Activity Fee** – Any change in the student activity fee must be approved by a majority of the voting students, and approved by the Board of Trustees. The Student Activity Fee will be deposited into an agency account and will be administered by the Student Senate for the purpose of supporting programs, services, and activities for College students. 50% of the Student Activity Fee is specifically designated for the athletics programs of the College.

2. **Laboratory Fees** – Laboratory fees are intended to augment, not replace, basic operating expenses. They may be assessed and used for:

    a. Consumable supplies (including computer software)
    b. Special facility rental or services
    c. Unusual vehicle costs

    Laboratory fees are intended for use during the semester collected. The amount will be recommended by the instructor through the division chair to the appropriate administrator, with approval beginning in Business Services and final approval granted by the President.

    Laboratory fees are not intended for:

    a. Equipment
    b. Continuing personnel costs
    c. Roll-over (accumulation of funds for a future purchase)

3. **Building Fees** – Building fees shall be collected specifically for the purpose of purchasing or selling land, installing major utilities, infrastructure requirements, completing major landscaping, purchasing or selling buildings, lease-purchasing buildings, constructing buildings, remodeling buildings, demolishing buildings, constructing parking lots, constructing roadways, constructing other campus improvements, and purchasing architectural and engineering services related to these buildings fee purposes.

4. **Computer Fees** – Computer fees shall be collected for the purchase or lease of computer equipment, software, maintenance or related items which will benefit the instructional programs. Expenditures may not be made for recurring personnel services.

5. **Equipment Fees** - Equipment fees shall be collected for the purchase, lease or maintenance of equipment and other related expenditures which will provide a primary benefit to the educational programs including the library.

6. **Grounds Maintenance Fee** – Grounds Maintenance Fees shall be collected for the construction, maintenance and safety of hard surface areas on the campus.

Statement of Revenues, Expenses, and Changes in Net Assets

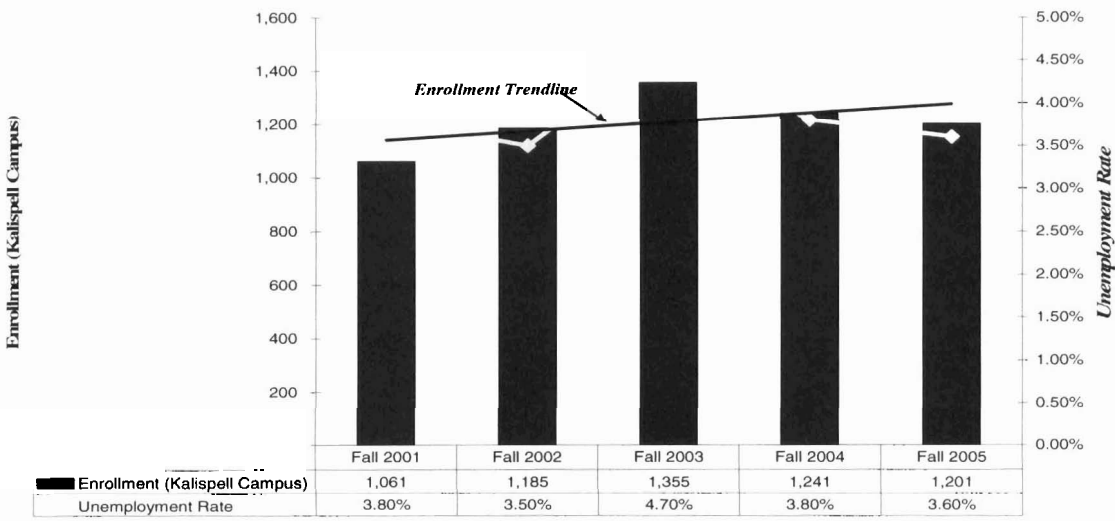
The Statement of Revenues, Expenses, and Changes in Net Assets reflects the results of operations for each fiscal year, distinguishing between operating and non-operating revenues and expenses as defined by GASB 35. GASB 35 has defined appropriations (state and local) as non-operating revenues, thus, FVCC is showing an operating loss $5,321,592 for FY2005 and $6,017,699 for FY2006. Once the appropriations dollars are considered, the results become a gain of $1,189,642 for FY2005 and $1,868,881 for FY2006. Inclusion of state and local appropriations is a more useful measure of FVCC regular activities. The bottom line "Change in net assets" was an increase in net assets of $1,238,454 for FY2005 and $2,768,635 for FY2006.

Operating Revenues	$ 9,388,854	$ 8,805,473	$ 9,744,274	$ 7,537,088
Operating Expenses	$ (15,406,553)	$ (14,127,065)	$ (14,263,315)	$ (12,499,543)
Operating Loss	$ (6,017,699)	$ (5,321,592)	$ (4,519,041)	$ (4,962,455)
Net Nonoperating Revenues/(Expenses)	$ 8,786,334	$ 6,560,046	$ 6,418,544	$ 5,809,211
Change in Net Assets	$ 2,768,635	$ 1,238,454	$ 1,899,503	$ 846,756
FY2003 Beginning Net Assets - Restated	$ 10,973,756	$ 9,880,079	$ 7,980,576	$ 11,774,270
Adjustment to Accounts Receivables				$ (191,168)
GASB 35 Adjustment-Capital Assets				$ (1,092,621)
GASB 35 Adjustment-Record Accumulated Depreciation				$ (3,356,661)
Prior Period Adjustments	$ (44,362)	$ (144,777)		
Net Assets - end of year	$ 13,698,029	$ 10,973,756	$ 9,880,079	$ 7,980,576

Information regarding specific revenue and expense items:

- Tuition and fees: Tuition and fees are down from FY2004. FY2004 enrollment levels were a result of four of the area's large employers initiating layoffs. These layoffs resulted in several hundred more students than historical numbers. These additional students were retrained, graduated and employed. In addition, enrollment numbers are indicating more students taking fewer credit hours due to a very low unemployment in northwest Montana. We have found that there is a direct correlation between FTE and unemployment in Flathead County as illustrated on the following page:

Unemployment Rate (Flathead County) as an Indicator of Kalispell Campus Enrollment

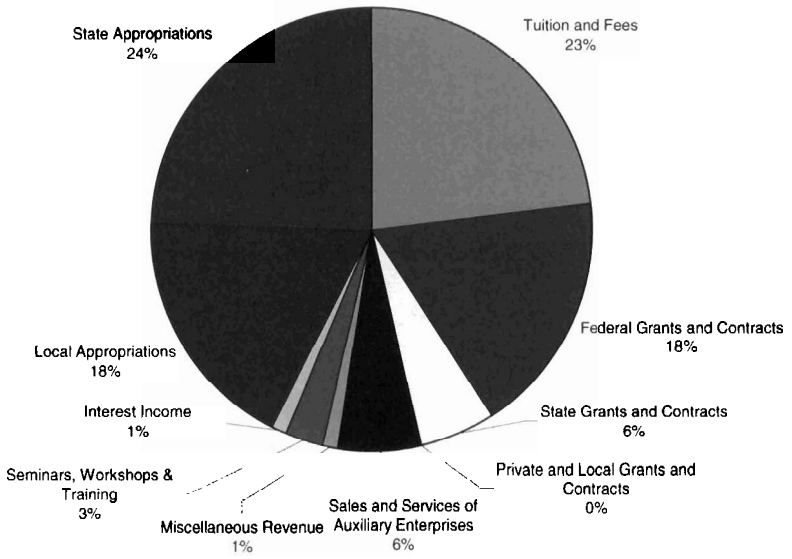


	Fall 2001	Fall 2002	Fall 2003	Fall 2004	Fall 2005
Enrollment (Kalispell Campus)	1,061	1,185	1,355	1,241	1,201
Unemployment Rate	3.80%	3.50%	4.70%	3.80%	3.60%

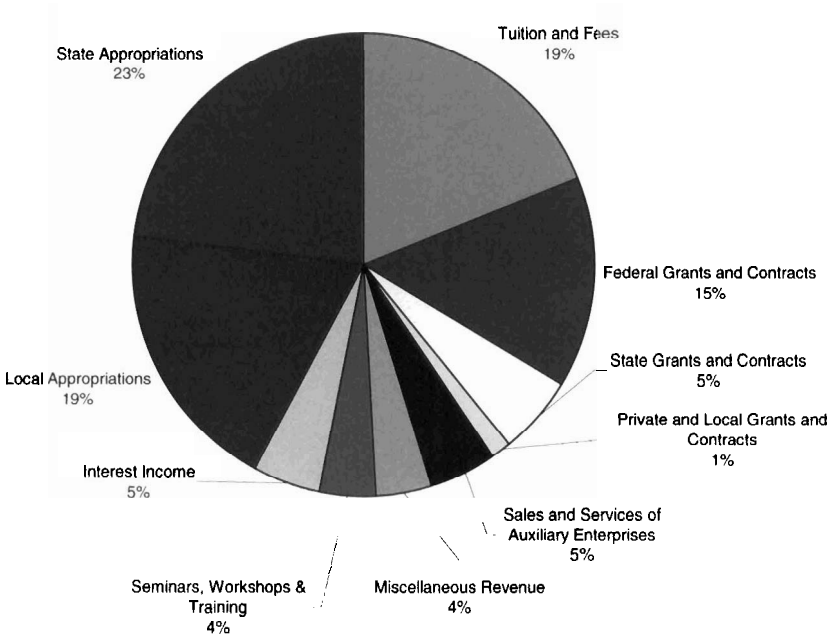
- Federal grants and contracts: Federal grants and contracts have decreased since FY2004 for three primary reasons. The first is the conclusion of a large grant – the Rural Utilities Services grant and the second is related to the enrollment as explained above – Pell grants were impacted by the changes in enrollment. The final primary reason for the change is due to some reclassification from federal grants and contracts to state grants and contracts.
- State grants and contracts: State grants and contracts appear to have increased significantly over FY2003 and FY2004 due to the reclassification described above. In addition, FVCC was awarded $639,838 from the two year equipment appropriation in HB2. These awards allowed FVCC to purchase needed equipment for its programs. The awards were for the Heavy Equipment Operations, Surveying, and Building Trades programs. For example, the grants allowed for the purchase of, rather than lease, heavy equipment and substantially reduce the program fee associated with delivering this program.
- Operating Expenses: Operating expenses increases occurred primarily in the salaries and benefits.

