Dawson Community College

LEGISLATIVE AUDIT DIVISION

REQUEST FOR PROPOSAL (RFP)

April 2007

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

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

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Section I – Summary of Requirements

Purpose of the Request for Proposal (RFP)

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

Statutory Authority

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

Contract

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

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

Type and Scope of Audit

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

Financial and Compliance Audits

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

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

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

Auditor's Report and Timing

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

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

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

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

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

- The contracted auditor must examine prior Legislative Audit report recommendations and include in the audit report an explanation of any recommendations with which the College has not complied. The prior audit report for the two fiscal years ended June 30, 2006 contained 1 recommendation. See Appendix C for the prior audit report.

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

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

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

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

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

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

Access to Information

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

Independence

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

Information about the College

Dawson Community College is a community college district, located in Glendive, Montana, that was created in 1940. Since that time, the college has received accreditation by the Northwest Association of Schools and Colleges. The college receives revenues from four major sources: a state general fund appropriation, tuition and student fees, county mill levies, and federal and state grants.

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

The County government of 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.

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

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

Section II – Administration

Schedule of Events

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

Proposal Preparation and Submission

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

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

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

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

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

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

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

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

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

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

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

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

Your completed response must be sealed in an envelope and labeled "**RFP – DCC07**" and delivered to:

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

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

Additional Information

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

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

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

4. The last audit of the college was conducted by a firm under contract with our office for the two fiscal years ended June 30, 2006. That audit cost was $18,500 for 380 hours of audit work. The working papers from that audit will be available for review by the successful offeror by appointment from LAD.

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

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

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

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

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

Evaluation of Proposals

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

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

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

Basis for Selection

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

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

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

- Time proposals are appropriate. 5%
- Approach for conducting the audit including: 45%

- General audit strategies and methodology employed, including, but not limited to business risks, internal control, and computer assisted auditing techniques.

- The depth of the perceived audit needs and understanding of the key issues facing the college, the implications of those issues for the conduct of the audit, and particular audit strategies and methodology for the college, including, but not limited to preliminary audit plan, substantive audit procedures to be undertaken, compliance audit procedures to be undertaken, and report deliverables.

- Staffing and Firm Experience 30%

  - The proposed audit team's experience in the audit of similar organizations and in other government organizations and public bodies, and details of skills or experience which are directly relevant to the capacity of the team to conduct the audit of the college.

  - The location and size of the offering firm, the experience and capabilities of its partners or shareholders, managers and staff in the audit of organizations similar to the college, as well as that of additional staff required by the firm to carry out the audit.

  - The availability of the resources to ensure deadlines are met in a timely manner

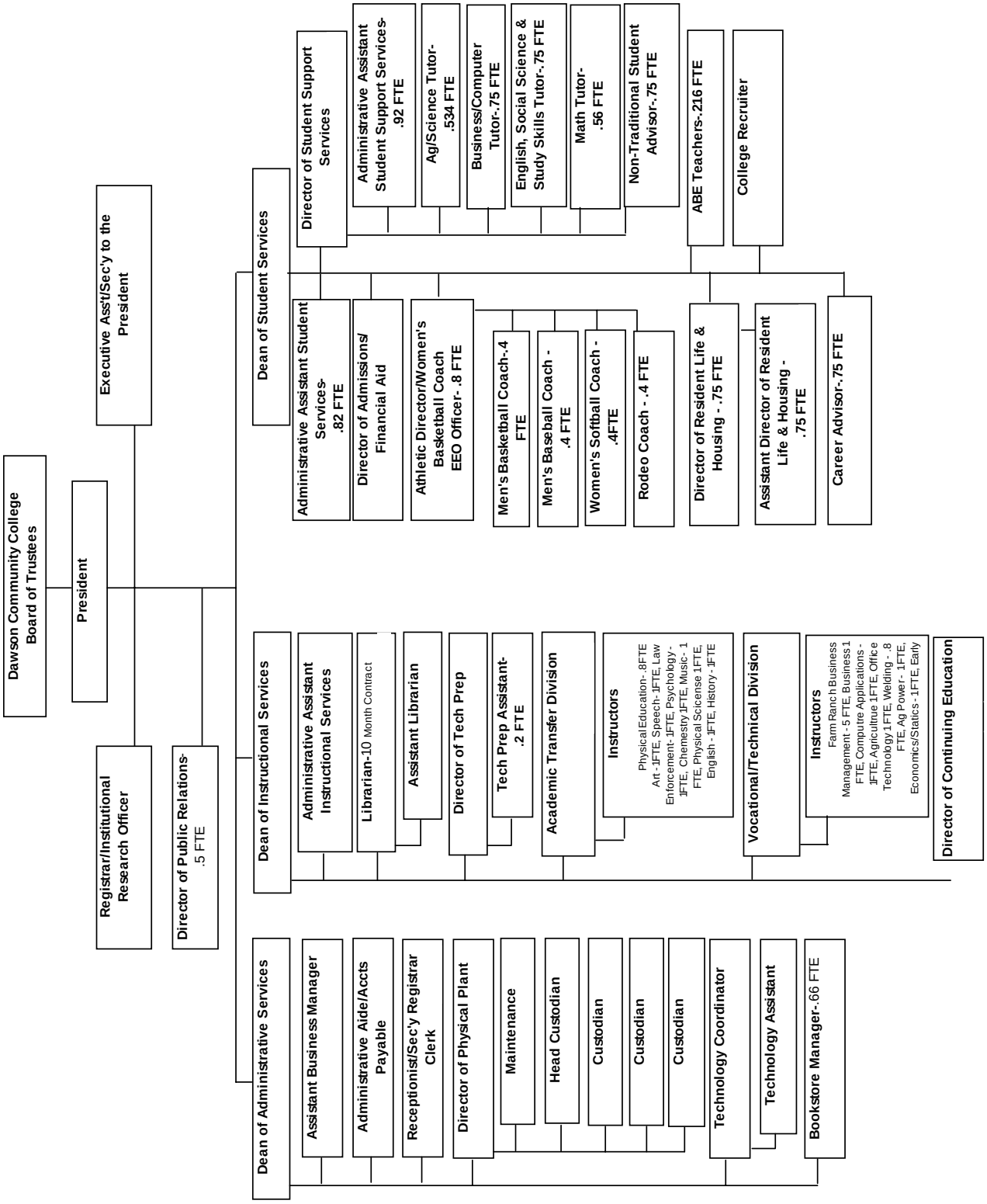
  - The proposed audit team's degree of familiarity with the extensive body of authoritative literature that is unique to the public sector, as well as those standards applicable to higher education.

  - Quality assurance, quality control, and peer review programs within the firm.

  - Policies on notification to clients of changes in key personnel, and staff continuity on each audit.

