DAWSON COMMUNITY COLLEGE

Financial Audit Report

For the Years Ended June 30, 2013 and 2012

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

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

March 2014

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Dawson Community College for the fiscal year ended June 30, 2013.

The audit was conducted by Joseph Eve, Certified Public Accountants, under a contract between the firm and our office. The contents of this report represent the views of the firm and not necessarily the Legislative Auditor. The College's written response to the report is included in the back of the audit report.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

13C-06

Room 160 · State Capitol Building · P.O. Box 201705 · Helena, MT · 59620-1705
Phone (406) 444-3122 · FAX (406) 444-9784 · E-Mail lad@mt.gov
http://leg.mt.gov/audit

DAWSON COMMUNITY COLLEGE

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DAWSON COMMUNITY COLLEGE

Organization

Years Ended June 30, 2013 and 2012

BOARD OF TRUSTEES

COLLEGE OFFICIALS

Michael Simon	President
Kathleen Zander	Executive Director of Business and Finance
Dr. Ted Phillips	Vice President of Instruction and Student Services

JOSEPH EVE
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Dawson Community College
Glendive, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of the Dawson Community College, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the October 31, 2012 and 2011 financial statements of Dawson College Foundation, Inc., which represent 100% of the assets, net assets, and revenues of the aggregate discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Dawson College Foundation, Inc., is based solely on the report of the other auditors. 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. The financial statements of Dawson College Foundation, Inc. were not audited in accordance with *Government Auditing Standards.*

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Dawson Community College as of June 30, 2013 and 2012 and the aggregate discretely presented component unit of the College as of October 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that a management's discussion and analysis and the other post employment benefits schedule of funding progress on pages 8 through 14 and 50, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Student Financial Aid Modified Statement of Cash Receipts and Disbursements, Schedule of 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 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.

Other Reporting Required by Government Auditing Standard

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2014 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* in considering the College's internal control over financial reporting and compliance.

JOSEPH EVE
Certified Public Accountants

Billings, Montana
March 28, 2014

Management's Discussion and Analysis

Overview

The following Management's Discussion and Analysis is required supplementary information under the Governmental Accounting Standards Board (GASB) reporting model. Dawson Community College's ("DCC") Management Discussion and Analysis (MD&A) presents an overview of its financial condition, results of operations and cash flows for the fiscal year ended June 30, 2013. The MD&A's purpose is to aid readers in understanding the accompanying financial statements through analysis of DCC's financial activities based on currently known facts and conditions. This MD&A should be read in conjunction with the accompanying financial statements and footnote disclosures.

How the Financial Statements Relate to Each Other

The financial statements included are the:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows

The basic financial statements referred to above are presented using the accrual basis of accounting. The accrual basis of accounting simply means revenues are reported when earned and expenses are reported when incurred, regardless of when the cash was actually received or paid. 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 most basic relationships between the statements are described below. The Statement of Net Position presents a snap shot of the financial condition of DCC as of June 30, 2013. The Statement of Revenues, Expenses and Changes in Net Position present the results of activities for DCC throughout the fiscal year. The Statement of Cash Flows indicates where and how cash was utilized and provided in order to operate throughout the fiscal year.

Statement of Net Position

The Statement of Net Position presents the College's assets, liabilities, and net position 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, 2013. The data presented in the Statement of Net Position 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 Position provides a picture of net assets and their availability for expenditure by the College. Assets and liabilities are presented in a classified format. This format differentiates between current and non-current assets and liabilities. Current assets and liabilities are those expected to be realized or expended within the next twelve months. The net position is simply the difference between total assets and total liabilities. Net position is presented in three categories applicable to DCC:

- Unrestricted
- Restricted – Expendable and Nonexpendable
- Net Investment in Capital Assets

The change in net position during the fiscal year is an indicator of the change in the overall financial condition of the college during the year. This statement is one way of measuring DCC's financial position at the end of the fiscal year. Improvements or deterioration of financial position can be measured over time by analyzing the change in net assets.

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

CONDENSED STATEMENT OF NET POSITION

	At 06/30/13	At 06/30/12	At 06/30/11	At 06/30/10
Total Current Assets	$2,483,817	$2,472,413	$2,513,724	$2,410,258
Total Non-Current Assets	$12,337,967	$12,667,371	$12,794,633	$12,264,347
TOTAL ASSETS	**$14,821,784**	**$15,139,784**	**$15,308,357**	**$14,674,605**
Total Current Liabilities	$898,085	$807,212	$791,423	$873,466
Total Non-Current Liabilities	$4,849,469	$5,032,162	$5,191,371	$5,028,774
TOTAL LIABILITIES	**$5,747,554**	**$5,839,374**	**$5,982,794**	**$5,902,240**
Net Investment in Capital Assets	$6,368,521	$6,405,963	$6,434,623	$5,816,995
Restricted-Expendable	$1,909,739	$1,866,245	$1,674,361	$1,776,646
Unrestricted	$795,970	$1,028,202	$1,216,579	$1,178,724
TOTAL NET POSITION	**$9,074,230**	**$9,300,410**	**$9,325,563**	**$8,772,365**

Total net position decreased by $226,180 from FY2013 to FY2012, which indicates the overall financial position of the College decreased over that time period.

Current assets include the College's cash, taxes, grants, student loans and accounts receivable and inventories and other assets expected to benefit the College within one year. The net increase in current assets was due to an increase in cash and cash equivalents netted against a decrease in receivables. Receivables decreased primarily due to the creation of an allowance for doubtful accounts and a decrease in student-related accounts receivable.

Non-Current Assets include restricted cash and investments and net capital assets. The decrease from 2013 to 2012 is primarily due to a depreciation of existing property and equipment and the removal of obsolete items.

Current liabilities include payroll and related liabilities, amounts payable to vendors for goods and services received, student deposit balances and debt principal payments due within one year. Total current liabilities increased by $90,873 from FY2012 due to an increase in accrued payroll expenses.

Non-Current Liabilities include debt principal due in greater than one year and other post-employment benefit obligations (OPEB) for employees. The reduction of total non-current liabilities from FY2012 to FY2013 is primarily the result of payments made on debt service, offset by the increase in the OPEB liability. Additional information related to debt service and the OPEB liability may be found in the notes of the financial statements.

Net Investment in Capital Assets: This category represents historical cost of capital assets such as buildings and land held by the College less accumulated depreciation and net of debt balances related to the capital assets. The decrease from FY2012 to FY2013 is mainly from the difference between the annual reduction in long term debt and depreciation of capital assets.

Restricted-Expendable Net Position: This category represents funds that may be expended by the College but only in accordance with restrictions imposed by an external party, such as a donor, governmental entity, etc. It is primarily restricted for grants, student loans, scholarships and student activities, etc.

Unrestricted net assets are funds that the College has to use for whatever purpose it determines is appropriate. This category is made up of operating activities, auxiliary activities, and also numerous designated activities which include funds designated as follows:

Student Activity Fees – Any change in the Student Activity Fee must be approved by a majority of the voting students, 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
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.

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 consumable supplies, periodicals and holdings, and 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.

Student Building Fees – Any change in the Student Building Fee must be approved by a majority of the voting students, 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.

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/Banner system. This system is primarily used for student records, human resources, and student accounts receivable and financial accounting record keeping.

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 renovations and repairs.