All revenues by source are illustrated below (includes all funds, not just general operating):

FY2005 REVENUES

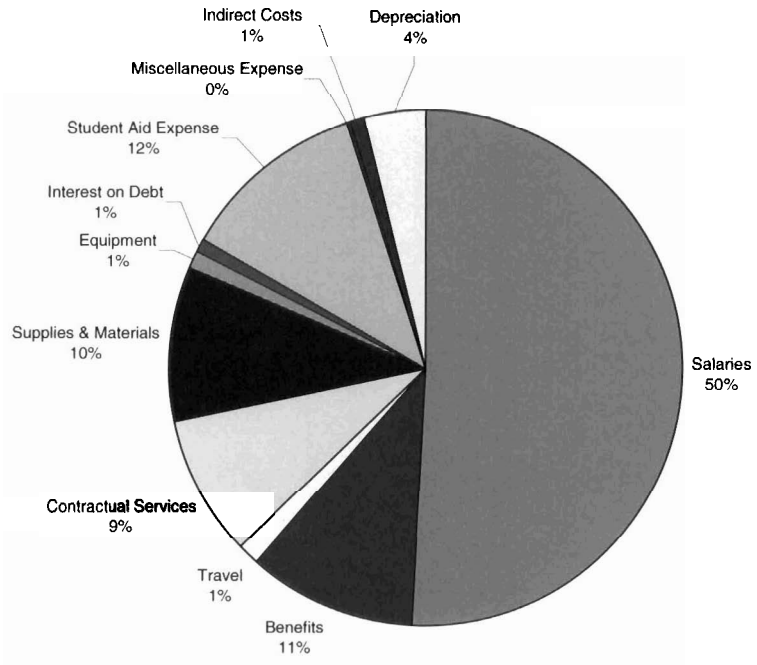


FY2006 REVENUES

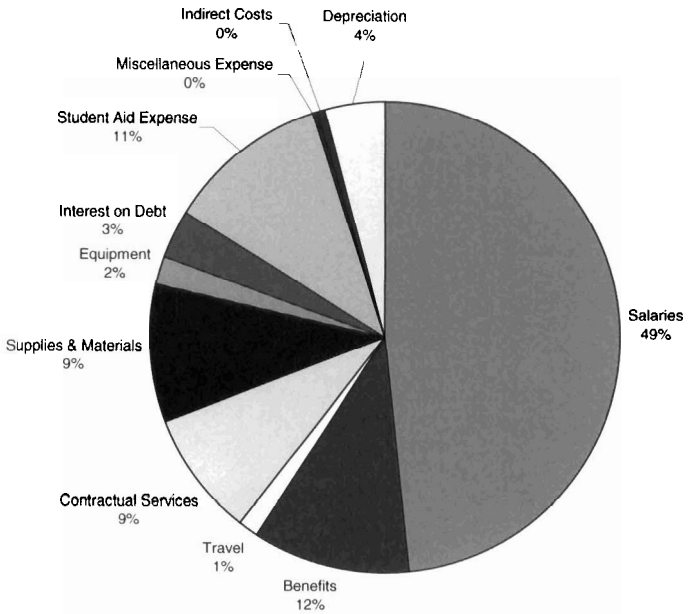


Expenses by natural classification are illustrated below for each fiscal year (includes all funds, not just general operating):

FY2005 EXPENSES



FY2006 EXPENSES



Statement of Cash Flows

The Statement of Cash Flows summarizes where cash was provided or utilized throughout the fiscal year. Cash flows are presented in operating activities, non-capital financing activities, capital and related financing activities and investing activities. The sum of these four categories is the net change in cash which was an increase of $10,728,445 for FY2005 and an increase of $4,781,925 for FY2006. The large increases in cash are primarily made up of the bond proceeds issued for the campus expansion. Subsequent years will show the opposite effect as the proceeds are spent for the construction project.

Cash Provided (Used) by:				
Operating Activities	$ (4,267,109)	$ (4,344,094)	$ (5,252,963)	$ (4,655,87
Noncapital Financing Activities	$ 7,725,282	$ 6,591,145	$ 6,525,622	$ 5,937,53
Capital and Related Financing Activities	$ 434,165	$ 8,314,621	$ (1,224,866)	$ (1,865,33
Investing Activities	$ 889,587	$ 166,773	$ 59,716	$ 69,97
Net Increase (Decrease) in Cash	$ 4,781,925	$ 10,728,445	$ 107,509	$ (513,70
Cash and Cash Equivalents, beginning of year	$ 14,607,806	$ 3,879,361	$ 3,771,852	$ 4,285,55
Cash and Cash Equivalents, end of year	$ 19,389,731	$ 14,607,806	$ 3,879,361	$ 3,771,85

Significant Pending Financial Issues

COMMUNITY COLLEGE FUNDING FORMULA

During the 2005 legislative session, the Joint Appropriations Subcommittee on Education expressed concern about the level of state appropriation funding for community colleges. The language in HB2 specifically encouraged an Interim study to address the community college funding formula. Beginning in October of 2005, the formal study began. The study was lead by Legislative Fiscal Analyst, Alan Peura, with participation from all three community colleges, a representative from the Office of Budget and Program Planning, and a representative from the Office of the Commissioner of Higher of Education.

The formula was recently submitted as a committee bill to go forward to the 2007 legislative session. The bill can be found at http://data.opi.mt.gov/bills/2007/billpdf/LC0179.pdf.

The formula is based on a fixed and variable cost component, recognizing fixed costs such as utilities and variable costs such as student aid waiver expenditures. The community colleges are in support of the new funding formula. The new funding formula is designed to bring stability and more predictability to the state appropriation funding, which allows for long term planning.

CONSTRUCTION IN PROGRESS

The college expansion is underway. In December 2002, the voters of Flathead County authorized the construction of three new buildings and some renovations of the existing facilities. The first of the three new buildings is the Occupational Trades building and is expected to be completed in January 2007. The second building scheduled for completion in May of 2007 is the Arts and Technology building. The third and final building is the Early Childhood Center, and its completion is estimated to be August 2007. The renovations to the existing facility are scheduled to be completed by the end of summer 2007.

Due to some unavoidable delays, the project was not able to break ground until September of 2005. That delay cost the project in inflationary impacts. Changes were made to the original schematics that would not impact the integrity or the function of those buildings but would lower costs of construction. There remains a $3.5 million shortfall. The college is pursuing an Intercap loan through the Montana Board of Investments. The design of this loan is to be solely for the purposes of timely completion of the project. The FVCC Foundation is currently engaged in a capital campaign to raise the funds to cover the $3.5 million shortfall. The campaign has not yet been publicly announced, and has already raised roughly $500,000.

MANAGEMENT INFORMATION SYSTEM

Recently, FVCC released a request for proposal for a new comprehensive Enterprise Resource Planning system. There is a committee that has reviewed the proposals that were submitted, and that same committee has recommended two vendors to present to the college community. The presentations will take place throughout the month of November, and a recommendation will be submitted to the President around November 30th.

CHMS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Legislative Audit Committee
Of the Montana State Legislature

We have audited the accompanying basic financial statements of Flathead Valley Community College, Kalispell, Montana, as of and for the years ended June 30, 2005 and 2006, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the College's discretely presented component unit. Those statements were audited by another auditor whose report thereon has been furnished to us, and our opinion insofar as it relates to the amounts included for the audited component unit of the College, is based on the report of the other auditor.

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 and the report of the other auditor provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Flathead Valley Community College, Kalispell, Montana, as of June 30, 2005 and 2006, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2006, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 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.

