

Appendix B
12-8-12
Quarterly BDD meeting

**TURTLE MOUNTAIN COMMUNITY COLLEGE
BELCOURT, NORTH DAKOTA**

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

DRAFT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Turtle Mountain Community College
Belcourt, North Dakota

We have audited the accompanying consolidated statement of financial position of Turtle Mountain Community College, Belcourt, North Dakota, as of June 30, 2012, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Turtle Mountain Community College, as of June 30, 2012, and the changes in its consolidated net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2012, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements of Turtle Mountain Community College, taken as a whole. The supplemental schedules are presented for additional analysis and are not a required part of the financial statements. Also, the accompanying schedule of expenditures of federal awards and related notes are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BRADY, MARTZ & ASSOCIATES, P.C.

December 3, 2012

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TURTLE MOUNTAIN COMMUNITY COLLEGE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2012

ASSETS

CURRENT ASSETS

| | | |
|---|----|----------------|
| Cash and Cash Equivalents | \$ | 7,683,866 |
| Restricted Cash | | 300 |
| Grant Receivable | | 1,213,633 |
| Net Student Receivables/Employee Advances | | 92,543 |
| Other Receivables | | 27,404 |
| Inventory | | 76,316 |
| Prepaid Expenses | | <u>106,649</u> |

| | | |
|----------------------|--|------------------|
| Total Current Assets | | <u>9,200,711</u> |
|----------------------|--|------------------|

INVESTMENTS

| | | |
|--|--|------------------|
| | | <u>1,139,902</u> |
|--|--|------------------|

ENDOWMENT ASSETS

| | | |
|---------------------------|--|----------------|
| Cash and Cash Equivalents | | 1,102,463 |
| Investments | | <u>596,810</u> |

| | | |
|------------------------|--|------------------|
| Total Endowment Assets | | <u>1,699,273</u> |
|------------------------|--|------------------|

CONSTRUCTION WORK IN PROCESS

| | | |
|--|--|----------------|
| | | <u>462,844</u> |
|--|--|----------------|

**PROPERTY AND EQUIPMENT, Net of
Accumulated Depreciation**

| | | |
|--|--|-------------------|
| | | <u>24,363,115</u> |
|--|--|-------------------|

| | | |
|--------------|----|--------------------------|
| Total Assets | \$ | <u><u>36,865,845</u></u> |
|--------------|----|--------------------------|

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | | |
|---|----|----------------|
| Accounts Payable | \$ | 297,458 |
| Salaries Payable | | 156,875 |
| Accrued Annual Leave | | 226,122 |
| Payroll Taxes and Related Liabilities | | 178,454 |
| Interest Payable | | 9,321 |
| Health Claims Payable | | 210,805 |
| Unearned Revenue | | 293,345 |
| Current Maturities of Long-Term Debt and Capital Leases | | <u>509,833</u> |

| | | |
|---------------------------|--|------------------|
| Total Current Liabilities | | <u>1,882,213</u> |
|---------------------------|--|------------------|

See Notes to Consolidated Financial Statements

TURTLE MOUNTAIN COMMUNITY COLLEGE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION - CONTINUED
AS OF JUNE 30, 2012

| | |
|--|--------------------------|
| LONG-TERM DEBT AND CAPITAL LEASES, Net of Current Maturities | <u>1,650,349</u> |
| NET ASSETS | |
| Unrestricted | |
| Undesignated | 30,754,363 |
| Designated | 879,647 |
| Permanently Restricted | <u>1,699,273</u> |
| Total Net Assets | <u>33,333,283</u> |
| Total Liabilities and Net Assets | <u>\$ 36,865,845</u> |

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See Notes to Consolidated Financial Statements

TURTLE MOUNTAIN COMMUNITY COLLEGE
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

