

DAWSON COMMUNITY COLLEGE

Financial and Compliance Audit Report

For the Years Ended June 30, 2014 and 2013



Prepared Under Contract With:
MONTANA LEGISLATIVE BRANCH, AUDIT DIVISION
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LEGISLATIVE AUDIT DIVISION

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Cindy Jorgenson
Angus Maciver

March 2015

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Dawson Community College for the two fiscal years ended June 30, 2014.

The audit was conducted by Joseph Eve, under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The 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

14C-06

DAWSON COMMUNITY COLLEGE

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DAWSON COMMUNITY COLLEGE

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DAWSON COMMUNITY COLLEGE

Organization

Years Ended June 30, 2014 and 2013

BOARD OF TRUSTEES

Chad Knudson
Bob Stanhope
Kathleen Fritsch
Mike Wilondek
Don Kettner
Becky Hicks
Deb Linn

Chairperson
Vice Chairperson
Trustee
Trustee
Trustee
Trustee
Trustee

COLLEGE OFFICIALS

Michael Simon
Kathleen Zander

Dr. Ted Phillips

President
Executive Director of
Business and Finance
Vice President of Instruction
and Student Services



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 discretely presented component unit of the Dawson Community College, as of and for the years ended June 30, 2014 and June 30, 2013, 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, 2013 and 2012 financial statements of Dawson College Foundation, Inc., which represent 100 percent of the assets, net assets, and revenues of the 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 from material misstatement.

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.

**Dawson Community College
Independent Auditors' Report**

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, 2014 and 2013 and the discretely presented component unit as of October 31, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

The October 31, 2012 financial statements of Dawson College Foundation, Inc. have been audited previously by other auditors. An unmodified opinion was expressed on those financial statements. In our opinion, based on the report of other auditors, the summarized comparative information presented herein for the year ended October 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 9 through 15 and 47, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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. The accompanying schedules of expenditures of federal awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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.

**Dawson Community College
Independent Auditors' Report**

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2015 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 26, 2015**

Management's Discussion and Analysis

Overview

The following Management's Discussion and Analysis is required supplemental 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, 2014. 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 snapshot of the financial condition of Dawson Community College as of June 30, 2014. The Statement of Revenues, Expenses and Changes in Net Position present the results of activities for Dawson Community College 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, 2014. 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 Dawson Community College'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 position.

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

CONDENSED STATEMENT OF NET POSTION				
	At 06/30/14	At 06/30/13	At 06/30/12	At 06/30/11
Total Current Assets	\$2,724,185	\$2,483,817	\$2,472,413	\$2,513,724
Total Non-Current Assets	\$12,199,851	\$12,337,967	\$12,667,371	\$12,794,633
TOTAL ASSETS	\$14,924,036	\$14,821,784	\$15,139,784	\$15,308,357
Total Current Liabilities	\$691,217	\$898,085	\$807,212	\$791,423
Total Non-Current Liabilities	\$4,379,369	\$4,685,047	\$5,032,162	\$5,191,371
TOTAL LIABILITIES	\$5,070,586	\$5,583,132	\$5,839,374	\$5,982,794
Net Investment in Capital Assets	\$6,333,594	\$6,368,521	\$6,405,963	\$6,434,623
Restricted-Expendable	\$2,311,564	\$1,909,739	\$1,866,245	\$1,674,361
Unrestricted	\$1,208,292	\$960,392	\$1,028,202	\$1,216,579
TOTAL NET POSITION	\$9,853,450	\$9,238,652	\$9,300,410	\$9,325,563

Total net position increased by \$614,798 from FY2013 to FY2014, which indicates the overall financial position of the College improved over that time period.

Current assets include the College's cash, taxes, grants, student loans, accounts receivables, 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, grants receivables and prepaid expenses netted against a decrease in net accounts receivables and inventories. Accounts receivables decreased primarily due to writing off uncollectible student accounts and better collection processes. The decrease in the allowance for doubtful accounts was also due to better collection processes.

Non-Current Assets include restricted cash and investments and net capital assets. The net decrease in non-current assets from 2013 to 2014 is primarily due to the annual depreciation expense offset by an increase in restricted cash and investments.

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 decreased by \$206,868 from FY2013 due to decreases in accounts payable, accrued payroll expenses, current portion of long term debt and compensated absences. The decreases in accounts payable and accrued payroll expenses resulted from improved processing of year end claims and reconciliations. The decrease from the current portion of long term debt resulted from the maturation of a \$400,000 note payable originating in October 2004. The monthly payments ceased after the final payment submitted in August 2014.

Non-Current Liabilities include debt principal due in greater than one year and other post-retirement benefit obligations (OPEB) for employees. The reduction of total non-current liabilities from FY2013 to FY2014 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 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 FY2013 to FY2014 is mainly from the difference between the reduction in long term debt and the annual 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 position is 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 Fees 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. Actual 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.

Weight Room Improvement Fee – Approved by the students, Board of Trustees and Board of Regents in the spring of 2013, FY2014 was the first year this fee was assessed to students. Weight Room Improvement fees are collected for the purchase or lease of weight room equipment, maintenance, improvements or related items which will benefit or improve the weight room. Any change in the Weight Room Improvement Fee requires approval from the Associated Student Body, Board of Trustees and Board of Regents.

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) and Federal Pell grant funding as non-operating revenues, thus Dawson Community College shows an operating loss of \$4,231,560 for FY2014. Once the appropriation and Pell grant dollars are considered, the change in net position results in an increase of \$614,798 for FY2014. The inclusion of state and local appropriations and Pell grant funding is a more useful measure of DCC's regular activities. It is important to note the positive change in net position can be

attributed to basically two items 1) an increase in unrealized investment income due to market recovery and an increase in state appropriations. While the positive change is encouraging, future strategy must focus on increasing operating revenue and streamlining operating expenses.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
	For Fiscal Year Ended 06/30/14	For Fiscal Year Ended 06/30/13	For Fiscal Year Ended 06/30/12	For Fiscal Year Ended 06/30/11
Operating Revenues	\$3,143,518	\$3,003,075	\$4,121,229	\$5,658,211
Operating Expenses	(\$7,375,078)	(\$7,225,436)	(\$7,739,609)	(\$8,287,389)
Operating Loss	(\$4,231,560)	(\$4,222,361)	(\$3,618,380)	(\$2,629,178)
Net Nonoperating Revenues (Expenses)	\$4,846,358	\$4,030,699	\$3,593,227	\$3,472,036
Changes in Net Position	\$614,798	(\$191,662)	(\$25,153)	\$842,858
Net Position - Beginning of Year	\$9,238,652	\$9,300,410	\$9,325,563	\$8,772,369
Restatement		\$129,904		(\$289,664)
Net Position - End of Year	\$9,853,450	\$9,238,652	\$9,300,410	\$9,325,563

Operating Revenues includes federal and state grants and contracts, tuition, fees and auxiliary activities. Operating Revenues for FY2014 are \$3,143,518 compared to \$3,003,075 for FY2013. This increase is primarily comprised of decrease in state grants and tuition revenue netted against an increase in revenue in auxiliary activities such as the bookstore and dormitory.