OFFICES IN GLASGOW, MALTA, SIDNEY, GLENDIVE AND WOLF POINT

The managements' discussion and analysis on pages vi - xiv is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Schedule of Functional Classification of Operating Expenses on page 29, the Schedules of Student Financial Aid Modified Statement of Cash Receipts and Disbursements on pages 30 - 31, the Schedule of Expenditures – Student Financial Assistance Programs on page 32, and the Schedule of Enrollment Statistics on page 33 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedules of expenditures of Federal Awards on pages 34 – 35 are presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CHMS, PC

CHMS, P.C.
Certified Public Accountants

September 15, 2006

FLATHEAD COMMUNITY COLLEGE
KALISPELL, MONTANA
STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2006

	2005	2006
ASSETS		
Current Assets		
Cash and Cash Equivalents - Note C	$ 4,488,476	$ 5,741,940
Taxes Receivable - Note A	199,459	286,373
Grants Receivable - Note A	232,740	179,391
Accounts Receivable, Net - Note A	1,290,733	981,411
Deferred Tuition Waivers	6,396	7,639
Deferred Salaries	6,667	-
Prepaid Expense	692,877	778,987
Deposits	83,052	119,873
Current Portion of Bond Issuance Costs	17,482	22,431
Inventory - Note A	165,041	205,023
Total Current Assets	7,182,923	8,323,068
Noncurrent Assets		
Restricted Cash and Cash Equivalents - Note C	10,119,330	13,647,791
Noncurrent Portion of Bond Issuance Costs	124,655	201,197
Construction in Progress	268,277	4,032,861
Capital Assets - Note D	13,036,438	13,593,994
Less: Accumulated Depreciation	(4,694,128)	(4,948,506)
Total Noncurrent Assets	18,854,572	26,527,337
Total Assets	26,037,495	34,850,405
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities	413,957	1,163,731
Accrued Payroll	79,182	96,513
Deferred Revenue - Tuition and Fees	751,443	604,187
Deferred Revenue - Grants	120,060	260,180
Tuition Deposits	698	795
Due to Student Organizations	255,248	180,861
Current Portion of Capital Lease Obligations	25,668	-
Bond Premium	3,779	7,499
Interest Payable	126,692	128,092
Current Portion of Compensated Absences Payable - Note E	65,969	94,894
Current Portion of Long-Term Obligations - Note F	666,374	883,108
Total Current Liabilities	2,509,070	3,419,860
Noncurrent Liabilities		
Noncurrent Portion of Bond Premium	71,792	138,693
Noncurrent Compensated Absences Payable - Note E	947,625	1,026,574
Noncurrent Portion of Long-Term Obligations - Note F	11,535,252	16,567,249
Total Noncurrent Liabilities	12,554,669	17,732,516
Total Liabilities	15,063,739	21,152,376
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	(3,692,278)	(4,918,200)
Restricted for:		
Expendable:		
Student Loans	5,550	4,899
Debt Service	10,727,491	13,642,259
Grants	-	9,711
Sponsored Programs	-	104,555
Scholarships, Research, Instruction, and Other	49,583	74,981
Unrestricted	3,883,410	4,779,824
Total Net Assets	$ 10,973,756	$ 13,698,029

See notes to the financial statements

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2004 AND 2005

		2004		2005
ASSETS				
Cash and Cash Equivalents	$	629,347		697,049
Investments		1,481,791		1,718,788
Pledges Receivable		399,242		358,481
Other Assets		35,974		47,197
Software		1,625		1,625
Total Assets	$	2,547,979		2,823,140
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts Payable and Other Liabilities	$	35,259		29,818
Foundation Scholarships Payable		78,207		70,943
Other Scholarships Payable		81,803		82,972
Total Liabilities		195,269		183,733
Net Assets				
Unrestricted		355,982		462,573
Temporarily Restricted		756,510		928,331
Permanently Restricted		1,240,218		1,248,503
Total Net Assets	$	2,352,710	$	2,639,407

See Note A to the financial statements.

FLATHEAD COMMUNITY COLLEGE
KALISPELL, MONTANA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2006

		2005	2006
REVENUES			
Operating Revenues			
Tuition and Fees (net of scholarship allowances of $286,583 and $249,165, respectively)	$	3,536,526	3,513,506
Federal Grants and Contracts		2,717,203	2,775,472
State Grants and Contracts		863,425	1,029,823
Private and Local Grants and Contracts		140,494	273,888
Indirect Cost Recoveries		114,979	79,188
Seminars and Workshops (net of waivers of $363 and $5,410, respectively)		421,798	697,237
Training		41,999	57,034
Auxiliary Activities:			
Bookstore		793,030	772,678
Food Services		148,961	125,068
Other Operating Revenues		27,058	64,960
Total Operating Revenues		8,805,473	9,388,854
EXPENSES			
Operating Expenses			
Salaries		7,159,454	7,694,431
Benefits		1,513,008	1,735,674
Travel and Entertainment		174,297	215,824
Supplies		1,367,028	1,493,712
Contracted Services		1,266,861	1,414,482
Bond Issue Expense		13,512	19,956
Bad Debt Expense			36,703
Scholarships and Grants		1,803,785	1,766,675
Noncapitalized Equipment		153,171	290,405
Indirect Costs		113,272	78,593
Other Operating Expenses		6,226	2,586
Depreciation Expense		556,451	657,512
Total Operating Expenses		14,127,065	15,406,553
Operating Loss		(5,321,592)	(6,017,699)
NONOPERATING REVENUES (EXPENSES)			
Interest Income		166,773	889,587
State Appropriations		3,765,328	4,320,611
Local Appropriations		2,745,906	3,565,969
Gain (Loss) on Disposal		(1,772)	565,490
Interest Payments		(116,189)	(555,323)
Total Nonoperating Revenues (Expenses)		6,560,046	8,786,334
INCREASE IN NET ASSETS		1,238,454	2,768,635
Net Assets, Beginning of Year		9,880,079	10,973,756
Prior Period Adjustments - Note M		(144,777)	(44,362)
Beginning Net Assets, as Restated		9,735,302	10,929,394
Net Assets, End of Year	$	10,973,756	13,698,029

See notes to the financial statements.

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Pledges and Other Public Support	$ 81,108	$ 93,814	$ 16,626	$ 191,548
In-Kind Donations	121,302	-	-	121,302
Net Realized and Unrealized Investment Gain	7,121	58,327	-	65,448
Investment Income	5,213	68,466	-	73,679
Endowments	-	-	6,300	6,300
Net Assets Released from Restrictions	50,306	(27,681)	(22,625)	-
Total Revenues, Gains, and Other Support	265,050	192,926	301	458,277
ALLOCATIONS AND EXPENSES				
Program Services				
Scholarship Awards	76,557	-	-	76,557
Program Disbursements	79,417	-	-	79,417
Other Programs Expenses	36,837	-	-	36,837
Prizes	7,594	-	-	7,594
Supporting Services				
Professional Fees	8,168	-	-	8,168
Investment Management Fees	11,293	-	-	11,293
Management and General	89,230	-	-	89,230
Total Allocations and Expenses	309,096	-	-	309,096
INCREASE IN NET ASSETS	(44,046)	192,926	301	149,181
Net Assets, Beginning of Year	305,193	563,584	1,239,917	2,108,694
Prior Period Adjustment	94,835	-	-	94,835
Net Assets, Restated	400,028	563,584	1,239,917	2,203,529
Net Assets, End of Year	$ 355,982	$ 756,510	$ 1,240,218	$ 2,352,710

See Note A to the financial statements.

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Pledges and Other Public Support	$ 191,760	$ 137,965	$ 14,430	$ 344,155
In-Kind Donations	132,027	-	-	132,027
Net Realized and Unrealized Investment Gain	4,535	42,900	-	47,435
Investment Income	4,331	60,649	-	64,980
Net Assets Released from Restrictions	75,838	(69,693)	(6,145)	-
Total Revenues, Gains, and Other Support	408,491	171,821	8,285	588,597
ALLOCATIONS AND EXPENSES				
Program Services				
Scholarship Awards	70,943	-	-	70,943
Program Disbursements	99,666	-	-	99,666
Other Programs Expenses	14,248	-	-	14,248
Prizes	9,487	-	-	9,487
Supporting Services				
Professional Fees	10,959	-	-	10,959
Investment Management Fees	12,514	-	-	12,514
Management and General	84,084	-	-	84,084
Total Allocations and Expenses	301,901			301,901
INCREASE IN NET ASSETS	106,590	171,821	8,285	286,696
Net Assets, Beginning of Year	355,982	756,510	1,240,218	2,352,711
Net Assets, End of Year	$ 462,572	$ 928,331	$ 1,248,503	$ 2,639,407

See Note A to the financial statements.