| | <u>Unrestricted</u> | <u>Permanently Restricted</u> | <u>Total All Funds</u> |
|--|---------------------|-----------------------------------|----------------------------|
| REVENUE AND SUPPORT | | | |
| Grants: | | | |
| Direct Federal | \$ 11,311,619 | \$ - | \$ 11,311,619 |
| Federal Appropriations | 4,394,033 | - | 4,394,033 |
| Private | 30,091 | - | 30,091 |
| Federal Through State | 300,859 | - | 300,859 |
| State | 107,392 | - | 107,392 |
| Tuition and Fees | 154,457 | - | 154,457 |
| Health Fund Revenue | 48,036 | - | 48,036 |
| Bookstore Revenue | 387,227 | - | 387,227 |
| Interest Earned | 20,818 | 20,733 | 41,551 |
| Rental Revenue | 19,852 | - | 19,852 |
| Other | 290,100 | - | 290,100 |
| Donations | 65,425 | 5,505 | 70,930 |
| Unrealized/Realized Gain (Loss) on Investments | (17,880) | 3,628 | (14,252) |
| Net Assets Released From Restrictions | 20,733 | (20,733) | - |
| Total Revenue and Support | <u>17,132,762</u> | <u>9,133</u> | <u>17,141,895</u> |
| EXPENSES | | | |
| Personnel | 5,865,109 | - | 5,865,109 |
| Scholarships | 1,164,857 | - | 1,164,857 |
| Fringe | 926,345 | - | 926,345 |
| Supplies | 995,515 | - | 995,515 |
| Stipends | 239,519 | - | 239,519 |
| Travel | 410,688 | - | 410,688 |
| Depreciation Expense | 963,802 | - | 963,802 |
| Professional Services | 317,844 | - | 317,844 |
| Interest | 125,208 | - | 125,208 |
| Client Services | 617,780 | - | 617,780 |
| Utilities | 397,311 | - | 397,311 |
| Instructional | 346,295 | - | 346,295 |
| Health Claim Insurance | 1,071,667 | - | 1,071,667 |
| Repairs and Maintenance | 271,326 | - | 271,326 |
| Office | 48,315 | - | 48,315 |
| Other | 40,463 | - | 40,463 |
| Accreditation | 1,384 | - | 1,384 |
| Insurance | 102,686 | - | 102,686 |
| Board Expenses | 51,851 | - | 51,851 |
| Staff Meeting | 4,140 | - | 4,140 |
| Public Relations | 63,619 | - | 63,619 |
| Noncapital Outlay | 164,508 | - | 164,508 |
| Membership and Registration | 53,648 | - | 53,648 |
| Advertising | 30,004 | - | 30,004 |
| Taxes | 410 | - | 410 |

See Notes to Consolidated Financial Statements

TURTLE MOUNTAIN COMMUNITY COLLEGE
CONSOLIDATED STATEMENT OF ACTIVITIES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2012

| | | | |
|-------------------------------|----------------------|---------------------|----------------------|
| EXPENSES (CONT.) | | | |
| Administrative | 316,391 | - | 316,391 |
| Bad Debts | 163,308 | - | 163,308 |
| Staff Training | 8,980 | - | 8,980 |
| Rent | 480 | - | 480 |
| Testing | 8,537 | - | 8,537 |
| Custodial | 37,821 | - | 37,821 |
| Vehicle Expense | <u>2,668</u> | - | <u>2,668</u> |
| Total Expenses | <u>14,812,479</u> | - | <u>14,812,479</u> |
| | | | |
| NET CHANGE IN NET ASSETS | 2,320,283 | 9,133 | 2,329,416 |
| | | | |
| NET ASSETS, BEGINNING OF YEAR | <u>29,313,727</u> | <u>1,690,140</u> | <u>31,003,867</u> |
| | | | |
| NET ASSETS, END OF YEAR | <u>\$ 31,634,010</u> | <u>\$ 1,699,273</u> | <u>\$ 33,333,283</u> |

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See Notes to Consolidated Financial Statements

**TURTLE MOUNTAIN COMMUNITY COLLEGE
CONSOLIDATED STATEMENT OF CASH FLOWS
AS OF JUNE 30, 2012**

| | |
|---|---------------------|
| OPERATING ACTIVITIES | |
| Change in Net Assets | \$ 2,329,416 |
| Adjustment to Reconcile Change in Net Assets to Net Cash from Operating Activities | |
| Depreciation Expense | 963,802 |
| Unrealized/Realized Gain on Investments | (27,299) |
| Changes in Assets and Liabilities | |
| Grant Receivable | (49,690) |
| Net Student Receivables/Employee Advances | (16,458) |
| Other Receivables | 72,262 |
| Inventory | (8,553) |
| Prepaid Expenses | (50,484) |
| Accounts Payable | 7,121 |
| Salaries Payable | (3,619) |
| Accrued Annual Leave | 26,550 |
| Payroll Taxes and Related Liabilities | (32,750) |
| Interest Payable | (1,965) |
| Health Claims Payable | 103,770 |
| Unearned Revenue | <u>(24,941)</u> |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>3,287,162</u> |
| INVESTING ACTIVITIES | |
| Return of principal on investments | 137,242 |
| Sales of Investments | 230,000 |
| Purchase of Property and Equipment | <u>(1,642,109)</u> |
| NET CASH PROVIDED (USED) FOR INVESTING ACTIVITIES | <u>(1,274,867)</u> |
| FINANCING ACTIVITIES | |
| Principal Payments on Long-Term Debt and Capital Leases | <u>(469,268)</u> |
| NET CASH PROVIDED (USED) FOR FINANCING ACTIVITIES | <u>(469,268)</u> |
| CHANGE IN CASH AND CASH EQUIVALENTS | 1,543,027 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>7,243,602</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 8,786,629</u> |
| CASH AND CASH EQUIVALENTS ON STATEMENT OF CONSOLIDATED FINANCIAL POSITION | |
| Current | \$ 7,683,866 |
| Restricted Cash | 300 |
| Endowment | <u>1,102,463</u> |
| TOTAL CASH AND CASH EQUIVALENTS | <u>\$ 8,786,629</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | |
| Cash Payments for Interest | <u>\$ 127,173</u> |
| SUPPLEMENTAL DISCLOSURE OF NONCASH CASH FLOW INFORMATION | |
| Transfer of Construction Work in Progress Items to Property and Equipment | <u>\$ 1,145,919</u> |