Operating Expenses: Operating Expenses for FY2014 were \$7,375,078 versus \$7,225,436 for FY2013, an increase of \$149,642. The increase in operating expenses was the result of increases in contracted services netted against decreased salaries, supplies, repairs & maintenance and bad debt expense. Lower enrollment necessitated cost saving measures, which resulted in less expended for salaries, supplies, and repairs and maintenance. Bad debt expenses decreased from FY2013 due to improved collection processes. The increase in contracted services was due to fees associated with accreditation, legal costs and accounting services hired to reconcile financial records.

Non-Operating Revenues (Expenses) are comprised of interest income and expense, unrealized gains on investments, state and local appropriations and Federal Pell grant funding. Non-Operating Revenues for FY2014 are \$4,846,358 and \$4,030,699 for FY2013. State appropriations were \$469,649 more than FY2013, and local appropriations were \$45,191 higher than FY2013. \$263,889 oil and gas revenue was recorded in FY2014 as opposed to \$166,724 received for oil and gas in FY2013.

Restatement FY2013: During the preparation of the financial statements for audit, management was notified by the State of Montana Office of Higher Education the OPEB liability had been

overstated, resulting in a restatement adjustment of the beginning net position for FY2013 of \$129,904.

Statement of Cash Flows

The Statement of Cash Flows summarizes where cash was provided by or used in operating, investing, non-capital financing, and capital and related financing activities throughout the year. While cash flows in operating activities are self-explanatory, investing activities relates to purchases, proceeds and interest received from investing activities. Noncapital financing activities consist of mainly state and local appropriations. The last section, capital and related financing activities presents cash used for the acquisition and construction of capital and related items. The \$532,615 balance of this section consists of payments made for long term debt during FY2014. The sum of these four categories is the net change in cash which was an increase of \$183,584 for FY2014.

STATEMENT OF CASH FLOWS				
	For Fiscal Year Ended 06/30/14	For Fiscal Year Ended 06/30/13	For Fiscal Year Ended 06/30/12	For Fiscal Year Ended 06/30/11
Cash Provided (Used) by:				
Operating Activities	(\$3,930,428)	(\$3,471,721)	(\$2,975,958)	(\$2,177,289)
Investing Activities	\$44,264	\$144,547	\$26,794	\$34,453
Non-capital Financing Activities	\$4,602,363	\$4,001,140	\$3,612,128	\$3,488,123
Capital and Related Financing Activities	(\$532,615)	(\$540,391)	(\$552,235)	(\$1,236,469)
Net Increase (Decrease) in Cash	\$183,584	\$133,575	\$110,729	\$108,818
Cash and Cash Equivalents, Beginning of Year	\$2,376,980	\$2,243,405	\$2,132,676	\$2,023,858
Cash and Cash Equivalents, End of Year	\$2,560,564	\$2,376,980	\$2,243,405	\$2,132,676

Pending Economic and Financial Issues

Enrollment/Regional Economy - Demographic and economic trends in Montana have affected the College's enrollment. High School enrollment in Montana fell by 13 percent from 2002 to 2012, which corresponded to declining numbers of traditionally aged prospective students. Meanwhile, employment in the nearby Bakken oilfield grew by 35.9 percent and average annual pay increased by 53.1 percent from 2007 to 2011. Declining high school enrollments and the Bakken oilfield employment boom contributed to the College's enrollment decreasing by 31.4 percent from 2004 to 2014. In response to declining FTE numbers, the College administration reorganized our recruiting strategy to include a new enrollment management department. The goal of this department is to set enrollment targets and manage

initiatives that lead to optimum recruitment, retention and completion. Preliminary data from this new strategy is encouraging as participation in early registration events has increased over last year's numbers. In addition, the College is in the process of developing workforce training and technical programs in collaboration with business and industry partners to meet regional human capital demand and reverse the negative enrollment trend.

Campus Integrated Data Base System – The implementation of Banner is complete and Dawson Community College is now working on ways to improve the efficiencies of the SunGard Banner integrated data base system. The system is not a perfect fit for an institution of our size and use of the system to reconcile and compile financial information in a timely manner is still a work in progress. While progress is being made, getting it to this point has cost much more than expected both in dollars and human capital. While the use of Banner has proved challenging, it is important to note that improving processes and procedures in our Business Department is also a necessary component of obtaining timely financial information in the future. A combined effort of documenting and improving procedures in the business office, additional employee training, adding extra personnel and investing additional capital in Banner should produce the intended goal of timely and accurate financial information.

Funding – With new administration in place, the College analyzed all revenue sources during FY2014. Adjustments were made in several areas of funding including tuition increases and adjustments to mill levy calculations for FY2015. At the state level, the 2012 review of the current funding formula was helpful in assessing the current funding formula as an accurate and fair means to determine State funding. The model is based on a calculation of fixed and variable costs multiplied by a factor of expected FTE numbers. The College is requesting additional funding to cover annual Banner costs, additional personnel to assist in improving the functions of Banner and workforce development funding to assist our ability to meet needs of the regional employers. The uncertainty of the economic and political environment requires the College to pursue alternate sources of funding as well, such as state and federal grants, business partnerships, and partnerships with other educational institutions to seek other opportunities for growth. Analysis of all funding sources will remain a focus of the College.

Administration - To serve the emerging needs of the region and to modernize College organizational structures, functions, and programs, the College has entered a period of renewal and reorganization. The College Board of Trustees appointed Dr. Michael J. Simon as president in July 2013. Since the President's appointment, the College administration and director-level staff has undergone a complete turnover.

In addition to reorganization, the renewal process included (a) a detailed analysis to identify performance gaps vis-à-vis the Northwest Commission on College and Universities accreditation standards, and (b) the launch of a new institutional effectiveness system in August 2014 that emphasized shared governance, provided a framework for assessment and continuous improvement, and promoted evidence-based practice in all aspects of the College. As the renewal process continues, the administration 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, 2014 and 2013

	<u>2014</u>	As Restated <u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,322,595	\$ 2,009,606
Taxes receivable	40,768	41,282
Student loan receivable	67,726	70,782
Accounts receivable, net of allowance for doubtful accounts of \$20,620 and \$67,172 at June 30, 2014 and 2013, respectively	22,810	143,134
Grants receivable	117,078	44,493
Prepaid expenses	59,598	58,399
Inventory	<u>93,610</u>	<u>116,121</u>
Total current assets	<u>2,724,185</u>	<u>2,483,817</u>
NONCURRENT ASSETS		
Restricted cash	237,969	367,374
Restricted investments	2,044,978	1,677,710
Land	137,518	137,518
Property and equipment (net of accumulated depreciation of \$5,892,370 and \$5,491,851 at June 30, 2014 and 2013, respectively)	<u>9,779,386</u>	<u>10,155,365</u>
	<u>12,199,851</u>	<u>12,337,967</u>
Total assets	<u>\$ 14,924,036</u>	<u>\$ 14,821,784</u>

See Accountant's Report.