- Price 20%

Organization Chart for College



Appendix B

Sample Response Document

Legislative Audit Division

Public Accountant Engagement Proposal

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

Proposed Engagement: Dawson Community College

Date of Proposal: _____

Name and Signature of Firm Representative:

NAME: _____

FIRM NAME: _____

SIGNATURE: _____

Part A - Time Proposal

1. Proposed Dates for Engagement:

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

2. Proposed Time for Engagement

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

3. Proposed Time Associated with Travel

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

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

Part B - Price Proposal

Proposed Price for Audit Work:

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

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

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

2. Proposed Price for Travel:

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

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

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

Part C - Approach For Conducting Audit

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

Part D - Staffing Proposal

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

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

Part E - Firm's Auditing Experience

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

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

Name of Firm/Practitioner:

_____

_____

Location:

Home Office: _____

Branch Offices: _____

_____

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

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

Nature of auditing experience during the past three years:

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

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

Description of your arrangements for independent review:

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

Part H – Peer Review Report

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

Appendix C

Sample Contract

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

Scope of Work

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

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

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

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

    a. Financial Statement (Fiscal year 2007)

        i. Transmittal Letter (to be provided by LAD)

        ii. A table of contents and numbered pages

        iii. A list of administrative officials.

        iv. Independent auditor’s report

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

        vi. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.

vii. College replies to the audit report.

b. Financial and Compliance (Fiscal year 2008)

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

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

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

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

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

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

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

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

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

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

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

Confidentiality

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

Independent Contractor

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

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

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

Consulting and Assignability

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

Workpaper Availability and Retention

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

Audit Committee

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

Discrimination

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

Hold Harmless and Indemnification

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

Exclusivity

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

LAD Consultation and Assistance

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

Timeframe

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

Audit Liaison

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

Billing and Payments

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

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

Performance Review

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

Termination and Default

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

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

Governing Law

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

Limits, Modification, Severability, and Amendment

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

Legislative Audit Division
Scott Seacat
Legislative Auditor

By_____ Date_____

Dawson Community College

By_____ Date_____

Accountant Contractor

By_____ Date_____

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

By_____ Date_____

Appendix D

Prior Audit Report

STATE OF MONTANA
DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
BASIC FINANCIAL
STATEMENTS AND SUPPLEMENTARY
INFORMATION
FISCAL YEARS ENDED JUNE 30, 2005 AND 2006

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

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING #06-01 – Capitalization Policy

The College does not follow a formal capitalization policy for fixed asset acquisitions. Formalizing the policy will create more consistent accounting treatment for purchases of fixed assets.

Recommendation

We suggest that the College review and update its fixed assets capitalization policy to more effectively control and account for the College's property and equipment. To accomplish this goal, we suggest the following:

a. Revise the minimum dollar amount for capitalization within the various property accounts.
b. Prepare written guidelines for proper account classification of all routine fixed asset additions.
c. Formalize the policy to differentiate between maintenance and repair items and long-term improvements.
d. Review the detail listing of capitalized fixed assets with regard to the updated capitalization policy, and remove all previously capitalized assets not meeting the capitalization threshold from the detail asset listing and the capital asset accounts in the College general ledger.

PRIOR YEARS' RECOMMENDATIONS

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

Finding	Status
Finding #04-01 – Cash Reconciliations	Implemented
Finding #04-02 – Capitalization Policy	Not Implemented – See Finding #06-01
Finding #04-03 – Operating Budget	Implemented

SECTION III – FEDERAL AWARD FINDINGS

NONE

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

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

Material weakness identified? ..... No

Reportable conditions identified not considered to be material weaknesses? ..... Yes

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

Federal Awards

Internal control over major programs:

Material weakness identified? ..... No

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

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

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

Identification of major programs:

CFDA Number	Award Year	Name of Federal Program
84.033, 84.007, 84.032 & 84.063	04-05 & 05-06	Student Financial Aid Cluster
84.042	04-05 & 05-06	TRIO Student Support Services

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

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

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

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

CHMS PC

CHMS, P.C.
Certified Public Accountants

October 10, 2006

CHMS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 1067
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Sidney, Montana 59270
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Legislative Audit Committee
of the Montana State Legislature

Compliance

We have audited the compliance of Dawson Community College with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. Dawson Community College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings on pages 31 – 32. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Dawson Community College's management. Our responsibility is to express an opinion on Dawson Community College's compliance based on our audit.

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

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

Internal Control Over Compliance

The management of Dawson Community College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Dawson Community College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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

CHMS, PC

CHMS, P.C.
Certified Public Accountants

October 10, 2006

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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*

Legislative Audit Committee
of the Montana State Legislature

We have audited the basic financial statements of Dawson Community College as of and for the years ended June 30, 2005 and 2006, as listed in the table of contents and have issued our report thereon dated October 10, 2006. Our report was modified because the component unit Dawson College Foundation's financial statements were not audited. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dawson Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Dawson Community College's ability to record, process, summarize and report financial data consistent with assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs on pages 31-32 as finding #06-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we do not believe that the reportable condition described in the accompanying schedule of findings and questioned costs on pages 31-32 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dawson Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which 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,

DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expended
MAJOR PROGRAMS:			
U.S. Department of Education			
Direct Programs:			
Supplemental Educational Opportunity Grant Program	84.007	N/A	$ 34,935
College Work Study	84.033	N/A	16,952
* Federal Family Education Loans	84.032	N/A	475,804
Pell Grant Program	84.063	N/A	690,546
Total Student Financial Aid Cluster			1,218,237
Student Support Services	84.042	P042A010495-04	267,552
Total U.S. Department of Education Major Programs			1,485,789
NON-MAJOR PROGRAMS:			
U.S. Department of Education			
Gaining Early Awareness and Readiness For Undergraduate Programs	84.334	N/A	21,479
Passed-Through Office of the Commissioner of Higher Education:			
Adult Basic and Literacy Education	84.002	58-6502-56-06BG	47,635
Vocational Education	84.048A	DCC-LAX01	87,055
Tech Prep	84.243	ETP06	96,989
Passed-Through Montana Office of Public Instruction:			
Campus Child Care	84.335	P335A0200089-05	18,483
Health Occupations	17.267	58-6502-55-05	18,277
Total U.S. Department of Education Non-Major Programs			289,918
U.S. Department of Health & Human Services			
Passed-Through Montanan Department of Health and Human Services			
Best Beginnings -Higher Ed.	93.575	0502HIED0004	37,666
Best Beginnings -Higher Ed.	93.575	0602HIED0004	39,692
ECHO-DPHHS	93.575	0502SPTG0032	9,635
ECHO-DPHHS	93.575	0602SPTG0034	15,000
Best Beginnings-Mentoring	93.575	0602MENT0012	15,112
Best Beginnings-Mentoring	93.575	0502MENT0011	29,593
Subtotal CFDA #93.575			146,698
TOTAL FOR ALL FEDERAL AWARDS PROGRAMS			$ 1,922,405

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

DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expended
MAJOR PROGRAMS:			
U.S. Department of Education			
Direct Programs:			
Supplemental Educational Opportunity Grant Program	84.007	N/A	$ 34,935
College Work Study	84.033	N/A	19,179
* Federal Family Education Loans	84.032	N/A	429,144
Pell Grant Program	84.063	N/A	712,219
Total Student Financial Aid Cluster			1,195,477
Student Support Services	84.042	P042A010495-04	257,939
Total U.S. Department of Education Major Programs			1,453,416
NON-MAJOR PROGRAMS:			
U.S. Department of Education			
Gaining Early Awareness and Readiness For Undergraduate Programs	84.334	N/A	20,266
Passed-Through Office of the Commissioner of Higher Education:			
Adult Basic and Literacy Education	84.002	58-6502-56-02BG	48,635
Vocational Education	84.048A	DCC-LAX01	75,508
Tech Prep	84.243	ETP05	87,691
Passed-Through Montana Office of Public Instruction:			
Campus Child Care	84.335	P335A0200089-04	18,642
Health Occupations	17.267	58-6502-55-05	4,032
Total U.S. Department of Education Non-Major Programs			254,774
U.S. Department of Health & Human Services			
Passed-Through Montanan Department of Health and Human Services			
Best Beginnings -Higher Ed.	93.575	0502HIED0004	31,872
Best Beginnings -Higher Ed.	93.575	0402HIED0004	32,639
ECHO-DPHHS	93.575	0502SPTG0032	8,729
Best Beginnings-Mentoring	93.575	0402MENT0003	16,958
Subtotal CFDA #93.575			90,198
U.S. Department of Treasury			
Passed Through State of Montana			
Job Growth Tax Relief	21.XXX	N/A	81,020
TOTAL FOR ALL FEDERAL AWARDS PROGRAMS			$ 1,879,408