See Notes to Consolidated Financial Statements

TURTLE MOUNTAIN COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2012

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity

Turtle Mountain Community College, a non-profit organization, is a two-year college, which focuses on general studies and vocational education. The College is a component unit of the Turtle Mountain Band of Chippewa Indians.

Principles of consolidation

The College is the sole shareholder of Arrowhead Printing, Inc., a North Dakota C-Corporation. The operations of Arrowhead Printing, Inc. have been consolidated with the College. All material accounts and transactions between the College and Arrowhead Printing, Inc. have been eliminated.

Accounting Basis

The financial statements of the College have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Standards Board in its "GAAP" for "Financial Statements of Not-for-Profit Organizations." Under "GAAP", the College is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The College currently does not maintain any temporarily restricted net assets.

Unrestricted Net Assets – Undesignated

These amounts represent funds available for use in the general operations of the College.

Unrestricted Net Assets – Board Designated

These amounts represent funds designated by the Board of Directors for specific College uses.

Permanently Restricted Net Assets

These amounts represent endowment funds that are subject to the restrictions of gift instruments requiring that principal be invested in perpetuity and only the income be utilized.

Released Net Assets

Net assets was released from donor restrictions by the occurrence of events specified by donors.

TURTLE MOUNTAIN COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2012

Contributions

In accordance with "GAAP" for, "Accounting for Contributions Received and Contributions Made," contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases these net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the College reports the support as unrestricted.

Fair Valuation of Financial Instruments

The College adopted Fair Value Measurements under GAAP. This standard applies to all assets and liabilities that are being measured and reported on a fair value basis. It defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America and expands disclosure about fair value measurements. The implementation of the standard did not change amounts reported in the financial statements, however, additional disclosures are required.

Cash Equivalents

The College considers all cash deposits and temporary cash investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash

The College is required by certain grant stipulations to hold cash received in separate accounts.

Investments in Securities

The College carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Receivables

The provision for doubtful accounts receivable is management's judgment of the amount necessary to increase the allowance for receivable losses to a level sufficient to cover possible losses in the collection of student accounts receivable. The allowance for uncollectible accounts receivable at June 30, 2012 was \$159,910. All receivables are reported at estimated net realizable values.

TURTLE MOUNTAIN COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2012

Property and Equipment

Property and equipment are stated at cost or fair market value when received as a gift. Additions, renewals and betterments are capitalized, whereas expenditures for maintenance and repairs are charged to expense. The College capitalized all assets over \$5,000. Depreciation is computed on the straight-line method over the following estimated useful lives:

| | |
|-------------------------|------------|
| Buildings | 50 years |
| Land improvements | 20 years |
| Machinery and equipment | 5-20 years |
| Vehicles | 8-10 years |

Estimates

The preparation of financial statements in conformity with modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred.

Income Taxes

The College's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions, and other evidence. It is the opinion of management that the College has no significant uncertain tax positions that would be subject to change upon examination.

TURTLE MOUNTAIN COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2012

NOTE 2 FAIR VALUE OF ASSETS AND LIABILITIES

In accordance with GAAP Fair Value Measurement establishes a consistent framework for measuring fair value and expands disclosure requirements for fair value measurements. When fair value measurements are required, various data is used in determining those values. This statement requires that assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The application of valuation techniques applied to similar assets and liabilities has been consistently applied.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Investment Securities

The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

The table below presents the balances of assets measured at fair value on a recurring basis as of June 30, 2012, segregated by the level of valuation inputs (as described above) within the fair value hierarchy utilized to measure fair value:

| Description | Total Carrying Amount | Observable Inputs (Level 2) |
|--------------------------|--------------------------|-----------------------------------|
| US Government Securities | \$ 248,154 | \$ 248,154 |

Reconciling Items (Items not carried at fair value):

| | |
|-----------------------------|---------------------|
| Certificates of Deposit | 1,478,558 |
| Investments Carried at Cost | 10,000 |
| Total Investments | \$ 1,736,712 |

Investments as Reported on Consolidated Statement of Financial Position:

| | |
|--------------------------|---------------------|
| Investments | \$ 1,139,902 |
| Endowment Investments | 596,810 |
| Total Investments | \$ 1,736,712 |

