

**DAWSON COMMUNITY COLLEGE**  
**Financial and Compliance Audit Report**  
**For The Year Ended June 30, 2009**



**Prepared Under Contract With:**  
**MONTANA LEGISLATIVE BRANCH, AUDIT DIVISION**  
**PO Box 201705, Helena, MT 59620-1705**

# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor



Deputy Legislative Auditors:  
Cindy Jorgenson  
Angie Grove

March 2011

The Legislative Audit Committee  
of the Montana State Legislature:

Enclosed is the report on the audit of Dawson Community College for the fiscal year ended June 30, 2009.

The audit was conducted by Joseph Eve, Certified Public Accountants, 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,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor

10C-06

# DAWSON COMMUNITY COLLEGE

## Table of Contents

	<u>Page</u>
<b>Organization</b> .....	1
<b>Independent Auditors' Report</b> .....	2
<b>Management's Discussion and Analysis</b> .....	4
<b><u>Audited Financial Statements</u></b>	
Statement of Net Assets.....	15
Statement of Revenues, Expenses and Changes in Net Assets.....	16
Statement of Cash Flows.....	17
Notes to the Financial Statements.....	18
<b><u>Supplemental Information</u></b>	
Student Financial Aid Modified Statement of Cash Receipts and Disbursements .....	31
Schedule of Expenditures - Student Financial Assistance Programs .....	32
Schedule of Full Time Equivalent .....	33
Functional Classification of Operating Expenses .....	34
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	35
Schedule of Findings.....	37
Corrective Action Plan.....	39
Summary Schedule of Prior Audit Findings .....	40

**DAWSON COMMUNITY COLLEGE**

**Organization**

**For the Year Ended June 30, 2009**

**BOARD OF TRUSTEES**

Ryan Sokoloski  
Jim Squires  
Kay McDonough Jensen  
Bob Stanhope  
Kimberely Wiseman  
Alan Sevier  
Gerry Anderson

Chairperson  
Vice Chairperson  
Trustee  
Trustee  
Trustee  
Trustee  
Trustee

**COLLEGE OFFICIALS**

Dr. James Cargill  
Justin Cross

President  
Dean of Administrative Services

## INDEPENDENT AUDITORS' REPORT

**Board of Trustees  
Dawson Community College  
Dawson County  
Glendive, Montana**

We have audited the accompanying financial statements of Dawson Community College, as of and for the year ended June 30, 2009, as listed in the accompanying 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements do not include the financial data for the College's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the College's primary government unless the College also issues financial statements for the reporting entity that include the financial data for its component unit. The College has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues and expenses of the discretely presented component unit would have been presented as \$669,676, \$27,704, \$641,972, \$73,380, and \$76,679, respectively.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component unit of Dawson Community College as of June 30, 2009 or the changes in financial position or cash flows thereof for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of Dawson Community College as of June 30, 2009, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Dawson Community College  
Independent Auditors' Report  
Page 2**

In accordance with *Government Auditing Standards*, we have also issued a report dated March 30, 2011 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's financial statements as a whole. The Student Financial Aid Modified Statement of Cash Receipts and Disbursements, Schedule of Expenditures - Student Financial Assistance Programs, Schedule of Full Time Equivalent, and Functional Classification of Operating Expenses, are presented for purposes of additional analysis and are not a required part of the basic 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 statements 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 financial statements as a whole.

JOSEPH EVE  
Certified Public Accountants

Billings, Montana  
March 30, 2011

**DAWSON COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEAR ENDING JUNE 30, 2009**

Dawson Community College (College) is a comprehensive, open access, publicly supported institution of higher education dedicated to serving the needs of those who seek enrichment through educational opportunities. The College exists to address individual needs, interests, and abilities while enhancing the economic, social and cultural attributes of the diverse communities it serves. The College accomplishes this purpose by providing high quality, affordable, flexible programs and services which are academically and geographically accessible. This purpose requires a strong commitment to the teaching and learning process by a service driven philosophy in a supportive environment.

**Financial and Other College Highlights**

**Outreach and Distance Education:**

The College continues to operate an Outreach program at the Watch East to all 42 residents. Watch East is a six month alcohol treatment center. The first graduation occurred in early 2008. In 2009 the College expanded the number of offerings in the Outreach program to 20 courses and credits. The success rate for participants in this program is in the high ninety percentile.

The CCC-Online network and the Adobe Connect platform are two examples of successful distance delivery systems. CCC-Online Enrollment has doubled during the 2009 academic year with over 100 students enrolled in online courses. In 2009 the College partnered with Ed2Go to provide short term online classes for college credit. The College developed and initiated the Sidney Outreach site providing computer courses at the Sidney Public Library. These courses are presented in the traditional methodology. It is the College's belief that student demand for outreach and distance education will continue to grow.

The College developed and initiated the Prison Outreach Program. Working in concert with the Dawson County Correctional Facility courses were designed and implemented to provide qualifying inmates the opportunity to enroll in college courses.

The College initiated the Senior Academy. This program is geared for those individuals who are 50 years old and older.

**Program Development:**

In the winter of 2006, the Board of Trustees approved the Engineering Technology program and the Music Technology program. The programs were introduced during the

2007 fiscal year. These programs continue to meet enrollment projections and are being marketed to further strengthen their positions at the College.

The College is working with area energy production companies, MSU-Billings, UM-Missoula and area vocational and community colleges to redesign several existing high demand programs to better meet the needs of the energy driven economy. Welding and Engineering Technology programs have realized strong growth and expansion plans are being considered.

**Grants:**

The College working in partnership with Billings College of Technology has been awarded a four year, with a one year extension, Workforce Innovation in Regional Economic Development (WIRED) grant to spur the evolution of Montana's workforce through the creation of innovation in bio-product technology. 2009 marks the third year of the Clean Energy for Tomorrow grant. The College continues to develop training and education opportunities that will provide workers with the skills and abilities needed in the renewal energy industry.

The College working in partnership with Billings College of Technology has been awarded a four year, with a one year extension, Community-Based Job Training Grant to build Montana's energy workforce. 2009 marks the third year of the Energy for Tomorrow grant. The College is creating educational opportunities that will focus on the training and development of workers in high demand employment in the energy industry.

**Enrollment (FTE):**

During the 2009 fiscal year, total annualized enrollment at the College was 451 FTE compared to total enrollment for the 2008 fiscal year of 401 FTE. Enrollment for the 2009 fiscal year increased 12.5 percent when compared to the level enrollment for the 2008 fiscal year. Student enrollment for the 2010 fiscal year is projected to be level. The projected trend is an indication that the additional resources allocated to new programs, recruitment, marketing and advertising are assisting institutional efforts of maintaining enrollment levels in challenging economic times.