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

DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2005 AND 2006

SCHEDULE OF ENROLLMENT STATISTICS

	Third Week Report			
Semester	Resident	WUE	Nonresident	Total
Summer 2004	49.17	0.40	1.36	50.93
Fall 2004**	413.20	33.20	18.20	464.60
Spring 2005**	421.03	42.13	15.87	479.03
Summer 2005	54.83	1.33	0.27	56.43
Fall 2005**	403.90	34.27	17.93	456.10
Spring 2006**	426.10	41.03	20.00	487.13

** Totals include late starting classes allowed for full-time equivalent calculations.

DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2005 AND 2006

SCHEDULE OF EXPENDITURES
STUDENT FINANCIAL ASSISTANCE PROGRAMS

	2005	2006
Perkins Loan Program		
Student Loan Advances	$ 14,416	$ 13,685
Administrative Cost	3,690	(141)
	$ 18,106	$ 13,544
College Work Study		
Wages	$ 19,179	$ 16,552
Supplemental Education Opportunity Grant Program		
Student Grants	$ 46,839	$ 46,980
Pell Grant Program		
Student Grants	$ 713,299	$ 686,848

DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006

STUDENT FINANCIAL AID MODIFIED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

	PELL	PERKINS	CWS	SEOG
Beginning Cash Balance	$ 2,752	$ 8,457	$ 322	$ -
Additions:				
Federal Advances	686,623	-	18,836	34,935
Transfer from College Work Study	-	-	-	400
State Matching Funds	-	-	-	11,645
Institution Matching Funds		1,302	-	-
Interest Collected	-	772	-	-
Interest Investments	-	7	-	-
Principal Collected	-	10,750	-	-
Total Additions	686,623	12,831	18,836	46,980
Deductions:				
Distribution to Students	686,848	13,685	16,552	46,980
Transfer to SEOG	-	-	400	-
Administrative Expenses	-	(141)	-	-
Total Deductions	686,848	13,544	16,952	46,980
Net Change in Cash	(225)	(713)	1,884	
Ending Cash Balance	$ 2,527	$ 7,744	$ 2,206	$

DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

STUDENT FINANCIAL AID MODIFIED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

	PELL	PERKINS	CWS	SEOG
Beginning Cash Balance	$ 3,832	$ 15,644	$ 2,266	$ 259
Additions:				
Federal Advances	712,219	-	18,332	34,935
State Matching Funds	-	-	-	11,645
Institutional Matching Funds		-	-	-
Transfer from College Work Study				
Interest Collected	-	872	-	-
Interest Investments	-	5	-	-
Principal Collected		10,042		
Total Additions	712,219	10,919	18,332	46,580
Deductions:				
Distribution to Students	713,299	14,416	19,179	46,839
Excess Cash Paid Back	-	-	-	-
Transfer to SEOG	-	-	1,034	-
Administrative Expenses	-	3,690	63	-
Total Deductions	713,299	18,106	20,276	46,839
Net Change in Cash	(1,080)	(7,187)	(1,944)	(259)
Ending Cash Balance	$ 2,752	$ 8,457	$ 322	$

DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006

	Instruction	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation and Maintenance of Plant	Auxiliary	Depreciation	Totals
Salaries	$ 1,291,048	$ 347,815	$ 849,577	$ -	$ -	$ 134,919	$ 68,070	$ -	$ 2,691,429
Benefits	212,042	63,063	172,341	308,449	-	23,161	30,009	-	809,065
Travel	30,636	32,636	145,745	-	-	1,447	-	-	210,464
Supplies	57,066	57,804	99,018	-	-	19,362	1,970	-	235,220
Contracted Services	20,980	35,699	56,494	-	-	-	-	-	113,173
Postage	2,053	2,053	10,905	-	-	-	-	-	15,011
Rent and Lease	10,380	8,500	-	-	-		-	-	18,880
Repairs and Maintenance	-	27,902	7,288	-	-	69,332	36,132	-	140,654
Advertising	-	1,766	227	-	-	-	-	-	1,993
Utilities	-	76	-	-	-	116,870	43,773	-	160,719
Student Support	-	-	5,084	-	-	-	-	-	5,084
Communications	11,561	-	9,276	-	-	175	11,779	-	32,791
Computer and Tech Fees	30,705	68,289	-	-	-	-	-	-	98,994
Scholarships and Grants	-	-	22,237	-	957,533	-	-	-	979,770
Equipment	1,737	15,355	65,262	-	-	400	301	-	83,055
Insurance	-	-	80,530	-	-	585	-	-	81,115
Indirect Costs	-	16,235	18,815	-	-	-	-	-	35,050
REC Complex	-	-	1,363	-	-	-	-	-	1,363
Items for Resale	-	-	-	-	-	-	112,305	-	112,305
Other	59,698	135,790	207,914	-	(16,133)	6,840	59,697	-	453,806
Depreciation Expense	-	-	-	-	-	-	-	209,921	209,921
Totals	$ 1,727,906	$ 812,983	$ 1,752,076	$ 308,449	$ 941,400	$ 373,091	$ 364,036	$ 209,921	$ 6,489,862

DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005

	Instruction	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation and Maintenance of Plant	Auxiliary	Depreciation	Totals
Salaries	$ 1,070,425	$ 330,312	$ 837,239	$ -	$ -	$ 122,395	$ 41,631	$ -	$ 2,402,002
Benefits	156,707	64,378	240,224	257,836	-	23,482	19,226	-	761,853
Travel	18,281	21,899	154,069	-	-	1,269	-	-	195,518
Supplies	47,846	46,805	73,598	-	-	14,588	88	-	182,925
Contracted Services	9,223	31,764	43,913	-	-	-	-	-	84,900
Postage	2,053	2,053	12,435	-	-	-	-	-	16,541
Rent and Lease	8,610	4,300	-	-	-		-	-	12,910
Repairs and Maintenance	-	30,155	6,001	-	-	203,385	25,950	-	265,491
Advertising	-	990	-	-	-	-	-	-	990
Utilities	-	363	-	-	-	86,108	41,517	-	127,988
Student Support	-	-	6,707	-	-	-	-	-	6,707
Communications	15,550	-	14,353	-	-	-	11,745	-	41,648
Computer and Tech Fees	19,959	57,318	-	-	-	-	-	-	77,277
Scholarships and Grants	-	-	31,933	-	947,168	-	-	-	979,101
Equipment	-	12,063	85,576	-	-	10,796	23	-	108,458
Insurance	-	-	56,412	-	-	27,283	-	-	83,695
Indirect Costs	-	19,328	21,631	-	-	-	-	-	40,959
REC Complex	-	-	835	-	-	-	-	-	835
Items for Resale	-	-	-	-	-	-	111,621	-	111,621
Other	84,457	313,221	(10,040)	-	-	9,000	48,329	-	444,967
Depreciation Expense	-	-	-	-	-	-	-	228,139	228,139
Totals	$ 1,433,111	$ 934,949	$ 1,574,886	$ 257,836	$ 947,168	$ 498,306	$ 300,130	$ 228,139	$ 6,174,525

SUPPLEMENTARY INFORMATION

NOTE I - COMPONENT UNIT

The Dawson College Foundation is a nonprofit, tax-exempt organization operating excluseively for the purpose of encouraging, promoting, and supporting educational programs, research, scholalrly pursuits and athletics at, or in connection with the College. Although the College may not control the timing or amount of receipts from this entity, the majority of the revenues or incomes thereon that the entity holds and invests are restricted by donors to the activities of the College

The College implemented GASB 39 - Determining Whether Certain Organizations Are Component Units - during the fiscal year ended June 30, 2004. As noted in the independent auditor's report, the financial statements information of the Dawson College Foundation was not audited.