TURTLE MOUNTAIN COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2012

NOTE 3 INVESTMENTS

In accordance with "GAAP", "Accounting for Certain Investments Held by Not-for-Profit Organizations," investments in marketable securities with readily determinable fair market values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. The College currently does not have a formal investment policy. Carrying amounts of investment securities as shown in the statement of financial position of the College at June 30, 2012 are as follows:

Unrestricted - Board Designated

| | |
|--|------------------|
| U.S. Government and Corporate Bonds | \$ 31,124 |
| Certificates of Deposit | <u>26,762</u> |
| | <u>\$ 57,886</u> |

Unrestricted - Undesignated

| | |
|--|---------------------|
| U.S. Government and Corporate Bonds | \$ 38,072 |
| Certificates of Deposit | 1,033,944 |
| Partnerships | <u>10,000</u> |
| | <u>\$ 1,082,016</u> |

Permanently restricted

| | |
|--|-------------------|
| U.S. Government and Corporate Bonds | \$ 178,958 |
| Certificates of Deposit | <u>417,852</u> |
| | <u>\$ 596,810</u> |

TURTLE MOUNTAIN COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2012

NOTE 4 PROPERTY AND EQUIPMENT

| | |
|---|----------------------|
| Land | \$ 72,996 |
| Land Improvements | 282,645 |
| Buildings | 26,712,520 |
| Machinery and Equipment | 5,195,846 |
| Vehicles | <u>387,994</u> |
| Total Property & Equipment | 32,652,001 |
| Less Accumulated Depreciation | <u>(8,288,886)</u> |
| Total Property & Equipment, Net of Accumulated Depreciation | <u>\$ 24,363,115</u> |

Construction work in progress consists of the following as of June 30, 2012:

| | |
|-------------------------------------|-------------------|
| Barney's Beach Land Improvement | \$ 15,231 |
| Roofing Project | 78,710 |
| North Campus - Parking Lot | 311,616 |
| Financial Aid Remodel | 3,907 |
| Student House Project | <u>53,380</u> |
| Total Construction Work in Progress | <u>\$ 462,844</u> |

Commitments regarding construction work in progress are disclosed in Note 11.

NOTE 5 LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

Summary of Long-Term Debt

| | Balance as of 7/1/11 | Payments | Balance as of 6/30/12 | Amount Due Within One Year |
|---------------|-------------------------|---------------------|--------------------------|-------------------------------|
| Notes Payable | \$ 2,615,370 | \$ (455,188) | \$ 2,160,182 | \$ 509,833 |
| Capital Lease | 14,079 | (14,079) | - | - |
| Total | <u>\$ 2,629,449</u> | <u>\$ (469,267)</u> | <u>\$ 2,160,182</u> | <u>\$ 509,833</u> |

Notes Payable

4.25% note payable to Dacotah Bank, due in monthly installments of \$48,911, including interest, secured by building, guaranteed by Turtle Mountain Band of Chippewa Indians and 90% guaranteed by BIA. Due date of 6/1/2016

\$ 2,160,182

TURTLE MOUNTAIN COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2012

Future long-term debt maturities are as follows:

| <u>Year Ended June 30,</u> | |
|----------------------------|---------------------|
| 2013 | \$ 509,833 |
| 2014 | 526,959 |
| 2015 | 549,796 |
| 2016 | <u>573,594</u> |
| | <u>\$ 2,160,182</u> |

Capital Lease Obligations

The College had a capital lease with John Deere for two skid steers. The lease was paid off in full during the fiscal year ending June 30, 2012, and there are no amounts due for capital leases at year end.

NOTE 6 RETIREMENT PLAN

The College has a 401(k) retirement plan, which covers all full-time employees who are at least 21 years of age and have completed one year of service. Eligible employees may contribute from 2% to 15% of their gross pay on a before-tax basis up to a maximum of \$16,500 per year for the calendar years 2011 and 2012, respectively. Turtle Mountain Community College will make a contribution of 1% of gross pay for each year of service, up to a maximum of 20% of gross pay. The employer contributions to the 401(k) plan totaled \$420,790 for the year ended June 30, 2012.

NOTE 7 FUNCTIONAL EXPENSES

The expenses as stated in the financial statements have the following functional expense categorization for the year ended June 30, 2012:

| | |
|------------------------|----------------------|
| Program Services | \$ 6,526,259 |
| Management and General | <u>8,286,220</u> |
| | <u>\$ 14,812,479</u> |

TURTLE MOUNTAIN COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2012

NOTE 8 SELF-INSURANCE HEALTH PLAN

The College has a self-funding, stop-loss health insurance plan for its employees. Under the plan, the College is responsible for reimbursing up to a maximum of \$30,000 of covered medical expenses per employee, with an overall maximum payout based on the amount of enrolled employees. Upon reaching either of the maximums, the insurance company will begin to provide the additional coverage. Changes in claims payable were as follows:

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|-------------------------|-------------------|-------------------|------------------|
| Claims Payable, July 1 | \$ 107,035 | \$ - | \$ - |
| Incurred Claims | 1,007,314 | 887,512 | 736,943 |
| Claims Paid | <u>(903,544)</u> | <u>(780,477)</u> | <u>(736,943)</u> |
| Claims Payable, June 30 | <u>\$ 210,805</u> | <u>\$ 107,035</u> | <u>\$ -</u> |

NOTE 9 INCOME TAXES

Turtle Mountain Community College is a non-profit organization and is exempt from income tax under Section 501(C)(3) of the Internal Revenue Code. Arrowhead Printing, Inc. is a wholly owned C-Corporation that is subject to federal and state income taxes. There were no taxes paid or due during the year. Arrowhead Printing, Inc. has net operating losses of \$13,040 that will begin expiring in 2028.

The federal income tax returns of Arrowhead Printing, Inc are subject to examination by the IRS, generally for three years after they were filed.

NOTE 10 OPERATING LEASES

The Company has various leases that are on a month-to-month basis. The total rent expense for these leases for the year ending June 30, 2012 was approximately \$4,050.

NOTE 11 COMMITMENTS

The College is under contract with a contractor to complete construction of various roofing projects on campus. Amounts to be paid on the contract are \$217,544 as of June 30, 2012.

The College is also under contract with a contractor to complete the remodel of the Kitchen on campus. Amounts to be paid on the contract are \$12,619 as of June 30, 2012.

The College is also under contract with a contractor to complete construction of a parking lot on campus. Amounts to be paid on the contract are \$180,534 as of June 30, 2012.

TURTLE MOUNTAIN COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2012

NOTE 12 CONCENTRATION OF CREDIT RISK

The College maintains cash on deposit at certain financial institutions. At June 30, 2012, the bank balances were covered by Federal Depository Insurance and by collateral held by the College's agent in the College's name.

NOTE 13 SUBSEQUENT EVENTS

Subsequent to year-end, the College entered into a loan agreement for the purchase of vehicles. The loan was for \$98,423 and was dated August 30, 2012. The note has an interest rate of 4.1 percent, and is due on demand. However, if no demand is made, then 58 monthly payments of \$1,850 beginning October 1, 2012 with a final payment of \$1,535 on August 1, 2017.

Subsequent events noted above were evaluated through December 3, 2012, which is the date these financial statements were available to be issued.

NOTE 14 ENDOWMENT

The Turtle Mountain Community College's endowment consists of funds established for a variety of purposes in support of the College. As required by generally accepted accounting principles, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the College has interpreted the North Dakota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

TURTLE MOUNTAIN COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2012

Endowment Net Assets Composition by Type of Fund as of June 30, 2012

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Total Donor-Restricted Endowment Funds as of June 30, 2012 | \$ - | \$ - | \$ 1,699,273 | <u>\$ 1,699,273</u> |

Changes in Endowment Net Assets for the Year Ended June 30, 2012

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment Net Assets, As of July 1, 2011 | \$ - | \$ - | \$ 1,690,140 | <u>\$ 1,690,140</u> |
| Investment Return: | | | | |
| Unrealized/realized gain (loss) on investments | - | - | 3,628 | <u>3,628</u> |
| Total Investment Return | - | - | 3,628 | <u>3,628</u> |
| Contributions | - | - | 5,505 | <u>5,505</u> |
| Endowment Net Assets, As of June 30, 2012 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,699,273</u> | <u>\$ 1,699,273</u> |

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only) as of June 30, 2012

Permanently Restricted Net Assets:

The portion of perpetual endowment funds that is required to be retained permanently by donor stipulation \$ 1,699,273

Total endowment funds classified as permanently restricted net assets \$ 1,699,273

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires the College to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported as reductions in unrestricted net assets. There were no such deficiencies as of June 30, 2012.

TURTLE MOUNTAIN COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2012

Return Objectives and Risk Parameters

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that allow for distributions of dividends and interest income while maintaining the purchasing power of the investment portfolio. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on debt based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The College has a policy of distributing the dividend and interest income annually to the beneficiaries while maintaining the purchasing power of the investment portfolio. Accordingly, over the long-term, the College expects the current spending policy to allow its endowment to grow at an average of inflation. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity.