DAWSON COMMUNITY COLLEGE
STATEMENTS OF NET POSITION (CONTINUED)
As of June 30, 2014 and 2013

	<u>2014</u>	As Restated <u>2013</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 30,283	\$ 125,535
Accrued payroll expenses	217,299	239,688
Room deposits	13,650	21,300
Interest payable	27,659	27,659
Current portion of long-term debt	298,112	338,640
Current portion of compensated absences	<u>104,214</u>	<u>145,263</u>
Total current liabilities	<u>691,217</u>	<u>898,085</u>
LONG-TERM LIABILITIES		
Long-term debt, less current portion	3,285,198	3,585,722
Long-term compensated absences, less current portion	208,429	290,527
OPEB payable	<u>885,742</u>	<u>808,798</u>
Total long-term liabilities	<u>4,379,369</u>	<u>4,685,047</u>
Total liabilities	<u>5,070,586</u>	<u>5,583,132</u>
NET POSITION		
Net investment in capital assets	6,333,594	6,368,521
Restricted for:		
Student loans	15,066	10,230
Scholarships, research, and other	2,171,137	1,800,005
Student activities fund	125,361	99,504
Unrestricted	<u>1,208,292</u>	<u>960,392</u>
Total net position	<u>9,853,450</u>	<u>9,238,652</u>
Total liabilities and net position	<u>\$ 14,924,036</u>	<u>\$ 14,821,784</u>

See Accountant's Report.

DAWSON COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	As Restated <u>2013</u>
OPERATING REVENUES		
Federal grants and contracts	\$ 1,185,387	\$ 1,104,394
State and private grants and contracts	70,337	94,580
Tuition	639,696	648,314
Course and mandatory fees	289,367	262,332
Auxiliary activities		
Bookstore	90,682	84,540
Dormitory	530,971	454,964
Other revenue	<u>337,078</u>	<u>353,951</u>
Total operating revenues	<u>3,143,518</u>	<u>3,003,075</u>
OPERATING EXPENSES		
Salaries	2,466,772	2,527,730
Benefits	1,054,283	1,027,182
Travel	250,962	206,943
Supplies	467,607	560,612
Contracted services	674,849	455,928
Repairs and maintenance	137,876	157,023
Student support	736,718	664,164
Utilities	186,454	167,545
Communication	56,038	58,331
Scholarships and grants	556,219	568,026
Bad debt expense	84,944	166,806
Other operating expense	301,837	263,678
Depreciation	<u>400,519</u>	<u>401,468</u>
Total operating expenses	<u>7,375,078</u>	<u>7,225,436</u>
Operating loss	<u>(4,231,560)</u>	<u>(4,222,361)</u>

See Accountant's Report.

DAWSON COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION (CONTINUED)
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	As Restated <u>2013</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	22,007	19,330
Interest expense	(167,023)	(176,364)
Transfers in	4,600	-
Investment income	384,925	181,958
Federal Pell grant funding	437,344	453,275
State appropriation	2,137,167	1,667,518
State oil and gas production tax	263,889	166,724
Local appropriation	<u>1,763,449</u>	<u>1,718,258</u>
Total non-operating revenues (expenses)	<u>4,846,358</u>	<u>4,030,699</u>
Change in net position	614,798	(191,662)
Net position, beginning of year	9,238,652	9,300,410
Restatement	<u>-</u>	<u>129,904</u>
Net position, beginning of year as restated	<u>9,238,652</u>	<u>9,430,314</u>
Net position, end of year	<u><u>\$ 9,853,450</u></u>	<u><u>\$ 9,238,652</u></u>

See Accountant's Report.

DAWSON COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	As Restated <u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tuition and course fees	\$ 1,049,387	\$ 1,103,656
Receipts from grants and contracts	1,183,139	1,190,471
Collection on student loans	8,057	7,314
Disbursement of loans to students	(5,000)	(8,000)
Receipts from the bookstore	90,682	84,540
Receipts from the dormitory	523,321	459,164
Cash paid to employees	(3,589,647)	(3,348,179)
Cash paid to suppliers	(2,048,054)	(1,914,903)
Cash paid for scholarships and student support	(1,292,937)	(1,232,190)
Payments for utilities	(186,454)	(167,545)
Other revenue	<u>337,078</u>	<u>353,951</u>
Net cash from operating activities	<u>(3,930,428)</u>	<u>(3,471,721)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	22,007	19,330
Investment earnings reinvested	(367,268)	(56,741)
Earnings received on investments	384,925	181,958
Transfers in	<u>4,600</u>	<u>-</u>
Net cash from investing activities	<u>44,264</u>	<u>144,547</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	2,137,167	1,667,518
State oil and gas production tax	263,889	166,724
Federal Pell grant funding	437,344	453,275
Local appropriations	<u>1,763,963</u>	<u>1,713,623</u>
Net cash from non-capital financing activities	<u>4,602,363</u>	<u>4,001,140</u>

See Accountant's Report.

DAWSON COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	As Restated <u>2013</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(24,540)	(49,658)
Principal payments on long-term debt	(341,052)	(314,369)
Interest payments on long-term debt	<u>(167,023)</u>	<u>(176,364)</u>
Net cash from financing activities	<u>(532,615)</u>	<u>(540,391)</u>
Net change in cash and cash equivalents	183,584	133,575
Cash and cash equivalents, beginning of year	<u>2,376,980</u>	<u>2,243,405</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,560,564</u></u>	<u><u>\$ 2,376,980</u></u>
Reconciliation to Consolidated Balance Sheet:		
Dawson Community College:		
Cash and cash equivalents	\$ 2,322,595	\$ 2,009,606
Restricted cash	<u>237,969</u>	<u>367,374</u>
	<u>2,560,564</u>	<u>2,376,980</u>
Total cash and cash equivalents and restricted cash	<u><u>\$ 2,560,564</u></u>	<u><u>\$ 2,376,980</u></u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (4,231,560)	\$ (4,222,361)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	400,519	401,468
Bad debt expense	-	67,172
Change in operating assets and liabilities		
Student loans receivable	3,056	(686)
Accounts receivable	120,324	125,838
Grants receivable	(72,585)	(8,503)
Prepaid expenses	(1,199)	(20,283)
Inventory	22,511	(2,397)
Accounts payable	(95,252)	(22,902)
Accrued payroll expenses	(22,389)	137,841
Room deposits	(7,650)	4,200
Compensated absences	(123,147)	(48,294)
OPEB	<u>76,944</u>	<u>117,186</u>
Net cash used by operating activities	<u><u>\$ (3,930,428)</u></u>	<u><u>\$ (3,471,721)</u></u>

See Accountant's Report.