**Student Services:**

During the 2009 fiscal year, the College implemented a campus based mandatory meal plan for dormitory residents. This action resulted in greater level of socialization between disassociated student groups and a significant reduction in inappropriate activity. Generally the mandatory meal plan has been an excellent addition to the operations at the College.

### **Capital Asset and Long-Term Debt:**

During the 2009 fiscal year the College, through the WIRED grant, purchased capital assets that include alternative energy training equipment, three welding simulators and related welding equipment. Additionally, the College purchased a mini-mainframe computer and a vehicle.

The College retired the \$180,000 INTERCAP loan during the 2009 fiscal year. Additionally, the College made the agreed upon payments to all outstanding debts. No new long-term debt was incurred during the 2009 fiscal year.

### **Reading the Annual Financial Report**

#### **Accounting Standards**

The following Management's Discussion and Analysis is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily read analysis of the College's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the College's financial condition and result of operations for the fiscal year ending June 30, 2009. Comparative numbers, where presented, are for the fiscal years ending June 30, 2008 and 2009. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, notes to financial statements, and other supplementary information. College management is responsible for all of the financial information presented, including this discussion and analysis.

In June 1999, GASB issued Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, which established new financial reporting requirements. In November 1999, GASB issued Statement 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities—an Amendment of GASB Statement 34, which applied the new reporting standards to public institutions. These new reporting standards are effective for fiscal year 2003 and as such comparative data will include fiscal years 2008 and 2009.

These financial reporting standards significantly changed the appearance and nature of the required financial information compared to prior standards. The major changes were: (1) financial statement are presented on an entity-wide basis and not by major fund groups; (2) depreciation expense is recognized, whereas previously it was not; (3) expenses rather than expenditures are reported; and (4) the basic financial statements are preceded by this Management's Discussion and Analysis.

As required by these accounting pronouncements, the basic financial statements are the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net

Assets; and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview of the College's activities.

### **How the Financial Statements Relate to Each Other**

The basic financial statements referred to above are presented using the accrual basis of accounting. The accrual basis of accounting is a method of accounting which attempts to match revenues with expenses by recognizing revenue when a service is rendered and expense when the liability is incurred irrespective of the receipt or disbursement of cash. For example, revenue would be recognized when a student registers for a class not when the student ultimately pays for that class. Amounts that remain unpaid are recorded in accounts receivable. When final payment is received the balance in accounts receivable associated with the individual student will be zero.

The basic financial statements referred to above are interrelated and should be viewed in their entirety. However, each of the financial statements is unique and presents the financial information according to the purpose of the individual statement. The fundamental relationships between the statements are described below. The Statement of Net Assets presents a snap shot of the financial condition of the College on June 30. The Statement of Revenues, Expenses, and Changes in Net Assets present the results of activities for the College throughout the fiscal year. The Statement of Cash Flows summarizes activities that generate and consume cash (illustrating net cash inflow and outflow activities) during the fiscal year.

### **Statement of Net Assets**

The Statement of Net Assets presents the College's assets, liabilities, and net assets as of the fiscal year end. The purpose of this statement is to present to the financial statement readers a snapshot of the College's financial position at June 30, 2009. The data presented in the Statement of Net Assets aids in determining the assets available to continue the College's operations. It also allows readers to determine how much the College owes to vendors and creditors. Finally, the Statement of Net Assets provides a picture of net assets and their availability for expenditure by the College. Sustained increases in net assets are one indicator of an organization's financial health.

Net assets are divided into three major categories. The first "Invested in Capital Assets, Net of Related Debt," represents the College's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of Invested in Capital Assets, Net of Related Debt. The second category is "Restricted Net Assets," which is divided into two categories, Expendable and Nonexpendable. Expendable restricted assets include resources the College is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties. Nonexpendable Restricted Net Assets consist of endowments and similar type funds where donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for

the purpose of producing present and future income to be expended or added to the principal. Unrestricted Net Assets represent resources used for the College's general operations. They may be used at the discretion of the College's Board of Trustees to meet current expenses for any lawful purpose in support of educational and general and auxiliary activities.

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

### Condensed Statement of Net Assets

	At 6/30/09	At 6/30/08
Total Current Assets	\$ 2,596,899	\$ 2,402,644
Total Non-Current Assets	\$ 12,198,448	\$ 12,675,298
<b>TOTAL ASSETS</b>	<b>\$ 14,795,347</b>	<b>\$ 15,077,942</b>
Total Current Liabilities	\$ 818,089	\$ 653,627
Total Non-Current Liabilities	\$ 5,132,069	\$ 5,655,984
<b>TOTAL LIABILITIES</b>	<b>\$ 5,950,158</b>	<b>\$ 6,309,611</b>
Invested in capital, net of related debt	\$ 5,516,700	\$ 5,273,994
Restricted-expendable	\$ 1,751,961	\$ 1,973,933
Unrestricted	\$ 1,576,528	\$ 1,520,404
<b>TOTAL NET ASSETS</b>	<b>\$ 8,845,189</b>	<b>\$ 8,768,331</b>

Information significant to reading the Statement of Net Assets:

- The increase in Current Assets is primarily the result of additional inventory, increases in taxes receivable and prepaid expenses.
- The decrease in Total Non-Current Assets is primarily due to increases in annual accumulated depreciation.
- The increase in Total Current Liabilities is primarily due to changes in the current portion of long-term capital liabilities, increases in salary related payables and deferred revenue relating to grants.
- The reduction in Total Non-Current Liabilities is primarily the result of payments made to service debt, early payment of an INTERCAP loan, and the reporting of non-current portion of long-term capital liabilities.

- The Net Assets Invested in Capital Assets, Net of Related Debt is primarily made up of the value of buildings and land held by the College less accumulated depreciation and net of debt balances related to the capital assets. The increase is mainly from the reduction in long term debt and the acquisition of capital assets.
- Restricted-Expendable Net Assets are held primarily in the grant and debt service activities of the College.
- Unrestricted Net Assets is made up of operating activities, auxiliary activities, and also numerous designated activities which include funds designated as follows:
  1. **Student Activity Fee** – Any change in the Student Activity Fee must be approved by a majority of the voting students, approved by the Board of Trustees, and the Board of Regents. The Student Activity Fee is allocated and deposited into five separate agency accounts; 46% to Associated Student Body, 25.75% to Athletics, 12.75% to Publications, 12.75% to Institutional, and 2.75% to Theatre. The Student Government administers the Associated Student Body account, and the Board of Trustees or their designee administers the remaining accounts.
  2. **Library Fees** – Any change in the Library Fee must be approved by the Board of Trustees, and the Board of Regents. Library Fees are intended to augment, not replace, basic operating expenses of the library and may be used for:
    - a. Consumable supplies
    - b. Periodicals and holdings
    - c. Equipment and improvements

The annual amount budgeted from Library Fees is based on anticipated revenues generated from projected annual enrollment.