SUPPLEMENTARY INFORMATION

DRAFT

TURTLE MOUNTAIN COMMUNITY COLLEGE
STATEMENT OF FINANCIAL POSITION – ARROWHEAD PRINTING INC.
AS OF JUNE 30, 2012

ASSETS

| | |
|---|-------------------|
| CURRENT ASSETS | |
| Cash and Cash Equivalents | \$ 46,274 |
| Net Student Receivables/Employee Advances | 15,263 |
| Inventory | <u>76,316</u> |
| Total Current Assets | <u>137,853</u> |
| PROPERTY AND EQUIPMENT, Net of | |
| Accumulated Depreciation | <u>75,907</u> |
| Total Assets | <u>\$ 213,760</u> |

LIABILITIES AND NET ASSETS

| | |
|----------------------------------|-------------------|
| CURRENT LIABILITIES | |
| Accounts Payable | <u>\$ 30,947</u> |
| Total Current Liabilities | <u>30,947</u> |
| NET ASSETS | |
| Unrestricted | |
| Undesignated | <u>182,813</u> |
| Total Net Assets | <u>182,813</u> |
| Total Liabilities and Net Assets | <u>\$ 213,760</u> |

TURTLE MOUNTAIN COMMUNITY COLLEGE
STATEMENT OF ACTIVITIES – ARROWHEAD PRINTING INC.
FOR THE YEAR ENDED JUNE 30, 2012

| | <u>Unrestricted</u> |
|-------------------------------|---------------------|
| REVENUE AND SUPPORT | |
| Sales | \$ 246,299 |
| Total Revenue and Support | 246,299 |
| EXPENSES | |
| Personnel | 95,806 |
| Supplies | 129,837 |
| Depreciation Expense | 34,120 |
| Professional Services | 4,484 |
| Utilities | 1,107 |
| Repairs and Maintenance | 19,164 |
| Office | 188 |
| Other | 25 |
| Insurance | 1,518 |
| Travel | 808 |
| Public Relations | 362 |
| Bad debts | 2,438 |
| Advertising | 923 |
| Total Expenses | 290,780 |
| NET CHANGE IN NET ASSETS | (44,481) |
| NET ASSETS, BEGINNING OF YEAR | 227,294 |
| NET ASSETS, END OF YEAR | \$ 182,813 |

TURTLE MOUNTAIN COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Agency or CFDA Number</u> | <u>Expenditures</u> |
|--|------------------------------|---------------------|
| <i>DEPARTMENT OF INTERIOR</i> | | |
| Direct Programs: | | |
| Management Support ** | 15.027 | \$ 132,289 |
| Public Law 95-471 ** | 15.027 | 4,394,033 |
| Total CFDA #15.027 | | <u>4,526,322</u> |
| Adult Education | 15.026 | 131,676 |
| Employment Assistance | 15.108 | <u>44,762</u> |
| <i>Total Department of Interior</i> | | <u>4,702,760</u> |
| <i>DEPARTMENT OF EDUCATION</i> | | |
| Direct Programs: | | |
| FIPSE | 84.116 | 112,785 |
| Title III | 84.031T | 2,549,792 |
| NACTEP | 84.101A | 570,145 |
| MSEIP | 84.120A | 257,342 |
| E Texting Grant | 84.126 | 3,244 |
| English Language Acquisition | 84.365C | 251,870 |
| Academic Readiness | 84.299A | 253,097 |
| TRIO Cluster: | | |
| Student Support Services ** | 84.042A | 338,190 |
| Upward Bound ** | 84.047A | 175,848 |
| Total TRIO Cluster | | <u>514,038</u> |
| Student Financial Aid Cluster: | | |
| Supplemental Education Opportunity Grant ** | 84.007 | 17,797 |
| Federal College Work-Study ** | 84.033 | 23,515 |
| PELL ** | 84.063 | 2,109,576 |
| Total Student Financial Aid Cluster | | <u>2,150,888</u> |
| Administrative Allowance | 84.UNK | <u>3,090</u> |
| Passed through the Turtle Mountain Band of Chippewa Indians: | | |
| Vocational Rehabilitation ** | 84.250A | 999,963 |
| Passed through the State Department of Public Instruction: | | |
| ABSE | 84.002A | 130,989 |
| SBVTE | 84.048 | <u>103,476</u> |
| <i>Total Department of Education</i> | | <u>7,900,719</u> |