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 Revenue, Expenses, and Changes in Net Position

The Statement of Revenue, Expenses, and Changes in Net Position reflects the results of the operations for each fiscal year, distinguishing between operating and non-operating revenues and expenses as defined in GASB 35. GASB 35 has defined appropriations (state and local) as non-operating revenues, thus DCC shows an operating loss of $3,803,604 for FY2013. Once the appropriation dollars are considered, the change in net position results in a loss of $226,180 for FY2013. Inclusion of state and local appropriations is a more useful measure of DCC's regular activities.

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	For Fiscal Year Ended 06/30/13	For Fiscal Year Ended 06/30/12	For Fiscal Year Ended 06/30/11	For Fiscal Year Ended 06/30/10
Operating Revenues	$3,456,351	$4,121,229	$5,658,211	$4,200,021
Operating Expenses	($7,259,955)	($7,739,609)	($8,287,389)	($7,666,683)
Operating Loss	($3,803,604)	($3,618,380)	($2,629,178)	($3,466,662)
Net Nonoperating Revenues (Expenses)	$3,577,424	$3,593,227	$3,472,036	$3,393,838
Change in Net Position	($226,180)	($25,153)	$842,858	($72,824)
Net Assets - Beginning of Year, as Restated	$9,300,410	$9,325,563	$8,482,705	$8,845,193
Net Assets - End of Year	$9,074,230	$9,300,410	$9,325,563	$8,772,369

Operating Revenue includes federal and state grants and contracts, tuition, fees and auxiliary activities. Operating Revenues for FY2013 are $3,456,351 compared to $4,121,229 for FY2012. This decrease is primarily comprised of less revenue in state and federal grants, tuition and fees, and auxiliary activities such as the bookstore and dormitory. These results are consistent with the drop in enrollment for FY2013.

Operating Expense: Operating Expenses for FY2013 were $7,259,955 versus $7,739,609 for FY2012, a decrease of $479,654. Lower enrollment necessitated cost savings measures, which resulted in less expended for salaries and benefits, contracted services, student support, scholarships and grants and other operating expenses. It is worth noting there was $150,179 increase in Bad Debt Expense, primarily related to the establishment of an allowance for doubtful accounts.

Non Operating Revenues (Expenses) are comprised of interest income and expense, gains on sale of investment and state and local appropriations. Non-Operating Revenues for FY2013 are $3,577,424 and $3,593,227 for FY2012. State appropriations were $86,236 less than FY2012 and local appropriations were $36,242 more than FY2012.

Statement of Cash Flows

The Statement of Cash Flows summarizes where cash was provided by or used in operating, non-capital financing, capital and related financing and investing activities throughout the year. While cash flows in operating activities is self-explanatory; noncapital financing activities consist of state and local appropriations. Capital and related financing activities presents cash used for the acquisition and construction of capital and related items. The $540,391 used consists primarily of payments made for long term debt. The last section, investing activities, relates to purchases, proceeds and interest received from investing activities. The sum of these four categories is the net change in cash which was an increase of $133,575 for FY2013.

STATEMENT OF CASH FLOWS

	For Fiscal Year Ended 06/30/13	For Fiscal Year Ended 06/30/12	For Fiscal Year Ended 06/30/11	For Fiscal Year Ended 06/30/10
Cash Provided (Used) by:				
Operating Activities	($3,010,446)	($2,975,958)	($2,177,289)	($3,007,361)
Noncapital Financing Activities	$3,547,865	$3,612,128	$3,488,123	$3,500,631
Capital and Related Financing Activities	($540,391)	($552,235)	($1,236,469)	($912,258)
Investing Activities	$136,547	$26,794	$34,453	$231,269
Net Increase (Decrease) in Cash	$133,575	$110,729	$108,818	($187,719)
Cash and Cash Equivalents, Beginning of Year	**$2,243,405**	**$2,132,676**	**$2,023,858**	**$3,473,825**
Cash and Cash Equivalents, Reclassed				(1,262,248)
Cash and Cash Equivalents, End of Year	$2,376,980	$2,243,405	$2,132,676	$2,023,858

Pending Economic and Financial Issues

Population - The College will continue to face challenges due to the rapid growth in the energy industry in Eastern Montana and the high paying jobs associated therein. Additionally, the population is projected to continue to grow at a rapid rate placing demands on housing and escalating living costs beyond the means of traditional students. The College will continue to explore avenues to attract traditional and non-traditional students to the campus and to offer a greater variety of energy related offerings and programs. Emphasis on workforce development and stackable credentials will be used to offer our changing demographic, better educational opportunities.

Regional Economy – Eastern Montana and Western North Dakota have opened up as a new and growing hub for energy development, impacting all of the United States. Starting pay for entry level jobs in the energy sect is extremely high and is equaled only by the demand for workers. Unskilled workers and unemployed are moving in the area to take advantage of the high wages and employment opportunities. While recruiting traditional students in the present economic environment, continues to be difficult, the need for skilled workers has sky-rocketed along with housing costs. Current industry is demanding knowledge of basic skills in the work environment that is not currently being met as droves of unskilled workers move into the area. An advantage of community colleges is our ability to change course quickly and offer what is demanded in our region. Offering training or credentials to this untrained workforce is a niche that DCC has unequaled opportunity to fill. Not only offering workforce training but learning opportunities to family members of this labor force is an opportunity that DCC will place added emphasis on in the future.

Faculty and Staff – The College's compensation and benefits package continues to be competitive with other institutions in the region. As other learning institutions are not our only employee retaining competition, declining enrollment tuition and fees, coupled with an environment of higher wages offered in the private energy industry, is making it increasingly more difficult to attract and retain high quality faculty and staff.

State Funding –The current economic environment continues to challenge the adequacy of funding for Montana's community colleges. The 2012 review of the current funding formula was helpful in assessing if the current funding formula is an accurate and fair means to determine State funding. The uncertainty of the economic and political environment requires the College to pursue alternate sources of funding such as state and federal grants, business partnerships, and partnerships with other educational institutions to seek other opportunities for growth.

Campus Integrated Data Base System – The College in partnership with the Office of Commissioner of Higher Education and the Board of Regents began implementing the SunGard Banner integrated data base in 2010. This process was expected to take one year, with a completion date of July 2011. The completion date has extended well into fiscal year 2013. To date, implementation is largely complete but use of Banner to compile financial information in a timely manner and complete monthly reconciliations continues to be a challenge. Networking with other institutions for benefit of their knowledge and experience has proven lately to be our best means to learn how to best use Banner to provide necessary and timely information.

Hiring of Anderson ZurMuehlen & Co., P.C. – Due to the difficulties experienced in the implementation of Banner and the lack of timely, accurate financial data available, the new administration at DCC decided to hire Anderson ZurMuehlen & Co., P.C. to assist in closing out FY2013, reconciling cash, identifying areas of internal control weaknesses, addressing comments in FY2011 and FY2012 audits and preparing financial statements. Their assistance has been invaluable and emphasizes Dawson Community College's commitment to obtaining timely and accurate financial data in the future.

Administration – Since the end of FY2013, President Mike Simon took over and has put a new administrative team in place for FY2014. As of December 2013, no previous administrators remained at DCC. This new administrative team at Dawson Community College is excited about the challenges and opportunities presented to DCC. We are committed to meeting the varied needs of students in our area, improving our financial situation and moving forward.