DAWSON COLLEGE FOUNDATION, INC.
(A COMPONENT UNIT OF DAWSON COMMUNITY COLLEGE)
STATEMENTS OF FINANCIAL POSITION
As of October 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents	\$ 235,949	\$ 193,715
Investments in marketable equity securities	1,106,116	1,049,972
Accrued interest receivable	340	1,982
Building fund	-	14,120
Land held for resale	<u>-</u>	<u>32,000</u>
Total assets	<u>\$ 1,342,405</u>	<u>\$ 1,291,789</u>
LIABILITIES		
Due to Dawson College - Building Fund donations	\$ -	\$ 20,161
Commitments payable	<u>152</u>	<u>-</u>
Total liabilities	<u>152</u>	<u>20,161</u>
NET ASSETS		
Unrestricted	359,547	283,282
Temporarily restricted	666,880	672,520
Permanently restricted	<u>315,826</u>	<u>315,826</u>
Total net assets	<u>1,342,253</u>	<u>1,271,628</u>
Total liabilities and net assets	<u>\$ 1,342,405</u>	<u>\$ 1,291,789</u>

DAWSON COLLEGE FOUNDATION, INC.
(A COMPONENT UNIT OF DAWSON COMMUNITY COLLEGE)
STATEMENT OF ACTIVITIES
For the Year Ended October 31, 2013 (With Comparative Totals for
October 31, 2012)

	2013				2012
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues and support					
Dues	\$ 796	\$ -	\$ -	\$ 796	\$ 620
Contributions	3,129	63,764	-	66,893	95,042
Land lease	-	-	-	-	1,500
Gain on sale of land	1,590	-	-	1,590	-
Investment income and net realized gains	<u>116,543</u>	<u>-</u>	<u>-</u>	<u>116,543</u>	<u>58,482</u>
Total revenues and support	<u>122,058</u>	<u>63,764</u>	<u>-</u>	<u>185,822</u>	<u>155,644</u>
Expenses					
Scholarships	-	26,713	-	26,713	23,523
Fees	6,380	-	-	6,380	4,475
Office expense	1,709	-	-	1,709	2,796
Teacher development	-	4,553	-	4,553	9,771
Charitable distributions	37,316	38,138	-	75,454	62,667
Miscellaneous	<u>388</u>	<u>-</u>	<u>-</u>	<u>388</u>	<u>2,360</u>
Total expenses	<u>45,793</u>	<u>69,404</u>	<u>-</u>	<u>115,197</u>	<u>105,592</u>
Change in net assets	76,265	(5,640)	-	70,625	50,052
Net assets, beginning of year	<u>283,282</u>	<u>672,520</u>	<u>315,826</u>	<u>1,271,628</u>	<u>1,221,576</u>
Net assets, end of year	<u>\$ 359,547</u>	<u>\$ 666,880</u>	<u>\$ 315,826</u>	<u>\$ 1,342,253</u>	<u>\$ 1,271,628</u>

See Accountant's Report.

Notes to the Financial Statements

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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.

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 financial statements may be obtained by contacting their office at 300 College Drive, Glendive, Montana.

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

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.

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.

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

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

Summary of Significant Accounting Policies (Continued)

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, 2014 and 2013, are as follows:

	2014 Number <u>of Mills</u>	2013 Number <u>of Mills</u>
General Levy	42.31	44.04
Debt Service Levy	8.90	16.46
Adult Education Levy	3.92	6.23
Retirement Fund Levy	19.25	16.24
Total	<u>74.38</u>	<u>82.97</u>

The value of one mill was \$17,481 for FY13/14 and \$16,794 for FY12/13.

Accounts Receivable

Accounts receivable consists primarily of student tuition and fees. The College estimates the allowance for doubtful accounts to include 45% of all account balances over 90 days past due.

Grants Receivable and Unearned Revenue

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

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

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

Summary of Significant Accounting Policies (Continued)

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.

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.

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

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

Summary of Significant Accounting Policies (Continued)

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.

Classification of Net Position

The College 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 Revenues* – 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 Revenues* – 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 and local appropriations, investment income, and federal Pell grant funding.

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

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 2011.

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 of \$398,736 and \$361,968 for the years ended June 30, 2014 and 2013, respectively.

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, 2014 and June 30, 2013 totaled \$125,361 and \$99,504, respectively.

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

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

Summary of Significant Accounting Policies (Continued)

Restatement of Prior Year Amounts

Upon further review of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which was implemented in fiscal year 2010, it was determined that some provisions of the standard were not adopted properly by the State of Montana and its component units. Since implementation, the annual employer contribution did not include all required components for the amortization adjustment and did not consider employer contributions, which caused the College's other postemployment benefits (OPEB) liability recorded in the statement of net position as of June 30, 2013 to be overstated by \$164,422, \$34,518 of which is attributable to the FYE June 30, 2013 and \$129,904 of which is attributable to years prior to that. As a result, FYE June 30, 2013 benefits expense was reduced by \$34,518 and the change in net position for the year increased accordingly.

Additionally, certain amounts were reclassified for the year ended June 30, 2013. Pell grant revenue of \$453,275 was reclassified from operating revenue to non-operating revenue, causing a reduction in the amount originally recorded as federal grants and contracts. Similarly, oil and gas production taxes of \$166,724 were identified separately as a non-operating revenue after originally being included in local appropriations.

NOTE 2. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents – College

At June 30, 2014 and 2013, cash and cash equivalents consisted of the following:

	<u>2014</u>	<u>2013</u>
Cash on hand	\$ 150	\$ 150
Deposits with financial institutions	71,871	69,646
Time certificate of deposit with financial institution	49,352	49,352
Invested in Dawson County Investment Pool	<u>2,439,191</u>	<u>2,257,832</u>
Total cash and cash equivalents	<u>\$ 2,560,564</u>	<u>\$ 2,376,980</u>

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

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

Cash and Cash Equivalents – College (Continued)

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, 2014 and 2013, none of the College's bank balances of \$140,242 and \$120,526, respectively, were exposed to custodial credit risk.

Cash and Cash Equivalents – Foundation

As of October 31, 2013 and 2012, the Foundation's bank balances exceeded insurance limits by \$93,863 and \$54,192, respectively.

NOTE 3. RESTRICTED CASH

The College had restricted cash as follows as of June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Restricted for dorm furniture replacement	\$ 30,271	\$ 30,271
Dorm deposits	13,650	21,300
Restricted for grants	10,817	156,279
Restricted for student loan program	5,212	10,329
USDA loan reserve	49,352	49,352
Restricted for student organization	128,667	99,843
Total restricted cash	<u>\$ 237,969</u>	<u>\$ 367,374</u>

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

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, 2014 and 2013.