See Notes to the Schedule of Expenditures of Federal Awards

TURTLE MOUNTAIN COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2012

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Agency or CFDA Number</u> | <u>Expenditures</u> |
|---|------------------------------|---------------------|
| <i>NATIONAL SCIENCE FOUNDATION</i> | | |
| Direct Programs: | | |
| Native Ways of Knowing | 47.076 | 17,673 |
| TCUP | 47.076 | 475,897 |
| ATE Advance Tech | 47.076 | 4,936 |
| Native American Based Mathematics | 47.076 | 14,400 |
| PEEC | 47.076 | 118,846 |
| Passed through North Dakota State University: | | |
| EPSCOR | 47.076 | 45,985 |
| Total CFDA #47.076 | | <u>677,737</u> |
| Passed through North Dakota State University: | | |
| Cyberconnectivity | 47.081 | <u>38,110</u> |
| <i>Total National Science Foundation</i> | | <u>715,847</u> |
| <i>DEPARTMENT OF AGRICULTURE</i> | | |
| Direct Programs: | | |
| Land Grants | 10.221 | 165,411 |
| Endowment Interest | 10.222 | 31,084 |
| Biomass Greenhouse | 10.227 | 7,177 |
| Max Family Resources | 10.500 | 87,244 |
| Small Acreage Development | 10.500 | 6,065 |
| Youth Development | 10.500 | 5,390 |
| Total CFDA #10.500 | | <u>98,699</u> |
| Trading Post | 10.769 | 250,000 |
| Rural Housing Service | 10.766 | <u>246,447</u> |
| <i>Total Department of Agriculture</i> | | <u>798,818</u> |
| <i>INSTITUTE OF MUSEUM & LIBRARY SERVICE</i> | | |
| Direct Programs | | |
| IMLS Basic | 45.311 | <u>7,270</u> |
| <i>DEPARTMENT OF HEALTH AND HUMAN SERVICES</i> | | |
| Direct Programs: | | |
| Project Choice | 93.093 | 1,025,113 |
| Substance Abuse | 93.959 | 63,150 |
| Promote Survival and Continuing Vitality of Native American Languages | 93.587 | 57,489 |
| Passed through North Dakota State University: | | |
| Nurturing Parent Program | 93.669 | 9,527 |
| Passed through the National Institute of Health: | | |
| Genetic Research | 93.389 | 112,232 |
| INBRE | 93.389 | 169 |
| Total CFDA #93.389 | | <u>112,401</u> |
| Passed through the University of Wisconsin: | | |
| Organ Donor | 93.849 | <u>9,330</u> |
| <i>Total Department of Health and Human Services</i> | | <u>1,277,010</u> |

See Notes to the Schedule of Expenditures of Federal Awards

TURTLE MOUNTAIN COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2012

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Agency or CFDA Number</u> | <u>Expenditures</u> |
|--|------------------------------|----------------------|
| <i>ENVIRONMENTAL PROTECTION AGENCY</i> | | |
| Direct Programs: | | |
| Project Peacemaker | 66.UNK | 42,403 |
| <i>NATIONAL AERONAUTICS & SPACE ADMINISTRATION</i> | | |
| Direct Programs: | | |
| Climate Change | 43.UNK | 8,892 |
| Passed through Haskell Foundation/NASA Climate Change Working Group: | | |
| Global Climate Change Education | 43.UNK | 2,989 |
| <i>Total National Aeronautics & Space Administration</i> | | 11,881 |
| <i>DEPARTMENT OF LABOR</i> | | |
| Direct Programs: | | |
| Allied Health | 17.269 | 289,137 |
| YouthBuild - ARRA ** | 17,274 | 260,666 |
| <i>Total Department of Labor</i> | | 549,803 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | \$ 16,006,511 |

** Major Program

See Notes to the Schedule of Expenditures of Federal Awards

TURTLE MOUNTAIN COMMUNITY COLLEGE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Turtle Mountain Community College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 STUDENT FINANCIAL ASSISTANCE PROGRAMS

The detail for the Student Financial Assistance Programs is shown on the schedule of expenditures for each student financial assistance program.

NOTE 3 BIA ENDOWMENT INVESTMENT

| | <u>Federal Share</u> | <u>Match Share</u> | <u>Investment Income</u> | <u>Unrealized Gains (Losses)</u> | <u>Total</u> |
|------------------------|--------------------------|------------------------|------------------------------|--------------------------------------|---------------------|
| Balance, July 1, 2011 | \$ 662,928 | \$ 331,464 | \$ - | \$ 74,626 | \$ 1,069,018 |
| Activity | - | - | 17,310 | 7,199 | 24,509 |
| Interest withdrawals | - | - | (17,310) | - | (17,310) |
| Balance, June 30, 2012 | <u>\$ 662,928</u> | <u>\$ 331,464</u> | <u>\$ -</u> | <u>\$ 81,825</u> | <u>\$ 1,076,217</u> |

An additional match of \$94,450 was contributed by the College in the form of allowable capital assets during the fiscal year ended June 30, 1997.

NOTE 4 FEDERAL FAMILY EDUCATION LOANS OUTSTANDING

The College has no Federal Family Education loans issued to students.

NOTE 5 PASS-THROUGH AND CFDA NUMBERS

Certain pass-through entities and awarding agencies have not provided the College with the identifying numbers, including the CFDA number; therefore, they are not included in this schedule.

NOTE 6 AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

The grants, loans and other financial assistance funded by the American Recovery and Reinvestment Act are denoted with "ARRA" on the schedule of expenditures of federal awards.

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

Board of Directors
Turtle Mountain Community College
Belcourt, North Dakota

We have audited the consolidated financial statements of Turtle Mountain Community College, Belcourt, North Dakota as of and for the year ended June 30, 2012, and have issued our report thereon dated December 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Turtle Mountain Community College in a separate letter dated December 3, 2012.