FLATHEAD COMMUNITY COLLEGE
KALISPELL, MONTANA
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005 AND 2006

	2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 3,240,116	$ 3,637,723
Grants and Contracts	4,146,424	4,272,652
Payments to Employees	(7,135,520)	(7,562,559)
Payments for Benefits	(1,513,008)	(1,735,674)
Payments to Suppliers	(2,682,134)	(2,537,157)
Payments for Scholarships and Fellowships	(1,675,129)	(1,766,675)
Auxiliary Enterprise Charges		
Bookstore	793,030	772,678
Food Services	148,961	125,068
Other Receipts (Payments)	333,166	526,835
NET CASH USED BY OPERATING ACTIVITIES	(4,344,094)	(4,267,109)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	3,765,328	4,320,611
Local Appropriations	2,775,109	3,479,058
Student Organization Agency Transactions	50,708	(74,387)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	6,591,145	7,725,282
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Sale of Bonds	9,900,000	5,916,000
Proceeds from the Sale of Capital Assets	6,048	530,254
Purchases of Capital Assets	(812,824)	(4,738,345)
Principal Paid on Capital Debt /Capital Leases	(678,566)	(689,974)
Bond Issuance Costs	(121,066)	(101,447)
Bond Premium	73,586	74,400
Interest Paid on Capital Debt	(52,557)	(556,723)
NET CASH PROVIDED BY CAPITAL FINANCING ACTIVITIES	8,314,621	434,165
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	166,773	889,587
NET CASH PROVIDED BY INVESTING ACTIVITIES	166,773	889,587
Net Increase (Decrease) in Cash and Cash Equivalents	10,728,445	4,781,925
Cash and Cash Equivalents, Beginning of Year	3,879,361	14,607,806
Cash and Cash Equivalents, End of Year	$ 14,607,806	$ 19,389,731
Reconciliation to Statement of Net Assets		
Cash and Cash Equivalents	4,488,476	5,741,940
Restricted Cash and Cash Equivalents	10,119,330	13,647,791
Total Cash and Cash Equivalents	$ 14,607,806	$ 19,389,731
RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (5,321,592)	$ (6,017,699)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation Expense	556,451	657,512
Bond Issue Expense	13,513	19,956
Changes in Net Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	317,008	362,671
Increase in Inventory	5,971	(39,982)
(Increase) Decrease in Deferred Tuition Waivers	(6,396)	(1,243)
(Increase) Decrease in Deferred Salaries	(6,667)	6,667
(Increase) Decrease in Deposits	(76,304)	(36,821)
(Increase) Decrease in Prepaid Expenses	(52,148)	(86,110)
Increase (Decrease) in Accounts Payable	292,693	767,202
Increase (Decrease) in Deferred Revenues	(53,070)	(7,136)
Increase (Decrease) in Compensated Absences Payable	(13,553)	107,874
Net Cash Used By Operating Activities	$ (4,344,094)	$ (4,267,109)

See notes to the financial statements.

FLATHEAD VALLEY COMMUNITY COLLEGE FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004 AND 2005

	2004	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 149,181	$ 286,696
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) By Operating Activities:		
Depreciation	1,625	-
Net Realized and Unrealized Investment Gain	(65,448)	(47,435)
(Increase) Decrease in Assets:		
Pledges Receivable	122,815	40,761
Other Assets	(735)	(11,223)
Increase (Decrease) in Liabilities:		
Accounts Payable and Other Liabilities	29,318	(5,441)
Scholarships Payable	23,854	(6,095)
NET CASH PROVIDED BY OPERATING ACTIVITIES	260,610	257,263
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for Purchase of Investments	(240,764)	(189,561)
NET CASH USED BY INVESTING ACTIVITIES	(240,764)	(189,561)
Net Increase in Cash and Cash Equivalents	19,846	67,702
Cash and Cash Equivalents, Beginning of Year	609,501	629,347
Cash and Cash Equivalents, End of Year	$ 629,347	$ 697,049

See Note A to the financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Flathead Valley Community College, a Community College District (the College), is presented to assist in understanding the College's financial statements. The financial statements and notes are representations of the College's management, which is responsible for their integrity and objectivity.

Reporting Entity

Flathead Valley Community College is a community college district which has received accreditation by the Northwest Association of Schools and Colleges. The College is managed by a Board of Trustees, each member of which is elected in district-wide elections. The college administration is appointed by and responsible to the Board of Trustees.

The County government of Flathead County provides substantial services to the College. Taxes are levied and collected by the County. Cash is maintained and invested by the County Treasurer. The County does not significantly influence the operations of the College; thus, the College is treated as a separate and independent unit of local government.

The College, for financial purposes, includes all funds, account groups, organizations and boards for which the College is financially accountable, and other organizations for which the nature and significance of the relationship are such that the exclusion would cause the College's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a majority of the governing body, and by the imposition of will or the potential for financial benefit or burden.

In May 2002, GASB issued Statement No. 39, "*Determining Whether Certain Organizations are Component Units, and Amendment of GASB Statement No. 14.*" The College was required to adopt GASB No. 39 as of and for the year ended June 30, 2004. The statement requires that a legally tax exempt organization should be reported as a component unit of a reporting entity if the economic resources received or held by these organizations are entirely or virtually entirely for the direct benefit of the reporting entity or its component units, and the reporting entity is entitled to, or has the means to otherwise access, a majority of the economic resources received or held by the separate organization. The resources of the separate organization must also be significant to the reporting entity. Accordingly, the College has identified and will present the combined activities of the Flathead Valley Community College Foundation as of December 31, 2004 and 2005. The financial statements of the Flathead Valley Community College Foundation were audited by Junkermier, Clark, Campanella, Stevens, P.C.

Financial Statements

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In June 1999, GASB unanimously approved Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". GASB Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities" amends Statement No. 34 to address the accounting and financial reporting issues related to public colleges and universities. Certain significant changes in the Statement include the following:

A Management's Discussion and Analysis (MD&A) section providing an analysis of the College's overall financial position and results of operations.

A change in the fund-group financial statements to an entity-wide perspective.

Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. All significant inter-entity transactions have been eliminated upon consolidation.

Basis of Accounting

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the College's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. Grant revenues are reported only to the extent that they have been expended for their restricted purposes.

The College had the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected not to apply FASB pronouncements issued after the applicable date.

Cash and Cash Equivalents

The College considers all investments to be highly liquid, and, therefore, cash equivalents.

Investments

Investments are carried at cost, which approximates market value. Investments in the State Short-term Investment Pool (STIP) may include certain types of derivatives. A derivative is any "contract whose value depends on, or derives from, the value of an underlying asset, reference rate or index." The STIP portfolio includes asset-backed securities and variable-rate (floating rate) instruments. (See Note C on Investment Risk Categories.)

Accounts Receivable

Accounts receivable consists primarily of student tuition and fees.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants Receivable

Grants receivable are for expenditures made on grants for which reimbursement has not been received.

Inventories

Inventories consist mainly of bookstore supplies and are valued at cost on the first-in, first-out method.

Use of Estimates

The preparation of these general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from these estimates.

Noncurrent Assets

Cash that is externally restricted as to its use is classified as a noncurrent asset in the accompanying statement of net assets.

Capital Assets

Capital assets include equipment, buildings and related improvements, land improvements and infrastructure. Moveable equipment with a useful life of one year or more and a cost $1,000 or more is capitalized. Buildings and related improvements costing $25,000 or more are capitalized. Land is capitalized regardless of cost. Land improvements and infrastructure costing $10,000 or more is capitalized.

All purchased fixed assets are valued at cost where historical records are available and at estimated historical costs where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Property, plant, and equipment is depreciated under the straight-line method. In general, the annual depreciation is determined by dividing an asset's historical cost less salvage value by its useful life. The amount depreciated cannot exceed the asset's historical cost less salvage. The following estimated useful lives are used:

	Years		Years
Buildings	40	Infrastructure	20
Building Improvements	40	Equipment	5 - 20
Land Improvements	20	Library Books	10
Information Technology	10 - 20		

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

All capitalized books are depreciated over their estimated useful life using the straight-line method of depreciation with no salvage value. All capitalized library collections are depreciated over their useful life using the composite depreciation method with no salvage value. The estimated useful life is the estimated number of years that the book will serve the purpose for which it was purchased.

Assets acquired under capital leases that meet the capitalization threshold are added to capital assets. Depreciation expense on assets acquired under capital leases is included with depreciation expense on owned assets.

Donated Services

The value of donated services are not recognized, since the types of services rendered do not create or enhance the College's non-financial assets, nor do they require specialized skills.

Compensated Absences

As required by law, employees are allowed to accumulate earned but unused vacation and sick leave benefits. Unused vacation benefits are 100% payable upon termination. Unused sick leave benefits are payable at 25% of the unused portion upon termination. This liability has been reported as a liability and an expense in the financial statements.

Net Assets

The College's net assets are categorized as follows:

Invested in capital assets, net of related debt - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted, expendable - net assets whose use by the College is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

Restricted, nonexpendable - net assets subject to externally imposed stipulations that the College maintain those assets permanently.

Unrestricted - net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management, the Board of Trustees, or the Board of Regents, or may otherwise be restricted by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for general operating purposes and capital asset acquisition.

Revenues

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenue - includes activities that have the characteristics of exchange transactions, including student tuition and fees, net of scholarship allowances and discounts; sales and services of auxiliary services; and most grants and contracts.

Nonoperating Revenue - nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting", and GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments". Types of revenue sources that fall into this classification are state appropriations and investment income.

Use of Restricted Revenues

When the College maintains both restricted and unrestricted funds for the same purpose, the order of use of such funds is determined on a case by case basis. Restricted funds remain classified as restricted until they are expended.

Scholarship Discounts and Allowances

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

NOTE B - LOCAL APPROPRIATIONS

All property taxes are collected by the Treasurers of Flathead County, Montana and Lincoln County, Montana. Property taxes attach as an enforceable lien on property as of January 1st and are levied on the 2nd Monday in August. They are due in two equal installments on November 30th, and May 31st, following the levy date.