As of June 30, 2014 and 2013, the College held the following investments:

	<u>2014</u>	<u>2013</u>
Money market funds	\$ 2,987	\$ 2,946
GNMA	110	141
Corporate bond mutual funds	84,757	94,743
Stock mutual funds	<u>1,957,124</u>	<u>1,579,880</u>
Total restricted investments	<u>\$ 2,044,978</u>	<u>\$ 1,677,710</u>

Foundation

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

	<u>2013</u>	<u>2012</u>
Certificates of deposit	\$ 313,708	\$ 311,941
Charles Schwaab- Hoyt account	373,267	335,675
Charles Schwaab- basketball fund	29,489	25,349
Edward Jones- managed account	128,084	114,543
Edward Jones- stocks, mutual funds	96,054	82,030
Edward Jones- bonds	<u>165,514</u>	<u>180,434</u>
Total restricted cash	<u>\$ 1,106,116</u>	<u>\$ 1,049,972</u>

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 4. RESTRICTED INVESTMENTS (CONTINUED)

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. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The College has no investment policy that would limit its investment choices. The College's investment in a corporate bond mutual fund contains approximately 35% investment grade securities and 65% lower rated securities (junk bonds).

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. \$110 and \$141 of the College's investments were exposed to custodial credit risk as of June 30, 2014 and 2013, respectively.

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014, is summarized as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets not being depreciated				
Land	\$ 137,518	\$ -	\$ -	\$ 137,518
Total capital assets not being depreciated	<u>\$ 137,518</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 137,518</u>
Capital assets being depreciated				
Building	12,648,215	-	-	12,648,215
Equipment	1,362,732	-	-	1,362,732
Improvements	1,239,873	24,540	-	1,264,413
Library inventory	<u>396,396</u>	<u>-</u>	<u>-</u>	<u>396,396</u>
Total capital assets being depreciated	15,647,216	24,540	-	15,671,756
Less accumulated depreciation				
Building	(3,770,874)	(250,251)	-	(4,021,125)
Equipment	(912,884)	(92,683)	-	(1,005,567)
Improvements	(458,430)	(51,506)	-	(509,936)
Library inventory	<u>(349,663)</u>	<u>(6,079)</u>	<u>-</u>	<u>(355,742)</u>
Total accumulated depreciation	<u>(5,491,851)</u>	<u>(400,519)</u>	<u>-</u>	<u>(5,892,370)</u>
Net capital assets being depreciated	<u>10,155,365</u>	<u>(375,979)</u>	<u>-</u>	<u>9,779,386</u>
Net capital assets	<u><u>\$ 10,292,883</u></u>	<u><u>\$ (375,979)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,916,904</u></u>

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 5. CAPITAL ASSETS (CONTINUED)

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	<u>\$ 137,518</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 137,518</u>
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	<u>396,396</u>	<u>-</u>	<u>-</u>	<u>396,396</u>
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	<u>(343,584)</u>	<u>(6,079)</u>	<u>-</u>	<u>(349,663)</u>
Total accumulated depreciation	<u>(5,209,531)</u>	<u>(401,468)</u>	<u>119,148</u>	<u>(5,491,851)</u>
Net capital assets being depreciated	<u>10,507,175</u>	<u>(351,810)</u>	<u>-</u>	<u>10,155,365</u>
Net capital assets	<u>\$ 10,644,693</u>	<u>\$ (351,810)</u>	<u>\$ -</u>	<u>\$ 10,292,883</u>

NOTE 6. COMPENSATED ABSENCES

Compensated absences payable, which represent vacation and sick leave earned by employees which is payable upon termination, at June 30, 2014 and 2013, was as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Vacation and sick	<u>\$ 435,790</u>	<u>\$ 83,960</u>	<u>\$ (207,107)</u>	<u>\$ 312,643</u>
	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Vacation and sick	<u>\$ 484,084</u>	<u>\$ 56,031</u>	<u>\$ (104,325)</u>	<u>\$ 435,790</u>

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 7. LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2014, were as follows:

	Balance			Balance	Amounts Due
<u>Loan:</u>	<u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2014</u>	<u>Within One Year</u>
Stockman Bank	\$ 479,475	\$ -	\$ (26,971)	\$ 452,504	\$ 30,056
USDA Rural Development	590,085	-	(11,322)	578,763	11,963
General Obligation Bonds	2,590,000	-	(190,000)	2,400,000	195,000
Mid Rivers Communication	62,499	-	(58,332)	4,167	4,167
Intercap Loan	202,303	-	(54,427)	147,876	56,926
	<u>\$ 3,924,362</u>	<u>\$ -</u>	<u>\$ (341,052)</u>	<u>\$ 3,583,310</u>	<u>\$ 298,112</u>

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

	Balance			Balance	Amounts Due
<u>Loan:</u>	<u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2013</u>	<u>Within One Year</u>
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
	<u>\$ 4,238,731</u>	<u>\$ -</u>	<u>\$ (314,369)</u>	<u>\$ 3,924,362</u>	<u>\$ 338,640</u>

Long-term debt consists of the following at June 30:

	<u>2014</u>	<u>2013</u>
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. Additionally, the USDA provided an 80% guarantee on the note.	\$ 452,504	\$ 479,475

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 7. LONG-TERM LIABILITIES (CONTINUED)

	<u>2014</u>	<u>2013</u>
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.	578,763	590,085
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.	2,400,000	2,590,000
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.	4,167	62,499
The InterCap 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, 2014 and 2013, the interest rate was 1.00% and 1.25%, respectively. The loan is secured by the aforementioned construction project.	147,876	202,303
Total long-term debt	3,583,310	3,924,362
Less: current maturities	(298,112)	(338,640)
Total long-term debt, net	<u>\$ 3,285,198</u>	<u>\$ 3,585,722</u>

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 7. LONG-TERM LIABILITIES (CONTINUED)

Approximate future annual minimum principal and interest payments as of June 30, 2014, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 298,112	\$ 164,522	\$ 462,634
2016	299,706	152,575	452,281
2017	306,265	140,040	446,305
2018	269,178	127,357	396,535
2019	282,055	115,967	398,022
2020-2024	1,644,761	332,365	1,977,126
2025-2029	150,124	100,319	250,443
2030-2034	125,955	71,095	197,050
2035-2039	158,849	38,201	197,050
2040-2041	48,305	4,215	52,520
Total	<u>\$ 3,583,310</u>	<u>\$ 1,246,656</u>	<u>\$ 4,829,966</u>

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
TRS	10.85%	8.15%
PERS	8.17%	7.90%

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 8. RETIREMENT PLANS (CONTINUED)

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
TRS	\$ 349,414	\$ 213,210	\$ 304,267
PERS	<u>143,941</u>	<u>112,846</u>	<u>112,797</u>
Total	<u>\$ 493,355</u>	<u>\$ 326,056</u>	<u>\$ 417,064</u>

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.

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
(CONTINUED)

The MUS's Interunit 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 \$600 to \$1,410 per month, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums range from \$259 to \$951 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.

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 2013 and 2014 fiscal years, the obligations were based on the July 1, 2013 census. At that time, the number of active College participants in the health insurance plan was 53. The total number of inactive (retiree and dependent) participants was 29. During the years ended June 30, 2014 and June 30, 2013, the College contributed \$383,160 and \$390,768, 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.