The Dawson College Foundation donates money to the College for operating expenses of the College, at the discretion of the Board of Trustees of the Dawson College Foundation. The Foundation donated $16,336 and $30,997 during the fiscal years ended June 30, 2005 and 2006, respectively, for scholarships and miscellaneous expenses. Also during the fiscal year ended June 30, 2006, the Foundation donated $249,978 for the facilities expansion project.

NOTE J - COMMITMENTS

The College issued general obligation bonds as detailed in Note F, in part for paying the costs of designing, constructing, furnishing, and equipping a library expansion project on the College campus. As of June 30, 2006, the College estimates an additional $834,000 will be spent to complete this project.

NOTE G - RETIREMENT PLANS (CONTINUED)

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:

June 30, 2005 and June 30, 2006:

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

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

	2006	2005	2004
TRS	$ 300,100	$ 234,570	$ 199,288
PERS	80,856	75,244	79,960
Total	$ 380,956	$ 309,814	$ 279,248

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

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

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

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

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

The Montana Board of Investments note payable #1 of $180,000 originated on May 6, 2005. Payments of principal and interest are due semiannually on February 15 and August 15. Payments consist of a variable principal portion and interest computed at 4.75%. The loan is secured by the aforementioned construction

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

Mortgages payable maturities are as follows:

Year	Principal	Interest
2007	$ 209,832	$ 222,126
2008	279,458	217,013
2009	289,253	210,272
2010	304,318	203,233
2011	314,664	195,715
2012 - 2016	1,685,456	851,992
2017 - 2021	1,460,410	583,740
2022 - 2026	1,264,942	239,474
2027 - 2031	104,036	93,014
2032 - 2036	131,234	65,816
2037 - 2041	160,384	23,094
Total	$ 6,203,987	$ 2,905,489

NOTE G - RETIREMENT PLANS

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

NOTE E - COMPENSATED ABSENCES PAYABLE

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

June 30, 2005:	Balance 6/30/2004	Increase (Decrease)	Balance 6/30/2005
Vacation and Sick Leave	$ 302,151	$ 36,407	$ 338,558

June 30, 2006:	Balance 6/30/2005	Increase (Decrease)	Balance 6/30/2006
Vacation and Sick Leave	$ 338,558	$ (4,380)	$ 334,178

NOTE F - LONG-TERM OBLIGATIONS

Long-term obligations of the following obligations described below. Changes in long-term obligations during 2005 were as follows:

	Balance 6/30/2004	Debt Issued	Principal Payment	Balance 6/30/2005	Current Portion
Stockman Bank	$ 654,713	$ -	$ 12,545	$ 642,168	$ 15,614
USDA Rural Development	671,736	-	7,153	664,583	7,150
General Obligation Bonds	-	4,000,000	-	4,000,000	160,000
Mid Rivers Communications	-	400,000	-	400,000	-
	$ 1,326,449	$ 4,400,000	$ 19,698	$ 5,706,751	$ 182,764

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

	Balance 6/30/05	Debt Issued	Principal Payment	Balance 6/30/2006	Current Portion
Stockman Bank	$ 642,168	$ -	$ 15,614	$ 626,554	$ 21,439
USDA Rural Development	664,583	-	7,150	657,433	8,907
General Obligation Bonds	4,000,000	-	160,000	3,840,000	135,000
Mid Rivers Communications	400,000	-	-	400,000	16,667
Montana Board of Investments - #1	-	180,000	-	180,000	8,096
Montana Board of Investments - #2	-	500,000	-	500,000	19,723
	$ 5,706,751	$ 680,000	$ 182,764	$ 6,203,987	$ 209,832

The note payable to Stockman Bank of $700,000 originated on February 21, 2000. Payments of $65,298 including both principal and interest, are due on February 10 each year. The note will mature in 2025. Interest is payable at 7.97% per annum, with the interest rate to be recalculated every five years. The interest rate will not fall below 7% nor rise higher than 11.5%. This note is secured by the dormitory and its contents. This note is secured by deeds of trust on real estate and improvements of the student dormitories and adjacent parking area. The note is also secured by any furnitures, fixtures, and equipment located in the dormitories, along with an assignment of rental revenue from all of the student dormitories owned by the College.

NOTE D - CAPITAL ASSETS

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

	Balance 6/30/2004	Additions/ Adjustments	Deletions Reclassifications	Balance 6/30/2005
Land	$ 137,518	$ -	$ -	$ 137,518
Buildings	5,716,005	-	-	5,716,005
Improvements	524,188	-	-	524,188
Construction in Progress	-	1,973,282	-	1,973,282
Equipment	1,874,656	97,740	33,549	1,938,847
Library Inventory	370,475	10,926	913	380,488
Total	8,622,842	2,081,948	34,462	10,670,328
Less Accumulated Depreciation for:				
Buildings	$ 2,027,918	$ 111,338	$ -	$ 2,139,256
Improvements	469,758	19,651	156,194	333,215
Equipment	1,385,931	242,383	-	1,628,314
Library Inventory	224,015	18,524	7,563	234,976
Total Accumulated Depreciation	4,107,622	391,896	163,757	4,335,761
Capital Assets, Net	$ 4,515,220	$ 1,690,052	$ (129,295)	$ 6,334,567

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

	Balance 6/30/2005	Additions/ Adjustments	Deletions Reclassifications	Balance 6/30/2006
Land	$ 137,518	$ -	$ -	$ 137,518
Buildings	5,716,005	5,650,135	-	11,366,140
Improvements	524,188		-	524,188
Construction in Progress	1,973,282	3,857,435	5,650,135	180,582
Equipment	1,938,847	-	-	1,938,847
Library inventory	380,488			380,488
Total	10,670,328	9,507,570	5,650,135	14,527,763
Less Accumulated Depreciation for:				
Buildings	2,139,256	111,338	-	2,250,594
Improvements	333,215	17,864	-	351,079
Equipment	1,628,314	62,195	-	1,690,509
Library Inventory	234,976	18,524		253,500
Total Accumulated Depreciation	4,335,761	209,921		4,545,682
Capital Assets, Net	$ 6,334,567	$ 9,297,649	$ 5,650,135	$ 9,982,081

NOTE C - CASH AND CASH EQUIVALENTS (CONTINUED)

The College's deposits with financial institutions did not exceed federal depository insurance limits at June 30, 2005 or 2006.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or governmental investment pools (such as the Dawson County Investment Pool).