NOTE B - LOCAL APPROPRIATIONS (CONTINUED)

The tax levies for the College for the year ended June 30, 2005 and 2006 were as follows:

Kalispell Campus	Number of Mills	
	Year ended 6/30/2005	Year ended 6/30/2006
General Levy	8.20	8.20
Audit Levy	-	0.04
Retirement Levy	2.87	2.97
Adult Education Levy	1.00	1.00
Debt Service Levy	1.94	5.07
Total	14.01	17.28

The value of one mill was $157,165 in 2005 and $161,880 in 2006.

Libby Campus	Number of Mills	
	Year ended 6/30/2005	Year ended 6/30/2006
General Levy	5.00	5.24
Retirement Levy	1.81	1.51
Adult Education Levy	1.89	1.91
	8.70	8.66

The value of one mill was $25,384 in 2005 and $25,670 in 2006.

NOTE C - CASH AND INVESTMENTS

Cash and investments as of June 30, 2005, consist of the following:

	College	12/31/04 Component Unit
Cash on Hand	$ 2,500	$ 35,279
Demand Deposit Accounts	-	-
Invested in the County Investment Pool	14,580,306	-
Invested in Treasury Securities	25,000	-
Invested in Mutual Funds, Equity Securities and Corporate Debt Securities		2,075,859
Total Cash and Investments	$ 14,607,806	$ 2,111,138

NOTE C - CASH AND INVESTMENTS (CONTINUED)

Cash and investments as of June 30, 2006, consist of the following:

	College	12/31/05 Component Unit
Cash on Hand	$ 2,620	$ 34,002
Invested in the County Investment Pool	19,362,111	-
Invested in Treasury Securities	25,000	-
Invested in Mutual Funds, Equity Securities and Corporate Debt Securities		2,381,835
Total Cash and Investments	$ 19,389,731	$ 2,415,837

The College follows the practice of pooling cash and investments with the Flathead County Treasurer, except for petty cash.

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 investments.

Disclosures Relating to Interest Rate Risk

Investment 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 market interest rates.

Information about the sensitivity of the fair value of the College's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment as of June 30,

	2005 Maturity Date
Flathead County Investment Pool	1.24 years average

	2006 Maturity Date
Flathead County Investment Pool	1.15 years average

NOTE C - CASH AND INVESTMENTS (CONTINUED)

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 Flathead County Investment Pool does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Montana law requires 50% security of deposits with financial institutions in excess of the depository insurance coverage limits. A governmental entity's money is insured for each "public unit" based on how the account is titled at the financial institution. The Flathead County government is considered to have $100,000 FDIC coverage for demand deposits and $100,000 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, 2005 or June 30, 2006.

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 Flathead County Investment Pool).

Investment in the Flathead County Investment Pool

The College participates in the Flathead County Investment Pool. Information pertaining to the County's investment pool can be obtained from the County's annual report. The investment pool is not registered with the Securities and Exchange Commission. The pool is managed by the Flathead County Treasurer, who reports to the Flathead County Commissioners. The pool unit value is fixed at $1 per share for purchases and redemptions. Participants may buy and sell fractional shares.

NOTE C - CASH AND INVESTMENTS (CONTINUED)

Foreign Currency Risk

The College does not have any foreign currency risk as the College does not own any foreign currency.

Restricted Cash

Restricted cash in the plant funds is the proceeds from the bond issued for construction projects. This restricted cash is held by the County Treasurer. Restricted cash as of June 30, 2005, and June 30, 2006 was $10,119,330 and $13,647,791, respectively.

NOTE D - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2005, were as follows:

	Balance 6/30/2004	Additions/ Adjustments	Retirements/ Reclassifications	Balance 6/30/2005
Land and Land Improvements	$ 2,384,875	$ 113,855	$ -	$ 2,498,730
Buildings	6,708,927	-	-	6,708,927
Construction in Progress	189,338	78,939	-	268,277
Equipment	2,328,985	567,949	177,952	2,718,982
Leased Equipment	72,240	-	-	72,240
Library Inventory	389,185	50,743	-	439,928
Leasehold Improvements	324,938	-	-	324,938
Information Technology	198,376	74,317	-	272,693
Total	12,596,864	885,803	177,952	13,304,715
Less Accumulated Depreciation for:				
Land Improvements	246,598	21,707	-	268,305
Buildings	2,450,180	179,904	8,507	2,621,577
Equipment	958,863	459,146	113,572	1,304,437
Leased Equipment	7,224	7,224		14,448
Library Inventory	307,826	19,884	-	327,710
Leasehold Improvements	15,357	8,123	1,107	22,373
Information Technology	114,903	20,375		135,278
Total Accumulated Depreciation	4,100,951	716,363	123,186	4,694,128
Capital Assets, Net	$ 8,495,913	$ 169,440	$ 54,766	$ 8,610,587

NOTE D - CAPITAL ASSETS (CONTINUED)

Capital asset balances and activity for the year ended June 30, 2006, were as follows:

	Balance 6/30/2005	Additions/ Adjustments	Retirements/ Reclassifications	Balance 6/30/2006
Land and Improvements	$ 2,498,730	$ 237,906	$ 248,792	$ 2,487,844
Buildings	6,708,927	72,240		6,781,167
Construction in Progress	268,277	3,764,584		4,032,861
Equipment	2,718,982	892,469	167,453	3,443,998
Leased Equipment	72,240	-	72,240	-
Library inventory	439,928	38,790	254,592	224,126
Leasehold Improvements	324,938	42,400	1,752	365,586
Information Technology	272,693	18,580	-	291,273
Total	13,304,715	5,066,969	744,829	17,626,855
Less Accumulated Depreciation for:				
Land Improvements	268,305	23,649	-	291,954
Buildings	2,621,577	201,576	-	2,823,153
Equipment	1,304,437	396,415	160,622	1,540,230
Leased Equipment	14,448	-	14,448	-
Library Inventory	327,710	20,360	242,434	105,636
Leasehold Improvements	22,373	8,698	77	30,994
Information Technology	135,278	21,261	-	156,539
Total Accumulated Depreciation	4,694,128	671,959	417,581	4,948,506
Capital Assets, Net	$ 8,610,587	$ 4,395,010	$ 327,248	$ 12,678,349

NOTE E - COMPENSATED ABSENCES PAYABLE

Compensated absences payable, which represent vacation and sick leave earned by employees which is payable upon termination, were as follows:

	Balance 6/30/2004	Increase (Decrease)	Balance 6/30/2005
Vacation and Sick Leave	$ 1,027,147	$ (13,553)	$ 1,013,594

	Balance 6/30/2005	Increase (Decrease)	Balance 6/30/2006
Vacation and Sick Leave	$ 1,013,594	$ 107,874	$ 1,121,468

The compensated absences attributable to the governmental activities will be liquidated primarily by the General Fund.

NOTE F - LONG-TERM OBLIGATIONS

Changes in long-term obligations during 2005 were as follows:

	Balance 6/30/2004	Debt Issued	Principal Payment	Balance 6/30/2005
Glacier Bank Note Payable	$ 537,023	$ -	$ 59,323	$ 477,700
Gallis Note Payable	154,302	-	40,376	113,926
General Obligation Bonds - Series 2003	2,265,000	-	555,000	1,710,000
General Obligation Bonds - Series 2005	-	9,900,000	-	9,900,000
	$ 2,956,325	$ 9,900,000	$ 654,699	$ 12,201,626

Changes in long-term obligations during 2006 were as follows:

	Balance 6/30/2005	Debt Issued	Principal Payment	Balance 6/30/2006
Glacier Bank Note Payable	$ 477,700	$ -	$ 63,868	$ 413,832
Gallis Note Payable	113,926	-	43,401	70,525
General Obligation Bonds - Series 2003	1,710,000	-	560,000	1,150,000
General Obligation Bonds - Series 2005	9,900,000	-	-	9,900,000
General Obligation Bonds - Series 2006	-	5,916,000	-	5,916,000
	$ 12,201,626	$ 5,916,000	$ 667,269	$ 17,450,357

Long-term obligation maturities due subsequent to June 30, 2006 are as follows:

Year	Principal	Interest
2007	$ 883,109	$ 661,024
2008	1,100,553	626,950
2009	639,183	592,604
2010	668,196	563,228
2011	707,428	535,291
2012-2016	3,546,888	2,286,520
2017-2021	4,240,000	1,552,345
2022-2027	5,225,000	637,270
2028	440,000	9,020
Total	$ 17,450,357	$ 7,455,232

NOTE F - LONG-TERM OBLIGATIONS (CONTINUED)

The note payable to Leo and Karen Gallis is serviced by STS Escrow Collections, LTD. The face amount on the note was $244,000. The interest rate on the note is 7.0% per annum for the first two years. Thereafter, the interest rate will be adjustable yearly, based on the federal funds rate plus 2% beginning August 14, 2003. At no time will the interest rate fall below 7.0%. Payments on the note, including principal and interest, are $25,267, and are due on February 14 and August 14 each year until paid in full. The payment amount may be adjusted to reflect the contractual change in interest rate, if applicable. The note is secured by a Montana Trust Indenture encumbering the real property purchased.