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
(CONTINUED)

- 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 credit funding method.
 - Actuarial value of assets is fair value.
 - Discount rate is 4.25%
 - Projected payroll increases 2.5%
 - 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.

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:

	<u>2014</u>	<u>2013</u>
Annual Required Contribution	\$ 42,572	\$ 87,793
Prior Year Contribution	-	-
Interest on Net OPEB Obligation	<u>34,372</u>	<u>29,393</u>
	<u>76,944</u>	<u>117,186</u>
Annual OPEB Cost (Expense)	76,944	117,186
(Decrease) increase in Net OPEB Obligation	76,944	117,186
Net OPEB Obligation, Beginning of Year	808,798	821,516
Restatement	<u>-</u>	<u>(129,904)</u>
Net OPEB Obligation, Beginning of Year, as Restated	<u>808,798</u>	<u>691,612</u>
Net OPEB Obligation, End of Year	<u>\$ 885,742</u>	<u>\$ 808,798</u>

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
(CONTINUED)

Annual OPEB Cost and Net OPEB Obligations (Continued)

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, 2014 and 2013:

Fiscal Year Ended	Annual		Percentage	
<u>OPEB Obligation</u>	<u>OPEB Cost</u>	<u>Contribution</u>	<u>of Annual</u> <u>OPEB Cost</u>	<u>Net Liability</u>
June 30, 2014	\$ <u>76,944</u>	-	0.00%	\$ <u>76,944</u>
June 30, 2013	\$ <u>117,186</u>	-	0.00%	\$ <u>117,186</u>

Funded Status and Funding Progress:

The funded status of the plan as of June 30, 2014 and 2013 was as follows:

Actuarial	Actuarial	Actuarial				UAAL as a
Valuation	Value of	Liability (AAL)	Unfunded AAL	Funded	Covered	Percentage
Date	Assets (a)	Projected Unit	(UAAL) (b/a)	Ration (a/b)	Payroll (c)	of Payroll
		Credit (b)				((b-a)/c)
July 1, 2013	\$ -	\$ 1,075,475	\$ 1,075,475	0.00%	\$ 2,527,390	42.55%
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, 2014 and June 30, 2013, rentals under long-term lease obligations were \$25,340 and \$28,293, respectively. The remaining obligation of \$9,600 will be payable in the year ended June 30, 2015.

DAWSON COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 11. RELATED PARTY TRANSACTIONS

The College's accounts receivable included \$20,161 due from the Foundation for building fund donations at June 30, 2013. No related party receivables were noted as of June 30, 2014.

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.

NOTE 15. SUBSEQUENT EVENT – TRIO STUDENT SUPPORT SERVICES

Federal funding received by the College for student support services will no longer be available after August 31, 2015. The funding had been provided by the U.S. Department of Education through its TRIO Student Support Services program. This represents a loss of approximately \$280,000/year for five years. The College is examining other options for providing these services going forward.

Required Supplementary Information

DAWSON COMMUNITY COLLEGE
OTHER POSTEMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
Years Ended June 30, 2014 and 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b/a)	Funded Ration (a/b)	Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
July 1, 2013	\$ -	\$ 1,075,475	\$ 1,075,475	0.00%	\$ 2,527,390	42.55%
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, 2014

	Pell	Perkins	CWS	SEOG
Assets				
Beginning cash balance	\$ -	\$ 10,230	\$ -	\$ -
Additions				
Federal advances	437,344	-	23,172	34,935
State matching funds	-	-	-	11,645
Interest collected	-	1,779	-	-
Interest investments	-	-	-	-
Principal collected	-	8,057	-	-
Loans cancelled	-	-	-	-
Total additions	<u>437,344</u>	<u>9,836</u>	<u>23,172</u>	<u>46,580</u>
Deductions				
Distribution to students	442,166	5,000	18,332	44,100
Administrative expenses	-	-	-	-
Other: Transfer to College	-	3,587	-	-
Total deductions	<u>442,166</u>	<u>8,587</u>	<u>18,332</u>	<u>44,100</u>
Reconciling items				
Net change in accounts receivable	-	-	-	-
Net change to cash	<u>(4,822)</u>	<u>1,249</u>	<u>4,840</u>	<u>2,480</u>
Ending cash balance	<u>\$ (4,822)</u>	<u>\$ 11,479</u>	<u>\$ 4,840</u>	<u>\$ 2,480</u>

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	<u>453,275</u>	<u>3,483</u>	<u>13,492</u>	<u>46,679</u>
Deductions				
Distribution to students	453,275	8,000	13,492	46,679
Administrative expenses	-	7,497	-	-
Other: Transfer to College	-	-	-	-
Total deductions	<u>453,275</u>	<u>15,497</u>	<u>13,492</u>	<u>46,679</u>
Reconciling items				
Net change in accounts receivable	-	687	-	-
Net change to cash	-	(11,327)	-	-
Ending cash balance	<u>\$ -</u>	<u>\$ 10,230</u>	<u>\$ -</u>	<u>\$ -</u>

DAWSON COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES
STUDENT FINANCIAL ASSISTANCE PROGRAMS
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Perkins Loan Program		
Student loan advances	<u>\$ 5,000</u>	<u>\$ 8,000</u>
College Work Study		
Wages	<u>\$ 18,832</u>	<u>\$ 13,492</u>
Supplemental Education Opportunity Grant Program		
Student grants	\$ 44,100	\$ 46,679
Administrative cost	<u>-</u>	<u>-</u>
	<u>\$ 44,100</u>	<u>\$ 46,679</u>
Pell Grant Program		
Student grants	\$ 442,166	\$ 453,275
Administrative cost	<u>-</u>	<u>-</u>
	<u>\$ 442,166</u>	<u>\$ 453,275</u>

DAWSON COMMUNITY COLLEGE
SCHEDULE OF FULL TIME EQUIVALENT
For the Years Ended June 30, 2014 and 2013

<u>Semester</u>	<u>Resident</u>	<u>WUE</u>	<u>Nonresident</u>	<u>Total</u>
2014				
Summer 2013	42.4	5.3	8.1	55.8
Fall 2013	207.7	60.7	29.8	298.2
Spring 2014	<u>177.3</u>	<u>62.9</u>	<u>24.1</u>	<u>264.3</u>
	<u>427.4</u>	<u>128.9</u>	<u>62.0</u>	<u>618.3</u>

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

DAWSON COMMUNITY COLLEGE
FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES
For the Year Ended June 30, 2014