Library Fees are not intended for continuing personnel costs.

3. **Student Building Fees** – Any change in the Student Building Fee must be approved by a majority of the voting students, approved by the Board of Trustees, and the Board of Regents. Student Building Fees are collected specifically for the purpose of purchasing land, new construction, and making improvements to existing facilities. Use of Student Building Fees requires the approval of the Associated Student Body, the Board of Trustees, and the Board of Regents.
4. **Computer Fees** – Any change in the Computer Fee must be approved by the Board of Trustees, and the Board of Regents. Computer Fees are collected for the purchase or lease of computer equipment.

software, maintenance or related items which will benefit the College's IT/AS400 system. This system is primarily used for student records and the payroll and general accounting record keeping.

5. **Building Repairs and Maintenance Fees** – Any change in the Building Repairs and Maintenance Fee must be approved by the Board of Trustees, and the Board of Regents. Building Repairs and Maintenance Fees are for major repairs or maintenance of College owned building and grounds. This fee would typically be used for major renovations and repairs.
6. **Technology Fees** – Any change in the Technology Fee must be approved by the Board of Trustees, and the Board of Regents. Technology Fees are collected for the purchase or lease of computer equipment, software, maintenance or related items which will benefit the educational process.

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

The operating and nonoperating activities creating the changes in the College's total net assets are presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present all revenues received and accrued, all expenses paid and accrued, and gains and losses from investment and capital assets activities.

Generally, operating revenues are received for providing goods and services to students and other constituencies of the College. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the College's mission.

Nonoperating revenues are revenues received for which goods and services are not directly provided. State appropriations and gifts are included in this category, but provide substantial support for paying the College's operating expenses. Therefore, the College, like most public institutions, will expect to show an operating loss.

**Condensed Statement of Revenues, Expenses, and Changes  
in Net Assets**

	For Fiscal Year Ending 6/30/09	For Fiscal Year Ending 6/30/08
Operating Revenues	\$ 3,577,135	\$ 2,914,522
Operating Expenses	\$ (6,847,865)	\$ (5,980,803)
Operating Loss	\$ (3,270,730)	\$ (3,066,281)
Net Nonoperating Revenues/(Expenses)	\$ 3,316,207	\$ 2,915,047
<b>Income before other revenues, expenses, gains or losses</b>	<b>\$ 45,477</b>	<b>\$ (151,234)</b>
Other Expenses	\$ -	\$ -

<b>Change in Net Assets</b>	\$	45,477	\$	(151,234)
Net Assets - Beginning of Year	\$	* 8,799,712	\$	9,107,139
Restatements	\$		\$	(187,574)
Net Assets - End of Year	\$	8,845,189	\$	8,768,331

\*The difference of \$31,381 results from reclassifying net assets in Student Organization funds as Net Assets rather than as a Due to.

Information regarding specific revenue and expense items:

- **Tuition and fees:** In keeping with the Governor's CAP initiative tuition and fees for all students were frozen for fiscal year 2009. The College did increase the amount and number of tuition waivers to remain competitive with offerings by educational institutions in bordering states. The increase in tuition waivers reduced tuition revenues. The College received revenues for reimbursements from Federal and State grants. Revenues from the mandatory meal plan, workshops and distance education offerings increased.
- **Salaries and Benefits:** The College granted employees a two and one half percent salary increase on the base salary schedule in addition to annual step increases. The College increased the contribution for medical benefits for all employees covered by the MUS insurance plan. Previous vacancies remain unfilled for the entire fiscal year.
- **Operating Expense:** Repairs and maintenance expenses, scholarships and grants from State and Federal sources, equipment expenses, and depreciation expense were the primary reasons for the increases in operating expenses.

**Statement of Cash Flows**

The Statement of Cash Flows presents detailed information about the College's cash activity during the year. Operating cash flows will always be different from the operation loss on the Statement of Revenues, Expenses, and Changes in Net Assets. This difference occurs because the Statement of Revenues, Expenses, and Changes in Net Assets is prepared on the accrual basis of accounting and includes non-cash items such as depreciation expense, and the Statement of Cash Flows presents cash inflows and outflows without regard to accrual items. The Statement of Cash Flows assists readers in assessing the ability of an institution to generate future cash flows necessary to meet obligations and evaluate its potential for additional financing.

The statement is divided into five sections. The first section shows the net cash provided (used) by the College's operating activities. The next section reflects the cash flows from noncapital financing activities and includes State appropriations for the College's educational and general programs and financial aid. This section reflects the cash received and spent for items other than operating, investing, and capital financing purposes. Cash flows from capital financing activities present cash used for the

acquisition and construction of capital and related items. The next sections shows cash flows related to purchases, proceeds, and interest received from investing activities. The final section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

### Condensed Statement of Cash Flows

	For Fiscal Year Ended 6/30/2009	For Fiscal Year Ended 6/30/2008
Cash Provided (Used) by:		
Operating Activities	\$ (2,419,056)	\$ (2,693,560)
Noncapital Financing Activities	\$ 3,467,281	\$ 3,073,197
Capital and Related Financing Activities	\$ (887,628)	\$ (634,097)
Investing Activities	\$ (211,594)	\$ (106,178)
Net Increase (Decrease) in Cash	\$ (50,997)	\$ (360,638)
Cash and Cash Equivalents, Beginning of Year	\$ 3,524,822	\$ 3,885,460
Cash and Cash Equivalents, End of Year	\$ 3,473,825	\$ 3,524,822

#### Pending Economic and Financial Issues

##### Population:

The College will continue to face challenges due to the declining population in Eastern Montana. Additionally, the average age of the remaining population is projected to increase. The College will continue to explore avenues to attract students to the campus and to offer a greater variety of adult life-stage appropriate educational programming.

##### Regional Economy:

For the past four years Eastern Montana and Western North Dakota has been the hub for energy development in the region. Starting pay for entry level jobs exceeds \$60,000 per year and demand for workers is high. Recruiting students in the present economic environment is difficult. The College will experience a greater degree of success in recruiting students if an economic down turn occurs.