Financial Statements

DAWSON COMMUNITY COLLEGE
STATEMENTS OF NET POSITION
As of June 30, 2013 and 2012

	2013	(As Restated) 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,009,606	1,841,696
Taxes receivable	41,282	36,647
Student loan receivable	70,782	70,096
Accounts receivable, net of allowance for doubtful accounts of $67,172 and $-0- at June 30, 2013 and 2012, respectively	143,134	336,144
Grants receivable	44,493	35,990
Prepaid expenses	58,399	38,116
Inventory	116,121	113,724
Total current assets	2,483,817	2,472,413
NONCURRENT ASSETS		
Restricted cash	367,374	401,709
Restricted investments	1,677,710	1,620,969
Land	137,518	137,518
Property and equipment (net of accumulated depreciation of $5,491,851 and $5,209,531 at June 30, 2013 and 2012, respectively	10,155,365	10,507,175
Total capital assets	10,292,883	10,644,693
Total noncurrent assets	12,337,967	12,667,371
Total assets	$ 14,821,784	$ 15,139,784

See Accompanying Notes to the Financial Statements.

	2013	(As Restated) 2012
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	$ 125,535	$ 148,437
Accrued payroll expenses	239,688	101,847
Room deposits	21,300	17,100
Interest payable	27,659	27,659
Current portion of long-term debt	338,640	318,535
Current portion of compensated absences	145,263	193,634
Total current liabilities	898,085	807,212
LONG-TERM LIABILITIES		
Long-term debt, less current portion	3,585,722	3,920,196
Long-term compensated absences, less current portion	290,527	290,450
OPEB payable	973,220	821,516
Total long-term liabilities	4,849,469	5,032,162
Total liabilities	5,747,554	5,839,374
NET POSITION		
Net investment in capital assets	6,368,521	6,405,963
Restricted for:		
Student loans	10,230	21,558
Scholarships, research, and other	1,800,005	1,754,508
Student activities fund	99,504	90,179
Unrestricted	795,970	1,028,202
Total net position	9,074,230	9,300,410
Total liabilities and net position	$ 14,821,784	$ 15,139,784

See Accompanying Notes to the Financial Statements.

DAWSON COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2013 and 2012

	2013	(As Restated) 2012
Operating revenues		
Federal grants and contracts	$ 1,557,669	$ 2,090,543
State and private grants and contracts	94,580	141,457
Tuition	648,314	710,204
Course and mandatory fees	262,332	309,152
Auxiliary activities		
Bookstore	84,540	103,447
Dormitory	454,964	513,446
Other revenue	353,951	252,980
Total operating revenues	3,456,350	4,121,229
Operating expenses		
Salaries	2,527,730	2,537,209
Benefits	1,061,700	1,100,791
Travel	206,943	195,350
Supplies	560,612	518,144
Contracted services	455,928	576,588
Repairs and maintenance	157,023	168,692
Student support	664,164	894,166
Utilities	167,545	153,407
Communication	58,331	60,736
Scholarships and grants	568,026	853,861
Bad debt expense	166,806	16,627
Other operating expense	263,678	244,308
Depreciation	401,468	419,730
Total operating expenses	7,259,954	7,739,609
Operating loss	(3,803,604)	(3,618,380)

See Accompanying Notes to the Financial Statements.

	2013	(As Restated) 2012
Non-operating revenues (expenses)		
Interest income	19,330	26,794
Interest expense	(176,364)	(184,852)
Gain on sale of assets	-	25,001
Gain on sale of investments	181,958	123,790
State appropriation	1,667,518	1,753,754
Local appropriation	1,884,982	1,848,740
Total non-operating revenues (expenses)	3,577,424	3,593,227
Change in net position	(226,180)	(25,153)
Net position, beginning of year	9,300,410	9,325,563
Net position, end of year	$ 9,074,230	$ 9,300,410

See Accompanying Notes to the Financial Statements.

DAWSON COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2013 and 2012

	2013	(As Restated) 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tuition and course fees	$ 1,103,656	$ 1,067,507
Receipts from grants and contracts	1,643,746	2,216,307
Collection on student loans	7,314	8,024
Receipts from the bookstore	84,540	103,447
Receipts from the dormitory	459,164	503,996
Cash paid to employees	(3,348,179)	(3,431,107)
Cash paid to suppliers	(1,914,903)	(1,795,678)
Cash paid for scholarships and student support	(1,232,190)	(1,748,027)
Payments for utilities	(167,545)	(153,407)
Other revenue	353,951	252,980
Net cash from operating activities	(3,010,446)	(2,975,958)
CASH FLOWS FROM INVESTING ACTIVITIES		
Disbursement of loans to students	(8,000)	-
Interest received	19,330	26,794
Purchase of investments	(56,741)	-
Gain on sale of investments	181,958	-
Net cash from investing activities	136,547	26,794
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	1,667,518	1,753,754
Local appropriations	1,880,347	1,858,374
Net cash from non-capital financing activities	3,547,865	3,612,128

See Accompanying Notes to the Financial Statements.

	2013	(As Restated) 2012
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts on sale of property and equipment	-	25,001
Purchase of property and equipment	(49,658)	(86,216)
Principal payments on long-term debt	(314,369)	(304,855)
Interest payments on long-term debt	(176,364)	(186,165)
Net cash from financing activities	(540,391)	(552,235)
Net change in cash and cash equivalents	133,575	110,729
Cash and cash equivalents, beginning of year	2,243,405	2,132,676
Cash and cash equivalents, end of year	$ 2,376,980	$ 2,243,405

	2013	(As Restated) 2012
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	$ (3,803,604)	$ (3,618,380)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	401,468	419,730
Bad debt expense	67,172	16,627
(Increase) decrease in:		
Student loans receivable	7,314	8,023
Accounts receivable	125,838	45,186
Grants receivable	(8,503)	12,478
Prepaid expenses	(20,283)	(1,567)
Inventory	(2,397)	(5,603)
Increase (decrease) in:		
Accounts payable	(22,902)	(49,895)
Accrued payroll expenses	137,841	38,481
Room deposits	4,200	(9,450)
Compensated absences	(48,294)	22,892
OPEB	151,704	145,520
Net cash used by operating activites	$ (3,010,446)	$ (2,975,958)

See Accompanying Notes to the Financial Statements.

DAWSON COLLEGE FOUNDATION, INC.
(A Component Unit of Dawson Community College)
STATEMENTS OF FINANCIAL POSITION
As of October 31, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 193,715	$ 375,193
Investments in marketable equity securities	1,049,972	851,401
Accrued interest receivable	1,982	1,080
Total current assets	1,245,669	1,227,674
NONCURRENT ASSETS		
Building fund	14,120	28,256
Land held for resale	32,000	-
Total noncurrent assets	46,120	28,256
Total assets	$ 1,291,789	$ 1,255,930
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Due to Dawson College - Building Fund donations	$ 20,161	$ 34,354
Total liabilities	20,161	34,354
NET ASSETS		
Restricted for building	6,198	6,141
Unrestricted	1,233,994	1,200,229
Total net assets	1,240,192	1,206,370
Accumulated other comprehensive income		
Unrealized gains and losses	31,436	15,206
Total liabilities, net assets and accumulated other comprehensive income	$ 1,291,789	$ 1,255,930

See Accompanying Notes to the Financial Statements.