The Glacier Bank note payable was issued on August 14, 2002, in the amount of $675,000. The interest rate on this note is 6.75% per annum, and the note matures on August 14, 2011. Payments on the note in the amount of $44,009, including principal and interest, are due on February 14 and August 14 each year. This note is due upon demand of the lender; if no demand is made, then the debt will be due in twenty semi-annual payments. This note is secured by a Deed of Trust on real property located at the college campus, specifically 701 & 777 Grandview Drive in Kalispell.

On July 1, 1994, Flathead Valley Community College issued general obligation bonds, Series 1993, at a purchase price of $6,515,000 and an interest rate of 2.75%-5.5% to advance refund the Series 1989 bonds of $6,495,000 at an interest rate of 6.4%-9.0% maturing July 1, 2000 through 2009. The Series 1993 bonds were issued at par. After paying issuance costs of $23,600, the net proceeds were $6,599,456. The net proceeds from the issuance of the Series 1993 bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the Series 1989 bonds were called on July 1, 1999. The advance refunding met the requirements of an in-substance defeasance and the term bonds were removed from the College's investment in plant fund.

On March 1, 2003, Flathead Valley Community College issued general obligation bonds, Series 2003, at a purchase price of $2,400,000 at an interest rate of 1.0%-2.3% maturing July 1, 2003 through 2007. The Series 2003 bonds were issued at par. After paying issuance costs of $49,954, the net proceeds were $2,350,046. The net proceeds from the issuance of the Series 2003 bonds plus other College funds were used to redeem the Series 1993 bonds in the principal amount of $3,535,000, a redemption price equal to par.

On March 15, 2005, Flathead Valley Community College issued general obligation bonds, Series 2005, at a purchase price of $9,900,000 at an interest rate of 3.5%-5.0% maturing July 1, 2006 through 2025. After paying issuance costs of $123,620, the net proceeds were $9,851,950. The net proceeds from the issuance of the Series 2005 bonds will be used for paying for a portion of the costs of designing, constructing, furnishing and equipping three new buildings on the existing campus, and incidental remodeling of existing facilities and related improvements to include additional science and allied health instructional space, technology-enhanced classrooms and labs, an instructional theatre, an early childhood teaching and community childcare facility, a community space, an additional parking site and related infrastructure and improvements.

NOTE F - LONG-TERM OBLIGATIONS (CONTINUED)

On January 5 ,2006, Flathead Valley Community College issued general obligation bonds, Series 2006, at a purchase price of $5,990,400 at an interest rate of 3.75%-5.0% maturing July 1, 2007 through 2026. After paying issuance costs of $98,455, the net proceeds were $5,891,945. The net proceeds from the issuance of the Series 2006 bonds will be used for paying for a portion of the costs of designing, constructing, furnishing and equipping three new buildings on the existing campus, and incidental remodeling of existing facilities and related improvements to include additional science and allied health instructional space, technology-enhanced classrooms and labs, an instructional theatre, an early childhood teaching and community childcare facility, a community space, an additional parking site and related infrastructure and improvements.

NOTE G - CAPITAL LEASE OBLIGATIONS

During the year ended June 30, 2004, the College entered into an capital lease for a liquid chiller. Payments on the lease, including interest, are $2,223 per month for 36 months. The interest rate was 5.6%. The portion of the lease payment not treated as interest is applied against the amount of the purchase option on the lease. As detailed in Note D, the equipment has been recorded as a capital asset in the amount of $72,240 on the College books. The amount paid on the lease, including interest, during the years ended June 30, 2005 and June 30, 2006 totaled $23,867, and $22,705, respectively. The capital lease was fully paid during the year ended June 30, 2006.

NOTE H - OPERATING LEASES

In 2001, the College entered into an operating lease with Lincoln County for a building to be used as the Lincoln County Campus. Payments on the lease are estimated at $30,000 each year for 10 years. After 10 years, the College will have the option to lease the building for $1 per year. Total amount paid on the lease in the years ended June 30, 2005 and June 30, 2006, totaled $31,651 and $33,272, respectively.

The College entered into an operating lease with Nissan Motor Acceptance Corporation for the President's vehicle during the year ended June 30, 2002. Payments on the lease were $500 per month for 36 months. The College did not exercise the option of buying the vehicle at the end of the lease for $17,663. The total amount paid on the lease during the year ended June 30, 2005 totaled $500.

During the year ended June 30, 2004, the College entered into an operating lease for a photocopy machine. Payments on the lease are $300 per month for 60 months. The College has the option of purchasing the copier for fair market value at the end of the lease. The total amount paid on the lease during the year ended June 30, 2005 and June 30, 2006 totaled $3,600 and $3,660, respectively..

During the year ended June 30, 2002, the College entered into an operating lease for a photocopy machine. Payments on the lease are $1,862 per month for 60 months. The College has the option of purchasing the copier for fair market value at the end of the lease. The amounts paid on the lease during the year ended June 30, 2005 and June 30, 2006 totaled $20,396 and $ 22,016, respectively.

NOTE H - OPERATING LEASES (CONTINUED)

The College entered into an operating lease with Toyota Financial Services for a College vehicle during the year ended June 30, 2005. Payments on the lease were $250 per month for 48 months. The College has an option to purchase the vehicle at the end of the lease for $12,966. The total amount paid on the lease during the years ended June 30, 2005 and June 30, 2006 totaled $3,250 and $3,263, respectively.

The College entered into an operating lease with Toyota Financial Services for the President's vehicle during the year ended June 30, 2005. Payments on the lease were $532 per month for 36 months. The College has an option to purchase the vehicle at the end of the lease for $20,989. The total amount paid on the lease during the years ended June 30, 2005 and June 30, 2006 totaled $5,315 and $6,391, respectively.

Future minimum rental payments are as follows:

Year		Lease Payment
2007	$	65,322
2008		60,007
2009		57,244
2010		33,724
2011		30,000
Total	$	246,297

NOTE I - RETIREMENT PLANS

The College participates in two state-wide, multiple employer, cost-sharing retirement plans which cover all employees, except some substitute and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers certified teaching employees, and the Public Employee Retirement System (PERS) covers non-teaching employees. The plans are established by State law and are administered by the Department of Administration of the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

Both plans issue publicly available annual reports that include financial statements and required supplemental information for the plans. The reports for the Teachers' Retirement System can be obtained at P.O. Box 200139, 1500 Sixth Ave., Helena, MT 59620-0139. The reports for the Public Employees Retirement System can be obtained at P.O. Box 200131, 1712 Ninth Ave., Helena, MT 59620-0131. The financial statements for the Public Employees Retirement System include activity for a defined benefit and a defined contribution retirement plan. The defined contribution plan is available to all active members starting July 1, 2002. The assets of one retirement plan cannot be commingled with those of another plan.

NOTE I - RETIREMENT PLANS (CONTINUED)

Contribution rates, expressed as a percentage of covered payroll, which are determined by State law, were as follows:

June 30, 2005 and June 30, 2006:

	Employer	Employee	Total
TRS	7.47%	7.15%	14.62%
PERS	6.80%	6.90%	13.70%

The amounts contributed by both the employees and the College for the prior three years ended June 30, were as follows:

	2006	2005	2004
TRS	$ 520,301	$ 476,317	$ 488,237
PERS	477,766	432,250	398,015
Total	$ 998,067	$ 908,567	$ 886,252

The State of Montana contributes .10% of the employees' wages covered by PERS, and .11% of the employees' wages covered by TRS, which are considered on-behalf payments. The College did not record this contribution in its financial statements, as required by generally accepted accounting principles.

NOTE J - RISK MANAGEMENT

The College faces a 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, and e) workers' compensation, i.e. employee injuries. A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee torts, and professional liabilities. Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years, except for property and content coverage where the guaranteed values have been increased to approximate replacement cost of the assets. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K - RELATED PARTY TRANSACTIONS

The Flathead Valley Community College Foundation is a nonprofit, tax-exempt organization operating exclusively for the purposes of promoting campus needs and assisting in fundraising. As discussed in Note A, this entity is considered a component unit of Flathead Valley Community College. The Flathead Valley Community College Foundation donates money to the College for scholarships and other gift support, at the discretion of the Board of Trustees of the Flathead Valley Community College Foundation. During the years ended June 30, 2005 and June 30, 2006, the Flathead Valley Community College Foundation provided $215,775 and $292,068, respectively, in scholarship and other gift support.

NOTE L - CONDENSED FINANCIAL STATEMENTS

Condensed financial information for the College's Lincoln County Campus is presented below. This information is included in the College's basic financial statements, and is presented for informational purposes.