##### State Funding:

The three community colleges were successful in making positive changes to the community college funding mechanism. The Fixed Cost/Variable Cost funding formula

does help flatten out variations in FTE based funding, but the Legislature still determines public policy by setting the percentage of funding. This aspect of State funding still creates challenges for community colleges. This environment requires the College to continually pursue alternative funding sources and to seek opportunities for growth.

**Student Records and Management System:**

The College is in need of a student records and management system that meets current standards and has potential for future growth. The current system was acquired in the 1980s and has limited capacity. The College is researching alternative systems and has requested funding from the State. Implementation of a new student records and management system remains contingent on State funding.

**Faculty and Staff:**

The College's compensation and benefits package for faculty are more competitive with other institutions in the region. This situation has improved the College's ability to attract preferred candidates for vacant positions.



## **Basic Financial Statements**

**DAWSON COMMUNITY COLLEGE  
GLENDIVE, MONTANA  
STATEMENT OF NET ASSETS  
JUNE 30, 2009**

**ASSETS**

**Current Assets**

Cash and Cash Equivalents - Note C	\$ 1,914,854
Taxes Receivable - Note A	122,954
Tuition Receivable	129,687
Grants Receivable - Note A	170,443
Student Loan Receivable	81,343
Accounts Receivable - Note A	36,329
Prepaid Expense	32,347
Inventory - Note A	108,942
<b>Total Current Assets</b>	<u>2,596,899</u>

**Noncurrent Assets**

Restricted Cash and Cash Equivalents - Note C	1,558,971
Capital Assets - Land - Note D	137,518
Capital Assets - Depreciable - Note D	14,745,370
Less: Accumulated Depreciation	<u>(4,243,411)</u>
<b>Total Noncurrent Assets</b>	<u>12,198,448</u>

**Total Assets**

14,795,347

**LIABILITIES**

**Current Liabilities**

Accounts Payable	226,781
Accrued Payroll	29,332
Deferred Revenue - Grants	73,445
Room Deposits	15,041
Interest Payable	32,759
Compensated Absences Payable - Note E	157,174
Current Portion of Long-Term Obligations - Note F	283,557
<b>Total Current Liabilities</b>	<u>818,089</u>

**Noncurrent Liabilities**

Compensated Absences Payable - Note E	292,849
Noncurrent Portion of Long-Term Obligations - Note F	4,839,220
<b>Total Noncurrent Liabilities</b>	<u>5,132,069</u>

**Total Liabilities**

5,950,158

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	5,516,700
Restricted for:	
Expendable:	
Student Loans	102,229
Scholarships, Research, Instruction, and Other	1,649,732
Unrestricted	<u>1,576,528</u>
<b>Total Net Assets</b>	<u>\$ 8,845,189</u>

See accompanying notes to the financial statements.

**DAWSON COMMUNITY COLLEGE  
 GLENDIVE, MONTANA  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2009**

**REVENUES**

Operating Revenues	
Tuition and Fees (net of scholarship allowance of \$438,539)	\$ 666,383
Federal Grants and Contracts	1,497,872
State Grants and Contracts	111,511
Private and Local Grants and Contracts	183,177
Workshop/Distance Education	52,165
Auxiliary Activities:	
Bookstore	157,140
Dormitory	297,468
Other Operating Revenues (Expenses)	<u>611,419</u>
Total Operating Revenues	<u>3,577,135</u>

**EXPENSES**

Operating Expenses	
Salaries	2,649,635
Benefits	931,854
Travel	178,705
Supplies	238,682
Contracted Services	112,763
Postage	13,564
Rent and Lease	23,023
Repairs and Maintenance	132,234
Advertising	5,793
Utilities	161,071
Student Support	151,633
Communications	32,500
Scholarships and Grants	724,404
Equipment	258,555
Insurance	22,195
Indirect Costs	300
REC Complex	1,405
Items for Resale	110,255
Other Operating Expenses	465,650
Reversion	85,421
Depreciation Expense	<u>548,223</u>
Total Operating Expenses	<u>6,847,865</u>
Operating Loss	<u>(3,270,730)</u>

**NONOPERATING REVENUES (EXPENSES)**

Loss on Investments	(211,594)
State Appropriations	1,894,062
Local Appropriations	1,859,075
Interest Payments	<u>(225,336)</u>
Total Nonoperating Revenues	<u>3,316,207</u>

**INCREASE IN NET ASSETS**

	45,477
Net Assets, Beginning of Year, as Restated - Note M	<u>8,799,712</u>
Net Assets, End of Year	<u>\$ 8,845,189</u>

See accompanying notes to the financial statements.

**DAWSON COMMUNITY COLLEGE  
GLENDIVE, MONTANA  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees	\$ 678,252
Grants and Contracts	1,929,050
Payments to Employees	(2,574,208)
Payments for Benefits	(931,854)
Payments to Suppliers	(1,049,062)
Payments for Utilities	(161,071)
Payments for Reversion	(85,421)
Payments for Scholarships and Fellowships	(724,404)
Collection of Loans to Students	(3,561)
Workshop/Distance Education	52,165
Auxiliary Enterprise Charges	
Bookstore	157,140
Dormitory	303,716
Other Receipts (Payments)	<u>(9,798)</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u><b>(2,419,056)</b></u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Appropriations	1,894,062
Local Appropriations	1,825,018
Other Nonoperating Expenses	(268,590)
Student Organization Agency Transactions	<u>16,791</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u><b>3,467,281</b></u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>	
Purchases of Capital Assets	(225,659)
Principal Paid on Capital Debt	(431,144)
Interest Paid on Capital Debt	<u>(230,825)</u>
<b>NET CASH USED BY CAPITAL FINANCING ACTIVITIES</b>	<u><b>(887,628)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Income	89,181
Realized and Unrealized Gains/Losses	<u>(300,775)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u><b>(211,594)</b></u>
Net Decrease in Cash and Cash Equivalents	<u>(50,997)</u>
Cash and Cash Equivalents, Beginning of Year	<u>3,524,822</u>
Cash and Cash Equivalents, End of Year	<u><b>\$ 3,473,825</b></u>
<b>Reconciliation to Statement of Net Assets</b>	
Cash and Cash Equivalents	\$ 1,914,854
Restricted Cash and Cash Equivalents	<u>1,558,971</u>
Total Cash and Cash Equivalents	<u><b>\$ 3,473,825</b></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (3,270,730)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation Expense	548,223
Changes in Net Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	4,374
(Increase) Decrease in Grants Receivable	113,687
(Increase) Decrease in Prepaid Expenses	(28,562)
(Increase) Decrease in Inventory	(12,174)
Increase (Decrease) in Accounts Payable	144,744
Increase (Decrease) in Deferred Grant Revenue	22,803
Increase (Decrease) in Room Deposits	6,248
Increase (Decrease) in Compensated Absences Payable	<u>52,331</u>
Net Cash Used By Operating Activities	<u><b>\$ (2,419,056)</b></u>

See accompanying notes to the financial statements.