DAWSON COLLEGE FOUNDATION, INC.
(A Component Unit of Dawson Community College)
STATEMENT OF ACTIVITIES
For the Year Ended October 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Dues	$ 620	$ -	$ -	$ 620
Contributions	95,042	-	-	95,042
Contributions - Toepke Land Project	-	-	-	-
Land lease	1,500	-	-	1,500
Interest income	25,205	57	-	25,262
Dividend income and net realized gains	16,990	-	-	16,990
Total revenues and support	139,357	57	-	139,414
Expenses				
Scholarships	23,523	-	-	23,523
Fees	4,475	-	-	4,475
Musical instruments and supplies	2,796	-	-	2,796
Teacher development	9,771	-	-	9,771
Charitable distributions	62,667	-	-	62,667
Miscellaneous	2,360	-	-	2,360
Total expenses	105,592	-	-	105,592
Change in net assets	33,765	57	-	33,822
Net assets, beginning of year	1,200,229	6,141	-	1,206,370
Net assets, end of year	$ 1,233,994	$ 6,198	$ -	$ 1,240,192
Net unrealized gains on securities	$ 16,230	$ -	$ -	$ 16,230

See Accompanying Notes to the Financial Statements.

DAWSON COLLEGE FOUNDATION, INC.
(A Component Unit of Dawson Community College)
STATEMENT OF ACTIVITIES
For the Year Ended October 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Dues	$ 4,851	$ -	$ -	$ 4,851
Contributions	476,813	-	-	476,813
Contributions - Toepke Land Project	1,200	-	-	1,200
Land lease	-	-	-	-
Interest income	17,078	93	-	17,171
Dividend income and net realized gains	4,315	-	-	4,315
Total revenues and support	504,257	93	-	504,350
Expenses				
Scholarships	23,976	-	-	23,976
Fees	2,061	-	-	2,061
Musical instruments and supplies	2,500	-	-	2,500
Teacher development	8,228	-	-	8,228
Charitable distributions	37,197	-	-	37,197
Miscellaneous	9,817	-	-	9,817
Total expenses	83,779	-	-	83,779
Change in net assets	420,478	93	-	420,571
Net assets, beginning of year	779,751	6,048	-	785,799
Net assets, end of year	$ 1,200,229	$ 6,141	$ -	$ 1,206,370
Net unrealized gains on securities	$ 7,218	$ -	$ -	$ 7,218

See Accompanying Notes to the Financial Statements.

DAWSON COLLEGE FOUNDATION, INC.
(A Component Unit of Dawson Community College)
STATEMENTS OF CASH FLOWS
For the Years Ended October 31, 2012 and 2011

	2012	2011
NET CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 33,822	$ 420,571
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Decrease in unrealized gain on securities	16,230	7,218
Increase in interest receivable	(902)	(1,080)
Increase in land held for sale	(32,000)	-
Decrease in due to Dawson Community College	(14,193)	-
Net cash from operating activities	2,957	426,709
NET CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investments	(198,571)	(188,052)
(Increase) decrease in building fund	14,136	(93)
Net cash from investing activities	(184,435)	(188,145)
Net change in cash and cash equivalents	(181,478)	238,564
Cash and cash equivalents, beginning of year	375,193	136,629
Cash and cash equivalents, end of year	$ 193,715	$ 375,193

See Accompanying Notes to the Financial Statements.

Notes to the Financial Statements

NOTE 1. NATURE OF BUSINESS AND 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.

Nature of Business – Reporting Entity

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

The County government of 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.

GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units, and Amendment of GASB Statement No. 14" 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. Accordingly, the College has identified and will present the activities of the Dawson College Foundation, Inc. as a component unit. The Foundation’s financial information is presented in statements separate from the financial data of the College in a nongovernmental format. Since these statements are not presented with the College’s statements, the presentation of the statements has not been modified to conform with the classification and display requirements stipulated by GASB.

The Dawson College Foundation, Inc. has been organized to coordinate fund-raising activities for the local college. These include the long-term care of and building of additional facilities at the college location in Glendive Montana. The Foundation uses these funds to assist in purchasing needed educational equipment and supplies. The Foundation’s separately issued financials statements may be obtained by contacting their office at 300 College Drive, Glendive, MT.

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared in accordance with generally accepted accounting principles, as prescribed by the Government Accounting Standards Board (GASB). Under GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments" and GASB Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities," the College is required to present a Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows.

Basis of Accounting – College

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.

Basis of Accounting – Foundation

The financial statements of the Foundation have been prepared on the accrual basis of accounting. Revenues and expenses are recognized when earned or incurred. The financial statements reflect unrestricted, temporarily restricted and permanently restricted net assets and activities. Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including board designated or appropriated amounts, are reported as part of the unrestricted class.

Contributions to the Foundation are recognized when the donor makes a promise to give to the Foundation that is in substance, unconditional. The contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Cash and Cash Equivalents – College

Cash and cash equivalents consist of bank deposits, cash held by the County Treasurer, and certificates of deposit. For purposes of the Statement of Cash Flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested in the State Short-term Investment Pool (STIP) with the Montana Board of Investments are considered cash equivalents.

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents – Foundation

The Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Investments – College

Investments are recorded 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.

Investments – Foundation

Investments in equity securities with readily determinable fair values are measured at fair market value in the Statement of Financial Position. The unrealized gain or loss on investments is reflected in the Statement of Activities.

Taxes Receivable

The College records taxes receivable and revenue for property taxes that have been assessed, but have not yet been collected. 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 years ended June 30, 2013 and 2012, are as follows:

	2013 Number of Mills	2012 Number of Mills
General Levy	44.04	45.57
Debt Service Levy	16.46	16.85
Adult Education Levy	6.23	4.64
Retirement Fund Levy	16.24	14.88
Total	82.97	81.94

The value of one mill was $16,794 for FY12/13 and $16,228 for FY11/12.

Accounts Receivable

Accounts receivable consists primarily of student tuition and fees. The College estimates the allowance for doubtful accounts using the specific identification method and includes 50% of all account balances over 90 days past due.

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of Significant Accounting Policies (Continued)

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 merchandise and are valued at cost on the first in, first out method. The costs of inventory are recorded as expenditures when consumed.

Non-Current Assets
Cash and investments that are externally restricted as to their use are classified as a noncurrent asset in the accompanying statement of net position.

Capital Assets and Depreciation
Capital assets include building, improvements, and equipment. Capital assets are defined as assets with an individual initial cost of more than $5,000 and a 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:

Buildings	50 years
Improvements	7–25 years
Equipment	5–20 years
Library Resources	10 years

Donated Services
The value of donated services is 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.

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Federal Awards and Grants
The College has received federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in general expenditure disallowances under the terms of the grants, it is believed that any required reimbursement would not be material.

Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements
The College has adopted the provisions of the following GASB pronouncements for fiscal year 2013:

- Statement No. 61 – *The Financial Reporting Entity – Omnibus – An Amendment of GASB Statements No. 14 and 34.* This statement amends the definition of component units.
- Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement clarifies the applicability of certain FASB and AICPA pronouncements for business-type activities.
- Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This statement amends the definitions of certain assets and liabilities, provides guidance for the reporting of deferred inflows and outflows, and redefines the residual measure as net position.

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is effective for periods beginning after December 15, 2012. This statement defines new financial statement items called deferred inflows of resources and deferred outflows of resources, and reclassifies certain items previously classified as assets or liabilities and deferred outflows or deferred inflows, respectively. The District has elected not to implement Statement No. 65 before its effective date. When implemented, Statement No. 65 will require the restatement of certain previously reported amounts in the financial statements.