	Instruction	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operations and Maintenance of Plant	Auxiliary	Total
Salaries	\$ 1,030,132	\$ 84,811	\$ 459,930	\$ 643,033	\$ -	\$ 152,236	\$ 96,630	\$ 2,466,772
Benefits	436,142	39,631	180,857	279,992	-	69,360	48,301	1,054,283
Travel	52,385	951	169,340	22,225	752	-	5,309	250,962
Supplies	103,960	11,139	83,949	98,863	-	17,280	152,416	467,607
Contracted services	226,274	5,122	38,560	222,443	-	1,766	180,684	674,849
Repairs and maintenance	2,172	15	13,163	34,022	-	39,238	49,266	137,876
Student support	-	-	-	-	736,718	-	-	736,718
Utilities	-	-	4,025	10,039	-	116,981	55,409	186,454
Communication	6,030	-	5,467	10,323	-	20,478	13,740	56,038
Scholarships and grants	-	-	-	-	556,219	-	-	556,219
Bad debt expense	-	-	-	84,944	-	-	-	84,944
Other operating expense	18,465	19,039	46,647	191,330	-	1,236	25,120	301,837
Depreciation	-	-	-	-	-	400,519	-	400,519
Total	<u>\$ 1,875,560</u>	<u>\$ 160,708</u>	<u>\$ 1,001,938</u>	<u>\$ 1,597,214</u>	<u>\$ 1,293,689</u>	<u>\$ 819,094</u>	<u>\$ 626,875</u>	<u>\$ 7,375,078</u>

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	386,755	33,842	180,087	311,123	-	72,154	43,221	1,027,182
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	<u>\$ 2,023,170</u>	<u>\$ 155,803</u>	<u>\$ 1,046,347</u>	<u>\$ 1,426,965</u>	<u>\$ 1,232,368</u>	<u>\$ 834,006</u>	<u>\$ 506,777</u>	<u>\$ 7,225,436</u>

DAWSON COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity ID Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education			
Student Financial Assistance:			
Supplemental Opportunity Grant Program (SEOG)	84.007		\$ 34,935
Federal College Work Study	84.033		18,332
Federal Direct Student Loans	84.268		731,718
Pell Grant Program	84.063		442,166
Perkins Loan Program	84.038		<u>72,726</u>
Total Student Financial Assistance			<u>1,299,877</u>
TRIO Student Support Services	84.042A		32,831
TRIO Student Support Services	84.042A		<u>225,382</u>
Total			<u>258,213</u>
Gear Up	84.334S		<u>58,109</u>
Passed Through Montana Office of Public Instruction			
Adult Basic Education	84.002		<u>18,306</u>
Total U.S. Department of Education			<u>1,634,505</u>
U.S. Department of Labor			
Employment and Training Administration			
TAACCCT/SWAMMEI	17.282		<u>12,909</u>
Total U.S. Department of Labor			<u>12,909</u>
U.S. Department of Health and Human Services			
Passed Through MT Department of Public Health and Human Services:			
ECHO-Higher Education	93.575	1302HIED0012	12,190
ECHO-Higher Education	93.575	1402HIED0012	50,615
ARRA - Best Beginnings Community Council	93.708	1102COMM0001	<u>4,924</u>
Total U.S. Department of Health and Human Services			<u>67,729</u>
Total expenditure of federal awards			<u>\$ 1,715,143</u>

DAWSON COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

<u>FEDERAL GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY ID NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
U.S. Department of Education			
Student Financial Assistance:			
Supplemental Opportunity Grant Program (SEOG)	84.007		\$ 34,935
Federal College Work Study	84.033		13,492
Federal Direct Student Loans	84.268		656,165
Pell Grant Program	84.063		453,275
Perkins Loan Program	84.038		78,783
Total Student Financial Assistance			<u>1,236,650</u>
TRIO Student Support Services	84.042A		59,241
TRIO Student Support Services	84.042A		231,150
Total			<u>290,391</u>
Gear Up	84.334S		<u>60,037</u>
Total Direct Awards			<u>1,587,078</u>
Passed Through Montana Office of Public Instruction			
Adult Basic Education	84.002		<u>25,632</u>
U.S. Department of Health and Human Services			
Passed Through MT Department of Public Health and Human Services:			
ECHO-Higher Education	93.575	1302HIED0012	38,755
ECHO-Higher Education	93.575	1002HIED0007	13,064
ARRA - Best Beginnings Community Council	93.708	1102COMM001	45,930
Total			<u>97,749</u>
Corporation for National and Community Service:			
Passed Through the University of Montana			
Campus Corp - ARRA	94.006	PG12-67449-02	<u>339</u>
Total expenditure of federal awards			<u>\$ 1,710,798</u>

DAWSON COMMUNITY COLLEGE

Notes to Schedule of Expenditures of Federal Awards

Years Ended June 30, 2014 and 2013

Note 1 - Basis of Accounting

The accompanying schedules of expenditures of federal awards (the "schedules") include the federal grant activity of Dawson Community College under programs of the federal government for the years ended June 30, 2014 and June 30, 2013. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the schedules present only a selected portion of the operations of the Dawson Community College, they are not intended to and do not present the financial position, changes in net position, or cash flows of Dawson Community College.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedules are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedules represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Note 3 - Subrecipients

Of the federal expenditures presented in the schedules, the College provided no awards to subrecipients.

Note 4 - Outstanding Federal Loans

The College has the following federal loan obligation as of June 30, 2014 and June 30, 2013:

- USDA - Rural Development - used in the construction of the student dormitories. The total loan amount was \$700,000, of which \$578,763 and \$590,085 is outstanding as of June 30, 2014 and June 30, 2013, respectively.

Note 5 - Reconciliation of Expenditures

The following is a reconciliation of the expenditures reported on the College's schedule of expenditures of federal awards to operating expenses reported in the College's statement of revenues, expenses and changes in net position.

	<u>2014</u>	<u>2013</u>
Expenditures on schedule of expenditures of federal awards	\$ 1,715,143	\$ 1,710,798
Perkins Loans outstanding at year-end	(67,726)	(70,783)
Expenses paid with state, local, and private funding	5,327,142	5,183,953
Depreciation Expense	<u>400,519</u>	<u>401,468</u>
Operating expenses per financial statements	<u>\$ 7,375,078</u>	<u>\$ 7,225,436</u>



**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 discretely presented component unit of Dawson Community College (the "College"), as of and for the years ended June 30, 2014 and 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 26, 2015. Our report includes a reference to other auditors who audited the financial statements of the Dawson College Foundation, as described in our report on the College's financial statements. 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.

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 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 a deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weakness. A *significant deficiency* is a deficiency,

**Dawson Community College
Report on Internal Control over Financial
Reporting and on Compliance and
Other Matters Based on an Audit of Financial
Statements Performed in Accordance
With *Government Auditing Standards***

Page 2

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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 is described in the accompanying corrective action plan. The 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 26, 2015**



REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITORS' REPORT

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

Report on Compliance for Each Major Federal Program

We have audited Dawson Community College's (the "College") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2014 and 2013. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express our opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Major Federal Programs

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2014 and 2013.