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Dawson 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**

Dawson Community College is a community college district which has received full 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 Dawson 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 the Dawson College Foundation, Inc. as a component unit. The financial data of the Foundation would be discretely presented in a column separate from the financial data of the College's primary government. The Foundation's financial information is not included in these financial statements.

**Financial Statements**

The accompanying financial statements have been prepared in accordance with U.S. 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).

**DAWSON COMMUNITY COLLEGE  
GLENDDIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

**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 fair 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.)

**Taxes Receivable**

The College records taxes receivable and revenue for property taxes that have been assessed but have not yet been collected.

**DAWSON COMMUNITY COLLEGE  
GLENDIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable**

Accounts receivable consists primarily of student tuition and fees. No allowance for doubtful accounts has been established as the College utilizes the direct write-off method.

**Grants Receivable and Deferred Revenue**

Grants receivable are for expenditures made on grants for which reimbursement has not been received. Deferred revenue represents amounts received in excess of expenses incurred, but which are to be expended in a future period.

**Inventories**

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

**Use of Estimates**

The preparation of these 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 property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, curbs, etc.). Capital assets are defined as assets with an individual initial cost of more than \$5,000 and an useful life in excess of one year for equipment and library resources and \$25,000 for buildings and improvements.

All purchased capital assets are valued at cost where historical records are available and at estimated historical costs where no historical records exist. Donated capital 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 over the following estimated useful lives:

	Years		Years
Buildings	50	Library Resources	10
Equipment	5 - 20	Improvements	7 - 25

**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.

**DAWSON COMMUNITY COLLEGE  
GLENDDIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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:

**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.

**DAWSON COMMUNITY COLLEGE  
GLENDIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**Income Tax Status**

The College, as a governmental entity, is exempt from federal and state income taxes.

**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.

**Private Purpose Trust Funds**

The College's student activities funds are considered private purpose trust funds as they represent assets held in a fiduciary capacity for student activities and organizations and cannot be used to support the College's own programs. The College does not present separate statements for these funds as required by Governmental Accounting Standards Board Statement 34, but includes the funds as restricted cash and net assets in the Statement of Net Assets. The student activities funds cash and net assets as of June 30, 2009 total \$48,171.

**NOTE B - LOCAL APPROPRIATIONS**

All property taxes are collected by the Treasurer of Dawson 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.

The tax levies for the College for the year ended June 30, 2009 was as follows:

	<u>Number of Mills</u>
General Levy	57.30
Debt Service Levy	19.70
Adult Education Levy	5.19
Retirement Fund Levy	<u>22.75</u>
Total	<u><u>104.94</u></u>

The value of one mill was \$12,937 for 2009.

**DAWSON COMMUNITY COLLEGE  
GLENDIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE C - CASH AND CASH EQUIVALENTS**

Cash and investments as of June 30, 2009, consist of the following:

	<u>College</u>
Cash on Hand	\$ 1,950
Deposits with Financial Institutions	53,639
Time Certificate of Deposit with Financial Institution	46,122
Investments	1,075,678
Invested in the Dawson County Investment Pool	<u>2,296,436</u>
Total Cash and Investments	<u>\$ 3,473,825</u>

The College follows the practice of pooling cash and investments of all funds with the Dawson County Treasurer, except for student loan fund deposits, agency funds, loan reserves, and Harold Ullman Funds, which are held in demand deposit and investment accounts with local financial institutions.

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**

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

The College's investments in the Dawson County Investment Pool and various open-ended mutual funds can be liquidated at any time and are therefore not subject to interest rate risk. The College does not have a policy limiting its interest rate risk.

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

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE C - CASH AND CASH EQUIVALENTS (CONTINUED)**

**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 Dawson County government is considered to have \$250,000 FDIC coverage for demand deposits and \$250,000 FDIC coverage for time and savings deposits in each bank in the state.

The College's deposits with financial institutions did not exceed federal depository insurance limits at June 30, 2009.

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 Dawson County Investment Pool).

**Investment in the Dawson County Investment Pool**

The College participates in the Dawson 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 Dawson County Treasurer, who reports to the Dawson County Commissioners. The pool unit is fixed at \$1 per share for purchases and redemptions. Participants may buy and sell fractional shares.

The county investment pool has money invested in the State Short-Term Investment Pool (S.T.I.P.) which includes asset-backed and variable-rate securities. Asset-backed securities have less credit risk than securities not backed by pledged assets. Market risk for asset-backed securities is the same as for similar non asset-backed securities. Variable-rate securities have credit risk identical to similar fixed-rate securities; the related market risk is more sensitive to changes in interest rates. However, their market risk may be less volatile than fixed-rate securities because their value will usually remain at or near par value as a result of their interest rates being periodically reset to maintain a current market yield. The Montana Board of Investments reported that they were not aware of any legal risks associated with any of the S.T.I.P. investments, as of June 30, 2009.

**DAWSON COMMUNITY COLLEGE  
GLENDIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE C - CASH AND CASH EQUIVALENTS (CONTINUED)**

**Foreign Currency Risk**

The College does not have a formal policy to limit foreign currency risk and does not have any foreign currency risk as the College does not own any foreign currency.