STATEMENT OF NET ASSETS
JUNE 30, 2005 AND 2006

		2005		2006
ASSETS				
Current Assets				
Cash and Cash Equivalents	$	438,057		544,175
Taxes Receivable		15,324		12,169
Accounts Receivable, Net		54,496		38,289
Prepaid Expense		7,284		-
Inventory		6,288		5,899
		521,449		600,532
Noncurrent Assets				
Capital Assets				42,400
Total Assets		521,449		642,932
LIABILITIES				
Current Liabilities				
Accounts Payable and Accrued Liabilities		3,212		3,396
Accrued Payroll		3,994		4,068
Deferred Revenue - Tuition and Fees		39,749		36,260
Compensated Absences Payable		5,566		4,345
Total Current Liabilities		52,521		48,069
Noncurrent Liabilities				
Compensated Absences Payable		43,210		45,956
Total Liabilities		95,731		94,025
NET ASSETS				
Invested in Capital Assets, Net of Related Debt		-		42,400
Restricted for Scholarships, Research, Instruction, and Other		142,391		(8,456)
Unrestricted		283,327		514,963
Total Net Assets	$	425,718	$	548,907

NOTE L - CONDENSED FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2005 AND 2006

	2005	2006
REVENUES		
Operating Revenues		
Tuition and Fees (net of scholarship allowances of $19,447 and $19,165, respectively)	$ 306,754	$ 241,654
Seminars and Workshops	7,400	9,640
Auxiliary Activities: Bookstore	63,382	59,930
Other Operating Revenues	717	2,360
Total Operating Revenues	378,253	313,584
EXPENSES		
Operating Expenses		
Salaries	482,693	441,102
Benefits	102,823	115,992
Travel and Entertainment	10,709	9,996
Supplies	84,448	164,524
Contracted Services	96,014	9,980
Equipment	28,678	9,753
Other Operating Expenses	-	68,166
Total Operating Expenses	805,365	819,513
Operating Loss	(427,112)	(505,929)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	338,882	369,435
Local Appropriations	181,033	259,683
Total Other Revenues	519,915	629,118
INCREASE IN NET ASSETS	92,803	123,189
Net Assets, Beginning of Year	332,915	425,718
Net Assets, End of Year	$ 425,718	$ 548,907

NOTE L - CONDENSED FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2006

	2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 281,954	$ 254,372
Seminars and Workshops	7,400	9,640
Payments to Employees	(488,733)	(439,503)
Payments for Benefits	(102,823)	(115,992)
Payments to Suppliers	(216,313)	(186,396)
Auxiliary Enterprise Charges: Bookstore	63,382	59,930
Other Receipts (Payments)	717	(65,806)
NET CASH USED BY OPERATING ACTIVITIES	(454,416)	(483,755)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	338,882	369,435
Local Appropriations	180,433	262,838
NET CASH PROVIDED BY NONOPERATING ACTIVITIES	519,315	632,273
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of Capital Assets	-	(42,400)
CASH FLOWS FROM INVESTING ACTIVITIES	-	-
Net Increase in Cash and Cash Equivalents	64,899	106,118
Cash and Cash Equivalents, Beginning of Year	373,158	438,057
Cash and Cash Equivalents, End of Year	$ 438,057	$ 544,175
RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (427,112)	$ (505,929)
Adjustments to reconcile net loss to net cash used by operating activities:		
Changes in Net Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	33,550	16,207
(Increase) Decrease in Inventory	4,221	389
Increase in Prepaid Expense	(3,100)	7,284
Increase (Decrease) in Accounts Payable	1,115	258
Increase in Deferred Revenues	(58,350)	(3,489)
Increase in Compensated Absences Payable	(4,740)	1,525
Net Cash Used by Operating Activities	$ (454,416)	$ (483,755)

NOTE M - PRIOR PERIOD ADJUSTMENTS

The College reviewed its balances on some balance sheet accounts that had been outstanding for years. The prior period adjustments are to correct those balances, and are not material to the financial statements.

NOTE N - CONTINGENT LIABILITIES AND SUBSEQUENT EVENTS

On September 22, 2006, the College was served with a summons in a civil case. A former adjunct instructor has exhausted her rights to investigation of claims of sexual harassment and discrimination through the Montana Human Rights Committee of the Montana Department of Labor and Industry and the federal Equal Employment Opportunities Commission. Both of these organizations determined that there was no probably cause to continue the investigations, and issued a right to sue letter to the former employee. The former employee has now sued the College in United States District Court for alleged damages caused by the College and its employees. The College's insurance company has hired legal representation for the College.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the College expects such amount, if any, to be immaterial.

NOTE O - COMMITMENTS

The College issued general obligation bonds, as detailed in Note F, for the construction, furnishing and equipping of three new buildings on the existing campus, and incidental remodeling of existing facilities and related improvements. This will include additional science and allied health instructional space, technology-enhanced classrooms and labs, an instructional theatre, an early childhood teaching and community childcare facility, a community space, an additional parking site and related infrastructure and improvements. The college management estimates an additional $16,113,000 in costs to complete this project.

SUPPLEMENTARY INFORMATION

FLATHEAD COMMUNITY COLLEGE
KALISPELL, MONTANA
SCHEDULE OF FUNCTIONAL
CLASSIFICATION OF OPERATING EXPENSES

FOR THE YEAR ENDED JUNE 30, 2005

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation and Maintenance of Plant	Auxiliary	Totals
Salaries	$ 3,201,496	$ 150,680	643,389	1,095,060	1,235,986	453,690	232,927	146,226	$ 7,159,454
Benefits	584,528	26,733	157,204	256,751	261,790	93,106	80,325	52,571	1,513,008
Travel	42,208	23,999	22,587	42,473	24,939	14,794	569	2,728	174,297
Supplies	169,388	81,326	59,180	102,840	180,317	39,387	89,861	644,729	1,367,028
Contracted Services	117,579	200,172	36,687	159,461	235,365	78,509	401,048	38,040	1,266,861
Bond Issue Expense	-	-	-	-	-	-	13,512	-	13,512
Scholarships and Grants	-	-	-	1,749	-	1,802,036	-	-	1,803,785
Noncapitalized Equipment	22,944	169	3,830	45,536	14,851	220	64,261	1,360	153,171
Indirect Costs	21,747	-	-	28,790	-	62,735	-	-	113,272
Other Operating Expenses	1,158	-	3,510	607	907	-	-	44	6,226
Depreciation Expense	-	-			-	-	556,451	-	556,451
	$ 4,161,048	$ 483,079	$ 926,387	$ 1,733,267	$ 1,954,155	$ 2,544,477	$ 1,438,954	$ 885,698	$ 14,127,065

FOR THE YEAR ENDED JUNE 30, 2006

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation and Maintenance of Plant	Auxiliary	Totals
Salaries	$ 3,427,344	201,684	731,074	1,115,794	1,399,359	426,066	234,531	158,579	$ 7,694,431
Benefits	670,589	33,530	198,373	277,743	313,521	98,395	80,150	63,373	1,735,674
Travel	47,690	34,108	23,626	44,007	32,448	31,212	714	2,019	215,824
Supplies	219,107	178,888	59,934	70,009	212,562	46,486	87,940	618,786	1,493,712
Contracted Services	86,552	284,989	50,029	130,324	265,849	91,706	471,981	33,052	1,414,482
Bond Issue Expense	-						19,956	-	19,956
Bad Debt Expense	-		36,703					-	36,703
Scholarships and Grants	-		-			1,766,675		-	1,766,675
Noncapitalized Equipment	125,728	1,807	21,414	6,117	36,633	5,431	93,216	59	290,405
Indirect Costs	14,988	4,123	-	21,611	-	37,871	-	-	78,593
Other Operating Expenses	37		1,520	113	876		53	(13)	2,586
Depreciation Expense	-						657,512	-	657,512
	$ 4,592,035	$ 739,129	$ 1,122,673	$ 1,665,718	$ 2,261,248	$ 2,503,842	$ 1,646,053	$ 875,855	$ 15,406,553

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2005

STUDENT FINANCIAL AID MODIFIED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

	PELL	CWS	SEOG
Beginning Cash Balance	$ (149,053)	$ (3,798)	$ -
Additions:			
Federal Advances	1,636,794	54,629	32,446
State Matching Funds	-	32,644	11,632
Total Additions	1,636,794	87,273	44,078
Deductions:			
Distribution to Students	1,493,316	83,090	46,529
Administrative Expenses	6,785	4,953	-
Total Deductions	1,500,101	88,043	46,529
Net Change in Cash	136,693	(770)	(2,451)
Ending Cash Balance	$ (12,360)	$ (4,568)	$ (2,451)

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

STUDENT FINANCIAL AID MODIFIED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

	PELL	CWS	SEOG
Beginning Cash Balance	$ (12,360)	$ (4,568)	$ (2,451)
Additions:			
Federal Advances	1,271,707	32,846	35,682
State Matching Funds	-	52,973	30,447
Total Additions	1,271,707	85,819	66,129
Deductions:			
Distribution to Students	1,273,647	99,403	65,928
Administrative Expenses	2,690	4,736	-
Total Deductions	1,276,337	104,139	65,928
Net Change in Cash	(4,630)	(18,320)	201
Ending Cash Balance	$ (16,990)	$ (22,888)	$ (2,250)

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2005 AND 2006

SCHEDULE OF EXPENDITURES
STUDENT FINANCIAL ASSISTANCE PROGRAMS

	2005	2006
Supplemental Education Opportunity Grant Program		
Student Grants	$ 37,223	$ 35,481
Administrative Cost	2,672	2,529
	$ 39,895	$ 38,010
College Work Study		
Wages	$ 83,090	$ 99,403
Administrative Cost	4,953	4,736
	$ 88,043	$ 104,139
Pell Grant Program		
Student Grants	$ 1,482,600	$ 1,273,647
Administrative Cost	6,785	2,690
	$ 1,489,385	$ 1,276,337

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2005 AND 2006

SCHEDULE OF ENROLLMENT STATISTICS

	Third Week Report			
Semester	Resident	WUE	Nonresident	Total
Summer 2004	278.73	0.47	5.80	285.00
Fall 2004 **	1,309.44	6.33	40.00	1,355.77
Spring 2005 **	1,226.16	6.07	40.07	1,272.30
Summer 2005	243.83	0.27	7.57	251.67
Fall 2005 **	1,256.56	5.53	33.34	1,295.43
Spring 2006 **	1,162.03	5.94	20.93	1,188.90

** Totals for Fall 2004, Spring 2005, Fall 2005, and Spring 2006 include late starting classes allowed for full-time equivalent calculations.