This report is intended solely for the information and use of the Board of Directors, management, state agencies, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BRADY, MARTZ & ASSOCIATES, P.C.

December 3, 2012

DRAFT

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

Board of Directors
Turtle Mountain Community College
Belcourt, North Dakota

Compliance

We have audited Turtle Mountain Community College, Belcourt, North Dakota compliance with, the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2012. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the College's compliance with those requirements.

In our opinion, Turtle Mountain Community College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2012-1. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Turtle Mountain Community College's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Turtle Mountain Community College's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BRADY, MARTZ & ASSOCIATES, P.C.

December 3, 2012

**TURTLE MOUNTAIN COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

Section I -- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified
 Internal control over financial reporting:
 Material weakness(es) identified? ___ yes x no
 Significant Deficiencies identified
 not considered to be material weaknesses? ___ yes x none reported

Non-compliance material to financial
 statements noted? ___ yes x no

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? ___ yes x no
 Significant Deficiencies identified
 not considered to be material weaknesses? x yes ___ none reported

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)? x yes ___ no

Identification of major programs:

| <u>CFDA Numbers</u> | <u>Name of Program or Cluster</u> |
|------------------------|--|
| 84.042A, 84.047A | TRIO Cluster – Student Support Services, Upward Bound |
| 15.027 | ICGA – Management Support and Public Law 95-471 |
| 84.007, 84.033, 84.063 | Student Financial Aid Cluster – Pell, SEOG, College Work Study |
| 84.250A | Vocational Rehab and American Indian's with Disabilities |
| 17.274 | Youthbuild |

Dollar threshold used to distinguish
 between Type A and Type B programs: \$ 480,195

Auditee qualified as low-risk auditee? x yes ___ no

TURTLE MOUNTAIN COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2012

Section II -- Financial Statement Findings

No findings required to be reported under this section.

Section III – Federal Award Findings and Questioned Costs

2012-1 Student Financial Assistance Allowable Costs and Eligibility (Student Financial Aid Cluster CFDA #84.063)

Criteria

To provide reasonable assurance that students in the Student Financial Assistance program were receiving the proper amount from the Pell program based on their enrollment status, cost of attendance (COA) and their expected family contribution (EFC).

Condition/Context

While reviewing a random sample of 40 students for proper Pell award amounts, we noted that there were two instances in which a student received an award that was different than what the award should have been, based on the award matrix provided by the Department of Education. After investigation, it was determined that both exceptions were due students who were attending as ¾ time students, and attended the summer semester as well. Both students received their maximum amount of Pell in the fall and spring semesters, and then were awarded additional Pell in the summer semester above and beyond the maximum Pell amount for a ¾ time student.

Questioned Costs

Undeterminable

Cause

The software program that the Financial Aid office uses to calculate Pell awards was incorrectly awarding Pell for students in the summer semester that had already received their maximum amount of Pell for the 2011-2012 award year.

Effect

Turtle Mountain Community College incorrectly awarded Pell to two students in our random sample of 40 students.

Recommendation

We recommend Turtle Mountain Community College review the Pell award amounts for all students who receive Pell after each semester to ensure that no student receives more than the maximum amount of Pell for their corresponding enrollment status and EFC.

TURTLE MOUNTAIN COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2012

Views of Responsible Officials and Planned Corrective Actions

DRAFT

TURTLE MOUNTAIN COMMUNITY COLLEGE
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2012

2012-1

Contact Person
Wanda Laducer

Corrective Action Plan

Completion Date

DRAFT

TURTLE MOUNTAIN COMMUNITY COLLEGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

2011-1 Eligibility-Stipends (TRIO Upward Bound CFDA# 84.047A)

Criteria

To provide reasonable assurance that student participants are paid stipend amounts in accordance with grant requirements.

Condition/context

When performing a review of the TRIO Upward Bound program expenditures, we noted 108 summer stipends were disbursed to participants in excess of the allowable amount per the compliance supplement.

Questioned Costs

None.

Cause

The Turtle Mountain Community College's internal controls failed to identify participants' who were receiving excess stipends.

Effect

The College has a control deficiency with federal grant requirements.

Recommendation

We recommend that controls be put in place to ensure grant requirements are met.

Views of Responsible Officials and Planned Corrective Actions

TMCC has reimbursed the TRIO-Upward Bound program for all stipends in excess of allowable amounts. TMCC has implemented the following internal controls over the stipend disbursement process: (1) Copy of the regulations on file regarding student stipend amounts (2) Awareness that the monthly stipends cannot exceed \$40 for no more than 60 students for the academic year (3) Summer stipends cannot exceed \$180 for June, July, and August, and (4) Fiscal assurance that those amounts will not be exceeded.

Corrective Action Taken

Corrected. No current year finding noted.