Classification of Net Position

The College's classifies net position as follows:

- Net investment in capital assets – capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted, expendable – 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 with the passage of time.
- Restricted, nonexpendable – subject to externally imposed stipulations that the College maintain those assets permanently.
- Unrestricted –not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by actions 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 position is designated for general operating purposes and capital asset acquisition.

Revenues

The College has classified its revenues as either operating or non-operating 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.
- **Non-operating Revenue** – non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating 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.

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

The Foundation has been granted a letter of exemption by the Internal Revenue Service which qualifies it as a nonprofit organization. With few exceptions, the Foundation is no longer subject to examination by federal taxing authorities for years before 2009.

Scholarship Discounts and Allowances
Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are 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 non-operating 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 position in the Statement of Net Position. The student activities funds net position as of June 30, 2013 and June 30, 2012 totaled $99,504 and $90,179, respectively.

Restatement
As a result of an internal review of the College’s grants receivable, accounts payable, and long-term OPEB payable during FY13, the College discovered that grants receivable had been understated, accounts payable overstated, and long-term OPEB payable had been understated. Accordingly, the College restated its financial statements for the year ended June 30, 2012.

NOTE 2. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents·– College
At June 30, 2013 and 2012, cash and cash equivalents consisted of the following:

	2013	2012
Cash on hand	$ 1,950	$ 1,950
Deposits with financial institutions	67,846	79,173
Time certificate of deposit with financial	49,352	49,352
Invested in Dawson County Investment Pool	2,257,832	2,112,930
Total cash and cash equivalents	$ 2,376,980	$ 2,243,405

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.

Custodial Credit Risk – Deposits
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.

As of June 30, 2013 and 2012 none of the College's bank balances of $120,526 and $125,236 were exposed to custodial credit risk.

Cash and Cash Equivalents – Foundation
As of October 31, 2012 and 2011, the Foundation's bank balances exceeded insurance limits by $54,192 and $33,335, respectively.

NOTE 3. RESTRICTED CASH

The College had restricted cash as follows as of June 30, 2013 and 2012.

	2013	2012
Restricted for dorm furniture replacement	$ 30,271	$ 30,271
Dorm deposits	21,300	17,100
Restricted for grants	156,279	147,001
Restricted for student loan program	10,329	67,806
USDA loan reserve	49,352	49,352
Restricted for student organization	99,843	90,179
Total restricted cash	$ 367,374	$ 401,709

NOTE 4. RESTRICTED INVESTMENTS

College

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 and does not have a credit rating. 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, 2013 and 2012.

NOTE 4. RESTRICTED INVESTMENTS (CONTINUED)

As of June 30, 2013 and 2012, the College held the following investments:

	2013	2012
Money market funds	$ 2,946	$ 2,921
GNMA	141	154
Corporate bond mutual funds	94,743	87,191
Stock mutual funds	1,579,880	1,530,703
Total restricted cash	$ 1,677,710	$ 1,620,969

Foundation
The Foundation's investments consist of certificates of deposit, securities, and mutual funds as follows:

	2012	2011
Certificates of deposit	$ 311,941	$ 309,716
Charles Schwaab- Hoyt account	335,675	237,586
Charles Schwaab- basketball fund	25,349	23,139
Edward Jones- managed account	114,543	-
Edward Jones- stocks, mutual funds	82,030	76,090
Edward Jones- bonds	180,434	204,870
Total restricted cash	$ 1,049,972	$ 851,401

Interest Rate Risk
The College does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The College's investments in the State Short-Term Investment Pool (through 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.

Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College has no investment policy that would limit its investment choices.

Custodial Credit Risk – Investments
For an investment, custodial credit risk is the risk that, in the event of a failure of a counterparty (the party that pledges collateral or repurchase agreement securities to the College or that sells investments to or buys them for the College), the College will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The College currently does not have an investment policy for custodial credit risk. $141 and $154 of the College's investments were exposed to custodial credit risk as of June 30, 2013 and 2012, respectively.

NOTE 5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013, is summarized as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets not being depreciated				
Land	$ 137,518	$ -	$ -	$ 137,518
Total capital assets not being depreciated	$ 137,518	$ -	$ -	$ 137,518
Capital assets being depreciated				
Building	12,738,048	-	(89,833)	12,648,215
Equipment	1,342,389	49,658	(29,315)	1,362,732
Improvements	1,239,873	-	-	1,239,873
Library inventory	396,396	-	-	396,396
Total capital assets being depreciated	15,716,706	49,658	(119,148)	15,647,216
Less accumulated depreciation				
Building	(3,610,456)	(250,251)	89,833	(3,770,874)
Equipment	(848,252)	(93,947)	29,315	(912,884)
Improvements	(407,239)	(51,191)	-	(458,430)
Library inventory	(343,584)	(6,079)	-	(349,663)
Total accumulated depreciation	(5,209,531)	(401,468)	119,148	(5,491,851)
Net capital assets being depreciated	10,507,175	(351,810)	-	10,155,365
Net capital assets	$10,644,693	$ (351,810)	$ -	$10,292,883

NOTE 5. CAPITAL ASSETS (CONTINUED)

Capital assets activity for the year ended June 30, 2012, is summarized as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated				
Land	$ 137,518	$ -	$ -	$ 137,518
Total capital assets not being depreciated	$ 137,518	$ -	$ -	$ 137,518
Capital assets being depreciated				
Building	12,738,048	-	-	12,738,048
Equipment	1,388,706	43,517	(89,833)	1,342,390
Improvements	1,197,174	42,698	-	1,239,872
Library inventory	396,396	-	-	396,396
Total capital assets being depreciated	15,720,324	86,215	(89,833)	15,716,706
Less accumulated depreciation				
Building	(3,360,205)	(250,251)	-	(3,610,456)
Equipment	(826,872)	(111,213)	89,833	(848,252)
Improvements	(355,051)	(52,187)	-	(407,238)
Library inventory	(337,506)	(6,079)	-	(343,585)
Total accumulated depreciation	(4,879,634)	(419,730)	89,833	(5,209,531)
Net capital assets being depreciated	10,840,690	(333,515)	-	10,507,175
Net capital assets	$10,978,208	$ (333,515)	$ -	$10,644,693

NOTE 6. COMPENSATED ABSENCES

Compensated absences payable, which represent vacation and sick leave earned by employees which is payable upon termination, at June 30, 2013 and 2012, was as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Vacation and sick	484,084	56,031	(104,325)	435,790

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Vacation and sick	461,191	127,765	(104,872)	484,084

NOTE 7. LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2013, were as follows:

Loan:	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Due Within One Year
Stockman Bank	$ 506,013	$ -	$ (26,538)	$ 479,475	$ 28,288
USDA Rural Development	600,152	-	(10,067)	590,085	11,420
General Obligation Bonds	2,770,000	-	(180,000)	2,590,000	195,000
Mid Rivers Communication	108,333	-	(45,834)	62,499	54,166
Intercap Loan	254,233	-	(51,930)	202,303	49,766
	$ 4,238,731	$ -	$(314,369)	$ 3,924,362	$ 338,640

Changes in long-term liabilities for the year ended June 30, 2012, were as follows:

Loan:	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Stockman Bank	$ 530,985	$ -	$ (24,972)	$ 506,013	$ 25,702
USDA Rural Development	610,484	-	(10,332)	600,152	10,903
General Obligation Bonds	2,940,000	-	(170,000)	2,770,000	180,000
Mid Rivers Communication	158,333	-	(50,000)	108,333	50,000
Intercap Loan	303,783	-	(49,550)	254,233	51,930
	$ 4,543,585	$ -	$(304,854)	$ 4,238,731	$ 318,535