Investment in the Dawson County Investment Pool

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

The county investment pool has money invested in the State Short-Term Investment Pool (S.T.I.P.) which includes asset-backed and variable-rate securities. Asset-backed securities have less credit risk than securities not backed by pledged assets. Market risk for asset-backed securities is the same as for similar non asset-backed securities. Variable-rate securities have credit risk identical to similar fixed-rate securities; the related market risk is more sensitive to changes in interest rates. However, their market risk may be less volatile than fixed-rate securities because their value will usually remain at or near par value as a result of their interest rates being periodically reset to maintain a current market yield. The Montana Board of Investments reported that they were not aware of any legal risks associated with any of the S.T.I.P. investments, as of June 30, 2006.

Foreign Currency Risk

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

Restricted Cash and Investments

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

	6/30/05	6/30/06
Restricted for Dorm Furniture Replacement	$ 27,878	$ 28,351
Donor Restricted	1,549,811	1,706,319
Stockman Bank Loan Reserve	32,384	80,728
USDA Loan Reserve	40,863	41,497
Total Restricted Cash and Investments	$ 1,650,936	$ 1,856,895

NOTE C - CASH AND CASH EQUIVALENTS (CONTINUED)

Information about the sensitivity of the fair value of the College's investments to market interest rate fluctuations is provided by the following tables that show the maturity date of each investment.

	6/30/05	Maturity Date
Dawson County Investment Pool	$ 5,249,397	1.34 years
Bonds	367	15.97 years
	$ 5,249,764	

	6/30/06	Maturity Date
Dawson County Investment Pool	$ 2,887,548	329 days
Bonds	253	14.97 years
	$ 2,887,801	

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Dawson County Investment Pool does not have a rating provided by a nationally recognized statistical rating organization.

The College's rated debt instruments as of June 30, 2005 and 2006, were rated by Standard & Poor's and the ratings are presented below using the Standard & Poor's rating scale.

	2005 AAA	2006 AAA
Asset and Mortgage backed Securities	$ 367	$ 253

Concentration of Credit Risk

The investment policy of the College contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Montana Code Annotated. Investments in American Funds and Investment Company of America each represent 11% of the total College investments, and investments in Washington Mutual represent 12 % of the total College investments.

Custodial Credit Risk

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

NOTE C - CASH AND CASH EQUIVALENTS (CONTINUED)

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

	College
Cash on Hand	$ 150
Deposits with Financial Institutions	87,262
Time Certificate of Deposit with Financial Institution	41,497
Investments	1,676,093
Invested in the Dawson County Investment Pool	2,887,548
Total Cash and Investments	$ 4,692,550

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

The College may invest in savings deposits, time deposits or repurchase agreements in financial institutions that are both located in Montana and insured by FDIC, FSLIC, or NCUA. The College may also invest in general obligations of the United States Government, Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Mortgage Corporation, and Federal Farm Credit Bank, or a U.S. government security money market fund which holds eligible securities in its investment program, or in a unified investment program with the state, county treasurer, or any other political subdivision as long as investments are eligible investments.

Disclosures Relating to Interest Rate Risk

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Scholarship Discounts and Allowances

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

NOTE B - LOCAL APPROPRIATIONS

All property taxes are collected by the 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, 2005 and 2006 were as follows:

	Number of Mills	
	Year ended 6/30/2005	Year ended 6/30/2006
General Levy	57.10	57.86
Debt Service Levy	22.47	20.78
Adult Education Levy	3.93	6.47
Retirement Fund Levy	15.82	19.70
Total	99.32	104.81

The value of one mill was $12,848 for 2005 and $12,668 for 2006.

NOTE C - CASH AND CASH EQUIVALENTS

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

	College
Cash on Hand	$ 150
Deposits with Financial Institutions	87,054
Time Certificate of Deposit with Financial Institution	40,863
Investments	1,520,580
Invested in the Dawson County Investment Pool	5,249,397
Total Cash and Investments	$ 6,898,044

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

The College's net assets are categorized as follows:

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

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

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

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

Revenues

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

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

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

Use of Restricted Revenues

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Noncurrent Assets

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

Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, curbs, etc.). Capital assets are defined as assets with an individual initial cost of more than $5,000 and an useful life in excess of one year.

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

Property, plant, and equipment is depreciated under the straight-line method over the following estimated useful lives:

	Years		Years
Buildings	50	Library Resources	20
Equipment	5 - 20		

Donated Services

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

Compensated Absences

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

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

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

Cash and Cash Equivalents

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

Investments

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

Accounts Receivable

Accounts receivable consists primarily of student tuition and fees.

Grants Receivable

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

Inventories

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

Use of Estimates

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

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

Financial Statements

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

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

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

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

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

DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2006

	2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 1,210,964	$ 917,218
Grants and Contracts	1,957,161	1,926,152
Payments to Employees	(2,303,157)	(2,758,217)
Payments for Benefits	(761,853)	(809,065)
Payments to Suppliers	(1,241,043)	(927,915)
Payments for Utilities	(127,988)	(160,719)
Payments for Scholarships and Fellowships	(979,101)	(979,770)
Collection of Loans to Students	(3,704)	(1,634)
Auxiliary Enterprise Charges		
Bookstore	170,343	219,400
Dormitory	233,185	245,225
Other Receipts (Payments)	(478,068)	34,890
NET CASH USED BY OPERATING ACTIVITIES	(2,323,261)	(2,294,435)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	1,755,051	2,237,500
Local Appropriations	1,058,229	1,143,913
Student Organization Agency Transactions	(140)	(11,654)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	2,813,140	3,369,759
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt and Bond Issuance	4,430,000	680,000
Purchases of Capital Assets	(2,047,486)	(3,857,435)
Bond Premium	23,066	-
Bond Issuance Costs	(53,066)	-
Principal Paid on Capital Debt	(19,698)	(182,764)
Interest Paid on Capital Debt	(373,646)	(200,024)
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	1,959,170	(3,560,223)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	109,307	122,897
Realized and Unrealized Gains/Losses	108,971	156,508
NET CASH PROVIDED BY INVESTING ACTIVITIES	218,278	279,405
Net Increase (Decrease) in Cash and Cash Equivalents	2,667,327	(2,205,494)
Cash and Cash Equivalents, Beginning of Year	4,230,717	6,898,044
Cash and Cash Equivalents, End of Year	$ 6,898,044	$ 4,692,550
Reconciliation to Statement of Net Assets		
Cash and Cash Equivalents	$ 5,247,108	$ 2,835,655
Restricted Cash and Cash Equivalents	**1,650,936**	**1,856,895**
Total Cash and Cash Equivalents	$ 6,898,044	$ 4,692,550
RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (2,599,150)	$ (2,589,951)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation Expense	228,139	209,921
Changes in Net Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(134,524)	(97,790)
(Increase) Decrease in Grants Receivable	22,352	26,763
(Increase) Decrease in Inventory	(6,266)	(14,434)
Increase (Decrease) in Accounts Payable	155,506	204,179
Increase (Decrease) in Deferred Grant Revenue	52,814	(28,393)
Increase (Decrease) in Room Deposits	(1,107)	(750)
Increase (Decrease) in Compensated Absences Payable	36,407	(4,380)
Increase (Decrease) in Due to Other Funds	26,645	400
Increase (Decrease) in Due to Other Governments	(104,077)	-
Net Cash Used By Operating Activities	$ (2,323,261)	$ (2,294,435)

See notes to the financial statements.

DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2006

	2005	2006
REVENUES		
Operating Revenues		
Tuition and Fees (net of scholarship allowance of $255,595 and $194,880, respectively)	$ 1,280,103	$ 943,619
Federal Grants and Contracts	1,369,244	1,446,601
State Grants and Contracts	37,326	38,028
Private and Local Grants and Contracts	484,067	443,153
Auxiliary Activities:		
Bookstore	170,343	219,400
Dormitory	234,292	245,975
Other Operating Revenues (Expenses)		563,135
Total Operating Revenues	3,575,375	3,899,911
EXPENSES		
Operating Expenses		
Salaries	2,402,002	2,691,429
Benefits	761,853	809,065
Travel	195,518	210,464
Supplies	182,925	235,220
Contracted Services	84,900	113,173
Postage	16,541	15,011
Rent and Lease	12,910	18,880
Repairs and Maintenance	265,491	140,654
Advertising	990	1,993
Telephone and Utilities	127,988	160,719
Student Support	6,707	5,084
Communications	41,648	32,791
Computer and Tech Fees	77,277	98,994
Scholarships and Grants	979,101	979,770
Equipment	108,458	83,055
Insurance	83,695	81,115
Indirect Costs	40,959	35,050
REC Complex	835	1,363
Items for Resale	111,621	112,305
Other Operating Expenses	444,967	453,806
Depreciation Expense	228,139	209,921
Total Operating Expenses	6,174,525	6,489,862
Operating Loss	(2,599,150)	(2,589,951)
NONOPERATING REVENUES (EXPENSES)		
Interest Income	109,307	122,897
State Appropriations	1,755,051	2,237,500
Local Appropriations	1,088,290	1,107,610
Realized and Unrealized Gains/Losses	108,971	156,508
Interest Payments	(424,872)	(207,006)
Total Nonoperating Revenues	2,636,747	3,417,509
DECREASE IN NET ASSETS	37,597	827,558
Net Assets, Beginning of Year	7,502,443	7,540,040
Net Assets, End of Year	$ 7,540,040	$ 8,367,598

See notes to the financial statements.

DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
STATEMENT OF NET ASSETS
JUNE 30, 2005 AND 2006

	2005	2006
ASSETS		
Current Assets		
Cash and Cash Equivalents - Note C	$ 5,247,108	$ 2,835,655
Taxes Receivable - Note A	76,879	40,576
Tuition Receivable	117,906	144,307
Grants Receivable - Note A	176,499	149,736
Student Loan Receivable	97,123	98,757
Accounts Receivable - Note A	195,386	265,141
Inventory - Note A	84,721	99,155
Total Current Assets	5,995,622	3,633,327
Noncurrent Assets		
Restricted Cash and Cash Equivalents - Note C	1,650,936	1,856,895
Capital Assets - Note D	10,670,328	14,527,763
Less: Accumulated Depreciation	(4,335,761)	(4,545,682)
Total Noncurrent Assets	7,985,503	11,838,976
Total Assets	13,981,125	15,472,303
LIABILITIES		
Current Liabilities		
Accounts Payable	112,249	378,836
Accrued Payroll	65,214	2,806
Deferred Revenue - Grants	59,402	31,009
Room Deposits	10,237	9,487
Due to Student Organizations	23,857	12,203
Interest Payable	98,172	105,154
Compensated Absences Payable - Note E	16,928	16,709
Due to Other Funds	26,645	27,045
Current Portion of Long-Term Obligations - Note F	182,764	209,832
Total Current Liabilities	595,468	793,081
Noncurrent Liabilities		
Compensated Absences Payable - Note E	321,630	317,469
Noncurrent Portion of Long-Term Obligations - Note F	5,523,987	5,994,155
Total Noncurrent Liabilities	5,845,617	6,311,624
Total Liabilities	6,441,085	7,104,705
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	627,816	3,778,094
Restricted for:		
Expendable:		
Student Loans	105,581	106,501
Debt Service	-	24,644
Scholarships, Research, Instruction, and Other	1,673,829	1,807,007
Unrestricted	5,132,814	2,651,352
Total Net Assets	$ 7,540,040	$ 8,367,598

See notes to the financial statements.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Functional Classification of Operating Expenses on pages 19-20, the Schedule of Student Financial Aid Modified Statement of Cash Receipts and Disbursements on pages 21-22, the Schedule of Expenditures – Student Financial Assistance Programs on page 23, and the Schedule of Enrollment Statistics on page 24 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedules of expenditures of Federal Awards on pages 25 – 26 are presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CHMS, PC

CHMS, P.C.
Certified Public Accountants

October 10, 2006

CHMS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Legislative Audit Committee
Of the Montana State Legislature

We have audited the accompanying basic financial statements of Dawson Community College, Glendive, Montana, as of and for the years ended June 30, 2005 and 2006, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

We were unable to obtain the audited financial statements supporting the financial activities of Dawson College Foundation, nor were we able to satisfy ourselves as to those financial activities by other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain the audited financial statements of Dawson College Foundation, or had we been able to satisfy ourselves as to those financial activities by other auditing procedures, the financial statements referred to above present fairly, in all material respects, the financial position of Dawson Community College, Glendive, Montana, as of June 30, 2005 and 2006, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 10, 2006, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

this project. This loan will be serviced from student fees. The actual cost of construction with change orders will likely be in the $400,000 range. The College has requested and received approval for budget amendments for fiscal years 2005 and 2006 for greater than anticipated oil and gas severance taxes to help defray the increases. The remaining balance will be paid from other uncommitted institutional resources.

In the fall of 2002 the College initiated the Farm/Ranch Business Management program. This program is delivered on site with one-on-one instruction. In spite of opening only one of the five new sites planned for the fall of 2005, record enrollment was achieved. In 2006 three of the sites were temporally shut down. This action was due to a combination of events that include: Increases in tuition and fees, loss of personnel, and changes to the program model.

In the summer of 2005 the Board of Trustees approved the Ag Marketing and Financial Analysis program and the Web Development program. At the February 27, 2006 Board of Trustees meeting, approval was granted for the Engineering Technology program and the Music Technology program. All four of these programs are designed to develop a strong work force and contribute to the economy of the region.

The contracts for the library/learning center were signed on March 20, 2006. The budget for this portion of the expansion project was set at $900,323. Additionally, the Board approved restoring approximately $227,000 to the total budget for upper bleachers in the gymnasium and stage lighting and curtains in the performing arts center. As of June 30, 2006, the total budget for the expansion project was $6,980,891.

On July 26, 2004, with the cost of the major portion of the project set by bid, the Board authorized the sale of the $4,000,000 general obligation school building bonds (bonds). The sale of the bonds occurred on August 18, 2004. The interest rate on the bonds was projected to be 5%. At the date of sale the true interest cost on the bonds was bid at 3.99969%. This favorable rate will save local taxpayers approximately $800,000 in interest cost over the life of the bonds.

In March of 2004 the application for a $500,000 INTERCAP loan was submitted for consideration. On June 15, 2004 the Montana Board of Investments approved the College's request for a $500,000 INTERCAP loan. As of June 30, 2006 Dawson Community College had requested and received INTERCAP loan proceeds of $500,000. This is a ten year loan with an adjustable interest rate. The average loan rate for the past ten years has been 4.160%. The interest rate as of June 30, 2006 was 4.75%. The loan will be paid from the $7.00 per credit Student Building Fees.

In the winter of 2003, the College began the process of preparing a loan application for a $400,000 Rural Economic Development Loan and Grant. This is a 20 year, zero interest loan. It will be serviced from the $7.00 per credit increase in Student Building Fees. On September 10, 2004 the loan agreement and note was signed by the College and Mid-Rivers Cooperative.