**Restricted Cash and Investments**

Restricted cash and investments consisted of the following at June 30, 2009:

Restricted for Dorm Furniture Replacement	\$ 29,909
Dorm Deposits	15,041
Restricted for Program Development Fund	39,039
Donor Restricted	1,081,271
Restricted for Grants	98,896
Restricted for DCC Retirement Fund	115,115
Restricted for N.D.S.L.	20,886
Stockman Bank Loan Reserve	64,521
USDA Loan Reserve	46,122
Restricted for Student Organizations	<u>48,171</u>
<b>Total Restricted Cash and Investments</b>	<b>\$ <u>1,558,971</u></b>

**NOTE D - CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2009, were as follows:

	Balance <u>6/30/2008</u>	Additions	Deletions	Corrections	Balance <u>6/30/2009</u>
Land	\$ 137,518	\$ -	\$ -	\$ -	\$ 137,518
Buildings	12,720,048	-	-	18,000	12,738,048
Improvements	323,390	-	-	122,339	445,729
Equipment	990,566	220,738	(30,696)	(10,708)	1,169,900
Library Inventory	<u>382,277</u>	<u>4,921</u>	<u>-</u>	<u>4,495</u>	<u>391,693</u>
<b>Total</b>	<b>14,553,799</b>	<b>225,659</b>	<b>(30,696)</b>	<b>134,126</b>	<b>14,882,888</b>
Less Accumulated Depreciation	<u>(3,725,884)</u>	<u>(355,078)</u>	<u>30,696</u>	<u>(193,145)</u>	<u>(4,243,411)</u>
<b>Capital Assets, Net</b>	<b>\$ <u>10,827,915</u></b>	<b>\$ <u>(129,419)</u></b>	<b>\$ <u>-</u></b>	<b><u>(59,019)</u></b>	<b>\$ <u>10,639,477</u></b>

Corrections were made to add assets and related accumulated depreciation to the schedule.

**DAWSON COMMUNITY COLLEGE  
GLENDIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE E - COMPENSATED ABSENCES PAYABLE**

Compensated absences payable, which represent vacation and sick leave earned by employees which is payable upon termination, at June 30, 2009, was as follows:

	Balance 6/30/2008	Increase (Decrease)	Balance 6/30/2009
Vacation and Sick Leave	\$ <u>397,692</u>	\$ <u>52,331</u>	\$ <u>450,023</u>

**NOTE F - LONG-TERM OBLIGATIONS**

Long-term obligations consists of two mortgages payable and several notes payable, as described below. Changes in long-term obligations during 2009 were as follows:

	Balance 6/30/08	Debt Issued	Principal Payment	Balance 6/30/2009	Current Portion
Stockman Bank	\$ 591,922	\$ -	\$ 18,842	\$ 573,080	\$ 20,611
USDA Rural Development	639,398	-	9,205	630,193	7,836
General Obligation Bonds	3,420,000	-	155,000	3,265,000	160,000
Mid Rivers Communications	308,333	-	50,000	258,333	50,000
Intercap Loan #1	155,058	-	155,058	-	-
Intercap Loan #2	439,210	-	43,039	396,171	45,110
	\$ <u>5,553,921</u>	\$ <u>-</u>	\$ <u>431,144</u>	\$ <u>5,122,777</u>	\$ <u>283,557</u>

The note payable to Stockman Bank of \$700,000 originated on February 21, 2000. Payments of \$60,617 including both principal and interest, are due on February 10 each year. The note will mature in 2025. Interest is payable at 7.00% per annum, with the interest rate to be recalculated every five years. The interest rate will not fall below 7% nor rise higher than 11.5%. This note is secured by the dormitory and its contents. This note is secured by deeds of trust on real estate and improvements of the student dormitories and adjacent parking area. The note is also secured by any furniture, fixtures, and equipment located in the dormitories, along with an assignment of rental revenue from all of the student dormitories owned by the College.

The note payable to the United States Department of Agriculture - Rural Development originated on February 21, 2000, in the amount of \$700,000. Principal and interest payments of \$39,410 are due on February 21 each year for 40 years. Interest is payable at 4.75% per annum. This note is secured by an assignment of rental revenues from all existing and hereinafter acquired student dormitory facilities owned by the College.

On September 1, 2004, Dawson Community College issued general obligation bonds at a purchase price of \$4,000,000 and an interest rate of 2.9%-4.35% to pay a portion of the costs of designing, constructing, furnishing and equipping a library and learning center expansion project and for the construction of a new performing arts center/gymnasium. The bonds bear interest payable semiannually on January 1 and July 1 each year, commencing January 1, 2005. The bonds mature beginning July 1, 2005 through 2022.

The note payable to Mid Rivers Communications of \$400,000 originated on October 25, 2004. Principal payments of \$4,167 are due monthly. The note will mature in 2014. This is an interest-free loan and is secured by the aforementioned construction project.

**DAWSON COMMUNITY COLLEGE  
GLENDIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE F - LONG-TERM OBLIGATIONS (CONTINUED)**

The Intercap Loan #1 of \$180,000 originated on May 6, 2005. Payments of principal and interest are due semiannually on February 15 and August 15. Payments consist of a variable principal portion and interest computed at 4.75%. The loan is secured by the aforementioned construction project. This loan was paid off during the year ended June 30, 2009.

The Intercap Loan #2 of \$500,000 originated on May 6, 2005. Payments of principal and interest are due semiannually on February 15 and August 15. Payments consist of a variable principal portion and interest computed at 4.75%. The loan is secured by the aforementioned construction project.

Mortgages payable maturities are as follows:

Year	Principal	Interest
2010	\$ 283,557	\$ 227,521
2011	293,850	212,045
2012	303,323	201,786
2013	317,740	190,896
2014	332,599	179,185
2015 - 2019	1,451,564	711,491
2020 - 2024	1,648,944	352,216
2025 - 2029	160,721	98,001
2030 - 2034	130,095	66,955
2035 - 2039	164,071	32,979
2040 - 2043	36,313	3,097
Total	\$ 5,122,777	\$ 2,276,172

**NOTE G - 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.

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

	Employer	Employee	Total
TRS	7.47%	7.15%	14.62%
PERS	6.935%	6.90%	13.84%

**DAWSON COMMUNITY COLLEGE  
GLENDIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE G - RETIREMENT PLANS (CONTINUED)**

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

	2009	2008	2007
TRS	\$ 275,046	\$ 289,058	\$ 300,100
PERS	93,502	90,546	80,856
Total	\$ 368,548	\$ 379,604	\$ 380,956

The State of Montana contributes .235% of the employees' wages covered by PERS, and .20% 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 H - POST EMPLOYMENT BENEFITS**

Terminated employees may remain on the College's health insurance plan for up to 18 months if they pay the monthly premiums. This benefit is required under the federal COBRA law. Retirees may remain on the College's health plan to age 65, provided they pay the monthly premiums. State law requires the College to provide this benefit. No cost can be estimated for the above benefits, although there is the probability that there are higher medical costs for retirees which would result in additional costs to the insurance program.

**NOTE I - 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 J - RELATED PARTY TRANSACTIONS**

The Dawson College Foundation is a private nonprofit organization with relations to Dawson Community College. As discussed in Note A, this entity is considered a component unit of Dawson Community College.

The Dawson College Foundation donates money to the College for operating expenses of the College, at the discretion of the Board of Trustees of the Dawson College Foundation. There were no significant transactions during the year ended June 30, 2009.