NOTE 7. LONG-TERM LIABILITIES (CONTINUED)

Long-term debt consists of the following at June 30, 2013 and 2012:

	2013	2012
Note payable to Stockman Bank of $700,000 originated on February 21, 2000. Payments of $58,250 including both principal and interest, are due on February 10 each year. The note will mature in 2025. Interest is payable at 6.25% per annum, with the interest rate to be recalculated every five years. 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 fixtures and equipment located in the dormitories, along with an assignment of rental revenue from all of the student dormitories owned by the College.	$ 479,475	$ 506,013
Note payable to the United States Department of Agriculture – Rural Development, originated on February 21, 2000, for $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.	590,085	600,152
On September 1, 2004, the 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.	2,590,000	2,770,000
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.	62,499	108,333

NOTE 7. LONG-TERM LIABILITIES (CONTINUED)

	2013	2012
The lntercap Loan 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 principal and a variable interest portion. The original stated interest rate was 4.75%; however, for the years ended June 30, 2012 and 2013, the interest rate was 1.95% and 1.25%, respectively. The loan is secured by the aforementioned construction project.	202,303	254,233
Total long-term debt	3,924,362	4,238,731
Less: current maturities	(338,640)	(318,535)
Total long-term debt, net	$ 3,585,722	$ 3,920,196

Approximate future annual minimum principal and interest payments as of June 30, 2013, are as follows:

Year ending June 30,	Principal	Interest	Total
2014	$ 338,640	$ 153,205	$ 491,845
2015	298,831	154,522	453,353
2016	305,275	137,575	442,850
2017	290,308	155,040	445,348
2018	244,802	147,357	392,159
Thereafter	2,446,506	879,605	3,326,111
Total	$3,924,362	$1,627,304	$5,551,666

NOTE 8. 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, death, and disability 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	7.15%	7.14%	14.29%
PERS (hired before 7/1/2011)	7.17%	6.90%	14.07%
PERS (hired after 7/1/2011)	7.17%	7.90%	15.07%

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

	2013	2012	2011
TRS	$ 213,210	$ 304,267	$ 263,290
PERS	112,846	112,797	108,176
Total	$ 326,056	$ 417,064	$ 371,466

The State of Montana contributes .37% of the employees' wages covered by PERS, and 2.95% 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 9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Montana State law requires state agencies to provide access to health insurance benefits to eligible retirees up to Medicare-eligible age (65) (Sec. 2-18-704(a)(a), MCA). The Board of Regents of the Montana University System (MUS), having broad authority to act in the best interest of the MUS, has directed the Office of the Commissioner of Higher Education (OCHE) to provide access to health insurance benefits beyond age 65. Eligible College retirees may participate in the health insurance plan provided that they contribute to the cost of the plan.

The Dawson Community College Employee Health Plan participates with the Montana University System Employee Group Benefits Plan. Former employees who retire from the College and eligible dependents may continue to participate in the College's health and hospitalization plan for medical prescriptions insurance coverage. The College subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at the blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because an actuarial basis, their current and future claims, are expected to result in higher costs to the plan on average than those of active employees.

Retirees who are eligible to receive retirement benefits from Teachers Retirement System (TRS) or the Public Employees Retirement System (PERS) at the time employment ceases may participate in the plan. Retirees who are in the Optional Retirement Plan (ORP) (through TIAA-CREF) or any other defined contribution plan associated with the MUS must have worked five or more years and be age 50, or have worked 25 years with the MUS to be eligible for retiree benefits. The MUS's lnterunit Benefits Committee, at the direction of the OCHE, sets the premiums for such participation. Until a retiree reaches age 65, individual retiree participation premiums range from $554 to $648 per month, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums range from $263 to $308 for an individual retiree. Coverage is also extended to dependents and surviving dependents of the employee.

The MUS Group Benefits Plan does not issue a stand-alone financial report, but is subject to audit as part of the State of Montana's Basic Financial Statements, included in the Comprehensive Annual Financial Report (CAFR). A copy of the most recent CAFR can be obtained online at http://afsd.mt.gov/CAFRICAFR.asp or by contacting the Montana Department of Administration, PO Box 200102, Helena, MT 59620-0102.

A schedule of funding progress contained in the Required Supplementary Information immediately following the notes to the financial statements presents multi-year trend information.

NOTE 9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

The plan is considered to be a multi-employer agent plan. All units of the MUS fund the postemployment benefits on a pay-as-you-go basis from general assets. The College's annual other postemployment benefit (OPES) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents an amount that, if funded, would cover normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. For the College for the 2012 and 2013 fiscal years, the obligations were based on the July 1, 2011 census. At that time, the number of active College participants in the health insurance plan was fifty nine. The total number of inactive (retiree and dependent) participants was twenty eight. During the years ended June 30, 2013 and June 30, 2012, the College contributed $390,768 and $493,717, respectively, for actively employed participants, whose annual covered payroll totaled approximately $2,500,000. The College does not contribute to the plan for retirees or their dependents.

Actuarial methods and assumptions: Following are the newly applied actuarial methods and assumptions for the most recent valuation:

- Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

- Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

- Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

- The actuarial methods and significant assumption are
    - Projected Unit funding method.
    - Actuarial value of assets is fair value.
    - Discount rate is 4.25%
    - Salary scale is 4.5%
    - Healthcare cost trend rate is 10% for fiscal year ended June 30, 2012 grading to 5.0% for fiscal year ending June 30, 2021.
    - Past service liability is amortized over a closed 30-year period as a level percentage of projected payroll assumed to grow 2.5% per year.

NOTE 9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligations: The following table shows the College's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the College's net OPEB obligation:

	2013	2012
Annual Required Contribution	$ 116,790	$ 116,790
Interest in Net OPEB Obligation	34,914	28,730
	151,704	145,520
Annual OPEB Cost (Expense)	151,704	145,520
Increase in Net OPEB Obligation	151,704	145,520
Net OPEB Obligation, Beginning of Year	821,516	675,996
Net OPEB Obligation, End of Year	$ 973,220	$ 821,516

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2013 and 2012:

Fiscal Year Ended OPEB Obligation	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost	Net Liability
June 30, 2013	$ 151,704	-	0.00%	$ 151,704
June 30, 2012	$ 145,520	-	0.00%	$ 145,520

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2013 and 2012 was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit	Unfunded AAL (UAAL) (b/a)	Funded Ration (a/b)	Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
July 1, 2011	$ -	$1,234,517	$1,234,517	0.00%	$2,641,259	46.74%
July 1, 2009	-	1,612,783	1,612,783	0.00%	4,194,987	38.45%

NOTE 10. OPERATING LEASE OBLIGATIONS

The College entered into a long-term building lease in March 2012. The lease is for a term of three years, terminating February 28, 2015, with an option to extend for an additional two years. Long-term leases are treated as operating leases for terms of up to sixty months.

The College also leases an arena for the rodeo teams' use. The lease is for a three year term which began with the 2011 fall semester. The College leases the arena for six months during the school year.

During the years ended June 30, 2013 and June 30, 2012, rentals under long-term lease obligations were $28,293 and $19,728, respectively. Future obligations over the primary terms of the College's long-term leases are $13,840 and $9,600, for the years ended June 30, 2014 and 2015, respectively.