Part of the financial package includes $192,000 (60% of $320,000) from the proceeds from the Harold Ullman Revocable Trust. The terms and conditions of the trust set aside 60% of the proceeds for building expansion projects. The Board earmarked the full 60% for this project.

In addition to the aforementioned funds, the Associated Student Body approved the use of $758,791 in accumulated Student Building Fees. The Board also authorized the use of $150,000 from the Incidental Fees Fund, $100,000 from the Library Fee Fund, $300,000 from one-time funding from the State Legislature, and $85,000 from general fund budget savings. Donations, pledges and interest earnings are the final component of the $6,980,891 funding package.

During the first bidding process the College became aware of the requirement that domestic water pressure would have to meet State regulations and that the existing water pressure was inadequate to service the planned expansion. The College approved construction of a water pressure booster station. This project is separate from the Facilities Expansion Project and had an estimated cost of construction of $180,000. The College submitted and was granted an $180,000 INTERCAP loan for the construction of

Pending Economic and Financial Issues

In the spring of 2002, the Board of Trustees appointed a fourteen-member ad hoc committee, the Facilities Expansion Committee, to help identify facility needs at the College. After approximately six months of study and analysis, the committee submitted its recommendations to the Board of Trustees. The recommendations cited the need for a new physical education center, a new performing arts center, and the construction of a joint library/learning center complex. The only major change to the committee's recommendations was the size of the auditorium in the proposed performing arts center. The Board chose a 300-seat rather than a 500-seat facility. The Board adopted the committee's recommendations, with the above cited difference, at its meeting in August, 2002.

The original estimated cost to construct these three facilities was $6.3 million. As a major means to acquire the funds needed for this project (the largest ever undertaken by College), the Board authorized the pursuit of a four million dollar general obligation bond campaign. The committee believed that $4 million was the maximum amount that the taxpayers would approve. From the end of August through October of 2002, the College engaged in a major marketing and publicity campaign to get the voters of the community college district to pass a four million dollar bond issue. On November 2, 2002, the voters approved the bond issue on a vote of 1882 for and 1562 against.

November 13, 2003 was the initial bid opening date for the new gymnasium and performing arts centers. The lowest base bid was $5,436,000 on the initial estimate of $4,600,000. The Board of Trustees rejected the bids based on the large disparity between estimates and the lowest actual bid.

The second round of bids was opened for consideration on June 15, 2004. The low bid of $5,092,000 was submitted by Fisher Construction. This bid was approximately $460,000 over the revised estimate. The bids were taken under advisement

The review committee was directed to reevaluate the project and submit recommendations that would bring the cost of the project in line with the revised budget. On June 28, 2004 the Board reviewed and approved some of the items that were value engineered out of the initial bid process. The revised amount of the bid for the gym/performing arts center was $4,855,102. The Board also accepted the recommendations for deferring equipment and landscaping. It was noted that the current budget for the library/learning center was based on a smaller sized project than was being considered by the Board. The larger sized project would increase the overall budget by approximately $300,000. With the final revisions the project budget of $6,303,000 was deemed to be in balance. The Board then approved the revised bid and let the contract.

Bids for the library/learning center portion of the expansion project were received on February 28, 2006. The bids were based on the larger size option. The low bid, submitted by Richard Schwartz, Inc., exceeded the budget by approximately $75,000. The bids were taken under advisement.

funding for the Facility Expansion project. The budget for Facility Expansion project included fund transfer from the Student Building fund, the Library Media fund, and the Building Repairs and Maintenance fund.

Statement of Cash Flows

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

The statement is divided into five sections. The first section shows the net cash provided (used) by the College's operating activities. The next section reflects the cash flows from noncapital financing activities and includes state appropriations for the College's educational and general programs and financial aid. This section reflects the cash received and spent for items other than operating, investing, and capital financing purposes. Cash flows from capital financing activities present cash used for the acquisition and construction of capital and related items. The next sections shows cash flows related to purchases, proceeds, and interest received from investing activities. The final section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Condensed Statement of Cash Flows

	For Fiscal Year Ended 6/30/2006	For Fiscal Year Ended 6/30/2005
Cash Provided (Used) by:		
Operating Activities	$ (2,294,435)	$ (2,323,261)
Noncapital Financing Activities	$ 3,369,759	$ 2,813,140
Capital and Related Financing Activities	$ (3,560,223)	$ 1,959,170
Investing Activities	$ 279,405	$ 218,278
Net Increase (Decrease) in Cash	$ (2,205,494)	$ 2,667,327
Cash and Cash Equivalents, Beginning of Year	$ 6,898,044	$ 4,230,717
Cash and Cash Equivalents, End of Year	$ 4,692,550	$ 6,898,044

Statement of Revenues, Expenses, and Changes in Net Assets

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

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

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

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

	For Fiscal Year Ending 6/30/06	For Fiscal Year Ending 6/30/05
Operating Revenues	$ 3,830,254	$ 3,566,733
Operating Expenses	$ 6,443,195	$ 6,165,883
Operating Loss	$ (2,612,941)	$ (2,599,150)
Net Nonoperating Revenues/(Expenses)	$ 3,435,311	$ 2,636,747
Income before other revenues, expenses, gains or losses	**$ 822,370**	**$ 37,597**
Other Expenses	$ -	$ -
Change in Net Assets	**$ 822,370**	**$ 37,597**
Net Assets - Beginning of Year	$ 7,540,040	$ 7,502,443
Net assets - End of Year	$ 8,367,598	$ 7,540,040

Information regarding specific revenue and expense items is:

- Tuition and fees: Tuition and select fees were increased for fiscal year 2005. All tuition rates were increased nine percent over the previous fiscal year. The Student Building Fee was increased from $7.00 per credit to $14.00 per credit. The Library/Media Fee was increased from $2.00 per credit to $3.00 per credit. A contributing factor to the complexion of tuition and fees is the increase in out-of-district students in the Farm/Ranch Business Management program. The College enjoyed record enrollment for fiscal years 2005 and 2006.

- Salaries: The increase in the salaries category resulted from annual pay raises and the hiring instructors and staff.

- Other Operating Revenues (Expenses): This category is comprised of fund transfers. The primary reason for the fund transfers is to provide the necessary

to Associated Student Body, 25.75% to Athletics, 12.75% to Publications, 12.75% to Institutional, and 2.75% to Theatre. The Student government administers the Associated Student Body account, and the Board of Trustees or their designee administers the remaining accounts.

2. **Library Fees** – Any change in the Library fee must be approved by the Board of Trustees, and the Board of Regents. Library fees are intended to augment, not replace, basic operating expenses of the library and may be used for:

    a. Consumable supplies
    b. Periodicals and holdings
    c. Equipment and Improvements

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

    Library fees are not intended for continuing personnel costs

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

4. **Computer Fees** – Any change in the Computer fee must be approved by the Board of Trustees, and the Board of Regents. Computer Fees are collected for the purchase or lease of computer equipment, software, maintenance or related items which will benefit the College's IT/AS400 system. This system is primarily used for student records and the payroll and general accounting record keeping.

5. **Building Repairs and Maintenance Fees** – Any change in the Building Repairs and Maintenance Fee must be approved by the Board of Trustees, and the Board of Regents. Building Repairs and Maintenance Fees are for major repairs or maintenance of College owned building and grounds. This fee would typically be used for major renovations and repairs.