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE K - SUBSEQUENT EVENT**

The fair market value of the College's investments has increased since June 30, 2009. Their fair market value as of December 31, 2010, was \$1,460,445, a increase of approximately 43%.

**NOTE L - CONTINGENT LIABILITIES AND COMMITMENTS**

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 amounts, if any, to be immaterial.

In March 2010, an arbitration was initiated against the College by the Glendive Federation of Teachers (the Union) and four former College faculty members who were terminated following a reduction of the program they worked for at the College. The Union and former faculty argued that the termination was improper under the collective bargaining agreement, College policies, and Montana law. The Union seeks full reinstatement of the faculty members with back pay. The grievance was arbitrated in November and December 2010. The attorneys are optimistic that the College can successfully defend this grievance. However, should the arbitrator rule against the College, the estimated liability for the cost of the four annual salaries and related benefits is approximately \$197,000.

**NOTE M - BEGINNING NET ASSET RESTATEMENT**

The College restated its July 1, 2008 net assets from \$8,768,331 to \$8,799,712. This increase of \$31,381 represents the amount of net assets that the College holds in a fiduciary capacity on behalf of various student activities and organizations. This amount had previously been recorded as a liability, rather than restricted net assets.

**SUPPLEMENTARY INFORMATION**

**DAWSON COMMUNITY COLLEGE**

**Student Financial Aid Modified Statement of Cash Receipts and Disbursements**

**For the Year Ended June 30, 2009**

	Pell	Perkins	CWS	SEOG
<b>Assets</b>				
Beginning cash balance	\$ 1,960	\$ 21,946	\$ 158	\$
<b>Additions</b>				
Federal advances	411,202		18,332	34,935
State matching funds				11,645
Interest collected		1,159		
Interest investments		19		
Principal collected		10,927		
<b>Total additions</b>	<b>411,202</b>	<b>12,105</b>	<b>18,332</b>	<b>46,580</b>
<b>Deductions</b>				
Distribution to students	411,202	13,165	17,559	45,630
Administrative expenses	(366)	1,232	158	
<b>Total deductions</b>	<b>410,836</b>	<b>14,397</b>	<b>17,717</b>	<b>45,630</b>
<b>Reconciling Items</b>				
Net change in accounts receivables	(2,326)	1,232		
Net change in cash	(1,960)	(1,060)	615	950
<b>Ending cash balance</b>	<b>\$</b>	<b>\$ 20,886</b>	<b>\$ 773</b>	<b>\$ 950</b>

DAWSON COMMUNITY COLLEGE

Schedule of Expenditures  
Student Financial Assistance Programs

For the Year Ended June 30, 2009

	<u>2009</u>
Perkins loan program	
Student loan advances	\$ <u>13,165</u>
College work study	
Wages	\$ 17,559
Administrative cost	<u>158</u>
Total college work study	\$ <u>17,717</u>
Supplemental education opportunity grant program	
Student grants	\$ <u>45,630</u>
Pell grant program	
Student grants	\$ 411,202
Administrative cost	<u>(366)</u>
	\$ <u>410,836</u>

**DAWSON COMMUNITY COLLEGE**

**Schedule for Full Time Equivalent**

**For the Year Ended June 30, 2009**

<u>Semester</u>	<u>Resident</u>	<u>WUE</u>	<u>Nonresident</u>	<u>Total</u>
Summer 2008	91.9	1.1	3.0	96.0
Fall 2008	324.9	38.3	30.6	393.8
Spring 2009	346.4	32.3	34.3	413.0

**DAWSON COMMUNITY COLLEGE  
GLENDDIVE, MONTANA  
FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2009**

	Instruction	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation and Maintenance of Plant	Auxiliary	Depreciation	Totals
Salaries	\$ 1,338,767	\$ 287,965	\$ 793,553	\$ -	\$ -	\$ 160,379	\$ 68,971	\$ -	\$ 2,649,635
Benefits	221,753	65,236	184,808	334,800	-	89,719	35,538	-	931,854
Travel	9,865	37,283	128,950	-	-	2,607	-	-	178,705
Supplies	43,546	90,317	81,089	-	-	21,808	1,922	-	238,682
Contracted Services	19,902	21,640	71,221	-	-	-	-	-	112,763
Postage	1,882	1,896	9,786	-	-	-	-	-	13,564
Rent and Lease	12,267	8,416	2,340	-	-	-	-	-	23,023
Repairs and Maintenance	-	38,774	18,578	-	-	49,875	25,007	-	132,234
Advertising	-	5,600	193	-	-	-	-	-	5,793
Utilities	-	-	-	-	-	112,152	48,919	-	161,071
Student Support	(2,346)	67,311	86,668	-	-	-	-	-	151,633
Communications	2,617	-	6,564	-	-	11,262	12,057	-	32,500
Scholarships and Grants	-	-	35,968	-	688,436	-	-	-	724,404
Equipment	-	205,322	21,039	-	-	32,194	-	-	258,555
Insurance	-	1,541	(20,617)	-	-	41,271	-	-	22,195
Indirect Costs	-	300	-	-	-	-	-	-	300
REC Complex	-	-	1,405	-	-	-	-	-	1,405
Items for Resale	-	-	-	-	-	-	110,255	-	110,255
Other Operating Expense	204,587	106,878	106,903	-	-	4,400	42,882	-	465,650
Reversion	-	-	85,421	-	-	-	-	-	85,421
Depreciation Expense	-	-	-	-	-	-	-	548,223	548,223
<b>Totals</b>	<b>\$ 1,852,840</b>	<b>\$ 938,479</b>	<b>\$ 1,613,869</b>	<b>\$ 334,800</b>	<b>\$ 688,436</b>	<b>\$ 525,667</b>	<b>\$ 345,551</b>	<b>\$ 548,223</b>	<b>\$ 6,847,865</b>

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

**Board of Trustees  
Dawson Community College  
Dawson County  
Glendive, Montana**

We have audited the financial statements of the Dawson Community College (the "College") as of and for the year ended June 30, 2009, and have issued our report thereon dated March 30, 2011. 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**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is 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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We consider the deficiencies described in the accompanying schedule of findings as items 09-1 through 09-3 to be significant deficiencies in internal control.

**Dawson Community College  
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***

Page 2

**Compliance and Other Matters**

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

Dawson Community College's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit Dawson Community College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Dawson Community College management, the board of trustees, the State of Montana Legislative Audit Division, and is not intended to be and should not be used by anyone other than these specified parties.