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Award Number/ Pass-Through Grantor's Number	Expended
MAJOR PROGRAMS:			
U.S. Department of Education			
Direct Programs:			
Supplemental Educational Opportunity Grant Program	84.007A	P007A042416	$ 39,895
College Work Study	84.033A	P033A042416	53,258
* Federal Family Education Loans	84.032	N/A	674,808
Pell Grant Program	84.063P	P063P042851	1,489,385
Total Student Financial Aid Cluster			2,257,346
Passed-Through Montana Office of Public Instruction:			
Adult Basic Education	84.002	58-6503-56-05-BG	83,841
EL Civics	84.002	56-6503-56-05-EL	19,602
Total CFDA #84.002			103,443
Early Childhood Services Bureau - Evenstart	84.213	58-6503-38-05	120,000
Passed-Through Office of the Commisioner of Higher Education:			
Voc. Ed. - State Leadership Career Clusters	84.048A	FVCC 4 SL 05	108,411
Voc Ed. - Montana Leadership in Educational Technology	84.048A	FVCC 1SL 05	43,340
Voc. Ed - Tech Prep	84.048A	FVCC NW TP001	98,449
Voc. Ed. - Perkins LAP	84.048A	FVCC LP05	106,816
Total CFDA #84.048A			357,016
Total U.S. Department of Education Major Programs			2,837,805
NON-MAJOR PROGRAMS:			
U.S. Department of Education			
Direct Programs:			
TRIO Programs			
Student Support Services -ARC	84.042A	P042A010802	303,924
Upward Bound	84.047A	P047A030694-04	285,670
Total TRIO Programs			589,594
Passed-Through Montana Office of Public Instruction:			
Summer Food Service Program	10.559	N/A	7,819
Health Occupations	17.267	58-6503-55-05	16,949
Reaching across the Divide	84.215K	R215K010168A	86,823
Total U.S. Department of Education Non-Major Programs			701,185
U.S. Dept. of Labor			
Employee training Administration / Project THEO	17.261	AF-13626-04-60	253,019
Corporation for National Services			
Passed-Through the Montana Arts Council			
AmeriCorps Project	94.005	PG-7581-02	15,150
U.S. Department of Health & Human Services			
Passed Through Dept. Health Human Services			
Best Beginnings	95.575	0602HIED0005	26,389
Passed Through NW Montana HR			
Bridging the Divide	93.570	Sub Grant 04-91	26,500
U.S. Department of Treasury			
Passed Through the State of Montana			
Job Growth Tax Relief	21.XXX	N/A	267,172
U.S. Department of Agriculture			
Passed through Rural Utilities Service			
Distance Learning	10.855	0348-0004	1,115
TOTAL FOR ALL FEDERAL AWARDS PROGRAMS			$ 4,128,335

This program's activity is not reflected in the financial statements of the college.

** This program does not require the College to account for expenditures related to such receipts. Consequently, these funds are considered to have been fully expended when received.

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Award Number/ Pass-Through Grantor's Number	Expended
MAJOR PROGRAMS:			
U.S. Department of Education			
Direct Programs:			
Supplemental Educational Opportunity Grant Program	84.007A	P007A052416	$ 38,010
College Work Study	84.033A	P033A052416	48,637
* Federal Family Education Loans	84.032	N/A	645,388
Pell Grant Program	84.063P	P063P052851	1,276,337
Total Student Financial Aid Cluster			2,008,372
Passed-Through Montana Office of Public Instruction:			
Adult Basic Education	84.002	58-6503-56-06-BG	82,309
EL Civics	84.002	56-6503-56-06-EL	22,981
Total CFDA #84.002			105,290
Early Childhood Services Bureau -Evenstart	84.213	58-6503-38-06	120,000
Passed-Through Office of the Commisioner of Higher Education			
Voc. Ed. - Perkins State Leadership	84.048A	FVCC 1 SL 05	68,162
Voc. Ed. - Perkins LAP	84.048A	FVCC LP06	108,152
Total CFDA #84.048A			176,314
Total U.S. Department of Education Major Programs			2,409,976
NON-MAJOR PROGRAMS:			
U.S. Department of Education			
Direct Programs:			
TRIO Programs:			
Student Support Services -ARC	84.042A	P042A0500770	306,350
Upward Bound	84.047A	P047A030694-05	304,319
Total TRIO Programs			610,669
Passed-Through Montana Office of Public Instruction:			
** Summer Food Service Program	10.559	N/A	25,532
Health Occupations	17.267	58-6503-55-06	2,584
Reaching across the Divide	84.215K	R215K010168A	22,049
Passed-Through Office of the Commisioner of Higher Education			
Tech Prep	84.243A	TP NW 06	95,000
Total Department of Education Non-Major Programs			755,834
U.S. Department of Labor			
Employee training Administration / Project THEO	17.261	AF-13626-04-60	200,195
Corporation for National Services			
Passed-Through the Montana Arts Council			
AmeriCorps Project	94.005	PG-7581-02	19,385
U.S. Department of Agriculture			
Passed through Rural Utilities Service			
Distance Learning	10.855	0348-0004	40,145
National Endowment for the Humanities			
Passed through the Montana Committee for Humanities			
Honors Symposium	45.129	N/A	3,000
U.S. Department of Health & Human Services			
Passed Through Dept. Health Human Services			
Best Beginnings	95.575	0602HIED0005	34,003
Foster Care Education Training Voucher	93.658	N/A	792
Total U.S. Department of Health & Human Services			34,795
TOTAL FOR ALL FEDERAL AWARDS PROGRAMS			$ 3,463,330

* This program's activity is not reflected in the financial statements of the college.

** This program does not require the College to account for expenditures related to such receipts. Consequently, these funds are considered to have been fully expended when received.

CHMS, P.C.
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Legislative Audit Committee
of the Montana State Legislature

We have audited the basic financial statements of Flathead Valley Community College as of and for the years ended June 30, 2005 and 2006, as listed in the table of contents and have issued our report thereon dated September 15, 2006. 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. Other auditors audited the financial statements of the Flathead Valley Community College Foundation as described in our report on Flathead Valley Community College's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Flathead Valley Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Flathead Valley 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

OFFICES IN GLASGOW, MALTA, SIDNEY, GLENDIVE AND WOLF POINT

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.*

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

CHMS, PC

CHMS, P.C.
Certified Public Accountants

September 15, 2006

CHMS, P.C.
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Legislative Audit Committee
of the Montana State Legislature

Compliance

We have audited the compliance of Flathead Valley Community College 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 years ended June 30, 2005 and 2006. Flathead Valley 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 on pages 40 - 41. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Flathead Valley Community College's management. Our responsibility is to express an opinion on Flathead Valley Community 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 Flathead Valley Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Flathead Valley Community College's compliance with those requirements.

In our opinion, Flathead Valley Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006.

Internal Control Over Compliance

The management of Flathead Valley Community 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 Flathead Valley Community 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 our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

OFFICES IN GLASGOW, MALTA, SIDNEY, GLENDIVE AND WOLF POINT

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no mattes involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

CHMS, PC

CHMS, P.C.
Certified Public Accountants

September 15, 2006

FLATHEAD VALLEY COMMUNITY COLLEGE
SCHEDULE OF FINDINGS
YEARS ENDED JUNE 30, 2005 AND 2006

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: ..... Unqualified

Internal control over financial reporting:

Material weakness identified? ..... No

Reportable conditions identified not considered to be material weaknesses? ..... No

Noncompliance material to financial statements noted? ..... No

Federal Awards

Internal control over major programs:

Material weakness identified? ..... No

Reportable conditions identified not considered to be material weaknesses? ..... No

Type of auditor's report issued on compliance for major programs: ..... Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? ..... No

Identification of major programs:

CFDA Number	Award Year	Name of Federal Program
84.007, 84.032, 84.033 & 84.063	04-05 & 05-06	Student Financial Aid Cluster
84.002	04-05 & 05-06	Adult Basic Education
84.213	04-05 & 05-06	Evenstart
84.048A	04-05 & 05-06	Vocational Education Grants - Perkins

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee? ..... No

SECTION II – FINANCIAL STATEMENT FINDINGS

NONE

PRIOR YEARS' RECOMMENDATIONS

A summary of the recommendations from fiscal years June 30, 2003 and 2004 is as follows:

Finding	Status
Finding #04-01 – Cash Reconciliation	Implemented

SECTION III – FEDERAL AWARD FINDINGS

NONE

PRIOR YEARS' RECOMMENDATIONS

A summary of the recommendations from fiscal years June 30, 2003 and 2004 is as follows:

Finding	Status
Finding #04-01 – Cash Reconciliation	Implemented