Report on Internal Control over Compliance

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

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

JOSEPH EVE
Certified Public Accountants

Billings, Montana
March 26, 2015

DAWSON COMMUNITY COLLEGE
Schedule of Findings and Questioned Costs
Years Ended June 30, 2014 and 2013

2. Audit Findings in Relation to Financial Statements

2014-001 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 College should be able to produce financial reports and subsidiary records that agree to the accounting records and are available for the use of management and those charged with governance in a timely manner. Reconciling accounts timely and producing accurate financial reports is a necessity for management and those charged with governance who need to be monitoring the operations and fiscal accountability of the College.

Condition: The College has not been performing key accounting and financial functions in a timely manner. Overall, the vast majority of balance sheet accounts were not reconciled until six or seven months after year end for the fiscal years ending June 30, 2014 and 2013. Specifically, we noted the following:

- Cash - June 30, 2013 - Reconciliations for the cash maintained with the County Treasurer were not completed until January 2014. The majority of other College bank accounts remained unreconciled.
- Cash - June 30, 2014 - Reconciliations for the cash maintained with the County Treasurer were completed in a more timely manner; however, the amount recorded in the accounting records does not agree to the reconciliation. The difference of approximately \$7,000 is not material to the financial statements. Additionally, the increase in imprest cash accounts has not been recorded in the accounting records, causing cash to be understated by approximately \$14,000. Lastly, the College has approximately \$6,700 in outdated checks that need to be voided.
- Accounts Receivable - June 30, 2013 - A subsidiary ledger of individual accounts receivable balances could not be provided because the College did not run the proper report at year end and its accounting software could not generate the report after the fact.
- Accounts Receivable - June 30, 2014 - Supporting documentation of individual receivable balances has improved as of June 30, 2014; however, there remains approximately \$10,000 in receivable account balances that the College is still researching and for which no adjustments have been made.
- Accounts Payable - June 30, 2013 - A subsidiary ledger could not be provided by the College.
- Interfund transactions - June 30, 2013 - Several funds were out of balance and transfers between funds were not reconciled until January 2014.
- Interfund transactions - June 30, 2014 - These transactions still seem to be problematic for the College. Transfers in exceed transfers out by \$4,600.

DAWSON COMMUNITY COLLEGE
Schedule of Findings and Questioned Costs
Years Ended June 30, 2014 and 2013

2. Audit Findings in Relation to Financial Statements - Continued

- Schedule of expenditures of federal awards - June 30, 2013 and 2014 - These reports were not prepared until seven months after year end.

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

Effect: When accounting records are not reconciled and maintained in a timely manner, several serious consequences arise. Management and those charged with governance can not adequately perform their duties. Additionally, the risk of undetected errors, material misstatements, and fraudulent activity increases. Lastly, the year-end reconciliation process takes an inordinate amount of time and causes a delay in the preparation of the year end financial statements and the performance of the audit.

Cause: The year end accounting function has been untimely for many years. Contributing factors seem to be a change in accounting software (fy 2009), turnover in key management employees (fy 2013), and relatively few accounting personnel.

Auditors' Recommendations: We recommend that account reconciliations be performed in a timely manner throughout the year, as well as year end.

DAWSON COMMUNITY COLLEGE
Schedule of Findings and Questioned Costs
Years Ended June 30, 2014 and 2013

3. **Audit Findings and Questioned Costs in Relation to Federal Awards**
No findings or questioned costs related to federal awards.



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March 10, 2015

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 finding from our audit period ending June 30, 2014.

2014-001 Internal Controls - Account Reconciliations

Condition: The College has not been performing key accounting and financial functions in a timely manner. Overall, the vast majority of balance sheet accounts were not reconciled until six or seven months after year end for the fiscal years ending June 30, 2014 and 2013. Specifically, we noted the following:

- Cash – June 30, 2013 – Reconciliations for the cash maintained with the county Treasurer were not completed until January 2014. The majority of other College bank accounts remained unreconciled.
- Cash – June 30, 2014 – Reconciliations for the cash maintained with the County were completed in a more timely manner, however the amount recorded in the accounting records does not agree to the reconciliation. The difference of approximately \$7,000 is not material to the financial statements. Additionally, the increase in imprest cash accounts has not been recorded in the accounting records, causing cash to be understated by approximately \$14,000. Lastly, the College has approximately \$6,700 in outdated checks that needs to be voided.
- Accounts Receivable – June 30, 2013 – A subsidiary ledger of individual accounts receivable balances could not be provided because the College did not appear to run the proper report at year end and its accounting software could not generate the report after the fact.
- Accounts Receivable – June 30, 2014 – Supporting documentation of individual receivable balances has improved as of June 30, 2014; however, there remains approximately \$10,000 in receivable balances that the College is still researching and for which no adjustments have been made.
- Accounts Payable – June 30, 2013 – A subsidiary ledger could not be provided by the College.
- Interfund transactions – June 30, 2013 – Several funds were out of balance and transfers between funds were not reconciled until January 2014.
- Interfund transactions – June 30, 2014 – These transactions still seem to be problematic for the College. Transfers in exceed transfers out by \$4,600.

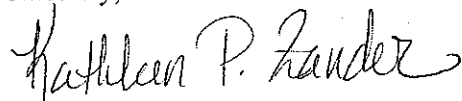
- Schedule of expenditures of federal awards – June 30, 2013 and 2014 – These reports were not prepared until seven months after year end.

Auditors' Recommendations: We recommend that account reconciliations be performed in a timely manner throughout the year, as well as year end.

Response: Dawson Community College has made considerable progress in FY2014 in updating accounting records and learning to use the SunGard Banner system to improve efficiencies and obtain accurate financial information in a timelier manner. In December 2013, at considerable expense, Dawson Community College hired an outside accounting firm, Anderson ZurMuehlen & Co., P.C. to assist in reconciling balance sheet accounts including Cash, Accounts Receivable and Accounts Payable. The decision proved useful and brought financial accounts up to date as of June 30, 2013. Work continued through FY2014 and while main accounts were reconciled, more progress needs to be made to clean up small outstanding balances from prior years, correct errors in Banner interfund transfer setup and maintain monthly reconciliations. Employee turnover and unsuccessful efforts to hire a Controller to assist in these tasks has hindered Dawson Community College's ability to move forward in this area. Recently Dawson Community College has solicited bids from local accounting firms to assist with monthly accounting functions. It is hoped the bid process will be complete and a firm hired by the end of April 2015. Contracting out these services will provide the opportunity to clear outdated account balances, correct Banner created setup issues, reconcile balance sheet accounts on a regular basis and decrease the time currently required for year end closing and audit preparation.

Dawson Community College remains committed to continuously improving our business operations.

Sincerely,



Kathleen Zander

Vice President of Administration

DAWSON COMMUNITY COLLEGE
Summary Schedule of Prior Audit Findings
June 30, 2014

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

FYE June 30, 2012 and 2011 audit:

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

See pages 66-67 for corrective action planned

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

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

FYE June 30, 2013 audit:

Finding 2013-001 Internal Controls - Account Reconciliations - **Not Implemented**

See pages 66-67 for corrective action planned

Finding 2013-002 Internal Controls over TRS/PERS Contribution Eligibility Testing - **Implemented**