NOTE 11. RELATED PARTY TRANSACTIONS

The College's accounts receivable includes $20,161 and $28,256 due from the Foundation for building fund donations at June 30, 2013 and 2012, respectively.

NOTE 12. ECONOMIC DEPENDENCE

The College receives substantial support from state and local appropriations, property tax revenues, and federal and state grants and contracts. A significant reduction in the level of this support, if this were to occur, may have a significant effect on the College's programs and activities.

NOTE 13. 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 14. 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.

Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION

DAWSON COMMUNITY COLLEGE
OTHER POSTEMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
Years Ended June 30, 2013 and 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit	Unfunded AAL (UAAL) (b/a)	Funded Ration (a/b)	Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
July 1, 2011	$ -	$1,234,517	$1,234,517	0.00%	$2,641,259	46.74%
July 1, 2009	-	1,612,783	1,612,783	0.00%	4,194,987	38.45%

SUPPLEMENTARY INFORMATION

DAWSON COMMUNITY COLLEGE
STUDENT FINANCIAL AID
MODIFIED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
For the Year Ended June 30, 2013

	Pell	Perkins	CWS	SEOG
Assets				
Beginning cash balance	$ -	$ 21,557	$ -	$ -
Additions				
Federal advances	453,275	-	13,492	35,034
State matching funds	-	-	-	11,645
Interest collected	-	376	-	-
Interest investments	-	6	-	-
Principal collected	-	3,101	-	-
Loans cancelled	-	-	-	-
Total additions	453,275	3,483	13,492	46,679
Deductions				
Distribution to students	453,275	8,000	13,492	46,679
Administrative expenses	-	7,497	-	-
Other: Transfer to College	-	-	-	-
Total deductions	453,275	15,497	13,492	46,679
Reconciling items				
Net change in accounts receivable	-	687	-	-
Net change to cash	-	(11,327)	-	-
Ending cash balance	$ -	$ 10,230	$ -	$ -

DAWSON COMMUNITY COLLEGE
STUDENT FINANCIAL AID
MODIFIED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
For the Year Ended June 30, 2012

	Pell	Perkins	CWS	SEOG
Assets				
Beginning cash balance	$ -	$ 12,912	$ -	$ -
Additions				
Federal advances	697,821	-	18,332	34,935
State matching funds	-	-	-	11,645
Interest collected	-	973	-	-
Interest investments	-	17	-	-
Principal collected	-	8,024	-	-
Loans cancelled	-	1,430	-	-
Total additions	697,821	10,444	18,332	46,580
Deductions				
Distribution to students	697,821	-	20,165	46,580
Administrative expenses	-	5,612	-	-
Other: Transfer to College	-	-	-	-
Total deductions	697,821	5,612	20,165	46,580
Reconciling items				
Net change in accounts receivable	-	3,813	1,833	-
Net change to cash	-	8,645	-	-
Ending cash balance	$ -	$ 21,557	$ -	$ -

DAWSON COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES
STUDENT FINANCIAL ASSISTANCE PROGRAMS
For the Years Ended June 30, 2013 and 2012

	2013	2012
Perkins Loan Program		
Student loan advances	$ 8,000	$ -
College Work Study		
Wages	$ 13,492	$ 20,165
Supplemental Education Opportunity Grant Program		
Student grants	$ 46,679	$ 46,580
Adminstrative cost	-	-
	$ 46,679	$ 46,580
Pell Grant Program		
Student grants	$ 453,275	$ 697,821
Adminstrative cost	-	-
	$ 453,275	$ 697,821

DAWSON COMMUNITY COLLEGE
SCHEDULE OF FULL TIME EQUIVALENT
For the Years Ended June 30, 2013 and 2012

Semester	Resident	WUE	Nonresident	Total
2013				
Summer 2012	39.7	2.7	1.7	44.1
Fall 2012	208.3	47.5	23.0	278.8
Spring 2013	256.0	40.0	21.0	317.0
	504.0	90.2	45.7	639.9

Semester	Resident	WUE	Nonresident	Total
2012				
Summer 2011	42.9	2.9	0.3	46.1
Fall 2011	248.4	49.5	43.8	341.7
Spring 2012	256.1	44.2	42.0	342.3
	547.4	96.6	86.1	730.1

DAWSON COMMUNITY COLLEGE
FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES
For the Year Ended June 30, 2013

	Instruction	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operations and Maintenance of Plant	Auxiliary	Total
Salaries	1,296,019	79,771	461,933	436,529	-	163,516	89,962	2,527,730
Benefits	421,273	33,842	180,087	311,123	-	72,154	43,221	1,061,700
Travel	18,862	1,283	160,266	23,999	139	-	2,394	206,943
Supplies	76,799	15,627	98,745	220,734	-	22,250	126,457	560,612
Contracted services	163,443	6,799	43,289	97,843	39	1,711	142,804	455,928
Repairs and maintenance	946	-	14,514	85,014	-	44,178	12,371	157,023
Student support	-	-	-	-	664,164	-	-	664,164
Utilities	-	-	5,014	6,796	-	108,141	47,594	167,545
Communication	2,059	-	13,083	9,968	-	19,886	13,335	58,331
Scholarships and grants	-	-	-	-	568,026	-	-	568,026
Bad debt expense	44,132	-	-	122,674	-	-	-	166,806
Other operating expense	34,155	18,481	69,416	112,285	-	702	28,639	263,678
Depreciation	-	-	-	-	-	401,468	-	401,468
Total	2,057,688	155,803	1,046,347	1,426,965	1,232,368	834,006	506,777	7,259,954

DAWSON COMMUNITY COLLEGE
FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES
For the Year Ended June 30, 2012

	Instruction	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operations and Maintenance of Plant	Auxiliary	Total
Salaries	1,260,871	108,682	487,623	420,376	-	164,092	95,565	2,537,209
Benefits	389,034	93,548	183,686	315,445	-	75,268	43,810	1,100,791
Travel	18,245	1,260	163,712	11,688	-	445	-	195,350
Supplies	61,616	12,153	202,194	117,807	-	34,542	89,832	518,144
Contracted services	186,330	2,052	45,685	175,695	-	-	166,826	576,588
Repairs and maintenance	-	-	37,943	59,356	-	49,466	21,927	168,692
Student support	-	-	-	-	894,166	-	-	894,166
Utilities	-	-	31,144	16,462	-	90,126	15,675	153,407
Communication	4,855	-	20,373	6,399	-	17,388	11,721	60,736
Scholarships and grants	-	-	-	-	853,861	-	-	853,861
Bad debt expense	12,150	-	-	4,477	-	-	-	16,627
Other operating expense	34,444	16,527	32,556	109,792	-	767	50,222	244,308
Depreciation	-	-	-	-	-	419,730	-	419,730
Total	1,967,545	234,222	1,204,916	1,237,497	1,748,027	851,824	495,578	7,739,609

JOSEPH EVE
Certified Public Accountants

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*

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Dawson Community College
Glendive, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component unit of Dawson Community College (the "College"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Dawson Community College's basic financial statements, and have issued our report thereon dated March 28, 2014. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the College's component unit were not audited in accordance with Government Auditing Standards and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the College's component unit.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Dawson Community College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2013-001 to be material weaknesses.

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 2013-002 to be significant deficiencies.

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*.