JOSEPH EVE  
Certified Public Accountants

Billings, Montana  
March 30, 2011

DAWSON COMMUNITY COLLEGE

Schedule of Findings

For the Year Ended June 30, 2009

09-1 **Capital Assets**

**Criteria or Specific Requirement:** Property records should be maintained in accordance with 25 CFR 276.11 and 25 CFR 900.51. The records should be detailed enough that program management is able to adequately and efficiently identify and locate all items. A physical inventory of property should be taken and a detailed listing should be reconciled to the general ledger.

**Condition:** The College has inadequate controls and subsidiary records over capital asset accounting. More specifically we noted:

- The College uses an excel worksheet to maintain capital asset records rather than utilizing a capital asset software.
- The reconciliation of physical inventories to detailed general ledger records is not being performed.
- The College is not recording additions, deletions and depreciation expense in a timely manner. This is only done once at year-end.
- The College recorded a net adjustment of \$59,019 to its capital assets as of July 1, 2008 in order to reconcile its excel worksheets to the general ledger.

**Context:** We obtained copies of capital asset listings. We requested evidence of the reconciliation process between the physical inventories and general ledger.

**Effect:** Monthly financials do not include all activity of the College since capital assets are not added as acquired throughout the year. Also, there is a greater potential for error using excel worksheets to maintain capital assets and calculate depreciation, given that the college has over 3,000 capital assets in the excel worksheet at year-end.

**Cause:** The College's capital asset accounting procedures are not adequate to ensure that capital assets are accurately reflected in the property records and general ledger.

**Auditors' Recommendations:** The College should perform an entity-wide physical inventory of its capital assets every two years, at a minimum. Once completed, the listing must be reconciled to the general ledger control totals and any necessary adjustments to the general ledger must be made. The College should also implement procedures to ensure the recording of additions, deletions and depreciation at the end of each month. The College intends to start using the fixed asset module of the Banner accounting software in fiscal year 2011.

DAWSON COMMUNITY COLLEGE

Schedule of Findings

For the Year Ended June 30, 2009

09-2 Propriety of Accounts Payable

**Criteria or Specific Requirement:** Proper accounting procedures suggest that the College's accounting records remain open for a short time following year end to ensure all accounts payable are recorded.

**Condition:** Pursuant to our search for unrecorded liabilities, we noted four invoices which were dated prior to year-end, but were not recorded as accounts payable at year end.

**Context:** We reviewed invoices for twenty payments made after year end, noting unrecorded liabilities from four invoices totaling \$33,764.

**Effect:** Accounts payable and the corresponding expense would have been understated. The College provided an audit adjustment to record these invoices as accounts payable.

**Cause:** The administrative office failed to identify and accrue all accounts payable at year-end.

**Auditors' Recommendations:** Management needs to follow policies and procedures in place for the recording and monitoring of accounts payable.

09-3 Tuition Receivable

**Criteria or Specific Requirement:** Accounts receivable and the corresponding revenue should be recorded at its net realizable value. An allowance for doubtful accounts should be established for the tuition receivable that the College does not believe will be collected from students.

**Condition:** The College uses the direct write off method for its tuition accounts receivable. Each year management writes off all balances older than five years and assumes all receivables that are one to five years old are fully collectible. The majority of receivable balances outstanding at year-end are greater than two years old and it seems unlikely that they are 100% collectible.

Additionally, adequate supporting documentation could not be provided for the tuition receivable account. The tuition receivable listing does not agree to the year-end trial balance by approximately \$7,000.

**Context:** We reviewed the tuition receivable account and requested supporting documentation.

**Effect:** The tuition receivable account is overstated. The exact amount of the overstatement is not known.

**Cause:** The College does not have an allowance for doubtful accounts established for tuition receivable.

**Auditors' Recommendations:** The College should develop a method for determining what portion of the tuition receivable is collectible and develop an allowance for doubtful accounts to make sure tuition receivable is recorded at its net realizable value.



**Dawson**  
Community College

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March 30, 2011

Joseph Eve  
Certified Public Accountants  
401 North 31<sup>st</sup> Street, Suite 1600  
Billings, Montana 59101

The following is our response to the recommendation made in the 2009 audit report for Dawson Community College.

**Finding #09-01 – Capital Assets**

**Auditee Response:**

The College concurs with the Auditor's findings and recommendations concerning Capital Assets. In December 2009 Dawson Community College signed contracts with SunGard to install a fully integrated institutional software program (Program). The College is in the process of implementing the fixed asset module. Full implementation of this module should resolve the cited conditions and meet recommendations. The College will also perform entity-wide physical inventory of capital assets.

**Finding #09-02 – Propriety of Accounts Payable**

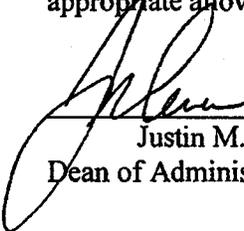
**Auditee Response:**

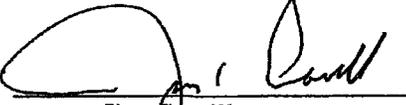
The College concurs with the Auditor's findings and recommendations concerning Propriety of Accounts Payable. In December 2009 Dawson Community College signed contracts with SunGard to install a fully integrated institutional software program (Program). The Program includes the ability to leave the accounting records open following the year end to enter accruals. Additionally, the Program allows for automatic accrual of invoices that remain unpaid at year end. This Program attribute will greatly decrease the probability that invoices are not accrued at year end.

**Finding #09-03 – Tuition Receivable**

**Auditee Response:**

The College concurs with the Auditor's findings and recommendations concerning Tuition Receivable. In December 2009 Dawson Community College signed contracts with SunGard to install a fully integrated institutional software program (Program). The Program includes a student accounts receivable module that tracks all accounts receivable balances. The College will modify its current procedures on determining the collectability of student accounts receivable and implement an appropriate allowance for doubtful accounts procedure.

  
Justin M. Cross  
Dean of Administrative Services

  
Jim Cargill  
President

**DAWSON COMMUNITY COLLEGE**

**Summary Schedule of Prior Audit Findings**

**June 30, 2009**

The following summarizes the prior audit findings and corrective action taken:

**Finding 08 - 1 Negative Restricted Net Assets - Implemented**

**Finding 08 - 2 Tuition Receivable - Partially Implemented**

The College now maintains a subsidiary ledger but it does not agree to the general ledger.

**Finding 08 - 3 Restricted Cash - Implemented**

**Finding 08 - 4 Internal Control Weaknesses - Implemented**