6. **Technology Fees** – Any change in the Technology fee must be approved by the Board of Trustees, and the Board of Regents. Technology Fees are collected for the purchase or lease of computer equipment, software, maintenance or related items which will benefit the educational process.

Invested Capital Assets, Net of Related Debt. The second category is "Restricted Net Assets," which is divided into two categories, Expendable and Nonexpendable. Expendable restricted assets include resources the College is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties. Nonexpendable Restricted Nets Assets consist of endowments and similar type funds where donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to the principal. Unrestricted Net Assets represent resources used for the College's general operations. They may be used at the discretion of the College's Board of Trustees to meet current expenses for any lawful purpose in support of educational and general and auxiliary activities.

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

Condensed Statement of Net Assets

	At 6/30/06	At 6/30/05
Total Current Assets	$ 3,633,327	$ 5,995,622
Total Non-Current Assets	$ 11,838,976	$ 7,985,503
TOTAL ASSETS	**$ 15,472,303**	**$ 13,981,125**
Total Current Liabilities	$ 793,081	$ 595,468
Total Non-Current Liabilities	$ 6,311,624	$ 5,845,617
TOTAL LIABILITIES	**$ 7,104,705**	**$ 6,441,085**
Invested in capital, net of related debt	$ 3,778,094	$ 627,816
Restricted-expendable	$ 1,938,152	$ 1,779,410
Unrestricted	$ 2,651,352	$ 5,132,814
TOTAL NET ASSETS	**$ 8,367,598**	**$ 7,540,040**

Information significant to reading the Statement of Net Assets:

- The Net Assets Invested in Capital, Net of Related Debt is primarily made up of the value of buildings and land held by the College.

- Restricted-expendable Net Assets are held primarily in the grant and debt service activities of the College.

- Unrestricted Net Assets is made up of operating activities, auxiliary activities, and also numerous designated activities which include funds designated as follows:

    1. **Student Activity Fee** – Any change in the Student Activity fee must be approved by a majority of the voting students, approved by the Board of Trustees, and the Board of Regents. The Student Activity Fee is allocated and deposited into five separate agency accounts; 46%

(1) financial statement are presented on an entity-wide basis and not by major fund groups; (2) depreciation expense is recognized, whereas previously it was not; (3) expenses rather than expenditures are reported; and (4) the basic financial statements are preceded by this Management's Discussion and Analysis.

As required by these accounting pronouncements, the basic financial statements are the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview of the College's activities.

How the Financial Statements Relate to Each Other

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

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

Statement of Net Assets

The Statement of Net Assets presents the College's assets, liabilities, and net assets as of the fiscal year end. The purpose of this statement is to present to the financial statement readers a snapshot of the College's financial position at June 30, 2005 and 2006. The data presented in the Statement of Net Assets aids in determining the assets available to continue the College's operations. It also allows readers to determine how much the College owes to vendors and creditors. Finally, the Statement on Net Assets provides a picture of net assets and their availability for expenditure by the College. Sustained increases in net assets are one indicator of an organization's financial health.

Net assets are divided into three major categories. The first "Invested Capital Assets, Net of Related Debt," represents the College's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of

DAWSON COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEARS ENDING JUNE 30, 2005 AND 2006

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

Reading the Annual Financial Report

Accounting Standards

The following Management's Discussion and Analysis is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily read analysis of the College's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the College's financial condition and result of operations for the fiscal years ending June 30, 2005 and 2006. Comparative numbers, where presented, are for the fiscal years ending June 30, 2005 and 2006. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, notes to financial statements, and other supplementary information. College management is responsible for all of the financial information presented, including this discussion and analysis.

In June 1999, GASB issued Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, which established new financial reporting requirements. In November 1999, GASB issued Statement 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities—an Amendment of GASB Statement 43, which applied the new reporting standards to public institutions. These new reporting standards are effective for fiscal year 2003 and as such comparative data will only include fiscal years 2005 and 2006.

These financial reporting standards significantly changed the appearance and nature of the required financial information compared to prior standards. The major changes were:

DAWSON COMMUNITY COLLEGE
YEARS ENDED JUNE 30, 2005 AND 2006

RECOMMENDATIONS

FINDING #06-01 – Capitalization Policy

The College does not follow a formal capitalization policy for fixed asset acquisitions. Formalizing the policy will create more consistent accounting treatment for purchases of fixed assets.

Recommendation

We suggest that the College review and update its fixed assets capitalization policy to more effectively control and account for the College's property and equipment. To accomplish this goal, we suggest the following:

a. Revise the minimum dollar amount for capitalization within the various property accounts.
b. Prepare written guidelines for proper account classification of all routine fixed asset additions.
c. Formalize the policy to differentiate between maintenance and repair items and long-term improvements.
d. Review the detail listing of capitalized fixed assets with regard to the updated capitalization policy, and remove all previously capitalized assets not meeting the capitalization threshold from the detail asset listing and the capital asset accounts in the College general ledger.

PRIOR YEARS' RECOMMENDATIONS

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

Finding	Status
Finding #04-01 – Cash Reconciliations	Implemented
Finding #04-02 – Capitalization Policy	Not Implemented
Finding #04-03 – Operating Budget	Implemented

DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

Montana Board of Regents of Higher Education

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

Office of the Commissioner of Higher Education

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

Dawson Community College Board of Trustees

Tom Ree	Chairperson
Kay McDonough-Jensen	Vice-Chairperson
Mike Ruddy	Trustee
Alan Sevier	Trustee
Katherine Lee	Trustee
Gerry Anderson	Trustee
Sandy Eickmann	Trustee

Administration

Dr. Jim Cargill	President
Justin Cross	Dean of Administrative Services
Diane Dohrmann	Dean of Student Services
Jackie Schultz	Dean of Instructional Services

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

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

November 2006

The Legislative Audit Committee
of the Montana State Legislature:

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

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

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

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

06C-05

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DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
JUNE 30, 2005 AND 2006

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DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
JUNE 30, 2005 AND 2006

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Dawson Community College
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(406) 377-3396 • Fax: (406) 377-8132 • Toll Free: 1-800-821-8320 • Web: www.dawson.edu

December 6, 2006

Tara Hill
P O BOX 1067
104 Second Avenue SW
Sidney MT 59270

Dear Ms. Hill:

The following is our response to the recommendation made in the 2005-2006 audit report for Dawson Community College.

Finding #06-01 – Capitalization Policy

The College does not follow a formal capitalization policy for fixed asset acquisitions. Formalizing the policy will create more consistent accounting treatment for purchases of fixed assets.

Recommendation

We suggest that the College review and update its fixed assets capitalization policy to more effectively control and account for the College's property and equipment. To accomplish this goal, we suggest the following:

a. Revise the minimum dollar amount for capitalization within the various property accounts.
b. Prepare written guidelines for proper account classification of all routine fixed asset additions.
c. Formalize the policy to differentiate between maintenance and repair items and long-term improvements.
d. Review the detail listing of capitalization policy, and remove all previously capitalized assets not meeting the capitalization threshold from the detailed asset listing and the capital asset accounts in the College general ledger.

Response

Concur, the College has implemented the aforementioned auditor's recommendations. The mechanics of the capitalization policy were implemented prior to June 30, 2006. The actual written document detailing the fixed assets capitalization policy was completed and formalized after June 30, 2006 but prior to the completion of the audit.

Sincerely,

Justin M. Cross

Justin M. Cross
Dean of Administrative Services