College's Response to Findings

Dawson Community College's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Dawson Community College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

JOSEPH EVE
Certified Public Accountants

Billings, Montana
March 28, 2014

DAWSON COMMUNITY COLLEGE

Schedule of Findings

Year Ended June 30, 2013

2013-001 Internal Controls - Account Reconciliations

Criteria or Specific Requirement: The reconciliation of account balances is an important internal control activity performed by management to determine that the stated account balances are recorded, presented and reported fairly. Additionally, the accounting software should be capable of producing, at a minimum, detailed financial reports and subsidiary records for review and use by management and those charged with governance. Such information is necessary as a management tool, to provide information to those charged with governance, to enable monitoring of operations, and to facilitate fiscal accountability at the College.

Condition: Even though the process started in fiscal year 2009, the Banner software utilized by the College is still not functioning as intended. The College does not seem to be able to produce reliable reports in a timely manner. Certain account balances are more problematic than others, as detailed below. Overall, the vast majority of balance sheet accounts were not reconciled until six or seven months after year end.

1. Cash - the reconciliations of the cash maintained with the County Treasurer was not completed until January 2014. The majority of the cash accounts maintained at the College remain unreconciled for fiscal year 2013.
2. Accounts Receivable - the College can not provide a subsidiary ledger for its accounts receivable balances. A June 30, 2013 subsidiary ledger can not be generated by the College's accounting software after activity from the new fiscal year has been entered.
3. Accounts Payable - the College can not provide a subsidiary ledger for its accounts payable balances.
4. Interfund transactions - several funds were out of balance and transfers between funds were not reconciled until January 2014.

Context: We made inquiries of management, reviewed account balances and performed analytical procedures.

Effect: Because accounts are not reconciled in a timely manner, management and those charged with governance are not able to rely on the financial reports generated and can not adequately perform their duties. Another risk that arises when account reconciliations are not performed timely, is the risk that fraud or material errors can occur and go undetected. Lastly, when account reconciliations are not performed throughout the fiscal year, the year-end reconcilation process is very time-consuming and overwhelming. This causes delay in the financial report and audit completion process.

Cause: The year-end accounting function has been untimely for several years now and it has a compounding effect as each year goes by. Additionally, the College experienced turnover in key management positions during the summer of 2013 which further complicated the year end closing process.

Auditors' Recommendations: We recommend the College perform timely reconciliations and retain the necessary subsidiary ledgers, as identified above. It may be necessary to implement separate subsidiary ledger systems outside of Banner to produce the detailed reports necessary.

2013-002 **<u>Internal Controls over TRS/PERS Contribution Eligibility and Testing</u>**

Criteria or Specific Requirement: MCA Section 19-20-302 provides guidance on the eligibility requirements for participation in the Teachers Retirement System. As such, the College should have in place internal controls and documentation standards to ensure that compliance with these provisions is being maintained.

Condition: Pursuant to our random testing of College employees, we could not always determine the proper classification of the employee for retirement plan purposes. Specifically, we could not always readily determine if an adjunct faculty member was meeting the 30 days or 210 hours requirement. Additionally, certain job titles which would appear to be covered under TRS did not have general job duties that were in line with that conclusion.

Context: We identified two different pay periods throughout the year and tested 20 employees from each one (10 identified by the College as TRS participants and 10 identified as PERS participants).

Effect: Certain documentation is not always readily available in order to determine if the appropriate classification is made.

Cause: There has been turnover in key managerial positions.

Auditors' Recommendations: Internal controls and documentation standards should be established in order to ensure that the provisions of MCA Section 19-20-302 are applied consistently and correctly.

Dawson
Community College 300 College Drive • Box 421 Glendive, Montana 59330-9976
406-377-3396 • Fax: 406-377-8132 • Toll Free: 1-800-821-8320 • www.dawson.edu

March 27, 2014

Joseph Eve
Certified Public Accountants
401 North 31st Street, Suite 1600
Billings MT 59101

To Whom It May Concern:

The following is our response to the findings from our audit period ending June 30, 2013.

2013-001 Internal Controls - Account Reconciliations

Condition: Even though the process started in fiscal year 2009, the Banner software utilized by the College is still not functioning as intended. The College does not seem to be able to produce reliable reports in a timely manner. Certain account balances are more problematic than others, as detailed below. Overall, the vast majority of balance sheet accounts were not reconciled until six or seven months after year end.
1. Cash - the reconciliations of the cash maintained with the County Treasurer was not completed until January 2014. The majority of the cash accounts maintained at the College remain unreconciled for fiscal year 2013.
2. Accounts Receivable - the College can not provide a subsidiary ledger for its accounts receivable balances. A June 30, 2013 subsidiary ledger can not be generated by the College's accounting software after activity from the new fiscal year has been entered.
3. Accounts Payable - the College can not provide a subsidiary ledger for its accounts payable balances.
4. Interfund transactions - several funds were out of balance and transfers between funds were not reconciled until January 2014.

Auditors' Recommendations*:* We recommend the College perform timely reconciliations and retain the necessary subsidiary ledgers, as identified above. It may be necessary to implement separate subsidiary ledger systems outside of Banner to produce the detailed reports necessary.

Response: Recommendations made in the FY2011 and FY2012 audit, which was completed in June 2013, to address this issue suggested "hiring another employee to work with accounting functions and/or Banner implementation". In December 2013, Dawson Community College hired a temporary part time employee to assist with Banner implementation issues and provide smoother delivery of accurate, timely information from the accounting functions. Dawson Community College also hired an outside accounting firm, Anderson ZurMuehlen & Co., P.C. in November 2013 to assist in reconciling balance sheet accounts including Cash, Accounts Receivable and Accounts Payable. We continue to work with Anderson ZurMuehlen & Co., P.C. to develop reconciliation procedures for FY2014.

During this process, it was discovered the interfund transfers were out of balance due to setup errors in Banner. We are currently working with programmers to correct these errors. Dawson Community College agrees that regular reconciliations are an important part of the internal control process. Addressing this finding is a priority for the College administration and will remain so until fully resolved.

2013-002 Internal Controls over TRS/PERS Contribution Eligibility and Testing

Condition: Pursuant to our random testing of College employees, we could not always determine the proper classifications of the employee for retirement plan purposes. Specifically, we could not always readily determine if an adjunct faculty member was meeting the 30 days or 210 hours requirement. Additionally, certain job titles which would appear to be covered under TRS did not have general job duties that were in line with that conclusion.

Auditors Recommendations: Internal controls and documentation standards should be established in order to ensure that the provisions of MCA Section 19-20-302 are applied consistently and correctly.

Response: Unplanned turnover in the college human resource department hampered our ability to research and respond to the auditor's questions in this area. We will review our procedures and continue to consult with TRS and PERS as necessary to ensure ongoing compliance. Dawson Community College also plans to hire an additional high level administrator to make certain proper procedures are maintained for all human resource functions.

Sincerely,

Kathleen P. Zander

Kathleen P. Zander
Executive Director of Business and Finance

DAWSON COMMUNITY COLLEGE

Summary Schedule of Prior Audit Findings

June 30, 2012 and 2011

The following summarizes the prior audit findings and questioned costs in relation to federal awards and corrective action taken:

Finding 12 - 1 Internal Controls - Account Reconciliations **- Not Implemented**

See page 62 for corrective action planned

Finding 12 - 2 Tuition Receivable **- Implemented**

Finding 12 - 3 Capital Assets **- Implemented**